

International Personal Finance
Q3 2017 trading update
24 October 2017

Highlights

- Group Q3 credit issued growth of 5%
 - Mexico home credit growth of 6%
 - European home credit contracted by 3%
 - IPF Digital growth of 40%

- Good credit quality – group annualised impairment as a percentage of revenue in target range at 26.2%

- European home credit – trading in line with expectations

- Mexico home credit – good underlying performance in Q3 but operational disruption caused by earthquakes in September

- IPF Digital - strong top-line growth continues in established and new markets

- No legislative development on the Polish total cost of credit proposals. Legislative process continues on proposed changes to Polish Corporate Income Tax law

- £163M of headroom on debt facilities at 30 September 2017

In order to show the underlying performance of the Group all trading metrics in this update exclude our Slovakian and Lithuanian home credit businesses which, as previously announced, are being wound down.

Group Q3 overview

We delivered credit issued growth of 5% driven by strong performances across IPF Digital and Mexico home credit. Credit quality is good with annualised impairment as a percentage of revenue at 26.2% and within our target range of 25% to 30%.

Home credit

Credit issued in home credit was flat compared to Q3 2016, reflecting growth in Mexico offset by a contraction in our European businesses. Annualised impairment as a percentage of revenue was 24.3% compared to 25.4% at the 2017 half year.

Home credit – Europe

In Northern Europe, credit issued contracted by 2% driven by continued shrinkage in the Czech Republic where competition remains intense. Poland reported credit issued growth of 2% supported by our Provident-branded digital offering. Our collections performance overall was good and annualised impairment as a percentage of revenue was 23.3% compared to 22.7% at the 2017 half year.

Credit issued in our Southern Europe business reduced by 3% which reflected continued good growth in Hungary of 10% offset by a contraction of 17% in Romania due to revised creditworthiness assessments introduced in January. A good underlying collections performance and significant debt sales in Romania resulted in annualised impairment as a percentage of revenue improving to 13.6% compared to 20.5% at the 2017 half year.

Home credit – Mexico

We continued to deliver a good operational performance during July and August. September's performance, however, was adversely impacted by the earthquakes in Mexico which caused widespread disruption for many of our field-based operations. We reported credit issued growth of 6% for the quarter, reflecting growth of 16% in July and August and a contraction of 7% in September. The earthquakes impacted our collections performance and, consequently, annualised impairment as a percentage of revenue was 34.8% compared to 34.0% at the 2017 half year.

We have seen improvements in operating performance in October, but expect these events to impact our full-year performance. We now expect credit issued growth for the year as a whole to be in the region of 12% compared to our previous guidance of around 15%. We expect impairment as a percentage of revenue to be at a similar level to that reported at our 2017 half-year results against our original target of around 32%.

IPF Digital

Our IPF Digital business continues to grow strongly. For the division as a whole, we increased credit issued by 40%. This was driven by strong growth in the new digital markets of 83% and continued good growth in the established markets of 21% as a result of strong CRM activities. Annualised impairment as a percentage of revenue is 41.1% - 5.4ppts higher than at the 2017 half year reflecting good credit performance in our established markets and the increased weighting of our new markets in the portfolio. However, we continue to expect to see improving impairment trends as the new markets mature.

Regulation

There is no update from the Polish Ministry of Justice on its proposed reduction to the existing non-interest pricing cap in Poland and we continue to engage with various Government ministries and interested parties to encourage a more positive solution that is good for consumers and business.

As indicated in our statement of 4 October 2017, a comprehensive set of proposed changes to Polish Corporate Income Tax was approved by the Polish Government's Council of Ministers. The main impact for our business would be an increase in tax payable arising from disallowance of tax deductions for expenses linked to certain intra-group transactions. We continue to make the case for appropriate modification and are evaluating potential changes to our business operations in order to mitigate the impact of this proposed legislation.

As part of our 2017 half-year results statement, we indicated that we expected price cap proposals to be tabled in Romania in the second half of the year. Recent regulatory changes mean that our business in Romania will, in future, be regulated directly by the National Bank. This is likely to lead to a further tightening of credit criteria and a significant reduction in the volume of loans provided to customers. We expect it to take a number of months to clarify these regulatory changes and the resultant impact on our operating model and profitability.



Funding

We continue to have a robust funding position and at the quarter end we had headroom on undrawn bank facilities of £163M.

Outlook

Our growth guidance for the year remains unchanged for European home credit and IPF Digital. In Mexico, we expect to see slightly slower rates of credit issued growth as a result of the disruption caused by the earthquakes. For the Group as a whole, our impairment expectations for 2017 remain unchanged notwithstanding the negative impact of the earthquakes in Mexico.

Investor and analyst conference call

International Personal Finance will host a conference call for investors and analysts at 08:00 (BST) today. Please dial-in 5-10 minutes before the start of the call.

Dial-in (UK): +44 (0)330 336 9411 **Dial-in (USA):** +1 719-325-4746
Confirmation code: 8793295
Replay: An audio recording of the investor and analyst conference call will be available at www.ipfin.co.uk/investors later in the day

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

Future event – IFRS 9 briefing

IPF will host a briefing for investors, analysts and debt providers on the new accounting standard IFRS 9 and how it will impact IPF. The event will take place on Friday 17 November at Numis Securities, The London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT. The briefing will commence at 09:30hrs (registration from 09.00hrs). If you would like to attend, please contact Rachel Moran at rachel.moran@ipfin.co.uk.

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