



# MERRILL LYNCH

## EEMEA Banks 1-1 Forum

### 10 September 2008

David Broadbent  
Fred Forfar

- Group Finance Director
- New Markets Director



# Introduction to International Personal Finance

IPF is a leading UK based provider of small sum, short-term, unsecured loans in emerging markets

IPF is already a substantial business with an excellent track record

<b>Countries:</b>	7*
<b>Customers:</b>	1.96 million
<b>Agents:</b>	27,000
<b>Employees:</b>	5,500
<b>Pre-tax profit:</b>	£92.4m annualised from established Central European markets**



\*Includes Russian pilot \*\* Pro forma before central costs



## Excellent maiden results

- H1 2008 profit before tax up 39.0% to £22.1 million (full year 2007: up 25.6% to £50.1m)
- Mexico substantially improved
- Balance sheet remains strong and well funded
- Interim proposed dividend increased by 21.1% to 2.30p per share



# Good delivery towards medium-term objectives

## OBJECTIVE

- Exceed pre-tax profit target of £95 million from Central Europe by 2010
- Realise potential in Mexico and Romania
  - Mexico profit for 2009
  - Romania profit for 2010
- Progressively enter further emerging markets

## PROGRESS

- 12 months to June pre-tax profit of £92 million
- on track
- on track
- Russian pilot about to commence
- Ukraine next likely pilot in 2009



1

Proven international  
business model

2

Effective risk  
management

3

Management team that  
can maintain success

4

Strong financial  
fundamentals



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## Home credit: overview

- Small sum, short-term unsecured loans provided in local currency
- Low and grow strategy
- No default or penalty interest charges
- Personal service delivered in the home by agents
- Credit vetting in the home by the agent supported by application and behavioural scoring



## Typical customer and agent: overview

### Customer

- 65% female
- 35 – 65 years of age
- Average to below average income
- Employed or self employed
- No credit history
- Underserved by mainstream lenders

### Agent

- 70% female
- Part of their time spent as an agent (2-3 evenings a week)
- 70-100 customers
- Often well known in the community
- Remunerated on collections not on lending



## Cost effective customer acquisition and retention

- national advertising campaigns (TV, Newspapers)
- recognised financial brand
  - 75%+ brand awareness in Poland and Hungary
  - 65%+ brand awareness in the Czech Republic
- low cost of acquisition at £16 per customer
- strong retention – 75% of customers renew a loan
- strong focus on lifetime value



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# A powerful suite of credit management systems

## Business Model

- Agents remunerated based on collections
- Lending based on disposable income not asset value
- No introductory offers

## Agents

- Development of customer relationship
- Assessment of customer character, circumstances and capacity to pay

## Systems

- Application scoring
- Behavioural scoring
- Centralised arrears management
- Prudent provisioning



## Managing new country entry risk

- Criteria for new market entry
  - safe
  - large
  - growing demand
  - stable
  - regulatory
  - local funding
- Stages of development
  - high level research
  - detailed research and selection
  - low cost piloting
  - full scale launch and roll-out
  - maximising profitability
- Potential new markets
  - Ukraine, India (detailed research and selection stage)



## Managing economic risk

- Monitor internal and external early warning signs for all markets
  - External data
    - unemployment rates
    - factors affecting disposable income etc
  - Internal data
    - close customer relationships
    - missed payments, gross cash loss trends
- No signs of downturn
- Resilient business model
  - low & grow
  - short-term loans
  - good margins



