Update ahead of Interim Results for the six months ended 30 June 2024

This announcement contains inside information.

London – 16 July 2024 - Vanquis Banking Group plc ('the Group' or 'Vanquis'), the specialist bank, makes the following market update ahead of its Interim Results on 1 August 2024.

Ian McLaughlin, Chief Executive Officer, commented: "We have been carrying out a comprehensive review of our balance sheet and this has led to the revaluation of some historic balances. While finding these one-off items is disappointing, it does mean that our financial position is now clearer and more stable. Our trading performance towards the end of the first half of 2024 was encouraging, with year-to-date growth in customer numbers, at better margins, and a return to growth in receivables in June."

Trading update

Trading performance began to recover towards the end of the first half, reflecting progress with the Group's business transformation strategy announced on 27 March 2024.

- The first quarter decline in receivables moderated in April and May and a marginal increase in receivables was seen in June.
- Gross customer interest-earning balances however ended the period 6% below 31 December 2023.
- New customer volumes for 1H24 were ahead of plan.
- New bookings in second charge mortgages exceeded expectations, following the launch of Interbridge Mortgages on 16 May and an expanded forward flow agreement with Selina Finance.
- Net interest income was stable compared to 1H23, with re-pricing initiatives now complete.
- Underlying credit quality remained stable.

Technology transformation and operational efficiency projects are progressing as planned. Vanquis remains on track to deliver c.£60m of committed cost savings by the end of 2024. Complaint costs remain within previously guided levels and industry-wide initiatives to act against spurious complaints continue.

One-off items

At its full year results on 27 March 2024, Vanquis Management committed to address its growing Vehicle Finance Stage 3 receivables. This review resulted in a c.£29m downward revaluation of Stage 3 balances and charged off assets in the Vehicle Finance portfolio[4]. Of the c.£29m, c.£16m represents a restatement of the Group's prior years' results. The balance has been recognised in the six months period to 30 June 2024.

Management has now undertaken a full review of the balance sheet. This identified a further c.£11m of one-off items related to the write-down of development costs for a now redundant mobile app, property dilapidations and other sundry balances.

Some of these write-downs, notably the revaluation of Stage 3 balances in the Vehicle Finance portfolio, impact the Group's capital position, resulting in a Tier 1 ratio of 19.7% at 30 June 2024.

Outlook

Following today's announcement, Vanquis does not expect to meet its FY24 guidance of low single digit ROTE. While the Group will remain well above its regulatory capital requirement, it expects to end the year below the target Tier 1 ratio range of 19.5% - 20.5% set by the Board on 27 March, notwithstanding any capital optimisation initiatives such as AT1 issuance.

The Group's financial position is now clearer and more stable, with focus now on deploying capital for profitable receivables growth. A further update will be provided at the Group's Interim Results on 1 August 2024.

Key metrics

	30 June 24	31 Dec 23 (restated)[4]	31 Dec 23 (as reported)
Gross customer interest earning balances[1]	**£2,254.2m**	£2,402.8m	£2,351.2m
Net interest margin[2]	**18.8%**	18.6%	19.0%
Tier 1 ratio[3]	**19.7%**	20.0%	20.5%
Retail funding	**86.4%**	83.7%	83.7%

Footnotes

1. *Gross customer interest earning balances excludes post charge off assets and deferred acquisition costs, which are included in Gross Receivables.*
2. *Net interest margin is calculated as interest income less interest expense for the 6 months period to 30 June 2024 and the 12 months period to 31 December 2023, as a percentage of average gross receivables for the 7 and 13 months to the period end respectively.*
3. *Tier 1 ratio is defined as the ratio of the Group's Tier 1 capital resources to the Group's risk-weighted assets measured in accordance with the UK Capital Requirements Regulation. The Vehicle Finance Stage 3 portfolio review resulted in a prior period restatement.*
4. *As part of the review of the Vehicle Finance Stage 3 portfolio, it was identified that gross customer interest earning balances were understated by £51.6m. This has been represented in the numbers above.*
   In addition, it was identified that cash flows expected to be received from contracts identified for debt sale were being included beyond the expected sale date. This led to a lower core model provision being recognised. As a result, Management consider that a prior period restatement is appropriate and has retrospectively restated its results. In 2023, this has resulted in an increase in the Group statutory loss before tax of c.£8m, a decrease in the tax charge of c.£2m and a reduction in Vehicle Finance net receivables of c.£16m. The adjustment to the opening balance sheet as at 1 January 2023 amounted to c.£7m reduction in retained earnings, a £2m increase in the corporation tax asset and £9m reduction in net receivables. There were no changes to gross customer interest earning balances as a result of this change.

   The 31 March 2024 CET1 ratio disclosed at 20.8% in the first quarter trading statement is 19.6% on a restated basis.

The numbers within this statement are subject to review by external auditors. The reviewed condensed interim financial statements will be presented within the interim results on 1 August 2024.

Enquiries

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