Full-year Financial Report
for the year ended 31 December 2021

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Notes

This report has been prepared to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The report should not be relied on by any other party or for any other purpose. The report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, as well as any forward-looking information. Percentage change figures for all performance measures, other than profit / (loss) before taxation and earnings / (loss) per share, unless otherwise stated, are quoted after restating prior year figures at a constant exchange rate (CER) for the period to present the performance variance.

23 February 2022
International Personal Finance plc
Full-year Financial Report for the period ended 31 December 2021
Principal activity
International Personal Finance plc specialises in providing unsecured consumer credit to 1.7 million customers through the world's largest home credit business and a leading fintech operator, IPF Digital.

STRONG REBOUND IN GROWTH AND FULL YEAR PROFITABILITY

Key 2021 highlights

- **Strong financial performance**
    - Delivered £67.7 million profit before tax, a year on year increase of £108 million
    - All business divisions were profitable
    - Final dividend of 5.8 pence bringing full-year dividend to 8.0 pence. New progressive dividend policy approved

- **Excellent operational execution supporting strong growth in credit issued**
    - 33% increase in credit issued year on year (at CER)
    - Closing customer receivables of £717 million, up 13% year on year (at CER)
    - Return to customer growth
    - Revenue growth returned from Q2 and was 10% higher in H2 compared with H1
    - Consistently strong collections performance driving excellent credit quality - impairment as a percentage of revenue at 10.2%
    - Costs maintained in line with 2020 despite investment in growth

- **Strengthened customer proposition and creation of sustainable value for all stakeholders**
    - Supported the health and wellbeing of our workforce through the pandemic
    - Extended forbearance across the Group over and above our normal practices for customers facing difficulty meeting their repayments due to Covid-19
    - Obtained an e-money licence in our Baltic markets to support the roll out of our mobile wallet across IPF Digital
    - Developed profitable digital and hybrid customer journeys in our Polish business to be replicated across the rest of the European home credit business

- **Strong funding position and well capitalised balance sheet**
    - Bond and bank facilities total £575 million to support future growth
    - Undrawn facilities and non-operational cash balances of £108 million
    - Successful issue of SEK 450 million bond at 7% coupon, maturing October 2024
    - Equity to receivables ratio 51.2% at 31 December 2021
    - Fitch Ratings improved IPF outlook to Stable and reaffirmed long-term credit rating of BB-

Group key statistics	FY 2020	FY 2021	YOY change at CER
Customer numbers (000s)	**1,682**	**1,727**	2.7%
Credit issued (£m)	**772.2**	**982.1**	32.8%
Closing receivables (£m)	**669.1**	**716.8**	13.4%
Revenue (£m)	**661.3**	**548.7**	(15.0%)
Impairment % revenue*	**37.4%**	**10.2%**	27.2 ppts
Cost-income ratio*	**47.7%**	**55.7%**	(8.0 ppts)
Statutory (LBT) / PBT (£m)	**(40.7)**	**67.7**	
Statutory (LPS) / EPS (pence)	**(28.9)**	**18.8**	
Full-year dividend per share (pence)	**-**	**8.0**	

*2020 pre-exceptional

Gerard Ryan, Chief Executive Officer at IPF commented:
"We delivered an extremely strong full year performance and I am delighted to report excellent growth in credit issued, profit before tax of £67.7 million and the resumption of dividends to our shareholders. We are firmly in growth mode and our customers are benefitting from new products and improved customer journeys. We also attracted new bond investors and extended relationships with a number of international banking partners, which supported an improved credit outlook from Fitch Ratings.

This rebound was a strong team effort and I would like to thank my colleagues who are delivering on the essential role we play in society by providing credit responsibly and sustainably to people who are underbanked or underserved.

Looking ahead, we intend to meet increasing customer demand and accelerate customer receivables growth by further investing in our technology, and product and channel development so consumers can access our credit offerings in a way that suits them, whether that be through our customer representative service or digitally."

Group performance

We delivered an extremely strong full-year performance. We are delighted to report that the successful execution of our rebuild strategy, focused on serving our customers to an exceptionally high standard, has generated excellent growth and a strong financial result. Group profit before tax increased by £108.4 million to £67.7 million.

Each of our business divisions adapted well to the constantly changing environment, becoming more agile and cost effective whilst enhancing their customer product offerings. As a result of this excellent operational execution, all business divisions made a strong contribution to our overall Group profit before tax.

	FY 2020 £m	**FY 2021 £m**
European home credit	**(9.2)**	**54.5**
Mexico home credit	**0.8**	**18.4**
IPF Digital	**(19.2)**	**8.7**
Central costs	**(13.1)**	**(13.9)**
(Loss) / profit before taxation	**(40.7)**	**67.7**

	FY 2020 £m	**FY 2021 £m**	Change £m	Change %	Change at CER %
Customer numbers (000s)	1,682	**1,727**	45	2.7	2.7
Closing receivables	669.1	**716.8**	47.7	7.1	13.4
Credit issued	772.2	**982.1**	209.9	27.2	32.8
Average net receivables	777.6	**677.0**	(100.6)	(12.9)	(9.4)
Revenue	661.3	**548.7**	(112.6)	(17.0)	(15.0)
Impairment	(247.6)	**(56.2)**	191.4	77.3	77.6
Net revenue	413.7	**492.5**	78.8	19.0	24.7
Finance costs	(55.0)	**(54.0)**	1.0	1.8	(2.5)
Agents' commission	(72.0)	**(65.3)**	6.7	9.3	5.4
Other costs	(315.5)	**(305.5)**	10.0	3.2	0.1
Pre-exceptional (loss) / profit before taxation	(28.8)	**67.7**	96.5		
Exceptional items	(11.9)	**-**	11.9		
(Loss) / profit before taxation	(40.7)	**67.7**	108.4		

We saw a steady increase in levels of customer demand for credit from Q2, driven by the easing of freedom of movement rules in most of our markets, the opening up of retail and hospitality sectors and the progression of government vaccination programmes. Returning to growth mode, we delivered a 33% increase in credit issued, with robust contributions from all business divisions. Our strong collections performance throughout the year underpinned our strategy to selectively relax credit settings and take advantage of sales opportunities when demand for credit increased.

We are also pleased to report that our closing receivables portfolio is growing once again, with a £48 million increase (13% at CER) to £717 million at the year end, which contributed to improved revenue growth in the second half of the year. We expect to continue to grow both credit issued and customer receivables in 2022, building further on current revenue momentum. Average net receivables reduced by 9% year on year due to the lower levels of credit issued in 2020 and, together with the impact of temporary Covid-related rate caps in Hungary and Poland which have since expired, this resulted in a 15% contraction in revenue year on year. However, as we successfully rebuilt the portfolio over the course of the year, revenue growth returned from Q2 2021 and was 10% higher in the second half of the year compared with H1.

The credit quality of our lending portfolio is excellent across all business divisions, particularly the performance of the receivables portfolio written since June 2020, which was granted largely under tighter than normal credit settings, has been better than predicted by our impairment models. This, together with the combination of selectively relaxed credit settings tailored to local market conditions and consistently strong collections execution, has contributed to an exceptionally low impairment charge of £56 million in 2021. This includes the positive impact of Covid-19 discounting and expected credit loss provisions releases totalling around £32 million. Impairment as a percentage of revenue year-on-year improved by 27.2 ppt to 10.2%. We expect impairment as a percentage of revenue to increase in 2022 as we continue to grow the business, but to remain below our target range of 25% to 30%.

We have continued to maintain tight control on costs while investing more in marketing to drive our successful growth strategy and, as a result, other costs remained flat year on year. As we look ahead, we expect inflationary pressures to feed through to costs in 2022, but at a lower rate than the anticipated growth in receivables.

Strong strategic progress

IPF creates long-term value beyond profit and returns by striving to have a positive effect on all our stakeholders. Our strategy, anchored by the essential role our business performs in society by promoting financial inclusion, centres on meeting the financial needs of our customers and delivering a positive customer experience, and in so doing, recapturing longer-term growth as consumer demand increases in our markets.

During the pandemic period, we have extended forbearance across the Group over and above our normal practices, ensuring that where customers face difficulty meeting their repayments, we provide revised schedules to suit their current circumstances, with payment holidays and deferred payments. Protecting our people and customers remains our top priority. We provide PPE for customer representatives visiting their customers and a range of remote repayment options are available if customer visits are not possible. We also have in place appropriate protocols to address any adverse impact from future lockdowns, should they occur.

Our core strategic goals have driven the successful return to full-year profitability, created the foundation for longer-term growth and enabled the resumption of dividends to our shareholders. In addition to the significant progress made in financial performance, we also delivered a number of strategic milestones in 2021 including;

- Obtained an e-money institution licence which will enable the roll out of our mobile wallet product in Europe.
- Developed profitable digital and hybrid customer journeys in our Polish business to be replicated across the rest of the European home credit businesses.
- Defined a credit card proposition in our Polish business for testing in 2022.
- Introduced innovative technologies in our Romanian contact centres putting the business on the path to offering omnichannel touch points for customers. This innovation will be rolled out across our European home credit businesses.
- Completed the roll out of MyProvi mobile app in Mexico. All 17,000 customer representatives across the Group are now using the app in their day-to-day work and this digital transformation has reduced paper consumption significantly.
- Identified synergies between our home credit and digital businesses in Mexico to improve referrals and create a hybrid sales channel to serve customers who fall between a full home credit service and a digital credit offering.
- Expanded our agency network in Mexico by around 750 agencies as part of our territory expansion plans.
- Established our first retail point of sale partnerships in Romania and Mexico.

Environmental, social and governance (ESG)

Our purpose, *Building a better world through financial inclusion*, encompasses all aspects of ESG and drives our actions to ensure that our business is responsibly run and sustainable. We have an important role to play in helping people who have limited borrowing options to access credit in a responsible way and provide an opportunity for them to develop their credit profile. As a business with a strong social purpose, we focus our ESG agenda on the very positive impact our business has on society through our commitment to responsibly providing credit to our customers and ensuring that our loans are affordable and transparent. During 2021, we also embarked upon a process to develop our climate-related strategy and identify the key opportunities and risks posed by climate change that relate to IPF. It is also our intention to align our strategy with a number of the UN's Sustainable Development Goals to highlight how our business contributes to these important objectives.

Business division performance review

European home credit

The strong operational performance delivered by our European home credit businesses resulted in a £63.7 million swing in profit before tax year on year to £54.5 million. This significantly improved financial result was driven primarily by continued strong collections flowing through to lower impairment charges in each market.

	FY 2020 £m	**FY 2021 £m**	Change £m	Change %	Change at CER %
Customer numbers (000s)	827	**810**	(17)	(2.1)	(2.1)
Closing receivables	389.5	**425.9**	36.4	9.3	16.6
Credit issued	453.8	**599.2**	145.4	32.0	39.4
Average net receivables	443.0	**403.3**	(39.7)	(9.0)	(4.5)
Revenue	351.1	**284.7**	(66.4)	(18.9)	(16.4)
Impairment	(125.1)	**1.6**	126.7	101.3	101.3
Net revenue	226.0	**286.3**	60.3	26.7	33.8
Finance costs	(32.3)	**(34.0)**	(1.7)	(5.3)	(10.0)
Agents' commission	(50.7)	**(42.9)**	7.8	15.4	10.8
Other costs	(154.7)	**(154.9)**	(0.2)	(0.1)	(4.2)
Pre-exceptional (loss) / profit before taxation	(11.7)	**54.5**	66.2		
Exceptional items	2.5	**-**	(2.5)		
(Loss) / profit before taxation	(9.2)	**54.5**	63.7		

Our business responded well to growing consumer demand, and we increased credit issued year on year by 39%. Although customer numbers contracted year on year by 2% to 810,000, our successfully executed rebuild strategy delivered an increase of 2,000 in the second half of the year. Average net receivables reduced by 5% year on year, but credit issued growth momentum delivered a 17% (at CER) increase in closing receivables since December 2020 to £426 million, up 8% (at CER) from £406 million at 30 June 2021.

