International Personal Finance
Q1 2020 and April 2020 trading update
30 April 2020

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.

Q1 2020

- Rapid steps taken to protect our people, our customers and the business in response to Covid-19
- Q1 credit issued contracted by 15% year-on-year
- Group collections in Q1 at 95% of budget; 87% in March 2020
- Strong funding position – £217 million of cash and headroom on debt facilities at 31 March 2020. Equity to receivables of 47.6%

April 2020

- Estimated collections effectiveness at 76% at Group level; swift implementation of alternative collection strategies and agents resuming home service in most European markets; collections effectiveness is expected to be at a similar level in May with improvements anticipated thereafter
- Lending is now focused on our loyal customers who have strong credit quality characteristics. We expect to limit credit issued in April to around 30% of our original budget
- Business is actively managing within the new temporary regulations. In Hungary, we have seen a positive take-up of customers opting-out of the moratorium and continuing to repay their loans. In Romania and the Czech Republic, the moratorium is on an opt-in basis and the levels of opting-in are currently low
- New shorter-term lending products introduced in Poland and Hungary, enabling our agents to continue meeting the needs of our highest-quality customers under the temporary rate caps introduced in these markets
- Mexico is behind Europe in the impact of Covid-19. Using lessons learned in Europe, greater emphasis being placed on collections, tightened credit settings and implementing alternative remote payment processes
- IPF Digital April collections effectiveness is expected to be around 82%, with the main driver of the reduction being fewer customers overpaying their minimum repayment obligations. We have reduced the amount of credit issued, and our focus is now on our highest quality customers
- The Group was net cashflow-positive in April to date

- Extensive liquidity stress testing analysis undertaken, which demonstrates that we can actively manage our cash flows and retain adequate headroom against our funding facilities

Gerard Ryan, CEO of International Personal Finance plc commented: *"We made a solid start to the year and trading in the first ten weeks of 2020 was in-line with our expectations. Like many other organisations, Covid-19 has since impacted our business. During this unprecedented time, our priorities in response to the virus are to protect the health and wellbeing of our team, to support our loyal customers and protect our business. IPF is a resilient, well-capitalised and funded business with a long track record of generating consistently good returns for our stakeholders. We have successfully served our credit products to millions of customers for more than two decades, and believe we are well placed to continue meeting their needs. I would like to thank all my colleagues for their continuing dedication during these difficult times."*

Liquidity and balance sheet strength

Our key area of focus in the short-term is to manage liquidity as restrictions on people movement and debt moratoria in a number of our markets adversely impact our collections effectiveness. In response to reduced collections, tighter price caps and the risk of an economic downturn, we have significantly restricted our lending across all of our businesses in the short-term.

As reported on 1 April, we have taken a number of actions to manage costs and preserve cash in the business. These include immediate reductions in capital expenditure, the deferral of 2020 salary increases across the Group, and eliminating discretionary expenditure. In addition, the Group's leadership team have voluntarily opted to cancel the 2020 annual bonus scheme and to forgo the 2020 PSP awards recently issued to them. In aggregate, these cost-reduction actions are expected to generate around £52 million of savings for the Group. The Board also took the decision to cancel the proposed final dividend payment for 2019 which resulted in a cash saving of £17 million. The Group was cash flow positive in April to date as a result of these actions and generated £27 million of cash before the £21 million payment of the annual coupon on the €406 million Eurobond.

The Group has a strong balance sheet with an equity to receivables capital ratio of 47.6% and a combination of cash and headroom on undrawn debt facilities of £217 million at 31 March 2020. We are closely managing our net cash flow, and have modelled forecast scenarios for the timing, speed and nature of the recovery from the Covid-19 shut-down in each market, for collection rates and customer behaviour patterns, and for the level of new lending that we set in response to market conditions. These scenarios included a 75% reduction in collections effectiveness in May followed by progressive improvements in the months after, and this analysis demonstrated that we can maintain adequate operational headroom against our debt facilities for the rest of this year and into Q1 2021 by managing lending volumes and reducing costs. We are mindful of the maturity of our €406 million Eurobond in April 2021 and are focussing on the need to refinance this as a priority.

Group Q1 overview

The Group's trading performance in the first ten weeks of 2020 was in-line with our budget. Good operational performances were delivered by our European home credit and IPF Digital's established businesses, and we saw further improvements in our Mexico collections performance as we prioritised credit quality over growth. Both credit issued and collections were delivered in line with our financial plan until mid-March.

This good start to the year was, and continues to be, impacted by the rapidly changing environment caused by Covid-19. We immediately took significant steps to protect our teams, customers and the business. The vast majority of our employed colleagues (including our call centre teams) are now working remotely, and protective equipment and personal health and safety guidance has been provided to all of our operational teams. Towards the end of the quarter and into April, collections performance in our European home credit businesses were increasingly affected as tighter restrictions were imposed on freedom of movement of individuals and debt moratoria were introduced.

For the quarter as a whole, Group credit issued contracted by 15% year-on-year, largely attributable to the significant tightening of credit settings implemented across the Group in March. These tighter credit settings continue to be in place with lending now focused on our loyal customers who have strong credit quality characteristics. As a result, we expect to limit credit issued in April to around 30% of our original budget. Collections were at 95% of budget for Q1 as a whole and 87% in March as Covid-19 restrictions were implemented across Europe. Our estimate for April collections effectiveness is 76% given the swift implementation of alternative collection strategies and enabling our agents to resume home service in most European markets. Collections effectiveness is expected to be at a similar level in May with improvements anticipated thereafter.

