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CREDIT OPINION
26 April 2024

Update

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RATINGS

International Personal Finance plc

Domicile	Leeds, United Kingdom
Long Term Rating	Ba3
Type	LT Corporate Family Ratings - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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International Personal Finance plc

Update to credit analysis

Summary

The Ba3 CFR reflects International Personal Finance plc's (IPF) solid loss-absorption capacity driven by its strong capitalisation and profitability, which collectively provide a buffer against unforeseen credit losses that could stem from the company's focus on the non-prime consumer segment. The CFR also considers the benefit of economic diversification to IPF's business model from its international footprint.

At the same time, the CFR also incorporates IPF's reliance on confidence-sensitive wholesale funding, mostly in the form of bonds and bank credit facilities, which could present funding challenges during a market downturn. The existence of the negative pledge provision in credit agreements, which restricts IPF's access to secured funding, further constrains its financial flexibility. IPF's diversified borrowing sources under credit facilities, provided by a number of banks, partly mitigates this concern; however, its limited long-term funding sources, together with a large bond maturity (EUR 341 million) in November 2025, present a refinancing risk.

The Ba3 rating of IPF's backed senior unsecured notes reflects their priorities of claim and asset coverage in the company's current liability structure.

Credit strengths

» High risk-adjusted profitability

» Strong capital position, which provides solid loss-absorption capacity

» Diversified borrowing sources under credit facilities, provided by a number of banks

» Strong and established franchise, with good geographical diversification

Credit challenges

» Refinancing risk presented by a large bond maturity (EUR 341 million) in November 2025

» High reliance on confidence-sensitive wholesale funding, which could present funding challenges during a market downturn

» Negative pledge provision in credit agreements restricts IPF's access to secured funding, constraining its financial flexibility

» Weak asset quality because of the non-prime credit profile of its targeted customer segment

» Risks stemming from adverse regulatory changes

» Potential pressure on profitability and asset quality from the impact of inflationary pressures and higher interest rates on its customers

Outlook

The stable outlook reflects our expectation that IPF will maintain solid financial performance and liquidity position over the next 12-18 months, while refinancing its EUR 341 million bond at least a year prior to its maturity.

Factors that could lead to an upgrade

IPF's ratings could be upgraded following a material improvement in its funding profile, as evidenced by significantly reduced debt maturity concentrations and by substantially increased availability under its credit facilities that could be used for general corporate purposes.

Factors that could lead to a downgrade

IPF's CFR could be downgraded if IPF's asset quality meaningfully weakens and its profitability deteriorates, or if IPF does not renew its November 2025 bond maturity at least a year in advance of its maturity. The positioning of the CFR could be reassessed if IPF becomes subject to significantly adverse regulatory changes that would affect its business viability in some of its markets.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 1
International Personal Finance plc (Consolidated Financials) [1]

	12-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total managed assets (GBP Million)	1,189.0	1,171.1	999.3	1,023.9	1,322.7	(2.6)[4]
Total managed assets (USD Million)	1,515.7	1,408.7	1,348.7	1,399.6	1,752.2	(3.6)[4]
Net Income / Average Managed Assets (%)	4.1	3.7	4.0	-5.0	5.3	2.4[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	39.3	35.1	33.4	32.5	29.5	34.0[5]
Problem Loans / Gross Loans (Finance) (%)	31.5	30.9	32.9	38.6	31.4	33.1[5]
Debt Maturities Coverage (%)	208.6	87.7	2700.0	77650.0	122.0	16153.7[5]

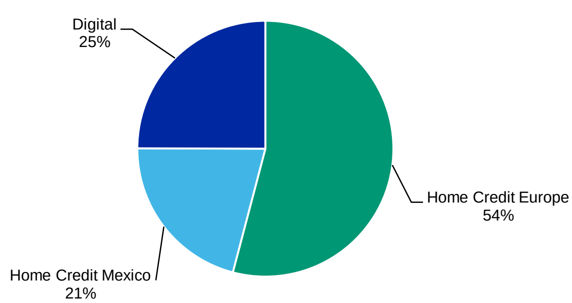
[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] IFRS [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime.
Sources: Moody's Ratings and company filings

Profile

International Personal Finance plc (IPF) is a UK-based non-prime instalment lender with operations in three continents, including in seven countries in Central and Eastern Europe, as well as Mexico and Australia. IPF was founded in 2007 following the de-merger of Provident Financial plc's international business, although its history dates back to the period before it was part of Provident Financial plc. IPF's customers typically have no or poor credit history and are underserved or financially excluded by traditional high-street lenders.