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## Board of IPF

### Executive

Chairman  
Christopher Rodrigues

Chief Operating Officer  
John Harnett

Finance Director  
David Broadbent

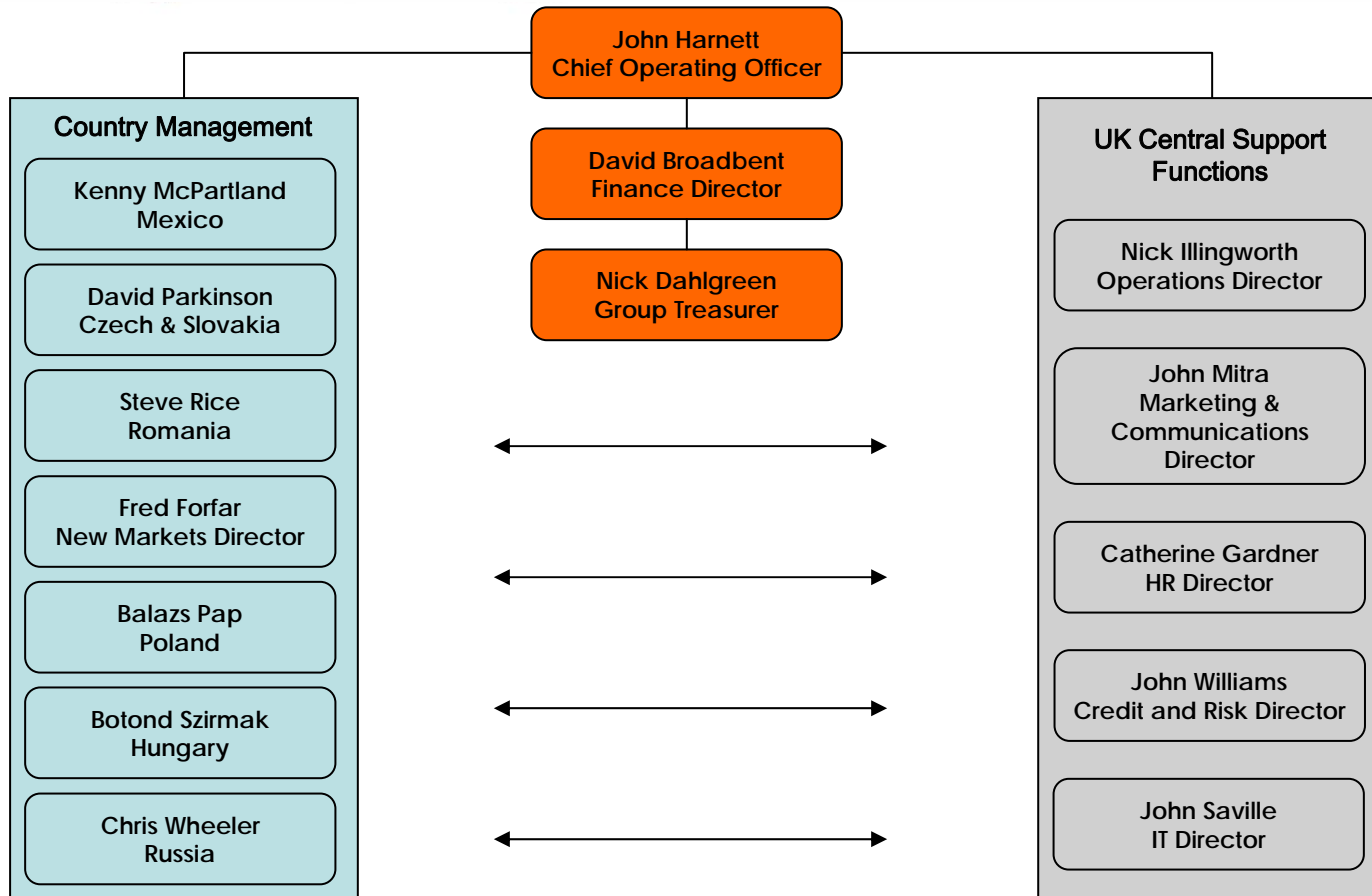
### Non-Executive

Deputy Chairman  
Ray Miles

Charles Gregson

Tony Hales

Nick Page





## Management development

- Growth plans mean we need to recruit, develop and retain talented management with necessary skills
- New generation of leaders now adding to the UK ex-pats who founded the business in the 1990s
- Talent management programme to ensure depth of management for strong leadership in the years to come



- 1 Proven international business model
- 2 Effective risk management
- 3 Management team that can maintain success
- 4 Strong financial fundamentals



## Strong profit growth

Six months ended 30 June

	H1 2008 £m	H1 2007* £m	Change %	Change at CER %
Revenue	260.7	191.6	36.1	12.0
Impairment**	(61.3)	(41.8)	(46.7)	(24.1)
Finance costs	(13.9)	(10.2)	(36.3)	(11.2)
Agents' commission	(35.4)	(26.0)	(36.2)	(12.0)
Other costs	(126.0)	(97.7)	(29.0)	(7.3)
<b>Profit before taxation and fair value adjustments</b>	<b>24.1</b>	<b>15.9</b>	<b>51.6</b>	<b>10.0</b>
Fair value adjustments	(2.0)	-	-	-
<b>Profit before taxation</b>	<b>22.1</b>	<b>15.9</b>	<b>39.0</b>	

\*Pro forma

\*\*2008 includes £2.0m of provision releases (2007: £6.0m)



## Segmental split of pre-tax profit

Six months ended 30 June

	H1 2008 £m	H1 2007* £m	Change %	Change at CER %
Central European markets	42.9	31.1	37.9	15.9
Central costs	(6.4)	(6.4)	-	-
<b>Net profit from established markets</b>	<b>36.5</b>	<b>24.7</b>	<b>47.8</b>	<b>19.3</b>
Mexico	(5.4)	(6.9)	21.7	20.6
Romania	(4.8)	(1.9)	(152.6)	(152.6)
Russia	(2.2)	-	-	-
<b>Net investment in developing and pilot markets</b>	<b>(12.4)</b>	<b>(8.8)</b>	<b>(40.9)</b>	<b>(42.5)</b>
<b>Profit before tax and fair value adjustments</b>	<b>24.1</b>	<b>15.9</b>	<b>51.6</b>	<b>10.0</b>
Fair value adjustments	(2.0)	-	-	-
<b>Profit before tax</b>	<b>22.1</b>	<b>15.9</b>	<b>39.0</b>	

