Vanquis Banking Group

H1'23 Results

VANQUIS Banking Group

28 July, 2023

Today’s presentation

Highlights and Overview
Malcolm Le May

Financial Review
Neeraj Kapur

Strategy and Outlook
Malcolm Le May

Questions
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Contacts


Malcolm Le May, CEO


Neeraj Kapur, CFO

Highlights and Overview

Malcolm Le May

Chief Executive Officer

Significant progress delivered in H1'23

Strategic update

A specialist banking group, focused on underserved markets

Digital product capability enhanced – Apple Pay

Vehicle finance – new car proposition

Second charge mortgage pilot phase launched

New savings products issued

FCA consumer duty ready

Financial delivery

Disciplined but attractive receivables growth, repositioning to mid cost near prime

26% YoY growth focused on lower risk customers

Ongoing, strong customer credit quality

Business investment and cost controls executed

Interim dividend per share of 5.0p

Board changes

Chair succession

Sir Peter Estlin elected Chair, subject to regulatory approval

CEO succession

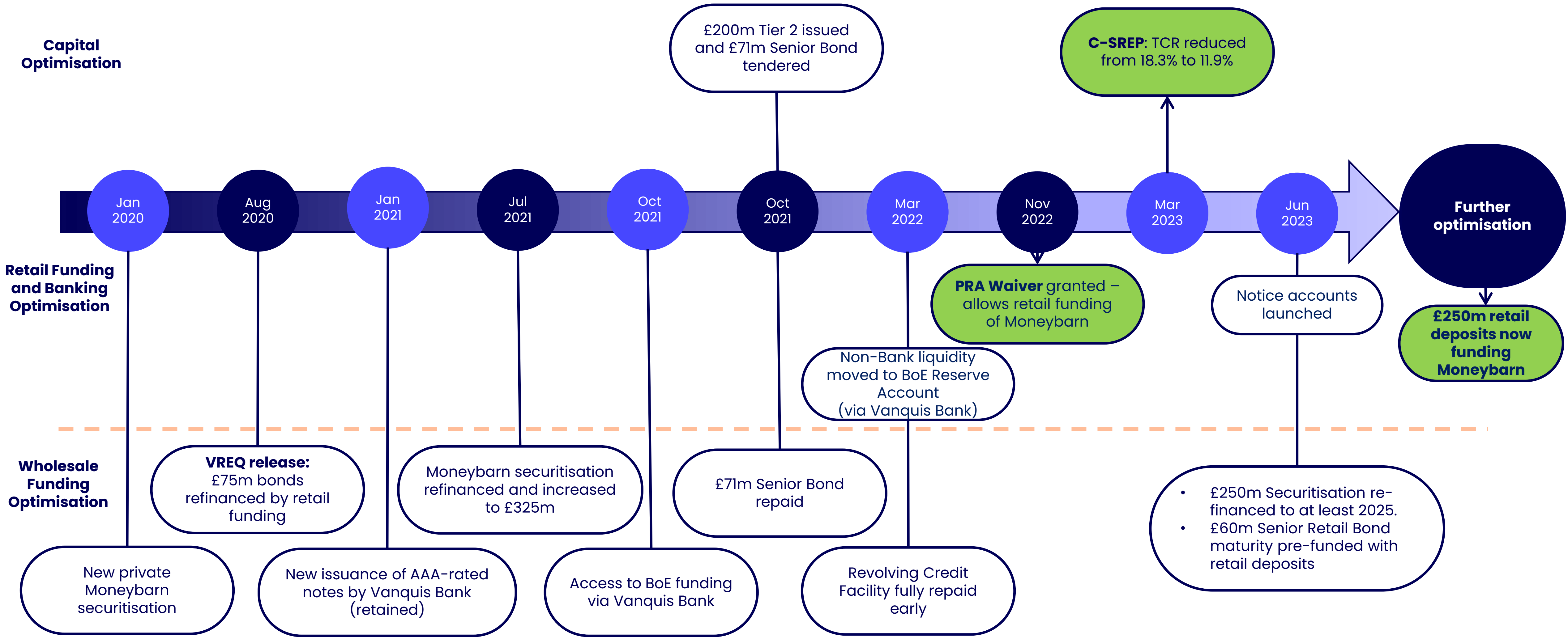
Ian McLaughlin joined at the end of July

New NEDs appointed

Board experience enhanced in banking and finance

Strategic transformation to banking model

Carefully planned and executed optimisation of funding and capital delivering benefits to customers and shareholders



Financial Review

Neeraj Kapur

Chief Finance Officer

Summary financials

- **Strong net receivables growth** +26% and strong customer growth +7% throughout the period
- **Flat income** driven by expected reduction in NIM with Group repositioning towards lower risk customers
- Ongoing **strong credit quality** reducing arrears in line with our changing customer profile
- As expected, higher credit losses from **IFRS 9 impact** of the Group returning to strong receivables growth
- **BAU costs strongly controlled**, albeit inflation headwind
- **Continued investment** to support scalability, diversification and growth
- **Interim dividend** announced of 5.0p

Continuing Group	H1'23	H1'22
Net receivables (£m)	**2,118**	1,685
Total income (£m)	**237**	240
Impairment charge (£m)	**(72)**	(72)
Provision release (£m)	**-**	33
IFRS 9 impact (£m)	**(14)**	-
Risk-adjusted income (£m)	**152**	202
Adjusted continuing (LBT)/PBT (£m)	**(6)**	54
Investment costs (£m)	**(12)**	(20)
Underlying[2] PBT (£m)	**6**	74
Coverage ratio (%)	**21.5%**	26.9%
Annualised RORE[1] (%)	**(1.7%)**	18.1%
CET1 (£m)	**424**	460
DPS (p)	**5.0**	5.0

[1] Return on average required regulatory capital (RORE) reflects adjusted profit before tax for the period, excluding CCD, divided by the average regulatory capital requirement for the period. [2] Underlying PBT excludes investment costs

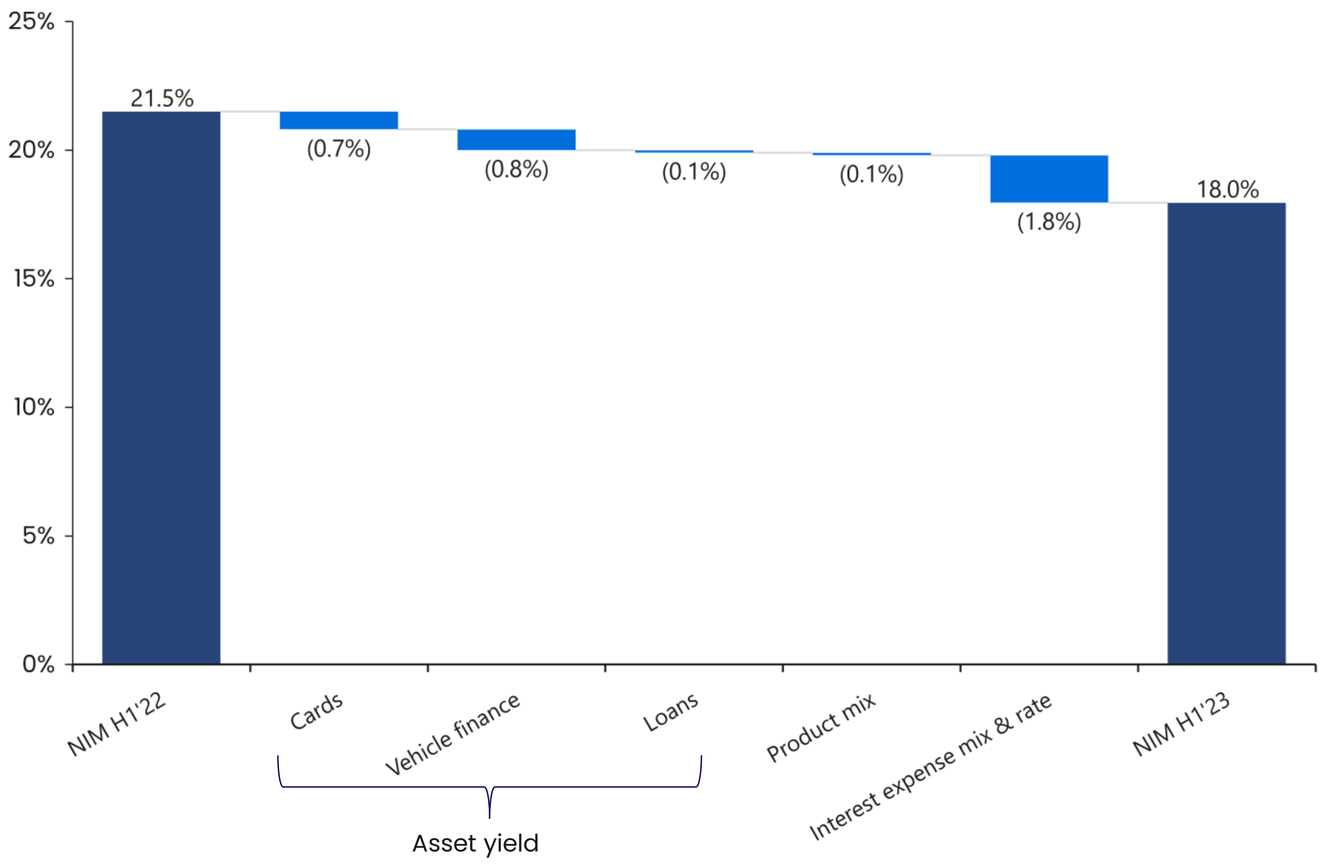
Group results

£m	H1'23	H1'22
Total receivables	**2,118**	1,685
Total borrowings including retail deposits[1]	**2,152**	1,752
Credit cards	**34**	76
Vehicle finance	**16**	20
Personal loans	**(9)**	(11)
Central:		
- Costs and central bank interest income	**(31)**	(28)
- Bond coupons inc. Tier 2	**(15)**	(3)
Adjusted continuing (loss)/profit before tax	**(6)**	54
Investment costs	**(12)**	(20)
Underlying PBT[2]	**6**	74
Amortisation of acquired intangibles	**(4)**	(4)
Exceptional items – continuing operations	**(5)**	(4)
Continuing (loss)/profit before tax	**(15)**	47
Loss for discontinued operations	**-**	(10)
(Loss)/profit before tax	**(15)**	37