Our strong collections performance together with the unwinding of Covid-19 impairment provisions booked in 2020 and higher-quality lending, resulted in impairment as a percentage of revenue improving by 36.2 ppts since the 2020 year end to (0.6)% (an impairment credit). Other costs increased by just 4% (£6.2 million at CER) year on year as a result of a much lower 2020 comparative together with a modest increase in costs to fund higher credit issuance.

The strong execution of our strategy in 2021 delivered good sales momentum, receivables growth and a significantly improved financial performance. Looking ahead to 2022, our focus is to increase the scale of our European home credit operations, which will continue to be the engine of the Group. We plan to deliver credit issued growth of around 8% to 10% to rebuild the receivables portfolio while maintaining robust collections, credit quality and strong cost control. We will also continue to enhance the customer experience through improved technology, expand our digital and hybrid credit options for quality customers and test a credit card proposition.

Mexico home credit

Mexico home credit reported another significantly improved financial performance with profit before tax increasing by £17.6 million year on year to £18.4 million. This robust outcome, driven primarily by a reduction in impairment and a lower cost base, was delivered against a challenging further wave of the Covid-19 pandemic in Mexico during Q3 2021.

	FY 2020 £m	**FY 2021 £m**	Change £m	Change %	Change at CER %
Customer numbers (000s)	599	**654**	55	9.2	9.2
Closing receivables	92.8	**117.6**	24.8	26.7	29.5
Credit issued	143.6	**194.2**	50.6	35.2	40.2
Average net receivables	102.5	**102.8**	0.3	0.3	2.9
Revenue	157.1	**146.0**	(11.1)	(7.1)	(6.5)
Impairment	(53.0)	**(33.8)**	19.2	36.2	40.0
Net revenue	104.1	**112.2**	8.1	7.8	12.4
Finance costs	(7.7)	**(6.6)**	1.1	14.3	12.0
Agents' commission	(21.3)	**(22.4)**	(1.1)	(5.2)	(7.2)
Other costs	(71.6)	**(64.8)**	6.8	9.5	7.7
Pre-exceptional profit before taxation	3.5	**18.4**	14.9		
Exceptional items	(2.7)	**-**	2.7		
Profit before taxation	0.8	**18.4**	17.6		

Consumer appetite for credit is recovering and despite rising Covid-19 cases in Q3, exacerbated by relatively low vaccination rates in Mexico, we delivered a 9% increase in customer numbers to 654,000, an increase of 55,000 customers. This, in turn, supported a 40% increase in credit issued year on year. Average net receivables increased by a lower amount at 3% year on year due to lower credit issued in 2020. Revenue decreased by 6% year on year, driven primarily by our strategic decision to extend loan terms and offer more attractive pricing to higher-quality customers. However, it is pleasing to report that H2 revenue was 23% higher than the first half. This growth also supported the delivery of a 30% (at CER) increase in closing receivables since December 2020 to £118 million.

Our operational rigour around collections and credit quality over the past two years, together with the unwinding of Covid-19 impairment provisions booked in 2020, resulted in annualised impairment as a percentage of revenue improving by 10.5 ppts since the 2020 year end to 23.2%. We continued to manage costs tightly, maintaining the benefits of savings achieved in 2020, and delivered an 8% reduction in Other costs year on year.

Our Mexico home credit business delivered good growth in 2021 and offers very exciting and significant long-term prospects. Our strategy in 2022 is to build on this momentum through strong operational execution to deliver sustainable, 15% to 20% credit issued growth in 2022, and increase the size of the receivables portfolio. We will enhance territory management to maximise customer reach within the current geographic footprint, selectively digitise the customer journey, expand the functionality of our MyProvi agent app to further improve cost efficiency and rebuild our receivables portfolio.

IPF Digital

IPF Digital delivered a record profit before tax of £8.7 million, a significant year on year improvement of £27.9 million. Reinvesting in growth together with continuing good credit quality and tight cost control supported the delivery of very strong financial performances by both our established and new markets.

The profitability of IPF Digital is segmented as follows:

	FY 2020 £m	**FY 2021 £m**	Change £m	Change %
Established markets	8.7	**21.2**	12.5	143.7
New markets	(16.3)	**(0.3)**	16.0	98.2
Head office costs	(11.6)	**(12.2)**	(0.6)	(5.2)
IPF Digital	(19.2)	**8.7**	27.9	145.3

	FY 2020 £m	**FY 2021 £m**	Change £m	Change %	Change at CER %
Customer numbers (000s)	256	**263**	7	2.7	2.7
Closing receivables	186.8	**173.3**	(13.5)	(7.2)	(1.6)
Credit issued	174.8	**188.7**	13.9	8.0	10.2
Average net receivables	232.1	**170.9**	(61.2)	(26.4)	(24.1)
Revenue	153.1	**118.0**	(35.1)	(22.9)	(20.6)
Impairment	(69.5)	**(24.0)**	45.5	65.5	64.5
Net revenue	83.6	**94.0**	10.4	12.4	15.9
Finance costs	(14.9)	**(13.3)**	1.6	10.7	6.3
Other costs	(76.6)	**(72.0)**	4.6	6.0	3.1
Pre-exceptional (loss) / profit before taxation	(7.9)	**8.7**	16.6		
Exceptional items	(11.3)	**-**	11.3		
(Loss) / profit before taxation	(19.2)	**8.7**	27.9		

While our digital business made strong financial progress overall, we made the difficult decision in December 2021 to stop new lending to customers in Spain. Although our team had worked diligently to build a viable business with a new product construct, the regulatory environment meant it was no longer possible to make an acceptable return for our shareholders. In line with our disciplined use of capital, we have decided to redeploy our resources elsewhere.

Returning demand for consumer credit driven by the relaxation of Covid-19 lockdown restrictions, together with our successful strategy to relax credit settings to near pre-pandemic levels, is creating a good foundation on which to rebuild the digital business and deliver sustainable growth. Customer numbers increased by 3% year on year to 263,000 and we delivered an increase of 16,000 new customers in the second half of the year driven by an excellent performance in Mexico. Excluding the impact of the portfolio collect-out in Finland, customer growth increased by 8%. Credit issued was 10% higher year on year, with H2 credit issued 27% higher than H1. Average net receivables reduced by 24% year on year, driving a 21% reduction in revenue. Closing receivables contracted by just 2% year on year to £173 million, and acceleration in growth momentum in the second half of the year resulted in closing receivables being £5 million (5% at CER) higher at the end of December compared with June 2021.

Continued high-quality lending and strong collections performance resulted in a 25.1 ppt improvement in annualised impairment as a percentage of revenue to 20.3% since the 2020 year end. Costs reduced by 3% year on year, driven mainly by the benefits of our rightsizing exercise in 2020, partially offset by increased investment in growth and a £3 million one-off cost impact of the decision to run off the Spanish business.

Established markets

The established markets delivered a very strong £12.5 million increase in profit before tax to £21.2 million, driven by low impairment and a significant reduction in costs, partially offset by lower revenue arising from a contraction in our portfolio.

	FY 2020 £m	**FY 2021 £m**	Change £m	Change %	Change at CER %
Customer numbers (000s)	116	**95**	(21)	(18.1)	(18.1)
Closing receivables	98.8	**78.5**	(20.3)	(20.5)	(15.6)
Credit issued	85.0	**66.6**	(18.4)	(21.6)	(20.2)
Average net receivables	117.9	**83.6**	(34.3)	(29.1)	(27.0)
Revenue	71.6	**48.3**	(23.3)	(32.5)	(30.4)
Impairment	(20.5)	**(1.9)**	18.6	90.7	90.5
Net revenue	51.1	**46.4**	(4.7)	(9.2)	(6.3)
Finance costs	(7.8)	**(6.5)**	1.3	16.7	12.2
Other costs	(24.9)	**(18.7)**	6.2	24.9	23.0
Pre-exceptional profit before taxation	18.4	**21.2**	2.8		
Exceptional items	(9.7)	**-**	9.7		
Profit before taxation	8.7	**21.2**	12.5		

Customers and credit issued contracted year on year by 18% and 20% respectively, as a result of tighter credit settings introduced in response to Covid-19, softer demand during ongoing periods of people movement restrictions, and our decision to cease lending in Finland and collect out the portfolio. Our focus on building growth momentum through easing credit settings to meet increasing demand resulted in credit issued being 21% higher in H2 compared with H1. Average net receivables contracted year on year by 27% due to the lower credit issued and this resulted in a reduction in revenue of 30% in the same period. Excluding Finland, where the portfolio collect-out is progressing well, the contraction in average net receivables and revenue year on year was significantly lower at 13% and 19% respectively.

Good collections and lower levels of credit issued resulted in a lower impairment charge in the period and a 24.7 ppt improvement in annualised impairment as a percentage of revenue to 3.9% since the year end. We continued to manage costs tightly, and together with the benefit of the 2020 rightsizing programme, costs reduced by 23% year on year.

New markets

The new markets generated a small loss before tax of £0.3 million, a significant improvement of £16.0 million year on year. This near-breakeven result was driven by a reduction in the cost base and improved credit quality, partly offset by a £6 million charge arising from the decision to collect out our business in Spain.

	FY 2020 £m	**FY 2021 £m**	Change £m	Change %	Change at CER %
Customer numbers (000s)	140	**168**	28	20.0	20.0
Closing receivables	88.0	**94.8**	6.8	7.7	13.9
Credit issued	89.8	**122.1**	32.3	36.0	39.2
Average net receivables	114.2	**87.3**	(26.9)	(23.6)	(21.2)
Revenue	81.5	**69.7**	(11.8)	(14.5)	(12.1)
Impairment	(49.0)	**(22.1)**	26.9	54.9	53.7
Net revenue	32.5	**47.6**	15.1	46.5	50.6
Finance costs	(7.1)	**(6.8)**	0.3	4.2	-
Other costs	(40.1)	**(41.1)**	(1.0)	(2.5)	(5.9)
Pre-exceptional loss before taxation	(14.7)	**(0.3)**	14.4		
Exceptional items	(1.6)	**-**	1.6		
Loss before taxation	(16.3)	**(0.3)**	16.0		

As lockdown restrictions eased during the second half of the year and consumer demand improved, we continued to relax credit settings and increase our investment in growth related activities in our new markets. This delivered further sales momentum, resulting in a 28,000 (20%) increase in customer numbers year on year to 168,000, with significantly faster growth in H2 of 23,000. This was also reflected in credit issued growth which increased significantly by 39% year on year, with H2 credit issued 30% higher than H1. Average net receivables and revenue reduced by 21% and 12% respectively year on year, however, we delivered revenue growth of 18% in the second half of the year.

Credit quality continued to improve resulting in a 28.4 ppt reduction in impairment as a percentage of revenue since the 2020 year end to 31.7%. Other costs increased by £1 million (6% at CER) year on year driven by the benefits of the rightsizing exercise in 2020, partially offset by costs of £3 million incurred as a result of our decision to collect out the portfolio in Spain.

IPF Digital offers significant, long-term growth prospects and is expected to deliver 15% to 20% credit issued growth in 2022 and 2023 while maintaining credit quality and costs. The e-money licence obtained in 2021 will enable the further roll out of our mobile wallet product offering, and our digital and home credit businesses in Mexico will partner to explore new hybrid lending opportunities.

Regulatory update

Of the temporary Covid-19 related regulations introduced in 2020, only the debt repayment moratorium in Hungary remains in place and this is due to expire on 30 June 2022.

The European Union commenced a review of the Consumer Credit Directive, which we expect will conclude by the end of 2022. Our Group and European Union market teams are closely engaged in the process with a view to contributing to an acceptable outcome for both customers and market participants.

