Vanquis Banking Group PLC

Full Year Results 2023

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Transcript

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FY23 Results Presentation Script

Ian McLaughlin:

Good morning everyone and thank you for joining us for our 2023 results webcast. As you know, we are holding a strategy seminar at 2pm this afternoon. That will give you the opportunity to hear from me and from some of the key members of the Vanquis management team about how we are going to turn this business round to deliver mid teens adjusted ROTE in 2026 and beyond. This morning, we want to describe the foundations for this transformation, starting with our 2023 results.

In a moment I'm going to hand over to Dave Watts, for his first outing as CFO of Vanquis Banking Group. Dave's impact since he arrived in November has been transformative. He has investigated multiple aspects of our previous financial performance with rigour and discipline. The result of this is that we can give you a much clearer picture of the key drivers of our business today than ever before. I'm delighted to have Dave on the team and look forward to him sharing with greatly improved clarity and transparency, where this business is today, and where we are going to take it to. Before I hand over to Dave, just a few words from me.

I want to start with story behind the numbers. In September, when we started our planning in detail for today, we were staring at a substantial potential loss for 2023. As we reviewed the business through H2 2023, the challenges we had to address became clear as:

1. Underinvestment in key capabilities for this business over a number of years

2. IFRS write backs contributing disproportionately to the profitability

3. The Group needed to refocus on customer numbers and receivables growth – both of which had been lagging then grown too quickly in H1 23 and at the wrong margin

4. Pricing changes were needed to prevent further unprofitable business from being written: product pricing needed to increase to properly cover cost of funds, cost of risk and operating costs.

5. Simplifying structure and organizational design to remove operational silos, reduce duplication and again help better manage costs. As we told you in our Q3 market update, we took immediate action to start putting things right, the results of which you can begin to see in our H2 2023 numbers.

You can see our financial highlights on this slide, Dave will drill into these in a moment but at headline level…We introduced appropriate product price increases and stopped unprofitable open market personal loans. We took immediate action on our cost base including making the tough decision to take out around 350 heads and cancel all bonuses for the team for 2023. We reviewed and reset out technology transformation program. We restructured and recruited to upgrade our senior team. We started work on a complete strategic review. Today, we can show you some early signs of progress. As you know, we hit the key profit milestone that we set ourselves in October, with adjusted PBT of £24.9m. NIM has been stabilized, costs initiatives are delivering, and capital exceeded our CET1 ratio target of 20%.

However, you also know that it has not been plain sailing. It has taken us longer than we would have liked to get the right pricing in place to allow us to get back to profitable growth – but all our planned pricing actions will be live by the end of this month. We have also been experiencing a significant ramp up in complaints. These turn out to mainly be spurious but hit critical levels from the end of Q4 …. and have continued into 2024. Even though most of these complaints turn out not to be upheld, we still have to absorb the costs of reviewing them, including the Financial Ombudsman Service fees. Over the second weekend of March, it became clear that we could not continue to offset the associated cost increases through cost saving actions elsewhere in our operations, and this was the major trigger of our revised 2024 profit guidance given in our market announcement on 11 March.

We know we have to keep relentlessly improving the way we operate in order for all of the good work and excellent insight we've developed to show through in our bottom-line results. We're looking forward to telling you about how we will do that this this afternoon…. But I'm getting ahead of myself. So, for now, let me leave you with this… I am acutely conscious that the turnaround of Vanquis Banking Group is now set to go on for over a decade. There have been too many false dawns. So, the question we have been asking ourselves on your behalf, is "why should you believe this time?"

We will discuss this in much more detail this afternoon. For now, all I would say is that our new team understand how to balance customer focus, customer acquisition, digital banking, customer service and cost management…Perhaps more important than all of that – there is a growing customer base out there that need, and deserve, better support from the UK banking system and at Vanquis, we intend to lead in that. We have started the work, there is a lot to do… but we believe we have the right plan and are on the right track. More to come later…. With that, Dave, welcome and let me hand over to you.

Dave Watts:

Thanks Ian. Good morning, everyone. This will be my first time presenting our results, having joined Vanquis as CFO, on the 1 st of November 2023. After 29 years at HSBC, I moved to Vanquis, as I support its vital role, in meeting the financial needs of individuals, who are not banked by the mainstream UK banks. I remain excited about the future potential of Vanquis. Due to the challenges of 2023, and the last couple of weeks, and with this being my first opportunity, to present our financial results, I wanted to start with a few opening remarks, to provide some context, around what I am going to share. We intend to provide transparency, and clarity, on what we want to achieve, as we rebase ourselves for the future. You will therefore note that the content is RICHER, and MORE GRANULAR, than you've seen from us before. There are 15 slides that I will talk through, with further information provided in the Appendix. The overall aim is to present our 2023 performance, the impact of the turnaround, that we initiated during the second half of 2023, with a new management team, and how we look to progress in 2024 and beyond. We will present this in more detail this afternoon.

