Vanquis Banking Group plc
Interim results for the six months ended 30 June 2023

Vanquis Banking Group plc ('the Group'), a leading specialist banking group with a focus on customers in the mid-cost and near-prime credit markets, today publishes its results for the six months ended 30 June 2023, unless otherwise stated.

Malcolm Le May, Chief Executive Officer, commented:

"The Group performed well during the first six months of 2023. We maintained our focus on disciplined receivables growth amid uncertain macroeconomic conditions, tight cost controls given persistently high inflation, and continued business investment to establish an operating platform for the future. I am also pleased to report that the Board is recommending an interim dividend of 5.0p per share.

The Group's focus on enhancing asset quality, whilst operating in growing mid-cost and near-prime markets, enabled the Group to deliver attractive but disciplined receivables growth of 26% year on year. This resulted in an adjusted loss before tax of £5.5m (H1'22: adjusted profit before tax £54.3m) reflecting primarily the IFRS 9 impact of strong loan book growth, together with unplanned inflation driving higher costs. Given the focus on lower-risk mid-cost and near-prime markets in recent years, delinquency and arrears rates were broadly stable during the period despite a more challenging macroeconomic backdrop than anticipated at the start of the year. Our commitment to customer support is unwavering and we will continue to help our customers during this period of high inflation and beyond.

Finally, these results are my final results as CEO and I'm delighted to formally welcome my successor, Ian McLaughlin, who joined the business recently in July. I remain confident that the Group will continue to go from strength to strength under his leadership and I would like to wish him and the team all the best going forward."

Key financial results for the six months ended 30 June

	2023	2022
Continuing Operations:	**£m**	**£m**
Credit card receivables	1,224	1,035
Vehicle finance receivables[1]	764	608
Personal loan receivables	130	42
Total Group receivables	**2,118**	**1,685**
Adjusted profit before tax:		
– Credit cards	33.9	75.8
– Vehicle finance	15.6	20.2
– Personal loans	(9.3)	(10.7)
– Second charge mortgage	(0.3)	-
– Central division:		
- Central costs and bank interest income	(30.5)	(28.1)
- Bond coupons inc. Tier 2	(14.9)	(2.9)
Adjusted (loss)/profit before tax from continuing operations[2]	**(5.5)**	**54.3**
Amortisation of acquisition intangibles	(3.7)	(3.7)
Exceptional items – continuing operations	(5.3)	(3.7)
Statutory (loss)/profit before tax from continuing operations	**(14.5)**	**46.9**
Loss for discontinued operations	-	(9.6)
Statutory (loss)/profit before tax	**(14.5)**	**37.3**
Underlying profit before tax[6]	6.0	74.3
Adjusted RORE[3]	(1.7%)	18.1%
Adjusted basic L/EPS from continuing operations[4] (p)	(1.4)	15.4
Basic L/EPS from continuing operations[5] (p)	(4.1)	12.7
Interim dividend per share (p)	5.0	5.0

H1’23 Highlights

The Group delivered attractive but disciplined receivables growth in uncertain macroeconomic conditions

- The Group delivered strong receivables growth during the period, enabled by its risk management framework, capital base and competitive positioning in the large addressable near-prime market.
- The Group’s Net Interest Margin (NIM) decreased by 3.5% from 21.5% in H1’22 to 18.0% in H1’23, reflecting the anticipated impact of the business shift towards near-prime, lower asset yields and an increased cost of funding driven by higher base rates, which were offset by a mix of funding change away from legacy bonds towards retail deposit funding.
- Asset quality across the Group’s loan books strengthened and delinquency trends were stable, which further reflects the Group’s move towards lower risk customers over recent periods.
- Group central costs increased year on year reflecting 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 expected. Total Group operating costs of £157.0m (H1’22: £147.5m) included the inflationary impact during the period, and ongoing business investment of £11.5m (H1’22: £20.0m).
- Central funding costs increased year on year to £14.9m (H1’22: £2.9m). This includes Tier 2 costs no longer partly allocated to the discontinued Consumer Credit Division (CCD) business, and partly reflects higher funding costs driven by the higher base interest rate environment.
- Group adjusted loss before tax of £5.5m (H1’22: adjusted profit before tax £54.3m) reflects primarily the IFRS 9 impact of strong loan book growth, together with unplanned inflation driving higher costs.
- Group underlying profit before tax of £6.0m (H1’22: £74.3m) excludes business investment costs.
- The Group reported a statutory LBT from continuing operations of £14.5m (H1’22 PBT: £46.9m).
- As at 30 June, the Group’s capital and liquidity positions remained robust, and in excess of both regulatory requirements and buffers[1]. The Group held Common Equity Tier 1 capital of £424m (H1’22: £459m), which equated to a CET1 ratio of 21.7% (H1’22: 27.3%) and total capital of approximately £624m (H1’22: £659m), equating to a Total Capital Ratio (TCR) of 31.9% (H1’22: 39.2%). The Group held High-Quality Liquid Assets in the Bank of England reserve account of £386m as of 30 June (H1’22: £430m), holding significant levels of excess above its Liquidity Coverage Ratio (LCR) requirement.
- The Board is proposing an interim dividend with respect of H1’23 of 5.0p per share.

H1’23 Achievements

- In March, the Group rebranded as Vanquis Banking Group to better reflect the mix of lending and its strategic ambitions.
- Each of the Group’s products has launched new growth and innovation initiatives during the period and made good progress against existing objectives, including new offerings for credit card customers.
- The Group continued to invest in its strategic capabilities during the period, including areas such as IT and technology, and managed its underlying operating cost base closely, partly mitigating inflationary pressure.
- In March 2023, the Group announced that it had received a reduction in its total capital requirements from the Prudential Regulation Authority (PRA) to 11.9% (previously 18.3%). The overall capital requirement reduced from 21.8% to 15.4%, which includes the current regulatory combined buffer of 3.5% but excludes confidential buffers set by the PRA and additional internal management buffers.
- The Group launched a pilot phase for a new lending product in second charge mortgages and has signed a Heads of Agreement for a forward flow purchase arrangement for between £5m and £10m per month of existing second charge mortgages which is expected to commence during H2’23.
- The Group has broadened the range of savings products it offers customers to include 90 and 120-day notice accounts to complement its existing range of one to five-year fixed rate accounts and improve customer choice. During the period, Vanquis Cards won a Moneyfacts award for Credit Card App of the Year and Credit Builder Card Provider, Moneybarn won Best Technology Partner at the Credit Strategy Car Finance Awards and the Group was shortlisted for Best Rebrand of the Year at the Credit Strategy Awards.

[1] Excluding any confidential and management buffers

Credit card new customer acquisition increased year on year and overall spend improved

- New customer bookings for the period were 183k (H1'22: 105k), an increase of 74% year on year, reflecting an increase in customer acquisition initiatives including an improved price and balance transfer offering. The total number of customers at of the end of June stood at 1.6m (H1'22: 1.5m).
- As of 30 June, spend on a per average active customer basis was approximately 6% higher year on year. When combined with higher customer bookings, this resulted in receivables growth of approximately 18% year on year to £1,224m (H1'22: £1,035m).
- Reported adjusted PBT for the period of £33.9m (H1'22: £75.8m) which reflects expected credit losses from the IFRS 9 impact of strong receivables growth. Impairment charges during the same period last year were deflated by the release of Covid-19 provision which was no longer required.
- The annualised cost of risk as at 30 June was 8.0% (H1'22: 2.8%) reflecting increased receivables growth year on year triggering increased IFRS 9 provision costs being partly offset by stable delinquency and good asset quality being maintained. The annualised cost of risk in the same prior year period was deflated by the release of Covid-19 provision which was no longer required. As a result, the risk-adjusted margin was 17.3% (H1'22: 24.6%).
- For the remainder of 2023 and beyond, the credit card business will implement new pricing and purchase offers, whilst continuing to focus on improving its customer offering, enhancing its digital profile and ensuring the very best customer experience. It will seek to achieve these goals through the launch of several new initiatives including Apple Pay, extending its partnership programme and investing in its mobile app.

Vehicle finance receivables grew by 26% year on year driven by strong new business volumes

- As of 30 June, there were 111k vehicle finance customers (H1'22: 95k) and receivables of £764m (H1'22 restated[1]: £608m), representing receivables growth of 26% year on year. Growth in customers and receivables year on year continues to reflect the strong competitive positioning of the business and access to the Group's capital and funding.
- Credit issued during H1'23 was £249m (H1'22: £155m), reflecting new business volumes increasing to 31k (H1'22: 19k) with the average loan size remaining broadly flat year on year at £8.4k (H1'22: £8.2k).
  The Group's vehicle finance business delivered adjusted PBT for the period of £15.6m (H1'22: £20.2m) with strong loan book growth driving higher interest income year on year. Vehicle finance costs in the period included a spike in handling spurious claims from several claims management companies with only a 5% uphold rate.
- The annualised cost of risk as at 30 June decreased to 5.2% (H1'22: 5.6%), aided by lower arrears rates reflecting the focus on attracting lower credit risk customers since 2019. The risk adjusted margin decreased marginally to 11.5% (H1'22: 12.9%) as a greater proportion of lower-cost, lower-risk, near-prime customers were recruited.
- During H2'23, the vehicle finance business will continue to seek ways to improve its customer offering and grow its addressable markets with new asset class and contract type expansion. A new car proposition has been launched, and new partnerships will be assessed to increase the business's distribution.

In its second year, personal loans grew strongly in H1'23 with receivables and customer growth of 209% and 109% respectively year on year

- The Group's personal loans business delivered a LBT of £9.3m for the period (H1'22 LBT: £10.7m) reflecting the continued strong growth in the business year on year and investment in the IT platform supporting our lending activities, known as Gateway.
- Credit issued during H1'23 was £97m (H1'22: £29m), reflecting growth in new customer numbers of 25k (H1'22: 10k) with the average loan size increasing year on year at £3.8k (H1'22: £2.9k).
- As of 30 June, the business had 50k customers (H1'22: 24k) and total receivables of £130m (H1'22: £42m).
- During H2'23, the personal loans business will seek to improve its direct offering whilst also extending its list of distribution partners. From July 2023, all new open-market loans are being written on the Group's new IT platform, Gateway, with loans to existing cards customers transitioning in 2024. This will improve the customer experience and provide the Group with enhanced customer information.

Second charge mortgage pilot phase launched to diversify the product and credit risk profile of the Group

- Towards the end of March 2023, the Group's second charge mortgage business entered a Heads of Agreement for its first forward flow agreement with an established market intermediary.
- This agreement will allow the Group to acquire between £5m and £10m of existing second charge loans per month. This marks an important first step for this business.

Outlook

- During H1’23, given the macroeconomic backdrop of persistently high inflation and rising interest rates, the Group continued its focus on disciplined receivables growth whilst underwriting only the highest quality customers in its markets. The repositioning into the larger addressable markets of mid-cost and near-prime enabled the Group to deliver strong receivables and customer growth in H1’23. For H2’23, the Group will continue to focus on disciplined receivables growth whilst maintaining asset quality by focusing on risk-adjusted returns.
- The Group’s NIM profile is evolving to reflect the product mix of new business, the move towards lower risk near-prime reducing asset yields, and cost of funding increases driven by higher base rates offset by changes in funding mix. This is reflected in the H1’23 net interest income, however the Group still expects to deliver an attractive NIM upwards of c.18% (FY’22: 20.8%; H1’23: 18.0%) for FY’23.
- Additionally, this focus on quality is also expected to positively impact the Group’s impairment profile and cost of risk in FY’23 and FY’24. The Group anticipates the H2’23 impairment profile to be improved relative to the H1’23 performance, assuming no further deterioration in the macroeconomic environment.
- The Group remains cognisant of the current macroeconomic climate and its potential impact on customers and constantly monitors a range of indicators, including delinquency and repayment levels, for signs of customer distress. However, due to the persistence of higher levels of inflation, and higher interest rates, the Group will maintain appropriate cost-of-living impairment provision until inflation abates.
- To support its disciplined growth ambitions, the Group will continue to implement new customer facing initiatives in each of its businesses including enhanced new business offerings, customer conversion improvements and mobile app integration.
- Persistently high inflation during H1’23 has added approximately £12m to the Group’s cost base. As it did during H1’23, management will continue to proactively address the Group’s underlying cost base in H2’23 to mitigate the impact as much as possible. Costs not impacted by inflation have been well controlled and business investment, designed to provide scalability and operating platform benefits in the future, continued in H1’23 and will be maintained during H2’23. The Group still anticipates business investment to reduce materially in FY’24. Total costs in H2’23 are expected to be broadly similar to H1’23.
- The Group has previously guided to an underlying cost income ratio of approximately 40% in 2024. The NIM and volume dynamics mentioned above will affect the timing of achieving this ambition, but the Group remains confident that it will deliver this objective as it exits 2024 on a run-rate basis.

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[1] *Vehicle finance receivables have been retrospectively restated. See note 2.*
[2] *Adjusted (loss)/profit before taxation from continuing operations is stated before amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014; exceptional items and any losses incurred relating to CCD.*
[3] *Adjusted return on required equity (RORE) is defined as adjusted (loss)/profit after tax for the period multiplied by 365/181 as a percentage of Group’s average PRA regulatory capital requirement including PRA buffers for the 7 months ended 30 June.*
[4] *Adjusted basic L/EPS from continuing operations is defined as (loss)/profit after tax stated before amortisation of acquisition intangibles, exceptional items and any losses incurred relating to CCD.*
[5] *Basic L/EPS from continuing operations is defined as (loss)/profit after tax before any losses incurred relating to CCD.*
[6] *Underlying profit before tax is defined as adjusted (loss)/profit before tax from continuing operations excluding investment costs of £11.5m (H1’22: £20.0m).*

Note:

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.

Chief Executive Officer's review

Introduction

The Group continued to perform well during the first six months of 2023, particularly in customer and receivables growth. As it demonstrated during Q4'22 and Q1'23, the Group's successful repositioning towards the mid-cost and near-prime segments of the market, together with its focus on lower risk customers, has enabled the Group to grow its receivables meaningfully whilst maintaining asset quality and positive customer outcomes. During H1'23, credit card receivables grew by approximately 18% year on year to £1,224m (H1'22: £1,035m), vehicle finance by approximately 26% year on year to £764m (H1'22 restated: £608m) and the Group's personal loans business grew its receivables by 209% year on year to £130m (H1'22: £42m).