In Poland, the proposal to reduce the non-interest cost of credit cap, which was first raised in 2016, has been relaunched by the same political party. The proposal, which relates to non-interest costs of a consumer loan, would see the maximum cap reduced from 100% of the loan value to 45% (excluding interest). The proposals have been referred to the EU Commission for consideration with a deadline of 28 March 2022 for response by the Commission to the Polish Parliament, during which time the proposals cannot be finalised. There is a likelihood that there will be a range of views on the merits of the proposals and, as they are scrutinised in detail, they could be changed, abandoned or agreed. We will continue to review the draft proposals to assess any potential implications for our Polish business, should they be implemented, and update the market as appropriate.

In December 2021, a revised draft law imposing a total cost of credit cap of 100% for loans with issue values below 15,000 RON (c.€3,000) and 15% for loans above 15,000 RON passed the Upper Chamber of the Romanian Parliament and moved to the Second Chamber in February this year. Approximately one year ago, a similar proposal had been sent back to the Parliament by the Constitutional Court citing procedural errors. Most loans in our Romanian portfolio are below 15,000 RON in value.

Taxation

The taxation charge on the profit for 2021 is £25.8 million, which represents an expected effective tax rate for the year of approximately 38%. The tax charge is affected by a combination of factors but is largely driven by the lack of tax deductibility in some countries for impairment charges, liability to certain taxes that are computed with reference to profits for prior periods rather than current year, and the write-off of deferred tax assets.

With regard to the European Commission's State Aid challenge to the UK's Group Financing Exemption regime, following the enactment of new legislation in December 2020, HMRC issued a Charging Notice seeking payment of £14.2 million in respect of the alleged State Aid for the affected years. The payment of this amount is a procedural matter, and the new law does not allow for postponement. Accordingly, this amount was paid in February 2021 and we appealed the Charging Notice on the grounds of the quantum assessed. A further amount of interest of £1.1 million was subsequently paid during August 2021. Whether the UK's Group Financing Exemption regime constitutes State Aid is ultimately to be decided and we continue to await a decision of the General Court of the European Union on this matter. The £15.3 million paid is held on the balance sheet as a non-current tax asset reflecting the Directors' judgement that it is more likely than not that the amount will ultimately be repaid. This judgement is based on legal advice received on the strength of the technical position included in IPF's annulment application. Further details of the risks associated with the Group's finance company are set out at note 23.

Funding and balance sheet

We continue to maintain a very conservatively capitalised balance sheet, a strong funding position and robust financial risk management. At 31 December 2021, the equity to receivables ratio was 51.2% (2020: 55.4%) and the gearing ratio was 1.3x (2020: 1.4x).

As at 31 December 2021, the Group had total debt facilities of £575 million (£402 million of bonds and £173 million of bank facilities) and borrowings of £478 million, with undrawn facilities and non-operational cash balances of £108 million. Total cash balances at 31 December 2021 were £42 million and include £11 million that was not required for operational purposes.

In October, we successfully issued a 3-year SEK 450 million bond priced at 7%, the proceeds of which were used to refinance the SEK bond due to mature in 2022. The new notes, due in October 2024, were issued under the Group's euro medium-term note programme and extend the maturity profile of IPF's sources of debt funding. During 2021 we also extended £148 million of bank facilities and, together with the new SEK bond, extended the maturity profile of the Groups' sources of funding to 2.9 years.

We were also pleased to see Fitch Ratings improve the outlook for IPF to Stable and reaffirm its long-term credit rating of BB-.

Dividend

With the Group's strong recovery in 2021, our confidence in the growth potential of the business and our current strong capital base, the Board is pleased to declare a final dividend of 5.8 pence per share, bringing the full-year dividend to 8.0 pence per share (2020: nil). Subject to shareholder approval, the final dividend will be paid on 6 May 2022 to shareholders on the register at the close of business on 8 April 2022. The shares will be marked ex-dividend on 7 April 2022. The Board also reviewed the future capital requirements of the Group and agreed to introduce a progressive dividend policy aimed at reducing, at an appropriate pace, the equity to receivables ratio to bring it closer to our broad target of 40%. In addition, it was agreed that future interim dividend payments would be set at 33% of the prior year's full dividend payments. The Board may also consider returning surplus capital to shareholders periodically, subject to prevailing market conditions.

Outlook

The pandemic has illustrated the essential role our business plays in helping underbanked and underserved communities around the world. Throughout this difficult period, we were able to continue to serve our customers and help them with extended forbearance and payment holidays. There is significant long-term demand for affordable credit from the group of consumers we serve in all our markets and we intend to build on the excellent momentum achieved in 2021 by continuing to execute our growth strategy to rescale the business.

We expect to be able to generate double-digit credit issued growth in both Mexico home credit and IPF Digital in 2022, supported by a strategic focus on strengthening customer choice by increasing the digital and mobile wallet options available. We expect to be able to grow credit issued in European home credit – the engine of the Group – by single-digit percentage supported by extending our digital / hybrid offerings as 2022 progresses. As always, we will continue to serve our customers safely and responsibly, while maintaining a clear focus on portfolio quality and costs.

Alternative performance measures

This Full-year Financial Report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide stakeholders with important additional information on our business. To support this we have included an accounting policy note on APMs in the notes to this Full-year Financial Report, a glossary indicating the APMs that we use, an explanation of how they are calculated and how we use them, and a reconciliation of the APMs we use to a statutory measure, where relevant.

International Personal Finance plc

Consolidated income statement for the year ended 31 December

	Notes	**2021** **£m**	2020 Pre-exceptional items £m	2020 Exceptional items (note 9) £m	2020 £m
Revenue	4	**548.7**	661.3	-	661.3
Impairment	4	**(56.2)**	(247.6)	(2.5)	(250.1)
Revenue less impairment		**492.5**	413.7	(2.5)	411.2
Finance costs	5	**(54.0)**	(55.0)	8.2	(46.8)
Other operating costs		**(111.4)**	(108.7)	-	(108.7)
Administrative expenses		**(259.4)**	(278.8)	(17.6)	(296.4)
Total costs		**(424.8)**	(442.5)	(9.4)	(451.9)
Profit/(loss) before taxation	4	**67.7**	(28.8)	(11.9)	(40.7)
Tax income/(expense) – UK		**6.6**	2.3	0.1	2.4
– Overseas		**(32.4)**	(26.8)	0.9	(25.9)
Tax (expense)/income	6	**(25.8)**	(24.5)	1.0	(23.5)
Profit/(loss) after taxation attributable to owners of the Company		**41.9**	(53.3)	(10.9)	(64.2)

Earnings/(loss) per share - statutory

	Notes	**2021** **pence**	2020 pence
Basic	7	**18.8**	(28.9)
Diluted	7	**17.8**	(27.4)

Earnings/(loss) per share - pre-exceptional items

	Notes	**2021** **pence**	2020 pence
Basic	7	**18.8**	(24.0)
Diluted	7	**17.8**	(22.8)

The notes to the financial information are an integral part of this consolidated financial information.

Consolidated statement of comprehensive income for the year ended 31 December

	2021 **£m**	2020 £m
Profit/(loss) after taxation attributable to owners of the Company	**41.9**	(64.2)
Other comprehensive (expense)/income		
Items that may subsequently be reclassified to income statement:		
Exchange losses on foreign currency translations	**(37.6)**	(4.1)
Net fair value gains – cash flow hedges	**1.4**	1.3
Tax charge on items that may be reclassified	**(0.7)**	(0.3)
Items that will not subsequently be reclassified to income statement:		
Actuarial gains/(losses) on retirement benefit obligation	**0.5**	(1.4)
Tax credit on items that will not be reclassified	**0.1**	0.3
Other comprehensive expense net of taxation	**(36.3)**	(4.2)
Total comprehensive income/(expense) for the year attributable to owners of the Company	**5.6**	(68.4)

The notes to the financial information are an integral part of this consolidated financial information.

Balance sheet as at 31 December

	Notes	**2021 £m**	2020 £m
Assets			
Non-current assets			
Goodwill	10	**22.9**	24.4
Intangible assets	11	**25.2**	30.2
Property, plant and equipment	12	**13.8**	15.4
Right-of-use assets	13	**17.7**	17.5
Amounts receivable from customers	15	**150.2**	136.5
Deferred tax assets	14	**124.7**	135.7
Non-current tax asset		**15.3**	-
Retirement benefit asset	18	**4.9**	3.4
		374.7	363.1
Current assets			
Amounts receivable from customers	15	**566.6**	532.6
Derivative financial instruments	17	**0.7**	0.5
Cash and cash equivalents		**41.7**	116.3
Other receivables		**14.0**	9.9
Current tax assets		**1.6**	1.5
		624.6	660.8
Total assets		**999.3**	1,023.9
Liabilities			
Current liabilities			
Borrowings	16	**(3.1)**	(0.2)
Derivative financial instruments	17	**(7.6)**	(6.7)
Trade and other payables		**(112.8)**	(89.1)
Provisions for liabilities & charges	19	**(5.4)**	(19.2)
Lease Liabilities	13	**(6.4)**	(7.4)
Current tax liabilities		**(8.2)**	(13.4)
		(143.5)	(136.0)
Non-current liabilities			
Deferred tax liabilities	14	**(7.9)**	(13.8)
Lease Liabilities	13	**(12.3)**	(11.8)
Borrowings	16	**(468.5)**	(491.8)
		(488.7)	(517.4)
Total liabilities		**(632.2)**	(653.4)
Net assets		**367.1**	370.5
Equity attributable to owners of the Company			
Called-up share capital		**23.4**	23.4
Other reserve		**(22.5)**	(22.5)
Foreign exchange reserve		**(32.6)**	5.0
Hedging reserve		**1.6**	0.9
Own shares		**(46.6)**	(45.2)
Capital redemption reserve		**2.3**	2.3
Retained earnings		**441.5**	406.6
Total equity		**367.1**	370.5

The notes to the financial information are an integral part of this consolidated financial information.

Statement of changes in equity

	Called-up share capital £m	Other reserve £m	Other reserves* £m	Retained earnings £m	Total equity £m
At 1 January 2020	**23.4**	**(22.5)**	**(34.8)**	**470.3**	**436.4**
Comprehensive expense:					
Loss after taxation for the year	-	-	-	(64.2)	(64.2)
Other comprehensive (expense)/income:					
Exchange losses on foreign currency translation	-	-	(4.1)	-	(4.1)
Net fair value gains – cash flow hedges	-	-	1.3	-	1.3
Actuarial loss on retirement benefit obligation	-	-	-	(1.4)	(1.4)
Tax (charge)/credit on other comprehensive income	-	-	(0.3)	0.3	-
Total other comprehensive expense	-	-	(3.1)	(1.1)	(4.2)
Total comprehensive expense for the year	-	-	(3.1)	(65.3)	(68.4)
Transactions with owners:					
Share-based payment adjustment to reserves	-	-	-	2.5	2.5
Shares granted from treasury and employee trust	-	-	0.9	(0.9)	-
At 31 December 2020	**23.4**	**(22.5)**	**(37.0)**	**406.6**	**370.5**
At 1 January 2021	**23.4**	**(22.5)**	**(37.0)**	**406.6**	**370.5**
Comprehensive expense:					
Profit after taxation for the year	-	**-**	**-**	**41.9**	**41.9**
Other comprehensive (expense)/income:					
Exchange losses on foreign currency translation	**-**	**-**	**(37.6)**	**-**	**(37.6)**
Net fair value gains – cash flow hedges	-	**-**	**1.4**	**-**	**1.4**
Actuarial gain on retirement benefit obligation	-	-		**0.5**	**0.5**
Tax (charge)/credit on other comprehensive income	-	-	**(0.7)**	**0.1**	**(0.6)**
Total other comprehensive (expense)/income	**-**	**-**	**(36.9)**	**0.6**	**(36.3)**
Total comprehensive (expense)/income for the year	**-**	**-**	**(36.9)**	**42.5**	**5.6**
Transactions with owners:					
Share-based payment adjustment to reserves	**-**	**-**	**-**	**(0.2)**	**(0.2)**
Shares acquired by employee trust	**-**	**-**	**(3.9)**	**-**	**(3.9)**
Shares granted from treasury and employee trust	**-**	**-**	**2.5**	**(2.5)**	**-**
Dividends paid to Company Shareholder	**-**	**-**	**-**	**(4.9)**	**(4.9)**
At 31 December 2021	**23.4**	**(22.5)**	**(75.3)**	**441.5**	**367.1**

* Includes foreign exchange reserve, hedging reserve, capital redemption reserve and amounts paid to acquire shares held in treasury and by employee trust.

