Financial review

"We delivered an excellent financial performance in 2024 which provides a strong foundation for accelerating the pace of growth and delivering increased returns to shareholders."

Gary Thompson
Chief Financial Officer

I am pleased to report that the Group delivered a strong financial performance in 2024. We continued to make good progress on executing our strategy, diversifying our funding position and maintaining a very conservatively capitalised balance sheet to mitigate any further potential deterioration in the volatile macroeconomic environment.

Financial model

Our business is well managed and operates with strong ethical and financial disciplines. As we navigate our future growth opportunities and business choices, we have a formal financial model which underpins our Next Gen strategy and balances the needs of our various stakeholders including customers, colleagues, regulators, shareholders and debt providers. It sets out the target returns we need to deliver sustainable earnings, support our progressive dividend policy, invest in the future growth of the business and ensure we maintain a strong balance sheet.

Our financial model, details of which can also be found on page 6, focuses on the following:

1. Return on required equity (RoRE)

The first, most integral part of our model is to deliver a target RoRE of between 15% and 20%. In practice, 15% is a short-term target with sustainable returns of nearer 20% being the medium to longer-term target. We believe that returns materially above this range would not balance the needs of all of our stakeholders in delivering our purpose of building a better world through financial inclusion. We calculate RoRE as profit after tax divided by the average required equity of 40% of receivables. This allows us to ensure comparability between divisions and is more consistent with the financial model which assumes a 40% equity to receivables ratio. We will also continue to disclose our return on equity (RoE) on a Group basis. We target each of our divisions to deliver a return of at least 20% to ensure that we can deliver the Group RoRE, after taking account of central costs.

The Group's pre-exceptional RoRE improved by 0.9 ppts to 15.7% compared with 14.8% at the end of 2023, as a result of improved profitability and a reduced tax rate of 35% (2023: 38%). We expect returns to moderate in 2025 due to the strong receivables growth which results in extra IFRS 9 impairment charges up front together with a modest increase in the tax rate. We expect returns to improve in 2026 before reaching target returns again in 2027. The Group's pre-exceptional RoE, based on actual equity, increased to 11.5% (2023: 11.1%).

We firmly believe each of our businesses is capable of delivering a 20% RoRE and the RoRE by division is set out below:

	2024	2023
European home credit	19.9%	21.6%
Mexico home credit	24.4%	20.7%
IPF Digital	11.4%	5.6%

European and Mexico home credit are already delivering a RoRE in line with the 20% threshold we set for each division. IPF Digital's RoRE improved by 5.8 ppts year on year to 11.4% (2023: 5.6%) reflecting our progress in building scale and maintaining strong credit quality. Although IPF Digital currently has lower scale than necessary to reach our target returns, it is growing rapidly and there are strong organic growth opportunities in our existing markets as we rebuild the business, particularly in Mexico, Australia and Poland. We will also continue to consider inorganic opportunities to deliver scale and increase returns.

Delivery of RoRE is supported by a strict focus on revenue yield, impairment rate and cost-income ratio, see page 24, key performance indicators for further information.

2. Distribution of earnings

The delivery of a RoRE of 15% supports the distribution of a minimum of 40% of our post-tax earnings. A RoRE of nearer 20% would allow us to either distribute more than 40% of our earnings to shareholders and/or deliver additional receivables growth.

"Our total dividend of 11.4 pence per share in 2024 represents a pre-exceptional payout ratio of 46%. We anticipate our payout ratio to be in excess of 40% of earnings in 2025 as we deploy capital to accelerate the pace of receivables growth."

3. Receivables growth

Returning capital of 40% of post-tax earnings allows us to fund receivables growth in the following year by up to 10%. If we grow in excess of 10% we will utilise any additional capital resources over our target capital base. If we grow at less than 10% we will either retain capital or increase the capital return to shareholders above our 40% minimum threshold.

In 2024, receivables increased by 6.8% compared with 2023. As a result of this growth being less than 10%, we generated additional capital over and above our financial model during 2024.