Group financials

Turning to the financial results for H1'23, the Group's statutory LBT from continuing operations was £14.5m (H1'22 PBT: £46.9m) reflecting a combination of higher expected credit losses from the IFRS 9 impact of strong loan book growth, together with unplanned inflation driving higher costs. The Group reported an adjusted LBT from continuing operations of £5.5m (H1'22 PBT: £54.3m), before exceptional costs of £5.3m relating to the transfer of activities to South Africa and costs in relation to the liquidation of the CCD companies, plus amortisation of acquisition intangibles.

Costs in the central division in H1'23 increased to £45.4m (H1'22: £31.0m). This includes bond coupon and Tier 2 costs no longer partly allocated to the discontinued CCD business, and partly reflects higher funding costs driven by the higher base interest rate environment. Ongoing business investment has continued to enable the Group's future cost base to be more scalable, flexible, resilient and supports future growth plans. The investments will enhance the Group's strategic competitive positioning through new digital capabilities and improved customer outcomes and experiences. Total Group costs, including business investment, were £157m (H1'22: £147.5m), which includes the uncontrollable adverse inflationary impact. The Group remains confident of delivering an underlying cost income ratio of 40% on an exit run-rate basis in 2024.

New customer bookings across credit cards, vehicle finance and personal loans for H1'23 amounted to 239k (H1'22: 134k) and, as a result, the Group had 1,778k customers (H1'22: 1,659k) as of 30 June. As a result of the higher customer acquisition and new business volumes seen during the period, total receivables stood at £2,118m (H1'22 restated: £1,684m) as of 30 June.

As at 30 June, the Group's capital and liquidity positions remained robust, with total regulatory capital of £624m (H1'22: £660m) equating to a Total Capital Ratio (TCR) of 31.9% (H1'22: 39.2%) and a capital surplus of £324m (H1'22: £309m) above the Group's total capital requirement (TCR) and regulatory combined buffers.

Governance changes

During the period, the Group announced several governance changes including a new CEO, two new Non-Executive Directors (NED) and the succession of its Chair.

In January, the Group Board announced that Malcolm Le May, CEO, will step down during 2023 after nine years with the Group, including five years as CEO, having led the transformation of the business into a specialist banking group. The Group announced that Ian McLaughlin has been appointed as his successor, who has a strong track record of delivering growth through improving customer service and enhancing distribution whilst working in retail banking, consumer finance, vehicle finance, savings, SME and mortgages. Ian joined the Group on 26 July 2023 and he will join the Board, and assume his SMF1 responsibilities, on 1 August.

In March, the Group announced the appointment of Michele Greene as a NED and a member of the Nomination Committee, the Group Risk Committee, and the Customer, Culture and Ethics Committee. Michele is a highly experienced finance professional at Board and executive level, having held senior roles at Virgin Money and MBNA Europe Bank. In April, the Group announced the appointment of Sir Peter Estlin as a NED and a member of the Nomination Committee, the Audit Committee and the Remuneration Committee. Sir Peter was knighted in 2020 for his services to International Business, Skills and Inclusion following a 30 year career in banking which included senior roles at Citigroup and Barclays.

Finally, in May, the Group announced that Patrick Snowball, Chairman since 2018, had informed the Board of his intention to step down from the Board in 2023. As Chairman, Patrick has been instrumental in leading the Board through a period of significant change for the Group since 2018, which has resulted in the transformation of the Group from a consumer

finance company to a specialist banking group; a strengthening of the Board, including the appointment of a new CEO; and the implementation of a new culture. Sir Peter Estlin has been appointed Chair, pending regulatory approval.

Consumer Duty preparations

The Financial Conduct Authority (FCA) has introduced a new set of rules and guidance for financial services companies which comes into effect on the 31 July 2023. It contains a new Consumer Principle that requires firms to act to deliver good outcomes for retail customers. Vanquis Banking Group has been working to understand the new rules and to implement them across its products and has made good progress with its preparations. The rules require companies to: act in good faith; avoid causing foreseeable harm; and enable and support retail customers to pursue their financial objectives. The rules relate to four outcomes: products and services; price and value; consumer understanding; and consumer support. For each outcome, the Group has undertaken thorough analysis which has resulted in improvements being made across the business including updating the product management framework to include a fair value assessment and more information on target markets, pricing policies being reviewed for each product, and re-writing the terms and conditions (T&Cs) for all products to make them easier for customers to understand.

Environmental, Social and Governance (ESG)

Sustainability remains essential to Vanquis Banking Group's ability to deliver on its strategic priorities. In line with the most recent compliance statement that was included in the Annual Report and Financial Statements 2022, the Group submitted carbon reduction targets for validation by the Science Based Targets initiative during H1'23. The Group's science-based target will be to reduce its scope 1 and 2 greenhouse gas emissions by 38.8% by 2028. For scope 3 emissions, the Group has also committed that 78% of suppliers by spend, which account for 72% of the company's scope 3, category 1 emissions, will have their own science-based carbon reduction targets by 2028.

In June 2023, the Group launched its new Foundation with £2.5m of funding which aims to aid financial inclusion and support social mobility and is aligned with our Purpose. The Foundation's mission is to improve the lives of children and young people by providing educational and social development opportunities which support financial and social inclusion. Through the Foundation, the Group will continue its work with its Community Foundation partners, alongside its partnerships with the National Numeracy Trust, Outward Bound Trust and School-Home Support to support disadvantaged children and families through access to education programmes. It will also see the Group increase the funding allocated to its school uniform project which provides financial support to families who need financial assistance with the cost of school uniforms. The project has already provided £100,000 to support more than 1,000 pupils across Bradford, Liverpool, Manchester and Blackpool with free uniforms, alongside longstanding community partners School-Home Support and the Dixons Academies Trust. The funding for this project will rise to £125,000 in 2023/24 with financial support also provided to pupils in London, Liverpool and Leeds.

Outlook

Vanquis Banking Group is repositioning as a specialist banking group in the mid-cost and near-prime segments of the market focused on lower risk customers.

During H1'23, given the macroeconomic backdrop of persistently high inflation, the Group continued its focus on disciplined receivables growth whilst underwriting only the highest quality customers in its markets. The repositioning into the growing mid-cost and near-prime addressable markets enabled the Group to deliver strong receivables and customer growth in H1'23. For H2'23, the Group will continue to focus on disciplined receivables growth whilst maintaining asset quality by focusing on risk-adjusted returns. The Group's NIM profile is expected to evolve to reflect the product mix of new business, the move towards lower risk near-prime customers and cost of funding increases driven by higher base rates being offset by funding mix changes. However, the Group is still expected to deliver an attractive NIM upwards of c.18% (FY'22: 20.8%; H1'23: 18.0%) for FY'23.

Additionally, this focus on quality is also expected to positively impact the Group's impairment profile and cost of risk in FY'23 and FY'24. The Group anticipates the H2'23 impairment profile to be improved relative to the H1'23 performance, assuming no further deterioration in the macroeconomic environment. The Group remains cognisant of the current macroeconomic climate and its potential impact on customers and constantly monitors a range of indicators, including delinquency and repayment levels, for signs of customer distress. However, due to the persistence of higher levels of inflation, and higher interest rates, the Group will maintain appropriate cost-of-living impairment provision until inflation abates. To support its disciplined growth ambitions, the Group will continue to implement new customer facing initiatives in each of its businesses including enhanced new business offerings, customer conversion improvements, and mobile

app integration. This includes incorporating the FCA's new Consumer Duty regime which comes into effect from 31 July 2023.

Persistently high inflation during H1'23 has added approximately £12m to the Group's cost base. As it did during H1'23, management will continue to proactively address the Group's underlying cost base in H2'23 to mitigate the impact as much as possible. Costs not impacted by inflation have been well controlled and business investment, designed to provide scalability and operating platform benefits in the future, continued in H1'23 and will be maintained during H2'23. The Group still anticipates business investment to reduce materially in FY'24.

The Group has previously guided to an underlying cost income ratio of approximately 40% in 2024. The NIM and volume dynamics mentioned above will affect this ambition, but the Group remains confident that it will deliver this objective as it exits 2024 on a run-rate basis.

The Board remains committed to delivering attractive and sustainable returns to its shareholders over the medium-term. This is predicated upon the Group's solid strategic and financial foundations. The Group's capital management framework includes a CET1 ratio target of c.20% over time, disciplined receivables growth, and the potential for return accretive target market acquisitions.

Finally, to colleagues across the Group – in Bradford, Chatham, Petersfield and London – I would like to thank you all for your hard work, support and commitment during my time as CEO. You are all the essence of this company and fundamental to the great culture we have nurtured over recent years. Furthermore, without your help, our customers would not get the support they require nor the access to credit products they are unable to get elsewhere. Our presence and support for the communities we serve remains vital, particularly in such challenging times.

Malcolm Le May
Chief Executive Officer
27 July 2023

Financial review

Group performance

The Group's 2023 interim results are as follows:

	2023 £m	2022 £m
Period-end net receivables[1]	2,118	1,684
Average gross receivables[2]	2,267	2,002
Interest income	251.3	238.4
Interest expense	(49.4)	(25.3)
Net interest income	**201.9**	**213.1**
Net fees and commission income	**20.8**	**24.1**
Other income and net fair value gains	14.4	3.1
Total income	**237.1**	**240.3**
Impairment charges	(85.6)	(38.5)
Risk-adjusted income	**151.5**	**201.8**
Operating costs	(157.0)	(147.5)
Adjusted (loss)/profit before tax – Continuing operations[3]	**(5.5)**	**54.3**
Amortisation of acquisition intangibles	(3.7)	(3.7)
Exceptional items – Continuing operations	(5.3)	(3.7)
Statutory (loss)/profit before tax – Continuing operations[4]	**(14.5)**	**46.9**
Loss for discontinued operations	-	(9.6)
Group (loss)/profit before tax	**(14.5)**	**37.3**
Tax – Continuing operations	4.1	(15.0)
Tax – Discontinuing operations	-	(0.8)
(Loss)/profit after tax	**(10.4)**	**21.5**

1 *Vehicle finance receivables have been retrospectively restated, see note 2.*

2 *Calculated as the average of month end gross receivables for the 7 months ended 30 June.*

3 *Adjusted (loss)/profit before tax from continuing operations is stated before amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014, exceptional items and any losses incurred relating to CCD.*

4 *Statutory (loss)/profit before tax from continuing operations is stated before any losses incurred relating to CCD.*

5 *In line with our continued repositioning as a specialist banking group, the Group changed the presentation of its Income Statement in the annual report and accounts for the year ended 31 December 2022 to align with the wider banking industry. The presentation of the Income Statement in this report is consistent with that in the annual report and accounts for 31 December 2022. See page 23 in the statement of accounting policies for further details on the change in presentation. In line with these changes and to more closely align to our peers in the industry, the Group also implemented updated Alternative Performance Measures (APMs) to provide more relevant and reliable information for stakeholders. The changes to APMs are summarised at the end of this report and all presented APMs have been retrospectively re-presented in line with these changes. Unless stated below all other APMs are presented consistently with prior periods.*

The Group reported an adjusted LBT from continuing operations of £5.5m (H1'22 PBT: £54.3m), which reflects a combination of higher expected credit losses from the IFRS 9 impact of strong loan book growth, together with unplanned inflation driving higher costs; H1'22 benefited from the release of Covid-19 provision which was no longer required. Including amortisation of acquisition intangibles and exceptional items the Group LBT was £14.5m (H1'22 PBT: £46.9m).

The credit card business reported adjusted profit before tax for the period of £33.9m (H1'22: £75.8m) and receivables ended the period at £1,224m (H1'22: £1,035m). The vehicle finance business generated adjusted profit before tax of £15.6m (H1'22: £20.2m) and receivables ended the period at £764m (H1'22 restated: £608m). The personal loans business generated a LBT of £9.3m (H1'22 LBT: £10.7m) and receivables ended the period at £130m (H1'22: £42m).

On an adjusted continuing basis, the Group reported an adjusted basic loss per share of 1.4p (H1'22: earning per share 15.4p) and a basic loss per share of 4.1p for H1'23 (H1'22: earnings per share 12.7p). On a statutory basis, the Group reported a basic loss per share of 4.1p (H1'22: earning per share 8.6p) for H1'23 reflecting the statutory loss after tax of £10.4m (H1'22 profit after tax: £21.5m).

Macroeconomic provision and cost of living

Macroeconomic provisions are recognised in credit cards, vehicle finance and personal loans to reflect an increased probability of default (PD) in addition to the core impairment provisions already recognised, based on future macroeconomic scenarios.

The macroeconomic provision for continuing operations considers the relationship between the hazard rate, the number of people who were employed last month but who are unemployed the following month (derived from unemployment), debt to income ratio and default rates.

The provision reflects the potential for future changes under a range of forecasts, as analysis has clearly evidenced correlation between hazard rates, debt to income ratios and credit losses incurred.

The unemployment data has been compiled from a consensus of sources including the Bank of England, HM Treasury, the Office for Budget Responsibility (OBR), Bloomberg and a number of prime banks.

The table below shows the annual peak and average unemployment assumptions adopted and the weightings applied to each. The weightings have remained consistent with prior year.

The Group will continue to analyse and assess if there are any additional macroeconomic indicators which also correlate with credit losses.

	Base	Downside	Upside	Severe
Weighting	50%	35%	10%	5%
2023				
Peak	4.1	4.2	3.8	4.5
Average	4.0	4.1	3.5	4.2
2024				
Peak	4.3	5.8	3.6	7.5
Average	4.2	5.2	3.5	6.1

Management has placed a significant focus on the cost of living crisis and post-model adjustments are recognised across all products. However, credit performance across the Group remains stable and internal analysis shows no obvious signs of stress from the cost of living crisis at this stage. The Group's customers are more agile in managing their finances during times of affordability constraints. A significant proportion of the Group's customers are also expected to benefit from wage increases during 2023 which will help alleviate financial stress.

