Vanquis Banking Group HY 2026 Results

Analyst and Investor Conference Call Q&A

Ian McLaughlin, Chief Executive Officer

Dave Watts, Chief Executive Officer

(Transcript amended in places to improve accuracy and readability)

Abid Hussain, Panmure Liberum

Morning, everyone. Thanks for taking my questions. I've got three questions, if I can, please. The first one is on card utilisation. It's down in the second quarter, so can you help me? Can you separate how much is macro versus customers migrating or something else, and what's the signals you're watching for a recovery in spend? Or have I got that wrong? Do you not need that spend to come through to meet your new guidance?

Then the second one is on the mid-teens 2028 ROTE. What's the split between the new cards vintage seasoning, cost/income ratio improvement, and Second Charge Mortgages scaling? Which of those has the widest range of outcomes? Or I suppose, put it another way, where do you have the most control?

The final question is on Basel 3.1. It looks like you have some £15 million of [additional] surplus. Where does that get deployed first? Thank you.

Ian McLaughlin, Chief Executive Officer

Abid, morning. Thank you for those three. I'll take the first one and then, Dave, we can come to you, and then I'll take the second, and maybe, Dave, you can comment on the third one about Basel 3.1 in particular.

There's a mix of factors at play here, Abid, as we've just said in the presentation. So, we are definitely seeing, while the card spend of existing customers is increasing, it's not increasing as much as we'd originally planned. I said that a couple of minutes ago, but it is increasing, and it is increasing more than our competitors.

So, we are watching that very carefully, which kind of links to your second question about what are the triggers, but what we can't do is rely on that miraculously bouncing back. That wouldn't be a sensible way to plan.

These things happen in any business, it doesn't always go the way you exactly plan it at outset, so we are reacting. We've worked out what we think is the best way to drive growth that we can control, which is based on our confidence of the 19% cards growth that we delivered in 2025. So, we're going back to that. Now we have the capital clarity for the rest of this year and into 2027, and we firmly believe that is within our control. As I said, we did it last year, there's no reason we shouldn't be able to do it this year. I think that is really important.

Then to your second question on the mid-teens ROTE in 2028. There are three asset lines at play here, and we've always said we try to resist locking ourselves into, we expect X on this, Y on that, and Z on that. We deploy our capital where we see the best opportunity for a return, and we'll continue to do that, but Second Charge Mortgages is performing very consistently and steadily, and as I said in the slides, it pays back very quickly, but at a lower rate. So, we'd expect that to be a bit of an underpin for the business going forward.

Vehicle Finance, you didn't ask about, but I'll add in anyway. From 2027, we believe we can much more efficiently grow that as we get the new operating platform in place that I've talked about at length. So, we're feeling good about that. Then on the Cards bit, again, where it contributes is that 2025 increased book growth seasons and matures from 2027 onwards in terms of delivering profitability. So, all three products actually come into play 2027 onwards, which gives us the confidence for 2028 and beyond. I'll maybe pause there. Dave, anything you want to add to those first two?

Dave Watts, Chief Financial Officer

Just on the ROTE point, as we've already set out in the presentation, we can control costs more than anything else. So, we said that costs will be lower in '26 than '25, and in '27 will be lower than '26. So you should expect a trajectory along those lines on that one, which should help the ROTE out in 2028.

Moving on to the Basel 3.1, look, first of all, it's positive we got clarity on what our requirements are going to be from 1 January 2027. It's also positive to see that we have about £15 million more capital to deploy into assets for growth in the future. So, where we'll deploy that, exactly as Ian said, where the best returning product is from a capital perspective, and we're very comfortable that we can deploy that in new customer growth in Credit Cards.

Gary Greenwood, Shore Capital

Hi. I've got three questions, if I can. So, the first was, I recall you saying that all of your new lending achieves your 15% return on tangible equity target, but, your credit cards, certainly for new customers, take two or three years before they turn profitable. So, when you're talking about that 15% on new lending, is that more like an IRR or a return at maturity? Because presumably that sort of return is negative on day 1.

Second, just on Vehicle Finance, I think previously you indicated the balances would start growing again in the second half of this year. I think you're now signalling that will be 2027, so it's a slight delay to expectations there?

Then lastly, I think in your opening remarks, you talked about potential to start an instalment credit offering. So, if you could just talk a little bit about what you're thinking about doing there, given that instalment credit has not been a great hunting ground for the Group in the past.

Ian McLaughlin, Chief Executive Officer

Thank you, Gary. Dave, I might just come to you on this. The new lending and ROTE, I think Gary's question was, just for everyone, is the ROTE hurdling at outset or when the product matures post two years?

Dave Watts, Chief Financial Officer

Thanks for the question, Gary. It's basically over the lifetime of the product. Hope that's quite clear. So literally, you look at the marginal capital deployment, what's your return on that for that product lifetime. We know the average life of a Vehicle Finance transaction is between 30 months and 36 months and we do that return on that basis. That clears the hurdle.

