Vanquis Banking Group

FY'22 Results

VANQUIS Banking Group

31st March, 2023

Today's presentation

Highlights and Overview
Malcolm Le May

Financial Review
Neeraj Kapur

Strategy and Outlook
Malcolm Le May

Questions
Appendix
Contacts

Malcolm Le May, CEO

Neeraj Kapur, CFO

Highlights and Overview

Malcolm Le May
Chief Executive Officer

Significant strategic change delivered

2018	2022

2018

- Non-standard lender operating in the high-cost credit sector
- Poorly executed operational overhaul of home credit business…
- …Led to a £300m rescue rights issue
- Damaged relationship with the FCA and PRA
- Investigation into ROP product and resulting remediation programme
- Significant financial losses related to CCD
- No dividends paid

2022

- ✓ Fully repositioned as a specialist banking group with enhanced risk management framework
- ✓ Lower risk customer profile with credit risk profile halved
- ✓ Launched new products and offerings
- ✓ Disciplined approach to costs and investment
- ✓ Strong capital and liquidity positions including a large limit waiver and capital requirement reduction from the PRA
- ✓ Focused on sustainable growth and returns to shareholders

Strong foundations laid in 2022

Strategic

Repositioned as a specialist banking group

Credit risk profile reduced materially

Rebranded as Vanquis Banking Group plc

Strategic ambitions aligned

Delivering receivables growth of a higher quality

Asset quality remains high

Financial

Adjusted PBT of £127m

Strong receivables growth year-on-year

Capital requirement reduction & waiver received from PRA

Capital and funding advantages

Total dividend per share of 15.3p

40% pay-out ratio

Customers

Specific initiatives launched for each product

New price points and offerings

Personal loans establishing itself extremely well

>170% growth in receivables

Second charge mortgage product launched

>£1bn annual lending market

Financial Review

Neeraj Kapur

Chief Finance Officer

Summary financials

- **Strong receivables growth** across credit cards, vehicle finance and personal loans
- **Net interest margin** increased by 0.5% to 21.0%
- **Risk adjusted margin** was broadly flat year-on-year at 20.3%
- **Group adjusted PBT from continuing operations of £126.6m** (FY'21: £167.8m)
- **Asset quality remained high and delinquency trends remained stable** driven by robust underwriting and risk management
- Large limit waiver and reduced regulatory capital requirement granted by the PRA

Continuing Group	**FY'22**	FY'21
Total income (£m)	**481**	483
Impairment charge (£m)	**(66)**	(51)
Risk-adjusted income (£m)	**415**	432
Adjusted continuing PBT	**127**	168
Net receivables (£m)	**1,904**	1,678
Total customers ('000)	**1,675**	1,655
Coverage ratio	**24.1%**	26.8%
Annualised RORE[1] (%)	**22.2%**	32.3%
Capital headroom[2] (£m)	**284**	344
Excess HQLA over LCR (£m)	**384**	395

[1] Return on average required regulatory capital (RORE) reflects adjusted profit after tax for the period, excluding CCD, divided by the average regulatory capital requirement for the period
[2] Headroom above total capital requirement and combined buffer, stated at 31 December on the prevailing pre C-SREP requirement

Group results

	FY'22 £m	FY'21 £m
Credit cards	**179**	174
Vehicle finance	**38**	29
Personal loans	**(16)**	(9)
Central:		
- Central costs	**(30)**	(18)
- Transformation & Change	**(34)**	(8)
- Bond interest cost including Tier 2	**(10)**	-
Adjusted continuing profit before tax	**127**	168
Amortisation of acquired intangibles	**(8)**	(8)
Exceptional items – continuing operations	**(9)**	(18)
Continuing PBT	**110**	142
Discontinued operations (CCD) - including exceptional	**(11)**	(138)
Profit before tax	**99**	4
Total receivables	**1,904**	1,678
Total borrowings including retail deposits	**1,916**	1,864

- Central costs reflect the roll out of the shared services model and investment in the growth of the business.
- The Transformation & Change spend is designed to enhance the Group's strategic competitive advantages through new IT platforms and improved customer journeys
- Losses in the personal loans business widened in FY'22 reflecting growth, IFRS 9 costs and customer acquisition
- Exceptional and discontinued items relating to the closure of CCD reduced significantly year-on-year as expected

Key performance indicators[1] ('KPIs')

Shareholder KPIs	FY'22	FY'21	FY'20
EPS (basic)	32.8	53.7	(14.6)
EPS (adjusted)[2]	38.7	57.5	11.7
RORE[2]	22.2%	32.3%	6.2%
ROTE[2]	22.2%	32.2%	5.6%
ROA[2]	3.8%	5.3%	0.9%

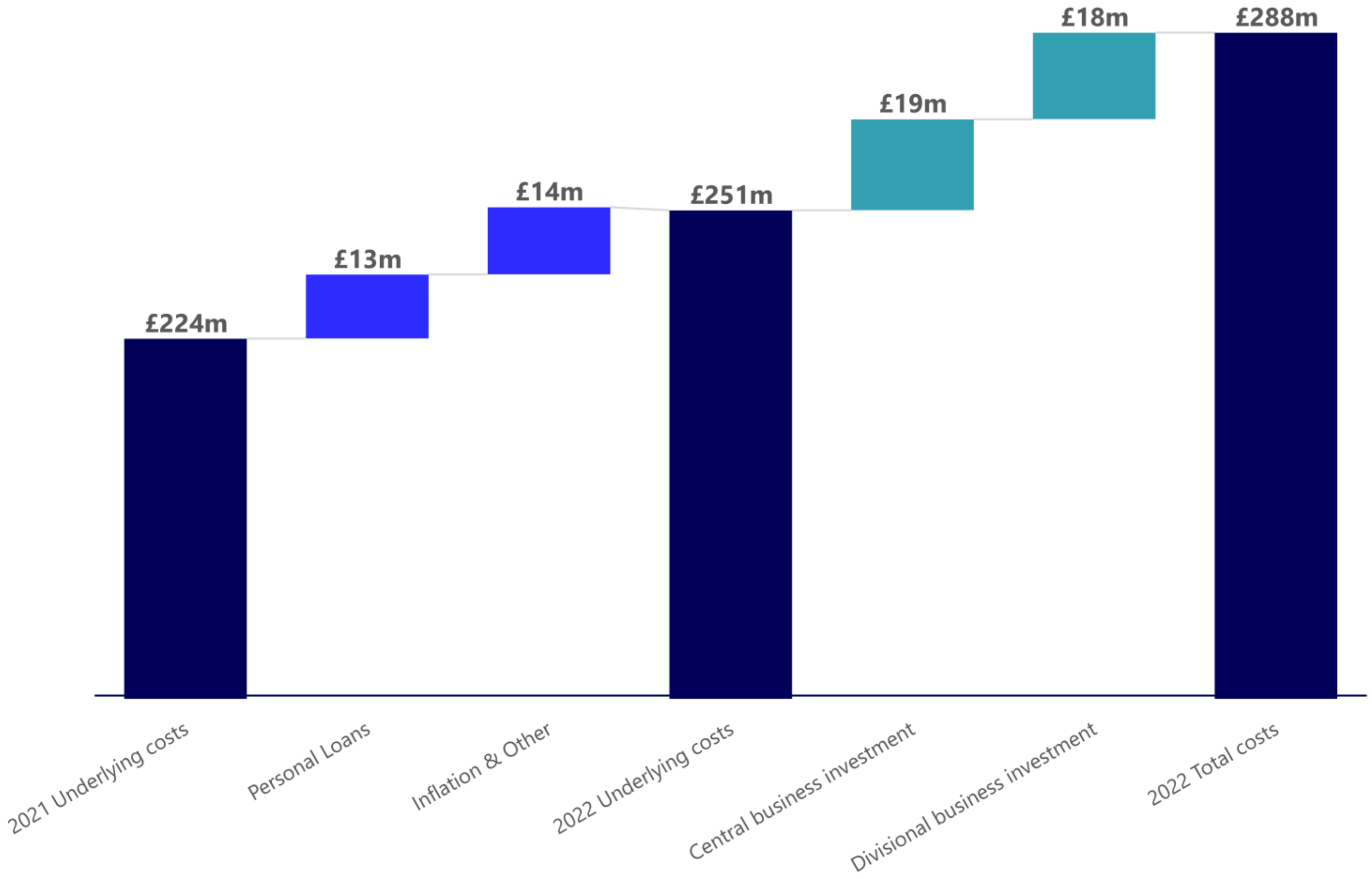
Revenue KPIs[2]	FY'22	FY'21	FY'20
Asset yield	23.9%	22.8%	23.9%
Net interest margin	21.0%	20.5%	21.2%
Risk-adjusted margin	20.3%	20.8%	10.6%

Cost KPIs[2]	FY'22	FY'21	FY'20
Cost of risk	3.2%	2.4%	13.9%
Cost of funding	2.9%	2.4%	2.7%
Cost income ratio	59.9%	54.8%	38.2%
Underlying cost income ratio[3]	52.3%	46.5%	35.7%

Capital & Liquidity KPIs	FY'22	FY'21	FY'20
CET1	26.4%	29.1%	34.2%
Total Capital Ratio	37.5%	40.6%	34.2%
Liquid assets (HQLA) (£m)	421	415	833
Excess HQLA over LCR (£m)	384	395	804

[1] KPIs reflect the continuing business only [2] Adjusted measures [3] Underlying cost income ratio is defined as operating costs excluding exceptional items and business investment as a percentage of total income excluding exceptional items

Investing for growth – Group costs



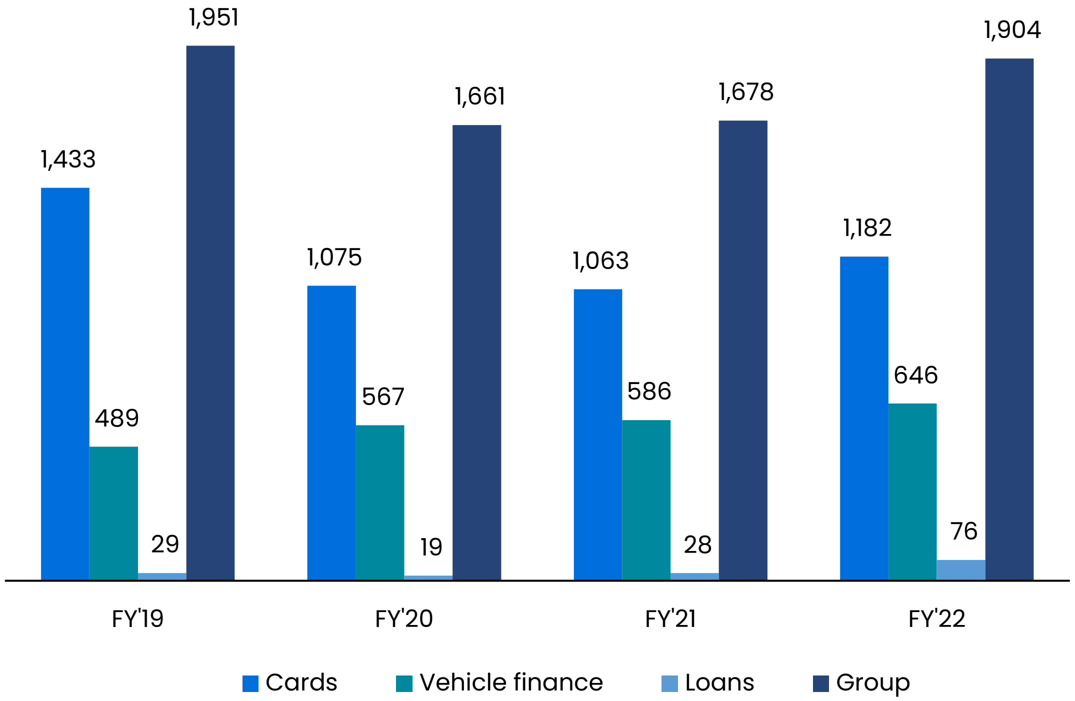
- Total adjusted Group operating costs including ongoing business investment increased to £288m (FY'21: £264m)
- Total adjusted Group underlying operating costs, excluding business investment, were £251m (FY'21: £224m)
- Ongoing business investment increased to £37m in total to improve scalability and operational leverage
- **The Group remains on track to deliver an underlying cost to income ratio of 40% in 2024 driven by:**
    - Investment spend reducing, and
    - Net interest income increases driven by receivables growth