From a P&L perspective, this presentation will focus on income, impairments and adjusted operating costs, which resulted in an adjusted PBT of £24.9m, in line with management guidance provided at the third quarter. that said, there's no shying away from the fact, that our 2023 results show a statutory loss after tax of £6m. In the first half, interest income growth was driven by receivables growth, which was not necessarily profitable, given a significant increase in the cost of funds. This led to a mismatch in receivables, and income growth. In the second half, the new management team introduced additional cost saving initiatives, and re-assessed financial priorities. This led to better managed volume growth, and upward re-pricing on our cards book. We have also revised our Vehicle Finance pricing strategy, impacting new business, with the income benefit expected to come through in 2024. Impairments increased significantly during the year, driven by lower model enhancement tailwinds, lower profits on debt sales, and increased new originations. Adjusted operating costs, reduced by 10% in the second half of 2023, compared to the first half, predominantly driven by transformation, and one-off actions taken by the new senior management team.

Operating costs were negatively impacted by complaint related costs, due to increased claims management company activity, and inflation.

Moving on to metrics and key ratios, both gross and net receivables have grown, net more than gross, due to the impact of debt sales, and ifrs9 model enhancements, leading to provision release. We are proposing a final dividend of 1p, which would take the full year dividend to 6p. Asset yields, have been a mix across our products. We are taking action, to ensure that we are deploying our balance sheet appropriately, ensuring sustained profitability, across our book. Two ratios to highlight here are, adjusted rote, and adjusted cost: income ratio. Our adjusted rote, reduced from 21.8% in 2022, to 3.2% in 2023, as a result of our significantly reduced adjusted pbt in 2023. You will hear more about rote this afternoon, and how we will make enduring, and impactful changes, to achieve an improving trend, in this key metric going forwards. There has been a re-classification of liquidity income, from non-interest income to interest income, to align with market convention, for this type of income, for which a reconciliation is included in the appendix. Note, this re-classification and re-presentation, does not alter total income, or pbt for 2022. To help you reconcile your 2023 forecasts, with what we're presenting today, the movement between non-interest income, and interest income is c.£28m. Our cost: income ratio, is broadly flat, year on year, but it's too high. I am confident, that the technology platform changes, that you will hear more about this afternoon, will make a material, and positive contribution, to the shift required, in this key measure of performance.

Looking at income, we remain a balance sheet driven business, with over 90% of income driven by receivables. Interest income grew quarter on quarter throughout 2023, primarily through receivables growth in the first three quarters, and then by pricing actions in the 4 the quarter. You will note that the quarter-on-quarter increase in interest expense, is due to a mix of, increased underlying market rates, and higher funding balances. As shown on the following slide, our cost of funds, remains below the Bank of England base rate. In summary, our pricing did NOT compensate, for the increase in both funding costs and administration costs, in the first half of the year. Positive steps were taken by the new management team, in the 3rd QUARTER, with an upwards re-pricing in Cards, which drove an overall increase, in interest income, in the 4 the quarter. Receivables were also managed more closely, with a small absolute reduction, in the 4 th quarter. This should be viewed as a short-term step, taken to manage pockets of the business, which were being booked, below acceptable hurdles, and allow time, to implement the right disciplines, to ensure that all new business written, meets, and exceeds, financial hurdles.

Moving on to margins: Asset yields improved during the second half of 2023, due to our re-pricing actions in Cards. Volume management in Vehicle Finance, in the 4 th quarter

of 2023, meant that the re-pricing impact, was limited. Re-pricing is developing into a core competency, and an important lever, we can pull on, with the right data, and insights on performance, post the re-pricing action. In 2023, we re-priced our Vehicle Finance products, on the 9 th of January and 21st of September, impacting new customers, and our Cards portfolio, with effect from 5 th of September and 7th of Re-pricing in Cards impacted approximately 50-60% of our book. Some of our customers, a redeemed to be vulnerable – either through being in arrears, or in financial difficulty, - and therefore, we have not increased prices for them. Whilst re-pricing has a positive impact on NIM, there is a lag, between announcing a Cards re- price, and the re-pricing coming into effect, due to terms and conditions, requiring at least a 30-day notice period, for price increases, plus we had some operational inefficiencies. These operational inefficiencies need to be addressed, so we can be more responsive, to the need for future rate changes. The Gateway programme, that you will hear about this afternoon, will improve the speed to market changes. Further appropriate price increases are planned for both our vehicle finance and cards Products, imminently.

In 2023, our annualised cost of funds, was lower than the bank of England base rate. We need to maintain our cost of funding competitive advantage, through our predominantly Retail funded book. To benefit, both ourselves, and our customers, we will be expanding our Retail savings products, in the second quarter of 2024, so that we can be more reactive, as and when, interest rates change in the future. We will ensure the associated interest rate risk, is Appropriately managed. We expect our overall cost of funds, (excluding tier 2), to peak at around the bank of England Base rate, and to fall in line with market interest rates on a lag, reflecting the duration of the Group's funding. Most importantly, you will also note the stabilisation of nim at 19%, in the second half of the Year. You will also note from an earlier slide, that our risk adjusted margin was 20.3% in 2022, but decreased to 13.9% in 2023. This is primarily due to movements in impairment, from model Changes, and provision releases, rather than income.

Finals I will cover later, I expect some variability, in our 2024 impairment numbers, hence it's Difficult to provide a clear steer, on our future risk adjusted margin, at this point in time, but if pushed, i would expect this to be in the 12-13% range, going forwards.

