



Clear growth strategy

Our strategy is clear and simple. We intend to continue to improve the efficiency and effectiveness of our home credit business model and progressively enter and develop new emerging markets when the time is right. We believe this will generate continued, long-term profitable growth.

Our business in Mexico represents a clear growth opportunity.

Clear growth strategy

Growth opportunities

There are substantial growth opportunities in our developing markets of Mexico and Romania, and subject to a successful pilot, our new market Russia.

Developing markets

In Mexico, we estimate that we have achieved around 15% coverage to date. Our current branch coverage reaches about 50% of target customers in the Puebla region and 20% in the Guadalajara region. As yet we do not have a presence in Monterrey, the Northern Borders or Mexico City. Each of the five regions has a population of about 20 million people and each, we believe, can support a customer base of about 750,000. Our focus will be on developing our two existing regions by extending our branch network. If the market develops to plan we will consider opening a further region in 2010.

We currently serve 85,000 customers in Romania but believe we should be aiming for 400,000 customers when the business is mature. We have significantly expanded our branch network and our primary focus in 2009 will be on building customer numbers and revenue from existing branches.

Pilot market

Russia is a large potential market, with a population in excess of 142 million people. We are running a pilot in Russia to test our initial research and build a good understanding of the market. In particular, we are looking to assess customer demand, propensity to repay and the quality of agents and staff.

New markets

Introducing our home credit business to new markets is vital to our long-term development strategy. We constantly monitor and evaluate markets where we think our business will prosper and carefully calculate the right time to make our entry.

We use a rigorous process of research and due diligence to evaluate new markets. This research phase can take 18 months to complete. It is managed by a small internal research team supported by legal and financial specialists and research organisations in the new market. On the basis of this research the board decides whether or not to invest in a pilot operation.

If we believe there is long-term growth potential in a new market, we will then begin to roll-out our operations throughout the country, increasing our branch network, agent workforce and recruiting more customers. Our previous experience has shown that it takes around a further two years for a new operation to become mature and to reach profitability.

Substantial growth opportunity in Mexico



Potential customer base in Romania

0.4m

Population of Russia

142.5m

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Detailed market research

Our initial viability tests have identified a number of countries which we see as strong candidates for our business, and we will perform detailed research on the most attractive market opportunities. This will be centred primarily on investigating potential customers' history of, or propensity for, borrowing together with focus groups introducing the home credit model.

Based on this research and using the performance data of all our other markets, we will then assess the size of the target customer base and build a financial model.

In light of the deteriorating global economic climate, we are not planning to open in any new markets in 2009. We are ready to resume our plans when economic conditions improve.

Seven key viability tests

Population	The country must have a population of more than 8 million, bringing some 56 countries into possible consideration. This is because the cost of establishing a head office and control infrastructure in a new market is similar regardless of size, thereby making the returns from smaller markets less attractive.
Legislation	We review relevant local laws to identify whether we would need to make any changes to the operating model to ensure compliance with the law. We also need to be happy that courts uphold the law in practice.
Safety	We need to be sure that all employees and agents will be safe. We would not enter any country where there was civil unrest and we would be cautious about countries with high perceived levels of corruption.
Funding	We need to be sure that we can obtain funding in local currencies. A key strength of our business model is that we borrow and lend in the local currencies.
Individual wealth	We need to establish the basic income levels of the population to make an initial assessment of our potential customer base and the size of loans they would be able to repay.
Economic performance	The local economy must be relatively stable and strong.
Political environment	We look to work in stable, democratic countries, where the rule of law applies. This also helps to ensure we can apply our business principles such as respecting human and labour rights.

Established markets

In addition to further geographical expansion, we believe that there will be opportunities to grow customer numbers and revenues in our established markets.

Attracting new customers

We want to recruit new customers with whom we can build a long-term relationship.

We typically use leaflets, radio and local press to advertise and in established markets we also use TV advertising. Once we are established, many of our customers will come through word of mouth.

In recent years, we have invested in developing our internet marketing capability and the internet is now an increasingly important channel for the business. We have customer facing websites in all our markets, and in Poland last year around 25% of all new contacts at our call centres came through the internet.

Building long-term customer relationships

Our aim is to maximise the lifetime value of customers, building profitability through developing long-term relationships with quality customers who want to take further loans with us.

In setting loan offers, we offer small loans initially and then gradually larger loans as time goes by. The approach is cautious because we want to preserve these relationships and have no interest in burdening customers with debts they cannot repay.

Our research shows that of the customers who are eligible to come back to us for a second loan, around 70% of them actually do so – a very high level of repeat lending.

We use a rigorous process of research and due diligence to evaluate new markets. Our research team adopts seven key viability tests to identify potential new markets.

Number of potential customers contacting our call centre in Poland through the internet

25%