Product Snapshot

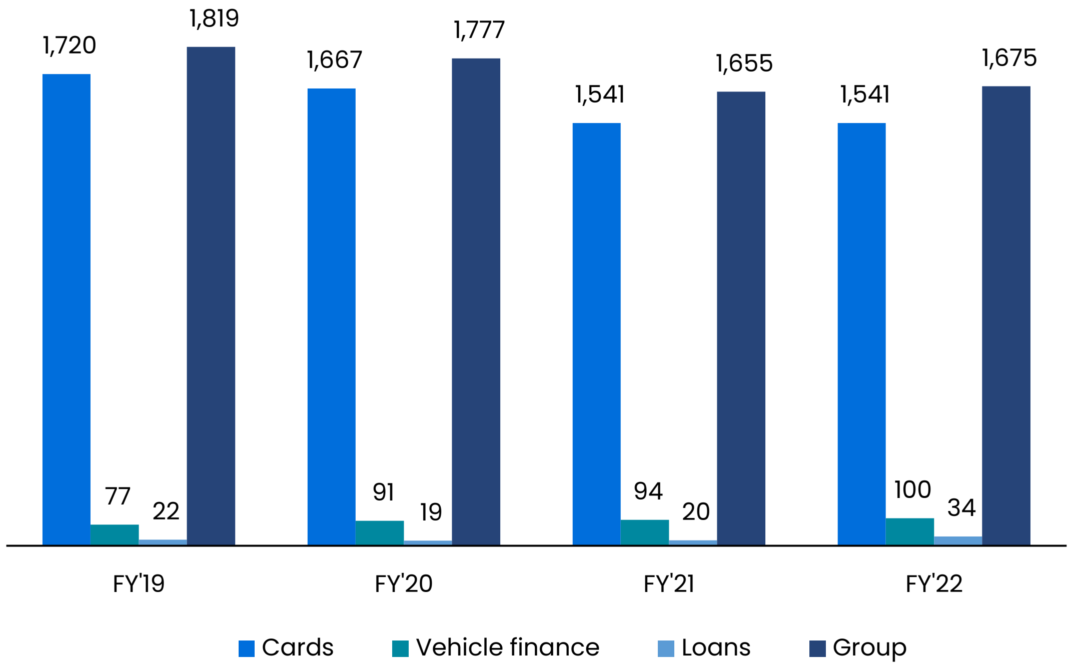
Primary Products	Brands		Net receivables (£m)	Customer numbers (k)	Total income (£m)	Impairment (£m)	Risk-adjusted income (£m)	Adjusted PBT/(LBT) (£m)
Credit Cards	VANQUIS	FY'22	1,182	1,541	360	(17)	343	179
		FY'21	1,063	1,541	362	(4)	358	174
Vehicle Finance	moneybarn Vehicle Finance	FY'22	646	100	119	(41)	78	38
		FY'21	586	94	111	(45)	66	29
Personal Loans	VANQUIS	FY'22	76	34	12	(9)	3	(16)
		FY'21	28	20	6	(2)	4	(9)

Net Receivables and customer numbers

Net Receivables by product (£m)



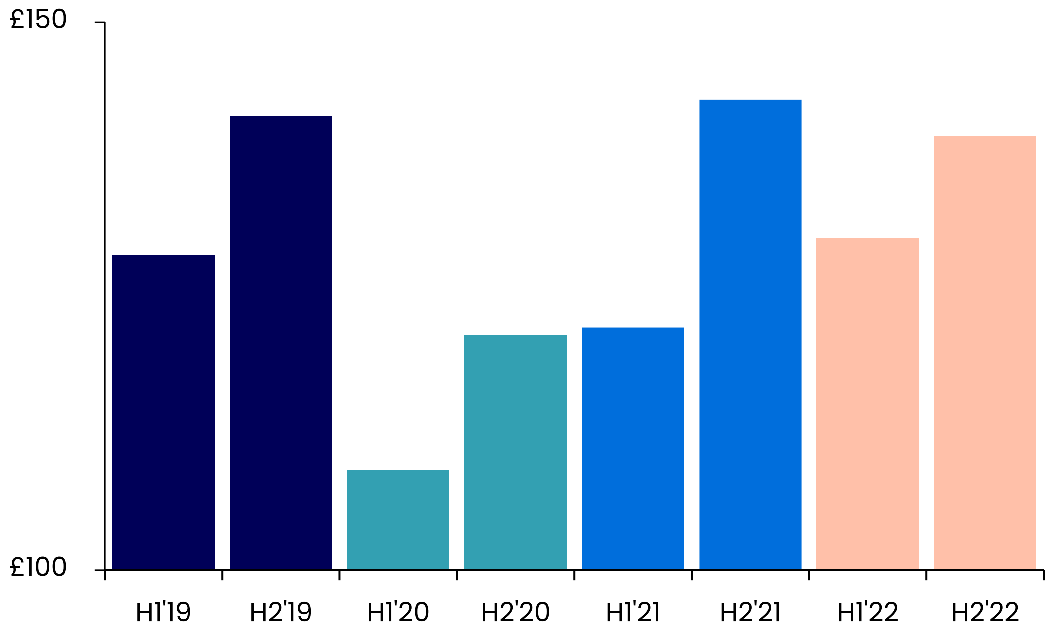
Customer numbers by product ('000)



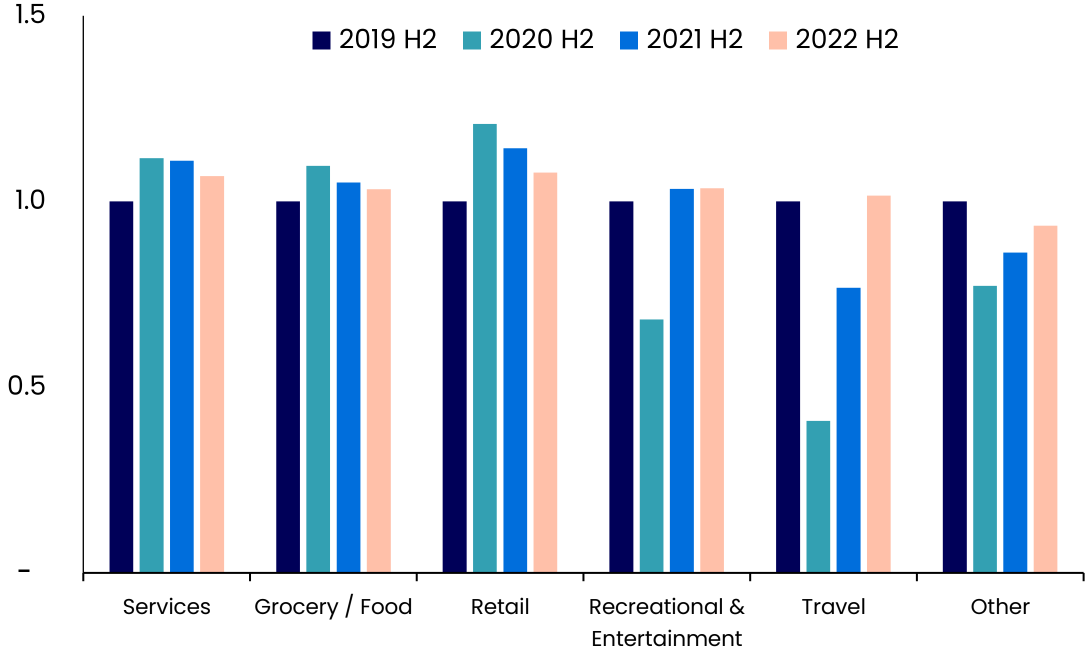
- Net Receivables have recovered to pre-pandemic levels
- Receivables growth in FY'20, FY'21 and FY'22 weighted towards lower risk customer categories driving an improved credit risk profile

Credit card trends improving

Spend per customer able to spend[1]



Active customer spend by category indexed to 2019[2]



- Spend per active customer has improved by 6% year-on-year; total spend increased in FY'22 versus FY21
- Spend on travel has recovered strongly in 2022 as expected; Recreation and Grocery categories remain strong

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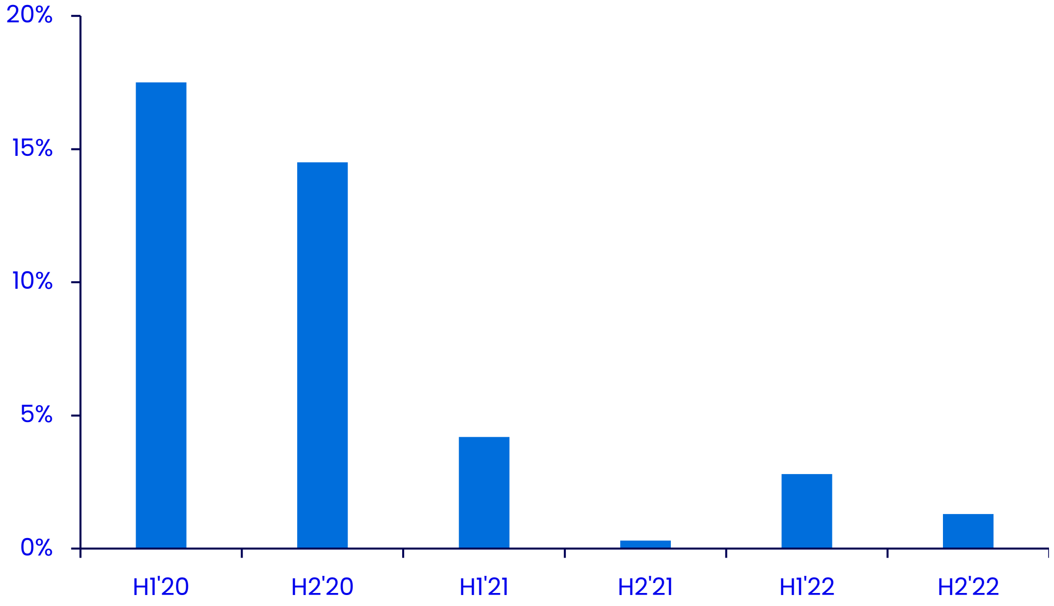
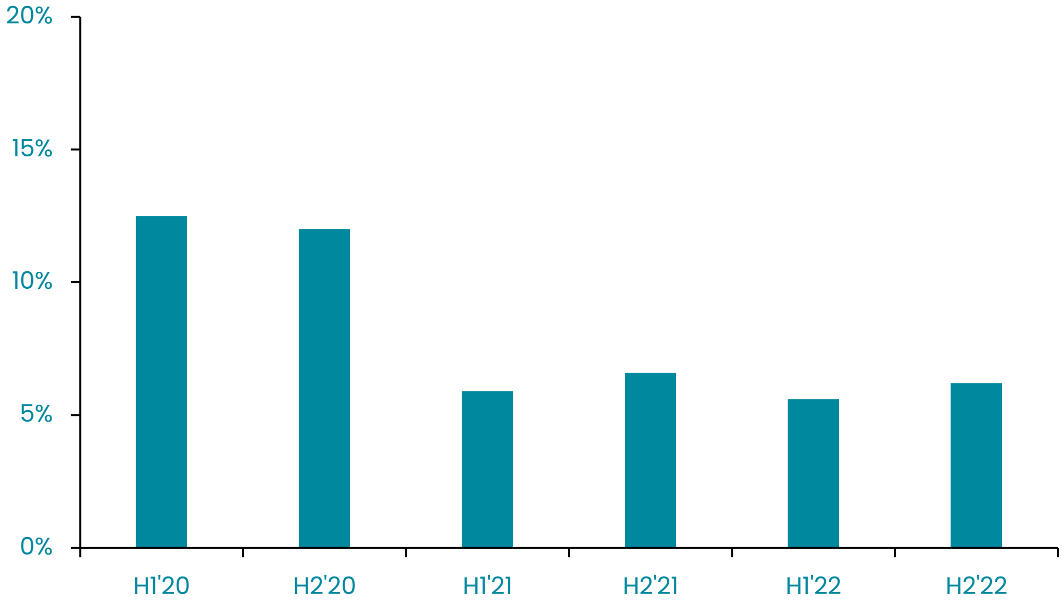
1 Able to spend – open accounts with no blocks and not delinquent
2 Active customer – open accounts which either have a balance at month end or have had activity on the account within the last month