IPF's main product offerings mainly comprise small-sum lines of credit and instalment loans, as well as credit cards in Poland. IPF serves 1.7 million customers under three business lines: European Home Credit (761,000 customers), Mexico home credit (716,000 customers) and IPF Digital (223,000 customers).

Exhibit 2
Distribution of net receivables as of 31 December 2023



Home Credit Europe includes Poland, the Czech Republic, Hungary and Romania; Digital includes Estonia, Finland, Lithuania, Latvia, Spain, Australia, Poland and Mexico.
Source: Company's financials

Recent developments

On 26 February 2024, IPF announced that it would be delaying the publication of its 2023 financials due to the company receiving a letter from the Polish Financial Supervision Authority concerning potential restrictions on the level of non-interest fees charged by credit card lenders in Poland. As of year-end 2023, IPF's credit card portfolio in Poland represented 25% of its total Polish loan book and 5% of total receivables. IPF estimates that if such restrictions are implemented in their current form, the non-interest fees generated by the credit card business in Poland could be reduced by approximately 30%-40%, and the company's pre-tax earnings could decline by up to £10 million per annum, based on its 2023 financial performance.

In December 2022, a legislation in Poland introduced a cap on the non-interest cost of credit of 45% of the loan value (previously 100%). The legislation also included new affordability rules (came into force in May 2023) and a requirement for non-bank financial institutions to be supervised by the Polish Financial Supervision Authority (implemented in January 2024).

Detailed credit considerations

Solid risk-adjusted profitability; potential downward pressure from the inflationary environment and lower regulatory rate caps

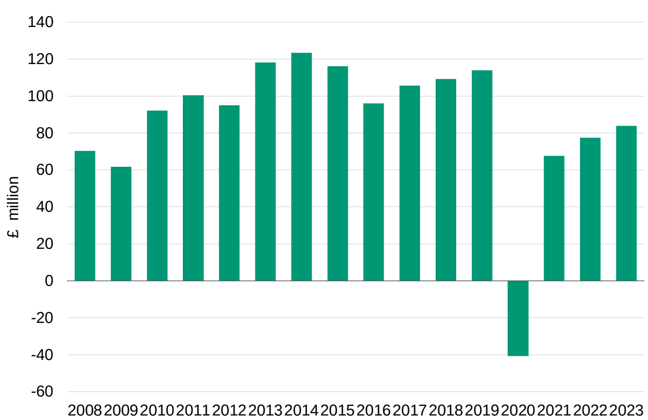
We view IPF's profitability as a rating strength and assign a Baa1 Profitability score, two notches below the initial score of A2. The assigned score reflects IPF's strong through-the-cycle profitability, but also considers a potential impact of prolonged global inflation and the resulting cost of living pressures. The assigned score also reflects the anticipated impact on IPF's revenues from lower rate caps and affordability requirements in individual countries, most recently implemented in Poland.

In 2023, IPF's pre-tax earnings increased by 8% year-over-year, to £83.9 million, driven by strong originations outside of Poland, higher revenue yields and improved cost efficiency, which more than offset the impact of higher impairments and reduced lending in Poland, which declined by 29% year-over-year as a result of new consumer affordability and lower rate cap requirements for installment loans. On an after-tax basis, IPF's return on average assets was approximately 4%.

If potential restrictions on non-interest fees on credit cards in Poland are implemented in their current form, IPF estimates that its pre-tax earnings will be reduced by up to £10 million (12%) per annum, based on its 2023 financial performance. IPF expects its revenues to be supported by higher yields in Mexico as it continues to expand its franchise in the country.