Let's look at receivables in more detail: Receivables increased, in the first three quarters of 2023, as the group focused on receivables Growth, across all products. Newly developed acquisition scorecards, in cards and vehicle finance, in 2022 and 2023, have Led to a slight improvement, in our book quality, with a higher proportion of receivables, in Stages 1 and 2. You will note, that net receivables move a bit differently. This is mostly due, to the timing ofIfrs9, model development releases, and debt sales throughout the year. As mentioned earlier, we ended the year at a lower position, when

compared to the end of third quarter, as a result of, conscious new business volume management, whilst we assessed Our financial priorities. During the first two months of 2024, gross receivable balances have reduced, predominantly in Cards, noting the customary lower activity, in these two months. We expect gross receivables, to Return to modest growth, in the second quarter of 2024.

This slide contains quite a lot of information, however, it is important to provide this detailed insight, As we re-set the base for the business going forwards. The £100m year on year increase in impairments, is the biggest driver, of our financial performance In 2023. What i want to show you here, is that this increase, is driven both by, new business origination, and, A number of other drivers: Our impairment charge increased, as our receivables grew more in 2023, than in 2022, in Absolute terms. New origination charges have moved in line with our receivables growth. Known challenges in our ifrs9 modelling, have historically, resulted in various overlays being Established. Subsequent, ifrs9 model enhancements, have led to, a significant number of Model, and other related provision releases, in recent years, which has benefited our reported Impairments. Note that covid-19 provisions, previously booked in 2020, were fully released in 2021 and 2022, So did not occur in 2023. Our balance sheet is becoming “cleaner”, with our cards forward flow debt sales programme Maturing, therefore, we do not expect to see significant one-off debt sales in cards in 2024, as We experienced in 2022, and to a lesser extent in 2023. Historically, we have undertaken, limited debt sales in our vehicle finance book. Going Forwards, we are turning our attention to this opportunity, to clean up, this part of our balance Sheet. It is too early, for indications of any profitability impacts, that may arise as a consequence, so no impacts from this are included in our current forecasts. As we look forwards into 2024, I expect the ifrs9 model enhancements, to largely be concluded, in the first half of the year, while we will continue to make progress, on our arrears management, Throughout the rest of the year. Consequently, there will be some expected, continued volatility, in Reported impairments in 2024. Impairment charges, always have some, idiosyncratic variability, particularly with ifrs9 accounting, However, from 2025, we expect a much “cleaner” impairment charge, and consequently, greater Clarity and consistency in our “cost of risk”.

This slide shows our expected credit loss provision movements, again at a more transparent level, than you have seen before. Our ecl balance is reducing, driven by active cards debt sales, however, this reduction, is in part, being offset, by increased stage 3 balances, within vehicle finance, which now comprise over 50% of our ecl

balance. As I have already said, we are looking at debt sales in relation to vehicles finance, in 2024.

Our cost base is that of a business in transition. Our costs have been increasing, significantly, over recent years. Without the additional cost savings plans, initiated by the new management team in the second Half of 2023, coupled with the avoidance of further planned expenditure, costs for 2023, would Have been significantly higher, than the £298 million pounds we reported. The cost walk shows that we are continuing to invest, while at the same time driving efficiency, to also offset the headwinds of inflation and complaints. New management have reconsidered the it transformation programme, gateway, and are fully Committed to continuing investment in this programme. This will be covered in more detail this Afternoon, noting that the gateway programme, is expected to deliver significant cost savings, From 2026 onwards. The increase in complaint costs, is primarily driven by speculative cmc claims, which I will cover On the next slide. Building on initial steps in the first half of 2023, we have successfully delivered, further Transformative cost savings, and one-off cost savings, in the second half of 2023, mostly in Streamlining our organisation, and through the use of outsourcing partners. We continue to be on track, to deliver the £60m of cost savings announced. A number of these Saves, have already, positively impacted our 2023 results. During 2024, we will continue to embed cost management, as a key discipline, throughout Vanquis. In summary, our cost base points, to a significant opportunity, to positively reshape the Business, and not just to cut costs, but to make sustainable change, and to reset the business Platform, for the future.

This slide provides more detail on customer complaint costs. We saw a significant increase in complaints activity, in the second half of 2023, which has Continued unabated into 2024, and impacts our ability, to resolve genuine complaints, quickly. The increase in 2023, related to vehicle finance in the first half of the year, with an increase in Cards from April 2023 onwards, which ramped up significantly in the 4 th quarter. These claims Are focused on historical business written, relate to lending origination, rather than in-life Servicing, and are from cmcs, rather than directly from our customers. We do have genuine complaints from customers, which are upheld, (i.e. Vanquis compensates The customer). Looking at lending origination complaints, in 2023, you will see that cmc activity accounts for Over 90% of complaints received, and nearly two-thirds of these came from one particular cmc. This particular cmc, also refers a significant portion of complaints, to the financial ombudsman Service, (or fos), regardless of the outcome of internal review. We have recently taken, Appropriate legal action, against this particular cmc.

Every time a case is referred to fos, we are required to pay the £750 pound fee, irrespective Of the outcome, hence, the significantly increased fos costs, in 2023.

