Vanquis Banking Group

Half Year Results 2024

Webcast Transcript

1st August 2024

Ian McLaughlin:

Good morning everyone, I'm Ian McLaughlin, Chief Executive of Vanquis Banking Group.

Thank you for joining our webcast today where we will cover our results for the first half of 2024.

I'm joined by our Chief Financial Officer, Dave Watts, who I will hand over to shortly.

I've asked Dave to cover our financials in quite a degree of detail, so he's going to take you through quite a lot of information but we think that will be helpful for everyone.

Before we do that, I wanted to cover three key points to get us started:

- Firstly, to revisit the strategy we set out back in March and provide an update on the progress we've been making since then.
- Secondly, to cover the impact of the historic one-offs that we communicated in our market announcement on 16 July.
- And finally, what this means for us now – to explain how we've been reviewing our plans to make sure we stay on track.

So, firstly on our strategy.

At the end of March, we described how we were going to transform our business and better serve our customers, in line with our refreshed purpose which you'll remember is to –

"*to deliver caring banking so our customers can make the most of life's opportunities"*.

We said we were focused on building an increasingly diversified and differentiated customer proposition, and using insightful risk management to better price, and therefore to provide more options for customers who were seeking credit.

We also described our refreshed technology transformation program, including how it would improve our operational efficiency, reduce costs and help us to drive sustainable growth.

And we *are* making progress.

Customer growth at better margins is starting to show through in our trading numbers.

We've built out our customer proposition across Cards and Vehicle Finance, and we've launched a series of new savings products to further diversify our retail funding base – we are now 86% retail funded.

We are particularly pleased with the growth we have seen in secured lending. Since the launch of our forward flow agreement with Interbridge Mortgages on 16th May, new business volumes have been some 3 times higher than our initial expectations. We are reflecting on the very positive feedback we are receiving from mortgage brokers on the proposition and the systems that have been launched, and we are reviewing the opportunity that we have in this market.

We talked a lot about Snoop at our strategy day and Snoop continues to be a strong strategic enabler for us. New customers in H1 are up 91% compared with 2023 and we are particularly pleased to see strong growth over the period from the Vanquis customer base, with more than 24,000 Vanquis customers now using Snoop to help them better manage their money. Snoop's new credit score feature is being used by around 80,000 customers and we are integrating key Snoop functionality into our Vanquis app.

Another pillar of our strategy is building out our proposition to help customers where, if we cannot offer them credit, instead of a hard "No", we want to say "not yet", and then to make an introduction to other parties who may be able to help them in the meantime. Doing this increases our customer loyalty, helps customers improve their credit worthiness, and therefore improves our chances of being able to say "yes" to offering them credit in the future.

So as part of this (and building on the partnership with H&T Pawnbrokers that we announced back in March), we have now entered into a new partnership agreement with Fair Finance.

Fair Finance, as I'm sure you know, is a social business offering financial products and services to meet the needs of the financially excluded, and we're looking forward to working together with Faisal and the team on this.

We've also made good progress on driving operational efficiency and reducing our costs.

Our operations outsourcing programme was materially completed by 1 July, with around 900 roles moved from the UK to South Africa. As well as the helpful cost saving, we are seeing improvements in call answering times and call quality coming through.

We have also launched enhanced self-service functionality for customers in our app.

These, and the range of other initiatives that we started last October, mean that we are on track for the £60m of cost savings that we previously committed to deliver through this year.

Our technology transformation programme, Gateway, is delivering to plan too and evolving into a more focused digital bank strategy – more to come on that in the future. We delivered our first key technology milestone in June – a contact-centre platform that allows our agents to provide slicker and better service when our customers call.

Gateway technology has also enabled us to implement AI automation for complaint logging – and this is helping us to deal with the costs associated with the complaints challenge that you know we're facing.

Staying with the theme of complaints, these were obviously a major part of what we discussed back in March so it's appropriate that I provide an update.

Dave will come back to this in more detail. But the headlines are that while complaints volumes originated via claims management companies (CMCs) do remain high, the volumes and costs are in line with our previous expectations and budget - so no "new news" there on the downside.

There is progress at an industry level on complaints too.