\* Pro forma

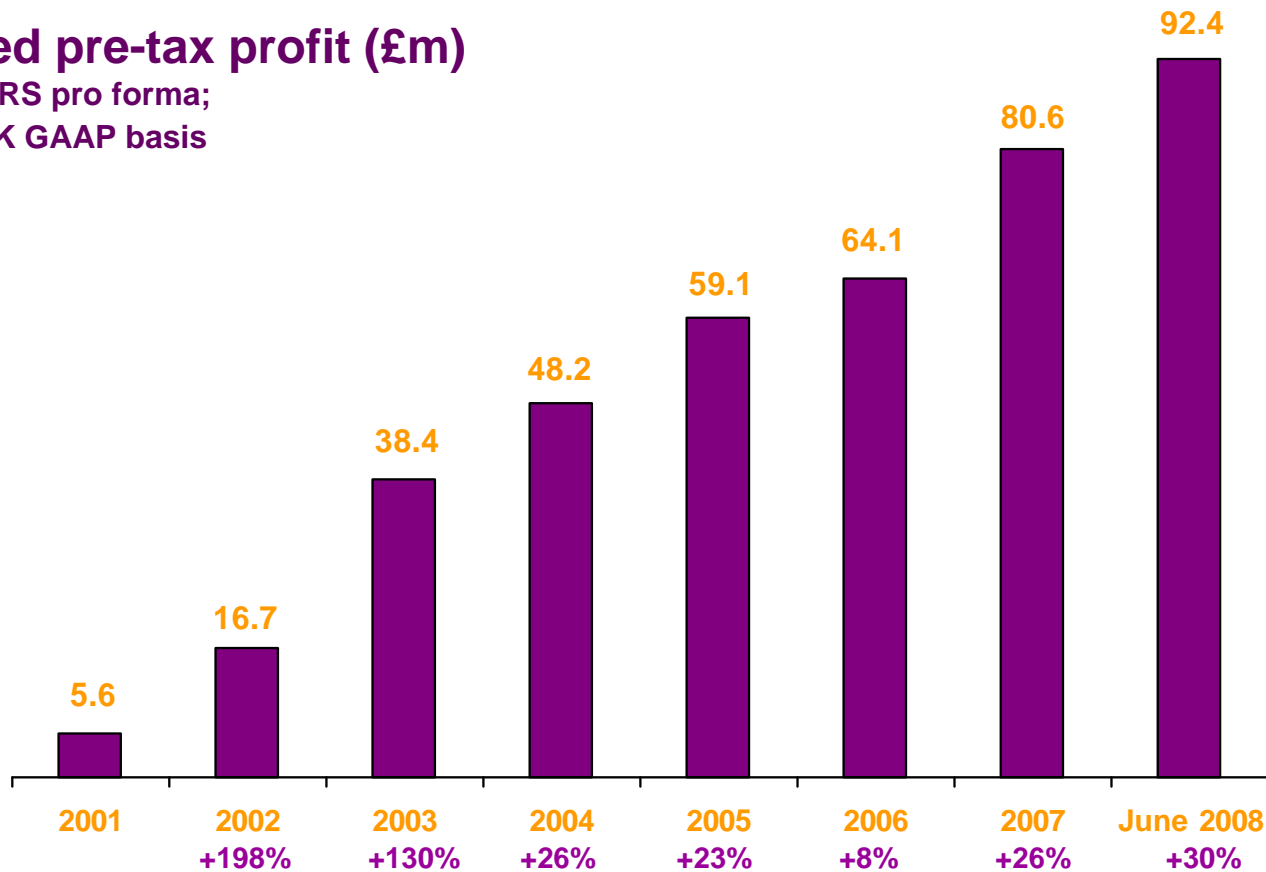


## Central Europe: Ahead of plan

### Annualised pre-tax profit (£m)

2004 – 2007 IFRS pro forma;

