



23 October 2013

International Personal Finance plc
Interim Management Statement

Delivering continued growth

Highlights

Further profit growth achieved

- Q3 profit before tax increased by 19% to £32.5M
- Strong underlying profit growth of £6.8M before positive impact of £2.0M from stronger FX rates offset by £1.7M investment in new markets and £1.8M cost from higher Early Settlement Rebates (ESRs)
- YTD profit up 28% to £74.8M including positive impact of £5.8M from stronger FX rates offset by £2.4M investment in new markets and £8.2M cost from higher ESRs

Strong Q3 trading performance

- Customer numbers increased year-on-year by 4% to more than 2.5M
- Credit issued up 13% and average net receivables grew 17%
- Revenue increased by 11%
- Stable credit quality – annualised impairment as a percentage of revenue maintained at 26.8%
- Cost-income ratio improved to 39.5% after absorbing new market entry costs

Profit per customer in Mexico increased to £18 (Q3 2012: £14)

Expansion into Lithuania and Bulgaria progressing to plan

£60M share buy-back programme close to completion

Key statistics	Q3 2013	Q3 2012	YOY change at CER
Customers (000s)	2,501	2,403	4.1%
Credit issued (£M)	264.4	223.6	12.7%
Revenue (£M)	189.0	162.2	11.1%
Annualised impairment % revenue	26.8%	26.5%	(0.3 ppts)
Annualised cost-income ratio	39.5%	40.6%	1.1 ppts
PBT* (£M)	32.5	27.2	

** Throughout this statement, 2013 PBT excludes a £12.4M exceptional gain comprising a profit on the sale of impaired receivables of £15.9M and a write down of IT assets of £3.5M. 2012 PBT excludes an exceptional restructuring charge of £4.8M. Q3 2012 customer numbers have been restated to show a like-for-like comparison.*

Chief Executive Officer, Gerard Ryan, commented:

“We have made good progress in the quarter with our expansion into Lithuania and Bulgaria and the further roll out of longer-term loans and preferential pricing for our best customers. Our Q3 trading performance was strong with increased revenue growth and we passed the 2.5 million customer mark. We are well placed to achieve a good full year performance in 2013.”

Operating review

Group review

Our strategy is generating good growth in all our markets. We delivered another strong trading performance in Q3 with profit before tax of £32.5M building on the profit growth achieved in the first and second quarters of the year.

	2013 £M	2012 £M
Profit before taxation		
Q1	9.1	6.1
Q2	33.2	25.3
Q3	32.5	27.2
Q4		36.5
Full year		95.1

We achieved this Q3 performance through delivering good credit issued growth, maintaining annualised impairment as a percentage of revenue in the middle of our target range and continuing to control costs. This resulted in strong underlying profit growth of £6.8M before the impact of a £2.0M benefit from stronger FX rates, partially offset by a £1.7M investment in new markets and £1.8M of higher ESR costs in Poland. Profit before tax and exceptional items for the nine months to September increased by 28% to £74.8M (2012 YTD: £58.6M) including a £5.8M benefit from stronger FX rates and a £2.4M investment in new markets and an additional £8.2M of ESR costs.

	Q3 2013 £M	Q3 2012 £M	Change at CER %	YTD 2013 £M	YTD 2012 £M	Change at CER %
Customers (000s)	2,501	2,403	4.1	2,501	2,403	4.1
Credit issued	264.4	223.6	12.7	750.9	632.9	13.5
Average net receivables	719.5	587.3	16.6	691.7	575.0	15.2
Revenue (net of ESRs)	189.0	162.2	11.1	549.3	478.2	9.9
Impairment	(49.7)	(42.3)	(12.7)	(158.1)	(140.6)	(7.8)
Finance costs	(12.4)	(10.6)	(12.7)	(36.1)	(31.0)	(11.8)
Agents' commission	(21.1)	(18.4)	(8.8)	(63.0)	(54.3)	(10.7)
Other costs	(73.3)	(63.7)	(10.4)	(217.3)	(193.7)	(8.9)
Profit before taxation	32.5	27.2		74.8	58.6	

In Q3, we continued to focus on driving stronger customer growth through expanding our agency workforce by 700, extending our geographical footprint in Mexico and further incentivising our agents and their managers for growth.