We particularly welcome the FOS consultation on charging CMCs for filing complaints which are not upheld. This change will ensure fairer distribution of financial responsibility and improve outcomes for our customers, by enabling firms like us to focus on solving genuine complaints rather than having to process spurious ones. We do still remain cautious over the potential for disruptive CMC behaviour in the run up to the implementation of any change – currently planned for October – but we already have contingency plans for that in place.

We also welcome two actions taken by the Solicitors' Regulatory Authority – firstly in writing to their "high volume" firms to remind them of their obligations in properly verifying claims, and secondly to align CMC fees to those of FCA regulated firms, this reduces the commission they can charge customers from 45% to 30% and came into effect on 26th July.

We do continue to pursue legal action against the CMC responsible for most of the spurious complaints that we have been dealing with up to now.

However, the most effective way to improve customer outcomes is to find industry-wide solutions and we continue to work closely with our trade bodies, our regulators and our peer banks on this.

Turning to our trading performance, we can see green shoots towards the end of the first half. We've seen year-to-date growth in new customer numbers that are ahead of plan, improved margins, and a return to growth in receivables in June which I'm pleased to say has continued through July.

Underlying impairment charges are also in line with expectations.

So excluding the one-off items that I will talk about in a moment, we would have been close to breakeven by the end of the half - and that would have actually been a little ahead of our forecast position. This meant we were heading in the right direction to reach our low single digit RoTE target by the end of this year.

Now you will hear Dave and I talk a couple of times during today's presentation about our business performance "*excluding one-off items"*.

In saying this, we are not trying to diminish or ignore the impact of these items – we are just seeking to provide a better explanation of what the underlying business performance actually looks like.

And so, let me turn to the one-off items that we announced on 16th July….

In our presentations in March, we committed to review our Vehicle Finance Stage 3 receivables. This review raised a range of issues culminating in a £29m write-down of the value of these assets. This was a complicated piece of analysis and Dave will take you through it in more detail shortly.

Having found this, we then extended the review to cover the rest of our balance sheet, and we found a further £11m of one-off write downs – around 20 individual line items - the most significant of these related to the development costs of a now redundant mobile app.

Finding these one-offs is disappointing and frustrating, but I'm grateful to the Finance Team for having done the right thing here – this allows us to be confident that our financial position is now clearer and more stable.

So, pulling all this together, what does it mean for our plan?

First and foremost, our purpose and strategy does not change.

We have a vital role to play in the UK banking system, a unique social purpose, our customers really need us and we are continuing to improve our proposition for them.

As I mentioned earlier, we also continue to protect and progress our technology transformation programme.

But to get back on track and adjust for the impact of these historic one-off items, you will see us make two key changes in the second half of this year.

Firstly, we will go further in streamlining our business by removing an additional £15m of cost by the end of 2025.

And secondly, the new talent we've been bringing into our customer proposition team has already identified further opportunities for revenue optimisation.

By making these changes at pace, we now expect to return to modest receivables growth in the second half, and we maintain our targets of low single digit ROTE for 2025 and mid-teens ROTE for 2026.

I have been in role for almost exactly a year now. While we have identified and addressed many challenges, we do still see opportunities to better support our customers and to grow our business, allowing us to deliver a more attractive financial performance for our shareholders.

We've said previously that 2024 and '25 would be periods of restructuring and that we expected there to be "bumps in the road" as we executed our plan.

The balance sheet revaluations that we've just talked about have been particularly disappointing and frustrating… but they are exactly that - "bumps in the road" - we understand them now and we will come back stronger from them.

And we must not lose sight of the fact that Vanquis occupies a unique role in the UK banking system as the largest specialist finance provider for under-served customers. Our business is more important than ever. You'll have seen in the FT recently for example, 44% of the UK population are now living in financially vulnerable circumstances.

So, let me end by coming back to our overarching priority – our customers….

At our strategy seminar in March, we shared insights we had received directly from customers - stories about how Vanquis had helped when no one else would. I'm proud that our customer metrics reflect the tremendous work our colleagues are doing to enhance our customer experience. Our Trustpilot score for example is now up to 4.3 – that's rated as 'excellent'.

I will finish by bringing the voice of a customer directly into the room again today with a message we received just a few weeks ago…

I'll read it...