Exhibit 3

IPF has demonstrated solid profitability through the cycle
Reported profit before tax



Source: Company's financials, Moody's Ratings

Exhibit 4

IPF's impairment charges increased in 2023, but remain below pre-pandemic levels
Impairment as a percentage of revenue

The impairment charge of £169.4 million in 2023 included a £6 million reduction in the valuation of credit card receivables in Poland due to lower than expected cash flows from the portfolio, to reflect an impact from potential restrictions included in the letter from the Polish Financial Supervision Authority. Normalised for the valuation reduction, impairments would represent 21% of total revenues, as compared to 22% with the reduction.
Source: Company's financials, Moody's Ratings

Strong capital position, which provides solid loss-absorption capacity

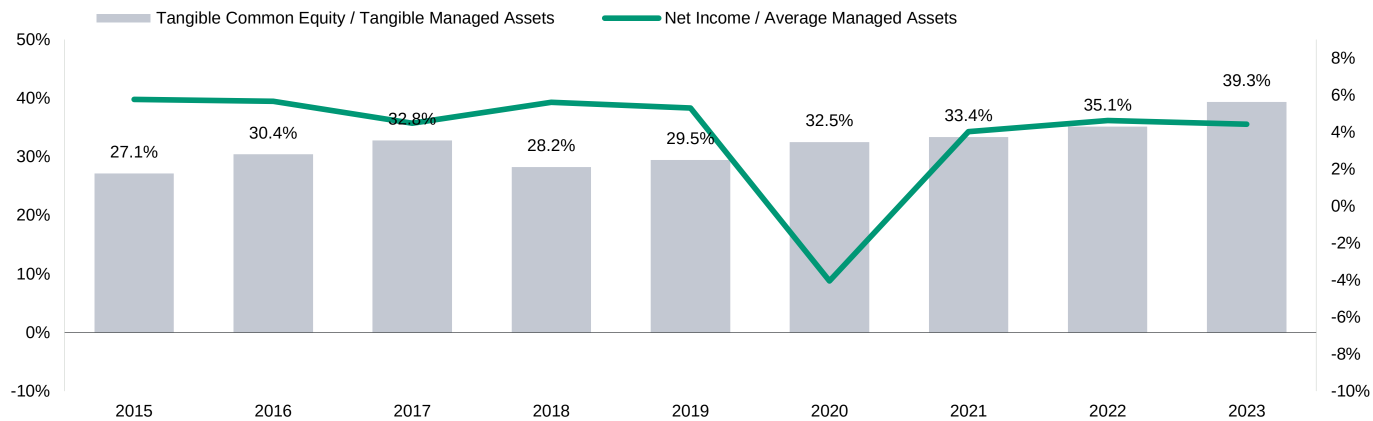
We view IPF's capitalisation as a rating strength, with its tangible common equity representing 39% of tangible managed assets as of year-end 2023. Such strong capitalisation levels would provide a meaningful loss-absorption capacity in the event of unexpected credit or other losses. Our assigned score of A2 to IPF's Capital Adequacy, three notches below the historical score, reflects our expectation for a gradual decline in capitalisation as the company continues to grow its loan book and continues to pursue dividend payouts in line with its progressive dividend policy. The score also considers a potential risk to IPF's capital from the unseasoned nature of the new digital markets and geographical regions, as well as from the new credit card product offering in Poland, where the company's performance remains less tested.

IPF's capitalisation has been consistently strong and stable over the past decade because of the company's policy of funding each loan with 40% equity. As of year-end 2023, IPF's equity-to-receivables ratio was 49%, when adjusting for the positive impact of foreign exchange gains. We expect IPF to reduce its equity-to-receivables ratio to its target level of 40% over the next two years, as it invests in growth and continues to pursue a progressive dividend payout policy.