Cost of risk trends reflect reduced credit risk profile of new customers…

Credit card cost of risk rates



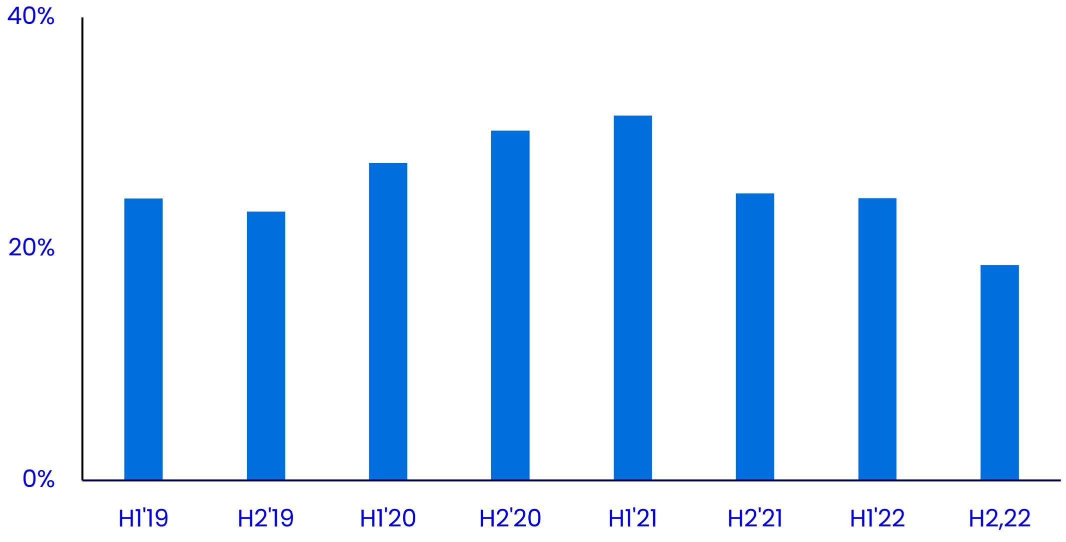
Vehicle finance cost of risk rates



- Lower credit card cost of risk rates reflecting the benefits of impairment provisions releases
- Vehicle finance cost of risk rates were also below historical rates driven by lower arrears rates and reflecting the focus on attracting lower credit risk customers since 2020
- In the personal loans business the cost of risk increased year-on-year, reflecting lower provision releases, in FY’22 versus FY’21, and overall growth in the receivables book

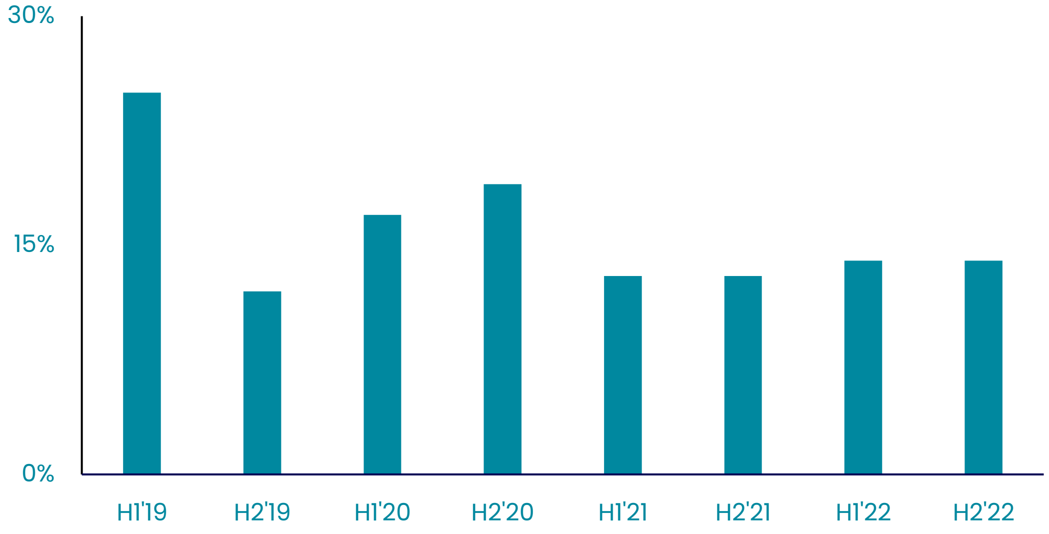
...As a result, historic coverage ratios no longer required

Credit card coverage ratios



1,465	1,433	1,174	1,075	978	1,063	1,035	1,182
Net receivables							

Vehicle finance coverage ratios[1]



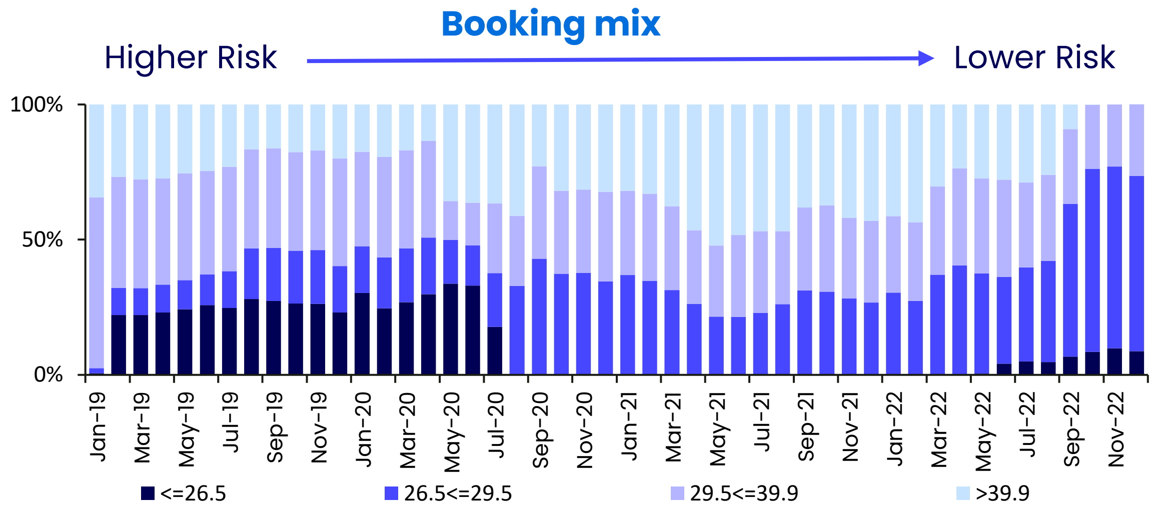
462	489	516	567	602	586	598	646
Net receivables							

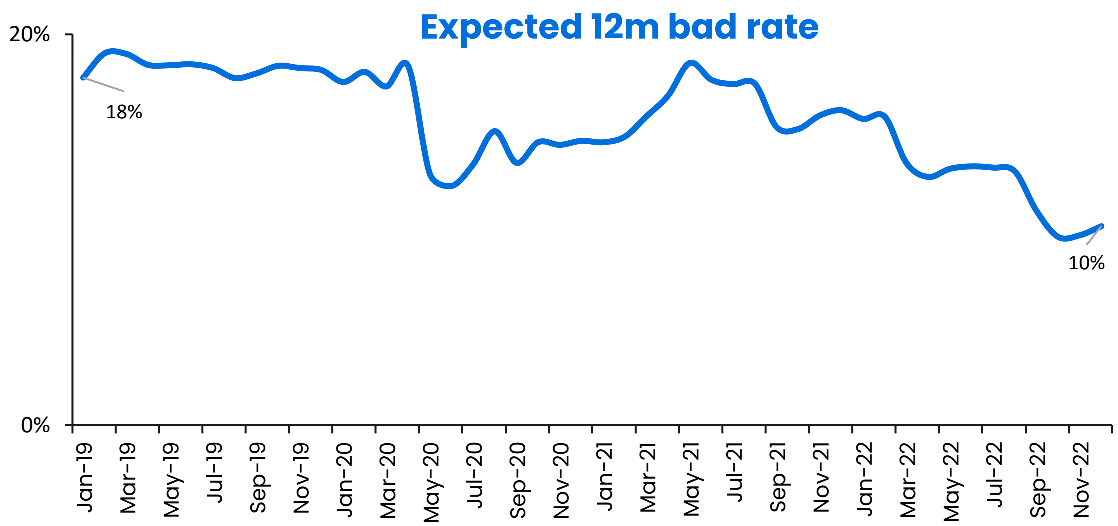
- The credit card loan book coverage ratio fell year-on-year reflecting provision releases and debt sales
- The vehicle finance loan book coverage ratio increased owing to an absence of debt sale activity
- The personal loans coverage ratio reduced to 11% as of 31 December 2022 (FY'21: 17%) representing a reduction in provisions held against a larger gross receivables book

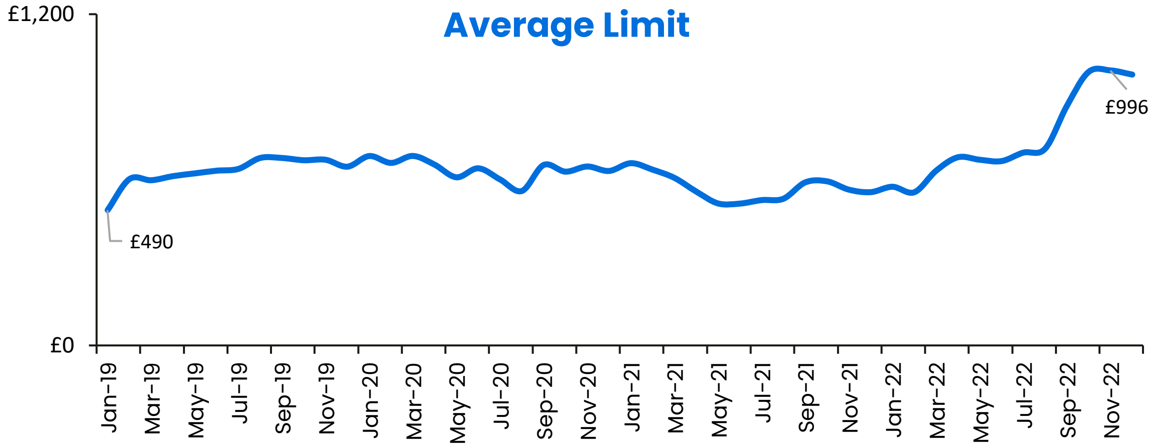
[1]Coverage rates for vehicle finance excludes 'shortfall – sold' accounts from the calculation