"Yours is the best credit card so far without a doubt! I've been trying to build my credit, but other providers are so unfair to people like me. They won't even give us a chance. I've had another card for many years, but it never helped my credit. I've been a Vanquis customer for just over a year and I recently received a credit limit increase, which has significantly improved my credit score. Thanks, Vanquis!"

Messages like that from customers show us that we have a valuable business here.

That's why all of us are so passionate about making Vanquis a strong, well managed and sustainably performing business – because our customers need us, because we love serving them, and because in doing that well we will deliver attractive shareholder returns.

Thank you.

I will come back at the end to answer any questions you may have but for now, Dave, let me hand over to you.

Dave Watts:

Thanks Ian. Good morning, everyone. As highlighted by Ian, our first half results, have been impacted by the outcomes, of the Vehicle Finance receivables review, that we committed to undertake, at our 27th of March results briefing, as well as, a number of legacy one-off items, identified from a wider review, of our balance sheet.

The outcome of the Vehicle Finance Review, has deemed it necessary, to re-state, and re-present, certain prior year figures. To provide a clear, and transparent, overview of these items, I will provide more details during this presentation. Reiterating what Ian has said, we now have a clearer, and a more stable, financial position, upon which to grow our business. I will also provide an update on complaints, and our underlying business performance, which shows positive signs, especially towards the end of the second quarter.

During the first 6 months of 2024, we posted an adjusted loss before tax, of £(26.8)m, primarily due to legacy, one-off items. We also incurred, £15.5m, of exceptional items, principally in relation to transforming our business. This has resulted in, a half year statutory loss of £(35.8)m, impacting our capital, and reported ROTE.

I will cover the Vehicle Finance receivables review shortly, but the high-level P&L impact, as advised on the 16th July, was a loss of £28.9m. £12.8m is included in the first 6 months of 2024, with the remainder of the loss, relating to prior periods.

We define legacy one-off items, as relating to, 'historic performance and decisions'. There are both negative, and positive items, resulting in a net charge to the P&L of £11.5m. Of this amount, £10.2m is included in adjusted operating costs, while a £1.6m impact, is included in Net Interest income. There is a £700k impairment charge, and a £1m credit, included in exceptional items.

We identified a number of legacy, one-off items. The most notable, included a £8.5m write down, of historical mobile App development costs, that were determined not to be in line with Gateway and strategic requirements. Instead, the build of a new mobile App, is being undertaken in-house, by the Snoop team, who have a proven track record, in mobile App development, and can deliver a higher quality product, more efficiently, resulting in longer term cost savings, and ultimately, better customer service.

In assessing our real estate footprint, £5m of costs, most notably dilapidations and break fees, were required to be provided for. A clean up of Sundry balances, included a £1m provision release, relating to discontinued operations, which was no longer required.

Net interest income, was in line with the first half of 2023, despite a reduction in receivables, principally due to the re-pricing of our back book, in Cards. Non-interest income, declined by £3m compared to the first half of 2023, primarily reflecting, lower fee income, in Cards.

Our IFRS9 model enhancements, have now been completed, and we expect limited benefits from future model refinements. Excluding the one-off impairment charge, from the Vehicle Finance review, our underlying book has performed in line with expectations.

We remain on track, and in line with our prior guidance, to deliver £60m of cost savings, by the end of 2024. In addition, we plan to deliver a further £15m of cost saves, by the end of 2025.

Turning to our key metrics and ratios. Gross Statutory receivables, decreased by 14%, due to the impact of the Vehicle Finance review, and lower customer interest earning balances. This also affects our net receivables position, albeit with a lower impact.

Gross customer interest earning receivables, reduced during the first 5 months of 2024, due to active volume management, lower customer Card spend, and higher repayments. However, we saw an increase in receivables in June, due to higher mortgage volumes coming through, and a marginal improvement in Cards.

ROTE has been impacted by the statutory loss, and for the first half of 2024, was negative 11.5%. Our Tier 1 capital position reduced to 19.8%, mostly due to the losses identified from the Vehicle Finance review, which has also resulted in various restated metrics.

Our NIM remains broadly stable at 18.8%. As our mortgage portfolio grows, we expect a dilution of our NIM to occur. Going forwards, this impact will be presented separately. Our risk adjusted margin is impacted by the variability in impairments. For the first half of 2024, our risk adjusted margin was 11.6%. Excluding the one-off impairment charge, from the Vehicle Finance review, this would have been 12.7%, a slight increase on the first half of 2023.