As a result of these initiatives, customer numbers grew to 2.5M and the year-on-year customer growth rate increased from 3% in the first half of the year to 4% in Q3. These actions also contributed to a 13% year-on-year increase in credit issued, 17% growth in average net receivables and revenue increased by 11%, up from 9% in the first half of the year despite higher ESRs in Poland and changes in our product mix towards longer-term, lower yielding products.

Credit quality remains consistently good and, as a result, annualised impairment as a percentage of revenue is stable at 26.8% and well within our target range of 25% to 30%.



Costs continue to be well controlled in all our markets. The year-on-year cost-income ratio improved to 39.5% and has remained unchanged since the half year despite investing £1.7M in start-up costs in Lithuania and Bulgaria in Q3.

Funding

We made further progress on our strategic funding objectives of extending the maturity profile and further diversifying our sources of funding at a lower cost. We issued c.£11.5M of three-year Romanian Leu bonds under our existing euro medium-term note programme (EMTN). The interest rate on the bonds continues the trend for issuing debt, on a like-for-like basis, at over 500 basis points lower than the eurobond issued in 2010.

The £60M share buy-back programme announced in our half year financial report is close to completion. So far we have bought approximately 8.4M shares at a cost of around £52M.

Strategy developments

We made further good progress expanding our geographic footprint and with new product development.

We entered Lithuania in July, Bulgaria in September, increased our field management team in Romania and opened another new branch in Mexico. Our plans to expand into Mexico City, with a population in excess of 20 million, remain on track.

Our business in Lithuania is developing well and, following the launch of our first branch in the capital Vilnius, we opened a branch in the second city of Kaunas and plan to expand into four further locations before the end of the year. Our operation in Bulgaria was launched in September. We are trading in the capital Sofia and plan to expand into the next three largest cities before the end of the year. In both markets, we are focussing on building awareness of the brand and growing our agent and customer base.

We now offer longer-term loans to our best quality customers in Poland (up to 90 weeks) and Czech-Slovakia (up to 100 weeks) and plan to extend 78 week loans in Romania following a successful test period.

By the end of 2013 we will have put in place reward propositions for loyal, quality customers in all established markets. Preferential pricing, which offers discounted loans to quality customers, is being rolled out market-wide in Poland, Hungary and the Czech Republic. Tests will begin in Mexico and Romania in Q4.

Our home insurance pilot in Hungary has now been running for eight months. We have decided to keep it in pilot mode until we are satisfied with the productivity of our agent and call centre sales activities.

Regulation

As noted in our half year briefing, regulatory debate relating to rate caps has increased in most of our European markets. In September, The Ministry of Finance in Poland published a discussion document including potential changes to legislation of the consumer finance market. The proposed measures for consultation include a new licencing regime, access to credit bureau for non-banking financial institutions, a cap on default charges and a 30% cap on non-interest charges connected to the total cost of credit, as defined in the EU Consumer Credit Directive. Until draft legislation is published, it is difficult to ascertain any impact on IPF, however, we do not charge default penalty fees with our home collection service and, as an optional service, our agent home collection service sits outside the total cost of credit definition.

We continue to maintain constructive relationships with regulators and opinion formers, and monitor the situation closely.

Market review

The following table shows the performance of each of our markets.

	Q3 2013 reported profit £M	Underlying profit growth £M	New market costs £M	Additional ESR costs £M	Stronger FX rates £M	Q3 2012 reported profit £M
Poland-Lithuania	16.7	3.5	(0.9)	(1.8)	1.5	14.4
Czech-Slovakia	8.9	0.9	-	-	0.2	7.8
Hungary	6.1	1.5	-	-	0.4	4.2
Romania-Bulgaria	1.4	-	(0.8)	-	(0.1)	2.3
Mexico	3.0	1.0	-	-	-	2.0
UK	(3.6)	(0.1)	-	-	-	(3.5)
Profit before taxation	32.5	6.8	(1.7)	(1.8)	2.0	27.2

The more stable macroeconomic outlook for 2013 and 2014 remains largely unchanged in Europe and Mexico. We are also seeing an increasing presence of payday lenders in Poland whose high-profile marketing has impacted our share of voice in the media. Other home credit operators in the Czech Republic are also active.

