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Vanquis Banking Group PLC
07 November 2024

Third quarter trading statement
Turnaround progressing, with financial guidance unchanged

London - 7 November 2024 - Vanquis Banking Group plc ('the Group' or 'Vanquis'), the specialist bank, today published its third quarter trading statement for the three months to 30 September 2024.

Ian McLaughlin, Chief Executive Officer, commented: "Since we laid out our strategy in March, we have made progress in the turnaround of this business. Though not without challenges, we continue to position the business for future success.

"Overall, gross customer interest-earning balances were stable in the third quarter, and I am particularly pleased with the positive performance in Second Charge Mortgages. We continue to take steps across all our existing lending portfolios to position them for sustainable, profitable growth going forward. Underlying credit quality remains stable, and our customers continue to demonstrate strong financial resilience.

"Our Gateway technology transformation is progressing according to plan. We remain on course to realise £60m of gross cost savings by year-end and have plans in place to deliver the additional cost reductions for 2025 and 2026, as previously announced. Complaint costs remained broadly in line with expectations, though they continue to be elevated, and we are engaging with regulators to address the associated issues.

"As the largest specialist finance provider for financially underserved customers in the UK, Vanquis occupies a unique role in the UK banking system. We are focused on supporting our customers to make the most of life's opportunities and in doing so, we will deliver the true potential of the business for all our stakeholders."

Key metrics

	30 Sep 24	30 Jun 24	3 month change
Gross customer interest earning balances[1]	**£2,254m**	£2,254m	-
Net receivables	**£2,083m**	£2,010m	4%
Year-to-date net interest margin (NIM)[2]	**18.6%**	18.8%	(0.2)%
Tier 1 ratio[3]	**18.7%**	19.8%	(1.1)%
Retail funding (% of all funding)	**88.7%**	86.5%	2.2%

Financial highlights

- **Gross customer interest-earning balances** were stable at £2,254m:
    - **Credit Card balances** were marginally down, as growth from recent originations was offset by continued paydowns and outward balance transfers

  - **Vehicle Finance balances** reduced, driven by the updated charge-off policy communicated with 1H24 results, resulting in further balances being reclassified from stage 3 impaired loans to post-charge-off assets in anticipation of future debt sales. Two debt sales have been completed since 1H24 results. The actions taken to clean up the Vehicle Finance balance sheet are now driving more clarity on the cost of risk of the portfolio
  - **Second Charge Mortgage balances** growth (now exceeding £100m) offset the reduction in Vehicle Finance and Personal Loan balances
- **Net receivables** grew 4% to £2,083m, reflecting the underlying growth in interest earning balances driven by reduced impairment allowance now required on the Vehicle Finance portfolio and growth in lower-risk Second Charge Mortgages
- **Year-to-date NIM** reduced 0.2% to 18.6%, driven by the mix effect of greater lower-margin Second Charge Mortgages. Excluding Second Charge Mortgages, NIM was 18.8%
- **Tier 1 ratio** reduced from 19.8% to 18.7%. The reduction was largely driven by the statutory loss in the quarter, including transformational and other exceptional costs not included in adjusted performance, and an increase in Risk Weighted Exposures (RWE)
- **Retail funding** increased to 88.7% of all funding (30 Jun 24: 86.5%), as deposits increased to over £2.1bn and a further £25m of TFSME funding was repaid

Customer proposition update

- Digitisation of customer engagement continued, including enhancing the digital statement functionality, which improves customer experience and reduces costs
- c.59,000 new Snoop users in 3Q24. Active users now total c.294,000, including c.34,000 Vanquis customers. Snoop remains an attractive acquisition channel for lending and savings products, with origination costs around 10% of other channels, while offering valuable money management tools

Operational efficiency and technology update

- The Group will have delivered £60m of gross cost savings by the end of 2024, is on track for a further £15m of savings by the end of 2025, and £23-28m of savings through the Gateway technology transformation programme
- The Gateway programme remains on track for mid-2026 completion. Recent enhancements include:
  - Moving colleagues onto one IT platform, resulting in improved colleague and customer experience, and reducing costs
  - Replacement of the Vehicle Finance lending decision engine, improving customer underwriting and reducing risk

Complaints update

- Enhanced cost-effective offshore complaints handling capability, with AI automating complaint logging, reducing unprocessed complaints to less than 4,000 as of 30 September 2024 (from 7,900 as of 30 June 2024)
- Complaint costs remain broadly in line with expectations and are forecast to increase c.50% year-on-year in 2024, driven by a material increase in Financial Ombudsman Service (FOS) fees. Year-to-date FOS fees are £15m higher year-on-year from increased Claims Management Companies (CMC) complaints, where uphold rates remain low
- Continue to engage with regulators to address complaints issues on an industry wide basis and welcome the FOS fees consultation. Assuming the revised FOS fees charging proposals are enacted, they are expected to reduce CMC complaint referrals to the FOS

Vehicle Finance update

- As previously stated, Vanquis is not subject to the current FCA Motor Commissions Review that has been focused on discretionary commission arrangements, which Vanquis did not participate in
- The Group notes the Court of Appeal Judgment in *Johnson v Firstrand Bank Ltd*, *Wrench v Firstrand Bank Ltd*, and *Hopcraft v Close Brothers Ltd*, relating to Vehicle Finance

commission disclosure practices. It also notes that the lenders involved in these cases intend to apply to the Supreme Court for permission to appeal

- Following refinement to documentation and processes, the Group continues to conduct Vehicle Finance lending through intermediaries who have commission disclosures in line with the Judgment

Footnotes

1. *Gross customer interest earning balances excludes post charge off assets and deferred acquisition costs, which are included in gross and net receivables.*
2. *Net interest margin is calculated as Interest income less interest expense for the nine months period to 30 September and six months period to 30 June 2024 respectively, as a percentage of average gross receivables for the nine and six months to the period end.*
3. *Tier 1 ratio is defined as the ratio of the Group's Tier 1 capital to the Group's risk-weighted exposures measured in accordance with the UK Capital Requirements Regulation.*

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Forward looking statements

This report may contain certain "forward looking statements" regarding the financial position, business strategy or plans for future operations of Vanquis Banking Group. All statements other than statements of historical fact included in this document may be forward looking statements. Forward looking statements also often use words such as "believe", "expect", "estimate", "intend", "anticipate" and words of a similar meaning. By their nature, forward looking statements involve risk and uncertainty that could cause actual results to differ from those suggested by them. Much of the risk and uncertainty relates to factors that are beyond Vanquis Banking Group's ability to control or estimate precisely, such as future market conditions and the behaviours of other market participants, and therefore undue reliance should not be placed on such statements which speak only as at the date of this report. Vanquis Banking Group does not assume any obligation to, and does not intend to, revise or update these forward-looking statements, except as required pursuant to applicable law or regulation. No statement in this announcement is intended as a profit forecast or estimate for any period. No statement in this announcement should be interpreted to indicate a particular level of profit and, as a consequence, it should not be possible to derive a profit figure for any future period from this report.

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