



## Vanquis Banking Group third quarter trading statement

### Management action drives trading improvement

#### THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

London – 17 October 2023 - Vanquis Banking Group plc ('the Group'), the specialist bank, publishes the following trading update for the three months to 30 September 2023.

#### Trading headlines

- The Group returned to profit during the third quarter following management action to reduce costs and support net interest margin (NIM). Despite continuing macroeconomic uncertainty, the customer credit environment remained resilient, which supported lower levels of impairment and improving risk adjusted margin.
- The Group expects to deliver adjusted profit before tax<sup>1</sup> (PBT) in the range of £25-30m for full year 2023, although this outturn remains subject to a range of external variables.
- In light of the Group's profitability profile for FY23 and the 5.0p per share dividend paid for H1 23, the Group today signals that any H2 dividend payment is not expected to be more than 1.0p per share. Payment of any H2 dividend will be subject to the customary regulatory and Board approvals.

#### Immediate management action summary

CEO Ian McLaughlin and team have taken immediate action to return the Group to a path to sustainable, profitable growth.

- Product price increases which reflect the rising interest rate environment have now been applied in Vehicle Finance and Credit Cards, with vulnerable customer segments protected.
- 2023 exit NIM is now projected to be 17-18%, supported by product price increases.
- A simplified operating model has been introduced that removes duplication and reduces costs. Cost reductions of c.£60m are expected to be achieved within 2024, including the removal of c.350 roles. Key initiatives include greater use of outsourcing and changes to phasing of investments.
- Customers remain at the heart of the Group's purpose and strategic planning: the acquisition of personal financial management app Snoop in August 2023 enables the use of AI and data analytics to better understand customers' needs and gives customers a smart new way to manage their money.
- A broader strategy review has been initiated. This will run through Q4 and will segment customers more effectively, enabling the Group to provide more targeted, compelling customer propositions and deliver attractive, sustainable returns for shareholders.

<sup>1</sup> Adjusted profit before tax is stated before amortisation of acquisition intangibles, discontinued operations and exceptional items.

**Ian McLaughlin, Chief Executive Officer, said:** “For all of us here at Vanquis Banking Group, helping to put our customers on a path to a better everyday life really matters. We deliver important solutions to an under-served customer base in a growing market segment. We have strong foundations from which to deliver value for our customers and shareholders, based on a coherent Group structure and differentiated access to retail funding.

“We have worked at pace to undertake a detailed operating review of the Group. We have scrutinised every cost centre and product line. As a result, we have taken action to stabilise our NIM, significantly reduce our cost base and put ourselves in a position to clarify guidance for our year end PBT. We have also refreshed our Executive Committee and have already appointed a Chief Technology Officer, Chief Financial Officer, Chief of Staff and Head of Investor Relations, with an offer made for the post of Chief Customer Officer.

“We have started a full strategy review that will complete by the end of January 2024. The outputs of this will enable us to become the outstanding customer champion in our target market segment and deliver sustainable, profitable growth based on our deep understanding of, and commitment to, our customer base. On the 27 March 2024 in conjunction with our full year results, we will host a Capital Markets Day setting out our new vision for the Group.

“Sir Peter Estlin, who took over as Chairman of the Board on 15 September, and I share a determination to deliver operational improvements in the short term, and to build a business that delivers value for all of our stakeholders over the medium and longer term.”

## Webcast

Ian McLaughlin, CEO of Vanquis Banking Group will host a webcast at 08:30 today, joined by Interim CFO, Gareth Cronin. To register your attendance, please use this link: <https://brrmedia.news/vanquisbankinggroupq3>

## Third quarter operating update - details

### Volume, pricing and growth initiatives

- Pro-active action has been taken to moderate lending growth in Credit Cards, Vehicle Finance and Personal Loans. A detailed review of product risk and returns is taking place to enable the Group to serve its customers more profitably in the long term: in the short term, this action will improve profitability by reducing the Day 1 impact of IFRS9-driven expected credit losses from new business and moderate the overall increase in receivables.
- Price increases were applied in Vehicle Finance and Credit Cards, reflecting the rising base rate environment, with a further increase in Credit Cards to come into effect from December 2023.
- Good progress has been made on other growth initiatives including the completion of the first transaction under the second charge mortgage pilot and test marketing of Snoop to the Group’s customer base.