Ian McLaughlin, Chief Executive Officer

Then on your Vehicle Finance question, this is one to watch at the minute. We are really focused on getting the new platform out because this product has still got a roughly a [60]% cost: income ratio, which is too high. We are thoughtful and careful about not putting too much new business through that because it is inefficient compared to where we know we can get it to. We'd rather hold back on the growth till the new platform is in place.

That said, we do see opportunity in that market, we are in discussions with the teams right now as to, what does that look like for the second half of the year, and how do we best calibrate that for not writing lots of volume, but at expensive underlying cost to do so, versus there is opportunity. You've seen we've squeezed our pricing up a little bit in that product line, and I think that's very indicative of the way we're thinking about it. If we can get the top line to move up a little bit, then that kind of covers the higher cost to serve, or cost to implement that we're currently stuck with on the current platform. So, I think one to watch, but again, Dave, anything you want to add on that?

Dave Watts, Chief Financial Officer

Just a couple of points to raise on that one, Ian. Last year, you saw the volume of receivables come down in Vehicle Finance. What you have see in the first half of this year is us maintaining the same level and the operating efficiency associated with that has improved. So, we are doing the best we can to deliver the Vehicle Finance lending with improved efficiency.

Ian McLaughlin, Chief Executive Officer

Then Gary, to your third question, and look, you've got as much history with this business as anyone, and more than I do. Instalment lending, I mentioned in my remarks a couple of minutes ago, we do see an opportunity and a demand in our customer base for this kind of thing. It's primarily being fulfilled by buy now, pay later.

The regulation is changing on that, and therefore we are almost reacting to customer demand, but in Cards, not as a standalone product. So, we're looking at instalment options in the cards line rather than something brand new as a product line that, as you said, may trigger some memories and some fears in people. So just to reassure on that, but again, Dave, anything you want to add on that one?

Dave Watts, Chief Financial Officer

Only to add that it's continuing to meet the needs of our customer, simple as that.

Gary Greenwood, Shore Capital

Would that be used more for customers that are finding the environment a bit more challenging, and therefore an instalment product may be a better option in terms of managing their exposure, or would it be for all customers? Is it a risk management product, or is it a growth product?

Ian McLaughlin, Chief Executive Officer

Yes, it's a reaction, as we said, to the customer demand. So, if someone is in a store and has an option of the store credit or that we could offer a similar instalment product in our cards, we'd rather them spend the money on the card, but we understand they like the idea of instalment.

Harry Macmillan, Berenberg

Morning. Two for me, if I may. So first one, good to see the book growth in Second Charge Mortgages in the half. I was just wondering, could you elaborate on some of the competitive pressures that you're seeing in this division, and how you expect it to impact book growth and yields going forward?

Then on the second one, just wanted to ask, is there any danger the length and maturity of two years per Balance Transfer customer, or 3.5 years per Credit Card Builder customer is pushed out? If so, are there any mitigating actions that you can take? Thank you.

Ian McLaughlin, Chief Executive Officer

Thank you, Harry. I'll take the first one, then maybe Dave, if you want to take the second one about the maturity period. So, look, Second Charge Mortgages growth - Second Charge Mortgages has been a great growth story for us. We started this around two years ago, and we're over £800 million of our book now with our two forward flow providers that are long-term agreements.

We really like this market. It fits very much to our purpose. We are seeing somewhere between 80% and 85% of the customers that take out our Second Charge Mortgages are using it for total or partial debt consolidation. This is people using a product that we support to rearrange their finances and to give themselves some breathing room, and I think that's a really healthy thing.

We are seeing that market grow considerably, and it's growing exponentially, almost. It's higher growth this year, I think about 27% up year on year. So, we are growing in a growing market. We've got substantial market share now between our two forward flow providers, and the business is running at a steady beat, as I mentioned, of about £30 million a month. So that's all good, and we like that.

I think your question there was around, there's a little bit of impact on yield that you can see coming through, and that's natural. I've said in presentations before that when we stand up and say, hey, look, you can grow £800 million in a relatively short period of time, of course our competitors are going to react to that and go, well, that looks like a great idea, maybe we should do that too.

So we are seeing a little bit more of that, but not substantially, and we're very confident that we can hold our share because where we differentiate isn't actually on price and yield, it's on the service and the proposition to the mortgage brokers that specialise in this market, and that's much harder to replicate if you're coming into a market reactively rather than in a very considered way, as we did. We're feeling pretty good about that. Of course, like all our asset products, we watch carefully, but so far so good, it's performing very well. Again, Dave, anything you want to add?

Dave Watts, Chief Financial Officer

Just two points. From a returns perspective, it clears our mid-teens ROTE target. Secondly, as I mentioned earlier, we've only had one customer written off, and the cost of risk is very, very low.

We look through all our products, and we've given a nice synopsis of a Balance Transfer and a Credit Builder card, and within the Balance Transfers there's different balance transfer products there. So, this is an illustrative example in place there. To date, we haven't seen any pushing out on those return horizons from there. So, we're comfortable with what we've got at the moment, and that's the basis on which we're pricing our products on.