Uphold rates for cmc complaints, remain low at c.11%, and reduces to c.6% when referred to Fos. This really emphasises, the speculative nature, of the majority of claims received, and the cost Associated with dealing with these claims. Lending origination complaint costs, relate to a wide range of different matters in the customer Lending process, but with no particular underlying common theme, or, systemic issue. This increase in cmc complaints, has resulted in a backlog, driving the end of year provision Increase, and is requiring us, to increase resourcing levels, in 2024, to process these claims. We have engaged an outsourcing partner, for the first half of 2024, to clear this backlog by mid- Year. Further operational programmes are also expected to be in place, with our outsourcing Partner, by mid-year, to deal with the increased volumes of complaints received. We are also in the process of automating certain actions, such as complaints logging, which Should drive operational efficiencies in our complaints handling process. Forward projections are dependent on a variety of factors, including the impact of legal action, But for the moment, we have modelled a c.50% increase in 2024, followed by a modest, Normalisation into 2025. Resource costs reduced slightly in 2023 due to a reduction in headcount and outsourcing. This Should continue in 2024, with further benefits coming through, offset slightly, by the increased Cost of processing the backlog of complaints. For completeness, in terms of service quality complaints, redress amounts, and fos fees, are Significantly less. This is due , to the amounts, to be remediated, being much lower, when Compared to genuine lending origination complaints.

Next, let me give you a bit more insight into our two main products – cards and vehicle finance. Looking at some cards metrics, in a bit more detail: Management action on pricing, in the third quarter of 2023, so that we price for the risk we are Underwriting and the increasing costs to administer, has led to the change in apr% booking mix, I.e. It is not driven by a change, in the risk segment we are writing business in. No new cards were issued, with an apr% under 26.5% from October 2023 onwards, following a Front book restructure. As a result of our volume management, not only did we restrict new lending, we also reduced Limits for new customers. Arrears % have risen slightly, towards the end of 2023. This is mostly a function of lower Volumes, and lower receivables, at year end.

On vehicle finance, We initiated two price reviews in 2023, one in January and one in September. The impact of the Latter should start coming through in 2024, especially when returning to volume growth. It should be noted, that when we re-price for vehicle finance, this is setting the revenue income For the product sold, for the next 5 years or so, hence, the focus on ensuring this pricing is Appropriate, over the lifetime of the product. Arrears had an uptick towards the end of 2023, which is due to usual seasonality, the impact of Volume management, and operational challenges. The latter have now been resolved.

Turning to liquidity and funding We have a strong liquidity and funding position, with an increased level of surplus liquidity as I Speak, [being £784 million pounds at 21 st of march]. Since the beginning of 2022, we have shifted to a retail led funding approach, replacing Expensive senior wholesale and retail bonds, that attracted higher coupons. This gives us a Competitive advantage, in terms of both pricing, and predictability. 84% of our funding, is now from retail savings and deposits, and we expect this proportion, to Increase gradually over time. In addition, 97% of our deposits, are protected by the financial Services compensation scheme (fscs). We are introducing new products, to better serve our customers, which at the same time help to Optimize our liquidity. An example is the introduction of 90 and 120 day notice period accounts, in 2023, which provide Both our customers, and ourselves, a bit more flexibility. Importantly, as covered earlier, this will also enable us to better manage our cost of funds, as Interest rates change in the future. We continue to focus on financial resource optimization, which I will cover this afternoon.

We maintain a strong capital position, with a cet1 ratio of 20.5%, which is slightly above Management guidance, provided at the third quarter. The pra’s review of the group’s capital management, led to a significant reduction in our tier 1 Requirement, in the first quarter of 2023, allowing a more optimal capital strategy. Excluding the ifrs9 transition, and a prior year restatement, our capital position has moved in Line with expectations, towards our target operating level in 2023. We remain well-capitalized, noting that approximately 35% of our tier 1 capital, or £142m, is ‘surplus’ to published regulatory requirements. As with any regulated bank, there are three potential components of such a surplus, which are Confidential, and cannot be disclosed: > a confidential management buffer, to cover any volatility in planned financial performance; > genuine excess capital, held over risk appetite at any point in time; and > a confidential buffer set by the PRA, in their periodic capital assessment of a bank , related to ‘stress impact’, ‘risk management and governance’ or ‘supervisory judgment.’

Looking forwards, i would like to summarise some key messages: As Ian said in his introduction, the transformative action, we took in the second half of 2023, prevented a potential loss arising, and instead, we delivered an adjusted pbt of £24.9m. We have increased our focus on our pricing, to ensure its appropriate. There is some further clean-up of our balance sheet to come, and there will be some. Enhancements in our ifrs9 impairments model calculations, however, these enhancements will Not have the same level of benefit, as delivered in recent years. We will deliver on the remaining transformation cost saves, from our £60m target. And to re-iterate, we will remain highly liquid, and strongly capitalised, for future growth.

As Ian has said: We are in a phase of transition, with our strategy expected to deliver, a mid-teen adjusted rote By 2026, and a low single digit adjusted rote, in both 2024 and

2025. Financial progress will not be linear across the coming three years, noting the adverse impact Arising from ifrs9 accounting requirements, while the benefits from the gateway it programme Will pre-dominantly arise in the second half of this transformation period. During this transition phase, we expect to deliver a net interest margin of above 18% in 2024. Diversification through our 2 nd charge mortgage proposition, will start having a minor impact on the product mix in 2024. Noting the impact on nim, we would expect to provide information on Our nim, excluding 2 nd charge mortgages, going forwards. As a result of the complaints increase, inflation, and the reversal of some one-off cost savings, We do not expect our cost: income ratio to improve in 2024. We have actionable plans, to improve our retail deposit offering, and we will deliver on this, Taking our retail deposit funding to over 85%. The group’s cet 1 ratio will be in line with the current guidance as stated, subject to any change In regulatory requirements, or any change in risk appetite, positive or negative. I would like to thank you, for your time this morning, and look forward to presenting the strategy Seminar, alongside Ian and exco colleagues, this afternoon. I welcome any questions, regarding forward looking information, at the q&a session this afternoon, But for now, I’m happy to take any questions that you may have, on the 2023 results. Thank you.