Our Cost to Income ratio, has also been negatively impacted, by approximately 4 to 5%, by the legacy one-off items already discussed.

I appreciate that this is a "busy" slide, however, it is necessary to show the various impacts of the Vehicle Finance review, and importantly, our resulting position.

As sign posted on the 27th March, we have undertaken a detailed review, of our Vehicle Finance Stage 3 receivables, to clean up our balance sheet, with a view to future debt sales.

The full impact of this review, was not clear until we closed our half year books, and when we did, this necessitated the announcement, on the 16th of July. By way of background, in 2022, the business re-presented a large balance of "shortfall debt", from Gross customer interest earning balances, to coincide with the introduction of a revised, market consistent, Net interest margin, methodology. By 'Shortfall debt', we mean loans where we have recovered, and sold, the underlying vehicle, with a residual loan remaining outstanding. These were not interest earning loans, due to their defaulted status, and were mostly provided for. As there have been limited debt sales over prior years, the 'shortfall debt' and ECL have increased over time.

In June, we introduced a new Charge-off policy for Vehicle Finance, and we re-assessed, and re-valued, our portfolio. This resulted in – firstly, a reduction of Shortfall debt, and the accompanying Deferred Acquisition Costs, as well as the ECL provision. This led to a £15m write-off of receivables, with a small impact to P&L; and, secondly, using our new charge-off policy, we established a “true” Post Charge Off Asset re-valued at £17.8m, based on recent, indicative, debt sale prices.

Unfortunately, this review also uncovered that, we had an asset held for sale, that had NOT been removed from the ECL account, i.e. a double count existed. Consequently, we have reported a prior period restatement of £7.6m for 2023, whose results have now been restated, and we have also adjusted, our 2023 opening balance sheet, for £8.5m, relating to earlier periods.

The review also identified, that a cohort of assets, totaling £51.6m, were incorrectly deducted from customer interest earning balances. These assets, should have been deducted from shortfall debt. This has been re-presented. Note - our net receivables are unchanged by this item.

Separate to the review, we introduced IFRS9 model enhancements in the first half of 2024, including a revised definition of default, which is aligned to our other products. This has resulted in the re-classification of certain Vehicle Finance receivables, from Stages 2 and 3, to Stage 1. This has resulted in over 66% of our Vehicle Finance book now being classed as Stage 1. As you can see in the Vintage table, the average Stage 3 ECL coverage has increased to 62.9%, with higher coverage levels for more mature vintages.

This review has delivered, a clearly defined, and re-valued, Post Charge Off Asset of £17.8m, and a significantly reduced, Stage 3 receivables balance of £190m, which has a more appropriate ECL provision coverage.

Turning to income: We took decisive action in the fourth quarter of 2023, to manage volumes, and introduced re-pricing strategies, for the Cards back book, and for new business in all our products. These re-pricing initiatives, have offset the reduction in receivables, and compared to the first 6 months of 2023, interest income has increased by 7.7%.

Further segment and customer specific, risk focused, re-pricing opportunities exist. These are being explored, for implementation, later this year. Our interest expense has increased each half, due to higher market rates being offered, on the re-financing of maturing, fixed rate deposits. As a result, our Net Interest Income, has remained stable at £215m.

Re-pricing has resulted in our NIM marginally increasing to 18.8%, during the first half of this year. Cards asset yields, continue to improve, due to price increases in 2023, and also at the end of the 1st quarter of 2024. For those customers which are deemed to be vulnerable, we have NOT increased prices. Vehicle finance, asset yields, were impacted by the review undertaken, with a £3.1m Deferred Acquisition Cost write down, reducing interest income, in June. Excluding this, the asset yield, would be on a slightly upward trajectory.

Additional price increases, were introduced in Vehicle finance, at the beginning of June, and the benefits of this, will come through slowly, due to the nature of the product. Our cost of funds increased during the first 6 months, however, they remain below the Bank of England base rate.