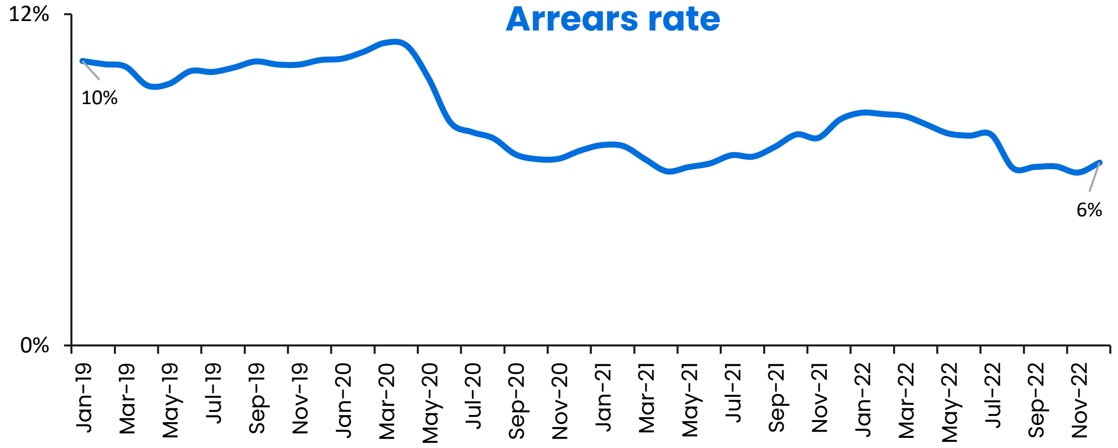
Credit card asset quality

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



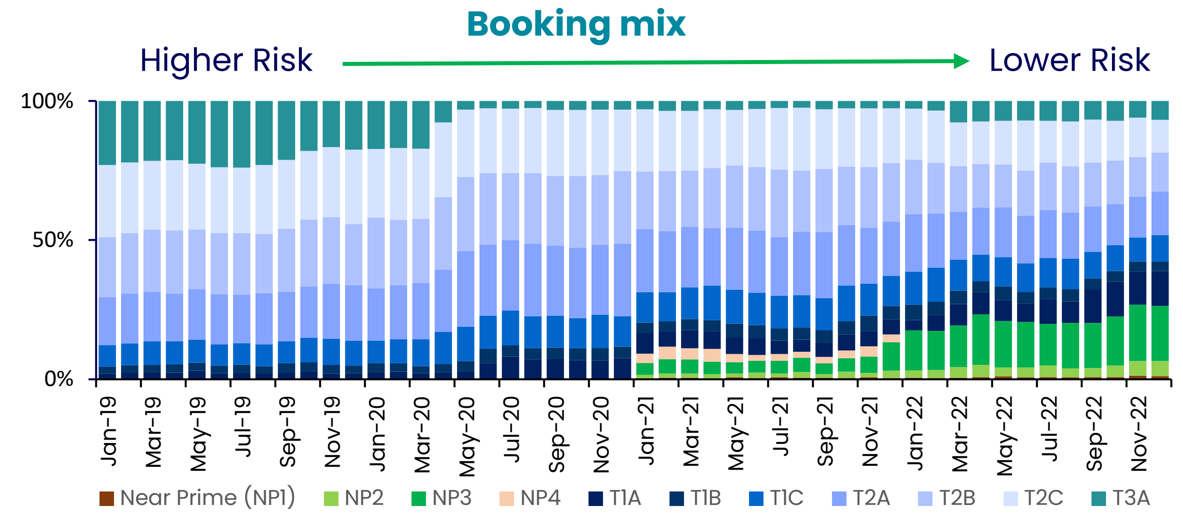


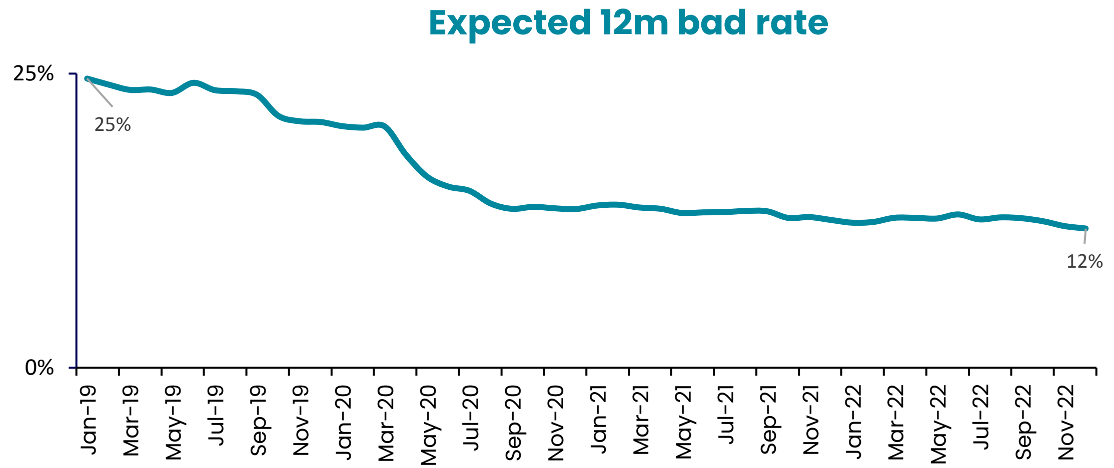


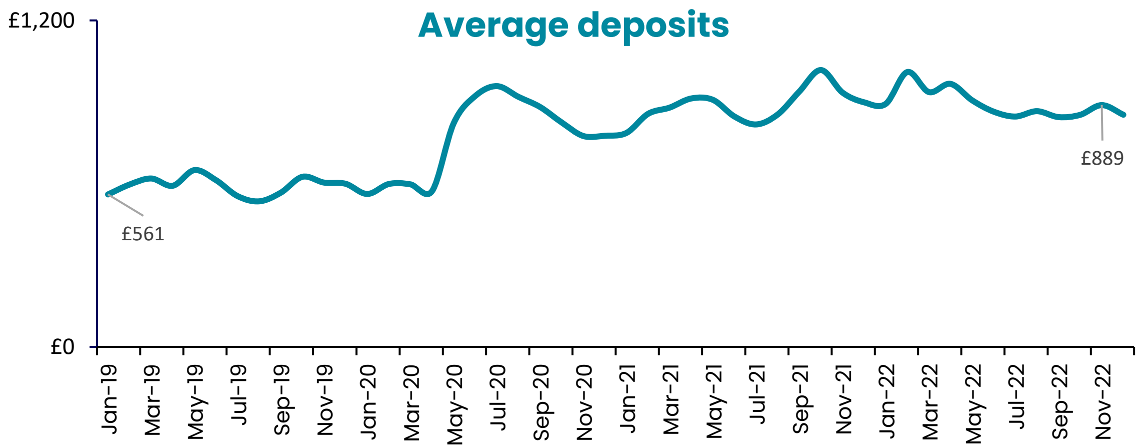


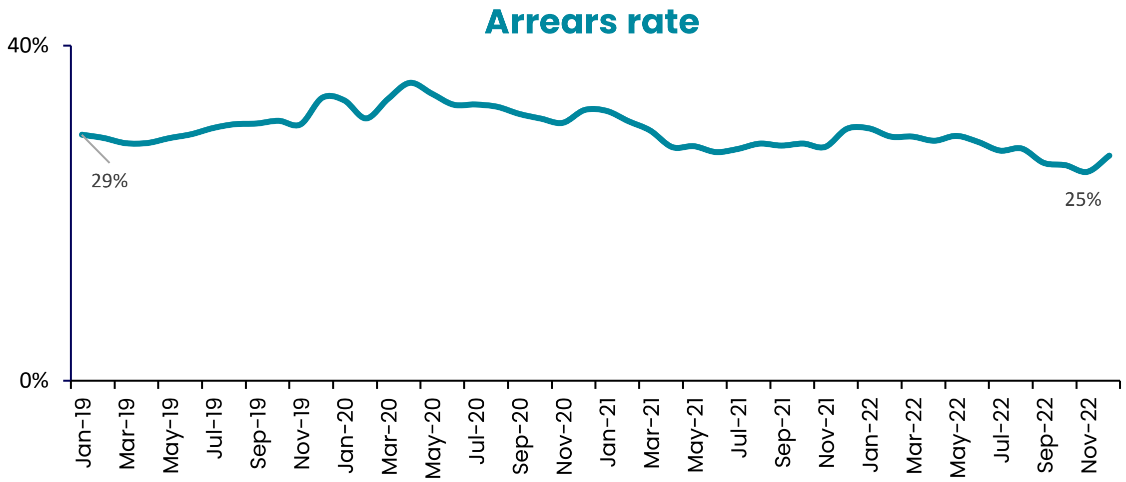
Vehicle finance asset quality

Near-prime product has improved new bookings; the credit risk has halved since 2019