Cash flow statement for the year ended 31 December	**2021** **£m**	2020 £m
Cash flows from operating activities		
Cash generated from operating activities	**74.3**	329.8
Finance costs paid	**(52.7)**	(54.7)
Finance income received	**-**	9.9
Income tax paid	**(46.4)**	(1.4)
Net cash (used in)/generated from operating activities	**(24.8)**	283.6
Cash flows from investing activities		
Purchases of intangible assets	**(10.3)**	(11.7)
Purchases of property, plant and equipment	**(5.1)**	(3.8)
Proceeds from sale of property, plant and equipment	**0.2**	0.4
Net cash used in investing activities	**(15.2)**	(15.1)
Net cash (used in)/generated from operating and investing activities	**(40.0)**	268.5
Cash flows from financing activities		
Proceeds from borrowings	**49.4**	311.3
Repayment of borrowings	**(62.9)**	(490.0)
Principal elements of lease payments	**(9.9)**	(10.9)
Shares acquired by employee trust	**(3.9)**	-
Dividends paid to Company shareholders	**(4.9)**	-
Net cash used in financing activities	**(32.2)**	(189.6)
Net (decrease)/increase in cash and cash equivalents	**(72.2)**	78.9
Cash and cash equivalents at beginning of year	**116.3**	37.4
Exchange losses on cash and cash equivalents	**(2.4)**	-
Cash and cash equivalents at end of year	**41.7**	116.3

1. Basis of preparation

The financial information, which comprises the consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and related notes, is derived from the full Group Financial Statements for the year ended 31 December 2021, which have been prepared in accordance with International Financial Reporting Standards ('IFRSs') and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. It does not constitute full Financial Statements within the meaning of section 434 of the Companies Act 2006.

Statutory Financial Statements for the year ended 31 December 2020 have been delivered to the Registrar of Companies and those for 2021 will be delivered following the Company's annual general meeting. The auditor has reported on those Financial Statements: its reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) of the Companies Act 2006.

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly they continue to adopt the going concern basis in preparing this financial information (see note 24 for further details).

The accounting policies used in completing this financial information have been consistently applied in all periods shown. These accounting policies are detailed in the Group's Financial Statements for the year ended 31 December 2021 which can be found on the Group's website (www.ipfin.co.uk).

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2021 but do not have any material impact on the Group:

- Impact of the initial application of Interest Rate Benchmark Reform amendments, Phase 2, to IFRS 9, IFRS 7, IFRS 4 and IFRS 16;
- Impact of the initial application of Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16).

The following standards, interpretations and amendments to existing standards are not yet effective and have not been early adopted by the Group:

- IFRS 17 'Insurance contracts';
- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture';
- Amendments to IFRS 3 'Reference to the Conceptual Framework';
- Amendments to IAS 16 'Property, Plant and Equipment – Proceeds before Intended Use';
- Amendments to IAS 1 'Classification of Liabilities as Current or Non-current';
- Amendments to IAS 37 'Onerous Contracts – Cost of Fulfilling a Contract';
- Annual Improvements to IFRS Standards 2018-2020 – Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture;
- Amendments to IAS 1 and IFRS Practice Statement 2 'Disclosure of Accounting Policies';
- Amendments to IAS 8 'Definitions of Accounting Estimates';
- Amendments to IAS 12 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction'.

Exceptional items

Exceptional items are items that are unusual because of their size, nature or incidence and which the directors consider should be disclosed separately to enable a full understanding of the Group's underlying results.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of Consolidated Financial Statements requires the Group to make estimates and judgements that affect the application of policies and reported accounts.

Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a critical accounting estimate. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and judgements which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make estimations that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical estimations, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

Revenue recognition

The estimate used in respect of revenue recognition is the methodology used to calculate the EIR. In order to determine the EIR applicable to loans an estimate must be made of the expected life of each loan and hence the cash flows relating thereto. These estimates are based on historical data and are reviewed regularly. During the year, the regulations relating to payment of rebates in Poland changed, which is expected to impact the cashflows relating to loans in that market. Based on a 3% variation in the EIR, it is estimated that the amounts receivable from customers would be higher/lower by £7.7 million (2020: £7.7 million). This sensitivity is based on historic fluctuations in EIRs.

Amounts receivable from customers

The Group reviews its portfolio of customer loans and receivables for impairment on a weekly or monthly basis. The Group reviews the most recent collections performance to determine whether there is objective evidence which indicates that there has been an adverse effect on expected future cash flows. For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into stages based on days past due as this is considered to be the most reliable predictor of future payment performance. The level of impairment is calculated using historical payment performance to generate both the estimated expected loss and also the timing of future cash flows for each agreement. The expected loss is calculated using probability of default ('PD') and loss given default ('LGD') parameters.

Impairment models are monitored regularly to test their continued capability to predict the timing and quantum of customer repayments in the context of the recent customer payment performance. The models used typically have a strong predictive capability reflecting the relatively stable nature of the business and therefore the actual performance does not usually vary significantly from the estimated performance. The models are ordinarily updated at least twice per year. Where we expect the models to show an increase in the expected loss or a slowing of the future cashflows in the following 12 months, we apply an adjustment to the models. At 31 December 2021, this adjustment was a reduction in receivables of £13.6 million (2020: reduction of £7.7 million). Where expected loss parameters have shown significant improvements through the pandemic this is due to the tighter credit settings that were put in place as part of the Group's pandemic response. This data is not considered to be representative of the expected future performance and therefore we have excluded it from our periodic update.

Covid-19 post model overlay (PMO) on amounts receivable from customers

2021	**CV19 PMO**	**Disposable income PMO**	**Total PMOs**
	£m	**£m**	**£m**
Home credit	**15.6**	**5.3**	**20.9**
IPF Digital	**-**	**1.5**	**1.5**
Total	**15.6**	**6.8**	**22.4**

2020	**CV19 PMO**	**Disposable income PMO**	**Total PMOs**
	£m	**£m**	**£m**
Home credit	33.5	-	33.5
IPF Digital	5.2	-	5.2
Total	38.7	-	38.7

Government imposed restrictions on the freedom of movement and debt repayment moratoria introduced in 2020 had a significant adverse impact on 2021 collection cash flows for home credit lending issued before June 2020 (back book portfolio). In 2021, the Hungarian debt repayment moratorium was extended into 2022, further impacting expected collection cash flows. There remains a small but significant proportion of this pre-June 2020 issue within the home credit portfolio and, given the age of these loans, we have prepared post model overlays (PMOs) to our impairment models in order to calculate the continued risks that are not fully reflected in our standard impairment models. Based on management's current expectations, the impact of these PMOs was to increase impairment provisions at 31 December 2021 by £15.6 million of which £7.8 million relates to the risks associated with the loans impacted by the Hungary debt moratorium and £7.8 million relates to the remaining home credit lending issued before June 2020. In order to calculate the PMO, we segmented the portfolio by analysis of the most recent payment performance and, using this information, made assumptions around expected credit losses, which resulted in a range of outcomes being calculated from £12.9 million to £18.3 million. £15.6 million was selected as most appropriate. This represents management's current assessment of a reasonable range of outcomes from the actual collections performance on the back book portfolio.

In addition, we have noted the unprecedented high inflation forecasts and the ongoing disruption caused by new Covid-19 variants and have identified a risk associated with reductions in our customers' disposable incomes, which we believe will negatively impact their ability to make repayments. We have performed a full assessment of the impact of reduced disposable income in our customer base and have concluded that it would result in increased risks across our home credit and IPF Digital businesses that are also not reflected in our standard impairment models. We have prepared PMOs and based on management's current expectations, the impact of these PMOs was to increase impairment provisions at 31 December 2021 by a further £6.8 million. In order to calculate this PMO, we have made assumptions around the level of inflation and wage growth in each of our markets. An increase/decrease in inflation by 10 ppts would result in an increase/decrease in the PMO of £3.9 million. This represents management's current assessment of a reasonable range in our assumptions.

Polish early settlement rebates

As previously reported, a comprehensive review has been conducted by UOKiK, the Polish competition and consumer protection authority, of rebating practices by banks and other consumer credit providers on early loan settlement, including those of the Group's Polish businesses. We assessed the impact of the resolution of this matter resulting in higher early settlement rebates being payable to customers that settled their agreements early before the balance sheet date. A number of risks and uncertainties remain, in particular with respect to future claims volumes relating to historic rebates paid and the nature of any customer contact exercise required. The total amount provided of £3.3 million (31 December 2020: £17.6 million) represents the Group's best estimate of the likely future cost of increasing historic customer rebates, based on its current strategy to achieve resolution. Whilst the volume of claims could differ from the estimates, the Group's expectation at this stage is that claims rates are unlikely to be more than 25% higher than the assumed rate.

Claims management charges in Spain

The Group holds provisions in respect of claims management charges in Spain following an increase in incidence of these claims in 2020. We reviewed the charges by reference to the claims incidence experience and average cost of resolution in the Spanish business. The provision recorded of £7.1 million, split £5.0 million against receivables and £2.1 million in provisions, (2020: £8.0 million, split £6.4 million against receivables and £1.6 million in provisions) represent the Group's best estimate of future claims volumes and the cost of their management, based on current claims management methodology, together with current and future product plans. Whilst the future claims incidence and cost of management could differ from estimates, the Group's expectation at this stage is that overall costs are unlikely to be more than 25% higher than those assumed in the charges.

Tax

Estimations must be exercised in the calculation of the Group's tax provision, in particular with regard to the existence and extent of tax risks. This exercise of estimation with regards to the EU State Aid investigation, which is disclosed in note 23, could have a significant effect on the Financial Statements, as there are significant uncertainties in relation to the amount and timing of associated cash flows.

Deferred tax assets arise from timing differences between the accounting and tax treatment of revenue and impairment transactions and tax losses. Estimations must be made regarding the extent to which timing differences reverse and an assessment must be made of the extent to which future profits will be generated to absorb tax losses. A shortfall in profitability compared to current expectations may result in future adjustments to deferred tax asset balances.

Critical accounting judgements

Accounting judgements have been made over whether the EU State Aid investigation requires a provision or disclosure as a contingent liability, see note 23 for further details.

Alternative performance measures

In reporting financial information, the Group presents alternative performance measures, 'APMs' which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets.

Each of the APMs, used by the Group are set out on pages 50 to 53 including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

The Group reports percentage change figures for all performance measures, other than profit or loss before taxation and earnings per share, after restating prior year figures at a constant exchange rate. The constant exchange rate, which is an APM, retranslates the previous year measures at the average actual periodic exchange rates used in the current financial year. These measures are presented as a means of eliminating the effects of exchange rate fluctuations on the year-on-year reported results.

The Group makes certain adjustments to the statutory measures in order to derive APMs where relevant. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group.

2. Principal risks and uncertainties

In accordance with the Companies Act 2006, a description of the principal risks and uncertainties (and the mitigating factors in place in respect of these) is included below. Effective management of risks, uncertainties and opportunities is critical to our business in order to deliver long-term shareholder value and protect our people, assets and reputation. In 2021, we continued to face a challenging external environment, particularly from changing regulation, and the impact of issues arising from the Covid-19 pandemic. Internally, our operational governance framework and risk management processes are continually reviewed to ensure that where areas of improvement are identified, a plan of action is put in place and can become a key focus for the Board. The effectiveness of operating these processes is monitored by the Audit and Risk Committee on behalf of the Board.