<u>Q&A</u>

Miriam McKay:

Starting with a couple of questions around complaints. So, the first question is to clarify. "You mentioned an expected 50% increase of complaints from CMCs. Does this translate to 50% increase in complaints costs from 28.5 million in 2023, to around 40 million in 2024? And has this been taken into account in your profit outlook for 2024?"

Dave Watts:

Thanks, Miriam. Yeah. What we've modelled for our full cost for 2024 is a 50% increasing costs for complaints. So, that is the £28 million as I stated. And you can do the math up to £42-43 million.

Miriam McKay:

Thank you. And then, secondly on complaints. "How do you plan to stop complaints from claims management companies? Is it possible to charge cost for every unsuccessful charge? Is it possible to ask the Bank of England for regulatory support to reduce this cost pressure?"

Ian McLaughlin:

I'll take that one. Thank you. Miriam. Look, it's a real challenge for us, but it's bigger than a Vanquis bank challenge. I think there is a systemic issue here. We are in detailed

conversations with regulators, with Treasury and with UK finance around what the right thing to do here is. And let me be really clear, as Dave said in his presentation, in any business like ours, there will be complaints that we will want to address and stand over if we've done anything wrong in the past. But, they are by far the minority of what we're receiving.

The issue here is that we are getting swamped with what turn out to be mainly spurious complaints and therefore our resources can't get to helping the customers who genuinely do need help and have made a complaint to us. So, I think there's a lot to come on this. Dave mentioned that we have taken, I think our phrase is "appropriate legal action" on the one firm who are really the worst actor in this. And we will obviously update the market as that progresses. But, yeah. It's a real issue for us and it's a real issue for genuine customers who have got genuine complaints as well.

Miriam McKay:

And just to be crystal clear, this question says, "Does the FCA investigation have any impact on Vanquis' motor vehicles division?"

Ian McLaughlin:

So, let me be crystal clear again. We are not affected by the discretionary commission arrangements review in vehicle finance that the FCA are undertaking over the rest of this year. The issue we have in complaints is not that at all. But, as Dave said, this is more around people going onto websites and just clicking, "Would you like some money from Vanquis?" And suddenly a complaint appears. Good complaint management companies, of which there are many handle that process really well and often really help customers. It's the complaint management companies that are not handling their verification in the way that they're expected to, is what we're objecting to. But, just to be crystal clear again at the end of that answer, we are not impacted by the discretionary commission review into vehicle finance.

Miriam McKay:

Okay. The next question is about the dividend. "With your strategy now set, when do you foresee the dividend being restored to historic levels? Or reset to a high level than the one penny?"

Ian McLaughlin:

Do you want to take that, Dave?

Dave Watts :

As we've set out in issue in our note on the 11th of March, we're setting a 1P dividend for 2024, subject to board approval and regulator approval from there. And it'll progress

slightly more from there in 2025. When we get into 2026, we believe we're going to have a significantly different profitability. At that point in time, we'll reassess our dividend payout ratio at that point in time.

Miriam McKay:

Thank you. This question is about directors buying shares. "Will you, the chairman and the other directors be taking advantage of the depressed share price, aligning interests with the shareholders to give us further confidence?"

Ian McLaughlin:

There are discussions on that ongoing at the minute. I'm not going to comment on individual's activities. But, yes. We do see there is value in where our share prices is at the moment.

Miriam McKay:

Thank you. This one is from Daniel David at Autonomous. "You have excess Tier 2 debt. Do you plan to address this excess to help with the cost of funding over the plan? Should we expect any senior issuance in the plan?"

Dave Watts:

Thank you, David. Thank you Daniel, sorry. Look, we could continue to look at our capital stack and what the efficiencies may be. You're correct, we are holding surface Tier 2. Currently, we don't have any 81 in issuance. So we'll look at the opportunities that come to us in the marketplace if we want to take some action in that space, subject obviously to appropriate approvals.

Miriam McKay:

Thank you. We've now got some questions from Robert Sage at Peel Hunt. "With regard to the guidance of eight to 12% nonlinear receivables growth, could you provide some thoughts around what that might mean for 2024? And should we expect to level towards the upper end of this range in 2026?

Ian McLaughlin:

For you, Dave?

Dave Watts :

Thank you. As I say, what we've set out, it's going to be nonlinear. In terms of where our growth may be, I've already commented early on saying that our receivables have come down in the first two months of this year. So, you've got to factor that in terms of what that might mean for '24. I would expect once we've our repricing coming through

imminently in the next couple of days there, we continue to start going to growth mode on our receivables through into second quarter. Play through into third quarter and fourth quarter. So, as I say, it will be non-linear over a period of time. You should take the range we've quoted out there to factor into your forecast for 2024.