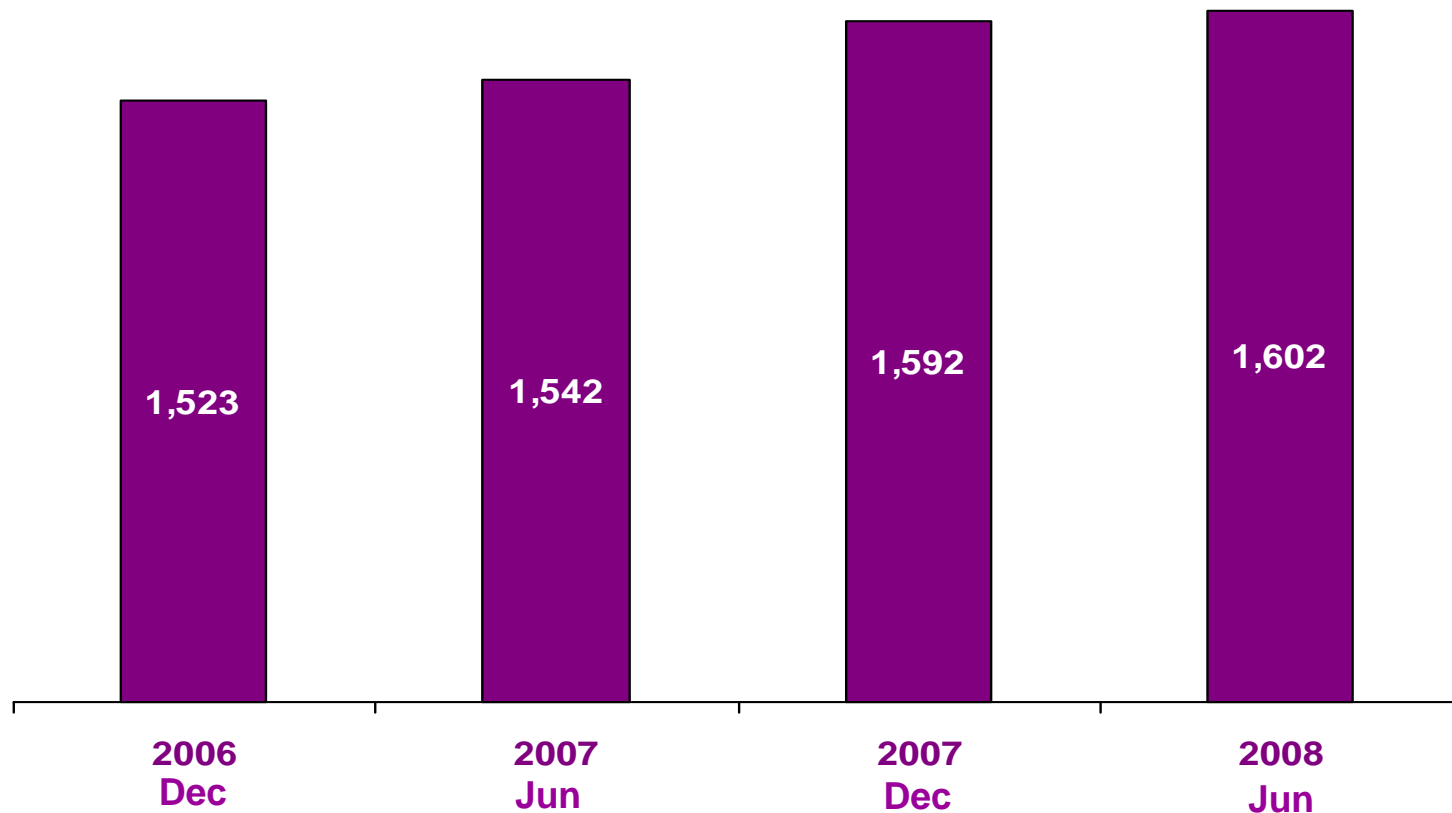
2001 – 2003 UK GAAP basis





## Central Europe: **Steady customer growth**

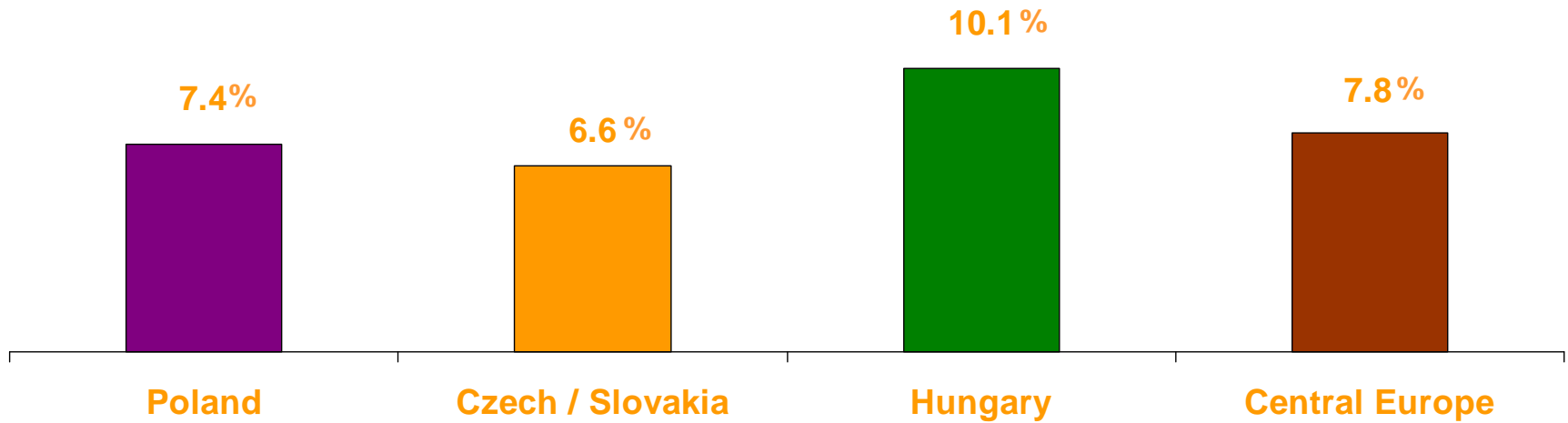
Customer numbers (000's)





# Central Europe: Stronger growth in credit issued

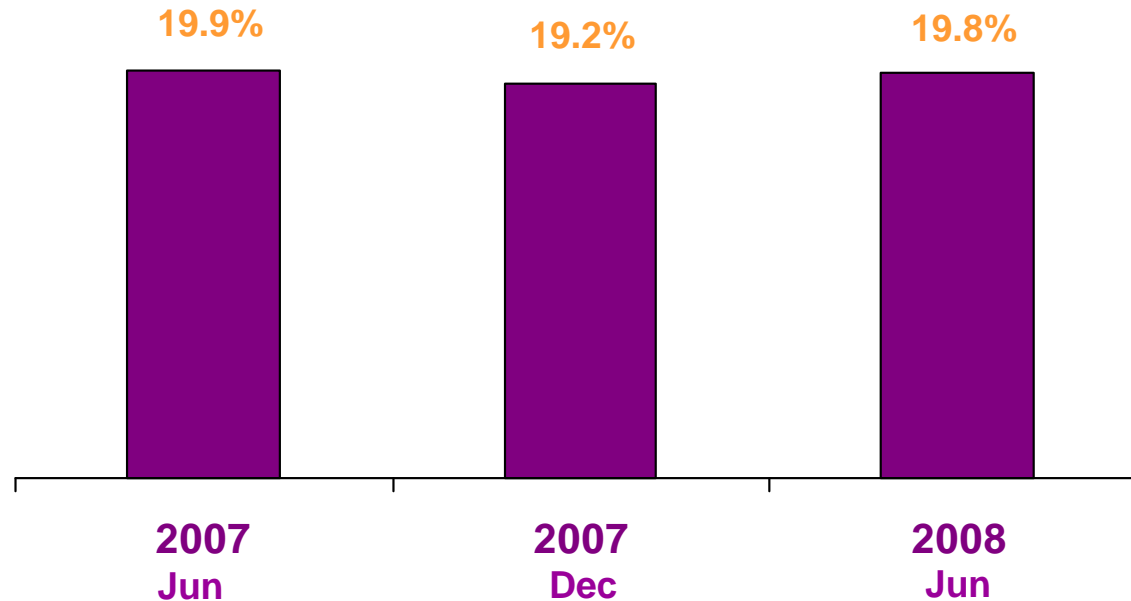
H1 growth at constant exchange rates





## Central Europe: Good stable credit quality

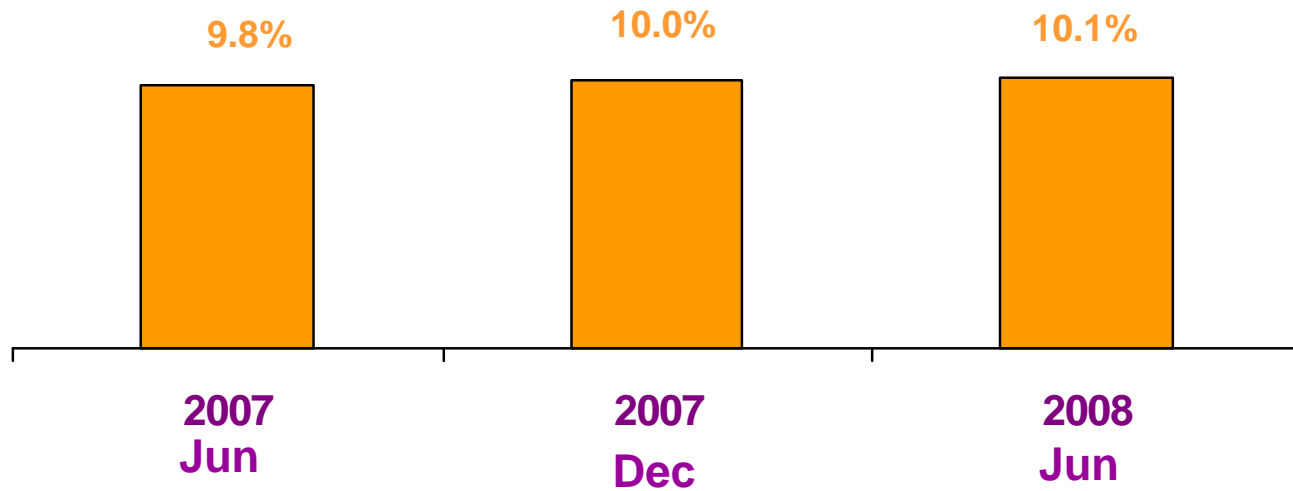
Underlying impairment as % of revenue  
(moving annual average)