Risk key

Risk environment	Risk appetite
↑ Risk environment improving	↑ Risk appetite increasing
↔ Risk environment remains stable	↔ Risk appetite stable
↓ Risk environment worsening	↓ Risk appetite decreasing

The risks facing the business by risk category are:

Risk	Exposures	Measurement, mitigation and monitoring	Commentary
1 Regulatory ↔ ↔			
Lead responsibility: Chief Executive Officer We suffer losses or fail to optimise profitable growth due to a failure to operate in compliance with, or effectively anticipate changes in, all applicable laws and regulations (including data protection and privacy laws), or due to a regulator interpreting these in a different way. Objective We aim to ensure that effective arrangements are in place to enable us to comply with legal and regulatory obligations and take fully assessed and informed commercial risks.	Changes in regulation, differences in interpretation or clarification of regulation, or changes in the enforcement of laws by regulators, courts or other bodies can lead to challenge of our products and/or practices. We monitor legal and regulatory developments to ensure we maintain compliance, remain competitive and provide value for our customers. The likelihood of legal and regulatory change and the impact of challenge vary by market and the area of regulation, but the majority have already introduced price legislation and strengthened consumer protection regulation, although there remains a likelihood that further changes may be made.	Highly skilled and experienced legal, public affairs, compliance and data privacy teams at Group and market level. Monitoring political, legislative and regulatory developments and risks. Expert third-party advisors used where necessary. Engagement with regulators, legislators, politicians and other stakeholders. Active participation in relevant sector associations. Compliance programme focused on key consumer legislation and data privacy. Oversight of regulatory risks by the legal leadership team. Regular reporting to the Audit and Risk Committee on key regulatory and compliance risks.	All temporary legislation introduced in response to the pandemic in 2020 expired, except the repayment moratorium in Hungary. New early-settlement rebate standards in Poland resulted in higher payments to customers settling their agreements early. The European Commission commenced a review of the Consumer Credit Directive. Draft consumer credit proposals including potential changes to rate caps were published in Poland and Romania.

Risk	Exposures	Measurement, mitigation and monitoring	Commentary
2 Competition and product proposition ↓ ↔			
Lead responsibility: Chief Executive Officer We suffer losses or fail to optimise profitable growth through failure to be aware of and respond to the competitive environment or failing to ensure our proposition meets customer needs while we maintain product profitability. Objective We aim to ensure we understand competitive threats and promote financial inclusion by delivering customer-focused products that drive profitable growth.	In an environment where customer choice is growing, ensuring our products meet customers' needs is critical to delivering a sustainable business. We continue to operate in highly competitive markets with regular new products and services being made available to our customer segment. The nature of competition varies by market.	Regular monitoring of competitors and their offerings, advertising and share of voice in our markets. Strategic planning and tactical responses on competition threats. Product development committees and processes in place to review the product development roadmap, manage product risks and develop new products.	Following a lull in competitor activity in 2020 as a result of the pandemic, levels of competition increased in 2021. We continue to develop our propositions to improve financial inclusion, enhance customer value, improve the customer experience, and extend our digital and mobile propositions to meet consumers' changing needs. We will seek to offer point of sale finance at retailers popular with our customer segment.
3 Taxation ↔ ↔			
Lead responsibility: Chief Financial Officer We suffer financial loss arising from a failure to comply with tax legislation or adoption of an interpretation of the law which cannot be sustained together with the risk of a higher future tax burden. Objective We aim to generate shareholder value through effective management of tax while acting as a good corporate citizen. We are committed to ensuring compliance with tax law and practice in all of the territories in which we operate.	Against a backdrop of increasing fiscal challenges for most economies many authorities are turning to corporate taxpayers to increase revenues, either via taxation reforms or through changes to interpretations of existing legislation. The likelihood of changes or challenges to tax positions varies by market. This may increase due to Covid-19 budget deficits. Globally, OECD and EU-led developments may lead to further changes in tax law and practice and an increase in audits and enquiries into cross-border arrangements.	Tax strategy and policy in place. Qualified and experienced tax teams at Group level and in market. External advisors used for all material tax transactions in line with tax strategy. Binding rulings or clearances obtained from authorities where appropriate. Appropriate oversight at executive committee-level over taxation matters	We are awaiting a decision of the General Court of the European Union regarding applications for the annulment of the European Commission's Decision on State Aid announced in April 2019. During the year international tax developments have been monitored, including with regard to the OECD's minimum corporate income tax initiative ("Pillar 1 and 2"). To date, no adverse financial impact on the Group is expected.

Risk	Exposures	Measurement, mitigation and monitoring	Commentary
4 Technology and change management ↔ ↔			
Lead responsibility: Chief Executive Officer We suffer losses or fail to optimise profitable growth due to a failure to develop and maintain effective technology solutions or manage key business projects in an effective manner. Objective We aim to effectively manage the design, delivery and benefits realisation of major technology and strategic business projects. We look to maintain systems that are adequate to support the ongoing operations in the business and deploy new technology that supports future business strategy.	Technology risks can arise from speed of technology advancements that could make current technology obsolete or require significant effort to align it to strategic requirements. Another significant factor is the availability of technical skills internally or with partners. The Group executes a significant change agenda and risks can arise if the number of changes becomes too great, if the benefits realisation process is not adequate or we fail in adequately managing the risks in projects, programmes and portfolios.	Change management framework and monitoring process in place. Appropriate methods and resources used in the delivery of programmes. Continuous review of programmes, with strong governance of all major delivery activity. Ongoing reviews of services and relationships with partners to ensure effective service operations. Annual review to prioritise investment in technology and ensure appropriateness of the technology estate. Technology Committee oversees technology and change risks.	The key focus in 2021 was to deliver solutions for “customer-facing” activities, and reduce the risk of technology obsolescence. This included e-licensing in IPF Digital, product development, territory extension and commercial partnerships.
5 People ↓ ↔			
Lead responsibility: Chief Executive Officer Our strategy is impacted by not having sufficient depth and quality of people or being unable to retain key people and treat them in accordance with our values and ethical standards. Objective We aim to have sufficient breadth of capabilities and depth of personnel to ensure that we can meet our strategic objectives.	The Group’s largest people-related risk relates to turnover in our customer representative population. Other key risks include: • Critical skills shortage • Lack of succession to critical roles • Recruitment risks Appropriate use of reward and compliance with delegated authority from the Remuneration Committee	Our HR control environment identifies key people risks and controls to mitigate them covering: • Monitoring and action with regards to key people risks and issues • Appropriate distribution of strategy-aligned objectives • Key people processes Our people, organisation and planning processes ensure that we develop appropriate and significant strength and depth of talent across the Group and we have the ability to move people between countries, which reduces our exposure to critical roles being under-resourced.	The pandemic has resulted in companies competing for a limited talent pool due to increased longer-term sickness, and career shifts for certain employee segments. Actions to retain, develop and engage customer representatives were undertaken to understand how we can make their experience more rewarding. We will re-engineer the customer representative value proposition Our continued Care Plan, designed to ensure the health, safety and wellbeing of our people, supported engagement and retention of talent during the pandemic. We developed a number of capabilities including internal personal development and external talent acquisition. We also focused on retaining and developing our most talented employees through tailored leadership and engagement programmes.

Risk	Exposures	Measurement, mitigation and monitoring	Commentary
6 Business continuity and information security ↔ ↔			
Lead responsibility: Chief Executive Officer We suffer losses or fail to optimise profitable growth due to a failure of our systems, suppliers or processes or due to the unavailability, loss, unauthorised disclosure or corruption of information. Objective We aim to maintain adequate arrangements and controls that reduce the threat of service and business disruption and the risk of data loss to as low a level as reasonably practicable.	Unable to perform the necessary day-to-day activities in our business, leading to loss of income, increased impairment, regulatory failings, reputational impact and staff, agent and customer attrition. While the external threat to our systems is increasing in the digital age, the tools in place reduce the likelihood of a significant failure or information loss.	Robust business continuity and information security policies. Annual review of critical processes, business impact analysis risks and mitigations. Periodic testing and ongoing monitoring of security and recovery capability for technology and business processes. Skilled team with relevant specialist qualifications. Dedicated committees (including Board-level) oversee business continuity, information security, and technology and change risks.	In 2021, we revisited the Group business continuity framework focusing on operational resilience, including the transfer of data to cloud-based facilities. We developed a three-year roadmap to improve cyber and information security defence in light of increased risks of hybrid home-office practices. No security incidents resulted in significant impact to the business during 2021.
7 Reputation ↓ ↔			
Lead responsibility: Chief Executive Officer We suffer financial or reputational damage due to our methods of operation, ill-informed comment, malpractice, fines or activities of some of our competition. Objective We aim to promote a positive reputation based on our purpose, ethical standards, our commitment to responsible lending via proactive engagement with all our stakeholders, including media.	Our reputation and that of the consumer lending sector can impact customer sentiment and the engagement of key stakeholders, and as such our ability to serve our customers. Some elements of this risk relate to external factors that are beyond our influence. Controls in place have reduced residual risk.	Clearly defined corporate values and ethical standards are communicated throughout the organisation. Employees and customer representatives undertake annual ethics e-learning training. Regular monitoring of key reputation drivers both internally and externally. Media and key stakeholder strategy to support the key drivers of our business reputation and that of the non-banking financial institution sector. Strong oversight by the senior leadership team on reputation challenges.	The impact of the pandemic increased negative sentiment against the financial sector. We proactively maintain dialogue with customers to enable continued access to credit, and offer repayment support where appropriate. We received awards recognising our business as a top employer, our high standards of customer experience and for being a socially responsible business. We maintain strong relationships with key stakeholders to develop their understanding of our business model, our purpose and role in society and how we deliver services to our customers. This helps protect the business from unforeseen events that could damage our reputation.

Risk	Exposures	Measurement, mitigation and monitoring	Commentary
8 Safety ↔ ↔			
Lead responsibility: Chief Executive Officer The risk of personal injury or harm to our customer representatives or employees. Objective We aim to maintain adequate arrangements and controls that reduce the risks to as low as is reasonably practicable.	A significant element of our business model involves our customer representatives and employees interacting with our customers in their homes or travelling to numerous locations daily. Their safety while performing their role is paramount to us. Safety risks typically arise from the behaviour of individuals both internal and external to the business and, therefore, it is not possible to remove the risk entirely with the current business model involving 17,000 customer representatives. Improvements, however, are constantly sought to reduce the risk where possible.	Safety management systems based on internationally recognised standards. Market safety committees. Annual safety survey. Biannual Safety Campaigns including refresher training for all employees and customer representatives. Annual self-certification of safety compliance by managers. Regular branch safety meetings and safety performance reviews. Role-specific training and competence.	Covid-19 presented the most significant health and safety risk. Vaccines offer the greatest protection and we encourage vaccination for all colleagues. This is supported by extensive Covid-19 prevention training and PPE provision to keep colleagues safe and minimise the risk of workplace transmission. Safety committees met frequently across the Group providing assurance and oversight of health and safety risk management. We hold the ISO 45001 Occupational Health and Safety Management Standard in all European home credit businesses. Mexico home credit has now entered the ISO 45001 accreditation process with a plan to gain certification in 2022.
9 Funding, market and counterparty ↑↔			
Lead responsibility: Chief Financial Officer The risk of insufficient availability of funding, unfavourable pricing, or that performance is significantly impacted by interest rate or currency movements, or failure of a banking counterparty. Objective To maintain a robust funding position, and to limit the impact of interest rate and currency movements and exposure to financial counterparties.	Debt investors risk appetite and strategy may change over time and this could lead to adverse funding terms or limited availability of credit. In addition, the interest and foreign currency rate changes may lead to adverse changes in the cost of funding.	Board-approved policies require us to maintain a resilient funding position with good headroom on undrawn bank facilities, appropriate hedging of market risk, and appropriate limits to counterparty risk.	Strong debt funding position. SEK 450 million Swedish Krona bonds refinanced at a reduced cost of funding and extended £148 million of bank facilities. Fitch revised the Group's outlook from Negative to Stable and reaffirmed its BB- credit rating while Moody's reaffirmed the Group's credit ratings at Ba3.