Miriam McKay:

And a second question from Robert Sage. "You say the CET1 target range is 19.5 to 20.5%. Are you encouraging us to expect the ratio to dip below 20% in 2024?"

Dave Watts :

As set out, that's our current guidance on our capital between 19.5% and 20.5%. Obviously this is dependent on the regulatory requirements and also internal risk appetite, which could go up or down associated with that. But, currently we expect to operate within that range.

Miriam McKay:

Some questions now from James Spalton at Lancaster Investment Management. "The Woolard Review called out mid-cost credit as an area of low supply, but genuine customer need. Do you have visibility as to whether the FCA stands by that position, and whether there is regulatory support for this market segment, as there was not for high cost?", James comments.

Ian McLaughlin:

Yeah. I'll take that one. James, thank you. Great question. I'll never comment on regulatory opinion. What I'll give you is our opinion and rest assured that we are in very regular contact with our regulators. We will talk a lot about this afternoon, particularly with Jill Armstrong, our new Chief Customer Officer who will give some real insight to the work we've been doing on the customer profiles that we think we can help most. And what you'll hear this afternoon, and I hope you'll all be able to join us, is that there is absolutely, as James is saying, a demand increase and a supply contraction.

And that is leading to a move towards non-regulated products or even in worst-case, black-market lending. So, I think there's a real challenge for the entire spectrum of customers in this underserved space that we want to serve in Vanquis. And we will talk this afternoon in detail, as I said, but we really want to take our place as the champion for that profile of customers in that space and make sure that we're looking after them properly. So, please tune in later as they say for more on that.

Miriam McKay:

So, a second question from James Spalton. "What would your guided FY25 ROTI be if you excluded new business drag? E.g., year one, IFRS 9 provision and customer recruitment costs?

Dave Watts :

We've guided where we think the 2025 ROTI number will be. We said it's the low single digits in place there. If you look at the drag of IFRS 9, it's a pity we can't do IT accounting where we capitalise the cost up front, then release the cost out over a period of time. Unfortunately, when you book new business under IFRS 9, you have to record the cost up front as if it's a detriment on your first year of profitability. If I looked at the actual drag and do a calculation excluding that, it probably is a drag of two to 3% on our ROTI.

Miriam McKay:

Thank you. And a third question from James. "Your breakdown of APRs on new lending from Q4 onwards implies a very different NIM and RAM for cards if maintained into 2025 and 2026. Is this a correct inference?"

Dave Watts :

I think as we've covered in the presentation so far, we weren't necessarily pricing appropriately for all the cost of risks, the cost of funds and the cost of administration from our products. We've done two credit card increases in 2023. We've got one coming through imminently. Therefore, you should expect to see the NIM going up in the card's portfolio over the next two to three years. In the existing segments, we actually [inaudible 00:10:02] banking.

Miriam McKay:

Thank you. Saskia, could we now take a couple of questions on the audio? And then perhaps come back to check if there are more coming through on the web?

Operator :

Certainly. Thank you. So, we have our first telephone question from Gary Greenwood from Shore Capital. Please go ahead.

Gary Greenwood:

Oh, morning. I've got three, if I can? So, the first one was just on the model enhancements. If you could just give us a layman's understanding, I guess, as to what's been going on there and what's been driving those? And then the second one, I think you guided or suggested risk-adjusted margin to stay in a 12 to 13% range. And I just wanted to clarify whether that was including or excluding the growth in second-charge

mortgages? And then my final question was on the legal action that you're taking against the CMC. And I'm just trying to understand ... Well, first of all, timeframe you would expect that to play out? And then, secondly, what you're hoping to achieve from it? Is it trying to stop the CMC filing those complaints? Or is it financial redress? Or is it a mixture of both? Thank you.

Ian McLaughlin:

Not like you to sneak three questions in for one. So, well done. Dave, maybe if you want to take the model enhancements and the risk-adjusted margin points and then I'll comment on the legal action, if that's okay?

Dave Watts :

So, on the model enhancements, the work we've been doing on IFRS 9 models has been going on for a number of years. It's covering all aspects. They're probably loss given default, etc., so I don't think I want to go into all the details behind it. I think what you're probably interested in are the actual numbers. We've probably booked, I think it's about £57 million in 2023 associated with it. In terms of what we think might come through in 2024, the number will be significantly lower. If it was in the mid-teens, I'll be happy to see that coming through. But, that's all I want to guide you through with this one now on model enhancements for IFRS 9. In terms of the second question regarding the, if pushed 12 to 13% risk-adjusted margin, it does include mortgages. However, the component part of our portfolio mortgages will be still quite small in 2024 and it'll grow out through the period into 2026. So, you should stick to 12 to 13% across the whole of the portfolio in aggregate.

Ian McLaughlin:

Thanks, Dave. And on the legal action that, Gary, you'll understand that it is a legal action, so I'm not going to comment too much on it, other than to say we submitted our case back on the 11th, so Monday week ago. That will become public imminently. But, just to stress what I said earlier and what Dave said in his detailed update on complaints. We have no issue if customers think something isn't the way it should have been and want to come to us and ask us to look at what's happened, and whether there is redress. No issue with that at all. We'll stand over what we've done. We'd prefer customers complain directly to us if they need to complain. If they want to go through a claims management company, that's fine too. Most claims management companies, as I said earlier, go through a very rigorous process of verification and identification of what

the issue is, and then submit it and we look at those and we're very happy to continue to do so.