4. Equity to receivables ratio

A target equity to receivables ratio of 40% is our current view of an appropriate balance sheet, offering plenty of security in both good and more difficult times. At the end of 2024, the Group's equity to receivables ratio was 54% (2023: 56%), higher than our target of 40%.

Our strong capital position supports our ambitious growth plans and progressive dividend policy through to the point at which we are delivering our target returns and operating in line with our financial model, we estimate that this will be in 2027.

"We believe that each of our businesses is capable of delivering a target RoRE of 20%."

Taxation

The pre-exceptional taxation charge on the profit for 2024 is £29.8m, which represents an effective rate for the year of approximately 35% (2023: 38%).

"The lower tax rate in 2024 reflects a number of elements, including a reduction in the disallowable impairment in Poland, partly as a result of being a payments institution as well as the availability of additional tax allowances on utilisation of brought forward tax losses in Mexico."

We now expect the effective tax rate on an ongoing basis to be approximately 38%, lower than previous expectations of 40%.

The 2024 results reflect an exceptional tax credit of £17.4m (2023: exceptional tax charge of £4.0m), which comprises two items:

- In 2022, the Group recorded an exceptional tax charge of £15.2m following the derecognition of the non-current asset previously held in respect of the Group's finance company arrangements. This stemmed from the decision by the General Court of the European Union in June 2022 confirming the European Commission's earlier decision that the UK's Group Financing Exemption constituted partial illegal state aid. Following a favourable judgement of the European Court of Justice in favour of the UK on 19 September 2024, regulations have been issued (in force from 31 December 2024) requiring HMRC to put taxpayers back in the position they would have been in had the European Commission's Decision not been issued. Accordingly, the £15.2m previously derecognised has been reinstated resulting in an exceptional tax credit of £15.2m. Repayment of the tax is expected during 2025. In conjunction with the recognition of the exceptional tax credit, the Group has also included a contingent liability in respect of HMRC's review of the Group's finance company's compliance with certain conditions under the UK domestic tax rules to confirm whether the company is eligible for the benefits of the Group Financing Exemption which were claimed in historic tax returns (see note 32 to the Financial Statements).
- An exceptional tax credit of £2.2m has been recognised in 2024 with respect to the £11.9m total exceptional costs relating to the refinancing of the Group's Eurobond (£5.8m) and restructuring of the Polish home credit business (£6.1m).

In 2022 and 2023, exceptional tax charges of £5.1m and £4.0m respectively were reflected in relation to a two-year temporary "extra profit special tax" in Hungary. We noted in the 2023 annual report that the temporary tax had been extended for an additional year and, therefore, a further £2m exceptional tax charge was expected to arise in 2024. However, the tax has now been extended into 2025 and, consequently, the "extra profit special tax" now forms part of our pre-exceptional tax charge.

Earnings per share (EPS)

Pre-exceptional earnings per share (EPS) grew 7.3% to 24.9p per share (2023: 23.2p), reflecting higher profits and a lower tax rate. Reported EPS of 27.3p per share (2023: 21.5p) showed a larger increase of 27.0%, due to the net credit impact of exceptional items as well as a reduced number of shares in issue following the successful completion of the £15m share buyback programme in the second half of the year.

24.9p	11.4p
Pre-exceptional earnings per share	**Dividend per share**

Share buyback

The Group's financial model is to deliver a target RoRE of between 15% and 20%, which supports a minimum dividend payout ratio of 40%, funds receivables growth of up to 10% per annum, whilst maintaining an equity to receivables ratio at 40%. This financial framework ensures that capital is only allocated where it can deliver appropriate returns to shareholders whilst also balancing the needs of all our stakeholders.

As a result of the Group's strong capital position and favourable financial performance, the Board announced a share buyback programme of £15m with the half year results in July 2024, which was successfully completed in November.

The Group continues to have a very strong capital position with an equity to receivables ratio of 54% at December 2024, compared with our target of 40%. After assessing the Group's current trading performance, cash generation and future growth plans, the Board announces its intention to commence a further share buyback programme of up to £15m, which is expected to be completed by the third quarter. This will promote capital efficiency based on an assessment of any surplus capital beyond that necessary to deliver future growth and fund the Group's progressive dividend.