Ross Luckman, Peel Hunt

What is the broad split of the front book growth between Balance Transfers and the Credit Builder cards, and have you seen competition responding to the evolving environment? Is there increased competition for new customers in these areas?

Then secondly, again related to Credit Cards, how, if at all, does the change in customer behaviour on the back book change the medium-term growth opportunity for - and the earnings potential for the business? So, I suppose that's a question around what we're assuming around the back book in our guidance.

Dave Watts, Chief Financial Officer

It's broadly 50-50 of new business coming through between the BTs and the Credit Builder.

Ian McLaughlin, Chief Executive Officer

To the broader question then about are we seeing any change in competition in Cards? Is there anything that we're seeing in the back book? I think nothing other than what we've already described in the remarks that we've made so far. So, it's a really interesting one, this back book spend. As I said, I want to re-emphasise and be very clear, our active cards customers are spending more with us. I gave you that stat of they're [spending is] up 10% [year-on-year]. Our relevant peer group was minus 1%.

We are winning, but not as much as we'd assumed when we originally did the plan a couple of years ago. So that is quite a change, and we're planning on the basis that those behaviours continue through the plan period to the end of '27, so we're not expecting them to worsen. We're not expecting them to miraculously turn around and improve. Obviously, if anything changes, we will come back and let you know, but I think I would make the point that normally in a business like this, where you're dealing with less prime customers, your worry is at the other end of the spectrum, which is your expected credit losses, and are things going bad?

What we're seeing is that the support that we're giving to our customers to help them improve their financial resilience and their sensible approach to uncertainty is to spend less, save a little bit more, and create a bit of headroom. I think over time that will turn out to be very positive, but it obviously has an impact on the plan assumptions that we had on back-book retail spend in the short term. That's why bringing more of those type of customers in is actually a very good thing as they season and mature, but it does take longer for them to season and mature than if it was the existing customers spending.

There's a really interesting dynamic here, but we obviously have to change our planning and drive a different way of getting to our end result, but we're not seeing any issue with getting to the end result. As Dave described, all of the business that we're writing across all three products hurdles. So eventually, if it hurdles mid-teens ROTE as it comes in, eventually you get to mid-teens ROTE. The question is how quickly, and that's what this moderated consumer confidence has eased us back on as we change the mix. Again, Dave, anything you want to add?

Dave Watts, Chief Financial Officer

Just a couple of points. We will always react to how our customers' behaviour changes over a period of time. That's the most appropriate way to run a business. Hence, as Ian said, we're planning our business on that basis there. As we've talked about in previous presentations, there's a big underserved market out there, which we need to go and serve more into. So, there is the actual demand for the products we're offering in the Credit Card business.

James Cranstoun, Head of Investor Relations

The final question on the webcast is very much around the macro. So essentially they're suggesting that would you agree that this seems to be an inflection point for Vanquis, and in fact

Vanquis should benefit from a weaker economy in the long term? But the extent of the UK weakness and uncertainty that we've seen, I suppose referring to the dynamics around Credit Card spending of our existing customers, has outweighed that. Once the UK recovery starts, that should be a win-win for us? I suppose some comments on that would be helpful.

Ian McLaughlin, Chief Executive Officer

I covered it in my previous answer, but I think we are being sensible here. Some things have not worked quite in line with our original plan assumptions. As I said, we are growing, we're just not growing quite as much in that cards back book as we'd originally planned, and therefore we are reacting to put a different plan in place that still gets us to our destination.

Look, our experience, I think, in our careers, never mind just with Vanquis, is you always learn more when things don't go quite the way you planned, but that's the time for cool heads, sharp pencils, resilience, and working out, okay, if that's changed, how do we still get to the destination that we want to get to? That's exactly the process that we're going through.

I think the underlying question in what you've read out, James, is are we expecting to get a win from the UK economy? That would be great if it happens, but actually we're planning on a very sensible basis on what we factually can see at the minute, and assuming that persists over this period, and therefore reacting to make sure that we can still deliver what we want to deliver, albeit in a different way, by bringing more new customers in with that delay in profitability curve that we've already talked about. Dave, I don't know if you want to add any more there.

Dave Watts, Chief Financial Officer

The only thing I'll add is that we've called out the £8.5 million macro adjustment for the IFRS provisioning accounting. It is provisioning accounting under IFRS 9. We can't change that. Clearly, if you get an outlook for unemployment that improves from the peak forecast of 5.7% at the moment, you get a natural unwind of that over a period of time.

Ian McLaughlin, Chief Executive Officer

I think that's hopefully been helpful to give you a bit of context around what's happened, why it's happened, what's within our control directly, what is more market related, and most importantly, as a relatively experienced management team, what are we going to do about it?

We have a plan that takes us forward. We have a really committed team that if you look below the level of the headlines from this morning, there are some great things being delivered that will absolutely underpin the success of this business. That's what we need to focus on going forward. If things get easier, great, but actually we're planning for things to stay as they are and still achieve our goals, and I think that's the key message for today. Thank you all very much for your attention, and we look forward to seeing you on the road. Thank you.