The issue that we've got with this one particular actor, is that they do not seem to be doing that. And we are getting inundated with a load of claims that turn out in the end to be spurious. But, as Dave described, we still have to pay the £750 [inaudible 00:13:40] fee and we have the cost of physically going through those clients and trying to identify what they're based on, if anything. So, we will talk more about that this afternoon as well. Our Chief Operating Officer Ian Fielder will cover a section on that.

But, we're just not prepared to sit back and let this happen if it's not being done in a way that we think is correct. So, that's why we've decided to take legal action. How long that will take and what the outcome will be? The courts are the courts. It's not quick, usually. And we're always happy to have direct negotiations if people would prefer to go that way. But, we're not prepared to just sit and take this. You can see the impact it's having on our cost base. And as I said earlier, worse is the impact it's having on our genuine customers that we can't get to, because we're snowed under on these spurious complaints.

Gary Greenwood:

That's great. Thanks for taking my questions.

Ian McLaughlin:

Thank you, Gary.

Operator :

Thank you. And as a brief reminder, to ask a question on the telephone, please do this by pressing "*1." We now take a question from Perlie Mong from KBW. Please go ahead.

Perlie Mong:

Hello. It's Perlie from KBW. Thank you for the presentation and look forward to seeing you in the afternoon. Just two quick questions. One is on impairment and provisions. I guess if I just look at Stage 3 provisions, half-and-half. It looks like it's gone up about 50 million, most of it coming from vehicle finance? I understand that a lot of the post-model adjustments may have come from the credit card book, but in any case it looks like Stage 3 receivables have increased, but actually total allowance has come down, because of the post-model adjustments. So, just wondering what's your thinking and thought process around that? So, that's the first one.

And the second one is understand that you've taken some active volume management in Q4 as you reposition your product in pricing, et cetera. Just wondering, I guess either

hypothetically, but also in what you've seen in the last couple of months, does that impact your ability to write business in the future? Just historically when banks have a little bit of a stop-start approach that can have a longer lasting impact than just, when they want to grow they find that it's harder to get hold of customers, because they've been out of the market for a little bit. So, just wondering what's your thoughts on that?

Ian McLaughlin:

Thank you. Dave, maybe if you take the first one, and I'll take the second one?

Dave Watts :

On the first point on impairments and Stage 3 losses, the overall ECL provision has come down. As I brought out earlier on, the proportion of that relating to Stage 3 has gone up, but that's predominantly dominated by vehicle finance. And that has been, because we have not executed upon ... Well, we did one minor trade in a debt sale of vehicle financing in 2023. It's an area we need to go and focus on going forwards. If you do look at the overall proportion of our portfolio, you'll see the proportion in Stages 1 and 2 is slightly increased. So, in fact that means the Stage 3 has actually come down a little bit. So, I would say we have a slightly improving portfolio in 2023.

Ian McLaughlin:

And then Perlie, if I maybe take your second question on volume management and getting volume started again, which is a very good question. Look, the first thing I'll start with is, this team and this business will have much improved product and pricing discipline from here on. And that's what we've definitely taken a conscious decision to put our foot on the ball and make sure that, as Dave described earlier ... This is banking 101, right? You take your central costs, your cost of funds, your cost of risk, your cost of administration, your marketing costs. You add them all up and then you have to make sure that whatever you're charging for that product actually covers those costs. Consumer duty asks you to do that apart from anything else. So, we've taken those actions to make sure that we are aligned correctly, because there's no point, as we showed in the first half of last year, writing volume if you're below a hurdle, right? It just takes you backwards.

So, we're not going to do that. The discipline is now in place. That has taken us some time. As I said, the final price increase goes in tomorrow, actually. So ,we are then in a position to get back to prudent receivables growth and keeping an eye on that discipline as we go forward from Q2 over the rest of the year. To your point about can you flick a switch and get it straight back on? Not really. There tends to be a ramp up to a more standardised rate. So we're expecting a little bit of that through Q2, particularly in vehicle finance, where you're dealing in an intermediated market and motor finance dealers have to change systems and so on for different pricing. So, that will take us a

little bit of time. But, we're very convinced. And again, we'll talk more about this afternoon that our proposition is strong enough to allow us to get back to those volumes as quickly as we possibly can.

Perlie Mong:

Thank you.

Ian McLaughlin:

Thank you, Perlie.

Operator :

Thank you. And there are currently no further telephone questions. I'd like to hand back over to you, Miriam.

Miriam McKay:

Thanks very much, Saskia. So, a couple more questions coming through on complaints. So the first one is, "Why was there such a significant and sudden uptick in CMC complaints in Q3 and Q4?" And, "What's the top reason for these complaints?"

Ian McLaughlin:

Again, I'll take that one Dave, if that's okay? We'll cover this in more detail this afternoon, so I don't want to preempt our entire presentation. I think really what happens with some complaint management companies and as I stress not all, they test to see what sort of reaction that they get. Dave mentioned in his presentation that we received from this one particular firm vehicle finance complaints initially at some volume. But, actually they didn't really get anywhere on that and the uphold rate was very low. So, we saw that switch to card complaints. So, I think people just test to see if they can get some volume going. And what was the reason? This is the challenge, and again, we'll talk about it this afternoon, but we literally get a checklist saying, "Can you check for this customer whether you've done any of these things?" And that's what makes it so time-intensive for us to actually review.

