International Personal Finance
Q1 2015 trading update
30 April 2015

Group highlights

- Underlying profit in the quarter grew by £2.3M (18%). Investment in new businesses and weaker FX rates impacted profit by £2.0M and £2.6M respectively.
- Group profit before tax for the quarter was £10.4M.
- Addressing slowdown in European home credit businesses with a progressive improvement during Q1. Strong performance delivered by Mexico.
- Good credit quality – annualised impairment as a percentage of revenue stable at 27.5%.
- Acquisition of MCB Finance completed on 6 February 2015. Good progress being made integrating it with hapiloans and planning for future geographical roll-out.
- €100M (£72M) of new 5.75% 2021 bonds issued for future growth and to refinance high cost legacy MCB debt.
- Favourable conclusion to the Polish Office of Consumer Protection and Competition's (UOKiK) review into the calculation of fees for loan products.
- Dan O’Connor succeeds Christopher Rodrigues as Chairman with effect from today’s AGM.

Chief Executive Officer, Gerard Ryan, commented:
“Our focus on delivering improved growth has started to bear fruit. We are addressing the slowdown in our European home credit businesses reported during Q4 2014 and delivered a progressive improvement in credit issued in most markets during the first quarter. Following the acquisition of MCB, we are progressing our plans for the roll out of our digital business. We are confident of making further good progress during the year.

“I would also like to thank Christopher Rodrigues, who retires as Chairman of IPF at our AGM today, for his strong leadership and expertise in shaping IPF into a robust international business and I look forward to working with Dan O’Connor to take the business on to its next stage of development.”

Group performance

Our business delivered good underlying profit growth in Q1 of £2.3M before absorbing £2.0M of additional investment in new businesses and £2.6M as a result of weaker FX rates. Group profit before tax for the quarter was £10.4M.

	Q1 2015 reported profit £M	Underlying profit movement £M	New business costs £M	Weaker FX rates £M	Q1 2014 reported profit £M
Home Credit	**11.3**	2.3	(1.1)	(2.6)	12.7
Digital	**(0.9)**	-	(0.9)	-	-
Profit before taxation	**10.4**	2.3	(2.0)	(2.6)	12.7

Following the acquisition of MCB Finance and the launch of hapiloans, the Board is undertaking a review of the reporting segments that it will use to assess the Group's performance going forward. As the Group expands, we anticipate reporting by business line (Home Credit and Digital) and by geographic region within the Home Credit business. The performance in this trading update has been segmented between Home Credit and our Digital business to aid clarity of reporting. In addition, following the removal of the requirement to publish Interim Management Statements, we are reviewing the extent of disclosure included in future quarterly trading updates and will be in a position to comment further at the half-year results announcement.

Home Credit

	Q1 2015 £M	Q1 2014 £M	Change £M	Change %	Change at CER %
Customers (000s)	**2,633**	2,571	62	2.4	2.4
Credit issued	**236.7**	258.3	(21.6)	(8.4)	0.9
Average net receivables	**724.4**	760.3	(35.9)	(4.7)	5.0
Revenue	**182.0**	194.9	(12.9)	(6.6)	2.7
Impairment	**(66.9)**	(74.7)	7.8	10.4	1.9
Finance costs	**(9.9)**	(12.1)	2.2	18.2	10.8
Agents' commission	**(21.4)**	(22.3)	0.9	4.0	(6.5)
Other costs	**(72.5)**	(73.1)	0.6	0.8	(8.2)
Profit before taxation	**11.3**	12.7	(1.4)	(11.0)	

Our focus during the first quarter of the year has been on implementing a range of actions to return our European Home Credit businesses to growth after the slowdown reported towards the end of Q4 2014. We have refined our marketing communications to focus on a call to action and introduced highly targeted product-led promotions in order to attract more customers and stimulate credit issued growth. We have also further aligned agent incentives and promotions towards growth and implemented selective credit relaxation where we see opportunities for smarter credit decisioning. These growth focussed actions are beginning to deliver improvements across most markets.

Customer numbers increased year-on-year by 2% to 2.6M. Credit issued increased by 1% against a strong comparator for the same period in 2014 and we delivered progressive improvements as we moved through the quarter. Year-on-year revenue in the quarter increased by 3%. Credit quality remains good and, since December 2014, annualised impairment as a percentage of revenue improved by 0.6 percentage points to 27.5%, which is in the middle of our target range of 25% to 30%. We are comfortable with the impairment trends that we have seen in those markets that were outside our target range at the 2014 year end.

We continued our investment in geographical expansion in Bulgaria and Lithuania. This, together with our investment during the quarter in growth activities and our Spanish operation, resulted in the annualised cost-income ratio increasing by 0.5 percentage points to 39.1%.

The following table illustrates the underlying performance in each of our markets and highlights the impact of our investment in new businesses and weaker FX rates against sterling:

	Q1 2015 reported profit £M	Underlying profit movement £M	New business costs £M	Weaker FX rates £M	Q1 2014 reported profit £M
Poland-Lithuania	**9.5**	2.9	-	(1.2)	7.8
Czech-Slovakia	**2.6**	(1.6)	-	(0.8)	5.0
Hungary	**1.3**	(0.8)	-	(0.4)	2.5
Romania-Bulgaria	**(1.1)**	0.2	(0.2)	-	(1.1)
Mexico	**3.0**	1.2	-	(0.2)	2.0
Spain	**(0.9)**	-	(0.9)	-	-
Central costs	**(3.1)**	0.4	-	-	(3.5)
Profit before taxation	**11.3**	2.3	(1.1)	(2.6)	12.7

We delivered a good performance in Poland-Lithuania achieving underlying profit growth of £2.9M before absorbing £1.2M as a result of weaker FX rates. We grew customer numbers by 1% year-on-year to 850,000 and increased credit issued by 8% compared to a decline of 10% in Q4 2014. In addition to the growth achieved, a strong collections performance delivered a two percentage point reduction in impairment as a percentage of revenue to 25.3% and our cost-income ratio remained broadly in line with the 2014 year end.

