

VIRGIN MONEY UK PLC
(Company)

LEI: 213800ZK9VGCYYR6O495

25 November 2020

Announcement of 2020 Full Year Financial Results

Virgin Money UK PLC will be hosting a presentation for analysts and investors starting at 08:30 GMT today (19:30 AEDT). The presentation will be webcast live and is available at <https://webcast.openbriefing.com/virginmoney-fy/>. The results presentation is attached and is also available on the website at: <https://www.virginmoneyukplc.com/investor-relations/results-and-reporting/financial-results/>.

A recording of the webcast will be made available on the website shortly after the meeting.

For further information, please contact:

<u>Investors and Analysts</u>	
Andrew Downey	+44 7823 443 150
Head of Investor Relations	andrew.downey@virginmoneyukplc.com
Richard Smith	+44 7483 399 303
Senior Manager, Investor Relations	richard.smith@virginmoneyukplc.com
<u>Company Secretary</u>	
Lorna McMillan	+44 7834 585436
Group Company Secretary	lorna.mcmillan@virginmoneyukplc.com
<u>Media Relations</u>	
Press Office	0800 066 5998
	press.office@virginmoneyukplc.com

VIRGIN MONEY UK

Full Year 2020

Financial Results



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Overview

DAVID DUFFY

Chief Executive Officer



We are responding to the challenging environment



Our Purpose:

Making you happier about money

Our strategic ambition:

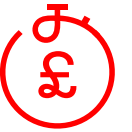
To disrupt the status quo

Re-prioritising as we adapt to the environment



Super Straightforward Efficiency

- Targeted cost reductions and building a scalable platform
- Underpins future returns and capital generation



Delighted Customers & Colleagues

- Building digital capability, new features and partnerships
- Launching innovative apps and seamless API architecture



Discipline & Sustainability

- Delivering our commitments to all of our stakeholders
- Prudent risk appetite
- Optimising our capital base over time



Pioneering Growth

- Delivering a platform for future growth
- Preparing for an improved environment



Supporting our Customers, Colleagues & Communities

Customers

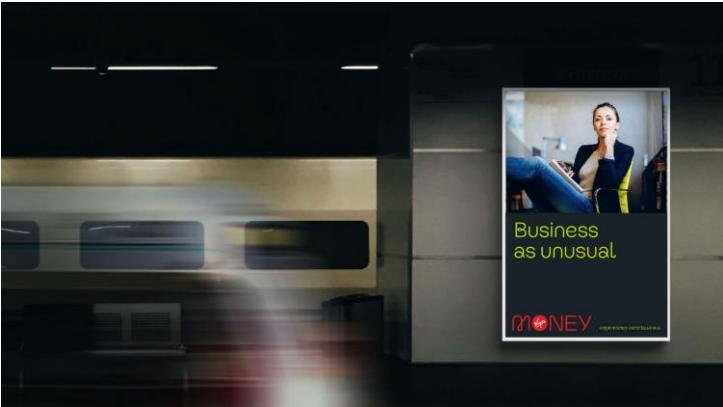
- c.67k Mortgages payment holidays
- c.58k Personal payment holidays
- c.30k Businesses supported with lending facilities; c.£1.2bn of Government-supported lending
- Leading support to overdraft borrowers
- Proactive advice for Businesses

Colleagues

- c.6k colleagues fully enabled to work from home until next year
- c.95% of the branch network remained open
- Enhanced remote working capability and colleague wellbeing support
- Improved colleague engagement

Communities

- Virgin Money Virtual Marathon event
- VM Foundation pledged £1.5m to local charities
- VMG supported c.£100m of donations; platform fee initially waived
- c.50k customers supported through Salary Finance partnership

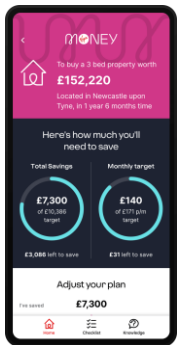
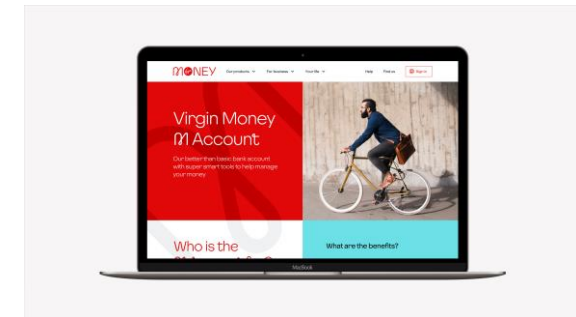
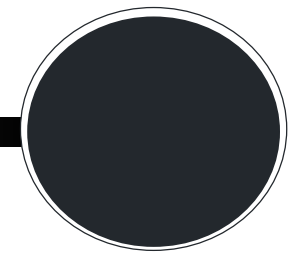
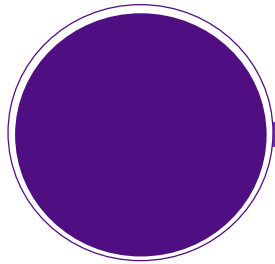