Risk	Exposures	Measurement, mitigation and monitoring	Commentary
10 Credit ↔ ↔			
Lead responsibility: Chief Financial Officer The risk of the Group suffering financial loss if its customers fail to meet their contracted obligations or the Group failing to optimise profitable business opportunities because of its credit, collection or fraud strategies and processes. Objective To maintain robust credit and collections policies and regularly monitor credit performance.	Increased impairment due to aggressive growth plans Reduced profit due to unexpected levels of credit or fraud losses Not achieving growth potential because credit controls are too restrictive	A comprehensive credit control framework developed using data and experience from years of operating in our specific customer segment and markets. Weekly cycle of credit reporting and performance calls between each business and the Credit Risk Director. Monthly cycle of portfolio quality and scorecard monitoring feeding market and Group credit committees. Controlled introduction of credit changes using a 'test and learn' approach. A comprehensive control framework covering internal and external fraud risks and anti-money laundering. Specific roles for monitoring and reporting of frontline controls and audit of the control framework. Specific controls to cover anti-bribery.	At the start of the pandemic in March 2020, we took the decision to tighten credit rules significantly to protect liquidity. This prudent approach resulted in a reduction in credit issued but provided a solid foundation on which to rebuild the business in 2021. Credit issued and collections in 2021 were better than anticipated. In most cases, credit losses were lower than pre-pandemic levels, and impairment as a percentage of revenue at the year end of 10.2% is well within our risk appetite. Our credit-control action plan executed in Mexico since 2019 has proven successful and the business is now performing well. During 2021, we performed various scenarios and analyses in the Home Credit markets in order to respond to operational disruptions caused by the pandemic. IPF Digital performed in line with expectations, delivering improved credit quality.

3. Related parties

The Group has not entered into any material transactions with related parties during the year ended 31 December 2021.

4. Segmental analysis

Geographical segments

	2021	2020
	£m	£m
Revenue		
European home credit	**284.7**	351.1
Mexico home credit	**146.0**	157.1
Digital	**118.0**	153.1
Revenue	**548.7**	661.3
Impairment		
European home credit	**(1.6)**	125.1
Mexico home credit	**33.8**	53.0
Digital	**24.0**	69.5
Impairment – pre-exceptional item	**56.2**	247.6
Exceptional item	**-**	2.5
Impairment	**56.2**	250.1
Profit/(loss) before taxation		
European home credit	**54.5**	(11.7)
Mexico home credit	**18.4**	3.5
Digital	**8.7**	(7.9)
Central costs*	**(13.9)**	(12.7)
Profit/(loss) before taxation	**67.7**	(28.8)
Exceptional items	**-**	(11.9)
Profit/(loss) before taxation	**67.7**	(40.7)

*Although central costs are not classified as a separate segment in accordance with IFRS 8 'Operating segments', they are shown separately above in order to provide reconciliation to profit before taxation.

4. Segmental analysis (continued)

	2021	2020
	£m	£m
Segment assets		
European home credit	**511.5**	485.1
Mexico home credit	**192.8**	170.2
Digital	**211.6**	224.4
UK	**83.4**	144.2
Total	**999.3**	1,023.9
Segment liabilities		
European home credit	**305.5**	275.7
Mexico home credit	**86.9**	76.2
Digital	**91.3**	138.4
UK	**148.5**	163.1
Total	**632.2**	653.4

	2021	2020
	£m	£m
Capital Expenditure (note 12)		
European home credit	**2.2**	3.0
Mexico home credit	**1.1**	0.5
Digital	**0.3**	0.3
UK	**1.5**	-
Total	**5.1**	3.8

	2021	2020
	£m	£m
Depreciation (note 12)		
European home credit	**4.0**	5.0
Mexico home credit	**1.1**	1.4
Digital	**0.5**	0.6
UK	**-**	0.2
Total	**5.6**	7.2

4. Segmental analysis (continued)

	2021	2020
	£m	£m
Expenditure on intangible assets (note 11)		
European home credit	**-**	-
Mexico home credit	**-**	-
Digital	**3.8**	4.8
UK	**6.5**	6.9
Total	**10.3**	11.7

	2021	2020
	£m	£m
Amortisation (note 11)		
European home credit	**-**	-
Mexico home credit	**-**	-
Digital	**5.6**	15.9
UK	**9.1**	10.0
Total	**14.7**	25.9

5. Finance Costs

	2021	2020
	£m	£m
Interest payable on borrowings	**52.6**	55.2
Interest payable on lease liabilities	**1.4**	1.5
Interest income	**-**	(9.9)
Total	**54.0**	46.8

In 2020, interest income was received in respect of the successful appeal against the 2008 and 2009 tax decisions, £8.2 million of this income, which relates to the period from January 2017 to December 2019 was treated as an exceptional item (see note 9 for further details).

6. Tax expense

The taxation charge for the year on statutory profit before taxation was £25.8 million based on an effective tax rate for the full year of approximately 38%. The tax charge arises from a combination of factors, but is largely driven by the lack of tax deductibility in some countries for impairment charges, liability to certain taxes that are computed with reference to profits for prior periods rather than current year, and the write-off of deferred tax assets.

Tax paid in the 2020 cashflow statement is net of £35.1 million repaid in respect of the successful appeal against the 2008 and 2009 tax decisions. The Group is subject to a tax audit in Mexico (regarding 2017).

7. Earnings/(loss) per share

	2021 pence	2020 pence
Basic E/(L)PS	**18.8**	(28.9)
Dilutive effect of awards	**(1.0)**	1.5
Diluted E/(L)PS	**17.8**	(27.4)

Basic earnings/(loss) per share ('E/(L)PS') is calculated by dividing the profit attributable to shareholders of £41.9 million (31 December 2020: loss of £64.2 million) by the weighted average number of shares in issue during the period of 223.2 million which has been adjusted to exclude the weighted average number of shares held in treasury and by the employee trust (31 December 2020: 222.4 million).

For diluted EPS the weighted average number of shares has been adjusted to 235.3 million (31 December 2020: 234.1 million) to assume conversion of all dilutive potential ordinary share options relating to employees of the Group.

8. Dividends

Dividend per share

	2021 pence	2020 pence
Interim dividend	**2.2**	-
Final proposed dividend	**5.8**	-
Total dividend	**8.0**	-

Dividends paid

	2021 £m	2020 £m
Interim dividend of 2.2 pence per share (2020: interim dividend of nil pence per share)	4.9	-
Final 2020 dividend of nil pence per share (2020: final 2019 dividend of nil pence per share)	-	-
Total dividends paid	4.9	-

With the Group's strong recovery in 2021, our confidence in the growth potential of the business and our current strong capital base, the Board is pleased to declare a final dividend of 5.8 pence per share, bringing the full-year dividend to 8.0 pence per share (2020: nil). Subject to shareholder approval, the final dividend will be paid on 6 May 2022 to shareholders on the register at the close of business on 8 April 2022. The shares will be marked ex-dividend on 7 April 2022. The Board also reviewed the future capital requirements of the Group and agreed to introduce a progressive dividend policy aimed at reducing, at an appropriate pace, the equity to receivables ratio to bring it closer to our broad target of 40%. In addition, it was agreed that future interim dividend payments would be set at 33% of the prior year's full dividend payments. The Board may also consider returning surplus capital to shareholders periodically, subject to prevailing market conditions.

9. Exceptional Items

The 2020 income statement includes an exceptional loss of £10.9 million which comprised a pre-tax exceptional loss of £11.9 million and an exceptional tax credit of £1.0 million.

	Pre-tax £m	Tax £m	Post-tax £m
Finland closure	(10.6)	(1.1)	(11.7)
Restructuring costs	(9.5)	2.1	(7.4)
Interest income	8.2	-	8.2
Exceptional items	(11.9)	1.0	(10.9)

The decision to close our business in Finland and to collect out the portfolio following a tightening of the rate cap resulted in a loss of £11.7 million. It comprised a £10.6 million charge against loss before tax and the write-off of a deferred tax asset of £1.1 million that we no longer expected to be realised. The pre-tax loss comprised a provision taken against the carrying value of the receivables book based on our best estimate of the value of collections of £2.5 million and £8.1 million from accelerated amortisation of intangible assets. The restructuring charge of £9.5 million arose in connection with rightsizing exercises that were conducted in 2020 and there was an associated tax credit of £2.1 million relating to this item. In addition, the profit and loss account included exceptional non-taxable interest income of £8.2 million, relating to the interest accrued for the period up to 31 December 2019 on the payments to the Polish tax authority made in January 2017 in respect of the 2008 and 2009 cases which were refunded in 2020.

10. Goodwill

	2021 £m	2020 £m
Net book value at 1 January	**24.4**	23.1
Exchange adjustments	**(1.5)**	1.3
Net book value at 31 December	**22.9**	24.4

Goodwill is tested annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount is determined from a value in use calculation. The key assumptions used in the value in use calculation relate to the discount rates and growth rates adopted. We adopt discount rates which reflect the time value of money and the risks specific to the legacy MCB business. The cash flow forecasts are based on the most recent financial budgets approved by the Board. The rate used to discount the forecast cash flows is 10% (2020: 10%). The discount rate would need to increase to 17% before indicating that part of the goodwill may be impaired.

11. Intangible assets

	2021	2020
	£m	£m
Net book value at 1 January	**30.2**	43.2
Additions	**10.3**	11.7
Amortisation	**(14.7)**	(25.9)
Exchange adjustments	**(0.6)**	1.2
Net book value at 31 December	**25.2**	30.2

Intangible assets comprise computer software and are a mixture of self-developed and purchased assets. All purchased assets have had further capitalised development on them, meaning it is not possible to disaggregate fully between the relevant intangible categories.

In 2020, £8.1 million of amortisation of intangible assets was accelerated amortisation relating to the decision to close our business in Finland, this was treated as an exceptional item (see note 9).

12. Property, plant and equipment

	2021	2020
	£m	£m
Net book value at 1 January	**15.4**	20.0
Exchange adjustments	**(0.5)**	(0.6)
Additions	**5.1**	3.8
Disposals	**(0.6)**	(0.6)
Depreciation	**(5.6)**	(7.2)
Net book value at 31 December	**13.8**	15.4

As at 31 December 2021 the Group had £8.6 million of capital expenditure commitments contracted with third parties that were not provided for (2020: £2.6 million).

13. Right-of-use assets and lease liabilities

The movement in the right-of-use assets in the period is as follows:

Right-of-use assets

	2021	2020
	£m	£m
Net book value at 1 January	**17.5**	18.8
Exchange adjustments	**(0.7)**	(0.5)
Additions	**8.3**	6.0
Modifications	**1.0**	3.6
Depreciation	**(8.4)**	(9.9)
Impairment	**-**	(0.5)
Net book value at 31 December	**17.7**	17.5

The recognised right-of-use assets relate to the following types of assets:

	2021	2020
	£m	£m
Properties	**11.9**	10.5
Motor Vehicles	**5.7**	6.9
Equipment	**0.1**	0.1
Total right-of-use assets	**17.7**	17.5

The movement in the lease liability in the period is as follows:

Lease Liability

	2021	2020
	£m	£m
Lease liability at 1 January	**19.2**	19.5
Exchange adjustments	**(0.8)**	(0.5)
Additions	**8.8**	9.6
Interest	**1.4**	1.5
Lease payments	**(9.9)**	(10.9)
Lease liability at 31 December	**18.7**	19.2
Analysed as:		
Current	**6.4**	7.4
Non-current:		
- between one and five years	**10.6**	11.1
- greater than five years	**1.7**	0.7
	12.3	11.8
Lease liability at 31 December	**18.7**	19.2

Lease liabilities are measured at the present value of the remaining lease payments, discounted using the rate implicit in the lease, or if that rate cannot be readily determined, at the lessee's incremental borrowing rate. The weighted average lessee's incremental borrowing rate applied to the lease liabilities at 31 December 2021 was 7.2% (2020: 7.4%).