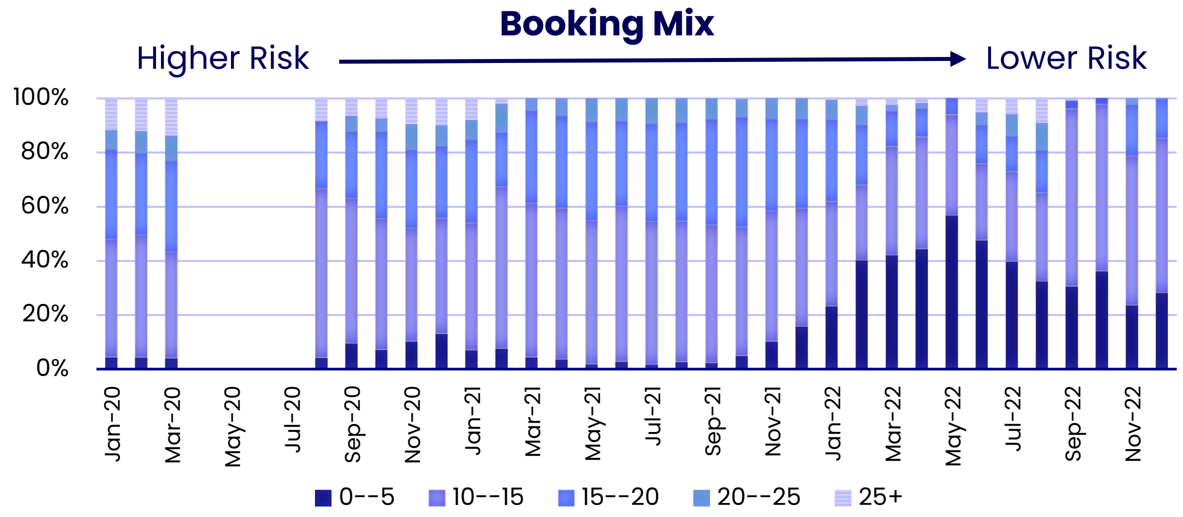


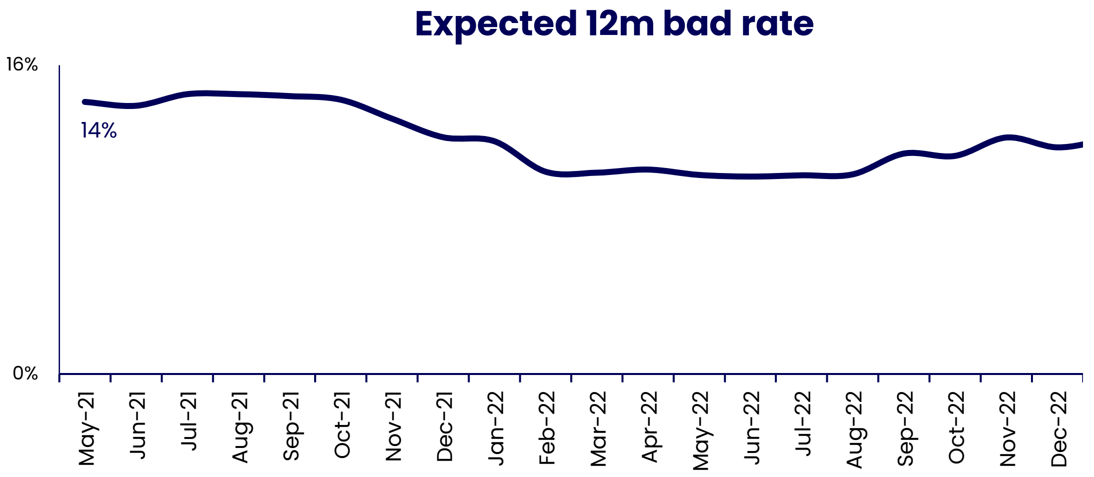


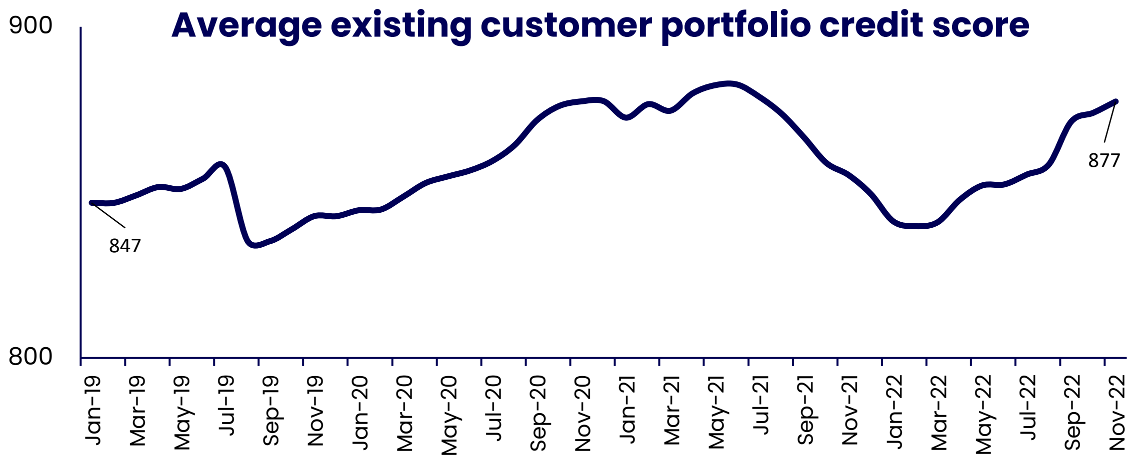


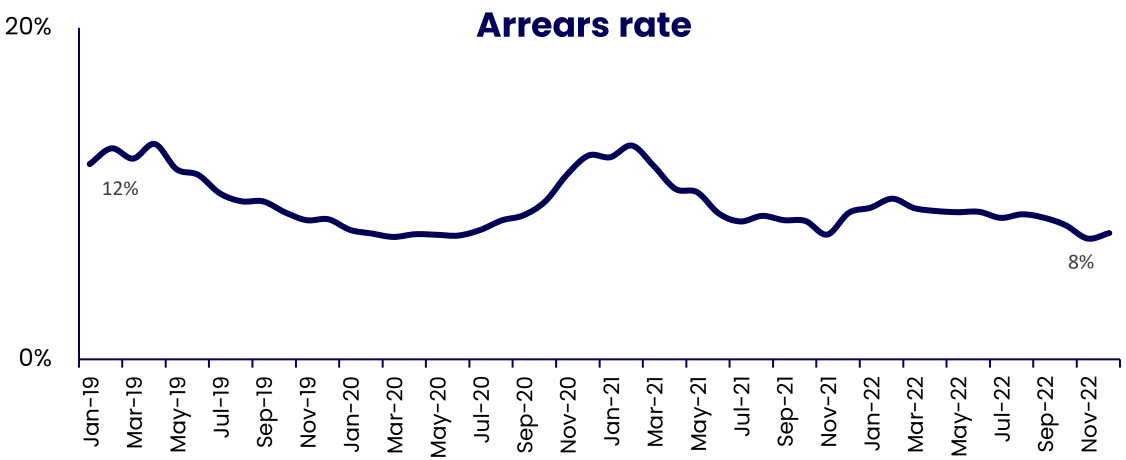
Personal loans asset quality

The loans business has grown rapidly whilst maintaining asset quality

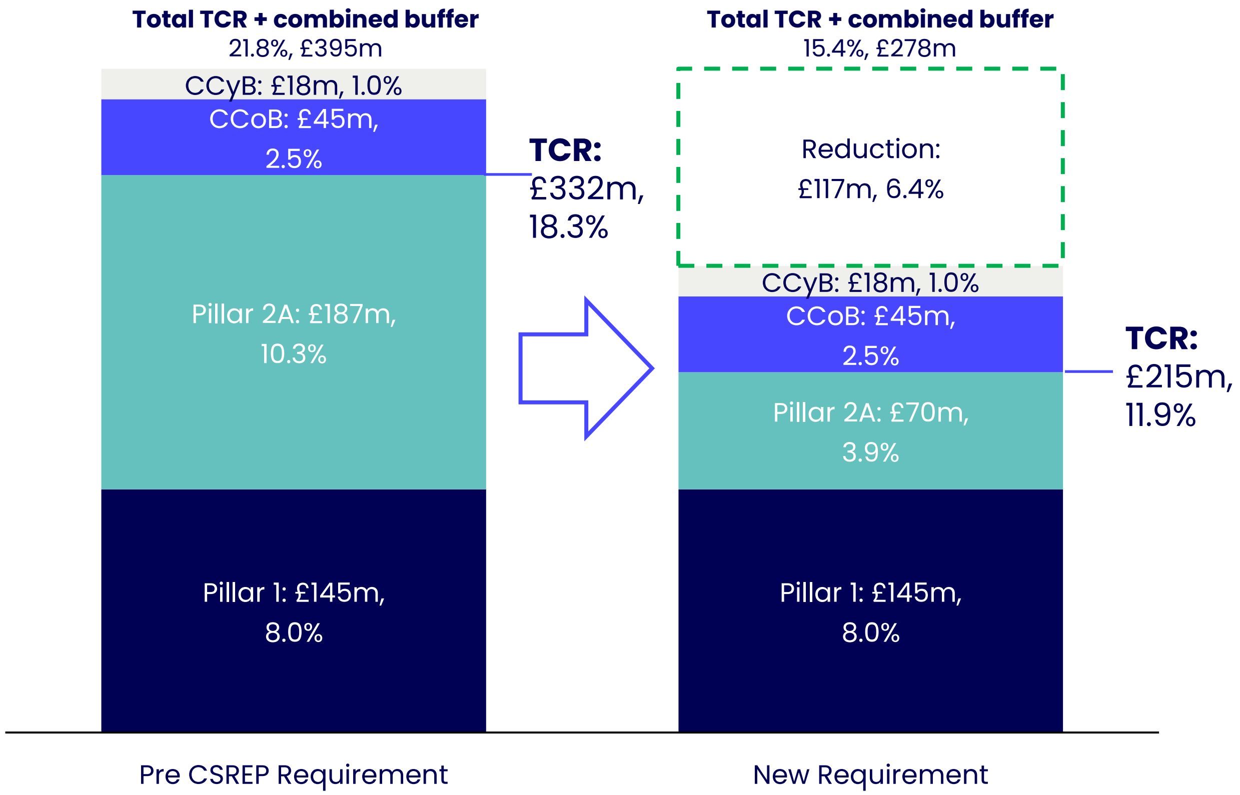








Reduction in Capital Requirements



Total Capital Requirement (TCR) + Combined Buffer[3]

Pre C-SREP	New[2]	Reduction
21.8%	15.4%	6.4%
£395m	£278m	£117m

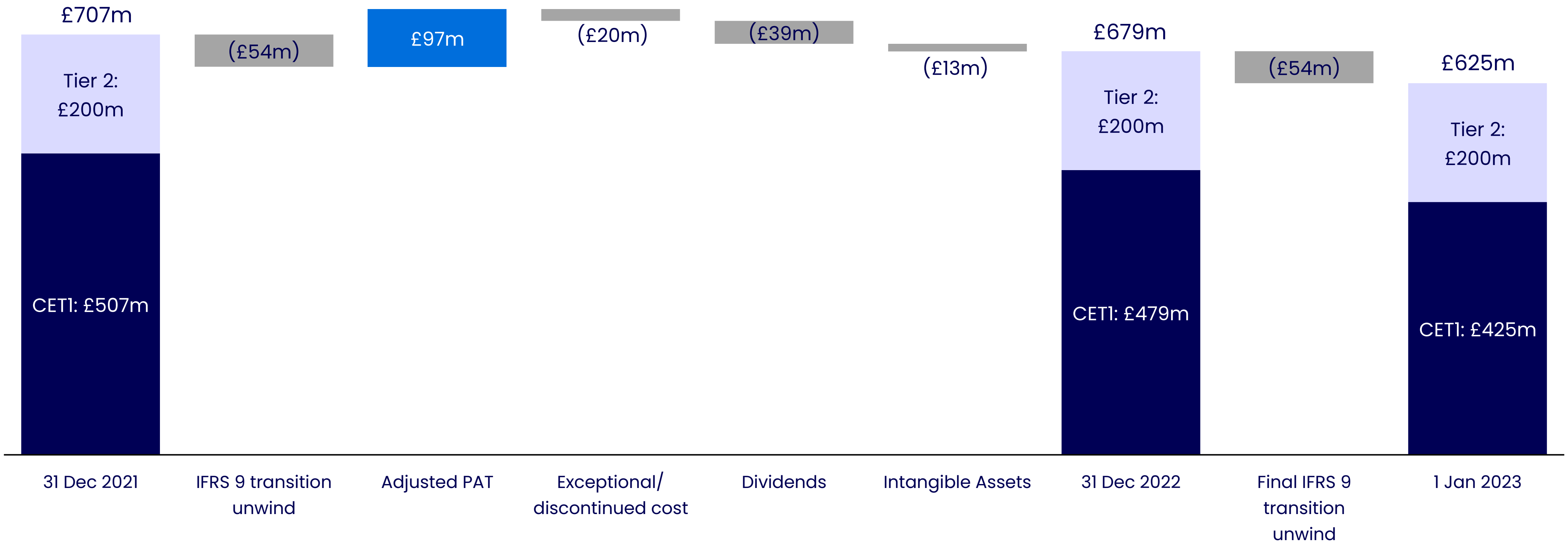
Tier 1 Requirement (75% of TCR + Combined Buffer)

Pre C-SREP	New[2]	Reduction
17.2%	12.4%	4.8%
£312m	£224m	£88m

- Capital requirement has decreased from 21.8% to 15.4%[1] (a reduction of £117m[2])
- Total Capital Requirement (TCR) has reduced by more than a third from 18.3% to 11.9%