### Costs

Action has been taken to simplify structures and reduce the Group’s cost base. Total cost savings within 2024 are expected to be c.£60m. Approximately 80% of the savings are expected to be recurring in nature.

The areas which will deliver these cost savings are set out below.

- The shared services model, initiated in 2021 to streamline the Group, is being implemented with renewed ambition.
  - A simpler operating model has been defined to extend implementation of shared services across the Group.
  - Areas of duplication, vacant roles and contractor positions are being removed and platforms and processes refined, notably in Finance, IT and Change and HR.
  - Difficult decisions have been taken to remove c.350 roles, of which c.120 are from operations which are being transferred to third party suppliers.
- Plans to deliver a single IT platform for the Group are being reviewed to ensure better alignment of investment spend to business strategy.
- Use of the Group's successful operations outsourcing facility is being extended.
- Cost discipline has been improved in areas such as third party spend, overtime, and travel and expenses.

The majority of exceptional costs to deliver these savings will be taken in 2023 and are estimated to be c.£6.0m.

### Third quarter trading details

- The Group returned to profit during the third quarter following management action to reduce costs and support net interest margin (NIM). Despite continuing macroeconomic uncertainty, the customer credit environment remained resilient, which supported lower levels of impairment and improving risk adjusted margin.
- Net receivables grew by 5.7% to £2,237.5m, with action taken during the quarter to moderate growth, to allow for a detailed review of product risk and returns. This will enable the Group to serve its customers more profitably and sustainably over the long term.
- Product repricing actions, reflecting increases in the underlying interest rate environment, are providing support to the Group's NIM. The Group's most vulnerable customers have been protected from price rises.
- The cost of funding, whilst rising, remains at a discount to market interest rates reflecting the duration of the Group's funding. The Group has now completed its programme of repaying all unsecured wholesale debt, which has been replaced by more efficient retail funding from Vanquis Bank.
- The cost:income ratio for Q3 reduced by 3.8 percentage points from H1 to 62.4%, reflecting income growth and the early benefits of management actions on costs.
- As at 30 September 2023, the Group continues to hold significant capital and liquidity resources above minimum regulatory requirements. It is operating at around the Board's previously guided target CET1 ratio of c.20%, which includes any confidential and management buffers.

## Outlook

Q3 2023 has been a period of intense change for Vanquis Banking Group. These changes are already starting to deliver improved results. Although the year end outturn is still subject to a range of external variables, the Group currently expects to deliver an adjusted PBT for FY 23 in the range of £25-30m.

In light of the Group's expected profitability profile for FY23 and the 5.0p per share dividend paid for H1 23, the Group today signals that any H2 dividend payment is not expected to be more than 1.0p per share. Payment of any H2 dividend will be subject to the customary regulatory and Board approvals.

Looking forward into 2024, the Group will continue to focus on the following key drivers of profitability.

- A move back to disciplined, returns-focused growth in net receivables, following action to continue to moderate growth in Q4.
- Further support for NIM<sup>2</sup>, which is expected to exit 2023 in the range of 17-18%.
- Continued low levels of impairment.
- Substantial cost reductions, with c.£60m of savings announced for 2024.
- Continued investment in customer proposition and technology platform.

The Group is conducting a broader strategy review during Q4 and will provide an update at a Capital Markets Day on 27 March 2024. This will include guidance on medium term targets, including an appropriate cost:income ratio for the Group. The Group will demonstrate its ambitions to deliver value for its customers, plans for sustainable and attractive profitable growth, with clear priorities for capital allocation, including dividends.

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<sup>2</sup>Guidance on NIM excludes any impact arising from second charge mortgages.