## Central Europe: **Good credit quality**

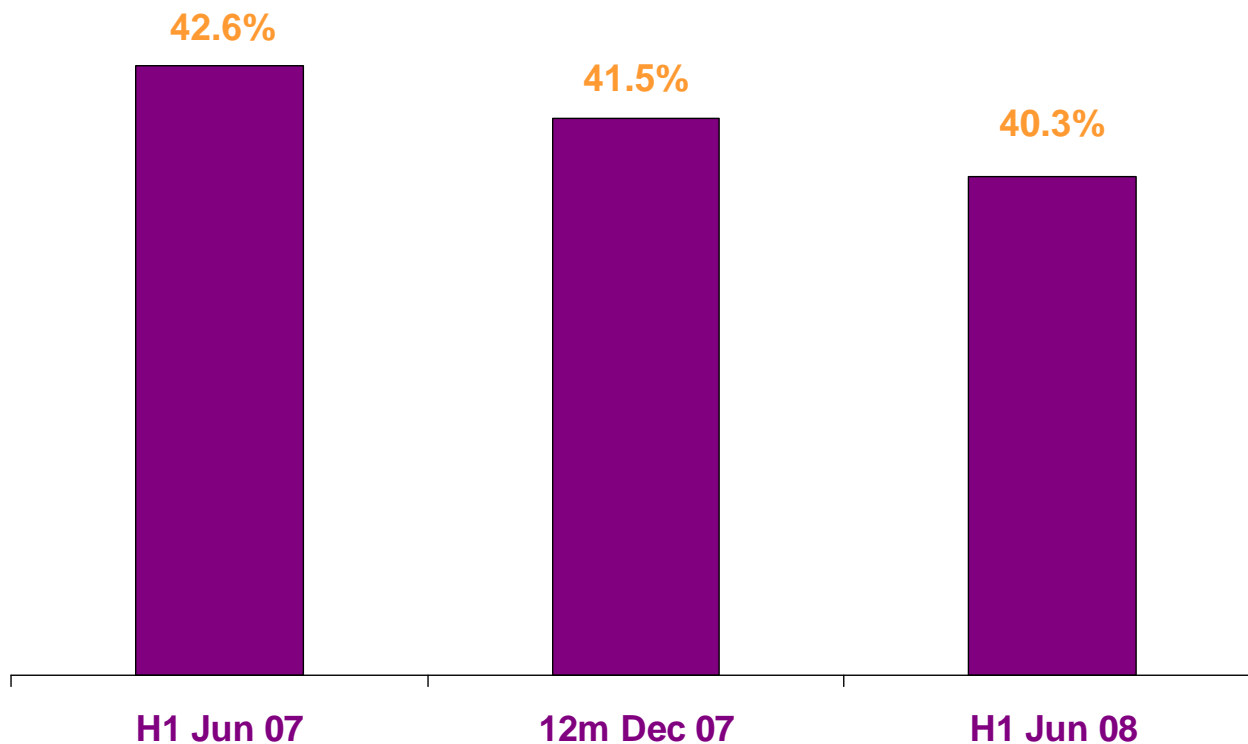
Gross cash loss as % of total amount payable (12 month cohort of all lending)





## Central Europe: Improved cost-income ratios

Other costs as % of revenue





## Central Europe: Prospects for H2 2008 – continued good progress

- Faster customer growth
- Controlled growth in credit issued per customer
- Credit quality to remain good
- Cost-income ratio to continue to improve
- Strong FX uplift



## Mexico: **Substantially improved**

- Credit quality is good in both regions
- Longer-term products introduced to improve revenue per customer
- Customer growth on target for 20% per annum increase



## Mexico: Reduced level of impairment

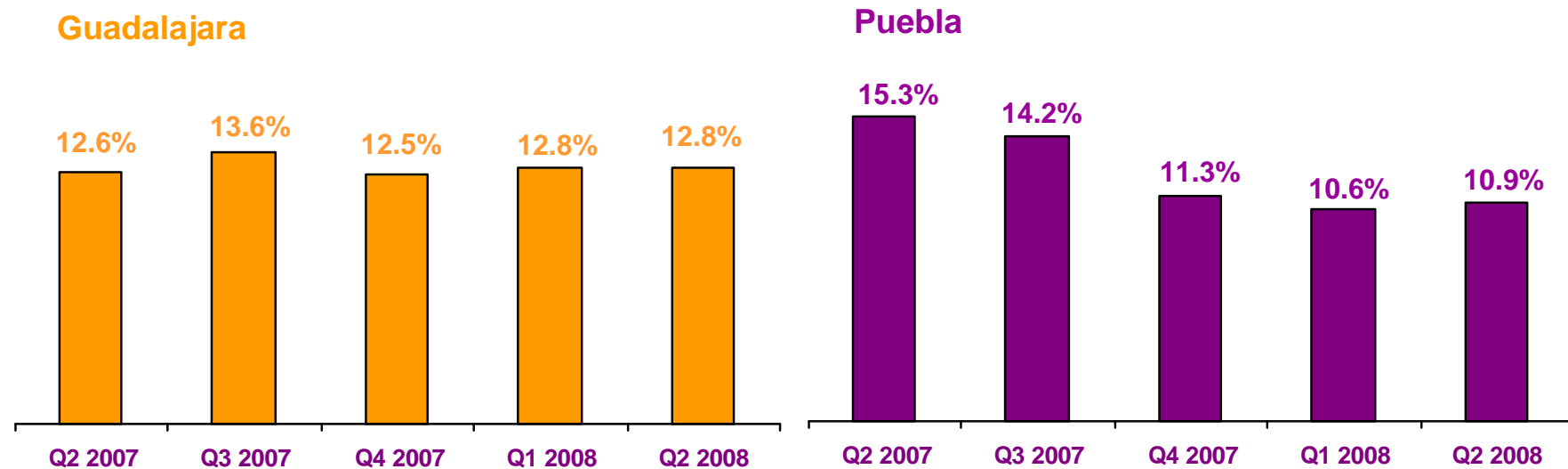
Underlying impairment as % of revenue (six months)