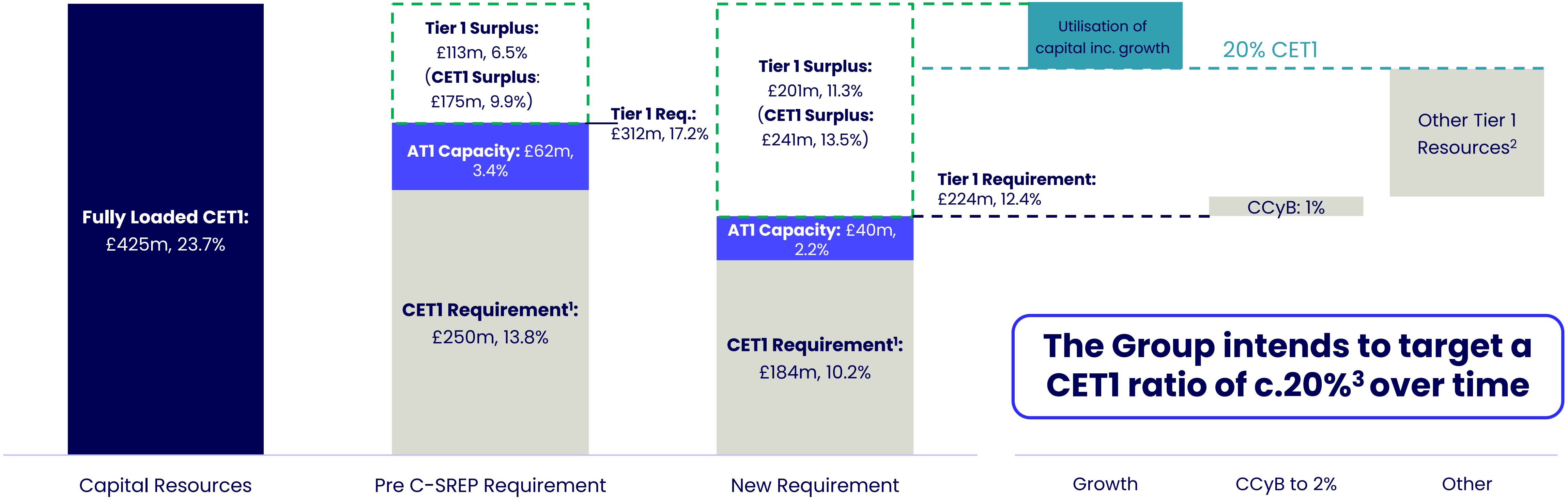
[1] Excludes confidential and management buffers
[2] On a pro forma basis as at 31 December 2022
[3] Combined buffer include capital conservation buffer (CCoB) and countercyclical capital buffer (CCyB)

Regulatory capital resources



- Resilient and diversified capital base.
- The scheduled unwind of £54m IFRS 9 transition relief was absorbed on 1 January 2022.
- A further final IFRS 9 adjustment of £54m was absorbed on 1 January 2023.

Tier 1 position (fully loaded post-IFRS 9 unwind)

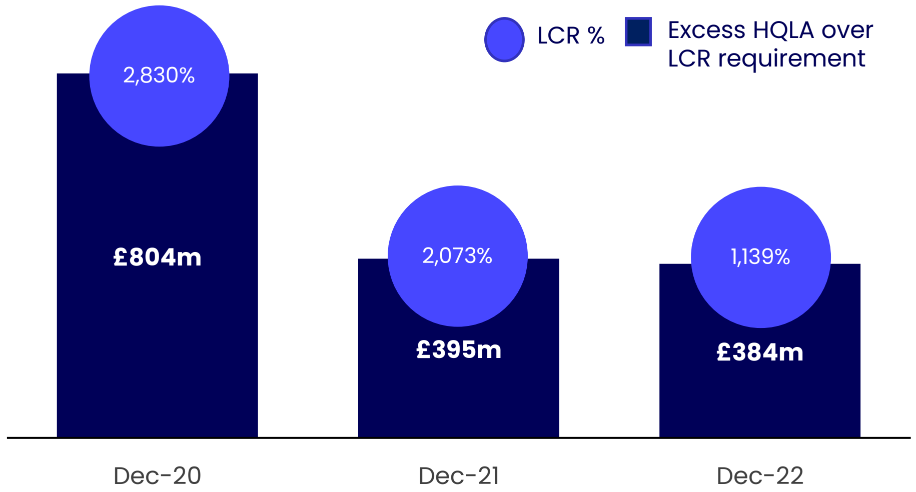


- CET1 surplus has increased by £66m from £175m (9.9%) to £241m (13.5%) providing increased CET1 headroom beneath Tier 2 capital
- A lower TCR has reduced Tier 2 capacity by £29m from £83m (4.6%) to £54m (3.0%). Unutilised Tier 2 has risen from £117m to £146m
- The Group retains AT1 capacity of £40m (2.2%) which provides further opportunities for capital optimisation
- Capital will continue to be utilised for growth, particularly in credit cards due to its day 1 IFRS 9 requirement and profitability breakeven point at c. 2.5 years

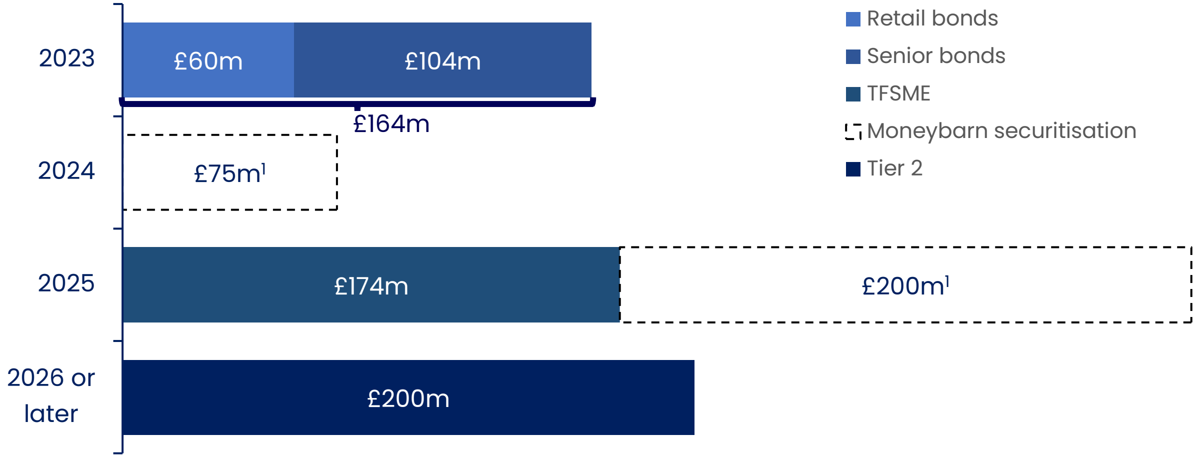
1 56% of TCR + Combined Buffer. Excludes any confidential and management buffers
2 Including any confidential and management buffers
3 Target set prior to any optimisation of the capital stack to include AT1

Highly liquid and stable funding position

Strong LCR with significant excesses over requirement…



… wholesale unsecured bond maturities in 2023 already pre-funded from existing excesses



- Group funding costs remain stable at 2.84%[2] (FY'21: 2.77%)
- The funding mix is transitioning to be predominantly retail-funded, consisting of fixed 1-5 year savings bonds, modest Bank of England (BoE) funding and modest private and public securitisation
- Relative to the underlying interest rate environment, Group cost of funds will be further optimised through new retail funding products and the elimination of unsecured wholesale funding
- The Group maintains a contractual funding mix with a duration of c.2 years that delays the impact of changing underlying interest rates
- The Group retains its existing access to unsecured wholesale markets as contingency via its £2bn EMTN programme
- Over 95% of retail depositors are covered under the Financial Services Compensation Scheme
- 99% of the Group's liquidity is held in the BoE reserve account with no investment in securities

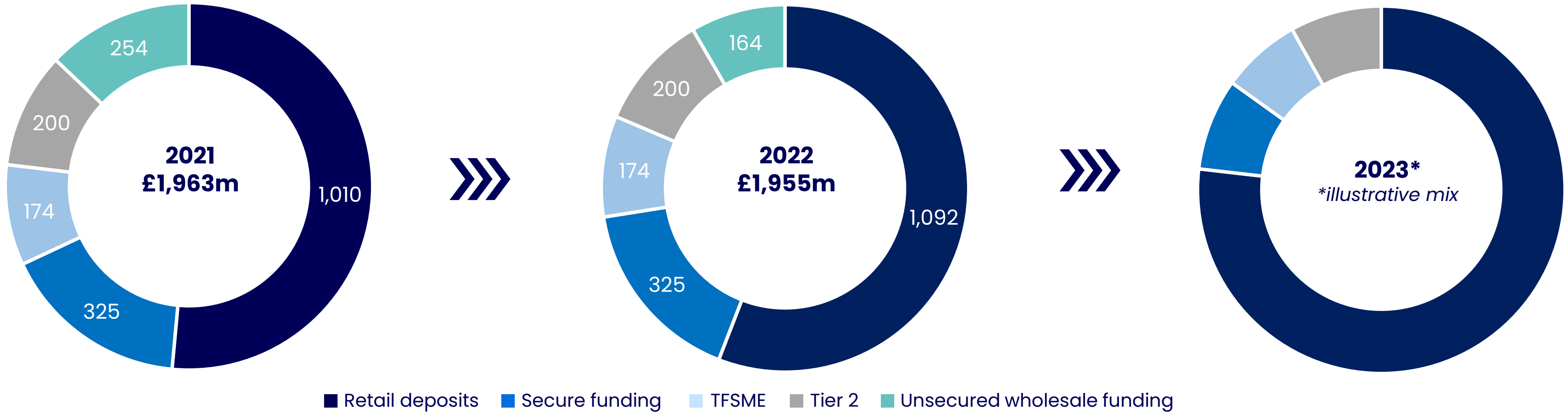
VANQUIS Banking Group

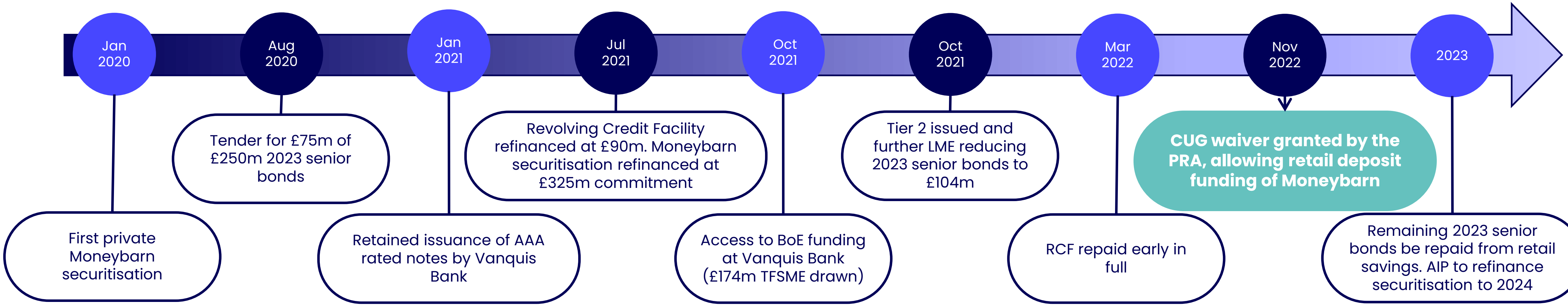
[1] Agreement in principle (AIP) in place with bi-lateral banks to re-finance the Moneybarn securitisation to a H2'24 maturity date, or until markets open to re-finance via a public issuance
[2] Calculated as interest expense as a percentage of weighted average volume of funding drawn. The KPI on page 9 is calculated on a different basis as defined in Alternative performance measure calculations on page 42.