Building the platform for the new Virgin Money in 2020

Integrating, transforming and simplifying our business

Continuing to re-brand and launch Virgin Money

Launching compelling Virgin branded customer products



- ✓ Transforming our channels; increased digital adoption & sales across all Personal products
- ✓ Strengthened digital customer satisfaction
- ✓ c.60% higher digital chat volumes¹

- ✓ Restarted re-branding activity, after COVID-19 pause; 37 stores already complete²
- ✓ Introduced “Money on your Mind?” service
- ✓ VM socially-distanced concert sponsorship, aligned to our Virgin music heritage

- ✓ Launched Virgin Money & M current accounts
- ✓ ‘Outstanding’ five star rated current account³
- ✓ Launched Virgin Home Buying Coach app
- ✓ VM branded Personal Loans now live
- ✓ Launched innovative Brighter Money Bundle

Financial performance impacted by COVID-19 dynamics

Balance sheet mix

- Business lending +13.6%, Personal lending +3.9%; Mortgages (3.0)%
- Relationship deposits +20.3%
- NIM of 1.56% remained resilient post-base rate cut; within guidance range

Efficiency

- FY costs of £917m including £14m of COVID-19 related costs; down 3%
- Underlying cost:income ratio of 59%

Asset quality

- Asset quality remains resilient with no signs of deterioration yet seen
- FY20 impairment provision charge of £501m; 68bps cost of risk
- Strong coverage across portfolios; on balance sheet provisions of £735m

Balance sheet strength

- Capital remained robust: CET1 ratio +10bps to 13.4%¹
- Significant CET1 management buffer of c.£950m above regulatory minimum
- Strong liquidity and funding position maintained

Underlying pre-provision profit

£625m

Statutory loss after tax

£(141)m

Robust CET1 ratio

13.4%

Balance Sheet Update

ENDA JOHNSON

Interim Chief Financial Officer



Portfolio is defensively positioned with stable asset quality

Key points

- Defensive lending book remains overweight secured Mortgages, with strong underwriting criteria applied to Business & Personal portfolios
- No material deterioration in asset quality to date across the portfolios with low arrears; benefitting from Government support and bank forbearance
- Conservative economic scenarios and weightings with expert judgement credit risk PMAs applied in assessing ECL provision
- Increased coverage levels across all portfolios to 102bps in total; stable % of stage 3 loans
- Robust 13.4% CET1 ratio¹ with c.£950m of management buffer to MDA

Portfolio asset quality stable benefiting from support measures

Mortgages
£58.3bn,
81%

- 75% owner-occupied with prudent BTL book
- Average LTV 57%, only 6% is >85% LTV
- Low arrears 0.4% vs industry avg. of 0.8%¹
- Majority of book underwritten under MMR rules
- c.0.1% concentration in high LTI & high LTV²

Business
£8.9bn,
12%

- Prudent risk appetite
- Defensive sector and business size mix
- 67%³ fully or partially collateralised
- Arrears of 0.3% >90 DPD (FY19: 0.5%)
- Modest PD increase to 1.9%³ (FY19: 1.8%)

Personal
£5.2bn,
7%

- Prime portfolios, rigorous underwriting standards
- £4.1bn cards; £1.1bn personal loans & overdrafts
- Focused on high-quality, more affluent customers
- Credit card arrears: 0.8% (industry: 1.6%⁴)
- Personal loans: 0.4% >90 DPD (FY19: 0.6%)