Management judgement has been used to determine appropriate amounts to be held as cost of living post-model adjustments taking into account the total level of provisioning held across the portfolio including the macroeconomic provision. Scenario modelling techniques have been used to support the amount of post-model adjustments recognised for a potential cost of living impact.

A breakdown of the post-model adjustments is included within note 8.

Credit Cards

	Six months ended 30 June		
	2023 £m	2022 £m	*Change*
Total customer numbers ('000)	1,617	1,541	*5.0%*
Active customer numbers ('000)	1,261	1,233	*2.3%*
Period-end net receivables	1,224	1,035	*18.3%*
Average gross receivables[1]	1,401	1,322	*6.0%*
Interest income	**166.2**	**164.2**	***1.2%***
Interest expense	(20.3)	(10.3)	*97.1%*
Net interest income	**145.9**	**153.9**	***(5.2%)***
Net fee and commission income	**20.8**	**24.1**	***(13.7%)***
Other income	8.7	1.3	*569.2%*
Total income	**175.4**	**179.3**	***(2.2%)***
Impairment charges	(55.4)	(18.1)	*206.1%*
Risk-adjusted income	**120.0**	**161.2**	***(25.6%)***
Operating costs	(86.1)	(85.4)	*0.8%*
Adjusted profit before tax[2]	**33.9**	**75.8**	***(55.3%)***
Annualised asset yield[3]	23.9%	25.0%	*(1.1%)*
Annualised cost of risk[4]	(8.0%)	(2.8%)	*(5.2%)*
Annualised return on equity[5]	15.4%	27.2%	*(11.8%)*

[1] *Calculated as the average of month end gross receivables for the 7 months ended 30 June.*

[2] *Adjusted profit before tax is stated before £2.1m of exceptional costs in H1'23 and £nil in H1'22.*

[3] *Interest income for the period multiplied by 365/181 as a percentage of average gross receivables for the 7 months ended 30 June.*

[4] *Impairment charges for the period multiplied by 365/181 as a percentage of average gross receivables for the 7 months ended 30 June.*

[5] *Adjusted profit after tax for the period multiplied by 365/181 as a percentage of average equity for the 7 months ended 30 June.*

For H1'23, the Group's credit card business reported adjusted PBT of £33.9m (H1'22: £75.8m) and receivables at the end of the period of approximately £1,224m (H1'22: £1,035m).

New customer bookings for the period were 183k, up from 105k in H1'22, which reflects new customer acquisition initiatives including a broader range of price points and balance transfer offerings improving. Credit card customer numbers increased to 1,617k as at 30 June (H1'22: 1,541k). Active customer numbers, defined as customers with activity on their card in the last month, also grew to 1,261k (H1'22: 1,233k).

During the period, credit line increases issued to customers were approximately £169m (H1'22: £109m). At the end of June, the average utilisation rate was approximately 47% (H1'22: 48%) which remains below levels seen pre-Covid. The business has launched several initiatives designed to improve the utilisation rate including the launch of Android Wallet during H2'22 and has plans to launch Apple Pay during July 2023. Receivables ended the period at £1,224m (H1'22: £1,035m), representing growth of 18% year on year.

The credit card business generated interest income of £166.2m during the period, versus £164.2m in H1'22. There was a slight reduction in the asset yield to 23.9% (H1'22: 25.0%), which reflects the shift towards lower-risk near-prime customers. This shift is likely to continue as the business continues to focus on lower-risk customers.

Funding costs increased to £20.3m during the period, versus £10.3m in H1'22, reflecting higher receivables year on year and rising interest rates impacting retail deposit costs. Net fee and commission income reduced in H1'23 to £20.8m (H1'22: £24.1m) reflecting the cessation of the Repayment Option Plan product.

The impairment charge for H1'23 was £55.4m (H1'22: £18.1m) reflecting higher expected credit losses from the IFRS 9 impact of strong loan book growth; H1'22 benefited from the release of Covid-19 provision which was no longer required. The annualised cost of risk was 8.0% (H1'22: 2.8%).

Costs increased marginally to £86.1m during the period versus £85.4m in H1'22 reflecting some centralisation of functional costs and overall cost management actions to mitigate the impact of inflation on the business's cost base.

For the remainder of 2023 and beyond, the credit card business will implement new pricing and purchase offers, whilst continuing to focus on improving its customer offering, enhancing its digital profile and ensuring the very best customer experience. It will seek to achieve these goals through the launch of several new initiatives including Apple Pay, extending its partnership programme and investing in its mobile app.

Vehicle Finance

	Six months ended 30 June		
	2023 £m	2022 £m	*Change*
Total customer numbers ('000)	111	95	*17.0%*
Period-end net receivables[1]	764	608	*25.7%*
Average gross receivables[2]	750	641	*17.0%*
Interest income	**72.8**	**68.8**	***5.8%***
Interest expense	(12.3)	(11.6)	*6.0%*
Net interest income	**60.5**	**57.2**	***5.8%***
Other Income	1.6	1.6	-
Total income	**62.1**	**58.8**	***5.6%***
Impairment charges	(19.2)	(17.8)	*7.9%*
Risk-adjusted income	**42.9**	**41.0**	***4.6%***
Operating costs	(27.3)	(20.8)	*31.3%*
Adjusted profit before tax[3]	**15.6**	**20.2**	*(22.8%)*
Annualised asset yield[4]	19.6%	21.6%	*(2.0%)*
Annualised cost of risk[5]	(5.2%)	(5.6%)	*0.4%*
Annualised return on assets[6]	2.4%	3.6%	*(1.2%)*

[1] *Vehicle finance receivables have been retrospectively restated, see note 2.*
[2] *Calculated as the average of month end gross receivables for the 7 months ended 30 June.*
[3] *Adjusted profit before tax is stated before £0.5m of exceptional costs in H1'23 and £nil in H1'22.*
[4] *Interest income for the period multiplied by 365/181 as a percentage of average gross receivables for the 7 months ended 30 June.*
[5] *Impairment charges for the period multiplied by 365/181 as a percentage of average gross receivables for the 7 months ended 30 June.*
[6] *Adjusted profit after tax multiplied by 365/181 as a percentage of average total assets for the 7 months ended 30 June.*

The Group's vehicle finance business generated adjusted profit before tax of £15.6m (H1'22: £20.2m) for H1'23 and receivables at the period end were £764m (H1'22 restated: £608m), representing growth of 26% year on year.

New business volumes in H1'23 grew by 64% to 31k (H1'22: 19k) notwithstanding the challenging macroeconomic backdrop, highlighting the strong competitive positioning and access to the Group's capital and funding versus competitors. As a result, the vehicle finance business ended the period with 111k customers (H1'22: 95k). The average loan size was stable at approximately £8.4k (H1'22: £8.2k), which drove total credit issued to £249m after unwinds (H1'22: £155m).

At the end of June, receivables stood at £764m (H1'22 restated: £608m), driven by the improvement in business volumes and, hence, credit issued year on year. The period saw two records broken: March saw a record number of new customers onboarded in the month and June saw the highest monthly value of new business written.

Interest income during H1'23 increased to £72.8m (H1'22: £68.8m) reflecting the significant growth in the loan book year on year being offset by a lower asset yield. The annualised asset yield decreased year on year to 19.6% versus 21.6% in H1'22, reflecting the growth in new business being written in the lower risk near-prime segment versus previous periods.

Interest costs increased during the period to £12.3m from £11.6m in H1'22, reflecting the growth in receivables being offset by a lower cost of funds received from the Group as a result of the large limit waiver received from the PRA in H2'22. As a result of this and the lower asset yield profile, the net interest margin fell slightly to 16.3% versus 18.0% a year earlier.

Impairment for the period increased to £19.2m (H1'22: £17.8m), reflecting higher expected credit losses from the IFRS 9 impact of strong loan book growth, partly mitigated by the continued shift to lower risk customers. The annualised cost of risk decreased to 5.2% from 5.6% in H1'22, and the risk-adjusted margin reduced to 11.5% (H1'22: 12.9%).

Costs increased during the course of the period to £27.3m (H1'22: £20.8m), reflecting the additional servicing costs associated with higher new business volumes, and included a spike in handling spurious claims from several claims management companies.

During H2'23, the vehicle finance business will continue to seek ways to improve its customer offering and grow its addressable markets with new asset class and contract type expansion. New partnerships will be assessed to increase the business's distribution and a new customer loyalty product has been built and is now live.

Personal Loans

	Six months ended 30 June		
	2023 £m	2022 £m	*Change*
Total customer numbers ('000)	50	24	*108.8%*
Period-end net receivables	130	42	*209.3%*
Average gross receivables[1]	115	39	*198.3%*
Interest income	**12.3**	**5.4**	***127.8%***
Interest expense	(1.9)	(0.5)	*280.0%*
Net interest income	**10.4**	**4.9**	***112.2%***
Total income	**10.4**	**4.9**	***112.2%***
Impairment charges	(11.0)	(2.6)	*323.1%*
Risk-adjusted (loss)/income	**(0.6)**	**2.3**	***(126.1%)***
Operating costs	(8.7)	(13.0)	*(33.1%)*
Loss before tax	**(9.3)**	**(10.7)**	*(13.1%)*
Annualised asset yield[2]	21.5%	28.1%	*(6.6%)*
Annualised cost of risk[3]	(19.2%)	(13.5%)	*(5.7%)*

[1] *Calculated as the average of month end gross receivables for the 7 months ended 30 June.*

[2] *Interest income for the period multiplied by 365/181 as a percentage of average gross receivables for the 7 months ended 30 June.*

[3] *Impairment charges for the period multiplied by 365/181 as a percentage of average gross receivables for the 7 months ended 30 June.*

The Group's personal loans business grew both customer numbers and receivables strongly year on year, by 109% and 209% respectively, reflecting its competitive market position and underlying customer demand in this segment.

New business volumes during H1'23 were 25k, versus 10k in H1'22, reflecting the business's Open Market positioning for the first six months of the year and its competitive product and price offering. As a result of these new customer bookings, the business ended the period with 50k customers versus 24k at the end of H1'22, representing growth of 109% year on year. At the end of June, receivables stood at £130m versus £42m at the end of H1'22, driven by new business volumes increasing year on year, representing growth of 209% year on year.

The personal loans business generated interest income of £12.3m during the period (H1'22: £5.4m) driven by higher average receivables year on year. The asset yield was 21.5% versus 28.1% in H1'22, with the decrease reflecting a focus on lower risk near-prime customers and changes to the new business mix year on year.

The impairment charge for H1'23 increased to £11.0m, from £2.6m in H1'22, reflecting business growth during the period. The annualised cost of risk for the period was 19.2% (H1'22: 13.5%), which resulted in the risk-adjusted margin falling to (1.0%) versus 12% for the prior year.

Interest costs for the period increased to £1.9m, versus £0.5m in H1'22, reflecting higher average balances being carried year on year. Costs decreased during the course of the period to £8.7m (H1'22: £13.0m) as the prior year included significant one-off investment relating to the Gateway platform.

During H2'23, the personal loans business will seek to improve its direct offering whilst also extending its list of distribution partners. From July 2023, all new open-market loans are being written on the Group's new IT platform, Gateway, with loans to existing cards customers transitioning in 2024. This will improve the customer experience and provide the Group with enhanced customer information.

Discontinued Operations

Consumer Credit Division

	Six months ended 30 June		
	2023 £m	2022 £m	*Change*
Interest income	-	-	-
Interest expense	-	(6.2)	-
Net interest income	**-**	**(6.2)**	**-**
Total income	**-**	**(6.2)**	**-**
Impairment charges	-	-	-
Risk-adjusted loss	**-**	**(6.2)**	**-**
Operating costs	-	(7.5)	-
Adjusted loss before tax[1]	**-**	**(13.7)**	**-**

[1] *Adjusted loss before tax is stated before an exceptional credit of £nil in H1'23 and £4.6m in H1'22.*

The Consumer Credit Division (CCD) comprised Provident home credit and Satsuma loans. The Group announced in 2021 that it had decided to place the division into a managed run-off, as the business faced a mounting number of operational and regulatory headwinds. The business was closed at the end of December 2021.

In H1'22 CCD reported an adjusted loss before tax of £13.7m, no further costs were incurred in H1'23.

Central division

Total Group central costs were £45.4m (H1'22: £31.0m). This includes Tier 2 costs no longer partly allocated to the discontinued CCD business, and partly reflects higher funding costs driven by the higher base interest rate environment during the period. The Group has continued its strategic investment and centralisation of functions, designed to make the Group's future cost base more scalable and better able to capture the benefits of operational leverage. These investments are also designed to enhance the Group's strategic competitive positioning through new IT platforms and improved customer journeys. Exceptional costs of £2.7m (H1'22: £3.7m) have been recognised centrally.

Exceptional items

An exceptional cost of £5.3m was recognised for continuing operations in H1'23. This includes: (i) costs in relation to the transfer and outsourcing of activities to South Africa (£2.6m); (ii) costs in relation to the liquidation of the CCD companies (£2.4m); and (iii) redundancy costs (£0.3m). This compares to an exceptional cost of £3.7m in H1'22 in continuing operations as a result of corporate costs incurred centrally (£3.7m) and an exceptional credit of £4.6m in H1'22 in discontinued operations due to the release of provisions.

Tax

The tax credit (2022: charge) for the period on (loss)/profit before tax, amortisation of acquisition intangibles and exceptional items is £1.9m (2022: tax charge of £15.7m). The tax credit (2022: charge) reflects:

- the adverse impact of the bank corporation tax surcharge which prior to 31 March 2023 applies at a rate of 8% to the annual profits of Vanquis Bank in excess of £25m and after 31 March 2023 applies at a rate of 3% to Vanquis Bank's annual profits in excess of £100m;
- in the current period, the adverse impact of writing off deferred tax assets in respect of share scheme awards where tax deductions are lower than previously expected;
- in the current period, the favourable impact of offsetting capital losses on which a deferred tax asset has not previously been recognised to reduce the capital gain arising on the disposal of shares following the partial conversion of the preferred stock in Visa Inc; and
- in 2022, the adverse impact of revaluing deferred tax assets in Vanquis Bank Limited at the combined mainstream corporation tax and bank surcharge rates of 28% (2021:33%) to the extent the underlying temporary differences were expected to reverse after 1 April 2023, following the changes to bank corporation tax surcharge enacted in the Finance Act 2022.

