This announcement contains inside information

International Personal Finance plc
Q3 2022 trading update
20 October 2022

International Personal Finance plc is helping to build a better world through financial inclusion by providing unsecured consumer credit to 1.75m underserved customers across nine countries.

Highlights

- Customer lending growth of 15%, with all divisions delivering positive performances.
- Closing customer receivables of £851m, an increase of 15% year on year (at constant exchange rates (CER)).
- Customer repayment performance remains stable across all three divisions despite the challenging macro-economic backdrop, and we continue to take a cautious approach to credit.
- Strong balance sheet to fund growth with headroom on undrawn facilities and non-operational cash balances of £93m at September 2022.
- Fitch Ratings reaffirmed its long-term credit rating for the Group at BB- (Outlook Stable) in early October 2022.
- Draft legislation to reduce the non-interest cost of credit cap in Poland has recently been approved by the Lower Chamber of Parliament and is scheduled to be considered by the Upper Chamber later this month. Our expectation now is that the proposal is likely to become law by the end of the year.

Gerard Ryan, Chief Executive Officer at IPF commented:
"Our positive momentum from the first half of the year continued during the third quarter and I am pleased to report that, in addition to delivering strong growth, our customers' repayment behaviour and portfolio quality remained robust. We have successfully delivered on our strategy of expanding our range of products in Poland to enable us to continue serving this important consumer segment in a fully compliant way. We will maintain a cautious approach to lending in the fourth quarter and expect to deliver good quality growth for the year as a whole, supported by our strong funding and capital position."

Group overview

We continued to execute well against our strategy and delivered a good operational performance in the third quarter amid an increasingly uncertain macroeconomic environment. Meeting the needs of our customers supported a 15% increase in customer lending year on year, with all divisions contributing positive performances. This growth in customer lending resulted in a 15% (at CER) increase in closing net receivables to £851m, and customer numbers grew by 2% to 1.75m.

Customer repayments remained robust during the period and portfolio quality is good. Whilst we have not seen any discernible impact of the cost-of-living crisis on our customers' repayment behaviour, we have just begun to see some early signs of a reduction in customer demand for credit. Given the macro-economic outlook, we are taking a responsible and prudent approach to our lending criteria and have proactively tightened our credit settings for consumers with higher credit risk profiles. We will continue to adopt a cautious approach to lending and will further tighten credit settings if necessary.

Divisional performance review

European home credit

Against the challenging trading environment in Europe and ongoing concerns about the war in Ukraine, our European home credit division increased customer lending by 8% year on year and closing net receivables grew by £55m (13% at CER) to £473m. This growth reflects an excellent operational performance delivered by our colleagues across all four markets. Customer numbers reduced by 3% to 785,000. The level of customer repayments remained strong in all our European home credit markets.

As part of our strategy to enhance our product offering to existing and new customers, we are now trialling our first loan card proposition in Poland. The new offering features a revolving credit limit and payment card that offers greater flexibility to our customers who can use it for both online and offline transactions. Funds can be withdrawn from ATMs or disbursed through Customer Representatives, and it is envisaged that repayments will, in the vast majority of cases, be collected by a Customer Representative, thus retaining the unique relationship they have with their customers.

Mexico home credit

Mexico home credit offers significant long-term growth opportunities and delivered another excellent operational performance. Good consumer demand together with the expansion of our customer representative network supported a 21% increase in customer lending growth and a 8% year-on-year increase in customer numbers to 698,000. Closing net receivables grew by 21% (at CER) to £169m. Customer repayment performance remained robust in the period.

We are pleased to report the opening of our first branch in Tijuana in July 2022. Based on our research, there are around 1.4 million consumers in our target segment in this region.

IPF Digital

IPF Digital reported a very strong third quarter performance as we continued to execute our growth strategy to rebuild receivables and deliver our target returns. Demand from consumers for our digital credit proposition remained high and resulted in a 28% increase in customer lending and 2% year-on-year growth in customer numbers to 262,000. This growth momentum delivered an 18% (at CER) increase in closing net receivables to £209m, despite a £15m reduction in receivables in Finland and Spain where we are successfully collecting out these portfolios. Excluding these markets, we delivered net receivables growth of 29% (at CER). Strong customer repayments and good portfolio quality have supported a stable impairment performance.