Strategic transformation to banking model

Transition to a primarily retail funded banking group model will be completed in 2023

Consolidated Group committed facilities including retail deposits (excluding fees and accrued interest), £m





Financial outlook

Growth and quality

- Capitalising on competitive advantages across capital, funding and liquidity
- Continued focus on credit quality whilst accelerating Group receivables growth in 2023 versus FY'22

Capital generative business

- Focusing on the lower risk mid-cost and near-prime markets of approximately 14m people…
- …resulting in a targeted coverage ratio of <15% over the medium-term
- Capital generation to support further growth over medium-term

Scalability and efficiency

- Continued investment in 2023 at similar levels to 2022 to deliver more efficient and scalable businesses
- 2023: Group costs planned to be broadly flat versus 2022
- 2024 onwards: underlying cost to income ratio planned to fall to c.40%

Retail deposit funding

- The Group's cost of funding is expected to benefit from lower cost retail deposit funding retiring legacy bonds…
- …Notwithstanding a rising interest rate environment
- As a result, the Group's NIM is planned to be broadly stable in 2023 versus 2022

Strategy and Outlook

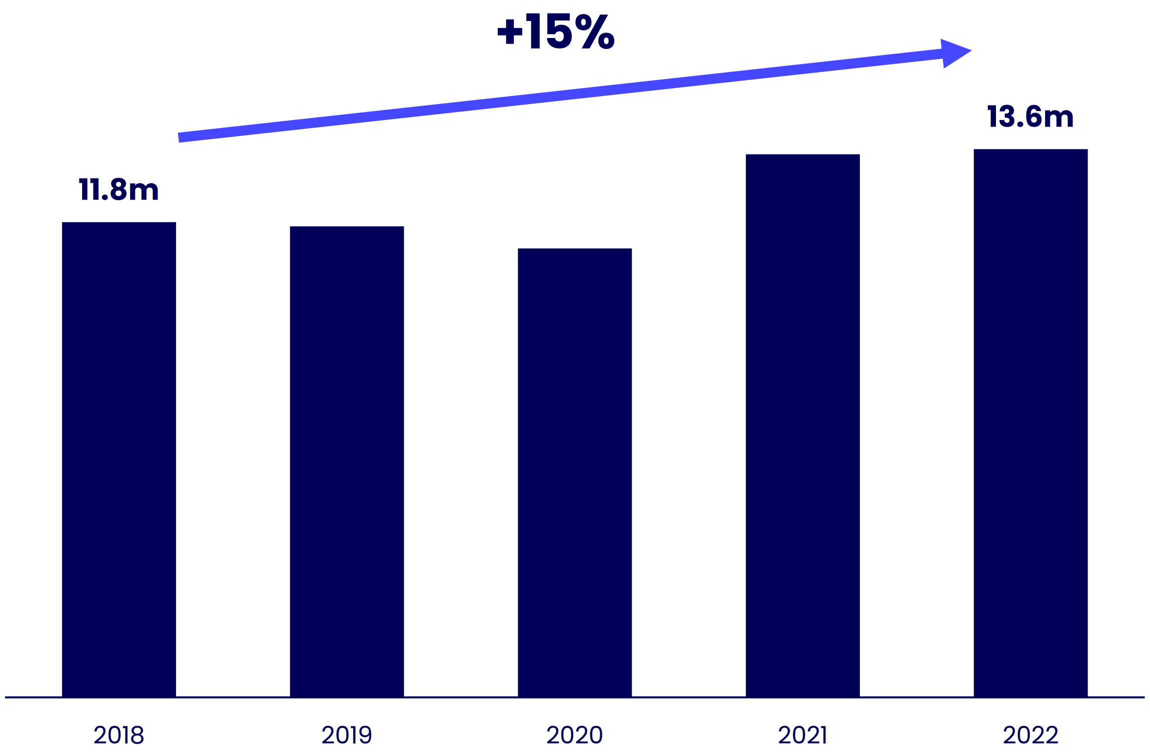
Malcolm Le May

Chief Executive Officer

Vanquis Banking Group today

Diverse product offering…	**Credit cards** 1.5m customers £1.2bn receivables	**Vehicle finance** 100k customers £646m receivables	**Personal loans** 34k customers £76m receivables	**Second charge mortgages** (pilot phase)
…with a customer-led strategy to build financial inclusion…	**Our Purpose**	**Our Vision**	**Our Mission**	**Strategic Pillars**
…underpinned by strong financial support and sustainable lending	**Well capitalised balance sheet**	**Funding advantages**	**Investment and operational leverage**	**Attractive and sustainable growth**

Target addressable market growth



- The Group's estimated target addressable[1] market of consumers has increased by approximately 15% since 2018
- Growth in addressable markets going forwards to be driven by:
  - Ongoing impact of the pandemic on household finances increasing inwards movement into our markets
  - Increasing cost of living challenges
  - Growing segment of population with a thin credit file or no credit history
  - Increased proportion of alternative employment, e.g. self-employed or jobs in the 'gig economy'

[1] Market opportunity defined as the Group's Estimated Target Addressable Market (ETAM) of number of customers at the end of 2022 based on TransUnion data

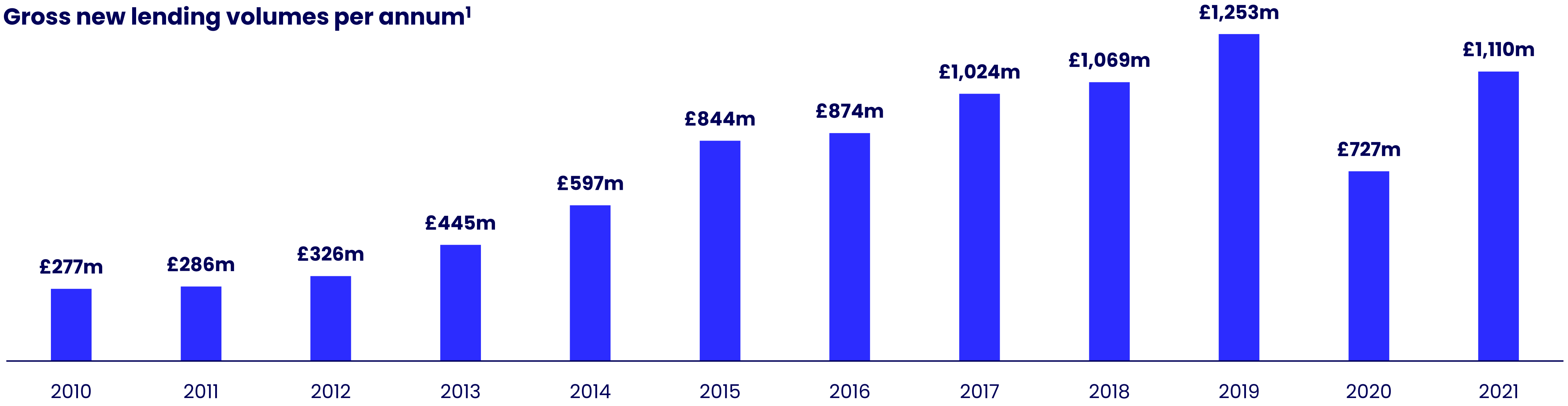
Product growth initiatives

	Market share in 2022	Market size in 2023 [1] (consumers)	Growth initiatives in 2023
Group	**10.0%**	**13.6m**	• Leverage bank platform with access to capital & funding • Capitalising on growth in its addressable markets • Second charge mortgage offering as pilot phase develops
Credit cards	**9.0%**	**13.6m**	• New price points and offers including Balance Transfers • Launch of Google Pay • New scorecard to help refine and support growth
Vehicle finance	**5.0%**	**2.0m**	• Contract launches including PCP • Develop new partnership agreements • Improved customer retention efforts
Personal loans	**0.8%**	**4.4m**	• Improve 'Open Market' offering to drive volume growth • Complete transition to Gateway for Open Market loans • Product and price expansion to improve offering

[1] Market opportunity defined as the Group's Estimated Target Addressable Market (ETAM) of number of customers at the end of 2022 based on TransUnion data

Second charge market

Gross new lending volumes per annum[1]



- **Growing market.** The second charge mortgage market has grown rapidly since the financial crisis, with a CAGR of 18% since 2010.
- **Competitor landscape.** The market is made up of non-bank lenders and challenger banks, with a tail of smaller non-bank lenders.
- **Product overview**. Second charge loans are typically structured up to 30 years and rank second against the borrower's home. Common usages include home improvement and debt consolidation.
- **Why this product?** Estimated c.420k existing customers are property owners with c.220k mortgage holders. This equates to c.£80bn of available equity and 91% of customers said they would consider such a product from Vanquis Banking Group[2].
- **Why Vanquis Banking Group?** The Group intends to leverage its banking platform, with access to retail deposit funding, deep customer expertise and risk management framework in order to gain market share and build its receivables over time.

[1] Source: Finance and Leasing Association (FLA) 2022 [2] Based on a Vanquis Bank customer survey from July 2022

Group capital management framework

Strong Regulatory Capital and Funding	• Strong capital position with reduction in capital requirements received from the PRA • Approval of large exposure waiver will support retail deposit funding across the Group • Access to low-cost retail deposits enables falling cost of funds in rising interest rate environment • The Group intends to target a CET1 ratio of c.20%[1] over time
Strong & Attractive Growth Opportunities	• Well positioned in large, growing addressable markets with strong competitive advantages • State-of-the art scalable IT lending platform, with the capability to support multiple lending products • Strong receivables growth whilst maintaining rigorous underwriting and risk management • Organic growth remains the Group's primary focus whilst the macroeconomic backdrop allows • The Group aims to deliver attractive returns on a sustainable basis over the medium-term
Attractive Dividend Policy	• The Group's progressive dividend policy is to pay-out c.40% of its adjusted continuing earnings[2] as ordinary dividends
Capital Management	• Strong balance sheet supports selective bolt-on opportunities for inorganic growth to add diversity across income and products • If the Group has ongoing surplus capital, the Board would consider one-off returns to shareholders

[1] Target set prior to any optimisation of the capital stack to include AT1
[2] Dividends to be paid out of adjusted earnings, which is defined as profit after tax before amortisation of acquisition intangibles and any exceptional items including one-off provision releases

Outlook

- **Strong momentum across all loan books during Q4’22** which continued in the first two months of FY’23 with asset quality remaining high
- **For 2023, Vanquis Banking Group:**
  - Will continue to focus on credit quality whilst accelerating receivables growth for FY’23 versus FY’22
  - Anticipates spending a similar amount on business investment in FY’23 as it did in FY’22. As a result, Group costs are planned to be broadly flat year-on-year in FY’23
  - Plans to deliver a stable NIM profile in FY’23 as a result of more expensive debt being replaced by deposit funding
- **Over the medium-term, subject to market conditions, the Group is positioned to deliver:**
  - Strong receivables growth underpinned by a robust, well capitalised balance sheet
  - A capital management framework that encompasses a 40% dividend pay-out ratio of adjusted continuing earnings and the potential for further returns of capital if it cannot be allocated to organic growth opportunities

Questions

- Appendix
- Contacts

VANQUIS Banking Group

Appendix

Our strategy is underpinned by our Purpose

- **Our Purpose** is supported by our **Mission** which is backed up by our **Strategic Priorities**
  - **Investing in our Communities**. We invested £1.4m in our community and money advice programs in 2022
    - **Helping families.** During the year, we launched a free school uniform scheme to help families with the cost-of-living crisis in Bradford, Liverpool, Manchester and Blackpool
    - **Strong governance**. In 2022, our CDP submission was rated 'B-' we have also maintained our membership in the Dow Jones Sustainability Europe Indices (DJSI Europe)
    - **Supporting cultural development**. Vanquis Baking Group has been named as the first official delivery partner for Bradford UK City of Culture 2025
    - **Net Zero pledge**. The Group remains committed to its Net Zero by 2040 pledge and carbon reduction targets and to support this ambition the Group offset 8,000 tonnes of carbon emissions during 2022. through carbon capture projects
- **New Foundation.** In 2023, we plan to launch the Vanquis Banking Group Foundation aiming to improve the lives of children and young people by promoting financial inclusion and wellbeing.