Exhibit 5

Strong capital levels and profitability track record mitigate asset risk

IPF's leverage and return on assets



Tangible common equity declined in 2018 as a result of the introduction of IFRS 9.
Source: Company's financials, Moody's Ratings

High asset risk, reflecting focus on consumers with weak credit profiles

We assign a Ca Asset Quality score to IPF, reflecting the fact that the company caters to a riskier segment of the population, and hence carries a large amount of impaired loans at all times and charges off a high proportion of loans each year.

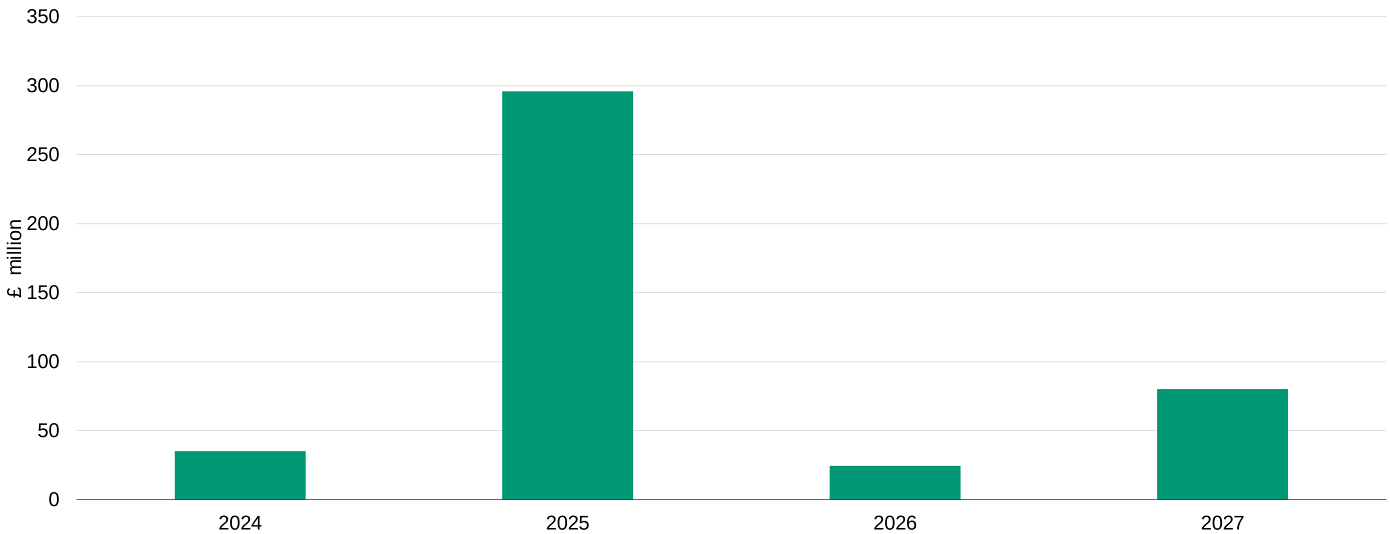
IPF's problem loan ratio was 31.5% as of year-end 2023, slightly up from 30.9% as of year-end 2022, driven by increases in Stage 3 loans, as the company continued its expansion in Mexico. IPF does not disclose the amount of write-offs, but we assume that the company charges off a high proportion of loans per annum. IPF's loan loss impairment charge in 2023 represented 12.2% of average receivables, up from 8.6% in 2022, but remained below the company's target rate of 14%-16%. The year-over-year increase was mainly attributed to weaker performance in Czech Republic, as well as growth in Mexico, which has a higher impairment rate. IPF expects the impairment rate in Mexico to improve in 2024 following tightening of its credit underwriting in the country.

High reliance on confidence-sensitive funding; large debt maturity concentration in 2025

The assigned weighted average cash flow and liquidity score to IPF is Ba3, reflecting its high reliance on confidence-sensitive funding, mostly in the form of bonds and bank credit facilities, which could present funding challenges during a market downturn. The existence of the negative pledge provision in credit agreements, which restricts IPF's access to secured funding, further constrains its financial flexibility. IPF's diversified borrowing sources under credit facilities provided by a number of banks, partly mitigates this concern; however, its limited long-term funding sources, together with a large bond maturity in November 2025, present a refinancing risk. The assigned score also considers IPF's strong cash flow generation ability. Given its fast collections because of the relatively short duration of receivables, IPF is able to rapidly change its underwriting policies if economic conditions change. However, if unfavorable conditions persist for an extended period, it would be detrimental to IPF's profit and franchise position.