Dividend

Reflecting the continued strong performance of the Group and our strategy to realise the long-term growth potential of the business, the Board is pleased to declare an 11.1% increase in the final dividend to 8.0p per share (2023: 7.2p). This is in line with our progressive dividend policy and brings the full-year dividend to 11.4p per share (2023: 10.3p), an increase of 10.7% on 2023 and represents a pre-exceptional payout rate of 46% (2023: 44%). Subject to shareholder approval, the 2024 final dividend will be paid on 12 May 2025 to shareholders on the register at the close of business on 11 April 2025. The shares will be marked ex-dividend on 10 April 2025.

11.1%	46%
increase in the final dividend	**Pre-exceptional payout rate**

"As a result of the excellent results, our strong balance sheet and positive growth prospects, we propose an increase in the final dividend of 11.1% to 8.0 pence per share, in line with our progressive dividend policy."

Balance sheet, treasury risk management and funding

Balance sheet

We continue to maintain a very conservatively capitalised balance sheet, a strong funding position and robust financial risk management.

At the end of December, the Group's equity to receivables ratio was 54% (2023: 56%), compared with our target of 40%. Despite strong capital generation, we have seen a 2 ppt reduction in the ratio in 2024 due to the successful completion of the £15m share buyback programme in the second half of the year as well as foreign exchange losses of £57m taken to reserves, primarily due to the weakening of the Mexican Peso (c.20%) and Hungarian forint (c.10%). Our strong capital position supports: (i) the Group's ambitious growth plans; (ii) our intention to commence a further share buyback programme of up to £15m; and (iii) the Group's progressive dividend policy through to the point at which we are delivering our target returns and operating in line with our financial model in 2027.

The Group's gearing ratio was 1.2 times (2023: 1.1 times) at the end of the year, comfortably within our covenant limit of 3.75 times, and our interest cover covenant was 2.6 times (2023: 2.5 times), compared with our covenant limit of 2.0 times.

Closing receivables in 2024 were £870m, which is an increase of 6.8% (at CER) compared with 2023, due in particular to strong growth of 18% in IPF Digital with European home credit and Mexico home credit delivering low single digits growth. The average period of receivables outstanding at the end of 2024 was 13.5 months (2023: 13.2 months) with 72% of year-end receivables due within one year (2023: 77%).

Reflecting the continued caution in respect of the volatile environment, our balance sheet remains very robust with an impairment coverage ratio of 32.9% at the end of the year, which is slightly lower than 36.3% in 2023. The Group's impairment provision includes £9.6m of post-model adjustments in respect of the cost-of-living crisis and the moratorium in Hungary compared with £23.2m held at the end of 2023 in respect of Covid-19 and the cost-of-living crisis. The gross contractual cashflows supporting the receivables valuation amounts to £1.7bn at the end of 2024 (2023: £1.7bn).

The business has a strong track record of cash generation, even during adverse market and regulatory conditions. During the outbreak of Covid-19 in 2020, the business restricted lending to customers and had a strong focus on customer repayments. Due to the short-term nature of the receivables book, this action generated cash from operating activities of £330m, which enabled the Group to reduce borrowings by £184m and increase cash by £80m. In addition, when a decision has been taken to withdraw from a territory due

to inadequate returns being available (e.g. Slovakia in European home credit in 2015 and more recently Finland in IPF Digital in 2020), we have demonstrated that the collect-out takes around 2 to 3 years and the cash recoveries (net of any costs) have typically been close to the value of the net receivables from the time of the decision to cease the operations. This represents 1.7 times to 2.0 times the value of the debt funding supporting those receivables.

The strong cash generation of the Group has again been highlighted in 2024. With receivables growth at a relatively modest level of 6.8% in 2024 due to the contraction in Polish receivables, the Group generated cash from operating activities of £114m (2023: £193m).