Dividends

The Board is proposing an interim dividend with respect of H1'23 of 5.0p per share (H1'22: 5.0p), reflecting the Group's capital position and the Board's confidence in the Group's outlook. The dividend will be payable to those shareholders on the register as at close of business on 11 August 2023, with an ex-dividend date of 10 August 2023, and will be paid on 21 September 2023.

Funding and capital

The Group has robust capital and liquidity positions:

- The Group is holding £386m of high-quality liquid resources with the Bank of England and has a Liquidity Coverage Ratio of 429%, amounting to £297m above the Group's regulatory Liquidity Coverage Ratio requirement.
- The Group's balance sheet position at the end of June remained robust, with regulatory capital of £624m (£424m of which is CET1), a total capital ratio of 31.9% and a CET1 ratio of 21.7%, versus requirements of 15.4% and 10.2% respectively[2]. Total capital includes the Group's £200m Tier 2 capital instrument.

In 2023, the Group has continued to deliver on its strategic funding objectives: (i) in line with the contractual maturity, repaid the senior unsecured bonds in June 2023; (ii) extended the Moneybarn securitisation to a January 2023 maturity date (followed by an amortisation period if not re-financed, or until markets are conducive to re-finance via a public issuance); (iii) significantly increased retail deposit funding of vehicle finance; (iv) successfully launched notice savings accounts in June 2023; and (v) pre-funded the retail bond maturity of £60m in October 2023.

The granting of a Core UK Group large exposure waiver in November 2022 enabled the Group's transition to a traditional bank funding model in which the Group's funding will consist of; (i) diversified retail deposits; (ii) securitisation of the credit cards and vehicle finance books; and (iii) a modest amount of liquidity and funding facilities at the Bank of England. The Group retains access to wholesale market funding and debt capital via its EMTN programme. Vanquis Bank expects to further diversify its retail deposit funding mix through more cost-effective behaviouralised deposits and ISAs.

The Group continues to adopt a prudent approach to managing its funding and liquidity resources within risk appetite, and will continue to optimise these resources when new opportunities become available to the Group.

During the period, the Prudential Regulation Authority concluded its Capital Supervisory Review and Evaluation Process (CSREP) of the Group's capital requirements, based on the Internal Capital Adequacy Assessment Process (ICAAP) undertaken during 2022. The outcome is that the Group's Total Capital Requirement (TCR) was reduced by more than a

[2] Excluding any confidential and management buffers, but pre the increase in countercyclical capital buffer (CCyB) to 2% on 5 July 2023, the requirements post 5 July increased to 16.4% and 11.2% respectively.

third, from 18.3% to 11.9%. Including the current regulatory combined buffers of 3.5% (capital conservation buffer of 2.5% and countercyclical buffer of 1.0%), the Group's overall capital requirement reduced by 6.4% from 21.8% to 15.4%[3].

At 30 June 2023, the Group's CET1 ratio was 21.7% (H1'22: 27.3%) and the Total Capital Ratio was 31.9% (H1'22: 39.2%). CET1 decreased from £459m to £424m since H1'22 and total own funds decreased from £659m to £624m. The regulatory capital headroom above the minimum regulatory requirement of 15.4% was £324m at the period end. The increase in headroom from £309m at 30 June 2022 (versus the TCR and combined buffer) predominantly reflects the reduction in the TCR received in March 2023. This is offset by; (i) the scheduled further unwind of the IFRS 9 transitional relief in regulatory capital; (ii) the scheduled increase in CCyB in December 2022; (iii) continued investment in strategic capabilities during the period; and (iv) higher risk-weighted exposures in respect of customer receivables.

The Group has in place a Capital Principal Risk Policy, which sets out the framework in which the Group aims to maintain a secure funding and capital structure and establishes defined capital risk appetite. Adherence to the policy ensures that the Group maintains minimum capital levels and that the capital held at business division levels is adequate to support the businesses' underlying requirements and is sufficient to support growth in that business. Internal capital is allocated to business lines and risk categories, calibrated to maximise return on equity while remaining within the risk appetite.

The distribution of dividends is aligned with the Group's growth targets, whilst continuing to meet the required capital levels in line with regulatory requirements and internal risk appetite. The policy requires subsidiaries, including Vanquis Bank, to maintain sufficient capital to meet regulatory requirements, manage for 12 months growth and investment whilst maintaining a management buffer. Thereafter and where applicable Vanquis Bank is required to distribute a dividend to the Group.

Principal risks and uncertainties

Group principal risks are those risks most critical to the alignment of the Group Strategy. Principal risk categories and associated risk appetite statements are reviewed and approved by the Board on an annual basis, effectively defining Vanquis Banking Group's overall risk appetite.

Capital Risk

This is defined as the risk that the Group fails to maintain the minimum regulatory capital requirements and a management buffer on a consolidated basis to cover risk exposures and withstand a severe stress as identified as part of the Internal Capital Adequacy Assessment Process (ICAAP). The Group and Vanquis Bank operate within a defined capital risk appetite, with thresholds reported to and monitored by Group Boards. Additional metrics and thresholds have been developed for the Group and Vanquis Bank. All thresholds have been calibrated above the Recovery & Resolution Plan (RRP) triggers in order to provide advance warning of threshold breaches.

Funding and Liquidity Risk

This is defined as the risk that the Group has insufficient financial resources to meet its obligations (cash or collateral requirements) as they fall due, resulting in the failure to meet regulatory liquidity requirements, or is only able to secure such resources at excessive cost. The Group's current funding strategy seeks to maintain a secure funding structure by maintaining access to the liquid retail deposits market and committed facilities to meet the Group's liquidity and funding requirements. The Group maintains access to diversified sources of funding comprising: (i) retail deposits; (ii) securitisation of the cards and vehicle finance books; (iii) liquidity and funding facilities at the Bank of England; and (iv) access to wholesale market funding and debt capital via its EMTN programme.

Market Interest Rate Risk in the Banking Book (IRRBB) Risk

This is defined as the risk that the net value of, or net income arising from, assets and liabilities is impacted as a result of changes in market prices or rates, specifically interest rates, currency rates or equity prices. The Group's corporate policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

Credit Risk

This is defined as the risk of unexpected credit losses arising through either adverse macroeconomic factors or parties with whom the Group has contracted failing to meet their financial obligations. Credit Risk appetite has been refreshed with metrics and thresholds grouped by product lines to enable more focused monitoring and management action to remain within appetite on a timely basis. Regular reporting is in place which allows daily monitoring of new business

[3] Excluding any confidential and management buffers, but pre the increase in countercyclical capital buffer (CCyB) to 2% on 5 July 2023.

quality, collections performance and concentration analysis. Extensive work has been undertaken to enhance credit worthiness and affordability procedures.

Strategic Execution Risk
This is defined as the risk of making and/or executing poor strategic decisions related to acquisitions, products, distribution, etc. as a result of ineffective governance arrangements, processes and controls. In January 2022 we created an aligned board structure across Vanquis Banking Group and Vanquis Bank designed to make us more efficient and provide better, more coordinated customer service. Board Governance Manual and Delegated Authorities Matrix (DAM) are in place to provide a framework for key decision making at all levels across the Group. Executive Director scorecards are in place with reward incentives based on a combination of financial and non-financial measures.

Climate Risk
This is defined as the physical risk of the impacts of climate change and the business risk posed to the Group and its counterparties related to non-compliance costs and financial loss associated with the process of adjusting to a low carbon economy. The Group continues to develop an approach to climate risk management through the Climate Risk Committee and risk management activities to identify the physical and transition climate related risks that have implications for the Group's business model and stakeholders.

Legal and Governance Risk
This is defined as the risk that the Group is exposed to financial loss, fines, censure or enforcement action due to failing to comply with legal and governance requirements as a result of ineffective arrangements, processes and controls. The Group operates in a highly regulated environment and in a sector where its customers are more vulnerable and need careful management. At all levels, the Group has worked hard to build and maintain positive relationships with our key regulators. Any regulatory actions are managed and monitored closely to ensure these are delivered fully and within the spirit of any feedback received.

Financial Crime Risk
This is defined as the risk that the Group's products and services are used to facilitate financial crime against the Group, customers or third parties. The Group operates a strong and risk-proportionate set of systems and controls to detect and prevent financial crime. The Group is committed to complying with applicable legislation for the management of Financial Crime Risk, ensuring that it meets the minimum requirements and expectations of the regulatory bodies and those set by legislation for managing Financial Crime Risk effectively.

Conduct and Regulatory Risk
Conduct Risk is defined as the risk of customer detriment due to poor design, distribution and execution of products and services or other activities which could lead to unfair customer outcomes or regulatory censure. Regulatory Risk is defined as the risk that the Group is exposed to financial loss, fines, censure or enforcement action due to failing to comply with laws or regulations (including handbooks, codes of conduct, statutory and regulatory guidance). Conduct and Regulatory risk remains a key focus for the Group with detailed risk appetite statements, metrics and thresholds in place in relation to the fair treatment and management of our customers. Conduct Risk frameworks and governance have been enhanced which clearly identify intended customer outcomes and the associated monitoring, testing, data sources and management information required.

People Risk
This is defined as the risk that we have insufficient operational capacity and colleagues with the right skills in meeting our financial, customer and regulatory responsibilities. In managing our people risk, we ensure we have adequate controls across the whole colleague life cycle covering the onboarding, development and management of our colleagues. This extends to ensuring we have sufficient operational capacity and colleagues with the right skills in meeting our financial, customer and regulatory responsibilities.

Technology and Information Security Risk
This is defined as the risk arising from compromised or inadequate technology, security and data that could affect the confidentiality, integrity or availability of the Group's data or systems. This risk is managed in conjunction with Operational Risk with additional and particular focus on cyber and technology infrastructure. Extensive work within the First Line Controls Review programme is on track and there is sufficient oversight in place to ensure early detection of further potential delay.

Operational Risk

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The three lines of defence model throughout the Group ensures there are clear lines of accountability between management who own the risks, oversight by the risk function and independent assurance provided by Internal Audit.

Model Risk

This is defined as the risk of financial losses where models fail to perform as expected due to poor governance (including design and operation). A Group model risk management framework and model risk policy is embedded with a model inventory in place to ensure periodic review and strict change control. Critical IFRS 9 models within credit cards and vehicle finance have been externally validated.

Consolidated financial statements

Consolidated income statement for the six months ended 30 June

	Note	2023	2022
Continuing operations		£m	£m
Interest income	3	251.3	238.4
Interest expense		(49.4)	(25.3)
Net interest income		201.9	213.1
Fee and commission income	3	21.5	26.1
Fee and commission expense		(0.7)	(2.0)
Net fee and commission income		20.8	24.1
Other income and net fair value gains		14.4	3.1
Total income		237.1	240.3
Impairment charges	8	(85.6)	(38.5)
Risk-adjusted income		151.5	201.8
Operating costs		(166.0)	(154.9)
(Loss)/profit before taxation from continuing operations	3	(14.5)	46.9
(Loss)/profit before tax, amortisation of acquisition intangibles and exceptional items	3	(5.5)	54.3
Amortisation of acquisition intangibles	3	(3.7)	(3.7)
Exceptional items	3	(5.3)	(3.7)
Tax credit/(charge)	5	4.1	(15.0)
(Loss)/profit for the period from continuing operations		(10.4)	31.9
Loss after tax from discontinued operations	4	-	(10.4)
(Loss)/profit for the period attributable to equity shareholders		(10.4)	21.5

Consolidated statement of comprehensive income for the six months ended 30 June

	Note	2023	2022
		£m	£m
(Loss)/profit for the period attributable to equity shareholders		(10.4)	21.5
Items that will not be reclassified subsequently to the income statement:			
– actuarial movements on retirement benefit asset	10	5.5	(32.7)
– tax on items taken directly to other comprehensive income		(1.3)	6.2
– impact of change in UK tax rate on items in other comprehensive income		(0.1)	2.0
Other comprehensive income/(expense) for the period		4.1	(24.5)
Total comprehensive expense for the period		(6.3)	(3.0)

(Loss)/earnings per share

	Note	2023	2022
		pence	pence
Basic	6	(4.1)	8.6
Diluted	6	(4.1)	8.5

The above (loss)/earnings per share is on a Group basis including discontinued operations.

Dividends per share

	Note	2023	2022
		pence	pence
Interim dividend	7	5.0	5.0
Paid in the period[1]	7	10.3	12.0

[1] Dividends paid in the period were £25.9m (2022: £30.1m).

Consolidated balance sheets

	Note	30 June 2023 £m	31 December 2022 (restated)[1] £m	30 June 2022 (restated)[1] £m
ASSETS				
Cash and cash equivalents		447.3	464.9	559.5
Amounts receivable from customers	8	2,112.3	1,905.4	1,676.7
Trade and other receivables		72.7	50.6	25.5
Investments held at fair value through profit and loss	9	4.9	10.7	8.8
Current tax asset		8.5	-	-
Property, plant and equipment		7.2	8.3	8.2
Right of use assets		29.6	32.4	43.9
Goodwill		71.2	71.2	71.2
Other intangible assets		65.3	63.3	53.2
Retirement benefit asset	10	36.8	30.7	81.8
Derivative financial instruments	11	13.4	11.3	7.7
Deferred tax assets	5	14.8	14.5	6.4
TOTAL ASSETS	3	2,884.0	2,663.3	2,542.9
LIABILITIES AND EQUITY				
Liabilities				
Trade and other payables		64.0	62.8	65.1
Current tax liabilities		-	-	4.8
Provisions	12	9.6	5.2	58.4
Lease liabilities		44.9	49.3	54.1
Retail deposits		1,445.3	1,100.6	926.9
Bank and other borrowings		706.6	815.4	824.8
Derivative financial instruments	11	27.8	15.3	-
Total liabilities		2,298.2	2,048.6	1,934.1
Equity attributable to owners of the parent				
Share capital		52.6	52.6	52.6
Share premium		273.6	273.5	273.5
Merger reserves		278.2	278.2	278.2
Other reserves		13.5	12.4	11.4
Retained earnings		(32.1)	(2.0)	(6.9)
Total equity	3	585.8	614.7	608.8
TOTAL LIABILITIES AND EQUITY		2,884.0	2,663.3	2,542.9

[1] Refer to note 2 for details of restatement.