At year-end 2023, IPF had £433 million of bonds and £83 million of borrowings under credit facilities. IPF's total liquidity was £126 million at year-end 2023, of which £112 million was in the form of availability under credit facilities. IPF has a small amount of bonds maturing in 2024, followed by a large bond maturity in November 2025 (EUR 341 million).

Exhibit 6
Bond maturities as of year-end 2023



Source: Company financials, Moody's Ratings

Operating environment

We assign a B2 score to IPF's Operating Environment, reflecting the industry risk score of B for non-prime instalment lenders. The Macro-Level Indicator does not have any weighting in the scorecard because this score is higher than the Industry Risk score for all segments in which IPF operates.

The B2 Operating Environment score is below IPF's Ba2 Financial Profile score. Therefore, we constrain the adjusted financial profile by weighting the Operating Environment score at 70% and the financial profile at 30%, resulting in an Adjusted Financial Profile score of B1.

Macro-level indicator

We use the average net receivables of IPF to determine the geographical split when assigning the Macro-Level Indicators.

Industry risk

We assign a B Industry Risk score to non-prime installment lenders, which are subject to a high degree of regulatory risk that could quickly make operations in certain markets less economically viable.

Barriers to entry in the home credit market are relatively high, while barriers to entry in the digital space are low. Particularly in the home credit market, alternative lenders such as IPF command a large market share, given the fact that customers often have limited access to banking services.

Non-prime installment lenders are subject to high asset risk because of the borrowers' weaker credit profiles. The home credit market has existed for decades, offering credit to those that may have limited access to conventional bank borrowing. Over time, the stability of the home credit market may decline, if alternatives become more prevalent and easily accessible for unbanked customers; however, we do not see this as an immediate risk.

Business profile and financial policy

We adjust IPF's B1 Adjusted Financial Profile score upward by one notch for its business diversification and franchise positioning. IPF has a strong and established Home Credit franchise, with a high level of brand awareness that supports customer acquisition within its regions of operation. IPF is also geographically well diversified. The company operates in nine countries across three continents, which provides broad diversification and a buffer against economic trends and regulatory changes in individual countries.

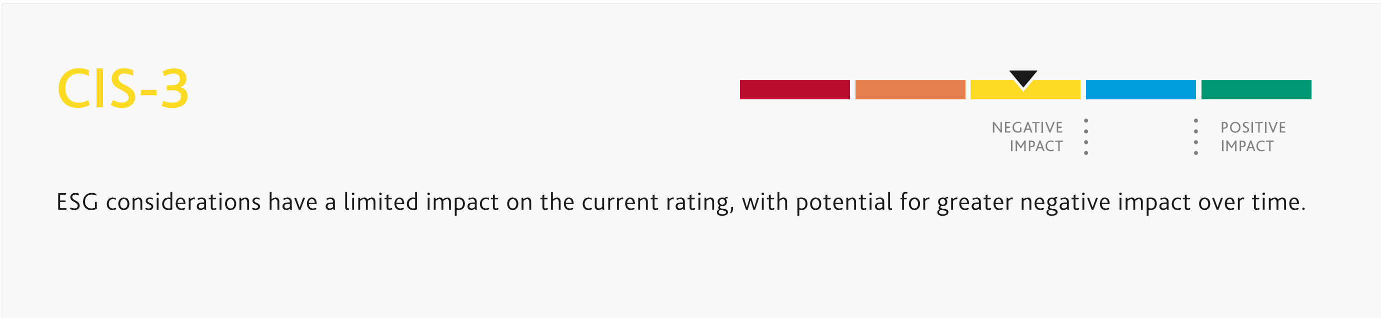
Notching considerations

The Ba3 rating of IPF's backed senior unsecured notes reflects their priorities of claim and asset coverage in the company's current liability structure.