¹ 3m+ arrears; Source: UK Finance, 30-Sep

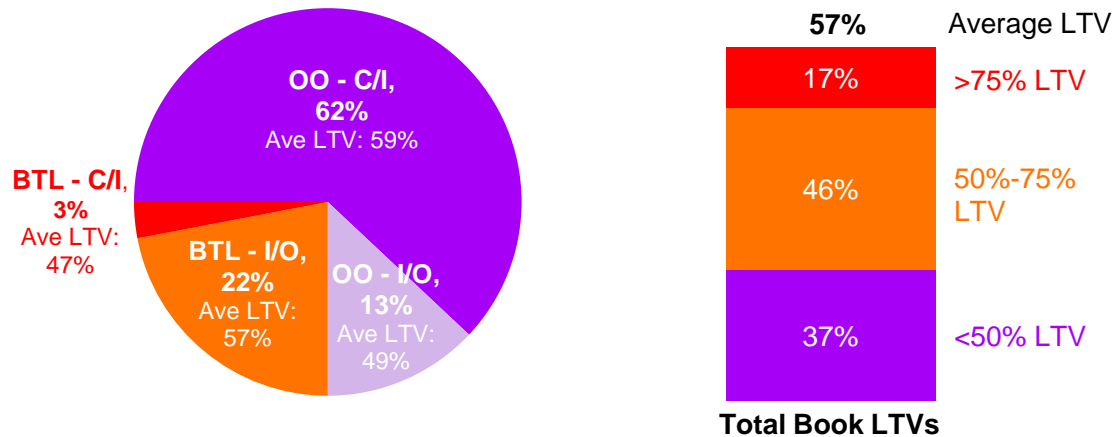
² Owner occupied approvals with LTI >4.5x and >85% LTV

³ Excludes Government-scheme loans

⁴ 2 cycles past due, Source: Industry comparators sourced from Verisk Financial | Argus. covering c.90-95% of the UK cards market and verified vs. UK Finance published figures Jan-Sept-20

Mortgages: resilient asset quality to date

Low LTV mortgage book weighted towards owner-occupied



A prime book, originated under the highest standards

- Consistent, post-MMR prudent underwriting; no sub-prime/self-cert
- Arrears lower than industry (0.4% vs 0.81%)

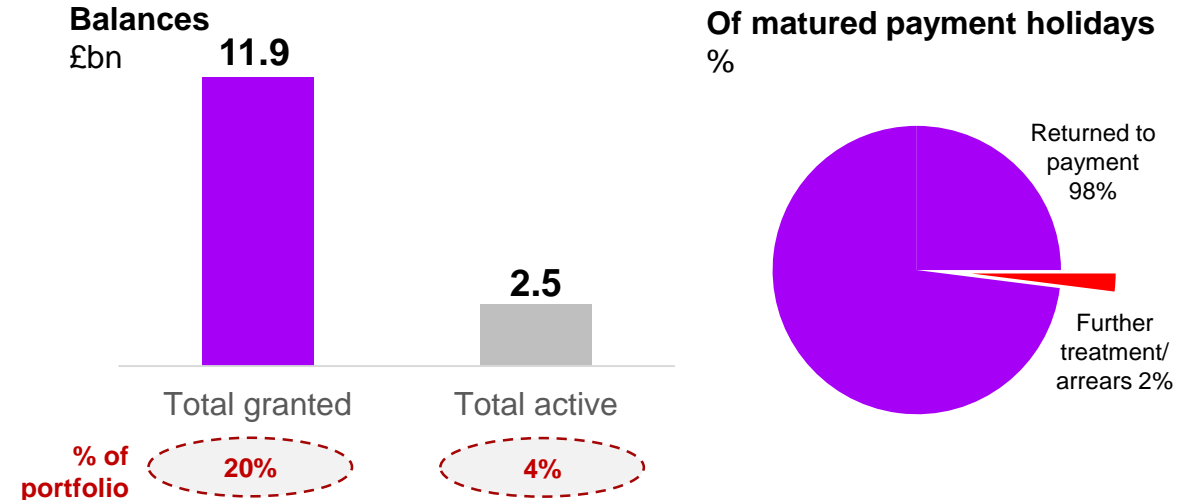
Owner-occupied (75%)

- Average LTV is 58%; only 2% is >90% LTV
- Average LTI c.3.0x; only 6% >4.5x LTI

Buy-to-let (25%)

- Average LTV is 56%; max LTV of 80% for new lending
- Conservative rental and borrower income requirements

Payment holiday customers have largely returned to paying



Payment holidays: c.67k granted to date at 30-Sep

- Average LTV of all payment holiday customers 61% vs 57% for overall portfolio
- Only 2% of customers maturing from payment holiday are currently in arrears or require further treatment; average LTV of 52% for those in arrears/further treatment
- Coverage ratio for those in arrears/further treatment of c.300bps vs 23bps for overall book

