



International Personal Finance
Q3 2020 trading update
14 October 2020

International Personal Finance plc specialises in providing unsecured consumer credit to 1.7 million customers across 10 markets. We operate the world's largest home credit business and a successful fintech business.

Highlights

- Return to profitability driven by continued positive momentum in operational performance.
- Strong collections effectiveness improved to 95% of pre-Covid expectations in Q3.
- Prudent relaxation of credit settings resulted in a 55% increase in credit issued in Q3 compared to Q2.
- Group annualised impairment as a percentage of revenue 38.1% (HY 2020:37.5%); improved underlying impairment performance
- Strong capital and short-term liquidity position – £348 million of cash and headroom on current debt facilities.
- Remain committed to the health and safety of our colleagues and customers, and well-developed contingency plans for Covid-19 second wave in place.
- 2021 Eurobond exchange offer launched today alongside a consent solicitation process for our SEK and sterling bonds.

Gerard Ryan, Chief Executive Officer at IPF commented:

"I'm very pleased to report that the business returned to profitability in Q3. All our key performance metrics continue to improve, with collections effectiveness now at 95% of pre-Covid expectations, higher credit issued, improved underlying impairment and a strengthened equity to receivables ratio. We have also made significant progress on our key objective to refinance the 2021 Eurobond and today launched an exchange offer for the 2021 Eurobond and a consent solicitation process for the Group's two other bonds. On completion, this will provide the foundation on which we will continue to enable financial inclusion of underbanked and underserved customers by fulfilling their credit needs responsibly, and in turn, deliver long-term growth and value to all our stakeholders. We are continuing to provide a safe and supportive work environment for our teams so they are able to serve our loyal customers with confidence during this uncertain period."

Group Q3 overview

The Group delivered a progressive improvement in operational performance and was profitable on a pre and post exceptional item basis in Q3, as the actions we have taken during the previous months help to propel the business back to a more normalised trading footing.

The positive momentum in collections effectiveness enabled further prudent relaxation of our credit settings which resulted in credit issued in Q3 being 55% higher than the previous quarter. This was a contraction of 49% year-on-year in Q3. We expect to further increase credit issued in the coming months, rebuilding our receivables portfolio whilst maintaining strong credit quality disciplines.

As reported in our 2020 half-year statement, the application of IFRS 9 to Covid-related business impacts had a significant adverse effect on the Group's impairment charge in the first half of the year. At the end of Q3, annualised impairment as a percentage of revenue at 38.1% was broadly stable with the 2020 half-year result and comprised an increase in European home credit (driven by one-off factors outlined in the European home credit section below) partially offset by improvements in both Mexico home credit and IPF Digital. Impairment in the quarter reflected continued improvements in collections effectiveness which was 95% of pre-Covid expectations in Q3. Whilst we have not seen an impact to date, we are prudently assuming that there will be a modest reduction in collections effectiveness during the winter period due to both the potential recessionary impact on customer incomes and the effects of higher levels of influenza and/or Covid-19 on the ability of agents and customers to meet. Using lessons learned from our successful response to the pandemic in the first half of the year, we have developed contingency plans that can be implemented swiftly, should there be a second wave of lockdowns in our markets. This includes the sourcing of personal protective equipment, and a range of remote alternative repayment options available to customers if agents are unable to visit them.

Funding, net cashflow generation and balance sheet

The Group continues to be very well capitalised and our equity to receivables ratio further strengthened to 56% at 30 September from 51% at 30 June 2020.

Our robust collections performance, the effective management of credit issued, the impact of cost reductions and the receipt of £45 million in respect of the finalisation of the Polish tax dispute resulted in net cash-flow generation of £143 million during the third quarter. The Group's non-operational cash balances and headroom on current debt facilities totalled £348 million at the end of the quarter.