- Credit cards adjusted PBT £34m (H1'22: £76m) reflects higher expected credit losses from the IFRS 9 impact of strong loan book growth
- Vehicle finance adjusted PBT £16m (H1'22: £20m) with very strong loan book growth driving higher interest income year-on-year
- Central costs:
  - reflect the roll out of the shared services model and investment in the growth and scalability of the businesses in FY'22 which continued in H1'23, as planned;
  - bond coupons include Tier 2 costs (and associated hedging) but exclude any allocation to the discontinued CCD business in 2023
- Exceptional items relate to the transfer of operational customer service calls to our South African partners and costs related to the liquidation of the CCD companies

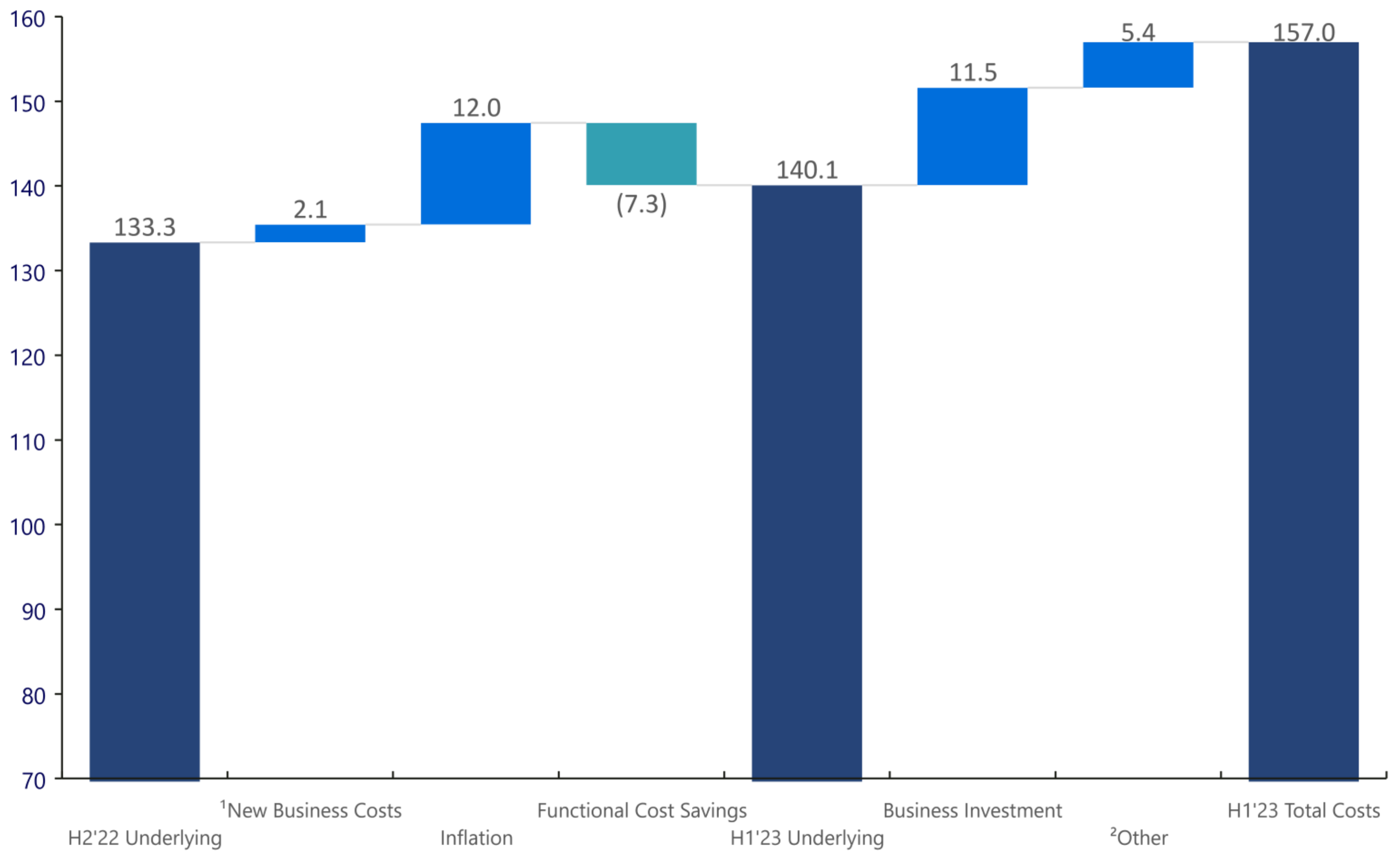
[1] Excluding debt capital, fees and accrued interest [2] Underlying PBT excludes investment costs

Net Interest Margin (NIM)



- Strategic shift towards lower risk customers across all products drives reduction in asset yield
- NIM compression driven by lower asset yield and higher funding costs
- Asset yield reduction driven by receivables growth in lower risk customer segments in Cards and Vehicle finance
- Deliberate move down the risk curve
- Funding mix shifting towards lower cost retail deposits being offset by rising base rate environment
- Full year 2023 NIM expected to be upwards of c.18%

Costs and business investment



- Total adjusted Group operating costs, including business investment, was £157.0m in H1'23 (H2'22: £140.5m; underlying: £133.3m)
- Inflation headwind of c.£12m mainly staff costs and third-party costs
- Functional cost savings from lower headcount and optimisation of third party costs
- Business investment in IT, Operations and Transformation, driving scalability and operational leverage, continues in-line with expectations – phased benefits to Group in 2025 through Gateway customer platform and App
- Despite inflationary headwinds, the Group is on track to deliver an underlying cost to income ratio of 40% as it exits 2024 on a run-rate basis driven by:
  - Investment spend reducing, and
  - Net interest income increases driven by receivables growth

[1] 'New Business Costs' represents incremental set-up costs associated with Personal Loans and Second charge mortgages
[2] 'Other' includes costs of processing a spike in spurious customer claims (uphold rate 5%) from CMCs in Vehicle finance.

Key performance indicators[1] (KPIs)

Shareholder KPIs	H1'23	H1'22	H1'21
EPS (basic)	(4.1)	12.7	24.8
EPS (adjusted)[2]	(1.4)	15.4	26.7
RORE[2]	(1.7%)	18.1%	30.4%
ROTE[2]	(1.8%)	18.0%	29.7%
ROA[2]	(0.3%)	3.0%	5.0%

Capital & Liquidity KPIs	H1'23	H1'22	H1'21
CET1	21.7%	27.3%	32.5%
Total capital ratio	31.9%	39.2%	32.5%
Liquid assets (HQLA) (£m)	386	430	279
Excess HQLA over LCR (£m)	297	331	219

Revenue KPIs[2]	H1'23	H1'22	H1'21
Asset yield	22.4%	24.0%	22.4%
Net interest margin	18.0%	21.5%	20.0%
Risk-adjusted margin	13.5%	20.3%	17.8%

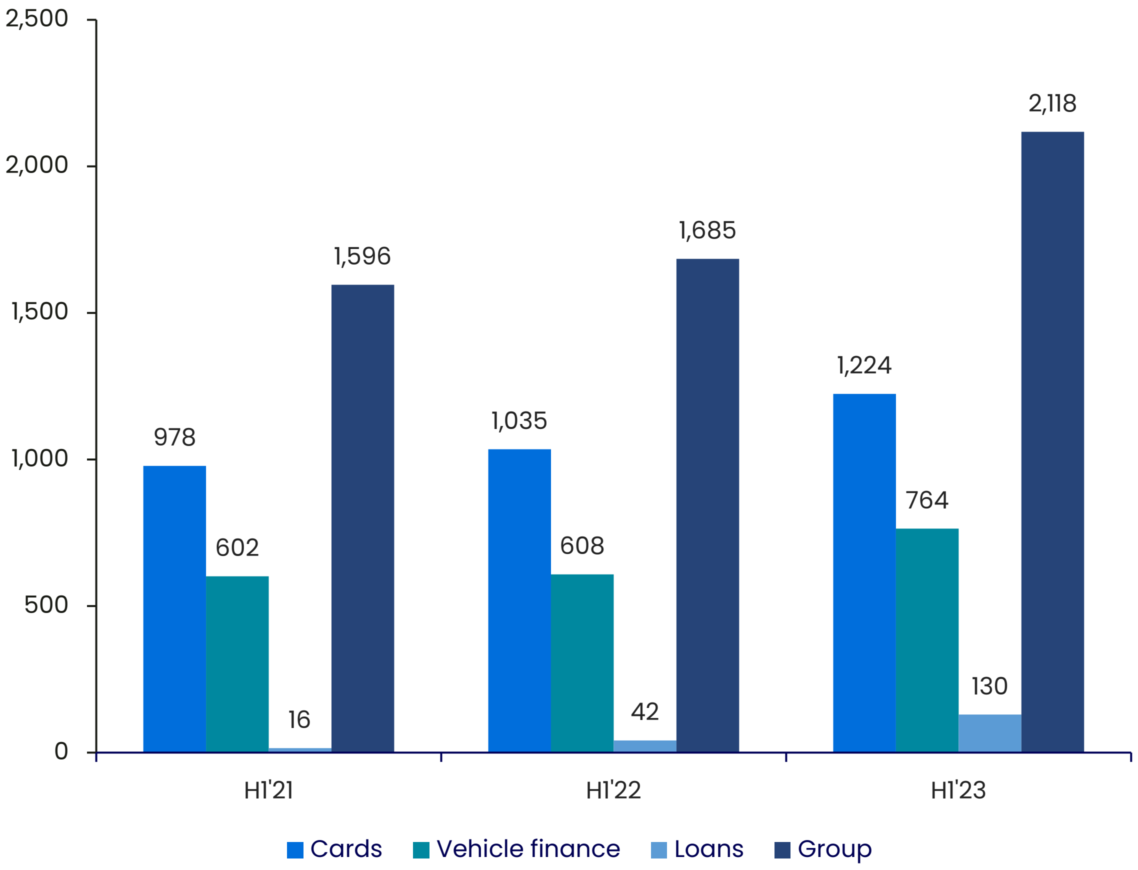
Cost KPIs[2]	H1'23	H1'22	H1'21
Cost of risk[3]	7.6%	3.9%	4.8%
Cost income ratio	66.2%	61.4%	51.9%
Underlying cost income ratio	56.3%	53.1%	45.6%