Group results – continuing operations

	FY'22 £m	FY'21 £m	Change %
Customer numbers ('000)	**1,675**	1,655	1
Period end receivables	**1,904**	1,678	14
Gross average receivables	**2,039**	2,076	(2)
Interest income	**487**	474	3
Interest expense	**(59)**	(49)	20
Net fee and commission income	***44***	*57*	*(23)*
Other income	***8***	–	–
Total income	***481***	*483*	–
Asset yield	***23.9%***	*22.8%*	*1*
Cost of funding	***2.9%***	*2.4%*	*1*
Net-interest margin	***21.0%***	*20.5%*	*1*
Cost of risk	**3.2%**	2.4%	1
Risk-adjusted income	**415**	432	(4)
Costs	**(288)**	(264)	9
Adjusted profit before tax	**127**	168	(24)
Cost income ratio	***59.9%***	*54.8%*	*5*
Return on assets	***3.8%***	*5.3%*	*(2)*

Group results – statutory balance sheet[1]

Assets	FY'22 £m	FY'21 £m	Change %
Cash and balances at central banks	**465**	718	(35)
Amounts receivables from customers[2]	**1,896**	1,678	13
Pension asset	**31**	112	(72)
Goodwill and other intangibles	**135**	124	9
Other assets	**129**	93	39
Total assets	***2,656***	*2,725*	*(3)*

Liabilities and equity			
Retail deposits	**1,101**	1,019	8
Bank and other borrowings[3]	**815**	845	(4)
Trade and other payables	**63**	96	(34)
Other liabilities	**70**	134	(48)
Equity	**607**	631	(4)
Total liabilities and equity	***2,656***	*2,725*	*(3)*

1 Includes CCD.
2 Amounts receivable from customers in 2022 are presented net of £8m fair value adjustment for portfolio hedged risk. Underlying receivables from customers are £1,904m (2021:£1,678m).
3 Bank and other borrowings in 2022 are presented net of £5m fair value adjustment for hedged risk. Underlying bank and other borrowings are £820m (2021: £845m).

Credit cards results

	FY'22 £m	FY'21 £m	Change %
Customer numbers ('000)	**1,541**	1,541	–
Period end receivables	**1,182**	1,063	11
Gross average receivables	**1,332**	1,379	(3)
Interest income	**333**	329	1
Interest expense	**(22)**	(25)	(12)
Net fee and commissions income	**44**	57	(23)
Other income	**5**	–	–
Total income	**360**	362	(1)
Asset yield	***25.0%***	*23.8%*	*1*
Cost of funding	***1.7%***	*1.8%*	–
Net-interest margin	***23.3%***	*22.0%*	*1*
Cost of risk	**1.3%**	0.3%	1
Risk-adjusted income	**343**	358	(4)
Costs	**(165)**	(184)	(10)
Adjusted profit before tax	**179**	174	3
Cost income ratio	***45.8%***	*50.9%*	*(5)*
Return on assets	***7.7%***	*8.1%*	–

Vehicle finance results

	FY'22 £m	FY'21 £m	Change %
Customer numbers ('000)	**100**	94	6
Period end receivables	**646**	586	10
Gross average receivables	**657**	671	(2)
Interest income	**141**	138	2
Interest expense	**(22)**	(27)	(19)
Net fees and commissions income	**–**	–	–
Other income	**–**	–	–
Total income	**119**	111	7
Asset yield	***21.4%***	*20.5%*	1
Cost of funding	***3.4%***	*4.0%*	*(1)*
Net-interest margin	***18.0%***	*16.5%*	*2*
Cost of risk	**6.2%**	6.6%	–
Risk-adjusted income	**78**	66	18
Costs	**(40)**	(37)	8
Adjusted profit before tax	**38**	29	31
Cost income ratio	***33.5%***	*33.7%*	–
Return on assets	***3.6%***	*3.0%*	*1*

Personal loans results

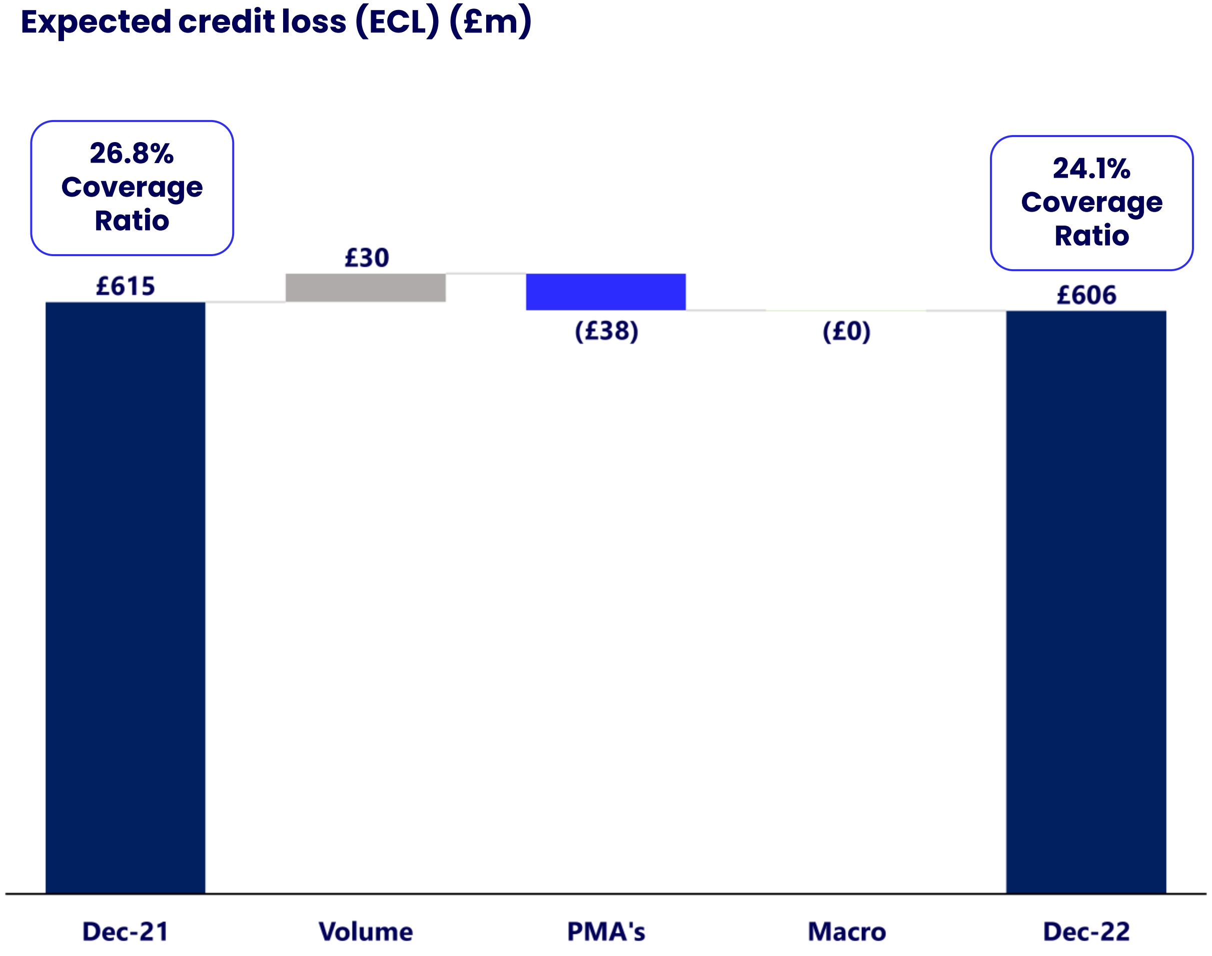
	FY'22 £m	FY'21 £m	Change %
Customer numbers ('000)	**34**	20	70
Period end receivables	**76**	28	171
Gross average receivables	**51**	26	96
Interest income	**13**	7	86
Interest expense	**(1)**	(1)	–
Net fee and commission income	**–**	–	–
Other income	**–**	–	–
Total income	**12**	6	100
Asset yield	***25.7%***	*28.1%*	*(2)*
Cost of funding	***2.4%***	*3.1%*	*(1)*
Net-interest margin	***23.4%***	*25.0%*	*(2)*
Cost of risk	**16.7%**	8.2%	9
Risk-adjusted income	**3**	4	(25)
Costs	**(19)**	(13)	46
Adjusted loss before tax	**(16)**	(9)	78
Cost income ratio	***160.5%***	*203.1%*	*(43)*

Capital (C-SREP reconciliation)

	Pre C-SREP	New Requirement	Change
Total Capital Requirement	18.3%	11.9%	(6.4%)
TCR + Combined Buffer[1]	21.8%	15.4%	(6.4%)
CET1 Requirement	13.8%	10.2%	(3.6%)
Tier 1 Requirement	17.2%	12.4%	(4.8%)
AT1 Capacity	£62m *3.4%*	£40m *2.2%*	(£22m) *(1.2%)*
Tier 2 Capacity	£83m *4.6%*	£54m *3.0%*	(£29m) *(1.6%)*
Unutilised Tier 2	£117m	£146m	£29m
Tier 1 Surplus (31 December 2022)	£167m	£255m	£88m
Tier 1 Surplus (1 January 2023)	£113m	£201m	£88m
Total Surplus (31 December 2022)	£284m	£400m	£116m
Total Surplus (1 January 2023)	£230m	£346m	£116m

[1] Excludes confidential and management buffers. Combined buffer equal to 3.5% (2.5% capital conservation buffer, 1.0% countercyclical capital buffer)

Expected credit loss bridge



- During the year, ECLs reduced marginally reflecting a reduction in realised risk of default expected back in 2021 which is partly offset by an increased cost of living risk for consumers and further interest rate rises
- An existing cost of living provision of £8m was increased to £11m during FY'22
- The Group is well positioned for the inflationary environment in the UK based on its:
  - Proactive approach to risk management
  - Credit assessment and affordability processes being updated
  - Additional support for customers

Alternative performance measure calculations

Alternative Performance Measures	Method of Calculation
Basic earnings per Share (EPS)	Profit after tax for the 12 months ended 31 December, divided by the weighted average number of shares in issue
Adjusted Basic Earnings Per Share (EPS)	Profit after tax, excluding the amortisation of acquisition intangibles and exceptional items for the 12 months ended 31 December, divided by the weighted average number of shares in issue
Adjusted Return on Average Required Capital (RORE)	Adjusted profit after tax for the 12 months ended 31 December as a percentage of the average PRA regulatory capital requirement including PRA buffers for the period
Adjusted Return on Tangible Equity (ROTE)	Adjusted profit after tax net of fair value gains for the 12 months ended 31 December as a percentage of average adjusted tangible equity for the 13 months ended 31 December. Adjusted tangible equity is stated as equity after deducting the Group's pension asset, net of deferred tax, the fair value of derivative financial instruments, net of deferred tax less intangible assets and goodwill
Average Gross Receivables	Average of gross customer interest earning balances for the 13 months ended 31 December
Common Equity Tier 1 (CET1) Ratio	The ratio of the Group's CET1 to the Group's risk-weighted assets measured in accordance with CRD IV
Cost Income Ratio	Operating costs as a percentage of total income for the 12 months ended 31 December
Cost of Funding	Interest expense for the 12 months ended 31 December as a percentage of average gross receivables
Cost of Risk	Impairment charge for the 12 months ended 31 December divided by average gross receivables
Coverage Ratio	Impairment provision as a percentage of total reported gross receivables
Funding Headroom	Committed bank and debt facilities less borrowings on those facilities and amounts committed to further syndicated bond facility reduction
Net-Interest Margin (£)	Interest income less interest expense for the 12 months ended 31 December
Net-Interest Margin (%)	Interest income less interest expense for the 12 months ended 31 December as a percentage of average gross receivables
Asset Yield	Interest income for the 12 months ended 31 December as a percentage of average gross receivables
Return on Assets (ROA)	Adjusted profit after tax for the 12 months ended 31 December as a percentage of average total assets
Return on Equity (ROE)	Adjusted profit after tax net of fair value gains for the 12 months ended 31 December as a percentage of average adjusted equity for the 13 months ended 31 December. Adjusted equity is stated after deducting the Group's pension asset, net of deferred tax, and the fair value of derivative financial instruments, net of deferred tax
Risk-Adjusted Income (£)	Total income less impairment charges for the 12 months ended 31 December
Risk-Adjusted Margin (%)	Total income less impairment charge for the 12 months ended 31 December as a percentage of average gross receivables

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