We have further expanded, our retail savings proposition, including more flexible products, as well as ISAs. This will allow us to be more reactive, to any changes in the bank base rate, and to better serve our savings customers. With planned increased volumes, coming through in our second charge mortgage proposition, we expect some NIM dilution in the future.

The Vehicle Finance review, has significantly impacted, statutory Gross receivables balances. 'Other gross receivables' have reduced from £338m to £109m, demonstrating the extent of cleansing actions undertaken. The resultant positions, primarily comprise Deferred Acquisition Costs, for both Vehicle Finance and Cards, which have reduced in aggregate, as well as, Post Charge Off Assets, for both Cards, and Vehicle Finance. The Cards, Post Charge Off Asset, has reduced by two thirds to £6.3m, due to further successful debt sales, in the first half of 2024.

I will cover customer interest earning balances, and the underlying trading performance, on the next slide. Net receivables, were less impacted by the Vehicle Finance review. You should note the different split between the Stages, with the proportion of Stage 1 balances, increasing significantly, to 85.8%, due to IFRS9 model improvements, and aligning default definitions across products, with the highest impact in Vehicle Finance.

Customer interest earning balances, are the main driver of our income. These balances have reduced by 6.2%, in the first 6 months of 2024, driven by volume management actions, taken in the second half of 2023, which continued in the first quarter, of 2024. In addition, we experienced lower customer spend in Cards, and higher customer repayments in Cards, Loans, and Vehicle Finance.

Since the 27th of March, we have initiated various actions, to grow our receivables on a profitable basis; these are now beginning to come through, in our reported balances. The rate of reduction reduced to 1.8% in April and May, and we experienced a modest growth in June. In Cards, we have introduced new customer initiatives, as well as re-launching a Balance Transfer proposition. This has resulted in a marginal increase in our June balance. We have restarted, controlled lending, in Loans, to existing customers in the second quarter, which has slowed down the repayments trend.

We started to grow our second charge mortgage book, in earnest, in 2024. In May, a key forward flow agreement, with our introducer partner, Interbridge, went live. This, coupled with extending our forward flow arrangement with Selina Finance, increased receivables by £17m during June.

Going forwards, we expect second charge mortgages to be a significant driver of receivables growth. These secured assets, have lower IFRS9 provision requirements, and therefore a lower P&L drag.
This slide, provides a detailed view, of our impairment charge, and its drivers. Excluding the impact of the Vehicle Finance review, our impairment charge was broadly consistent, with the first 6 months of 2023.
Our multi-year IFRS9 model enhancements are now complete, with limited benefits coming through, in the first half of 2024. Our underlying impairment charge, has moved in line with new business volumes. Our Cards debt sale programme, has matured, and therefore associated P&L impacts, will be at lower levels than historically.
As I said on the 27th of March, we expected some volatility in reported impairment charges for 2024. With the conclusion of the Vehicle Finance review, and the IFRS9 model enhancements now concluded, coupled with progress on arrears management, we are now reaching the stage where impairment charges, are more aligned to current business activity, and book performance.
From 2025, we expect a much “cleaner” impairment charge, and consequently, greater clarity and consistency, in our “cost of risk”.
Turning to our Expected Credit Loss provision. As already covered, the impact of the Vehicle Finance review, has reduced the ECL provision significantly. At December 2023, the Vehicle Finance Stage 3 provision, comprised over 55% of the ECL balance; this has now reduced to 34%, at the end of June. The overall coverage ratio has reduced to 14.9%, due to a far greater proportion of our book in Stage 1. However, as I mentioned earlier, the coverage ratio has increased, for Vehicle Finance, Stage 3 receivables.
Our cost base increased by 1.6%, compared to the first six months of 2023. Excluding the Legacy one-off items, we would have reported a reduction in costs. Complaint costs remain high, mostly due to spurious CMC claims, which I will cover on the next slide.
We are on track, to deliver the £60m of cost savings, previously committed to, by the end of 2024. Cost transformation initiatives, and improved cost management disciplines, are benefitting the business; however, our cost base remains too HIGH. Consequently, we plan to deliver an additional £15m of cost savings by the end of 2025. This will not stop our investment in Gateway, to make our business more efficient, and effective, to help our colleagues, deliver a better product, and service quality, to our customers.
Staff costs have decreased by 21%, driven by a 32% reduction in headcount, to around c.1,300 employees. This staff reduction, coupled with ‘hybrid working’, has led us to take further actions, to

reduce our real estate footprint, consolidating locations, and closing floors. The benefit of this, is expected to come through, from the second half of 2024.