[1] KPIs reflect the continuing business only [2] Adjusted measures
[3] Both 2021 and 2022 include impairment provision release relating to Covid-19 PMAs no longer required

Product Snapshot

Primary Products	Brands		Net receivables (£m)	Customer numbers ('k)	Total income (£m)	Impairment (£m)	Risk-adjusted income (£m)	Adjusted PBT/(LBT) (£m)
Credit Cards	VANQUIS	H1'23	1,224	1,617	175	(55)	120	34
		H1'22	1,035	1,541	179	(18)	161	76
Vehicle Finance	moneybarn Vehicle Finance	H1'23	764	111	62	(19)	43	16
		H1'22	608	95	59	(18)	41	20
Personal Loans	VANQUIS	H1'23	130	50	10	(11)	(1)	(9)
		H1'22	42	24	5	(3)	2	(11)

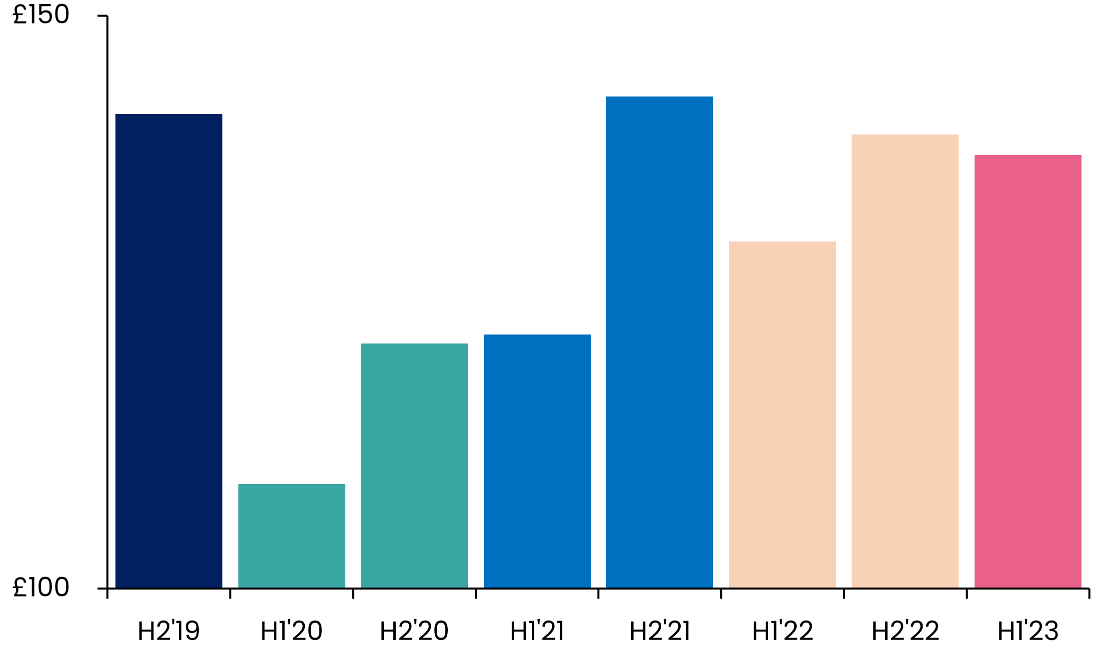
Net Receivables by product



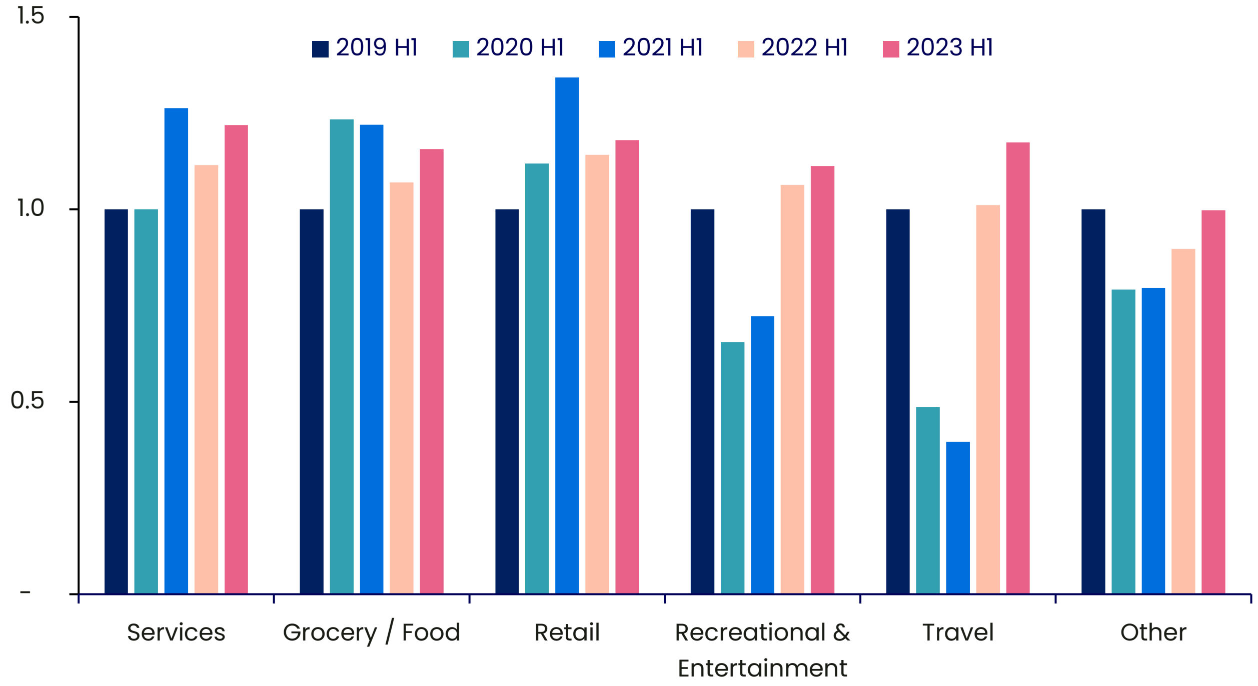
- Continued delivery of strong receivables growth (+26% vs H1'22), with growth weighted towards lower risk customers
- Cards new customer bookings increased 74% year-on-year, reflecting customer acquisition initiatives including an improved price and Balance Transfer offering
- Vehicle finance receivables growth of 26% versus H1'22, reflecting the strong competitive positioning of the business and access to the Group's capital and funding
- Loans credit issued was triple that achieved during H1'22, reflecting growth in new customer numbers of 25k (H1'22: 10k) with the average loan size increasing by 30% year-on-year

Credit card trends

Spend per customer able to spend[1]



Active customer spend by category indexed to 2019[2]

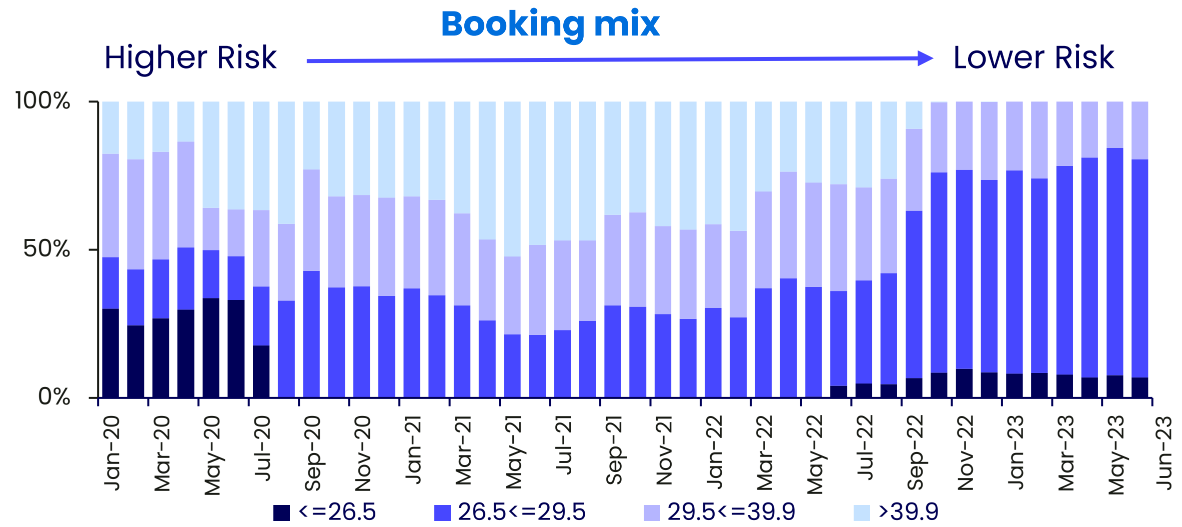


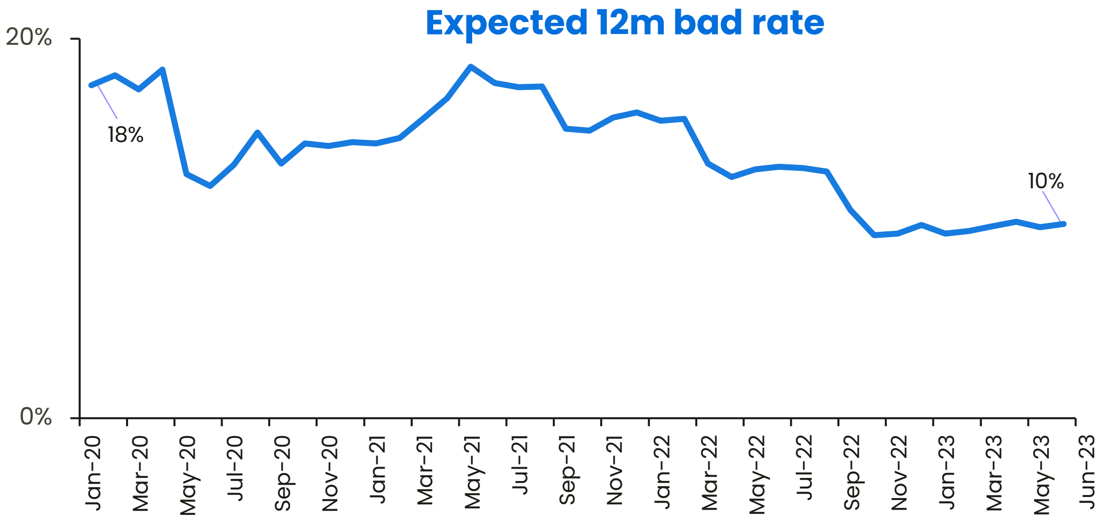
- Spend per active customer increased by 6% versus H1’22; total spend has also increased versus both H1’22 and H2’22
- Card utilisation on near-prime and mid-cost at c.60% versus subprime c.75%
- Spend on travel and recreation has grown significantly, reflecting changing customer behaviour post Covid-19