Consolidated statement of changes in shareholders' equity

	Share capital	Share premium	Merger reserve	Other reserves	Retained Earnings (restated)[1]	Total
	£m	£m	£m	£m	£m	£m
At 31 December 2021	52.6	273.3	278.2	9.8	17.3	631.2
Prior year adjustment[1]	-	-	-	-	7.5	7.5
At 1 January 2022	52.6	273.3	278.2	9.8	24.8	638.7
Profit for the period	-	-	-	-	21.5	21.5
Other comprehensive income/(expense):						
– actuarial movements on retirement benefit asset (note 10)	-	-	-	-	(32.7)	(32.7)
– tax on items taken directly to other comprehensive income	-	-	-	-	6.2	6.2
– impact of change in UK tax rate	-	-	-	-	2.0	2.0
Other comprehensive expense for the period	-	-	-	-	(24.5)	(24.5)
Total comprehensive expense for the period	-	-	-	-	(3.0)	(3.0)
Increase in share premium	-	0.2	-	-	-	0.2
Share-based payment charge	-	-	-	3.0	-	3.0
Transfer of share-based payment reserve on vesting of share awards	-	-	-	(1.4)	1.4	-
Dividends	-	-	-	-	(30.1)	(30.1)
At 30 June 2022 and 1 July 2022	52.6	273.5	278.2	11.4	(6.9)	608.8
Profit for the period	-	-	-	-	55.9	55.9
Other comprehensive expense:						
– actuarial movements on retirement benefit asset (note 10)	-	-	-	-	(51.5)	(51.5)
– tax on items taken directly to other comprehensive income	-	-	-	-	9.8	9.8
– impact of change in UK tax rate	-	-	-	-	3.0	3.0
Other comprehensive expense for the period	-	-	-	-	(38.7)	(38.7)
Total comprehensive income for the period	-	-	-	-	17.2	17.2
Dividends	-	-	-	-	(12.7)	(12.7)
Purchase of own shares	-	-	-	-	(0.7)	(0.7)
Share-based payment charge	-	-	-	2.1	-	2.1
Transfer of share-based payment reserve on vesting of share awards	-	-	-	(1.1)	1.1	-
At 31 December 2022	52.6	273.5	278.2	12.4	(2.0)	614.7
At 1 January 2023	52.6	273.5	278.2	12.4	(2.0)	614.7
Loss for the period	-	-	-	-	(10.4)	(10.4)
Other comprehensive income:						
- actuarial movements on retirement benefit asset (note 10)	-	-	-	-	5.5	5.5
- tax on items taken directly to OCI	-	-	-	-	(1.3)	(1.3)
- impact of change in UK tax rate	-	-	-	-	(0.1)	(0.1)
Other comprehensive income for the period	-	-	-	-	4.1	4.1
Total comprehensive income for the period	-	-	-	-	0.9	9.9
Increase in share premium	-	0.1	-	-	-	0.1
Share-based payment charge	-	-	-	3.2	-	3.2
Transfer of share-based payment reserve on vesting of share awards	-	-	-	(2.1)	2.1	-
Dividends	-	-	-	-	(25.9)	(25.9)
At 30 June 2023	52.6	273.6	278.2	13.5	(32.1)	585.8

[1] Refer to note 2 for details of restatement.

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. Accordingly, retained earnings are shown after directly writing off cumulative goodwill of £1.6m. In addition, cumulative goodwill of £2.3m has been written off against the merger reserve in previous years.

The rights issue in April 2018 was undertaken through a cash box structure which allowed merger relief to be applied to the issue of shares rather than recording share premium. The full merger reserve is now considered distributable.

Consolidated statement of cash flows for the six months ended 30 June

	Note	Six months ended 30 June 2023 £m	2022 £m
Cash flows from operating activities			
Cash (used in)/generated from operations	13	(159.5)	38.4
Finance costs paid		(39.9)	(21.3)
Tax paid		(6.1)	(7.9)
Net cash (used in)/generated from operating activities		(205.5)	9.2
Cash flows from investing activities			
Purchase of intangible assets		(11.3)	(10.7)
Purchase of property, plant and equipment		(3.0)	(1.2)
Net cash used in investing activities		(14.3)	(11.9)
Cash flows from financing activities			
Proceeds from bank and other borrowings		658.9	66.7
Repayment of bank and other borrowings		(425.3)	(186.3)
Payment of lease liabilities		(5.9)	(4.8)
Dividends paid to Company shareholders		(25.9)	(30.1)
Proceeds from issue of share capital		0.1	0.2
Net cash generated/(used in) financing activities		201.9	(154.3)
Net decrease in cash, cash equivalents and overdrafts		(17.9)	(157.0)
Cash, cash equivalents and overdrafts at beginning of period		463.9	714.1
Cash, cash equivalents and overdrafts at end of period		446.0	557.1
Cash, cash equivalents and overdrafts at end of period comprise:			
Cash at bank and in hand		447.3	559.5
Overdrafts (held in bank and other borrowings)		(1.3)	(2.4)
Total cash, cash equivalents and overdrafts		446.0	557.1

Cash at bank and in hand includes £386.5m (2022: £430.4m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank Limited in accordance with the PRA's liquidity regime.

Notes to the financial information

1. General information and basis of preparation

The company is a public limited company, incorporated and domiciled in the UK. The address of its registered office is No. 1 Godwin Street, Bradford, BD1 2SU. The company is listed on the London Stock Exchange.

The unaudited condensed interim financial statements do not constitute the statutory financial statements of the Group within the meaning of section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2022 were approved by the board of directors on 30 March 2023 and have been delivered to the Registrar of Companies. The report of the auditor on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

The unaudited condensed interim financial statements for the six months ended 30 June 2023 have been reviewed, not audited, and were approved by the board of directors on 27 July 2023.

The unaudited condensed interim financial statements for the six months ended 30 June 2023 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the UK. The unaudited condensed interim financial statements should be read in conjunction with the statutory financial statements for the year ended 31 December 2022.

The interim financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments and investments held at fair value through profit and loss.

In assessing whether the Group is a going concern, the directors have reviewed the Group's corporate plan as approved in December 2022 and the Group's latest financial outlook, and assessed the Group's principal risks and uncertainties. The directors have also reviewed the Group's stress testing projections which are based on a severe but plausible scenario. The stress test scenario envisages that the UK economy enters a period of stagflation in 2023 with inflation rising to approximately 17% and the UK Bank Rate rising to 6%. As a result, the UK unemployment rate rises to approximately 8.5%. The projections show that the Group maintains sufficient capital headroom above minimum requirements. The directors have reviewed the Group's reverse stress testing projections to the point of non-viability, which concluded that the Group's viability only comes into question under an unprecedented macroeconomic scenario.

2. Accounting policies

Group principal accounting policies under IFRS have been consistently applied to all the periods presented.

In the current year, as part of the Group's continual focus on improving the precision of its IFRS 9 impairment models, it was identified within vehicle finance that recovery cash flows were being discounted to the date of default rather than the reporting date. This led to cashflows being discounted too heavily and therefore a higher core model impairment provision being historically recognised. In 2021, this would have resulted in a reduction in Group loss after tax of £7.5m, an increase in vehicle finance receivables of £9.3m and a reduction in the current tax asset of £1.8m. Management consider that a prior period restatement is appropriate and has retrospectively restated the 2022 balance sheet which has resulted in an increase in vehicle finance receivables of £9.3m, a reduction in the current tax asset of £1.8m and a corresponding increase of £7.5m through retained earnings.

In line with our continued repositioning as a specialist banking group, the Group changed the presentation of its Income Statement in the annual report and accounts for the year ended 31 December 2022 to align with the wider banking industry. The presentation of the Income Statement in this report is consistent with that in the annual report and accounts for 31 December 2022, with the exception of certain elements of vehicle finance other income which were previously reported in interest income. All periods presented in this report have been retrospectively re-presented. This change does not constitute a change in accounting policy and there is no impact on recognition, measurement or profit and loss in any period presented in this report.

Critical accounting judgements and key sources of estimation uncertainty

The significant accounting judgements exercised by management and key sources of estimation uncertainty in the interim financial statements are consistent with those adopted in the statutory financial statements for the year ended 31 December 2022.

2. Accounting policies (continued)

<u>Amounts receivable from customers</u>

The Group reviews amounts receivable from customers for impairment at each balance sheet date. For the purposes of assessing the impairment, customers are categorised into IFRS 9 stages and cohorts which are considered to be the most reliable indication of future payment performance. The determination of expected credit losses involves complex modelling techniques and requires management to apply significant judgements to calculate expected credit losses. The most critical judgements are outlined below.

The determination of the significant increase in credit risk (SICR) thresholds to be used in the models for credit card, vehicle finance and personal loans require management judgement to optimise the performance and therefore effectiveness of the staging methodology. Assessments are made to determine whether there is objective evidence of a SICR which indicates whether there has been an adverse effect on Probability of Default (PD). A SICR for customers is when there has been a significant increase in behavioural score or when one contractual monthly payment has been missed.

For the purpose of IFRS 9, default is assumed when three contractual repayments have been missed.

The Group's impairment models are subject to periodic monitoring, independent validation and back testing performed on model components (where appropriate), including probability of default, exposure at default and loss given default to ensure management judgements remain appropriate. Limitations in the Group's impairment models or data inputs may be identified through the ongoing assessment and validation of the output of the models. In these circumstances, management makes appropriate adjustments to the Group's allowance for impairment losses to ensure that the overall provision adequately reflects all material credit risks. These adjustments are determined by considering the particular attributes of exposures which have not been adequately captured by the impairment models and range from changes to model inputs and parameters, at account level, through to more qualitative post-model adjustments that have a higher degree of management judgement. All adjustments are reviewed quarterly and are subject to internal review and challenge to ensure that amounts are appropriately calculated.

Management has continued to place a significant focus on the cost of living crisis and post-model adjustments are recognised across all products. However, credit performance across the Group remains stable and internal analysis shows no obvious signs of stress from the cost of living crisis at this stage. The Group's customers are more agile in managing their finances during times of affordability constraints. A significant proportion of the Group's customers are also expected to benefit from wage increases during 2023 which will help alleviate financial stress. Management judgement has been used to determine appropriate amounts to be held as cost of living post-model adjustment taking into account the total level of provisioning held across the portfolio including the macroeconomic provision. Scenario modelling techniques have been used to support the amount of post-model adjustments recognised for a potential cost of living impact.

A breakdown of the post-model adjustments is included within note 8.

Macroeconomic impairment provision adjustments are recognised in the core model to reflect an increased PD, based on future macroeconomic scenarios. These provisions reflect the potential for future changes in hazard rate, the number of people who were employed last month but who are unemployed the following month (derived from unemployment), and debt to income ratio. The provision reflects the potential for future changes under a range of forecasts, as analysis has clearly evidenced correlation between hazard rates, debt to income ratios and credit losses incurred.

Management judgement was required to determine the appropriate macroeconomic indicators to be used in the model by assessing their correlation with credit losses incurred by the business. Unemployment is judged to be a key macroeconomic indicator as analysis has clearly evidenced correlation between changes in unemployment and credit losses incurred by the business. This will continue to be analysed to assess if there are any additional macroeconomic indicators which also correlate to credit losses.

Key sources of estimation uncertainty

The level of impairment recognised is calculated using models which utilise historical payment performance to generate the estimated amount and timing of future cash flows from each cohort of customers in each arrears stage. The models are regularly tested to ensure they retain sufficient accuracy. Sensitivity analysis has been performed in note 8 which shows the impact of a 1% movement of gross exposure into stage 2 from stage 1 on the allowance accounts.

2. Accounting policies (continued)

The unemployment data used in the macroeconomic provisions has been compiled from a consensus of sources including the Bank of England, HM Treasury, the Office for Budget Responsibility (OBR), Bloomberg and a number of prime banks. These estimates are used to derive base case, upside, downside and severe scenarios.

The table below shows the scenario five-year peak and average unemployment assumptions adopted and the weightings applied to each. The weightings have remained consistent with 31 December 2022 and 30 June 2022.

Scenario as at 30 June 2023	**Base**	**Upside**	**Downside**	**Severe**
Weighting	50%	10%	35%	5%
2023	4.0%	3.5%	4.1%	4.2%
2024	4.2%	3.5%	5.2%	6.1%
2025	4.3%	3.9%	5.8%	7.8%
2026	4.3%	4.1%	5.1%	6.4%
2027	4.3%	4.1%	4.7%	5.4%
Five year peak	4.3%	4.1%	6.0%	8.0%

Scenario as at 31 Dec 2022	**Base**	**Upside**	**Downside**	**Severe**
Weighting	50%	10%	35%	5%
2023	4.1%	3.4%	4.2%	4.6%
2024	4.7%	3.6%	5.8%	7.4%
2025	4.8%	4.3%	6.3%	8.2%
2026	4.8%	4.5%	5.5%	6.8%
2027	4.8%	4.5%	5.1%	6.0%
Five year peak	4.8%	4.5%	6.5%	8.6%

Sensitivity analysis has been performed on the weightings which show that changing the weightings for vehicle finance and personal loans would not have a material impact on the allowance account.

For credit cards, increasing the downside weighting by 5%, from 35% to 40%, and a corresponding reduction in the base case would increase the allowance account by £0.2m. Increasing the upside weighting by 5%, from 10% to 15%, and a corresponding reduction in the base case would decrease the allowance account by £0.3m.

The impact on the allowance account for credit cards, if each of the macroeconomic scenarios were applied at 100% weighting, rather than the weightings set out above, is shown below:

	Base	Upside	Downside	Severe
	£m	£m	£m	£m
Credit cards	(1.1)	(6.3)	2.5	6.5

Retirement benefit asset

Key sources of estimation uncertainty

The valuation of the retirement benefit asset is dependent upon a series of assumptions, the key assumptions being mortality rates and the discount rate applied to liabilities. The most significant assumption which could lead to material adjustment is a change in discount rates.