In some cases, we don't have the customer at all on our books. But, we've got to look through our entire back book to see if we do have them or ever have had. And in other cases, even if the customer exists, that product isn't the one that is allegedly being complained about. So, it's a very complicated area. It's very frustrating and I'm trying not to let my frustration show. But, it is one that all we're asking for is the complaint management companies to go through the process that they agree they will go through, about verifying complaints before they're submitted. If that's done and most do that, then we're very happy to look at them. It's the spurious speculative complaints that are just scraped off TikTok or social media that we're really having an issue with.

Miriam McKay:

Thank you. Here's one from Ghislain Cortina at Melqart who asks, "How should we think about the assumptions that you are making on complaints, volumes and costs for 2024? And how could ongoing legal action impact your assumptions?"

Dave Watts:

I'll take that one, Ian.

Ian McLaughlin:

Sure.

Dave Watts:

So, one of the things I'd first did when I came into role, I commissioned a third-party firm to come in and look at the basis of doing our complaints provisioning to make certain it was right. In essence to summarise what they came up with, we're doing the right thing. So, no issues there from terms of provisioning at year-end. To essentially how we do it, we model it, based on recent claims in terms of what our uphold rates have been, what's the amount of redress being played. And we put it through a model to calculate that number. Every single month we go through, we look at history for that month and adapt it from there. So, we keep live to what's coming through in terms of our volumes. And that's what we saw as we're coming through as Ian said in the beginning of March. The numbers are just getting bigger and bigger and bigger. So, the models are showing a larger number coming through, hence the reason why we've had to update our forecast for 2024 in terms of complaints costs.

Ian McLaughlin:

And maybe just to come in on that as well, Miriam, it's a very tricky thing to model, because you don't know when a court case is actually going to be heard and you don't know what the outcome's going to be. So, we think we've been sensible in terms of what we put in for 2024, but we will continue obviously to update the market as things progress.

Miriam McKay:

Thank you. I've got a question now about impairments. The question is, "There were significant impairments of 166.1 million in 2023, versus 66.1 million in 2022. What impairment levels are we expecting in 2024 and 2025? And what is management doing to reduce these going forward?"

Dave Watts:

Okay. In terms of the number for 2024, I would say it's going to increased on 166 million we booked this year. As I said in our presentation, we've had a significant number of credits coming through from model enhancements in the last ... '23, '22 and 21 for that side of things there. So, you expect to see that that coming through. In terms of what are we doing about it, I think there's three ways you can look at this. Firstly, better understanding of our customer base, making sure that we're lending out to the right people. Secondly, we have been looking at our models. There will be some more improvements coming through. And thirdly, we look at some of the IT enhancements we could put in place for impairments. There's a couple of simple things we could be doing. For example, if we look at when people get paid and [inaudible 00:23:44] they get the chance self-set, make the payment off their credit card, post the day they get paid.

Other things like when you set up your card, make sure you can automatically set up a direct debit, so the payment goes through. So, therefore, we're trying to help the customer in terms of and how they actually manage their own financial position. And I guess to add on from there, we haven't really talked about Snoop this morning. Snoop is a great application that our customers access to. They can use that to start modelling their own financial expenditure during the month and help to try and stop them getting into that stage where they will actually fall into position where they default on their ... Or get behind on their payments and therefore create impairments.

Miriam McKay:

Thank you. And this is our final question. And I've got a couple of questions like this, but I'm going to try and run them in together, so that we answer them once. This one's phrased as follows. "As a long-term shareholder and savings customer, I have a couple of questions. Has there been an increase in customers closing accounts? Or a run on deposit caused by the share price and media speculation?" And, "As a shareholder, as Ian put it, we've got 10 years of turnaround ahead ... " Rather, "We've had 10 years of turnaround." Apologies. "How can we have confidence that this is going to happen this time and it's not just more jam tomorrow?"

Ian McLaughlin:

Yeah. Look, let me take that. And that's a great summary question really. On the saving side, the simple answer is no. We've seen no change in customer behaviour whatsoever, but as Dave said, 97 per cent of our deposits are covered by the Financial Services Compensation Scheme anyway. But, no sign of any change there whatsoever. And look to the point on, I raised it in my opening remarks anyway, why believe this time? That's the question as a management team, we're asking ourselves on your behalf, we do understand how difficult this has been as an investor. And that's what this afternoon we are going to set out very clearly. What is our plan, based around customer understanding, based around the efficiency of our organisation and how you can

actually see and track the progress of the plan that we're going to describe later on? I'm not sure who asked that question Miriam, but hopefully they'll be able to join us this afternoon and we can maybe get a comment from them at the end as to how they feel.

Miriam McKay:

Thank you to you both. And with that, I'm going to draw this morning's session to a close. As Ian said, please join us at 2:00 PM this afternoon, when Dave, Ian and our management team will be running a strategy seminar to tell you how we're going to get to mid-teens ROTI in 2026. But, for this morning, thank you very much for all your questions and goodbye.

END.