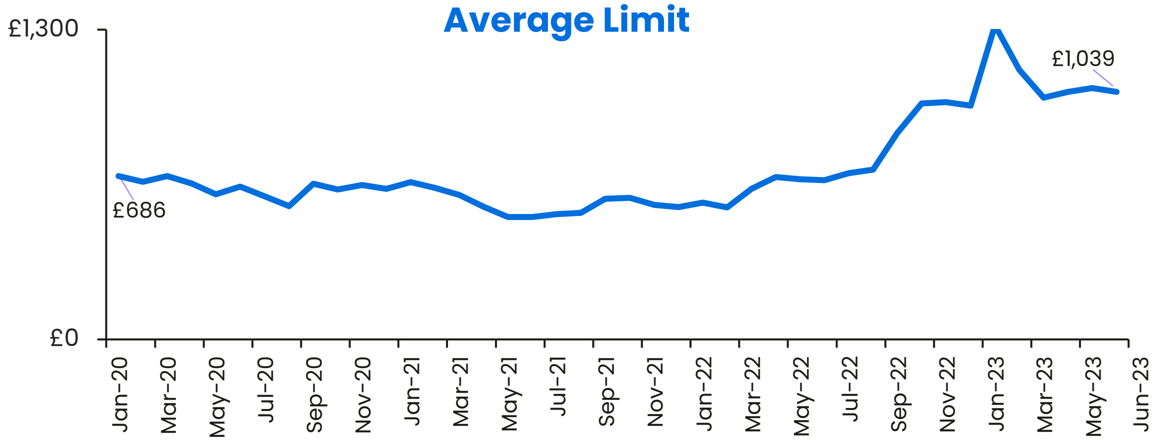
[1] Able to spend – open accounts with no blocks and not delinquent
[2] Active customer – open accounts which either have a balance at month end or have had activity on the account within the last month

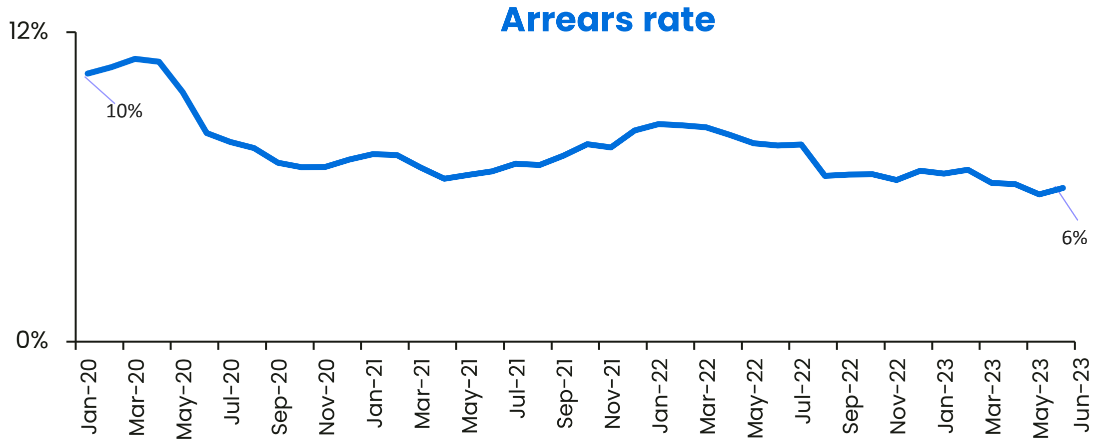
Credit card asset quality – net receivables of £1.2bn

Booking mix has improved significantly and a new scorecard will drive further progress