Treasury risk management

The Group has Board-approved policies to address the key treasury risks that the business faces – funding and liquidity risk, financial market risk (currency and interest rate risk), and counterparty risk. The policies are designed to provide robust risk management, even in more volatile financial markets and economic conditions within our planning horizon.

Compliance with these policies is monitored monthly by the Treasury Committee chaired by the Chief Financial Officer and the Board receives a comprehensive funding and liquidity overview through monthly reporting. Funding and liquidity of the Group are managed centrally by the Group Treasurer and experienced treasury personnel. The Group sets cash management controls for operating markets that are subject to independent annual testing.

Our funding policy requires us to maintain a resilient funding position for our existing business and for future growth. We aim to maintain a prudent level of headroom on undrawn bank facilities. Our currency policy addresses economic currency exposures and requires us to fund our receivables portfolios with local currency borrowings (directly or indirectly) to achieve a high level of balance sheet hedging. We do not hedge the translational risk of foreign currency movements on accounting profits and losses. Our interest rate policy requires us to hedge interest rate risk in each currency to a relatively high level. Our counterparty policy requires exposures to financial counterparties to be limited to BBB-rated entities as a minimum except as approved, or delegated for approval, by the Board. In addition to these policies, our operational procedures and controls ensure that funds are available in the right currency at the right time to serve our customers throughout the Group.

> “The successful refinancing of the Group’s Eurobond ensures that we have a strong funding position to support our ambitious growth plans.”

The currency structure of our debt facilities broadly matches the asset and cash flow profile of our business. We have multiple local currency bank facilities, and our main €341m Eurobond provides direct funding to our markets using the euro currency and to markets using other currencies via foreign exchange transactions. For this reason, we do not expect fluctuations in the value of sterling to have a major impact on our funding position.

Debt funding is provided through a diversified debt portfolio with acceptable terms and conditions. We have wholesale and retail bonds denominated in euro, sterling and Polish zloty, with varying maturities, together with facilities from a group of 18 banks that have a good strategic and geographic fit with our business. The Group’s debt is senior unsecured debt, with all lenders substantially in the same structural position. We maintain our Euro Medium Term Note programme as the platform for bond issuance across a range of currencies.

Funding

As reported at the half year, we successfully refinanced the Group’s €341m Eurobond through a tender offer in June well ahead of its maturity. The bonds have a coupon of 10.75% and a maturity of five and a half years. We redeemed €274m of the old bonds with €67m remaining outstanding and maturing in November 2025. Tender costs of £4.1m together with a £1.7m of unamortised fees in respect of the old bonds, resulted in an exceptional cost of £5.8m. The bonds are trading very well in secondary markets with a yield of between 8.5% - 9.0%.

In addition to the Eurobond refinancing, we secured 103m of bank facilities during the year of which £37m was new or increased facilities. We continue to have very strong and supportive relationships with 18 lending banks across our businesses and this is further demonstrated by a further £20m of bank facilities being secured in early 2025.

As reported with our half year results, the Group redeemed the SEK 450m (c.£35m) of Nordic bonds in July, some three months in advance of their original maturity date.

The successful refinancing and bank extension process resulted in the Group having total debt facilities of £657m at the end of December 2024, consisting of £441m of bonds and £216m of bank facilities. Total borrowings amounted to £524m and headroom, consisting of undrawn facilities and non-operational cash balances, amounted to £138m. The average maturity profile of the Group’s debt facilities now stands at 3.0 years, up from 2.0 years at December 2023. Approximately £490m of the Group’s debt funding now matures beyond 2025. The Group’s current funding and cash generation supports the Group’s growth plans through to the end of 2025.