2. Accounting policies (continued)

Discount rates are based on the market yields of high-quality corporate bonds which have terms closely linked with the estimated term of the retirement benefit obligation. Mortality estimates are based on standard mortality tables, adjusted where appropriate to reflect the Group's own expected experience. Sensitivity analysis is performed in note 10.

3. Segment reporting

	Interest income		Fee and Commission income		Profit/(loss) before tax	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Credit cards	166.2	164.2	21.5	26.1	33.9	75.8
Vehicle finance	72.8	68.8	-	-	15.6	20.2
Personal loans	12.3	5.4	-	-	(9.3)	(10.7)
Second charge mortgages	-	-	-	-	(0.3)	-
Central costs	-	-	-	-	(45.4)	(31.0)
Total group before amortisation of acquisition intangibles and exceptional items	251.3	238.4	21.5	26.1	(5.5)	54.3
Amortisation of acquisition intangibles	-	-	-	-	(3.7)	(3.7)
Exceptional items	-	-	-	-	(5.3)	(3.7)
Total Group – continuing operations	251.3	238.4	21.5	26.1	(14.5)	46.9
CCD – discontinued operations (note 4)	-	-	-	-	-	(13.7)
CCD – discontinued operations exceptional items (note 4)	-	-	-	-	-	4.1
Total Group	251.3	238.4	21.5	26.1	(14.5)	37.3

Acquisition intangibles represent the fair value of the broker relationships of £75.0m which arose on the acquisition of Moneybarn in August 2014. The amortisation charge for the period amounted to £3.7m (2022: £3.7m).

Revenue between business segments in not material.

An exceptional cost of £5.3m was recognised for continuing operations in H1'23. This includes: (i) costs in relation to the transfer and outsourcing of activities to South Africa (£2.6m); (ii) costs in relation to the liquidation of the CCD companies (£2.4m); and (iii) redundancy costs (£0.3m). This compares to an exceptional cost of £3.7m in H1'22 in continuing operations as a result of corporate costs incurred centrally (£3.7m) and an exceptional credit of £4.6m in H1'22 in discontinued operations due to the release of provisions.

3. Segment reporting (continued)

	Segment assets			Net assets/(liabilities)		
	30 June 2023	31 December 2022 (restated)[1]	30 June 2022 (restated)[1]	30 June 2023	31 December 2022 (restated)[1]	30 June 2022 (restated)[1]
	£m	£m	£m	£m	£m	£m
Credit cards and personal loans	1,875.9	1,795.6	1,623.5	388.2	384.9	372.4
Vehicle finance	873.8	770.1	723.4	188.0	180.4	177.2
Central	466.0	504.8	480.0	392.3	432.1	454.6
Continuing operations before intra-group elimination	3,215.7	3,070.5	2,826.9	968.5	997.4	1,004.2
Discontinued operations	-	-	-	(382.7)	(382.7)	(395.4)
Intra-group elimination	(331.7)	(407.2)	(284.0)	-	-	-
Total Group	2,884.0	2,663.3	2,542.9	585.8	614.7	608.8

[1] Refer to note 2 for details of restatement.

The presentation of segment net assets reflects the statutory assets, liabilities and net assets of each of the Group's divisions. This results in an intra-group elimination reflecting the difference between the central intercompany funding provided to the divisions and the external funding raised centrally. Credit cards and personal loans are both recognised within Vanquis Bank Limited and are therefore combined for balance sheet reporting purposes.

4. Discontinued operations

The Group closed its CCD business comprising Home Credit and Satsuma loans during 2021 and in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' these businesses are presented as discontinued operations.

The results for discontinued operations for the six months ended 30 June 2023, which are included in the Group income statement, are set out below.

	2023	2022
	£m	£m
Interest income	-	-
Interest expense	-	(6.2)
Net interest income	-	(6.2)
Total income	-	(6.2)
Impairment charges	-	-
Risk-adjusted income	-	(6.2)
Operating costs:		
- other	-	(7.5)
- exceptional items	-	4.1
Loss before taxation	-	(9.6)
Tax charge	-	(0.8)
Loss from discontinued operations	-	(10.4)
Basic loss per share (p)	-	(4.1)
Diluted loss per share (p)	-	(4.1)

5. Tax (credit)/charge

The tax credit (2022: charge) can be summarised as follows:

	Continuing operations				Discontinued operations		
	(LBT)/PBT	Exceptional items	Amortisation	Total	LBT	Exceptional items	Total
	£m	£m	£m	£m	£m	£m	£m
Six months ended 30 June 2023							
Loss on ordinary activities before tax	(5.5)	(5.3)	(3.7)	(14.5)	-	-	-
Tax credit	(1.9)	(1.3)	(0.9)	(4.1)	-	-	-
Six months ended 30 June 2022							
Profit/(loss) on ordinary activities before tax	54.3	(3.7)	(3.7)	46.9	(13.7)	4.1	(9.6)
Tax charge/(credit)	15.7	-	(0.7)	15.0	-	0.8	0.8

The tax credit on (loss)/profit before tax, amortisation of acquisition intangibles and exceptional items from continuing and discontinued operations has been calculated by:

- calculating the best estimate of the effective tax rate for each division for the financial year, excluding deferred tax asset write offs, revaluations of deferred tax balances and the tax impact of the sale of shares in Visa Inc following the partial conversion of the preferred stock which relate only to the current period;
- applying this to the (loss)/profit before tax, amortisation of acquisition intangibles and exceptional items for the relevant division for the period and aggregating the resultant amount; and
- adding to this (a) in 2022, the revaluations of deferred tax balances in Vanquis Bank at 31 December 2021 due to the changes in the bank corporation tax surcharge introduced in the Finance Act 2022 which were attributable to the first half of the financial year, and which with effect from 1 April 2023 (i) increase the surcharge threshold from £25m to £100m; and (ii) decrease the rate of surcharge from 8% to 3%; and (b) in 2023, the write off of deferred tax assets in respect of share scheme awards where tax deductions are lower than previously expected net of the beneficial tax impact of utilising capital losses on which a deferred tax asset has not previously been recognised to reduce capital gains realised in the first half of the financial year.

This gives a tax credit (2022: charge) for the period on loss (2022: profit) before tax, amortisation of acquisition intangibles and exceptional items from continuing operations of £1.9m (2022: tax charge £15.7m). The tax credit (2022: charge) reflects:

- the adverse impact of the bank corporation tax surcharge which prior to 31 March 2023 applies at a rate of 8% to the annual profits of Vanquis Bank in excess of £25m and after 31 March 2023 applies at a rate of 3% to Vanquis Bank's annual profits in excess of £100m;
- in the current period, the adverse impact of writing off deferred tax assets in respect of share scheme awards where tax deductions are lower than previously expected;
- in the current period, the favourable impact of offsetting capital losses on which a deferred tax asset has not previously been recognised to reduce the capital gain arising on the disposal of shares following the partial conversion of the preferred stock in Visa Inc; and
- in 2022, the adverse impact of revaluing deferred tax assets in Vanquis Bank at the combined mainstream corporation tax and bank surcharge rates of 28% (2021:33%) to the extent the underlying temporary differences were expected to reverse after 1 April 2023, following the changes to bank corporation tax surcharge enacted in the Finance Act 2022.

5. Tax (credit)/charge (continued)

The H1'22 tax charge on the loss before tax and exceptional items from discontinued operations amounts to £nil and reflects the fact that the loss relates to costs incurred after discontinued operations have ceased to trade and may not therefore be tax deductible.

The tax credit (2022: charge) reflects the recognition of deferred tax assets in respect of losses and other temporary differences to the extent the Group expects to have sufficient taxable profits available in the future to enable such deferred tax assets to be recovered.

The tax credit (2022: charge) in respect of exceptional items amounts to £1.3m (2022: tax charge of £0.8m). The £1.3m tax credit in the current period represents tax relief in respect of exceptional costs which are considered to be tax deductible. In 2022, the £0.8m tax charge represents tax on the exceptional release of provisions related to the discontinued operation; no tax relief was assumed for the exceptional costs related to continuing operations as they may be considered capital and therefore non-deductible for tax purposes.

6. (Loss)/earnings per share

Basic (loss)/earnings per share (L/EPS) is calculated by dividing the (loss)/earnings for the period attributable to equity shareholders by the weighted average number of ordinary shares outstanding during the period less the number of shares held by the Employee Benefit Trust which are used to satisfy the share awards such as the Deferred Bonus Plan (DBP), Long Term Investment Scheme (LTIS), Restricted Share Plan (RSP) and Company Share Option Plan (CSOP).

Diluted L/EPS calculates the effect on L/EPS assuming conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are calculated as follows:

(i) For share awards outstanding under performance-related share incentive schemes such as the DBP, LTIS, RSP and the CSOP, the number of dilutive potential ordinary shares is calculated based on the number of shares which would be issuable if: (i) the end of the reporting period is assumed to be the end of the schemes' performance period; and (ii) the performance targets have been met as at that date.

(ii) For share options outstanding under non-performance-related schemes such as the Save As You Earn scheme (SAYE), a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of share options outstanding, with the difference being the dilutive potential ordinary shares. The Group also presents an adjusted L/EPS, prior to the amortisation of acquisition intangibles and exceptional items.

Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share.

Reconciliations of basic and diluted L/EPS for continuing operations and the Group are set out below:

	Six months ended 30 June					
	2023			2022		
Continuing operations	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic (loss)/earnings per share	(10.4)	251.0	(4.1)	31.9	250.9	12.7
Dilutive effect of share options and awards	-	-	-	-	1.8	(0.1)
Diluted (loss)/ earnings per share	(10.4)	251.0	(4.1)	31.9	252.7	12.6

6. (Loss)/earnings per share (continued)

	Six months ended 30 June					
	2023			2022		
Group	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic (loss)/earnings per share	(10.4)	251.0	(4.1)	21.5	250.9	8.6
Dilutive effect of share options and awards	-	-	-	-	1.8	(0.1)
Diluted (loss)/earnings per share	(10.4)	251.0	(4.1)	21.5	252.7	8.5

The directors have elected to show an adjusted (loss)/earnings per share prior to the amortisation of acquisition intangibles which arose on the acquisition of Moneybarn in August 2014 and prior to exceptional items (see note 3). This is presented to show the adjusted (loss)/earnings per share generated by the continuing and Group operations. A reconciliation of continuing and Group basic/diluted (loss)/earnings per share to adjusted basic and diluted earnings per share is as follows:

	Six months ended 30 June					
	2023			2022		
Continuing operations	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic (loss)/earnings per share	(10.4)	251.0	(4.1)	31.9	250.9	12.7
Amortisation of acquisition intangibles, net of tax	2.8	-	1.1	3.0	-	1.2
Exceptional items, net of tax	4.0	-	1.6	3.7	-	1.5
Adjusted basic (loss)/earnings per share	(3.6)	251.0	(1.4)	38.6	250.9	15.4
Diluted (loss)/earnings per share	(10.4)	251.1	(4.1)	31.9	252.7	12.6
Amortisation of acquisition intangibles, net of tax	2.8	-	1.1	3.0	-	1.2
Exceptional items, net of tax	4.0	-	1.6	3.7	-	1.5
Adjusted diluted (loss)/earnings per share	(3.6)	251.1	(1.4)	38.6	252.7	15.3

	2023			2022		
Group	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic (loss)/earnings per share	(10.4)	251.0	(4.1)	21.5	250.9	8.6
Amortisation of acquisition intangibles, net of tax	2.8	-	1.1	3.0	-	1.2
Exceptional items, net of tax	4.0	-	1.6	0.4	-	0.2
Adjusted basic (loss)/earnings per share	(3.6)	251.0	(1.4)	24.9	250.9	10.0
Diluted (loss)/earnings per share	(10.4)	251.0	(4.1)	21.5	252.7	8.5
Amortisation of acquisition intangibles, net of tax	2.8	-	1.1	3.0	-	1.2
Exceptional items, net of tax	4.0	-	1.6	0.4	-	0.2
Adjusted diluted (loss)/earnings per share	(3.6)	251.0	(1.4)	24.9	252.7	9.9

7. Dividends

		Six months ended 30 June 2023 £m	2022 £m
2021 interim	– 12.0p per share	-	30.1
2022 final	– 10.3p per share	25.9	-
Total dividends paid		25.9	30.1

The directors are recommending an interim dividend in respect of the period ended 30 June 2023 of 5.0p per share (H1'22: 5.0p) which will amount to an estimated dividend of £12.7m (H1'22: £12.7m). The dividend will be paid on 21 September 2023 to shareholders who were on the register of members at 11 August 2023 with an ex-dividend date of 10 August 2023.

8. Amounts receivable from customers

	30 June 2023 £m	31 December 2022 (restated)[1] £m	30 June 2022 (restated)[1] £m
Credit cards	1,223.9	1,181.6	1,035.4
Vehicle finance	764.1	655.4	607.7
Personal loans	129.6	76.3	41.2
Total	2,117.6	1,913.3	1,684.3
Fair value adjustment for portfolio hedged risk	(5.3)	(7.9)	(7.6)
Total group	2,112.3	1,905.4	1,676.7

The fair value adjustment for the portfolio hedge risk relates to the hedge accounting adjustment on the balance guaranteed swap. Hedge accounting was discontinued in H2'22 and the adjustment is now being amortised over the remaining life of the vehicle finance receivables.