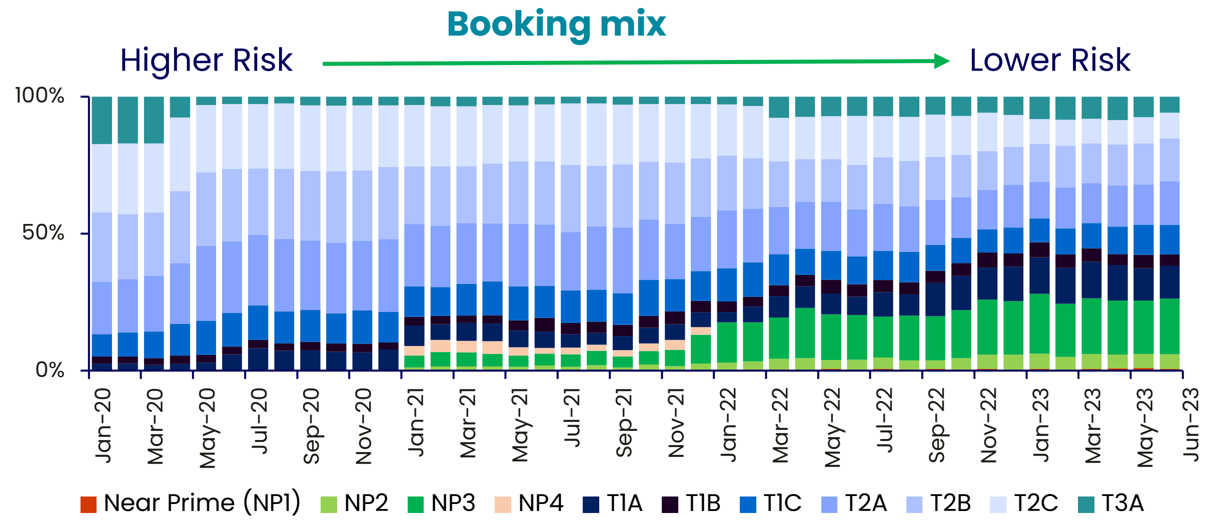


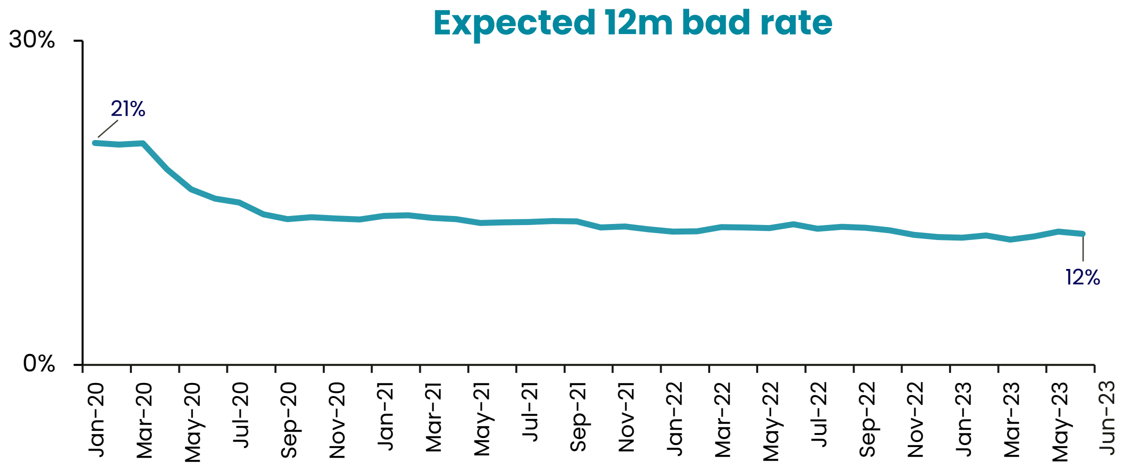


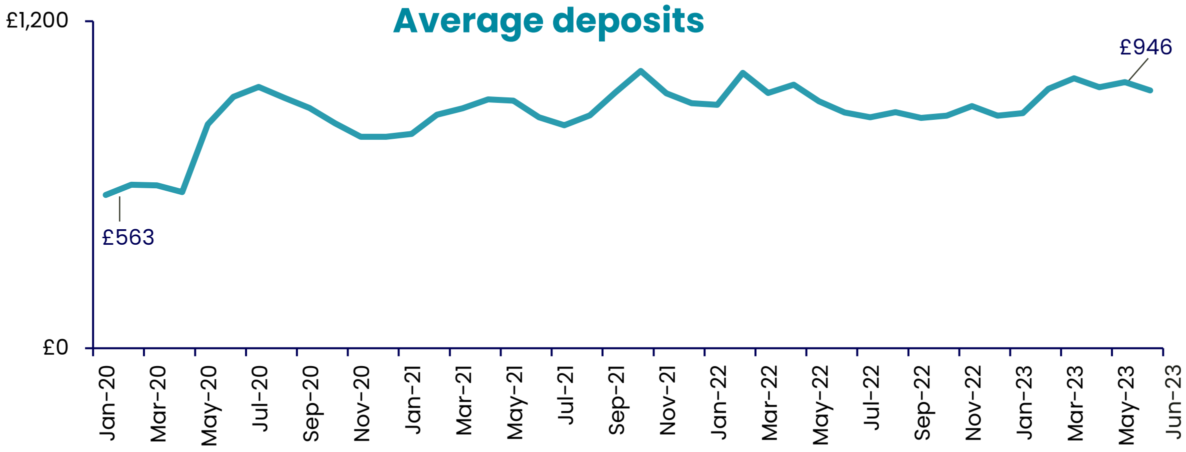


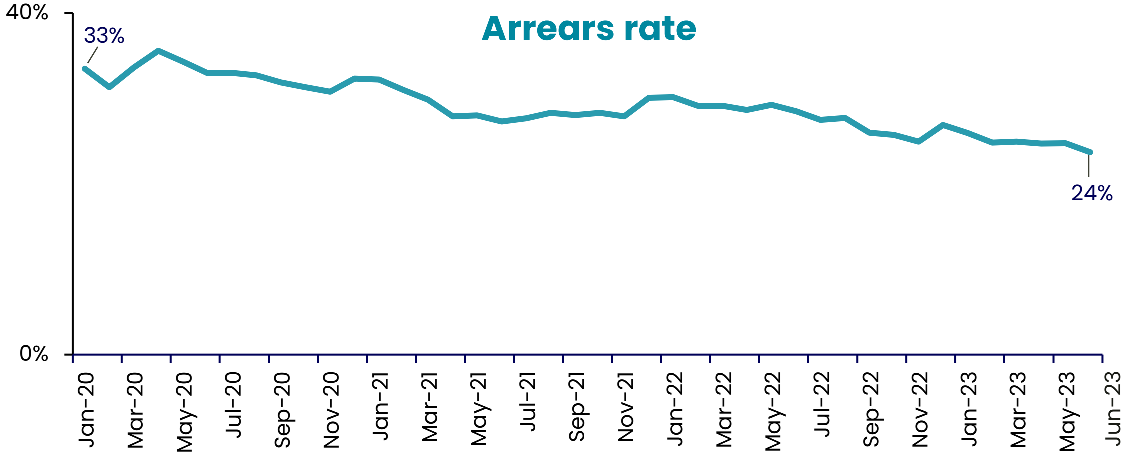
Vehicle finance asset quality – net receivables of £0.8bn

Near-prime product has improved new bookings; credit quality improving



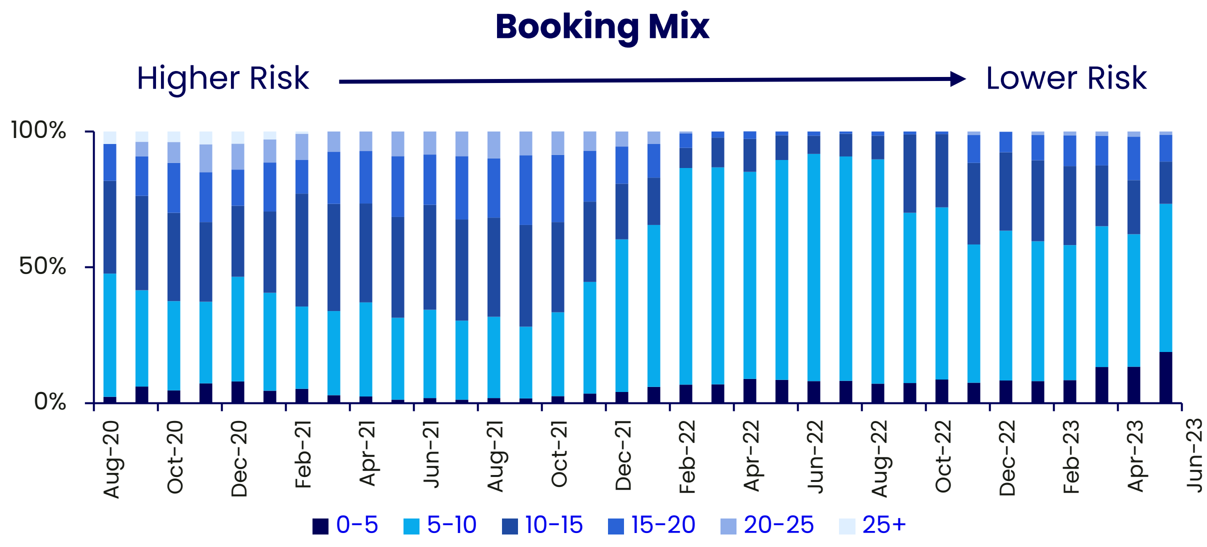


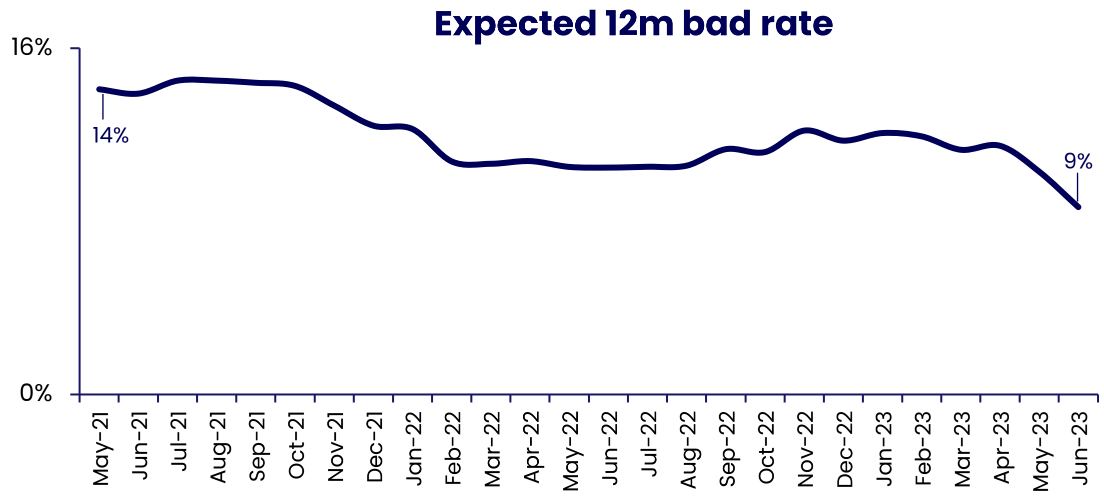


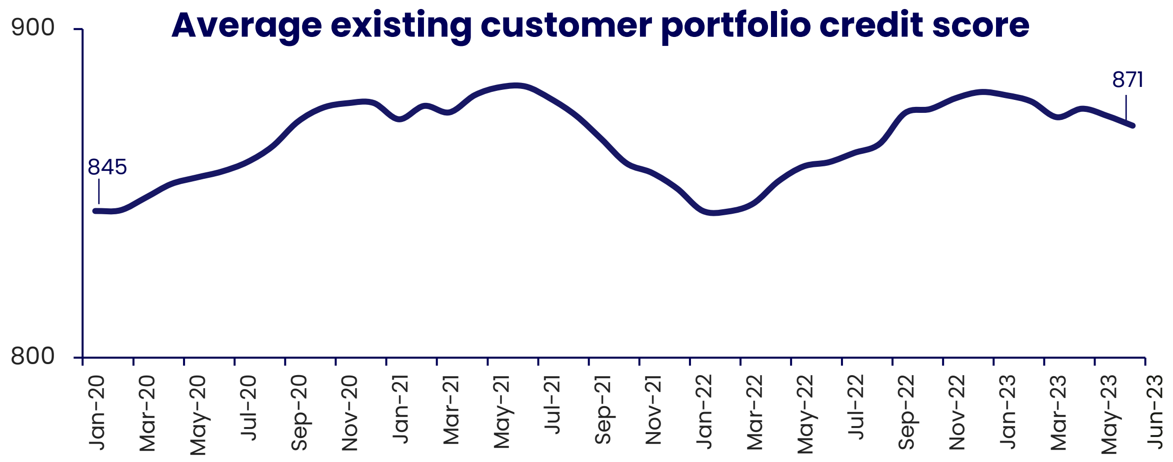


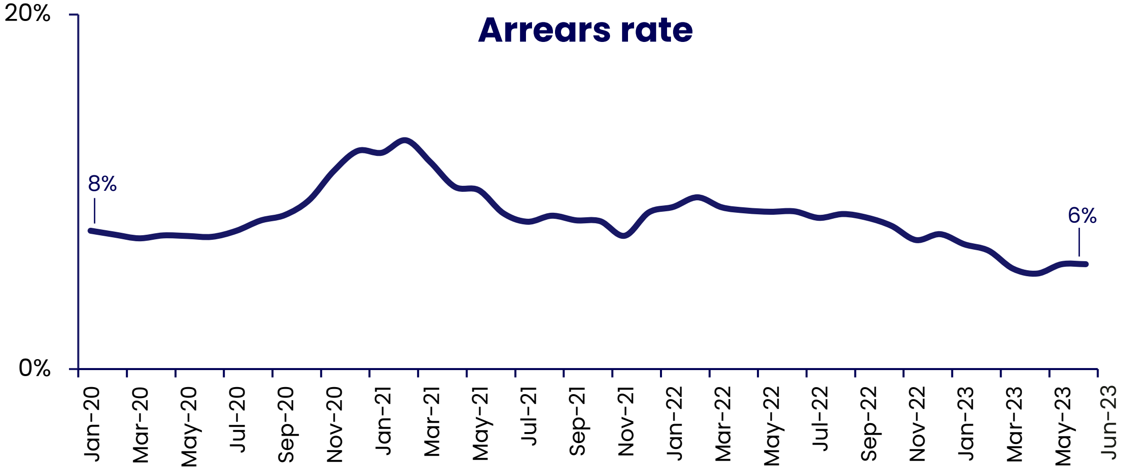
Personal loans asset quality – net receivables of £0.1bn