Business: key sectors performing in line with expectations

c.£7.8bn BAU book 78% in least and lower-impacted sectors

Key drivers of uncertainty into 2021

BAU

<p>Least exposed £3.7bn 47%</p>	<ul style="list-style-type: none"> • Agriculture, Food & Drink: Resilient performance; strong collateral • Healthcare & social housing: Some operational issues but resilient revenues and performance to date • Utilities (incl. renewables): Stable, strong PDs 	<ul style="list-style-type: none"> • Brexit: Terms of UK exit remains an important driver for sectors like agriculture and food & drink • COVID-19: Operational implications on Healthcare
<p>Lower-impacted £2.4bn 31%</p>	<ul style="list-style-type: none"> • Wholesalers, Professional practices: Moved from least exposed due to higher Government-scheme lending requests • Specialist hotels: Professional equity backed, prime-location • Other: Diverse includes cost-flexible manufacturers & Transport 	<ul style="list-style-type: none"> • Hotel sector: Easing of travel restrictions into 2021 remains uncertain • Wholesale trade in goods & services: Pace of return represents a key driver
<p>More exposed £1.0bn 13%</p>	<ul style="list-style-type: none"> • Business services: Higher levels of Government scheme lending; good access to borrowing & private equity over H2 • Legacy property (historic CRE): Remain smaller & well-collateralised; continued low arrears; only 3% of total portfolio 	<ul style="list-style-type: none"> • Pace of recovery: Speed of recovery in business activity is the key revenue-driver • Real-estate market: Extent of structural changes impacting market
<p>Higher impacted £0.7bn 9%</p>	<ul style="list-style-type: none"> • Retail: Substantial Government support being provided; exposed to further lockdowns • Legacy hospitality & Entertainment: Operationally challenged, but significant government support at present 	<ul style="list-style-type: none"> • Lockdown exit: sectors remain exposed to speed of recovery in activity levels and whether any further lockdowns are implemented
<p>Govt. scheme lending £1.2bn</p>	<ul style="list-style-type: none"> • BBLs: £0.8bn lent; 2/3rds to previously deposit-only customers • CBILs/CLBILs: £0.4bn c.89% to existing lending customers • As would expect, sector skew is to more exposed / higher impacted 	<ul style="list-style-type: none"> • Debt management: Uncertain response once payments due: better placed SMEs may repay in full or begin payments, others may default • Liabilities impact: c.80% of loans remain on deposit, but may unwind as businesses potentially begin to use liquidity.

Credit Cards: asset quality & origination discipline maintained

High quality cards book (£4.1bn): well positioned for uncertainty

- Arrears declined to 0.8% vs industry¹ of 1.6% benefitting from support measures; BT arrears of 0.7%; non-BT arrears of 1.0%
- Upper-end of mass market customers; no credit impaired or CCJs; c.80% originated post-2015 with prudent underwriting
- Balance transfers now c.68% of cards portfolio; c.12% maturing from promo periods in next 6 months
- Low risk appetite reflected through higher customer acquisition cut-offs; higher indebted/ lower affluence declined, and cut-offs tightened on self employed
- Affordability tested for stressed income on fully drawn line at 33.9% APR

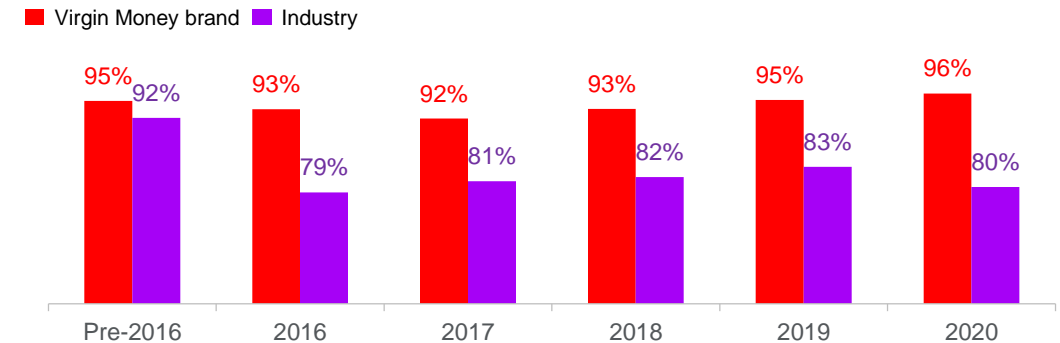
Credit cards customer profile

	VM ²	Industry average ³
Average customer age	42	
Average income	£41k	
% homeowners	70%	
% self-employed	9%	
% debt to income	22%	31%
% persistent debt	3.5%	5%