The trading environment in Czech-Slovakia continues to be challenging and Q1 profit before tax of £2.6M was driven by a £1.6M reduction in the underlying profit and a £0.8M adverse FX impact. Customer numbers and credit issued reduced by 7% and 16% respectively, which is similar to the performance reported in Q4 2014. Our programme of credit tightening together with aligning incentives for our field managers and agents to collections remain in place and annualised impairment as a percentage of revenue in Q1 was 31.1%. We expect to return it to our target range of 25% to 30% later in the year.

In Hungary, new payment to income legislation and a slightly weaker collections performance resulted in a reduction in profit before tax to £1.3M. We highlighted at the time of our 2014 results announcement that credit issued reduced significantly in January 2015 due to the impact of a training programme for managers and agents on changes in procedures introduced in response to the new regulations. As expected, our performance improved during the remaining months of the quarter when credit issued was flat and for the quarter as a whole credit issued contracted by 9%. Customer numbers increased year-on-year by 5% to 314,000 and revenue grew by 7%. Annualised impairment as a percentage of revenue at 22.5% remains below our target range of 25% to 30%.

Despite tough trading conditions, our business in Romania-Bulgaria delivered underlying profit growth in the quarter of £0.2M and an additional £0.2M was invested in developing our Bulgarian business. Our focus on collections performance resulted in impairment as a percentage of revenue improving by 1.5 percentage points to 29.6% but whilst customer numbers remained at 320,000, credit issued reduced by 16% in Q1. The improved portfolio performance has, however, provided an effective platform to transition the business to a growth focus, and new marketing activities and customer promotions are now in place to drive customer and credit issued growth throughout the remainder of the year.

Mexico delivered another strong quarterly performance. Reported profit increased to £3.0M and underlying profit grew by £1.2M before absorbing £0.2M as a result of weaker FX rates. Annualised profit per customer increased by 19% to MXN 503 (Q1 2014: MXN 421). This performance was driven by a 7% increase in customer numbers to 798,000 and strong growth in credit issued of 20%. Revenue also increased by 20% and continued robust collections resulted in annualised impairment as a percentage of revenue being maintained at the 2014 year end level of 30.9%.

Following the very successful integration of our digital business, we have decided to enter the Spanish market with a digital offering. The licensing process for our agent led business is ongoing, but will conclude later in 2015 than previously anticipated.

Digital
We completed the acquisition of digital consumer credit provider MCB Finance (MCB) on 6 February 2015 for a total consideration of £23.8M and we are making good progress on integrating hapiloans into MCB and planning for future expansion of our Digital business. In Q1, on a proforma basis, MCB delivered YOY customer growth of 10% to 91,000 and credit issued grew by 11% in Q1 to £19.2M. The total P&L investment in our Digital business in Q1 was £0.9M.

Our digital loans brand hapiloans, which commenced trading in Poland in December 2014, has been well-received by customers and is performing in line with our plan. At the end of Q1 we had 2,500 customers and have issued £1.6M of credit since the launch.

Funding
In April we issued €100M (£72M) of bonds as a tap transaction to increase the existing €300M 5.75% 2021 Eurobond to €400M – the new bonds have the same coupon and maturity. This has been used in part to refinance £32M equivalent of high cost MCB debt, and will also provide further funding for the growth of the MCB digital business in the appropriate currency, and for the growth of the wider Group.

Regulation

As previously reported, the Polish Office of Consumer Protection and Competition's (UOKiK) review into the calculation of fees for loan products was concluded earlier this month. UOKiK acknowledged that our Polish business had made the required commitment to replace variable administrative and home service fees on loans with fixed rates by its implementation deadline of 1 August 2015. UOKiK's review was part of an overall investigation into the practices of a number of non-bank consumer credit providers in respect of the calculation of fees for loan products. Our new product structure has been tailored to customers' preferences and allows them to choose between three product packages and have a flexible payment plan. We expect there will be no material financial impact on the Company in introducing the new structure, which is supported by the results of tests currently underway.

Separately, we continue to await a date for the court process to begin our appeal against the December 2013 findings of UOKiK's investigation into its total cost of credit and APR calculation methodology.

Board change

As announced in December 2014, Christopher Rodrigues will retire as Chairman of the Group and Nomination Committee at our AGM today. Under Christopher's leadership the Group has developed into a much larger, more profitable and robust business and the Board would like to thank Christopher for his significant contribution. Dan O'Connor, who joined the IPF Board on 2 January 2015, will succeed Christopher as Chairman of the Group and of the Nomination Committee.

Outlook

We remain focussed on delivering higher levels of growth in customer numbers and credit issued in 2015, and expect the progressive improvements delivered in Q1 to continue throughout the year. Our strategy to grow through geographic expansion and new product development continues and we are confident that this will allow us to deliver further good progress in 2015.

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International Personal Finance will host a conference call for investors and analysts at 08:30hrs (BST) today, Thursday 30 April.

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An audio recording will be available at www.ipfin.co.uk/investors from 1 May 2015.

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