A full analysis of the maturity profile of the debt facilities is set out in note 21 to the Financial Statements and is summarised below:

Maturity profile of debt facilities

	Maturity	£m
Eurobond	November 2025	55.2
Polish bond	November 2026	14.0
Hungarian bond	December 2026	9.6
Sterling bond	December 2027	80.0
Eurobond	December 2029	282.2
Total bonds		441.0
Bank facilities	2025 to 2027	215.9
Total debt facilities		656.9
Total borrowings		523.5
Headroom against debt facilities		133.4
Non-operational cash balances		4.3
Headroom and non-operational cash balances		137.7

Our blended cost of funding in 2024 was 13.3%, lower than 14.0% in the prior year. This was due to a reduction in interest rates across our markets as well as lower costs of hedging as interest differentials narrowed, offset primarily by the headline rate of the new Eurobond being 100bps higher than the old 2025 bond. Approximately 30% of our debt facilities are at variable rates compared with 20% of our revenues, which are subject to interest-linked rate caps. We expect the Group's funding rate to be broadly stable in 2025 as the higher cost of the Eurobond is offset by the impact of the downward trend in interest rates.

	2024 £m	2023 £m
Bond costs	47.5	44.4
Bank funding cost	6.3	12.7
Hedging costs	11.0	16.8
Other	5.6	3.0
Total interest	70.4	76.9
Average gross borrowings	529.3	548.9
Cost of funding %	13.3%	14.0%

Following the successful refinancing of the Eurobond, Fitch upgraded the Group's long-term credit rating from BB- to BB with the outlook remaining Stable. Our credit rating from Moody's Investment Services remained unchanged at Ba3 (Outlook Stable).

As a result of maintaining a strong financial profile, we operate with adequate headroom on the key financial covenants in our debt facilities, as set out in the table below:

	Covenant	**2024**	2023
Gearing[1]	Max 3.75 x	1.2x	1.1x
Interest cover	Min 2x	2.6x	2.5x

1. Borrowings adjusted for lease liabilities, unamortised arrangement fees and issue discount. Net assets adjusted for pension assets and derivative financial instruments, in accordance with the debt funding covenant definitions.

Foreign exchange on reserves

The majority of the Group's net assets are denominated in our operating currencies and, therefore, the sterling value fluctuates with changes in currency exchange rates.

In accordance with accounting standards, we have restated the opening foreign currency net assets at the year-end exchange rate and this resulted in a £57m (2023: £23m) foreign exchange movement, which has been debited (2023: credited) to the foreign exchange reserve.

Going concern

In considering whether the Group is a going concern, the Board has taken into account the Group's 2025 business plan and its principal risks (with particular reference to macroeconomic and regulatory risks). The forecasts have been prepared for the two years to 31 December 2026 and include projected profit and loss, balance sheet, cashflows, borrowings, headroom against debt facilities and funding requirements. These forecasts represent the best estimate of the Group's expected performance, and in particular the evolution of customer lending and repayments cashflows.

The financial forecasts have been stress tested in a range of downside scenarios to assess the impact on future profitability, funding requirements and covenant compliance. The scenarios reflect the crystallisation of the Group's principal risks, with particular reference to macroeconomic and regulatory risks. Consideration has also been given to multiple risks crystallising concurrently and the availability of mitigating actions that could be taken to reduce the impact of the identified risks. In addition, we examined a reverse stress test on the financial forecasts to assess the extent to which a macroeconomic scenario would need to impact our operational performance in order to breach a covenant. This showed that net revenue would need to deteriorate significantly from the financial forecast and the Directors have a reasonable expectation that it is unlikely to deteriorate to this extent.

At 31 December 2024, the Group had £138m of non-operational cash and headroom against its debt facilities (comprising a range of bonds and bank facilities), which have a weighted average maturity of 3.0 years. The total debt facilities as at 31 December 2024 amounted to £657m of which £170m (including £35m which is uncommitted) is due for renewal over the following 12 months. A combination of these debt facilities, the embedded business flexibility in respect of cash generation and a successful track record of accessing funding from debt capital markets over a long period (including periods with challenging macroeconomic conditions and a changing regulatory environment, tested in both 2020 and 2022), are expected to meet the Group's funding requirements for the foreseeable future (12 months from the date of approval of this report).Taking these factors into account, together with regulatory risks set out on page 40 of the Annual Report, the Board has a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, the Board has adopted the going concern basis in preparing the Annual Report and Financial Statements.

Gary Thompson
Chief Financial Officer

26 February 2025