FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades International Personal Finance to 'BB'; Outlook Stable

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Fitch Ratings - London - 18 Jun 2024: Fitch Ratings has upgraded International Personal Finance plc's (IPF) Long-Term Issuer Default Rating (IDR) to 'BB' from 'BB-'. The Rating Watch Positive (RWP) has been resolved and a Stable Outlook has been assigned. Concurrently, Fitch has assigned a final rating of 'BB' to IPF's recently issued EUR341 million 10.75% senior unsecured notes due in December 2029 and also removed it from RWP. IPF's other unsecured debt has also been upgraded to 'BB' from 'BB-'.

The assignment of the final debt rating follows the receipt of documents conforming to information already received. The final rating is one notch above the expected rating assigned on 3 June 2024 as IPF's successful refinancing has significantly improved its debt maturity profile (see "Fitch Places International Personal Finance on Rating Watch Positive; Assigns Expected Debt Rating" at www.fitchratings.com).

KEY RATING DRIVERS

Lengthened Debt Maturities: The upgrade primarily reflects the improvement in IPF's business profile from more stable and predictable funding and now significantly deferred refinancing risk following its successful issue. IPF plans to use most of the proceeds for early repayment of EUR275 million of its 2025 bond (ISIN: XS2256977013).

Low Leverage, High Impairment: IPF's rating reflects its low balance-sheet leverage and structurally profitable business model despite significant loan impairment charges, supported by a cash-generative fairly short-term loan book. The ratings remain constrained by IPF's focus on higher-risk customers and the sector's susceptibility to regulatory shift, although this has been managed well by the company.

Early Refinance of 2025 Notes: IPF's refinancing has extended its debt maturity by four years, allowing increased financial flexibility to accommodate its growth plans, in our view. In addition, IPF's cash-generative and short-term loan portfolio (with average maturity of 13 months at end-2023) and funding headroom (undrawn facilities and non-operational cash balances) of GBP174 million at end-March 2024 should support its liquidity profile.

Asset-Quality Pressure Likely: Fitch expects a moderate rise in IPF's loan impairment charges in 2024 and 2025 as the company expand its operations after the pandemic, especially in Mexico, where its credit costs are typically higher than in Europe. IPF's Fitch-calculated loan impairment charges/average gross loan ratio increased to 12.2% in 2023 from 8.5% in 2022, but remained lower than the pre-pandemic average of 20% in 2016-2019.

Acceptable Capital and Profitability Headroom: IPF's gross debt/tangible equity ratio remained low at 1.6x at end-2023. We expect only modest weakening of 0.1x from the new bond issue. Profitability, as measured by its pre-tax income/average assets ratio, was sound at 7.1% at end-2023.

In February 2024 regulated Polish credit card lenders, including IPF, received a letter from the regulator, the Komisja Nadzoru Finansowego, setting out its opinions on how existing lending rules should be interpreted. These differed from IPF's view on the treatment of non-interest costs on credit cards and we expect its business-model adjustments in response to weigh on IPF's profitability growth in 2024. However, the overall impact should be manageable, supported by sound receivables growth in Mexico and Europe.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- A persistent decline in IPF's profitability, with pre-tax income/average assets ratio falling below 3.0%, for example due to regulatory interventions such as rate caps or a substantial rise in impairment charges or unreserved problem receivables, signaling a marked deterioration in asset quality

-- Significant weakening of solvency, with gross debt/tangible equity exceeding 5.0x, or material depletion of headroom against IPF's gross debt/total equity covenant of 3.75x

-- A significant reduction in liquidity headroom or a material portion of the company's borrowings becoming short-term in their remaining tenor

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- Limited short to medium term upside to IPF's ratings, in view of the risks inherent in its business profile

-- Rating upgrade over the long term is contingent on growth in scale without significant increase in IPF's leverage, while maintaining a pre-tax income/average assets ratio above 4.0% and further diversifying of IPF's funding profile by source and maturity

DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS

The alignment of the senior unsecured debt ratings with the Long-Term IDR reflects Fitch's expectations for average recovery prospects, as all of IPF's funding is unsecured and ranks equally with other senior unsecured creditors.

DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES

IPF's senior unsecured debt rating is expected to move in tandem with its Long-Term IDR, barring the introduction of a material secured or subordinated debt tranche.

ADJUSTMENTS

The 'bb' business profile score is below the 'bbb' category implied score due to the following adjustment reason: business model (negative).

The 'b+' asset quality score is above the 'ccc and below' category implied score due to the following adjustment reason: collateral and reserves (positive).

The 'bb' earnings & profitability score is below the 'bbb' category implied score due to the following adjustment reason: portfolio risk (negative).

The 'bb+' capitalisation & leverage score is below the 'bbb' category implied score due to the following adjustment reason: risk profile and business model (negative).

The 'bb-' funding, liquidity & coverage score is below the 'bbb' category implied score due to the following adjustment reason: funding flexibility (negative).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

IPF has an ESG Relevance Score of '4' for Exposure to Social Impacts stemming from its business model focused on high-cost consumer lending, and therefore exposure to shifts of consumer or social preferences, and to increasing regulatory scrutiny, including potential tightening of interest-rate caps. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

IPF has an ESG Relevance Score of '4' for Customer Welfare - Fair Messaging, Privacy & Data Security, driven by risk of losses from litigations including early settlement rebates customer claims. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visithttps://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
International Personal Finance plc	LT IDR	BB Rating Outlook Stable	Upgrade	BB- Rating Watch Positive
	ST IDR	B	Affirmed	B
senior unsecured	LT	BB	Upgrade	BB- Rating Watch Positive
senior unsecured	LT	BB	New Rating	BB- (EXP) Rating Watch Positive

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

International Personal Finance plc	UK Issued, EU Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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