



International Personal Finance Q3 2019 trading update 31 October 2019

International Personal Finance plc specialises in providing unsecured consumer credit to more than two million customers across 11 markets. We operate the world's largest home credit business and a leading fintech business, IPF Digital.

Highlights

- On track to deliver full-year 2019 profit before tax in line with consensus expectations
- Q3 credit issued growth of 1%
 - European home credit growth of 6% driven by continued strong operational performance
 - Mexico home credit contracted by 12% due to continued prioritisation of credit quality over growth
 - IPF Digital delivered growth of 3% - on track to deliver maiden profit in 2019
- Group impairment in middle of target range at 27.8% of revenue
- Settlement of Polish tax dispute for the period 2010 to 2017
- Strong funding position – £197 million of headroom on debt facilities

Group Q3 overview

We delivered a solid Group performance in Q3. Year-on-year, we delivered a 1% increase in credit issued with a continued strong operational performance in European home credit offset partially by Mexico. Group impairment as a percentage of revenue was in line with the 2019 half-year and in the middle of our target range at 27.8%, reflecting a combination of very strong credit quality in European home credit and more challenging performances in Mexico home credit and IPF Digital's new markets.

European home credit

We continue to deliver well against our strategy of improving the sustainability of our home credit businesses in Europe by creating more modern, efficient and better credit quality operations. The excellent operational execution delivered by our teams in these markets resulted in 6% growth in credit issued year-on-year reflecting our strategy of issuing slightly longer-term loans to our better-quality customers. Customer numbers were 1,012,000 and the rate of contraction of 9% is consistent with the 2019 half-year. Credit quality is very strong due to continued good agent collections performance alongside stable post-field collections and this delivered a 1.5ppt improvement in annualised impairment as a percentage of revenue since the half year to 14.2%.

Mexico home credit

As reported in our 2019 half-year financial report, we are currently prioritising improving credit quality over growth and delivering greater execution consistency in order to improve our financial performance in Mexico. To support this we implemented a series of operational actions to improve agent collections and there have been some encouraging signs in early lead key performance indicators. Year-on-year, customer numbers reduced by 7% to 837,000 and credit issued contracted by 12% due to the focus on credit quality and significantly stronger comparatives. Annualised impairment as a percentage of revenue of 41.2% was broadly in line with that reported at the half year. We will continue to focus on delivering consistency of execution to improve the credit quality and we expect to recommence growth in 2020, allowing us to benefit from the significant growth opportunities that this market presents.

IPF Digital

IPF Digital remains on track to deliver its maiden profit in 2019. Year-on-year credit issued growth was 3% comprising a 7% increase in our established markets and a new market performance that was in line with Q3 2018. Additionally, customer numbers increased by 18% to 316,000 driven by growth in the new markets. Annualised impairment as a percentage of revenue increased by 2.0ppts since the 2019 half year to 43.7% driven by the new markets. Our focus on improving credit quality in these markets and our response to tighter rate caps recently introduced in Finland and Latvia means that credit issued in the second half of 2019 will be broadly similar to the first half.

Taxation

As announced on 24 October 2019, the Polish tax authority closed its audits of the 2010, 2011 and 2012 financial years for our Polish home credit company which included a challenge to the pricing of an intra-group arrangement with a UK Group company. In view of the ongoing nature of this arrangement, the tax authority also proposed adjustments to the tax base for later years. We did not contest these findings and accepted the tax authority's proposed adjustments for the years 2010 to 2017 inclusive. This gave rise to an overall payment of £3.8 million for these years. The court proceedings with respect to the 2008 and 2009 financial years continue to be stayed pending the outcome of a process involving the UK and Polish tax authorities aimed at ensuring that the intra-group arrangement in question is taxed in accordance with international tax principles. Having agreed the treatment of the matters challenged by the Polish tax authority for 2010 to 2017, we remain very positive of reaching a good outcome for 2008 and 2009.

Funding

We further strengthened our debt funding position by adding £20 million of new bank funding in Q3, and at 30 September 2019 we had total debt facilities of £912 million and borrowings of £715 million, with headroom on undrawn bank facilities of £197 million. We made further progress on extending debt facilities and now have £326 million of facilities extending beyond the Eurobond maturity in the second quarter of 2021. The settlement of the Polish tax dispute removes a significant liquidity risk for IPF. This will allow more flexibility in the refinancing of the Eurobond, which we aim to complete by the end of 2020.

Regulation

There has been no material update on the Polish Ministry of Justice's proposals to reduce the existing cap on non-interest costs that may be charged by lenders in connection with consumer loan agreements – details of which were provided in our 2019 half-year results statement.

UOKiK, the Polish competition and consumer protection authority, is conducting a comprehensive review of rebating practices by banks and other consumer credit providers on early loan settlement, including those of the Group's Polish businesses. In light of this and a recent European Court of Justice declaratory judgment on the matter, we expect new market standard rebating practices to evolve in Poland and, potentially, other markets in the EU. When we have clarity on the new emerging standards, we will conform our rebating practices in line with these standards and update the market on the potential financial impact.

2019 outlook

Our outlook for the Group in 2019 remains unchanged since the half-year report and we are on track to deliver full-year profit before tax in line with consensus expectations. We expect European home credit to continue to deliver a strong operational performance. We continue to focus on delivering an improved operational performance in Mexico alongside greater execution consistency to deliver progressive improvements in profitability and create the platform to recommence growth. In IPF Digital we remain on track to deliver a maiden profit in 2019.

Investor and analyst conference call

International Personal Finance will host a conference call for investors and analysts at 09.00hrs (GMT) today, Thursday 31 October. Please dial-in 5-10 minutes before the start of the call.

Dial-in (UK) +44 (0)330 336 9125 **Confirmation code:** 5113342

Replay: An audio recording of the conference call will be available in the investors section of our website at www.ipfin.co.uk

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

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