We continue to experience, elevated levels of complaints, up a further 20% compared to the second half of 2023, focused on Cards. Similar to 2023, the majority of complaints received in 2024, relate to lending origination. These complaints, relate to a wide range of different matters, in the customer lending process, but with no particular, underlying, common theme.

The high level of outstanding complaints, that we saw at the end of 2023, mostly due, to the increased volume, of CMC complaints being received, has almost halved in the first half of 2024, due to automation, and operational efficiencies. OVER 90% of lending origination complaints, originate from CMCs, of which 50%, originate from the "one CMC", against whom we have taken legal action, and 19% from a second CMC. We are closely monitoring their activity, and will act as necessary.

We continue to do what is right for our customers, and investigate all genuine complaints received. CMCs bulk refer complaints to the Financial Ombudsman service. We are anticipating increased volatility, ahead of the proposed new FOS fee charging rules, that Ian covered earlier.

CMC uphold rates remain low at 7% internally. The increase observed, when looking at CMC complaints at FOS, is due to a backlog of complaints that were referred by CMCs. Excluding this backlog, we would expect the FOS uphold rate, to be broadly in line with internal uphold rates.

First half 2024 resource costs remained broadly in line with the second half of 2023. With the proposed change in FOS fee charging, and improved processes, we expect to be in line with the complaints costs previously guided for 2024. However, we expect complaints costs to decrease in 2025. In terms of Service quality complaints, redress amounts and FOS fees, remain significantly less, and costs incurred with these remained broadly flat.

Let me provide a bit more insight into our two main products. Firstly, Cards. As mentioned before, Cards asset yields, have continued to improve due to re-pricing initiatives with approximately 65% of our portfolio now attracting APR %s between 30 and 49.9%, compared to approximately 59% of our portfolio in December. During the first 5 months of 2024, we saw customer balance repayments exceed their new spending levels. However, in June, we saw a marginal increase in receivables, due to new initiatives beginning to take effect. New business volumes, are on an upwards trend. We expect this moderated growth trend, to continue in the second half of 2024.

Vehicle Finance. Receivables were broadly flat, with a slight increase in the second quarter, due to certain targeted product improvements. As already covered, Vehicle Finance reported Asset yields, have been impacted by accounting adjustments. Excluding these adjustments, yields would be on a slight, upward trajectory, albeit at lower levels than we would like. We have experienced increased contracts coming to their end of term, either voluntary, involuntarily, or at maturity. This has been offset by new business volumes.

Turning to liquidity and funding. We have a strong liquidity, and funding position, with an increased level of surplus liquidity as I speak, being £789 million pounds as at the 30th of July. We have settled £75m of TFSME funding early, to reduce the re-financing risk of this debt, expected in the second half of 2025.

In line with our guidance, retail savings and deposits, from nearly 48 thousand customers, now form over 86% of our funding. During July, we surpassed £2bn in retail savings and deposits, for the first time. Over 97% of retail deposit balances are protected by the Financial Services Compensation Scheme. Balances held on notice accounts, first introduced in 2023, have increased by approximately £190m since December. These provide both our customers, and ourselves, more flexibility. This will allow us to better manage our Cost of Funds, as interest rates change in the future.

As already noted, the impacts of the Vehicle Finance review, have led to a reduced, re-stated Tier 1 capital ratio of 19.9%, as at December 2023, and contributed to the loss in the first half of 2024. Our Tier 1 capital is further impacted by a Statutory loss from exceptional items, and certain legacy one-off items. Note that the intangible asset write off, has a net nil capital impact.

Risk weighted exposures have moved in line with the reduction in receivables. We remain adequately capitalized, for planned future growth, noting that approximately 32% of our Tier 1 capital, or £116m, is 'surplus', to published regulatory requirements. We have reset our Target range, to be 18.5 to 19.5%, now that the Group's financial position is clearer, and more stable, with an emerging, lower risk mix of business, and a more predictable future P&L.

I appreciate that we have provided a lot of information, but to summarize some key messages.