European home credit

Our European businesses performed well for the majority of Q1 prior to the impact of Covid-19. During this fast-changing period, regulators and governments in our European home credit markets implemented a range of measures in response to the pandemic, including temporary price caps on new lending and the introduction of debt moratoria, and there have been significant restrictions of non-essential contact imposed in most markets. In March, collections were 82% of budget, and we responded quickly by significantly tightening credit settings to protect credit quality and manage cashflow. This resulted in a 13% year-on-year reduction in credit issued for the quarter as a whole. Collections effectiveness in April is expected to be around 71% of normal levels for these businesses. In Poland and Hungary, we have developed new products enabling our agents to continue meeting the needs of our customers under the temporary rate caps introduced in these markets. These products are shorter-term than our standard offering, will be served only to our highest quality customers and are designed to generate a positive economic contribution for the business.

As previously reported, unless a customer requests otherwise, we suspended our agent home service in Poland as people movement restrictions were tightened. A number of alternative collection processes are now in place to enable customers to repay their loans remotely and approximately 30% of customers have asked to continue repaying their agent directly at home. On 1 April, a reduction in the cap on non-interest costs of credit for new lending was introduced which reverts automatically to the historic cap on 8 March 2021. The flat level of the cap was reduced from 25% of the loan value to 15% and the additional variable cap from 30% to 6% per annum, with the aggregate total of the caps not to exceed 45% of the loan value.

In Hungary, the government implemented a debt repayment moratorium until the end of 2020. This is available to all consumers with the option for borrowers to opt out of the moratorium if they wish to continue to repay their loans. For the same period, the maximum APR applicable to new consumer loans has been temporarily reduced to the national bank base rate plus 5%. We suspended agent visits to customers for two weeks whilst the National Bank of Hungary agreed the process by which consumers could opt-out of the debt moratorium. We resumed our agent home service in April and, to date, we have seen a positive take-up of customers choosing to continue to make repayments to their agent.

In Romania, a debt repayment moratorium has been implemented until the end of 2020. Consumers who wish to take advantage of this scheme must apply to opt into the moratorium. To date, the rate of our customers opting to take advantage of the moratorium has remained low. For a period of two weeks, we suspended agent visits to customers in order to enhance protocols to protect the health and safety of our agents and customers. The agent service resumed in April and alternative remote collections services have also gone live.

In the Czech Republic, a temporary debt repayment moratorium has been introduced. Like Romania, this is an opt-in regime and offers customers a choice of two periods in which they can use the moratorium, either until the end of July or October 2020, and also features a 9% cap on interest charges. Our agents have continued to visit customers throughout the Covid-19 period in this market and have been issued with protective equipment and guidance to undertake this service safely.

Mexico home credit

As previously reported, in order to improve our financial performance in Mexico home credit, we prioritised credit quality over growth. During Q1 the solid signs of recovery continued and the operational actions implemented to improve collections and credit quality delivered a year-on-year improvement in collections performance. The focus on quality across the business resulted in a 15% reduction in credit issued; this was in line with budget until the last week of the quarter when we implemented significantly tighter credit settings.

The Q1 impact of Covid-19 in Mexico home credit was much less significant than in Europe. Collections performance was in line with our budget until the last two weeks of March when we reported some deterioration in collections. Using lessons learned in Europe, we took pre-emptive actions to protect our people, customers and the business in anticipation of this market being affected further by Covid-19. We have also responded by placing even greater emphasis on collections, tightened credit settings and are implementing alternative remote payment processes. As a result of these measures, together with various restrictions on people movement introduced on a state by state basis, we expect collections effectiveness in April to be around 81% of budget.

IPF Digital

IPF Digital operates an end-to-end remote lending model and Q1 performance was not materially impacted by Covid-19; nonetheless we significantly tightened credit settings in the second half of March to protect credit quality and manage cashflow. Credit issued contracted year-on-year by 21%, driven by the March impact of Covid-19 together with tighter credit settings already in place in our new markets. Total collections in March were 93% of budget.

In the short-term, we have reduced the amount of credit issued, and our focus for new lending is now on our highest quality customers. We have introduced payment holiday options across all our markets to increase repayment flexibility for customers that have been impacted by Covid-19. April collections effectiveness is expected to be around 82%, with the main driver of the reduction being fewer customers overpaying their minimum repayment obligations. Our Polish digital business is operating under the temporary rate cap described in the European home credit section of this trading update and in Finland, a tightening of the interest rate cap from 20% to 10% has been implemented as a temporary measure until the end of the year for all new lending.

Taxation
Our appeal against the Polish Tax Chamber's decisions for 2008 and 2009 was heard in the Warsaw District Administrative Court in March and the court found in our favour. The court's decision however remains subject to the Tax Chamber's right to appeal when the written judgement is issued by the court.

Board changes
As previously reported, Dan O'Connor intends to retire as Chairman of IPF plc at the close of the Annual General Meeting later today (30 April 2020). Subject to his election as a director at the AGM, Stuart Sinclair will succeed Dan as Chairman of the Company.

Outlook
We entered the Covid-19 period with a strong balance sheet and funding position. We are focused on liquidity management actions so we are able to recommence growth when the time is right. The tightened rate caps and moratoria introduced in a number of our markets are all temporary and demand for credit is unlikely to reduce beyond this uncertain period, but we believe that the supply of credit will reduce. The lack of certainty around the timing of easing people movement restrictions makes it difficult to provide guidance at this stage on the Group's financial performance for 2020. IPF is a well-capitalised and funded business and we have successfully served millions of customers for more than twenty years. We have a long track record of generating consistently good returns for our stakeholders and believe we are well placed to continue serving our customer base after the impact of Covid-19 subsides.

Investor and analyst conference call
International Personal Finance will host a conference call for investors and analysts at 09.00hrs (BST) today, Thursday 30 April. Due to expected high demand, please dial-in 10 minutes before the start of the call.

Dial-in (UK) +44 (0)330 336 9105 **Confirmation code:** 8318990

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

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