Against this backdrop, Poland delivered a solid trading performance and reported a 16% increase in Q3 profit to £16.7M. This reflects underlying profit growth of £3.5M before a £1.5M benefit from stronger FX rates offset by an additional £1.8M of ESR costs and £0.9M of new market costs relating to Lithuania. As the impact of ESRs in the quarter reduced, we saw further acceleration of revenue growth to 7% and, as previously guided, we expect the full year impact of ESRs in Poland to be around £10M. Poland has 826,000 customers which is 3% higher than last year and credit issued increased by 4%. Credit bureau tests in Poland are underway which we expect will support further growth in credit issued. Collections performance and credit quality remained good and annualised impairment as a percentage of revenue improved to 28.6% (Q3 2012: 30.0%).



The Czech Republic and Slovakia performed well with revenue increasing by 3% and profit for the quarter up by 14% to £8.9M. This reflected underlying profit growth of £0.9M and a £0.2M benefit from stronger FX rates. As previously noted, we face increased competition in this market but since the half year customer numbers have grown slightly to 377,000. The introduction of the 100 week product, which we believe will drive improved customer retention and future revenue growth, meant that credit issued increased at the faster rate of 16%. Credit quality is good and annualised impairment as a percentage of revenue was 23.7% (Q3 2012: 23.5%).

Our business in Hungary delivered another excellent performance. Credit issued increased by 19% driven by 10% growth in customer numbers to 282,000 and on-going relaxation of credit rules. Our collections performance is excellent and, as expected, annualised impairment as a percentage of revenue continued to increase to 18.7% (Q3 2012: 14.7%) reflecting our strategy of selected credit easing. These factors resulted in a 45% increase in reported profit to £6.1M, which reflects underlying profit growth of £1.5M and a £0.4M benefit from stronger FX rates.

Romania built on its improved performance achieved in the first half of the year. A 9% increase in our field management team and selective credit easing delivered an 8% increase in customer numbers to 283,000 and credit issued growth of 11%. This generated good revenue growth of 9%. Collections performance improved and annualised impairment as a percentage of revenue was stable at 29.6% (Q3 2012: 29.8%). Underlying profit in Romania was flat at £2.3M in the quarter, which reflects net revenue growth offset by further investment in geographical expansion. Reported profit of £1.4M was £0.9M lower than last year due to new market investment in Bulgaria of £0.8M and a £0.1M impact from weaker FX rates.

Mexico continues to grow and deliver on its primary objective of reaching £33 profit per customer by 2015. Reported profit increased by 50% to £3.0M and annualised profit per customer is now £18 (Q3 2012: £14). Our focus on growth resulted in customer numbers increasing by 5% to 733,000 and a strong 22% increase in credit issued. This was achieved through introducing more relaxed credit rules in a further 10 branches and these are now in place in 41 of our 57 locations. As a result, we saw excellent revenue growth of 23%. Annualised impairment as a percentage of revenue increased to the top end of our target range at 30.5% (Q3 2012: 28.1%). We have rolled out the use of credit bureau data as part of our credit scoring across Mexico and expect this to support both increased loan values to new customers and better credit quality. We opened one new branch in Monterrey and are on track to expand into Mexico City in Q4.

Appendix

The following table shows the YTD performance of each of our markets.

	2013 YTD reported profit £M	Underlying profit growth £M	New market costs £M	Additional ESR costs £M	Stronger FX rates £M	2012 YTD reported profit £M
Poland-Lithuania	39.8	9.8	(1.3)	(8.2)	4.0	35.5
Czech-Slovakia	22.5	3.3	-	-	0.5	18.7
Hungary	12.6	4.1	-	-	0.8	7.7
Romania-Bulgaria	1.9	1.3	(1.1)	-	-	1.7
Mexico	8.0	3.0	-	-	0.5	4.5
UK	(10.0)	(0.5)	-	-	-	(9.5)
Profit before taxation	74.8	21.0	(2.4)	(8.2)	5.8	58.6

Notes

In accordance with the UK Listing Authority's Disclosure and Transparency Rules, the purpose of this Interim Management Statement is to provide an update on the performance and financial position of IPF since 1 July 2013 up to the date of publication. The quarterly figures presented in this statement are unaudited.

Percentage change figures for all performance measures, other than profit or loss before taxation, unless otherwise stated, are quoted after restating prior year figures at a constant exchange rate (CER) for 2013 in order to present the underlying performance variance.

Investor and analyst conference call

IPF will host a conference call for investors and analysts at 09:00hrs (BST) today.
Dial in: +44 (0) 20 3003 2666. **Password:** IPF

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

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