FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Outlook on International Personal Finance to Stable; Affirms at 'BB-'

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Fitch Ratings - London - 11 Oct 2021: Fitch Ratings has revised the Outlook on International Personal Finance plc's (IPF) Long-Term Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDR and senior unsecured debt rating at 'BB-' and Short-Term IDR at 'B'.

KEY RATING DRIVERS

IDRs

The revision of the Outlook reflects the stabilisation of the operating environment as well IPF's improved performance in 1H21. IPF was able to stabilise its loan book after shrinkage in 2020. The decrease in interest income was offset by very low impairment costs reflecting improvement in the asset quality. We expect profit and loss structure to normalise in 2H21-2022 as interest income recovers, following a rebound in loan book generation and the cost of risk increasing back to historical levels.

The ongoing stabilisation of the operating environment for EMEA consumer lenders remains vulnerable to potential increases in mobility restrictions and a decrease in employment as governments continue curbing support measures.

Despite disruption during the pandemic, we expect IPF to maintain attributes supporting its creditworthiness, including low balance sheet leverage by conventional finance company standards, and a structurally profitable business model, despite high impairment charges, supported by a cash-generative short-term loan book. The ratings remain constrained by IPF's high-risk lending focus, evolving digital business, and vulnerability to regulatory risks.

Despite a notable decrease in net interest income in 1H21, IPF reported net profits of GBP23 million, helped by a large saving on impairment costs (down GBP170 million compared with 1H20). However, the company booked a sizable FX loss that turned comprehensive income negative, decreasing the absolute size of equity in 1H21 by GBP8 million. Return metrics are now positive but remain depressed from the reduced size of the loan portfolio. We expect interest revenue to continue recovery in 2H21 as loan origination recovers.

IPF's leverage is a relative credit strength, with gross debt/tangible equity at 2.4x at end-1H21, which has decreased due to lower loan balances. We expect a gradual increase in leverage towards the 2018-1H20 level of around 3x, driven by expansion of the loan book that will initially outpace capital generation. If IPF's leverage increases due to aggressive dividend payments, this would affect our assessment of capital adequacy.

IPF's unrestricted non-operational cash balance at end-1H21 was GBP56 million, and an undrawn revolving credit facility comprised another GBP118 million. IPF's cash-generative and short-term loan portfolio (with average maturity of 13 months) underpins the liquidity position.

IPF has limited near-term debt maturities, with GBP43 million in 2H21-1H22 (equivalent of 4% of total assets) and GBP28 million in 2H22-1H23. However, the high concentration of IPF's funding remains a weakness for its credit profile. Management aims to diversify borrowings by sources and by maturities, which if realised would improve our assessment of funding. The large euro-denominated bond (GBP293 million equivalent) matures in 2025 but is callable in 4Q22.

SENIOR DEBT

IPF's senior unsecured notes' rating is in line with the group's Long-Term IDR, reflecting Fitch's expectation for average recovery prospects given that all of IPF's funding is unsecured.

A growing negative impact on profitability has been litigation charges relating to early settlement rebates in Poland and customer claims in Spain, which combined induced a GBP12 million provisioning cost in 1H21 and GBP14 million in 2020. We have revised our ESG score for Customer Welfare to '4' from '3' reflecting the impact of these risks on our assessment of IPF's creditworthiness.

We also expect gradual lifting of pandemic-related regulatory restrictions but note significant regulatory risk inherent for IPF's business model. These issues are captured in our ESG scores of '4' for Social Impact and Customer Welfare. IPF has a geographically diversified loan book that allows it to partly mitigate regulatory as well as macroeconomic risks in individual markets.

Fitch views these factors as having a moderate effect on the rating, with a direct impact on the litigation losses pricing strategy, product mix, and targeted customer base. It is relevant to the ratings in conjunction with other factors.

RATING SENSITIVITIES

IDRS AND SENIOR DEBT

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of IPF's ratings would require a combination of:

- a material improvement in its funding profile via diversification by sources and removing maturity spikes; and

- a reduction of pandemic pressure on the company's performance, with continuing recovery of its financial profile, namely gaining scale and strengthening profitability.

IPF's senior unsecured debt rating is principally sensitive to an upgrade of the Long-Term IDR.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

An increase in regulatory risks (related to rate caps and early settlement rebate) having a materially negative impact on IPF's profitability and equity base as well as funding market access.

IPF's ratings also remain sensitive to a material deterioration of profitability or asset quality as its product mix evolves, for example as the digital proportion of the loan book grows or as loan maturities are extended.

A marked deterioration of the asset quality reflected in weaker collections, higher impairment cost or an increase in unreserved problem receivables.

A weakening of solvency with leverage measured as gross debt to tangible equity exceeding 5.5x or depletion of headroom against the gearing ratio (gross debt to total equity) covenanted at 3.75x.

IPF's senior unsecured debt rating is principally sensitive to a downgrade of the Long-Term IDR.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

IPF has an ESG Relevance Score of '4' for Exposure to Social Impacts stemming from the business model focused on high-cost consumer lending, and hence exposure to shifts of consumer or social preferences, and to increasing regulatory scrutiny, including tightening of interest rate caps., which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

IPF has an ESG Relevance Score of '4' for Customer Welfare - Fair Messaging, Privacy & Data Security driven by the increasing risk of the losses from litigations including early settlement rebates customer claims., which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
International Personal Finance plc	LT IDR	BB- Rating Outlook Stable	Affirmed	BB- Rating Outlook Negative
	ST IDR	B	Affirmed	B
• senior unsecured	LT	BB-	Affirmed	BB-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

International Personal Finance plc	UK Issued, EU Endorsed

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