The impact of the Vehicle Finance review, and Legacy one-off items, has been difficult, however, we now have a clearer, and more stable financial position. We successfully delivered on Re-pricing initiatives, and further pricing for risk opportunities exist, in specific segments and customers, which we are exploring. The marginal increase in Cards receivables in June, coupled with the successful launch of second charge mortgages, is promising for modest receivables growth during the remainder of 2024. Our underlying impairment charge, is coming in line with business performance, and going forwards, we should have a clearer cost of risk. We have a degree of uncertainty, in Complaints levels, in the coming months, ahead of the proposed positive changes to FOS charging. However, our 2025 complaint costs, should be lower than 2024. We will complete the delivery of £60m of cost saves, by the end of 2024, and plan to deliver, a further £15m of cost saves, by the end of 2025. We will remain highly liquid, and adequately capitalised, for future growth. We are re-affirming, our medium-term targets for 2025 and 2026.

As noted on the 27th of March, both 2024 and 2025, will be years of transformation, and our financial progress will not be linear. Due to the financial impacts, of the Vehicle Finance receivables review, and legacy one-off items, we have updated our 2024 guidance, to a slightly higher, cost to income ratio, while we expect to report a full year loss for 2024, rather than a low, single digits, ROTE. I have already covered, our change in target Capital ratio. While there is a lot to deliver, and some tough actions to take, we have clearly defined initiatives, that we are executing at pace.

I would like to thank you for your time this morning. Ian and I welcome any questions that you may have.

Q&A

Operator: Thank you. Thank you very much, sir.

Ladies and gentlemen, if you'd like to ask an audio question, please press *1 on your telephone keypad. That's *1 for questions.

Our very first question today is coming from Gary Greenwood, calling from Shore Capital. Please go ahead sir, your line is open.

Gary Greenwood: Oh, hi. Thanks for taking my questions. I've got three

Ian McLaughlin: Gary, sorry you're really faint. I don't know if you can hear me, but we're only getting every third word.

Gary Greenwood: Hello?

Hello?

Ian McLaughlin: I heard the hello, Gary.

Gary Greenwood: Can you hear me?

Dave Watts: Yeah.

Ian McLaughlin: Try again. Let's see if we can catch you.

Gary Greenwood: Yeah, so I have three questions. On... You previously mentioned...

Ian McLaughlin: No Gary, sorry. Sorry to cut across you again, Gary. My apologies. We really can't hear you. It might be better if you dial off and try and dial in again. And we'll maybe take another question in the meantime and come back to you if that's okay? Apologies.

Miriam McKay: Gary, if the line doesn't work, log in on the webcast and we'll take a question that way. But in the meantime we have got some questions coming in on the webcast, so we'll move to those.

The first question that we've got, I think is about CMCs. And the question is, "Can you detail the potential for cost recovery through litigation and what the timescale might be?"

Ian McLaughlin: Good one to start with. I'd have preferred Gary's. I think look, the simple answer is, no we can't. It is subject to legal proceedings. And it wouldn't be appropriate, I think I mentioned in my opening remarks, for us to go into any detail on that.

What I would say is that we have a case pending. We do not yet have a court date, but as that gets to the stage where we're able to share, then obviously we will do. But that wouldn't be appropriate at this stage, other than to maybe guide that it is substantial.

You only have to look at our increased costs for complaints, particularly from this one, the CMC, and you can probably work back an approximate number from that.

Miriam McKay: Thank you. Here's another question coming in from the web which says, "Can you explain how ROTE improvements will quantitatively translate into profitability?"

Ian McLaughlin: Dave, do you want to take that one?

Dave Watts: Yeah. What we've done today is we reiterated our guidance for 2025 and 2026. In terms of profitability, we're not providing the levels of profitability at this point in time.

We do need to continue to reflect on the impacts of what happened in the half year in terms of the actual impact on our results for this year. However, we expect profitability to increase over the medium to longer term on that particular matter in place. Okay? And that's all I really want to say. Unless Ian, you want to say anything else?

Ian McLaughlin: I think that's fine.

Miriam McKay: The next question I have here is, "Can you confirm if you've received approaches from other financial institutions? What is your view on future combinations? Is this something you would welcome, or see as a distraction?"