Strengthened originations; defensive high-quality BT-led book

High quality origination: via prudent underwriting standards

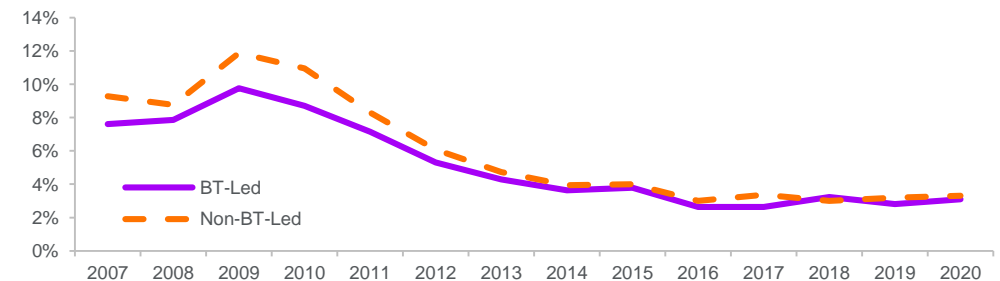
% accounts in higher quality segments (with <2.5% expected unit loss rate) by acquisition year



Source: Industry data Verisk Financial | Argus. Jan-Sep 20; Industry comparators covering c.90-95% of the UK cards market and verified vs. UK Finance published figures

BTs perform better: balance transfer cards seen lower losses

Industry % charge-off rate by credit card type 2007 to 2020



Source: Industry data Verisk Financial | Argus. Jan-Sep 20

¹ Arrears defined as 2+ cycles past due; Industry data Verisk Financial | Argus. Jan-Sep 20;

² Customers originated through VM brand since 2015; persistent debt reflects VMUK portfolio

³ Sources: TUC and Verisk Financial | Argus

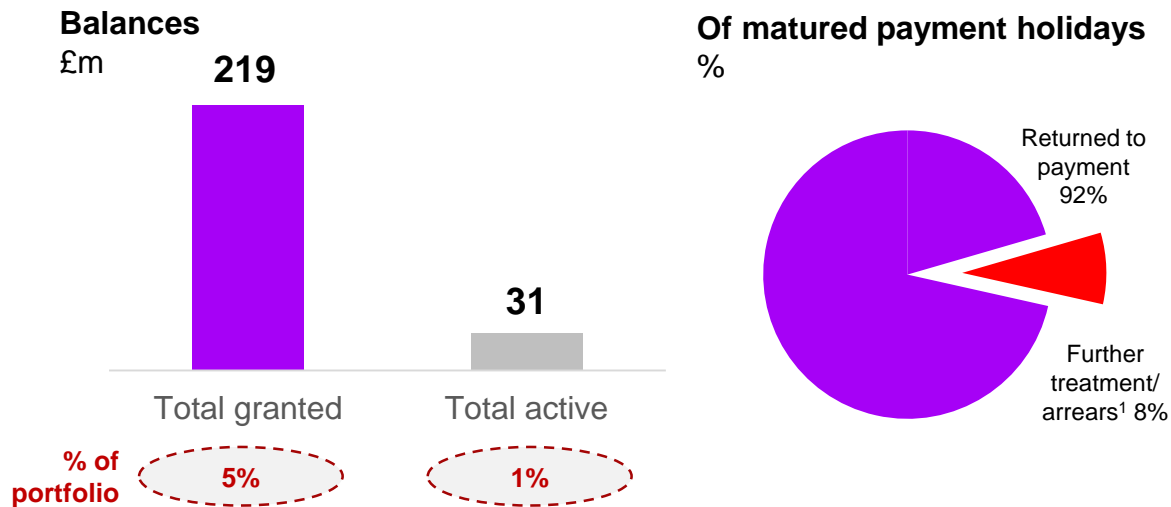
Personal: resilient quality supported by payment holidays

Cards: Early payment holiday experience demonstrates quality

- Economic Vulnerability tools have identified customers likely to have low financial resilience and been provided with proactive support where needed
- Lower proportion of payment holiday requests from balance transfer customers relative to the overall book