## Mexico: Credit quality at target level

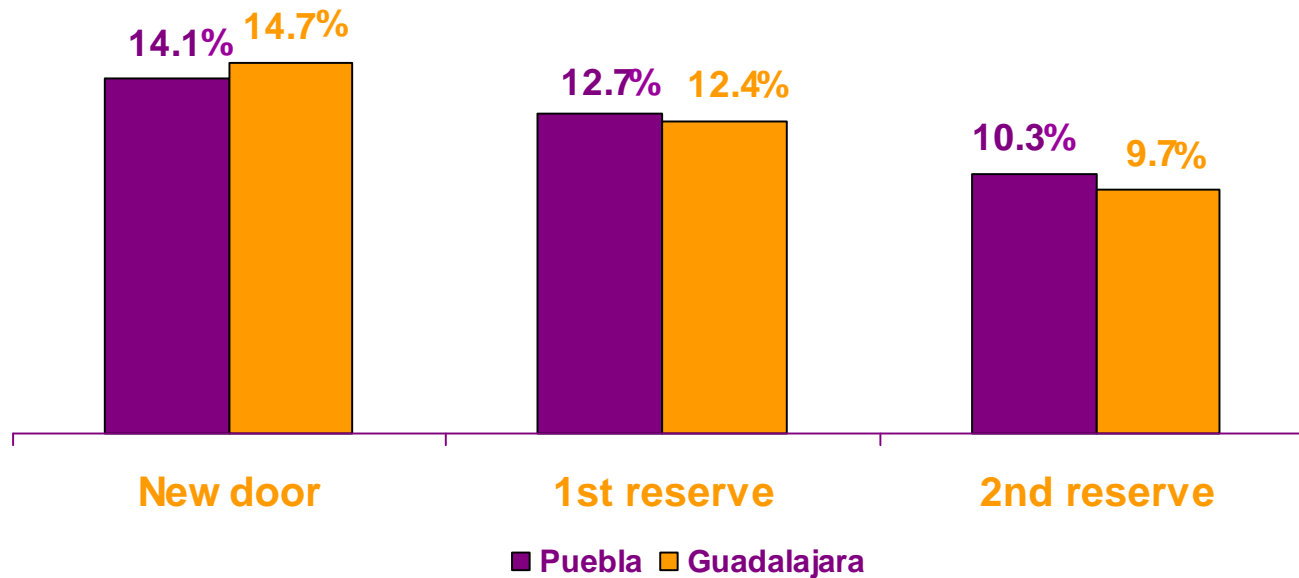
Gross cash loss as % of total amount payable (quarterly cohort of all lending)





# Mexico: Credit quality in both regions is similar

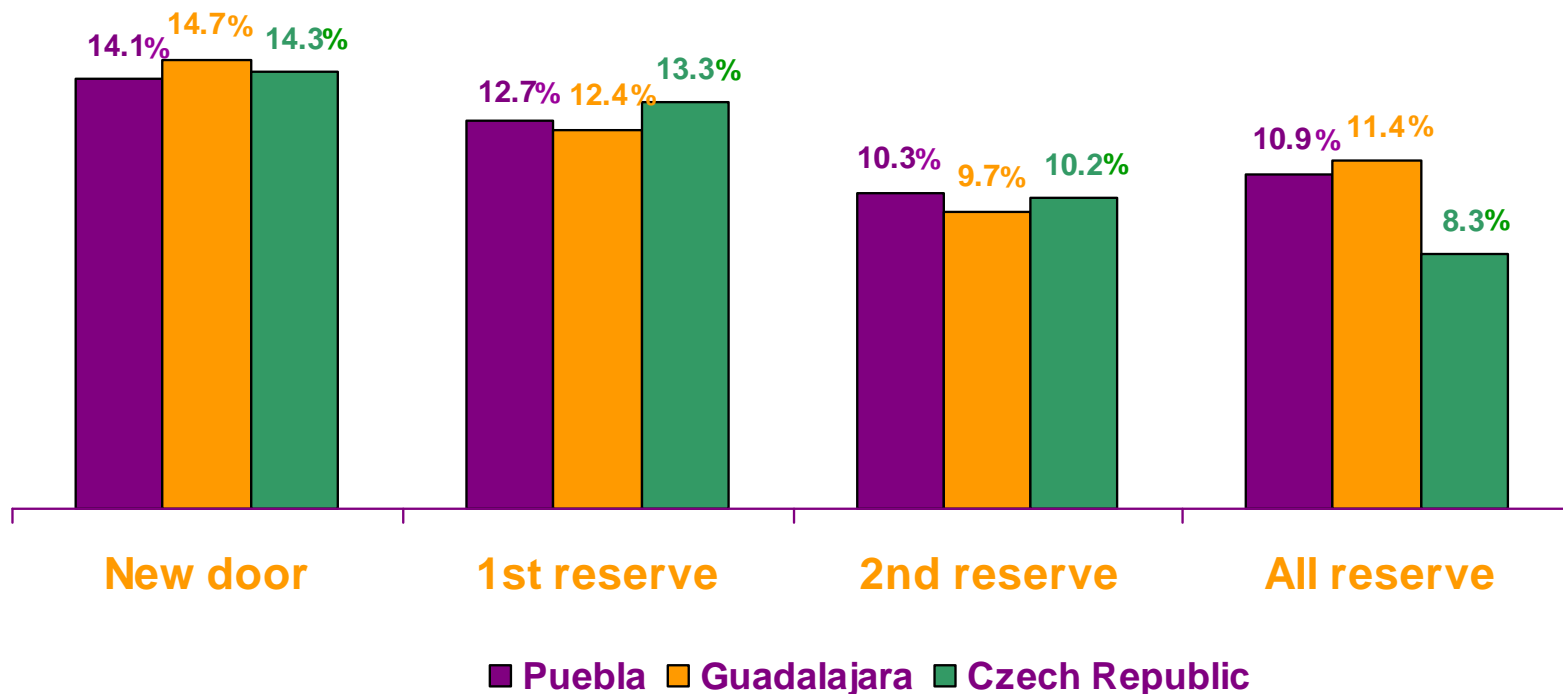
Gross cash loss as % of total amount payable by sequence of lending