Ian McLaughlin: Good question. Look, conversations happen informally all the time. Nothing formal at all. Otherwise, we obviously would've reported on that.

Our focus as a leadership team is, while we never want to be myopic, we have a plan that we have gone into in a great deal of detail this morning. And Dave, thank you again for taking us all through that. Our focus as a team is on execution of that plan. So we're not looking for anything other than that.

I have a long-held view, I think I've talked about it before, that you get your own house in order, you get your own business running in an exemplary way, and then you earn the right to look around at other opportunities. In the meantime, we've still got a little bit of work to do to get to that stage. And that's what we're going to concentrate on.

Miriam McKay: I now do have Gary's questions.

Ian McLaughlin: Excellent.

Miriam McKay: Via the webcast.

Ian McLaughlin: Gary's questions are always good, so we're glad to have them.

Miriam McKay: Okay. I'll give you these one at a time actually, that's probably easier. "You mentioned bumps in the road were expected. Are we now through those or could there be more?"

Ian McLaughlin: I do believe, and I'll get Dave to comment on this, that we are substantively through them. We have looked and looked again, and I think I described the very detailed and painstaking work that the finance team have done earlier. So we do have a high degree of confidence that we have identified all that we need to identify.

It's a very brave CFO that says there couldn't be anything else, but we don't believe there's anything substantive. Dave, do you want to...?

Dave Watts: Yeah, just to reiterate what you said there, Ian. The team's done a very thorough job going through the balance sheet, all areas of the balance sheet. You've seen impacts on quite a few different lines coming through. Intangible assets, vehicle finance, receivables.

Look, I have a high degree of confidence that we've got everything. But as Ian, you said, never say never. There's always some that could pop out, but we have a high degree of confidence what we have is all out there now.

Ian McLaughlin: And I think the fact that, again, I mentioned this, that it was 20 individual line items probably gives some reassurance in itself.

Miriam McKay: The next one is, "How should we think about IFRS 9 impairment charges developing? Will the impact of accelerated growth be compensated for by mix, given growth in lower-risk second-charge mortgages?"

Ian McLaughlin: Yeah. And again Dave, you can add to this, but it's always that balance of how fast do you grow and how much growth strain through the IFRS 9 offset that you can absorb at any time.

Mix is critical. So I think Gary's question is absolutely on the nail on that. That's why I mentioned that we're looking at the second-charge mortgage volumes, because that is a lower RWE and could be very helpful to us. So we will come back once we've finished that review.

Do you want to add anything else now for us, Dave?

Dave Watts: Just to reiterate what I said earlier on. The work we've done on the IFRS 9 model enhancements and the other work we've undertaken, the vehicle finance review, we're going to have a much clearer view of our impairment charges as we go through into 2025 than what we had the last few years. So that's a positive one from there.

In terms of mix, as Ian said, we will continue to look at our mixing process. The delivery we've had so far in the last couple of months in terms of our second-charge mortgages has been excellent and it's a great market to be in.

We need to explore are there better possibilities in there to deploy our capital, per se, is a lower RWA density in place. It's a secure product. So yeah, we continue to look at our mix as we go further forwards.

Miriam McKay: And the last question here in fact picks up on RWA density. "Will the capital ratio stay above 18.5% in FY25, given accelerated balance sheet growth but low profitability?"

Dave Watts: Thank you, Gary. Look, we've reset the range of our capital to 18.5% to 19.5%. That is what, based on what we expect over the coming months and a year, to head on that one there. That is the guidance we have at this time.

I'm not going to change the future guidance in that place there. We believe that we have the capital required to deliver on our plan in place there, and that is a range we're going to stick to at this time.

Miriam McKay: Okay. Operator, that concludes the questions that I have on the webcast for the time being.

Operator: Thank you very much, ma'am. We do not appear to have any further audio questions either at the summit call back over to Ian for any additional or closing remarks. Thank you.

Ian McLaughlin: Thank you George, thank you Miriam, and thank you Dave. Thank you to all of you for your time this morning. I did say we were going to take you through a fair amount of detail and I think Dave delivered very well to that. Thank you for bearing with us.

As ever, if there are any other questions, we're available, so come back to Dave, myself or Miriam at any time. But I think I'll not recap our recap. We'll close the call there. Thank you, everyone.