The loans business has grown rapidly whilst maintaining asset quality

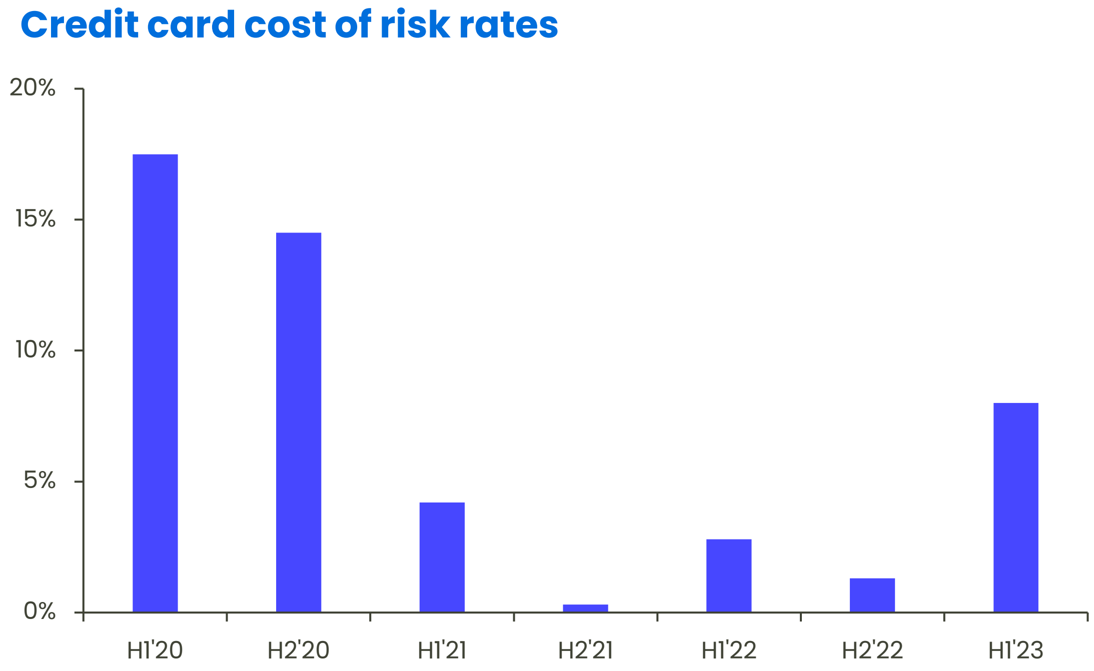


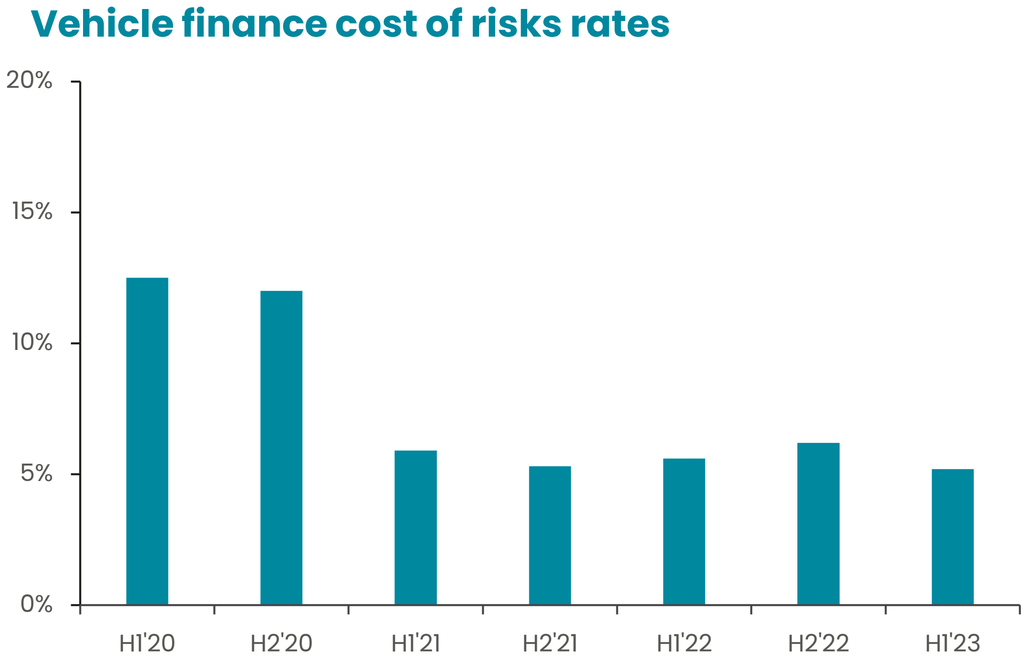






Cost of risk normalising



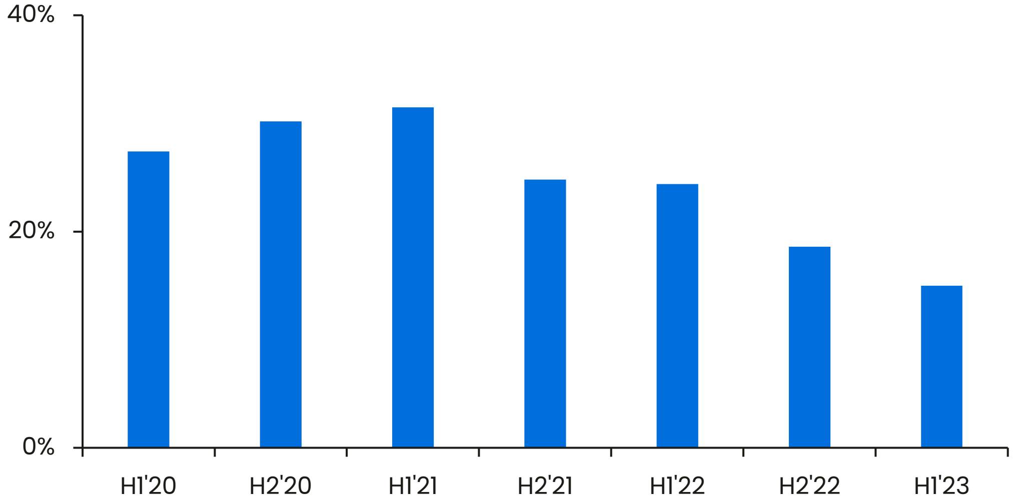


- Cost of risk normalising after release of previously created Covid-19 impairment provision throughout 2021/22
- Credit card cost of risk has increased, driven by strong receivables growth triggering increased IFRS 9 provisions, offset by stable delinquency trends and improved asset quality as the back book runs off
- Arrears rates in Vehicle finance remain low following the strategic shift towards lower credit risk customers since 2020
- In the personal loans business, the cost of risk increased versus H1’22 reflecting overall growth in the receivables book

Both 2021 and 2022 include impairment provision release relating to Covid-19 PMAs no longer required

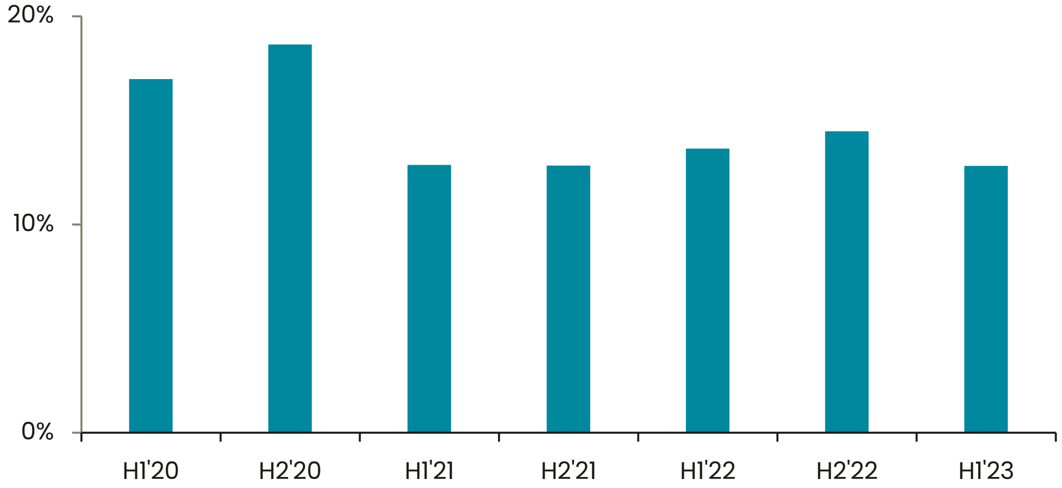
Quality driven reduction in coverage ratios

Credit card coverage ratios



1,174	1,075	978	1,063	1,035	1,182	1,224
Net receivables						

Vehicle finance coverage ratios[1]



516	567	602	596	608	655	764
Net receivables						

- The credit card loan book coverage ratio fell, primarily reflecting execution of debt sales and shift to lower-risk customers
- The vehicle finance loan book coverage ratio decreased, reflecting the continued shift to lower risk customers
- The personal loans coverage ratio reduced to 9% as of HY'23 (HY'22: 13%), representing a reduction in provisions held against a larger gross receivables book

VANQUIS Banking Group

[1] Coverage rates for Vehicle finance excludes 'shortfall – sold' accounts from the calculation

Resilient and diversified capital base

Capital position moving towards target 20% CET1 ratio, with headroom to support future growth

Total Capital Requirement (TCR) + Combined Buffer[2] post C-SREP

Capital resources	Capital required[1]	H1 change in surplus[3]
31.9%	15.4%	(5.6%)
£624m	£300m	(£77m)

Tier 1 Requirement (75% of TCR + Combined Buffer[2])

Tier 1 resources	Tier 1 required[1]	H1 change in surplus[3]
21.7%	12.4%	(4.8%)
£424m	£242m	(£73m)

Change in capital surplus (£77m) due to:

A. Reduction in resources (£55m)

- The scheduled unwind of the final £54m IFRS 9 transition relief was absorbed on 1 January 2023. There is no further transitional relief outstanding
- New business investment broadly offset by amortisation of existing intangibles

