**International Personal Finance**
**Q3 2015 trading update**
**27 October 2015**

## Highlights

- Group Q3 proforma growth in credit issued of 8%[1]
  - Home credit growth of 6%
  - Digital growth of 35%[1]

- Group customer numbers increased year-on-year by 2%[1]
  - Home credit growth of 1%
  - Digital growth of 31%[1]

- Another strong performance in Mexico and on track to reach profit per customer target of MXN $660 by the end of 2015

- Strong progress made by Digital business; on track to commence lending in Spain by the year end

- Resilient performance in European home credit business

- Good credit quality within target range – annualised impairment as a percentage of revenue 26.5%

- Total cost of credit cap legislation passed in Poland – developing our response and quantification of initial impact being assessed

[1] Proforma numbers represent growth in customers and credit issued as if MCB Finance had been part of the Group in 2014

## Group and market overview

We delivered a satisfactory trading performance in Q3 and made further progress against our strategic plan. This generated an 8% increase in credit issued year-on-year and growth in customer numbers of 2%. Credit quality remains good and, together with a consistent collections performance in both our home credit and digital divisions and the benefit of on-going debt sales, annualised impairment as a percentage of revenue at 26.5% remains comfortably within our target range of 25% to 30%.

In Europe, we are operating in a very competitive landscape where the rapid growth in loans served through digital channels and copycat home credit operators is providing greater choice for consumers in our target segment. In contrast, the Mexican market features a number of established consumer loans operators but the trading environment remains relatively stable.

## Home Credit

Mexico continues to generate strong sustained growth and delivered another excellent performance in Q3. Our business delivered an 8% increase year-on-year in customer numbers and credit issued growth of 24%. Annualised impairment as a percentage of revenue remains slightly above our target range but is in line with our expectations. We remain comfortable at this level due to the mix of new and repeat customers in this growing market. The business remains on track to reach our profit per customer target of MXN $660 by the end of 2015 although our customer count is likely to be slightly behind our target of 900,000.

In Europe, our focus on implementing a range of strategic growth initiatives continued to build momentum and we delivered a further quarterly improvement in credit issued growth of 2% compared with contractions of 4% and 2% in quarters one and two respectively. A strong return to growth in Romania together with good growth in Bulgaria delivered an 8% increase in credit issued in Southern Europe whilst growth in Poland-Lithuania was more modest at 3%. Excluding the Czech Republic and Slovakia where intense competition led to an 11% fall in loans issued, our European businesses delivered a 5% increase in credit issued year-on-year. In Europe as a whole, customer number growth has been more difficult to achieve and, consequently, we have seen a 2% contraction year-on-year. Credit quality, however, is good and annualised impairment as a percentage of revenue in each country falls within or below our target range of 25% to 30%.

As previously announced, new legislation was passed into law in Poland which introduces a cap on all non-interest costs associated with the granting of consumer credit, together with certain other restrictions. The law becomes effective on 11 March 2016 and will apply to all loans issued from that date.

We anticipate that there will be an on-going impact on the profitability of the Polish business and that this will affect the results of the business progressively during 2016 and 2017. The final impact on profitability will be determined by a range of factors including customer behaviour, the response of competitors and wider market dynamics, none of which may be determined with any certainty at this stage.

Were the book of lending that we made in the twelve months to June 2015 all to have been made with our new expected product structure and pricing, but without other mitigating actions to have been taken, we estimate that the reduction in the profit of our Polish business would have been approximately £30M. We have developed strategies which in part are expected to mitigate the adverse financial impact of the legislation. These are likely to include testing the appetite of customers for larger loans and longer loans, reviewing the positioning of our money transfer product, and targeting cost reductions throughout the business.

At this stage, our expectation is that the effect of our mitigating strategies could offset up to approximately a half of this negative pricing impact although, given the uncertainties noted above which could have net beneficial or adverse outcomes, there can be no assurance that the final profit impact will be in this range. From a phasing perspective we anticipate that our results in 2016 will reflect approximately half of this financial impact, with the full impact arising in 2017. In addition, now that debt sales are established on a flow basis in Poland and our old written-off books have been sold, we expect to generate approximately £5M less profit from debt sales in 2016.

As we gain experience of issuing loans in this new environment, we will continue to work on our strategies to mitigate the anticipated reduction in profit. In any event, we anticipate that the Polish business will remain as being of high quality, with not only impairment as a percentage of revenue remaining in our target range of 25% to 30% but also the return on equity of the Polish business remaining above the average for the Group.

**IPF Digital**

We achieved strong growth in our digital business during the third quarter. Our actions to attract new customers and issue higher value loans resulted in a further increase in customer numbers to 118,000 and credit issued growth of 35%. At the same time as achieving this growth, we maintained good credit quality. Our strategy to grow further through expansion into new markets is progressing and we are on track to deliver our first digital loans to customers in Spain by the end of 2015.

**Regulation**

In Poland, we have now received notice of the date for the court process to begin our appeal against the December 2013 findings of UOKiK, the Polish Office of Consumer Protection and Competition, into the way we calculate total cost of credit and APR in Poland. The first hearing will take place on 23 November 2015 and we anticipate the first instance proceedings lasting between 6 and 12 months. We continue to believe that this matter will be resolved in a way that is positive for our customers, our business and UOKiK, particularly in light of the proposed revisions to our Polish product structure arising from the recently approved changes in legislation.

In Romania, due to recent changes in tax legislation, the relationship with our agents will be amended so that they become employees of the company. We expect there to be additional costs arising from the move to employed status which will result in a full year negative financial impact of around £3M, based on the current number of agents, and approximately £1.2M of additional costs in 2015. Our experience in Hungary, where agents have been employed since 2006, indicates there are opportunities to partially mitigate these additional costs through improved operational performance and we continue to see Romania as a growing business.

**Returns to shareholders**

Our share buyback programme to reduce the equity to receivables ratio towards our target of around 40% is progressing and by 23 October we had bought back 9M shares at a cost of £35.7M.

**Outlook**

We expect to deliver continued strong growth in Mexico and our digital businesses, and we will continue our strategy of targeted marketing and introducing new products in our European home credit operations to achieve further growth. Notwithstanding the challenges in growing the top line in our European home credit business, we are confident that the result for the year as a whole will be broadly in line with consensus[1].

[1] Reuters SmartEstimate of £118.1M

**Investor and analyst conference call**

International Personal Finance will host a conference call for investors and analysts at 0830hrs (GMT) today. Please dial-in 5-10 minutes before the start of the call.

**Dial-in (UK):** +44 (0) 20 3427 1901 **Passcode:** 1890904

**Replay:** An audio recording of the investor and analyst conference call will be available at www.ipfin.co.uk /investors during 27 October 2015

A copy of this statement can be found on the Company's website – www.ipfin.co.uk.

**Investor relations and media contacts:**

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