An analysis of receivables by IFRS 9 stages is set out below:

	30 June 2023			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross receivables				
Credit cards	1,187.7	139.4	113.0	1,440.1
Vehicle finance	423.0	203.5	487.6	1,114.1
Personal loans	132.8	3.9	5.6	142.3
Total group	**1,743.5**	**346.8**	**606.2**	**2,696.5**
Allowance account				
Credit cards	(96.8)	(52.5)	(66.9)	(216.2)
Vehicle finance	(20.7)	(22.0)	(307.3)	(350.0)
Personal loans	(7.7)	(1.6)	(3.4)	(12.7)
Total group	**(125.2)**	**(76.1)**	**(377.6)**	**(578.9)**
Net receivables				
Credit cards	1,090.9	86.9	46.1	1,223.9
Vehicle finance	402.3	181.5	180.3	764.1
Personal loans	125.1	2.3	2.2	129.6
Total group	**1,618.3**	**270.7**	**228.6**	**2,117.6**

8. Amounts receivable from customers (continued)

	31 December 2022 (restated)[1]			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross receivables				
Credit cards	1,116.6	148.7	186.7	1,452.0
Vehicle finance	351.0	169.3	452.0	972.3
Personal loans	78.1	2.1	5.3	85.5
Total group	**1,545.7**	**320.1**	**644.0**	**2,509.8**
Allowance account				
Credit cards	(93.2)	(58.2)	(119.0)	(270.4)
Vehicle finance	(15.9)	(25.8)	(275.2)	(316.9)
Personal loans	(5.0)	(0.7)	(3.5)	(9.2)
Total group	**(114.1)**	**(84.7)**	**(397.7)**	**(596.5)**
Net receivables				
Credit cards	1,023.4	90.5	67.7	1,181.6
Vehicle finance	335.1	143.5	176.8	655.4
Personal loans	73.1	1.4	1.8	76.3
Total group	**1,431.6**	**235.4**	**246.3**	**1,913.3**

	30 June 2022 (restated)[1]			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross receivables				
Credit cards	830.1	332.8	206	1,368.9
Vehicle finance	334.3	139.8	413.8	887.9
Personal loans	43.1	1.6	2.8	47.5
Total group	**1,207.5**	**474.2**	**622.6**	**2,304.3**
Allowance account				
Credit cards	(85.6)	(102.1)	(145.8)	(333.5)
Vehicle finance	(14.8)	(21.2)	(244.2)	(280.2)
Personal loans	(3.5)	(0.9)	(1.9)	(6.3)
Total group	**(103.9)**	**(124.2)**	**(391.9)**	**(620.0)**
Net receivables				
Credit cards	744.5	230.7	60.2	1,035.4
Vehicle finance	319.5	118.6	169.6	607.7
Personal loans	39.6	0.7	0.9	41.2
Total group	**1,103.6**	**350**	**230.7**	**1,684.3**

[1] *Vehicle Finance receivables have been retrospectively restated due to refinements in IFRS 9 model coding, see note 2.*

An increase of 1% of the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £2.6m (Dec-22: £2.9m, Jun-22: £2.1m) for the Group based on applying the difference between the coverage ratios from stage 1 to stage 2 to the movement in gross exposure.

8. Amounts receivable from customers (continued)

A breakdown of the post-model adjustments for credit cards is shown below:

Credit Cards	30 June 2023 £m	31 December 2022 £m	30 June 2022 £m
Core model	201.5	254.8	298.0
Post-model adjustments	14.7	15.6	35.5
Total allowance account	216.2	270.4	333.5
Post-model adjustments:			
Cost of living (note a))	10.0	10.0	10.0
Persistent debt (note (b))	2.2	2.8	2.9
Affordability (note (c))	0.3	0.3	5.0
Recoveries (note (d))	2.2	2.5	7.4
Covid-19 (note (e))	-	-	10.2
Total post-model adjustments	14.7	15.6	35.5

(a) Cost of living

In light of rising inflation and higher energy costs, the £10.0m cost of living post-model adjustment was introduced in December 2022 to provide for the expected rise in cost of living which may impact customers' ability to make repayments. The portfolio performance remains strong with no signs of cost of living stress within the book and no deterioration was observed since December 2022, however there remains persistent levels of inflation and therefore management did not change the post-model adjustment.

(b) Persistent debt

A post-model adjustment was calculated to refine provisioning for those customers who have entered PD36. These customers have been split into two categories: those who have responded to communications and agreed to pay down their outstanding balance; and those who are making minimum payments but have not responded to communications. The core model does not consider this refinement and therefore a post-model adjustment is required.

(c) Affordability

An additional IFRS 9 impairment provision has been created to cover the principal balance of those customers impacted by risk events which may need to be written off. These risk events arose from minor temporary data misalignment instances impacting a small number of accounts which have now been remediated.

(d) Recoveries

A post-model adjustment was created in 2021 to account for an estimated reduction in recoveries for debt sold to debt collection agencies. Updated information has led to management reducing the recoveries adjustment from £2.5m to £2.2m.

(e) Covid-19

The impact of Covid-19 has significantly influenced credit card ECL. The core IFRS 9 models utilise a scorecard approach to calculating a 12-month PD and the relationships between the established drivers of default risk found in the PD scorecards; the 12-month PD may be distorted during Covid-19. This potential distortion could be caused by external government support initiatives or the natural lag that is apparent when risk profiles change. Accordingly, a utilisation adjustment is made to the probability of default models:

However, the underlying risk profile of these customers has not fundamentally changed, and over the course of 2022 it became evident that this utilisation adjustment was no longer required. Consequently this adjustment was fully unwound during 2022.

8. Amounts receivable from customers (continued)

A breakdown of the post-model adjustments for vehicle finance is shown below:

Vehicle finance	30 June 2023 £m	31 December 2022 (restated)[1] £m	30 June 2022 (restated)[1] £m
Core model	360.0	319.4	282.2
Post-model adjustments	(10.0)	(2.5)	(2.0)
Total allowance account	350.0	316.9	280.2
Post-model adjustments:			
Cost of living (note (a))	0.5	0.5	0.5
Fraud (note (b))	(4.4)	(3.0)	(2.5)
Near prime customers (note (c))	(6.1)	-	-
Total post-model adjustments	(10.0)	(2.5)	(2.0)

[1] *Vehicle Finance receivables have been retrospectively restated due to refinements in IFRS 9 model coding, see note 2*

(a) Cost of living
In light of rising inflation and higher energy costs, the £0.5m cost of living post-model adjustment was introduced in December 2022 to provide for the expected rise in cost of living which may impact customers' ability to make repayments. The portfolio performance remains strong with no signs of cost of living stress within the book and no deterioration was observed since December 2022, however there remains persistent levels of inflation and therefore management did not change the post-model adjustment.

(b) Fraud
The fraud post-model adjustment represents the cohort of live accounts within the vehicle finance portfolio that have been identified as fraud customers. There is a corresponding adjustment within gross receivables for these accounts.

(c) Near Prime Customers
The near prime customers post-model adjustment was introduced in 2023 due to an increased volume of new near prime customers, for whom the model does not accurately predict a significant increase in credit risk for this customer segment. This is because the Group's available historical data relating to this segment on which the models operate is minimal, due to low historic lending volumes to this customer segment. Therefore a post-model adjustment was created to address the model shortcomings.

A breakdown of the post-model adjustments for personal loans is shown below:

Personal loans	30 June 2023 £m	31 December 2022 £m	30 June 2022 £m
Core model	12.4	8.9	4.9
Post-model adjustments	0.3	0.3	1.4
Total allowance account	12.7	9.2	6.3
Post-model adjustments:			
Cost of living (note (a))	0.3	0.3	-
Covid-19 (note (b))	-	-	1.4
Total post-model adjustments	0.3	0.3	1.4

8. Amounts receivable from customers (continued)

(a) Cost of living
In light of rising inflation and higher energy costs, the £0.3m cost of living post-model adjustment was introduced in December 2022 to provide for the expected rise in cost of living which may impact customers' ability to make repayments. The portfolio performance remains strong with no signs of cost of living stress within the book and no deterioration was observed since December 2022, however there remains persistent levels of inflation and therefore management did not change the post-model adjustment.

(b) Covid-19
In December 2020, a post-model adjustment for the payment holiday population and any future take-up of payment holidays expected in the personal loans portfolio was held, as these customers would exhibit greater losses than indicated based on the historical experience within the core model.

The impairment charge in respect of amounts receivable from customers can be analysed as follows:

	Six months ended 30 June	
	2023	2022
	£m	£m
Credit cards	55.4	18.1
Vehicle finance	19.2	17.8
Personal loans	11.0	2.6
Total impairment charge	85.6	38.5

9. Investments

	30 June 2023	31 December 2022	30 June 2022
	£m	£m	£m
Visa Inc. shares	4.9	10.7	8.8

Visa Inc. shares
The Visa Inc shares represent preferred stock in Visa Inc held by Vanquis Bank Limited following completion of Visa Inc's acquisition of Visa Europe Limited on 21 June 2016. In consideration for Vanquis Bank Limited's interest in Visa Europe Limited, Vanquis Bank Limited received cash consideration of €15.9m (£12.2m) on completion, preferred stock with an approximate value of €10.7m and deferred cash consideration of €1.4m which was received in 2019.

The valuation of the preferred stock has been determined using the common stock's value as an approximation as both classes of stock have similar dividend rights. However, adjustments have been made for: (i) illiquidity; as the preferred stock is not tradeable on an open market and can only be transferred to other Visa members; and (ii) future litigation costs which could affect the valuation of the stock prior to conversion.

As at 31 December 2022, the total fair value of £10.7m of Visa inc shares comprised of £4.6m of preferred stock and £6.1m of common stock. The portion of the previously held preferred stock was converted to common stock after the sixth anniversary conversion event. The common stock (35,200 of Class A Common shares) was fully sold after the year-end on 24 February 2023 for $219.13 per share.

As at 30 June 2023, the fair value of £4.9m of Visa inc shares comprised fully of preferred stock.

10. Retirement benefit asset

The group operates a defined benefit pension scheme: the Provident Financial Staff Pension Scheme. The scheme is of the funded, defined benefit type and it is now also closed to future accrual.

The scheme provides pension benefits which were accrued on a final salary and, more recently, on a cash balance basis. With effect from 1 August 2021 it was fully closed to future accrual and benefits are no longer linked to final salary, although accrued benefits are subject to statutory inflationary increases.

The scheme is a UK registered pension scheme under UK legislation. The scheme is governed by a Trust Deed and Rules, with trustees responsible for the operation and the governance of the scheme. The trustees work closely with the Group on funding and investment strategy decisions. The most recent actuarial valuation of the scheme was carried out as at 1 June 2021 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the results of the 2021 valuation to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

The group is entitled to a refund of any surplus, subject to tax, if the scheme winds up after all benefits have been paid. As a result, the Group recognises surplus assets under IAS 19.

The Group is exposed to a number of risks, the most significant of which are as follows:

- Investment risk – the liabilities for IAS 19 purposes are calculated using a discount rate set with reference to corporate bond yields. If the assets underperform this yield a deficit will arise. The scheme has a long-term objective to reduce the level of investment risk by investing in assets that better match liabilities.
- Change in bond yields – a decrease in corporate bond yields will increase the liabilities, although this will be partly offset by an increase in matching assets.
- Inflation risk – some of the liabilities are linked to inflation. If inflation increases then liabilities will increase, although this will be partly offset by an increase in assets. As part of a long-term de-risking strategy, the scheme has increased its portfolio in inflation matched assets.
- Life expectancies – the scheme's final salary benefits provide pensions for the rest of members' lives (and for their spouses' lives). If members live longer than assumed, then the liabilities in respect of final salary benefits increase.

The net retirement benefit asset recognised in the balance sheet of the Group is as follows:

	30 June 2023 £m	31 December 2022 £m	30 June 2022 £m
Fair value of scheme assets	490.4	520.7	653.6
Present value of defined benefit obligation	(453.6)	(490.0)	(571.8)
Net retirement benefit asset recognised in the balance sheet	36.8	30.7	81.8

The amounts recognised in the income statement were as follows:

	Six months ended 30 June	
	2023 £m	2022 £m
Current service cost	(0.5)	(0.5)
Interest on scheme liabilities	(11.5)	(7.2)
Interest on scheme assets	12.2	8.3
Net credit recognised in the income statement	0.2	0.6

The net credit recognised in the income statement has been included within operating costs.

10. Retirement benefit asset (continued)

Movements in the fair value of scheme assets were as follows:

	Six months ended 30 June	
	2023	2022
	£m	£m
Fair value of scheme assets at 1 January	520.7	898.8
Interest on scheme assets	12.2	8.3
Actuarial movements on scheme assets	(32.2)	(242.2)
Contributions by the Group	0.4	1.7
Net benefits paid out	(10.7)	(13.0)
Fair value of scheme assets at 30 June	490.4	653.6

Movements in the present value of the defined benefit obligation were as follows:

	Six months ended 30 June	
	2023	2022
	£m	£m
Present value of defined benefit obligation at 1 January	(490.0)	(786.6)
Current service cost	(0.5)	(0.5)
Interest on scheme liabilities	(11.5)	(7.2)
Actuarial movement on scheme liabilities	37.7	209.5
Net benefits paid out	10.7	13.0
Present value of defined benefit obligation at 30 June	(453.6)	(571.8)

The principal actuarial assumptions used at the balance sheet date were as follows:

	30 June 2023	31 December 2022	30 June 2022
	%	%	%
Price inflation – RPI	3.35	3.25	3.25
Price inflation – CPI	2.85	2.75	2.80
Rate of increase to pensions in payment	3.05	3.05	2.95
Inflationary increases to pensions in deferment	2.85	2.75	2.85
Discount rate	5.25	4.80	3.70

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 3 tables (2022: SAPS series 3 tables):

- for non-pensioners: 105% of the 'Middle' table (31 December 2022 and 30 June 2022: 105%% of the 'Middle' table);
- male pensioners: 99% of the 'All' table (31 December 2022 and 30 June 2022: 99% of the 'All' table); and
- female pensioners: 102% of the 'Middle' table (31 December 2022 and 30 June 2022: 102% of the 'Middle' table).

The above multipliers and table types were chosen following a study of the scheme's membership. Where the multiplier is greater than 100%, this reflects a shorter life expectancy within the scheme compared to average pension schemes, with the opposite being true where the multiplier is less than 100%. Also, the use of the 'Middle' table typically leads to slightly lower life expectancy compared to using the corresponding 'All' table.