Funding and balance sheet
We have a robust funding position and well-capitalised balance sheet to fund growth and our progressive dividend policy. At 30 September 2022, the Group had total debt facilities of £609m comprising £420m of bonds and £189m of bank facilities. We have borrowings of £522m, and together with undrawn facilities and non-operational cash balances, headroom is £93m. The current funding capacity together with strong cash generation, is expected to meet the Group's funding requirements through to the fourth quarter of 2023.

Rising interest rates and the higher cost of hedging drove an increase in the Group's blended cost of funding of 60 basis points to 12.8% since June 2022.

As a reflection of the continuing strong relationships with our local bank partners, we have successfully extended £100m of bank facilities this year, of which £17m was extended in early October.

On 6 October 2022, Fitch Ratings reaffirmed its long-term credit rating for the Group at BB- (Outlook Stable). We also have a rating from Moody's Investors Services of Ba3 (Outlook Stable).

Regulation
A proposal to reduce the non-interest cost of credit cap in Poland was approved by the Lower Chamber of Parliament on 6 October 2022 and we now understand it will be considered by the Upper Chamber later this month. If implemented, this draft legislation would reduce the maximum non-interest fees that could be charged on a loan to 45% of the loan value, from 100% currently. Unaffected by these proposals is the ability for consumer credit lenders in Poland to continue to charge interest (currently 20.5% per annum), in addition to non-interest charges. The draft legislation also includes new affordability rules and a requirement for non-bank financial institutions to be supervised by the Polish financial supervision authority, the Komisja Nadzoru Finansowego. The proposal will be further scrutinised during the parliamentary process and could be changed, delayed or abandoned, although our expectation now is that the proposal will become law by the end of the year.

We remain confident that our business will continue to be the main source of credit for underbanked and underserved consumers in the Polish market and we have continued to evolve and innovate our product offering to enable us to carry on serving this consumer segment. We are pleased with the progress we are making in diversifying our product range, which included trialling our new loan card product, and expanding our range of value-added services during the third quarter. In the event that the draft legislation becomes law, our Polish business will continue to issue instalment loans to lower risk customers, as well as offering our new loan card product and our broad range of value-added services. As a result of these changes to our product offering, we would expect a gradual reduction in our existing portfolio of instalment loans written under the current rate cap and a build of a new loan card portfolio to a broadly similar customer base, all to take place over a three-year period.

The Group estimates the impact of the proposed draft legislation in its current form will reduce profit before tax by up to £20m in each of 2023 and 2024, and that following this transition period, the Polish business will return to our threshold target of 15% ROE.

There have been no material updates on the EU's review of the Consumer Credit Directive or a revised draft law imposing a total cost of credit cap in Romania, details of which were included in our 2022 half-year results statement. We expect that a final compromise proposal on the Consumer Credit Directive will be published in next 6 months.

Taxation
Following a favourable Supreme Administrative Court decision earlier this year, the Group's Polish subsidiary successfully obtained a Ministry of Finance ruling confirming the tax deductibility of certain expenses linked to intra-group transactions. An exceptional tax credit of £31m was recognised in the first half of 2022 in respect of the amounts due from the Polish tax authority. Refunds of £10m were received in the third quarter with a further £13m received in early October 2022. We anticipate further cash refunds of £5m in the coming months with a further £3m being received through reduced future tax payments.

Outlook
At IPF, we meet our customers' needs by providing access to simple, personalised and affordable loans and insurance products to help and protect them and their families. There remains significant long-term demand for affordable credit within our existing markets and we see substantial and sustainable long-term growth opportunities for the Group.

As part of our Group product and distribution diversification strategy, we have been working for some time to expand our product range and we are confident that we can continue to meet the evolving needs of our consumer segment and changing regulatory requirements in our markets.

Whilst we have proactively tightened our lending criteria for higher risk customers, we are continuing to support customers during this more challenging macroeconomic landscape and will closely monitor any impact on disposable incomes, demand for credit and customers' ability to repay. We expect to deliver good sustainable growth in the fourth quarter whilst maintaining a cautious and responsible approach to lending and customer affordability.

Investor and analyst conference call
International Personal Finance plc will host a conference call for investors and analysts at 09.00hrs (BST) today, Thursday 20 October 2022.

Please join the call 5 minutes before the booked start time to allow the operator to transfer you into the call by the scheduled start time.

Dial-in (UK):	+44 (0) 0808 109 0700
Passcode:	Quote "International Personal Finance Q3 2022 trading update call" when prompted by the operator
Replay:	An audio recording of the conference call will be available in the investors section of our website at www.ipfin.co.uk

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

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