## Mexico: Credit quality as good as Czech

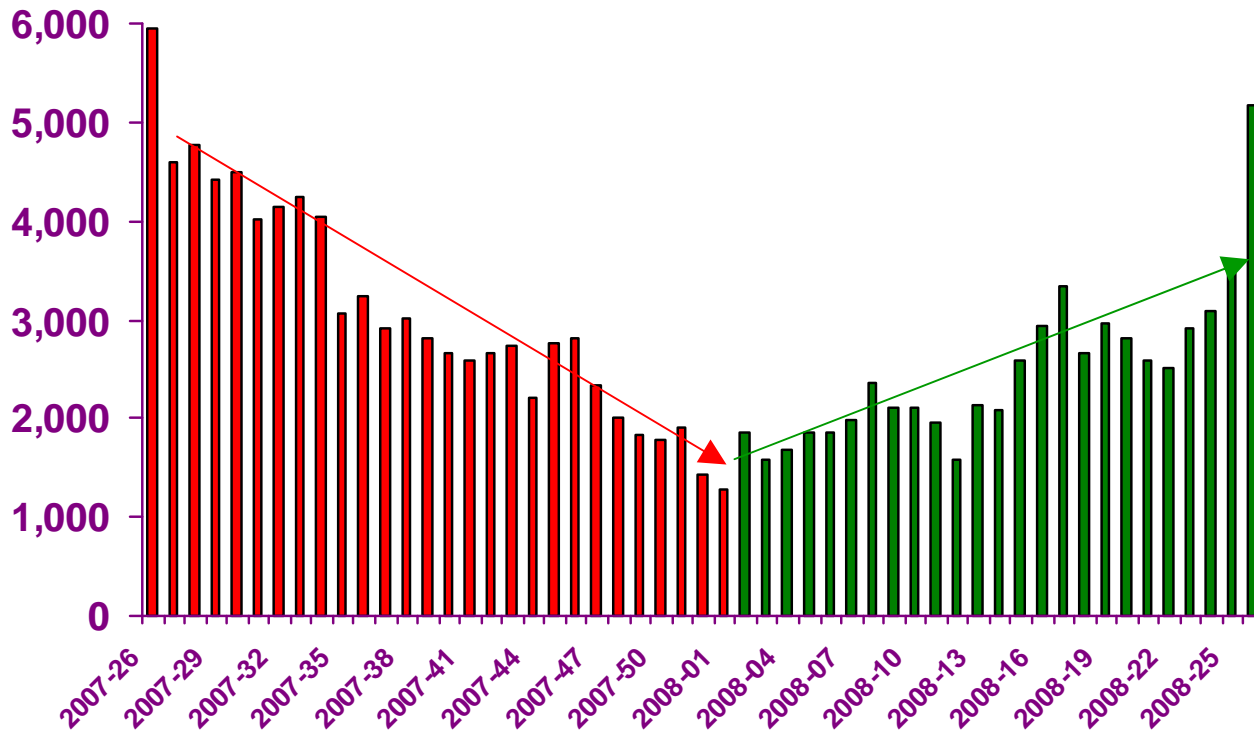
Gross cash loss as % of total amount payable by  
sequence of lending





# Puebla: Improved customer recruitment

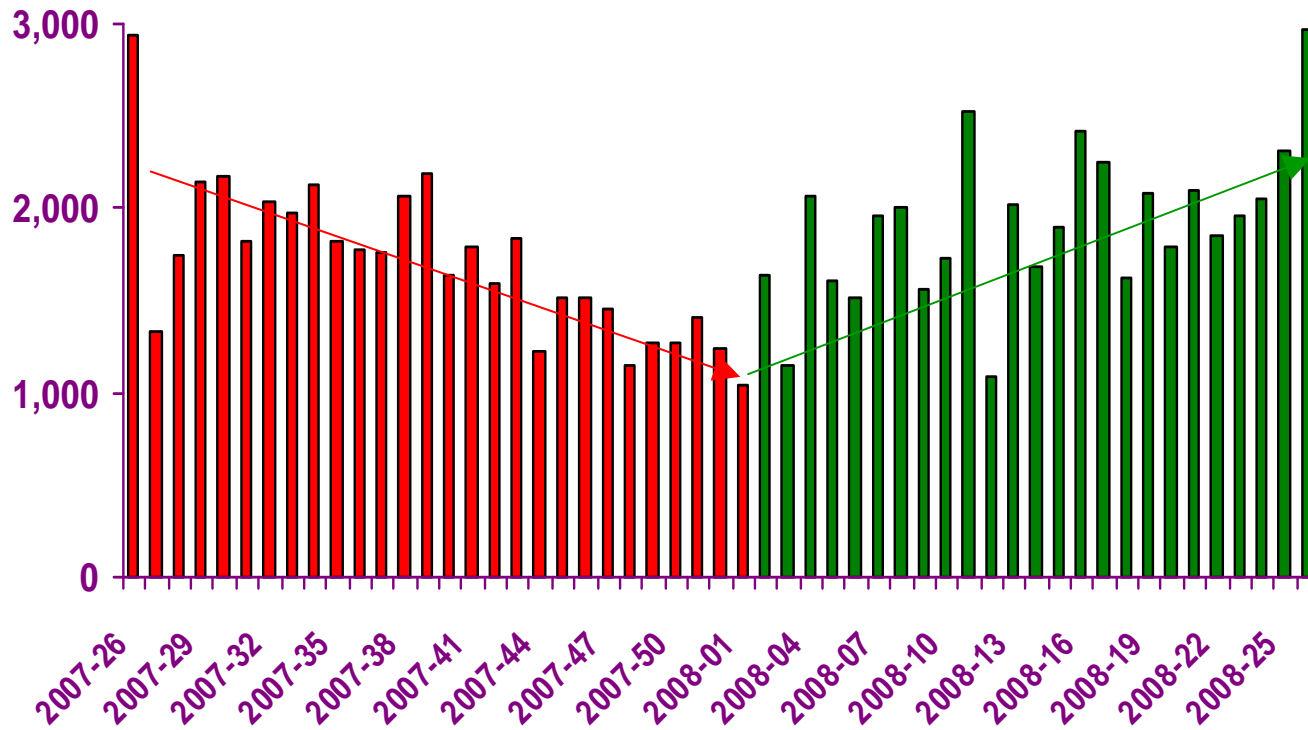
New customer recruitment per week; June 2007 – June 2008