The amounts recognised in profit and loss are as follows:

	2021	2020
	£m	£m
Depreciation on right-of-use assets	**8.4**	9.9
Interest expense on lease liabilities	**1.4**	1.5
Expense relating to leases of short-term leases	**1.2**	1.6
Expense relating to leases of low value assets	**-**	0.1
Amounts recognised in profit and loss	**11.0**	13.1

The total cash outflow in the year in respect of lease contracts is £10.3m (2020: £11.4m).

14. Deferred tax assets

Deferred tax assets have been recognised in respect of tax losses and other temporary timing differences (principally relating to recognition of revenue and impairment) to the extent that it is probable that these assets will be utilised against future taxable profits. No deferred tax liability is recognised on remaining temporary differences of circa £19 million (2020: £15.4 million) as the Group is able to control the timings of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

15. Amounts receivable from customers

All lending is in the local currency of the country in which the loan is issued.

	2021	2020
	£m	£m
Polish zloty	**247.6**	225.3
Czech crown	**48.7**	50.9
Euro	**87.8**	117.0
Hungarian forint	**101.7**	89.9
Mexican peso	**133.3**	100.8
Romanian leu	**69.8**	62.1
Australian Dollar	**27.9**	23.1
Total receivables	**716.8**	669.1

Amounts receivable from customers are held at amortised cost and are equal to the expected future cash flows receivable discounted at the average effective interest rate of 93% (2020: 96%). All amounts receivable from customers are at fixed interest rates. The average period to maturity of the amounts receivable from customers is 12.3 months (2020: 11.1 months).

Determining an increase in credit risk since initial recognition

IFRS 9 requires the recognition of 12 month expected credit losses (the expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1) and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3).

When determining whether the risk of default has increased significantly since initial recognition the Group considers both quantitative and qualitative information based on the Group's historical experience.

The approach to identifying significant increases in credit risk is consistent across the Group's products. In addition, as a backstop, the Group considers that a significant increase in credit risk occurs when an asset is more than 30 days past due.

Financial instruments are moved back to stage 1 once they no longer meet the criteria for a significant increase in credit risk.

Definition of default and credit impaired assets

The Group defines a financial instrument as in default, which is fully-aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- Quantitative criteria: the customer is more than 90 days past due on their contractual payments in home credit and 60 days past due on their contractual payments in IPF Digital;
- Qualitative criteria: indication that there is a measurable movement in the estimated future cash flows from a group of financial assets. For example, if prospective legislative changes are considered to impact the collections performance of customers.

The default definition has been applied consistently to model the probability of default (PD), exposure at default (EAD) and loss given default (LGD) throughout the Group's expected credit loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria.

The breakdown of receivables by stage is as follows:

2021	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total net receivables £m**
Home credit	**360.3**	**57.9**	**125.3**	**543.5**
IPF Digital	**159.8**	**8.6**	**4.9**	**173.3**
Group	**520.1**	**66.5**	**130.2**	**716.8**

2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total net receivables £m
Home credit	288.7	51.0	142.6	482.3
IPF Digital	177.8	7.1	1.9	186.8
Group	466.5	58.1	144.5	669.1

The Group has one class of loan receivable and no collateral is held in respect of any customer receivables.

16. Borrowing facilities and borrowings

The maturity of the Group's external bond and external bank borrowings and facilities is as follows:

	2021		2020	
	Borrowings	**Facilities**	Borrowings	Facilities
	£m	**£m**	£m	£m
Repayable:				
– in less than one year	**3.1**	**57.9**	0.2	85.8
– between one and two years	**87.4**	**124.1**	74.3	104.4
– between two and five years	**381.1**	**392.8**	417.5	433.8
	468.5	**516.9**	491.8	538.2
Total borrowings	**471.6**	**574.8**	492.0	624.0

Total undrawn facilities as at 31 December 2021 were £96.8 million (2020: £124.6 million), excluding £6.4 million unamortised arrangement fees and issue discount (2020: £7.4 million).

17. Derivative financial instruments

At 31 December 2021 the Group had an asset of £0.7 million and a liability of £7.6 million (2020: £0.5 million asset and £6.7 million liability) in respect of foreign currency contracts. Foreign currency contracts are in place to hedge foreign currency cash flows. Where these cash flow hedges are effective, in accordance with IFRS, movements in their fair value are taken directly to reserves.

18. Retirement benefit asset

The amounts recognised in the balance sheet in respect of the retirement benefit obligation are as follows:

	2021	2020
	£m	£m
Diversified growth funds	**7.9**	8.4
Corporate bonds	**20.2**	20.4
Liability driven investments	**23.1**	23.0
Other	**0.1**	0.4
Total fair value of scheme assets	**51.3**	52.2
Present value of funded defined benefit obligations	**(46.4)**	(48.8)
Net asset recognised in the balance sheet	**4.9**	3.4

The credit recognised in the income statement in respect of defined benefit pension costs is £0.1 million (2020: £0.5 million). This credit includes a past service credit of £nil million (2020: £0.4 million) due to a Pension Increase Exchange exercise.

19. Provisions for liabilities and charges

The Group receives claims brought by or on behalf of current and former customers in connection with its past conduct. Where significant, provisions are held against the costs expected to be incurred in relation to these matters. Customer redress provisions of £5.4 million (2020: £19.2 million) represent the Group's best estimate of the costs that are expected to be incurred in relation to early settlement rebates in Poland (2021: £3.3 million; 2020: £17.6 million) and claims management charges incurred in Spain (2021: £2.1 million; 2020: £1.6 million). All claims are expected to be settled within 12 months of the balance sheet date.

20. Fair values of financial assets and liabilities

IFRS 13 requires disclosure of fair value measurements of derivative financial instruments by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

With the exception of derivatives, which are held at fair value, amounts receivable from customers, and bonds, the carrying value of all other financial assets and liabilities (which are short-term in nature) is considered to be a reasonable approximation of their fair value. Details of the significant assumptions made in determining the fair value of amounts receivable from customers and bonds are included below, along with the fair value of other Group assets and liabilities.

Except as detailed in the following table, the carrying value of financial assets and liabilities recorded at amortised cost, which are all short-term in nature, are a reasonable approximation of their fair value:

	2021		2020	
	Fair value	**Carrying value**	Fair value	Carrying value
	£m	**£m**	£m	£m
Financial assets				
Amounts receivable from customers	**938.4**	**716.8**	908.8	669.1
	938.4	**716.8**	908.8	669.1
Financial liabilities				
Bonds	**419.9**	**395.8**	405.4	415.9
Bank borrowings	**75.8**	**75.8**	76.1	76.1
	495.7	**471.6**	481.5	492.0

The fair value of amounts receivable from customers has been derived by discounting expected future cash flows (as used to calculate the carrying value of amounts due from customers), net of collection costs, at the Group's weighted average cost of capital which we estimate to be 10% (2020: 10%) which is assumed to be a proxy for the discount rate that a market participant would use to price the asset.

Under IFRS 13 'Fair value measurement', receivables are classed as level 3 as their fair value is calculated using future cash flows that are unobservable inputs.

The fair value of the bonds has been calculated by reference to their market value where market prices are available.

The carrying value of bank borrowings is deemed to be a good approximation of their fair value. Bank borrowings can be repaid within six months if the Group decides not to roll over for further periods up to the contractual repayment date. The impact of discounting would therefore be negligible.

Derivative financial instruments are held at fair value which is equal to the expected future cash flows arising as a result of the derivative transaction.

For other financial assets and liabilities, which are all short-term in nature, the carrying value is a reasonable approximation of their fair value.

21. Reconciliation of profit/(loss) after taxation to cash generated from operating activities

	2021	2020
	£m	£m
Profit/(loss) after taxation from operations	**41.9**	(64.2)
Adjusted for:		
Tax charge	**25.8**	23.5
Finance costs	**54.0**	56.7
Finance income	**-**	(9.9)
Share-based payment (credit)/charge	**(0.2)**	1.1
Depreciation of property, plant and equipment (note 12)	**5.6**	7.2
Loss on disposal of property, plant and equipment (note 12)	**0.4**	0.2
Depreciation of right-of-use assets (note 13)	**8.4**	9.9
Impairment of right-of-use assets (note 13)	**-**	0.5
Amortisation of intangible assets (note 11)	**14.7**	25.9
Short term and low value lease costs (note 13)	**1.2**	1.7
Changes in operating assets and liabilities:		
(Increase)/decrease in amounts receivable from customers	**(88.4)**	294.9
(Increase)/decrease in other receivables	**(3.7)**	4.1
Increase/(decrease) in trade and other payables	**26.7**	(31.2)
Change in provisions	**(13.2)**	19.2
Change in retirement benefit asset	**(1.0)**	(1.4)
Increase/(decrease) in derivative financial instrument liabilities	**2.1**	(8.4)
Cash generated from operating activities	**74.3**	329.8

22. Average and closing foreign exchange rates

The table below shows the average exchange rates for the relevant reporting periods and closing exchange rates at the relevant period ends.

	Average 2021	**Closing 2021**	Average 2020	Closing 2020
Polish zloty	**5.3**	**5.4**	5.0	5.1
Czech crown	**29.7**	**29.5**	30.1	29.3
Euro	**1.2**	**1.2**	1.1	1.1
Hungarian forint	**415.3**	**438.7**	399.0	405.7
Mexican peso	**27.9**	**27.7**	28.3	27.1
Romanian leu	**5.7**	**5.9**	5.5	5.4
Australian dollar	**1.8**	**1.9**	1.8	1.8

The £37.6 million exchange loss (2020: loss of £4.1 million) on foreign currency translations shown within the statement of comprehensive income arises on retranslation of net assets denominated in currencies other than sterling, due to the change in foreign exchange rates against sterling between December 2020 and December 2021 shown in the table above.

23. Contingent Liability Note

State Aid investigation

In late 2017 the European Commission (EC) opened a State Aid investigation into the Group Financing Exemption contained in the UK's controlled foreign company rules, which were introduced in 2013. In April 2019 the EC announced its finding that the Group Financing Exemption is partially incompatible with EU State Aid rules. In common with other UK-based international companies whose intra-group finance arrangements are in line with the UK's controlled foreign company rules, the Group is affected by this decision. On 12 February 2021 HMRC issued a Charging Notice, following the introduction of new legislation in December 2020 empowering HMRC to issue such Notices in order to collect alleged unlawful State Aid. The Charging Notice required a payment of £14.2 million with respect to accounting periods ended 2013 to 2018, which was paid in February 2021, with a further amount in respect of interest of £1.1 million, which was paid in August 2021. The payment of this amount is a procedural matter, and the new law does not allow for postponement. The company has appealed the Charging Notice on the grounds of the quantum assessed.

The UK government has filed an annulment application before the General Court of the European Union. In common with a number of other affected taxpayers, IPF has also filed its own annulment application. Based on legal advice received regarding the strength of the technical position set out in the annulment applications, it is expected to be more likely than not that the payment of alleged State Aid that the Group has made under the Charging Notice will ultimately be repaid, and therefore no provision has been recorded in the Financial Statements. The £15.3 million paid is held on the balance sheet as a non-current tax asset.