ESG considerations

International Personal Finance plc's ESG credit impact score is CIS-3

Exhibit 7
ESG credit impact score



Source: Moody's Ratings

IPF's ESG Credit Impact Score of **CIS-3** reflects the limited credit impact from ESG risk to date. As a sub-prime consumer lender, IPF faces high exposure to social risks, particularly related to treating customers fairly, and product pricing. Well-developed frameworks and processes help to mitigate but not eliminate these risks.

Exhibit 8
ESG issuer profile scores

Source: Moody's Ratings

Environmental

IPF faces low environmental risks. The company has no direct exposure to environmental risk, as it is an unsecured consumer lender.

Social

IPF faces high industry-wide social risks from customer relations: regulatory risk, litigation exposure and high compliance standards, as well as cyber risk and the financial and reputational implications of data breaches. In addition, IPF faces moderate social risks related to competition from other finance companies with similar digital product offerings.

Governance

IPF's governance risks are moderate: its risk management, risk appetite and financial policies are prudent and satisfactory for its business model. An experienced management team and well-developed risk management structure mitigate risks given the sub-prime lending model.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The principal methodology used in these ratings was the Finance Company Methodology, published in November 2019. Alternatively, please see the Rating Methodologies page for a copy of this methodology.

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Exhibit 9

International Personal Finance plc

International Personal Finance plc						
Financial Profile	**Factor Weights**	**Historic Ratio**	**Initial Score**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Profitability						
Net Income / Average Managed Assets (%)	10%	3.92%	A2	Baa1	Earnings volatility	Expected trend
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	25%	39.34%	Aa2	A2	Expected trend	
Asset Quality						
Problem Loans / Gross Loans (%)	10%	31.78%	Ca	Ca	Expected trend	
Net Charge-Offs / Average Gross Loans (%)	10%	0.00%	Aaa	Ca	Expected trend	
Weighted Average Asset Risk Score			**Ba1**	**Ca**		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%	208.62%	A3	Ba3	Near-to-medium term maturities	
FFO / Total Debt (%)	15%	16.29%	Ba2	Ba3	Other adjustments	
Secured Debt / Gross Tangible Assets (%)	20%	0.00%	Aaa	B1	Other adjustments	
Weighted Average Cash Flow and Liquidity Score			**A2**	**Ba3**		
Financial Profile Score	**30%**		**A2**	**Ba2**		
Operating Environment						
Home Country	**Factor Weights**	**Sub-factor Score**	**Score**			
Macro Level Indicator	0%		A1			
Economic Strength	25%	a1				
Institutions and Governance Strength	50%	a1				
Susceptibility to Event Risk	25%	baa				
Industry Risk	100%		B			
Home Country Operating Environment Score			B2			
	Factor Weights			**Score**	**Comment**	
Operating Environment Score	**70%**			**B2**		
ADJUSTED FINANCIAL PROFILE				**Score**		
Adjusted Financial Profile Score				**B1**		
Financial Profile Weight	30%					
Operating Environment Weight	70%					
Business Profile and Financial Policy				**Adjustment**	**Comment**	
Business Diversification, Concentration and Franchise Positioning				1		
Opacity and Complexity				0		
Corporate Behavior / Risk Management				0		
Liquidity Management				0		
Total Business Profile and Financial Policy Adjustments				**Ba3**		
					Comment	
Sovereign or parent constraint				**Aa3**		
Standalone Assessment Scorecard-indicated Range				ba2 - b1		
Assigned Standalone Assessment				ba3		

Source: Moody's Ratings

Instrument class

Exhibit 10
International Personal Finance plc

Instrument Class	Assigned Standalone Assessment	Affiliate Support Notching	Government Support Notching	Individual Debt Class Notching	Assigned Rating
LT Corporate Family Ratings	ba3	0	0	0	Ba3

Moody's Ratings

Ratings

Exhibit 11

Category	Moody's Rating
INTERNATIONAL PERSONAL FINANCE PLC	
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba3

Source: Moody's Ratings

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