B. Increase in risk-weighted exposures (£22m)

- Lending growth of £214m increased RWEs by £146m utilising £22m of total capital (of which £16m Tier 1)

AT1 and Tier 2 capacity

- The Group retains AT1 capacity of £43m (2.2%) which provides further opportunities for capital optimisation
- Utilised Tier 2 Capital is £58m (of £200m issued)

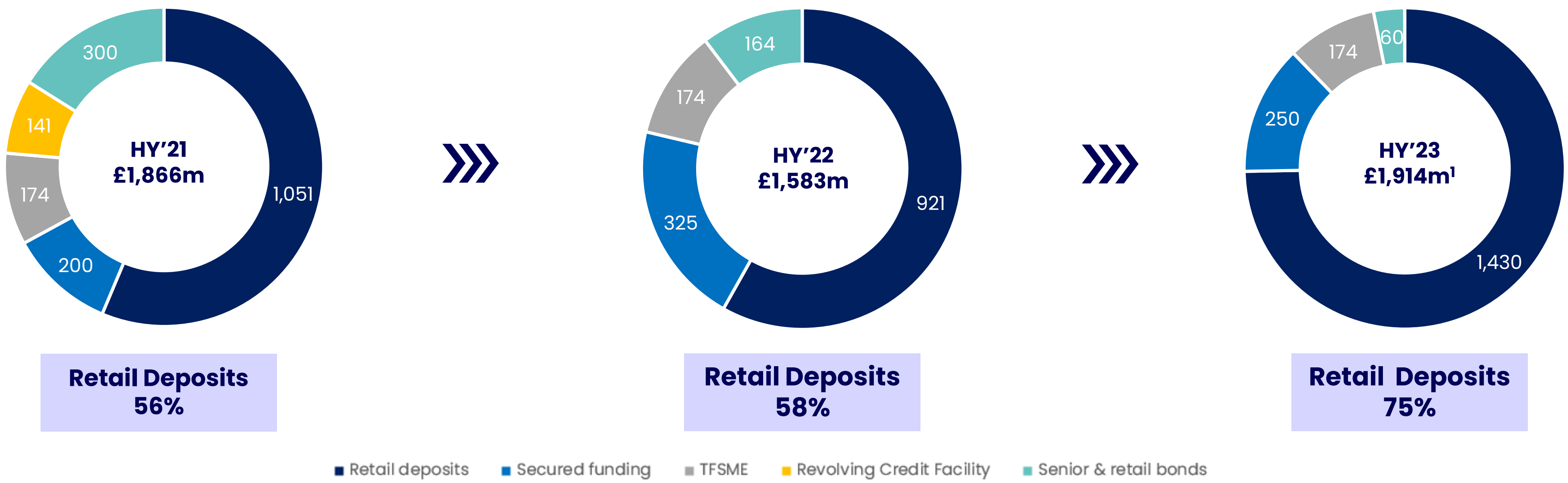
Increase in CCyB

- The UK countercyclical capital buffer increased by 1% (£20m) to 2% on 5 July 2023

[1] Excludes any confidential and management buffers
[2] Combined buffer include capital conservation buffer (CCoB) and countercyclical capital buffer (CCyB)
[3] Comparative based on post C-SREP requirement. Prior position is before restatement of Vehicle finance receivables and H1 resources are before payment of interim dividend

Transition to a primarily retail-funded bank complete

75% of the Group's funding now sourced from stable retail deposits



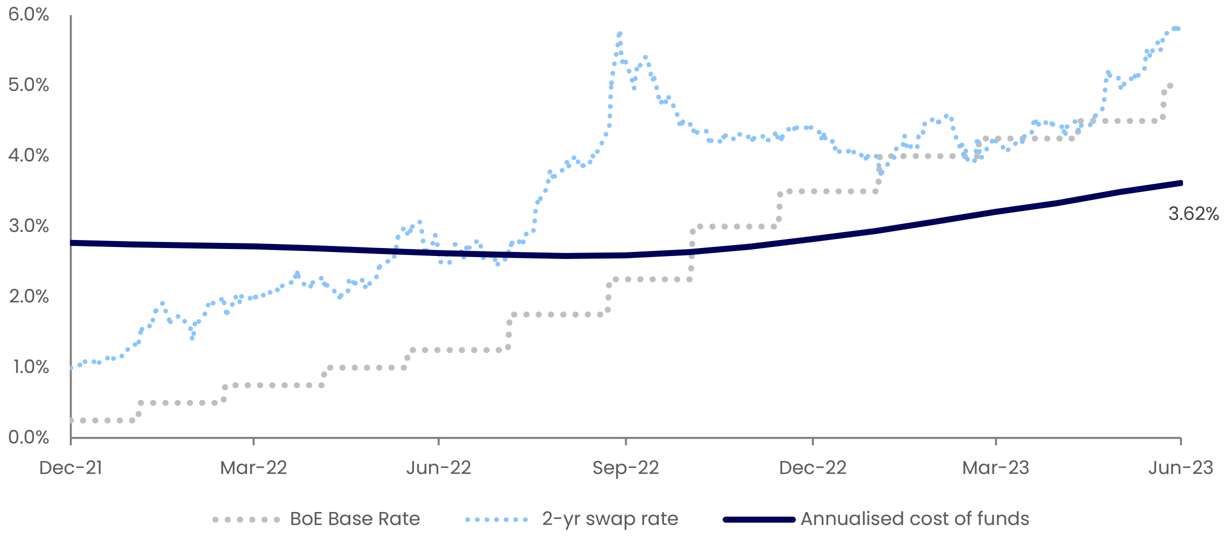
- The Group is now funded by diversified retail deposits, recently refinanced securitisation funding and modest BoE funding from Vanquis Bank
- Funding optimisation achieved in H1'23:
  - Levels of Moneybarn securitisation reduced from £325m committed facility to £250m, thereby reducing levels of encumbrance. Refinanced and extended to at least 2025 on comparable terms
  - £104m senior unsecured bonds that partially funded Moneybarn vehicle finance repaid on maturity in H1'23 (replaced by retail funding)
  - Retail bond maturity in October 2023 is pre-funded by retail deposits
  - Further diversification of retail deposits through launch of notice accounts. Over 95% of retail depositors covered by the Financial Services Compensation Scheme
  - Ongoing access to unsecured wholesale markets via £2bn EMTN programme and credit rating

[1] Adjusted for repayment of £25m drawn Moneybarn securitisation and cancellation of £50m undrawn commitment (signed 30 June and effective 21 July). Excludes Tier 2 capital, fees and accrued interest.

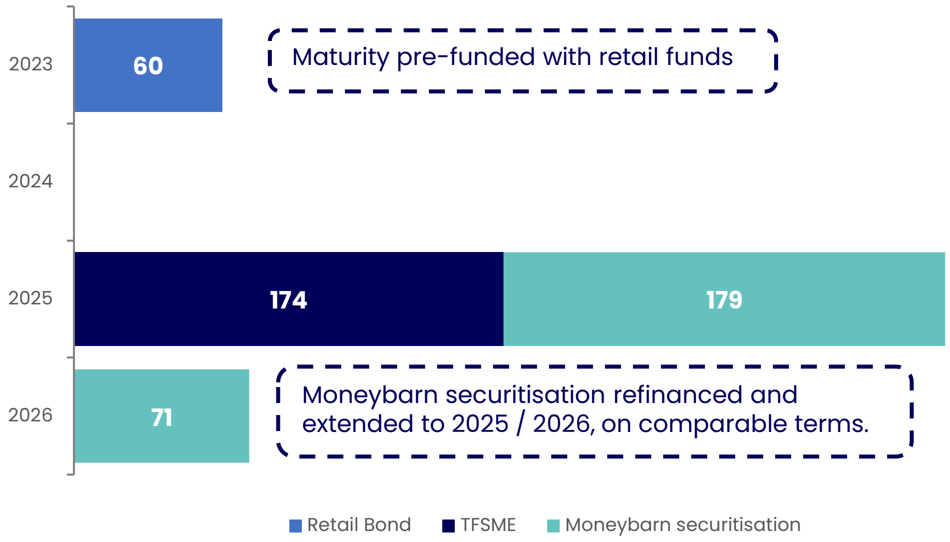
Highly stable funding mix

Change in funding mix and stable duration has largely offset market rate rises

Group annualised cost of funds[1] vs. market rates



Wholesale maturity profile (excl. £200m Tier 2 capital)[2]



- Group cost of funds increased by 100bps to 3.62%[1] vs H1'22 (H1'22: 2.62%)
- Significantly lower funding costs relative to market interest rates than previously incurred
- The Group maintains a contractual funding mix with a duration of c.2 years that delays the impact of changing underlying interest rates
- Wholesale funding replaced by retail funding (diversified with notice accounts launched in H1'23), optimising the cost of funds
- Regulatory LCR metric remains strong – 429% at 30 June, representing £297m surplus to minimum requirement
- 97% of the Group's liquidity resources are held in the BoE reserve account
- No investment in securities (no Held-to-Maturity assets)

[1] Calculated as interest expense as a percentage of weighted average volume of funding drawn (excl. fees, swaps and Tier 2 capital), on an annualised basis. 2Y swap is taken from UK OIS spot curve data published by the BoE
[2] Reflects extension of Moneybarn securitisation agreed with bi-lateral lenders (signed 30 June)

Financial outlook

Growth and asset quality enhancement

- The Group will continue to focus on disciplined growth in the mid-cost and near-prime segments…
- …whilst continuing to deliver asset quality improvements

Macroeconomic backdrop

- High levels of inflation have persisted for longer than originally forecast in the UK…
- …adding approximately £12m to the Group’s operating cost base during H1’23
- Management will proactively manage costs during H2’23 to mitigate the impact as much as possible

Flexible and scalable operating platform

- Continued investment in H2’23 at similar levels to H1’23 to enable a more flexible and scalable platform
- 2023: Group costs planned to be broadly flat H2 vs H1. Continued cost optimisation programme partly mitigating inflation
- 2024: underlying cost income ratio planned to fall to c.40% on an exit run-rate basis

NIM evolving to reflect asset quality

- The Group’s NIM profile is expected to evolve in H2’23 to reflect the product mix of new business, near-prime pricing and cost of funding increases offset by change of funding mix
- Group still anticipates delivering an attractive NIM profile upwards of c.18% in FY’23

Strategy and Outlook

Malcolm Le May

Chief Executive Officer

Vanquis Banking Group Overview

A leading specialist banking group with a focus on customers in the mid-cost and near-prime credit markets

Core products	Credit cards 1.6m customers £1.2bn receivables **16% market share**	Vehicle finance 111k customers £764m receivables **6% market share**	Personal loans 50k customers £130m receivables **1% market share**	Second charge mortgages (pilot phase)
Strong core capabilities	Significant underwriting experience	Robust risk management framework	Evolving product offering	Strong balance sheet and liquidity positions
Future opportunities	Growing addressable markets	Product initiatives driving growth	Significant competitive advantages	Potential for inorganic growth

Final thoughts from Malcolm

"I am extremely proud of what we have achieved during my time as CEO. I believe I am handing over the reigns of a Group which has strengthened its competitive position and operating platform materially over the last five years whilst I have been CEO."