As reported in our 2020 half-year statement, the full effect of Covid-19 is likely to temporarily affect our covenant tests in the short term. Discussion with our banks on appropriate covenant amendments is progressing and we have received credit committee approvals which secure approximately £123 million of bank facilities. This will provide the Group with an appropriate level of funding flexibility following a successful exchange offer.

We are today announcing an invitation to holders of our €397 million Eurobond 5.75% due April 2021 to exchange their bonds for a combination of a new Eurobond (80%) and partial cash repayment at par (20%). We are also launching today a consent solicitation process for covenant amendments to be made in respect of our sterling and Swedish krona bonds. Further details of the exchange offer and the consent solicitation processes are available at www.ipfin.co.uk.

Business division performance review

European home credit

The operating performance of our European home credit businesses improved during Q3 as Covid-related government restrictions were eased or lifted from June onwards, and agent activities returned to near pre-Covid levels. Credit issued contracted in Q3 by 39% year on year which is a significant improvement on the reduction of 64% reported in Q2. In September, credit issued increased to 70% of our pre-Covid expectations. Annualised impairment as a percentage of revenue at Q3 2020 increased by 3.6 ppts to 32.5% since the half year (HY 2020: 28.9%). An underlying improvement in impairment of 1.8 ppts driven by the continuing progression in operational performance was offset by the one-off impact from the proposed extension of the Hungarian debt repayment moratorium and the timing of debt sales, which together added 5.4 ppts to the annualised charge.

Mexico home credit

Our Mexico home credit business delivered an improved operating performance in Q3. Credit issued contracted by 50% year on year in the quarter which compares to a 73% reduction in the second quarter when the operating environment was highly uncertain. Good collections provided the opportunity to ease credit settings and grow credit issued volumes, which we increased to 55% of pre-Covid expectations in September. Annualised impairment as a percentage of revenue improved by 3.0 ppts in Q3 to 41.4% (HY 2020: 44.4%) driven by an improving underlying collections performance.

IPF Digital

IPF Digital's credit issued contracted in Q3 by 70% year on year (62% excluding Finland where we are collecting out the portfolio); this is at a similar level to the second quarter. We increased credit issued to 31% of pre-Covid expectations in September, supported by robust collections effectiveness. Annualised impairment as a percentage of revenue was 47.9% at Q3 which represents an improvement of 1.5 ppts compared to HY 2020.

Regulation

The Hungarian Prime Minister signalled the government's intention to extend its temporary debt repayment moratorium for certain customer groups until 30 June 2021. Details including eligibility criteria have not yet been announced, although it is clear that the moratorium is only available in respect of loans outstanding before 18 March 2020. As explained in the European home credit section, we have recorded an incremental impairment charge in September to account for the impact of this extension.

Outlook

We are pleased with the operational performance delivered in Q3, evidenced by progressive improvements in our collections effectiveness and the increased volumes of credit issued. Our return to profitability is as a result of the actions taken in the first half of the year to protect our people and the quality of our portfolio and the work we did to significantly reduce our structural cost base. We prudently expect a modest reduction in collections effectiveness as we enter the winter period but will continue to increase credit issuance to rebuild our receivables portfolio whilst managing overall credit risk. The bond exchange offer and a consent solicitation process launched today will provide the foundation on which we will continue to enable financial inclusion of underbanked and underserved customers by fulfilling their credit needs responsibly, and in turn, deliver long-term growth and value to all our stakeholders.



Investor and analyst conference call

International Personal Finance will host a conference call for investors and analysts at 09.00hrs (BST) today, Wednesday 14 October 2020.

Click to Join

Simply click the link below and enter your information to be connected. The link becomes active 15 minutes prior to the start of the call.

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If you prefer to dial-in, please use the access number and confirmation code below. Please dial-in 5-10 minutes before the start of the call.

Dial-in (UK) +44 (0)330 336 9105 **Confirmation code:** 4509394

Replay: An audio recording of the conference call will be available in the investors section of our website at www.ipfin.co.uk

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

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