As a separate issue, HMRC has initiated a review of the Group's finance company's compliance with certain conditions under the UK domestic tax rules to confirm whether the company is eligible for the benefits of the Group Financing Exemption which it has claimed in its historic tax returns. IPF believes that all conditions have been complied with and have sought legal advice with regard to the interpretation of the relevant legislative condition. The legal advice has confirmed IPF's view and assessed that, in the event that HMRC were to take the matter to Tribunal, it is more likely than not that the company would succeed in defending its position. In the unexpected event that HMRC were to conclude that the company is not in compliance with the conditions and to pursue the matter in Tribunal, and won, the amount at stake for open years up to and including 2018 is £7.3 million. This domestic tax issue with respect to years up to and including 2018 and the State Aid issue are mutually exclusive, and the UK legislation implemented in December 2020 and referred to above includes provisions to ensure no double charge to tax arises. It is of note that currently HMRC have simply asked for information and no challenge has been made to the company's filing position. In the unlikely event that the Group's position were not to be sustained with respect to the domestic condition, a further amount of up to £1.5 million would be payable with respect to 2019.

24. Going concern

In considering whether the Group is a going concern, the Board has taken into account the Group's 2022 business plan, its principal risks (with particular reference to regulatory risks), and the expected trajectory of recovery from the Covid-19 pandemic. The forecasts have been prepared for the five years to 31 December 2026 and include projected profit and loss, balance sheet, cashflows, borrowings, headroom against debt facilities and funding requirements. These forecasts represent the best estimate of the expected recovery from the impact that Covid-19 had on the Group's businesses, and in particular the evolution of credit issuance and collection cash flows.

The financial forecasts have been stress tested in a range of downside scenarios to assess the impact on future profitability, funding requirements and covenant compliance. The scenarios reflect the crystallisation of the Group's principal risks (with particular reference to regulatory risks) and evaluate the impact of a more challenging recovery from the impact of the Covid-19 pandemic than assumed in the business plan. Consideration has also been given to multiple risks crystallising concurrently and the availability of mitigating actions that could be taken to reduce the impact of the identified risks. In addition, we examined a reverse stress test on the financial forecasts to assess the extent to which a recession would need to impact our operational performance in order to breach a covenant. This showed that net revenue would need to deteriorate significantly from the financial forecast and the Directors have a reasonable expectation that it is unlikely to deteriorate to this extent.

At 31 December 2021, the Group had £108 million of non-operational cash and headroom against its debt facilities (comprising a range of bonds and bank facilities), which have a weighted average maturity of 2.9 years. The total debt facilities as at 31 December 2021 amounted to £575 million of which £54 million (including £29 million which is uncommitted) is due for renewal over the following 12 months. A combination of these debt facilities, the embedded business flexibility in respect of cash generation and a successful track record of accessing funding from debt capital markets over a long period (including periods with challenging macroeconomic conditions and a changing regulatory environment), are expected to meet the Group's funding requirements for the foreseeable future (12 months from the date of approval of this report). Taking these factors into account, together with regulatory risks set out in note 2, the Board has a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, the Board has adopted the going concern basis in preparing the Full-year Financial Report.

Responsibility statement

This statement is given pursuant to Rule 4 of the Disclosure Guidance and Transparency Rules.

It is given by each of the directors as at the date of this report, namely: Stuart Sinclair, Chair; Gerard Ryan, Chief Executive Officer; Richard Holmes, Senior independent non-executive director; Deborah Davis, non-executive director; John Mangelaars, non-executive director, and Bronwyn Syiek, non-executive director.

To the best of each director’s knowledge:

a) the financial information, prepared in accordance with the IFRSs, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
b) the management report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Alternative performance measures

This financial report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. To support this we have included a reconciliation of the APMs we use, where relevant, and a glossary indicating the APMs that we use, an explanation of how they are calculated and why we use them.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income statement measures			
Credit issued growth (%)	None	Not applicable	Credit issued is the principal value of loans advanced to customers and is an important measure of the level of lending in the business. Credit issued growth is the period-on-period change in this metric which is calculated by retranslating the previous year's credit issued at the average actual exchange rates used in the current financial year. This ensures that the measure is presented having eliminated the effects of exchange rate fluctuations on the period-on-period reported results (constant exchange rates).
Average net receivables (£m)	None	Not applicable	Average net receivables are the average amounts receivable from customers translated at the average monthly actual exchange rate (constant exchange rates). This measure is presented to illustrate the change in amounts receivable from customers on a consistent basis with revenue growth.
Average net receivables growth at constant exchange rates (%)	None	Not applicable	Average net receivables growth is the period-on-period change in average net receivables which is calculated by retranslating the previous year's average net receivables at the average actual exchange rates used in the current financial year. This ensures that the measure is presented having eliminated the effects of exchange rate fluctuations on the period-on-period reported results (constant exchange rates).
Closing net receivables growth at constant exchange rates (%)	None	Not applicable	Closing net receivables growth is the period-on-period change in closing net receivables which is calculated by retranslating the previous year's closing net receivables at the closing actual exchange rate used in the current financial year. This ensures that the measure is presented having eliminated the effects of exchange rate fluctuations on the period-on-period reported results.
Revenue growth at constant exchange rates (%)	None	Not applicable	The period-on-period change in revenue which is calculated by retranslating the previous year's revenue at the average actual exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results (constant exchange rates).

Alternative performance measures (continued)

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Impairment as a percentage of revenue (%)	None	Not applicable	Impairment as a percentage of revenue is reported impairment divided by reported revenue and represents a measure of credit quality that is used across the business. This measure is reported on a rolling annual basis (annualised).
Cost-income ratio (%)	None	Not applicable	The cost-income ratio is other costs divided by reported revenue. Other costs represent all operating costs with the exception of amounts paid to agents as collecting commission. This measure is reported on a rolling annual basis (annualised). This is useful for comparing performance across markets.
Pre-exceptional profit/(loss) before tax (£m)	Profit/(loss) before tax	Exceptional items	Profit/(loss) before tax and exceptional items. This is considered to be an important measure where exceptional items distort the operating performance of the business.
Pre-exceptional earnings/(loss) per share (pence)	Earnings/(loss) per share	Exceptional items	Earnings/(loss) per share before the impact of exceptional items. This is considered to be an important measure where exceptional items distort the operating performance of the business.

Balance sheet and returns measures			
Equity to receivables ratio (%)	None	Not applicable	Total equity divided by amounts receivable from customers. This is a measure of balance sheet strength and the Group targets a ratio of around 40%.
Headroom (£m)	Undrawn external bank facilities	None	Headroom is an alternative term for undrawn external bank facilities.
Net debt	None	Not applicable	Borrowings less cash
Other measures			
Customers	None	Not applicable	Customers that are being served by our agents or through our money transfer product in the home credit business and customers that are not in default in our digital business.

Constant exchange rate reconciliations

2021

£m	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Customers (000)	**810**	**654**	**263**	**-**	**1,727**
Closing net receivables	**425.9**	**117.6**	**173.3**	**-**	**716.8**
Credit issued	**599.2**	**194.2**	**188.7**	**-**	**982.1**
Average net receivables	**403.3**	**102.8**	**170.9**	**-**	**677.0**
Revenue	**284.7**	**146.0**	**118.0**	**-**	**548.7**
Impairment	**1.6**	**(33.8)**	**(24.0)**	**-**	**(56.2)**
Net revenue	**286.3**	**112.2**	**94.0**	**-**	**492.5**
Finance costs	**(34.0)**	**(6.6)**	**(13.3)**	**(0.1)**	**(54.0)**
Agents' commission	**(42.9)**	**(22.4)**	**-**	**-**	**(65.3)**
Other costs	**(154.9)**	**(64.8)**	**(72.0)**	**(13.8)**	**(305.5)**
Profit/(loss) before tax	**54.5**	**18.4**	**8.7**	**(13.9)**	**67.7**

2020 performance, at 2020 average foreign exchange rates

£m	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Customers (000)	827	599	256	-	1,682
Closing net receivables	389.5	92.8	186.8	-	669.1
Credit issued	453.8	143.6	174.8	-	772.2
Average net receivables	443.0	102.5	232.1	-	777.6
Revenue	351.1	157.1	153.1	-	661.3
Impairment	(125.1)	(53.0)	(69.5)	-	(247.6)
Net revenue	226.0	104.1	83.6	-	413.7
Finance costs	(32.3)	(7.7)	(14.9)	(0.1)	(55.0)
Agents' commission	(50.7)	(21.3)	-	-	(72.0)
Other costs	(154.7)	(71.6)	(76.6)	(12.6)	(315.5)
Pre-exceptional (loss)/profit before tax	(11.7)	3.5	(7.9)	(12.7)	(28.8)

Foreign exchange movements

£m	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Closing net receivables	(24.2)	(2.0)	(10.6)	-	(36.8)
Credit issued	(24.1)	(5.1)	(3.6)	-	(32.8)
Average net receivables	(20.7)	(2.6)	(6.8)	-	(30.1)
Revenue	(10.4)	(1.0)	(4.4)	-	(15.8)
Impairment	(1.7)	(3.3)	1.9	-	(3.1)
Net revenue	(12.1)	(4.3)	(2.5)	-	(18.9)
Finance costs	1.4	0.2	0.7	-	2.3
Agents' commission	2.6	0.4	-	-	3.0
Other costs	6.0	1.4	2.3	-	9.7
Profit/(loss) before tax	(2.1)	(2.3)	0.5	-	(3.9)

Constant exchange rate reconciliations (continued)

2020 performance, restated at 2021 average foreign exchange rates

£m	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Closing net receivables	365.3	90.8	176.2	-	632.3
Credit issued	429.7	138.5	171.2	-	739.4
Average net receivables	422.3	99.9	225.3	-	747.5
Revenue	340.7	156.1	148.7	-	645.5
Impairment	(126.8)	(56.3)	(67.6)	-	(250.7)
Net revenue	213.9	99.8	81.1	-	394.8
Finance costs	(30.9)	(7.5)	(14.2)	(0.1)	(52.7)
Agents' commission	(48.1)	(20.9)	-	-	(69.0)
Other costs	(148.7)	(70.2)	(74.3)	(12.6)	(305.8)

Year-on-year movement at constant exchange rates

	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Closing net receivables	16.6%	29.5%	(1.6%)	-	13.4%
Credit issued	39.4%	40.2%	10.2%	-	32.8%
Average net receivables	(4.5%)	2.9%	(24.1%)	-	(9.4%)
Revenue	(16.4%)	(6.5%)	(20.6%)	-	(15.0%)
Impairment	101.3%	40.0%	64.5%	-	77.6%
Net revenue	33.8%	12.4%	15.9%	-	24.7%
Finance costs	(10.0%)	12.0%	6.3%	-	(2.5%)
Agents' commission	10.8%	(7.2%)	-	-	5.4%
Other costs	(4.2%)	7.7%	3.1%	(9.5%)	0.1%

Information for shareholders

1. The Annual Report and Financial Statements 2021 and the notice of the Annual General Meeting will be posted on 24 March 2022 to shareholders who have elected to continue receiving documents from the Company in hard copy form. All other shareholders will be sent a letter explaining how to access the documents on the Company's website from 25 March 2022 or an email with the equivalent information. Paper proxy forms can be requested from the Registrar by calling the shareholder helpline on 0371 664 0300.
2. The Annual General Meeting will be held at 10.30am on 28 April 2022 at the Company's registered office, 26 Whitehall Road, Leeds, LS12 1BE. Provided that there are no restrictions that preclude attendance in person on the day, we welcome the maximum number of shareholders that we are able to accommodate, within safety constraints and in accordance with any governmental guidelines, to attend and vote at the AGM in person.

This report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The report should not be relied on by any other party or for any other purpose. The report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Percentage change figures for all performance measures, other than profit before taxation and earnings per share, unless otherwise stated, are quoted after restating prior year figures at a constant exchange rate (CER) for 2021 in order to present the underlying performance variance.

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International Personal Finance will host a webcast of its 2021 full-year results presentation at 09.00hrs (GMT) today – Wednesday 23 February 2022, which can be accessed via our website at www.ipfin.co.uk.

A copy of this statement can be found on our website at www.ipfin.co.uk.

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