Malcolm Le May
CEO

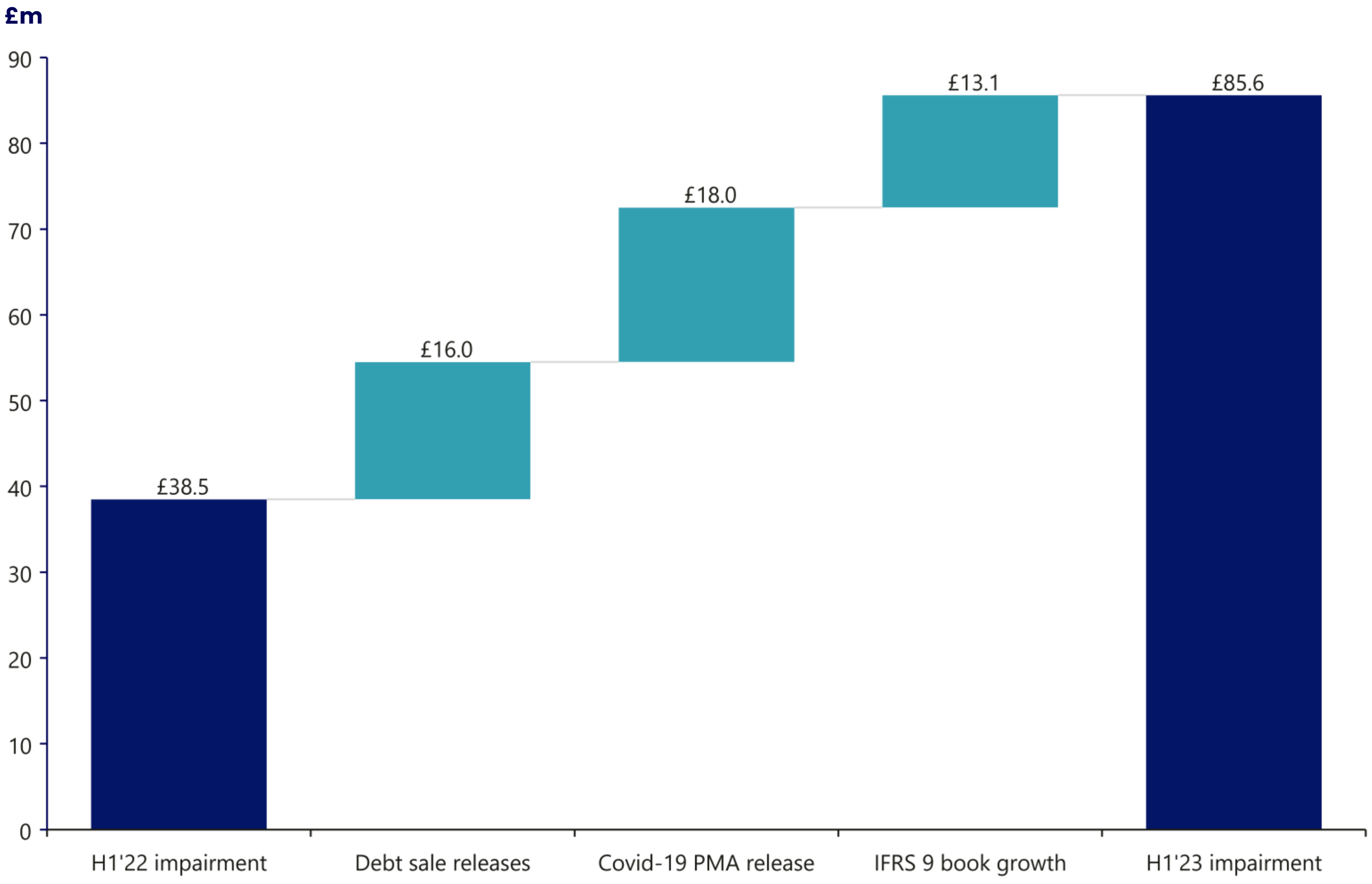
VANQUIS Banking Group

Questions

- Appendix
- Contacts

Appendix

Expected credit losses



- The Group H1'22 impairment charge (£39m) was depressed by:
    - Provision releases associated with a significant volume of debt sales occurring in the period (£16m), and;
    - the release of Covid-19 provisions no longer required (£18m).
- The remaining increase (£13m) is a result of YoY book growth

Group results – continuing operations

	H1'23 £m	H1'22 £m	Change %
Customer numbers ('000)	**1,778**	1,659	7
Period end receivables[1]	**2,118**	1,684	26
Gross average receivables	**2,267**	2,002	13
Interest income	**251**	238	5
Interest expense	**(49)**	(25)	95
Net fee and commission income	***21***	*24*	*(13)*
Other income	***14***	*3*	*365*
Total income	***237***	*240*	*(1)*
Asset yield	***22.4%***	*24.0%*	*(2)*
Net-interest margin	***18.0%***	*21.5%*	*(4)*
Cost of risk	**7.6%**	3.9%	4
Risk-adjusted income	**152**	202	(25)
Costs	**(157)**	(148)	6
Adjusted (loss)/profit before tax	**(6)**	54	(111)
Cost income ratio	***66.2%***	*61.4%*	*5*
Return on assets	***(0.3%)***	*3.0%*	*(3)*

[1] H1'22 Vehicle finance receivables have been retrospectively restated

Group results – statutory balance sheet[1]

Assets	**H1'23 £m**	H1'22 £m	Change %
Cash and balances at central banks	**447**	560	(20)
Amounts receivables from customers[2,4]	**2,112**	1,677	26
Pension asset	**37**	82	(56)
Goodwill and other intangibles	**137**	124	10
Other assets	**151**	100	52
Total assets	***2,884***	*2,543*	*13*

Liabilities and equity			
Retail deposits	**1,445**	927	56
Bank and other borrowings[3]	**707**	825	(14)
Trade and other payables	**64**	65	(2)
Other liabilities	**82**	117	(30)
Equity	**586**	609	(4)
Total liabilities and equity	***2,884***	*2,543*	*13*

[1] Includes CCD
[2] Amounts receivable from customers in 2023 are presented net of £5m (H1'22: £8m) fair value adjustment for portfolio hedged risk. Underlying receivables from customers are £2,118m (H1'22: £1,685m)
[3] Bank and other borrowings in 2023 are presented net of £11m fair value adjustment for hedged risk (H1'22: £nil). Underlying bank and other borrowings are £718m (H1'22: £825m)
[4] H1'22 Vehicle finance receivables have been retrospectively restated

Credit cards results

	H1'23 £m	H1'22 £m	Change %
Customer numbers ('000)	**1,617**	1,541	5
Period end receivables	**1,224**	1,035	18
Gross average receivables	**1,401**	1,322	6
Interest income	**166**	164	1
Interest expense	**(20)**	(10)	100
Net fee and commissions income	**21**	24	(13)
Other income	**9**	1	800
Total income	**175**	179	(2)
Asset yield	***23.9%***	*25.0%*	*(1)*
Net-interest margin	***21.0%***	*23.5%*	*(3)*
Cost of risk	**8.0%**	2.8%	5
Risk-adjusted income	**120**	161	(25)
Costs	**(86)**	(85)	1
Adjusted profit before tax	**34**	76	(55)
Cost income ratio	***49.1%***	*47.6%*	*1*

Vehicle finance results

	H1'23 £m	H1'22 £m	Change %
Customer numbers ('000)	111	95	17
Period end receivables[1]	764	608	26
Gross average receivables[1]	750	641	17
Interest income	73	69	6
Interest expense	(12)	(12)	-
Net fees and commissions income	-	-	-
Other income	2	2	-
Total income	62	59	5
Asset yield	*19.6%*	*21.6%*	*(2)*
Net-interest margin	*16.3%*	*18.0%*	*(2)*
Cost of risk	5.2%	5.6%	-
Risk-adjusted income	43	41	5
Costs	(27)	(21)	29
Adjusted profit before tax	16	20	(20)
Cost income ratio	*44.0%*	*35.4%*	9

[1] H1'22 Vehicle finance receivables have been retrospectively restated

Personal loans results

	H1'23 £m	H1'22 £m	Change %
Customer numbers ('000)	**50**	24	109
Period end receivables	**130**	42	209
Gross average receivables	**116**	39	197
Interest income	**12**	5	140
Interest expense	**(2)**	(1)	100
Net fee and commission income	**-**	-	-
Other income	**-**	-	-
Total income	**10**	5	100
Asset yield	***21.5%***	*28.1%*	*(6)*
Net-interest margin	***18.2%***	*25.5%*	*(7)*
Cost of risk	**19.2%**	13.5%	*6*
Risk-adjusted income	**1**	2.3	(143)
Costs	**(9)**	(13)	(31)
Adjusted loss before tax	**(9)**	(11)	(18)
Cost income ratio	***83.7%***	*265.3%*	*(181)*

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