# Guadalajara: Improved customer recruitment

New customer recruitment per week; June 2007 – June 2008





## Mexico: Roadmap to profit for 2009\*

- Maintain good credit quality
- Controlled growth of good quality customers: increase 20% p.a.
- Focus larger loans to quality customers: average customer receivables to grow 20% p.a.
- Control costs: reduce operating costs from 67% of revenue to below 50%



## Romania: Performing well

- Customer growth to 51,000
- Good credit quality
- Branches increased from 7 to 14
- First TV campaign launched in May
- Loss of c.£6–7m expected this year
- On track for profit for 2010



Key: ● H108 new branches opened  
● Branches as at Dec 2007



## Russia: Trading about to commence

- Head office and first branch opened in Moscow
- Pilot team assembled
- Regulatory approvals obtained
- First loans in next few weeks
- Pilot expected to cost £5–6m this year



**ИПФ Банк**

**ЛИЧНЫЙ КРЕДИТ**



## Strong balance sheet

	June 2008 £m	Dec 2007 £m	Change %	Change at CER %
<b>Fixed assets</b>	<b>65.2</b>	<b>59.5</b>	<b>9.6</b>	<b>1.1</b>
<b>Receivables</b>	<b>522.0</b>	<b>443.2</b>	<b>17.8</b>	<b>1.6</b>
<b>Cash</b>	<b>59.6</b>	<b>88.8</b>	<b>(32.9)</b>	<b>(38.5)</b>
<b>Borrowings</b>	<b>(388.8)</b>	<b>(370.8)</b>	<b>(4.9)</b>	<b>8.4</b>
<b>Other net liabilities</b>	<b>(14.5)</b>	<b>(17.1)</b>	<b>15.2</b>	<b>13.7</b>
<b>Equity</b>	<b>243.5</b>	<b>203.6</b>	<b>19.6</b>	<b>4.5</b>
<b>Equity to receivables</b>	<b>46.6%</b>	<b>45.9%</b>		
<b>Gearing</b>	<b>1.6x</b>	<b>1.8x</b>		



## Funding through to 2010

Facility as at 30 June 2008	Tenor	Size*	Utilisation
Overdrafts and short-term facilities	1 year up to Oct 2008	£33.1m	33.8%
Syndicated multi-currency revolving credit facility	3 years to March 2010	£514.3m	59.6%
Other bilateral facilities	3 years up to Nov 2010	£84.6m	84.2%
		£632.0m	
Borrowings		£388.8m	61.5%
Headroom		£243.2m	

\* at 30 June 2008 exchange rates



# Summary



## Summary

- Proven business model
- Strong credit management
- Strong balance sheet
- Good prospects
- Substantial growth opportunities



# Appendices



## Markets in which we operate

	Year Entered	Moody's Rating	Population ('m)	GDP *	Customer numbers ('000)	European Union member?
Poland	1997	A2	38.5	5.8	871	✓
Czech Republic	1997	A1	10.2	5.4	271	✓
Hungary	2001	A2	10.0	2.7	319	✓
Slovakia	2001	A1	5.4	8.1	131	✓
Mexico	2003	Baa1	108.7	3.6	312	✗
Romania	2006	Baa3	22.3	6.5	33	✓

\* Forecast Compound Annual Growth Rate 2006-2009 (Source: Datastream, Reuters, Haver Analytics and Citibank)



## A business with scale

Year ended 31 December 2007

	Poland	Czech	Hungary	Slovakia	Central Europe	Mexico	Romania	Total
Branch numbers	79	25	24	12	140	36	7	183
Agent numbers	12,717	3,268	4,327	1,829	22,141	4,809	683	27,633
Customer numbers	871,000	271,000	319,000	131,000	1,592,000	312,000	33,000	1,937,000
Credit issued £m	270.9	111.7	130.0	41.2	553.8	58.1	9.2	621.1
Employee numbers	2,400	600	800	350	4,150	1,200	150	*5,500

\* Excludes 100 UK-based employees



## Provisioning methodology

- Weekly assessment
- Impairment charge made for any missed payment **or portion of a payment**
- Impairment is calculated using actuarial models to estimate amount and timing of future cash flows
  - calculation for each country, product and customer arrears stage
  - future cash flows discounted to present value
  - outcome compared to balance sheet value
- All impairment is charged to the income statement



## Gross cash loss

- The percentage of contracted repayments expected not to be received

<u>CASH</u>	£
Credit issued	100
Total charge for credit	65 - Revenue
	<hr/>
Total amount payable (TAP)	<u>165</u>
	<hr/>
Amounts not expected to be collected	16.5 - Impairment
Gross cash loss % of TAP	10%
Impairment as % of revenue	25.4%



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