10. Retirement benefit asset (continued)

Future improvements in mortality are based on the Continuous Mortality Investigation (CMI) 2022 model with a long-term improvement trend of 1.00% per annum and the core parameters (December 2022: 2021 model and a modest allowance (5%) for the experience during 2020 and 2021. June 2022: 2021 model and no allowance for the experience during 2020 and 2021. All other available parameters for the mortality improvements model were adopted at the default level.) Under these mortality assumptions, the life expectancies of members are as follows:

	Male			Female		
	30 June 2023 Years	31 December 2022 Years	30 June 2022 Years	30 June 2023 Years	31 December 2022 Years	30 June 2022 years
Current pensioner aged 65	21.3	21.7	21.8	23.0	23.3	23.4
Current member aged 45 from age 65	21.2	21.6	21.8	23.9	24.3	24.4

If the discount rate decreased by 2% (31 December 2022: 2%, 30 June 2022: 0.5%), the defined benefit obligation (not including any impact on assets) would have been increased by approximately £148m (31 December 2022: £160m, 30 June 2022: £43m).

An analysis of amounts recognised in the statement of comprehensive income is set out below:

	Six months ended 30 June 2023 £m	2022 £m
Actuarial movements on scheme assets	(32.2)	(242.2)
Actuarial movements on scheme liabilities	37.7	209.5
Actuarial movements recognised in the statement of comprehensive income in the period	5.5	(32.7)

11. Fair value disclosures

The Group holds the following financial instruments at fair value:

	30 June 2023 £m	31 December 2022 £m	30 June 2022 £m
Financial assets			
Derivatives	13.4	11.3	7.7
Visa Inc. shares	4.9	10.7	8.8
	18.3	22.0	16.5
Financial liabilities			
Derivatives	(27.8)	(15.3)	-

The Group is counterparty to three derivative financial instruments.

The securitisation balance guarantee (front BGS) swap of £13.4m asset (31 December 2022: £11.3m, 30 June 2022: £7.7m) manages the market risk associated with movements in interest rates in the accounts of the securitisation. The front BGS is a bespoke over-the-counter interest rate swap that resizes in line with changes to the size and expected maturity profile of the loans in the securitisation. Only the interest rate risk on the portfolio is hedged; other risks such as credit risk are managed but not hedged.

The Group balance guarantee swap (back BGS) of £14.1m liability (31 December 2022: £11.9m, 30 June 2022: £nil) eliminates the front BGS on consolidation in the Group accounts. The front BGS manages a risk that exists in the SPV accounts, but does not exist upon consolidation. The back BGS was transacted at historical rates and in compensation the Group received cash consideration for taking on a liability.

11. Fair value disclosures (continued)

The front and back BGS naturally hedge and no hedge accounting is applied. Hedge accounting was discontinued on the front BGS in September 2022 with the hedging adjustment amortising over the remaining life of the receivables. Until termination, the hedging arrangement was accounted for under IAS 39 under the portfolio hedging rules.

The Tier 2 swap of £13.7m liability (31 December 2022: £3.4m, 30 June 2022: £nil) is a vanilla unamortising swap that manages the Group's sensitivity to changes in interest rates arising from long-dated fixed-rate Tier 2 capital and short-dated Bank of England reserves. The Tier 2 swap pays annually a floating rate of daily compounded SONIA and receives a fixed annual rate of 3.521% bi-annually. The swap matures in October 2026.

Except as detailed in the following table, the directors consider that the carrying value of financial assets and financial liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values:

	Carrying value			Fair value		
	30 June 2023	31 December 2022 (restated)[1]	30 June 2022 (restated)[1]	30 June 2023	31 December 2022	30 June 2022
	£m	£m	£m	£m	£m	£m
Financial assets						
Amounts receivable from customers	2,112.3	1,905.4	1,676.7	2,648.3	2,485.8	2,174.4
Financial liabilities						
Retail deposits	(1,445.3)	(1,100.6)	(926.9)	(1,386.3)	(1,068.7)	(916.2)
Bank and other borrowings	(706.6)	(815.4)	(824.8)	(687.2)	(813.4)	(828.1)
Total	(2,151.9)	(1,916.0)	(1,751.7)	(2,073.5)	(1,882.1)	(1,744.3)

[1] Refer to note 2 for details of restatement.

As at 30 June 2023 £275m had been drawn on the bi-lateral securitisation facility. The Group renegotiated this facility and signed an extension with the bi-lateral lenders on 30 June 2023. The maturity date of the facility (including amortisation period) has been extended from July 2024 to January 2026. On the same date, the Group notified the lenders that it would reduce the committed facility from £325m to £250m and repay £25m of the drawn amount at 30 June 2023 on the next Interest Payment Date of 21 July 2023. This reduction and repayment were made as planned on 21 July 2023, replacing the drawn amount with retail funding.

12. Provisions

	Period ending 30 June 2023			Year ending 31 December 2022			Period ending 30 June 2022		
	Scheme £m	Others £m	Total £m	Scheme £m	Others £m	Total £m	Scheme £m	Others £m	Total £m
Opening balance	1.2	4.0	5.2	53.5	18.6	72.1	53.5	18.6	72.1
Created in the period	-	4.9	4.9	2.6	1.1	3.7	-	0.5	0.5
Reclassified in the period	-	-	-	-	1.6	1.6	-	1.7	1.7
Utilised during the period	(0.2)	(0.3)	(0.5)	(54.9)	(9.1)	(64.0)	(3.0)	(8.1)	(11.1)
Released during the period	-	-	-	-	(8.2)	(8.2)	-	(4.8)	(4.8)
Closing balance	1.0	8.6	9.6	1.2	4.0	5.2	50.5	7.9	58.4

12. Provisions (continued)

The Scheme of Arrangement (the Scheme): £1.0m (31 December 22: £1.2m, 30 June 22: £50.5)

The Scheme of Arrangement was sanctioned on 30 July 2021 with the objective to ensure all customers with redress claims are treated fairly and outstanding claims are treated consistently for all customers who submit a claim under the Scheme.

Customer settlements in relation to the Scheme of Arrangement commenced in H2'22 and most of this provision has been utilised, with only £1.0m of provision remaining as at June 2023. The remainder of the £1.0m balance represents unpresented low value customer cheques.

Other provisions include:

ROP Provision: £2.0m (31 December 22: £2.0m, 30 June 22: £2.0m)

The Repayment Option Plan (ROP) provision principally reflects the estimated cost of the forward flow of ROP complaints more generally which may be received and in respect of which compensation may need to be paid.

Customer compliance: £3.4m (31 December 22: £2.0m, 30 June 22: £4.9m)

The customer remediation provision relates to general customer compliance matters. This includes the costs of processing a temporary uplift in spurious customer claims from CMCs (uphold rate only 5%) in vehicle finance, in relation to responsible lending.

Redundancy £2.0m (31 December 22: £nil, 30 June 22: £nil)

The redundancy provision relates to the outsourcing of operations to third parties based in South Africa.

Other £1.2m (31 December 22: £nil, 30 June 22: £nil)

This predominately relates to onerous contracts which originally related to CCD, and dilapidation provisions.

Discontinued operations: £nil (31 December 22: £nil, 30 June 22: £1.0m)

A number of smaller provisions were recognised in 2021 in relation to the closure of the CCD business which were fully utilised in 2022.

13. Reconciliation of loss after tax to cash generated from operations

	Six months ended 30 June	
	2023	2022
	£m	£m
(Loss)/profit after taxation	(10.4)	21.5
Adjusted for:		
– tax (credit)/charge	(4.1)	15.8
– interest expense	49.4	30.1
– share-based payment charge	3.2	3.0
– retirement benefit credit	(0.2)	(0.6)
– amortisation of intangible assets	8.9	7.8
– provisions created in the period	4.9	0.6
– provisions utilised in the period	(0.5)	(11.1)
– provisions released in the period	-	(0.7)
– exceptional release of provisions	-	(4.1)
– depreciation of property, plant and equipment and right of use assets	6.0	5.4
– Loss on disposal of property, plant and equipment	1.8	-
– Loss on disposal of intangible assets	0.4	2.0
– fair value movements on Visa shares	(0.4)	0.3
– disposal of Visa shares	6.2	-
– derivative financial instruments	0.8	(8.2)
– contributions into the retirement benefit scheme	(0.4)	(1.7)
Changes in operating assets and liabilities		
– amounts receivable from customers	(204.2)	10.3
– trade and other receivables	(22.1)	(3.2)
– trade and other payables	1.2	(28.8)
Cash (used in)/generated from operations	(159.5)	38.4

14. Contingent liabilities

During the ordinary course of business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, agents, customers, investors or third parties. This extends to legal and regulatory reviews, challenges, investigations and enforcement actions combined with tax authorities taking a view that is different to the view the Group has taken on the tax treatment in its tax returns, both in the UK and overseas. All such material matters are periodically assessed, with the assistance of external professional advisors, where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established for management's best estimate of the amount required at the relevant balance sheet date. In some cases it may not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the merits of the case, and no provisions are held in relation to such matters. However, the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

Alternative performance measures

In line with our continued repositioning as a specialist banking group, the Group changed the presentation of its Income Statement in the annual report and accounts for the year ended 31 December 2022 to align with the wider banking industry. The presentation of the Income Statement in this report is consistent with that in the annual report and accounts for 31 December 2022. See page 23 in the statement of accounting policies for further details on the change in presentation. In line with these changes and to more closely align to our peers in the industry, the Group also implemented updated APMs to provide more relevant and reliable information for stakeholders. The changes to APMs are summarised at the end of this report and all presented APMs have been retrospectively re-presented in line with these changes. Unless stated below all other APMs are presented consistently with prior periods.

New terminology	**Previous terminology**
Net interest margin (£) – Interest income less interest expense, excluding exceptional items for the period	Net interest margin (£) – Total revenue less finance costs, excluding exceptional items for the period
Risk-adjusted income (£) – Total income, excluding exceptional items less impairment charges for the period	Risk-adjusted margin (£) – Net interest margin, excluding exceptional items less impairment for the period
New APM	**Previous APM**
Average gross receivables - Average of gross customer interest earning balances for the 7 months ended 30 June	Average receivables – Average of net reported receivables for the 6 months ended 30 June
Net interest margin (NIM) - Interest income less interest expense, excluding exceptional items for the period multiplied by 365/181, as a percentage of average gross receivables	Net interest margin (NIM) - Revenue less finance costs, excluding exceptional items for the period multiplied by 365/181, as a percentage of average net receivables
Risk-adjusted margin - Total income, excluding exceptional items less impairment charges for the period multiplied by 365/181, as a percentage of average gross receivables	Risk-adjusted net interest margin - NIM less impairment, excluding exceptional for the period multiplied by 365/181, as a percentage of average net receivables
Asset yield - Interest income for the period multiplied by 365/181, as a percentage of average gross receivables	Revenue yield – Revenue for the period multiplied by 365/181, as a percentage of average net receivables
Cost of risk - Impairment charges for the period multiplied by 365/181, as a percentage of average gross receivables	Impairment rate/cost of risk - Impairment charge for the period multiplied by 365/181, as a percentage of average net receivables
Cost:income ratio - Operating costs, excluding exceptional items for the period multiplied by 365/181 as a percentage of total income, excluding exceptional items for the period multiplied by 365/181.	Cost:income ratio - Operating costs, excluding exceptional items for the period multiplied by 365/181 as a percentage of net interest margin, excluding exceptional items for the period multiplied by 365/181.
Adjusted return on assets (ROA) - Adjusted (loss)/profit after tax for the period multiplied by 365/181, as a percentage of average total assets for the 7 months ended 30 June	Adjusted return on assets (ROA) - Adjusted (loss)/profit before interest after tax for the period multiplied by 365/181, as a percentage of average net receivables.
Adjusted return on equity (ROE) – Adjusted (loss)/profit after tax net of fair value gains for the period multiplied by 365/181, as a percentage of	Adjusted return on equity (ROE) - Adjusted (loss)/profit after tax for the period multiplied by 365/181, as a percentage of average opening and

average adjusted equity for the 7 months ended 30 June. 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	closing adjusted equity. 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
Adjusted return on required equity (RORE) - Adjusted (loss)/profit after for the period multiplied by 365/181, as a percentage of the Group's average PRA regulatory capital requirement including PRA buffers for the 7 months ended 30 June	Adjusted return on required equity (RORE) - Adjusted (loss)/profit after tax for period multiplied by 365/181, as a percentage of the Group's average opening and closing PRA regulatory capital requirement including PRA buffers for the period

APM	H1'23		H1'22[1]	
	New	Previous	New	Previous
Net interest margin	18.0%	23.4%	21.5%	29.1%
Risk-adjusted margin	13.5%	15.0%	20.3%	24.5%
Asset yield	22.4%	28.3%	24.0%	32.2%
Cost of risk	7.6%	8.4%	3.9%	4.6%
Cost:income ratio	66.2%	66.3%	61.4%	61.7%
Adjusted return on assets (ROA)	(0.3%)	5.9%	3.0%	6.9%
Adjusted return on equity (ROE)	(1.4%)	(1.2%)	13.9%	14.2%
Adjusted return on required equity (RORE)	(1.7%)	(1.7%)	18.1%	17.9%

[1] *Vehicle finance receivables have been retrospectively restated, previous KPI's have been restated where applicable, see note 2.*

Statement of directors' responsibilities

The directors confirm that, to the best of their knowledge, the unaudited condensed interim financial statements have been prepared in accordance with IAS 34 as contained in UK adopted IFRS, and that the interim report includes a fair review of the information required by DTR 4.2.4R, DTR 4.2.7R and DTR 4.2.8R, namely:

• An indication of important events that have occurred during the first six months of the financial year and their impact on the unaudited condensed interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
• Material related party transactions that have occurred in the first six months of the financial year and any material changes in the related party transactions described in the last annual report and financial statements.

A list of current directors is maintained on the Vanquis Banking Group plc website: www.vanquisbankinggroup.com. All directors were present throughout the six months ended 30 June 2023 other than those set out below:

- Michele Greene appointed to the company on 9 March 2023.
- Sir Peter Kenneth Estlin appointed to the company on 19 April 2023.

The maintenance and integrity of the Vanquis Banking Group website is the responsibility of the directors. The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accept no responsibility for any changes that may have occurred to the unaudited condensed interim financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of unaudited condensed interim financial statements may differ from legislation in other jurisdictions.

By order of the board

Malcolm Le May – Chief Executive Officer   Neeraj Kapur – Chief Financial Officer
27 July 2023