Payment holidays: c.46k granted to date at 30-Sep

- Payment holiday coverage at 20% vs 5.4% overall book

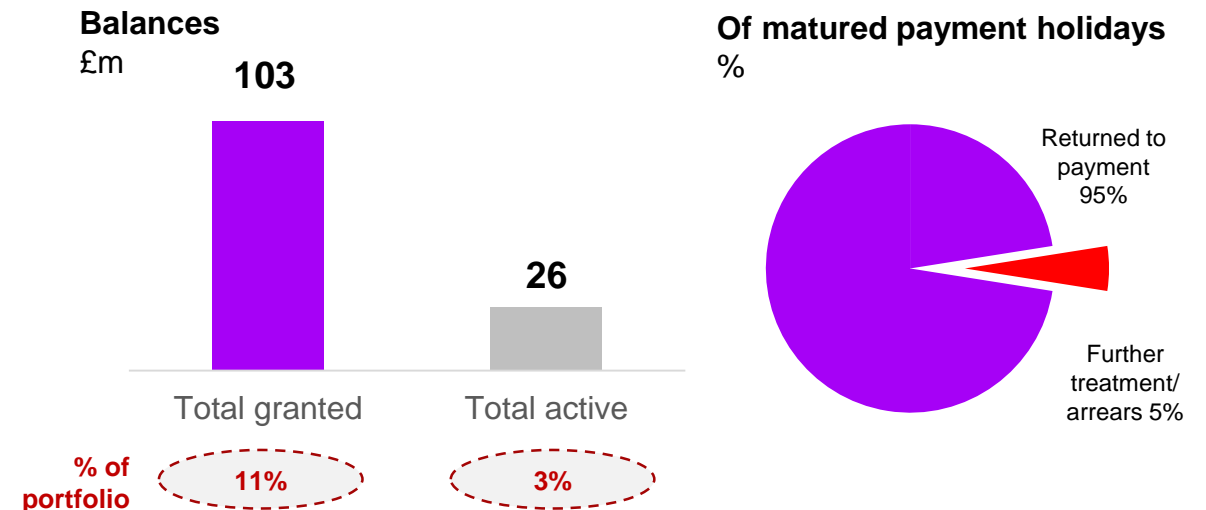


Personal: Encouraging early payment holiday exit levels

- Further tightened cut-off criteria, reduced appetite in potentially lower resilience segments i.e. self-employed, higher indebtedness
- Strong customer profiles (75% homeowners, low self employed, higher average income levels)
- Portfolio arrears at 0.4% >90 DPD (FY19: 0.6%)

Payment holidays: c.12k granted to date at 30-Sep

- Payment holiday coverage at 19% vs 8.2% overall book²



Conservative IFRS 9 economic scenarios & weightings...

Increased conservatism in economics and weightings...

1. Conservative economic assumptions

2. Downside probabilities

3. Supplemented by expert judgment

1. Updated IFRS9 models with conservative economic scenarios

- Updated IFRS9 models with updated Oxford Economics scenarios
- Used more conservative assumptions:
 - Sharper GDP fall, muted recovery;
 - Elevated unemployment;
 - More severe HPI decline

2. Probability weightings prudently skewed to downside

Q3 Weightings

Recovery 30%

Pandemic Shock 30%

Pandemic Sustained 40%

FY Weightings

Upside 5%

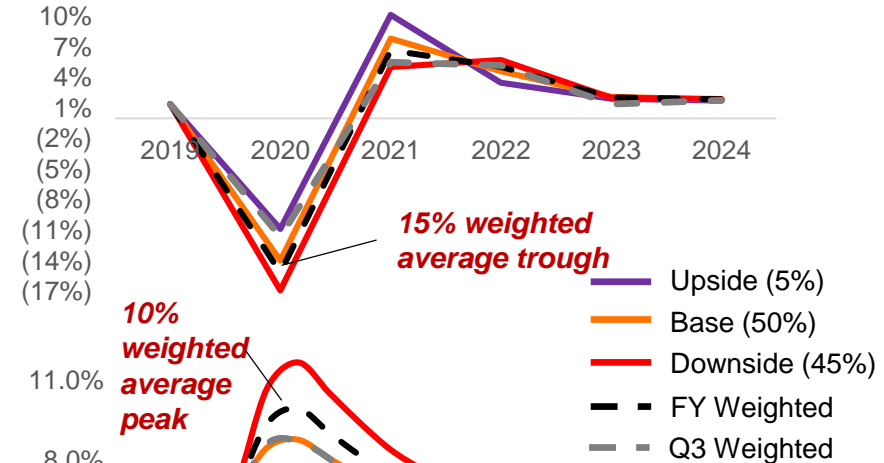
Base 50%

Downside 45%

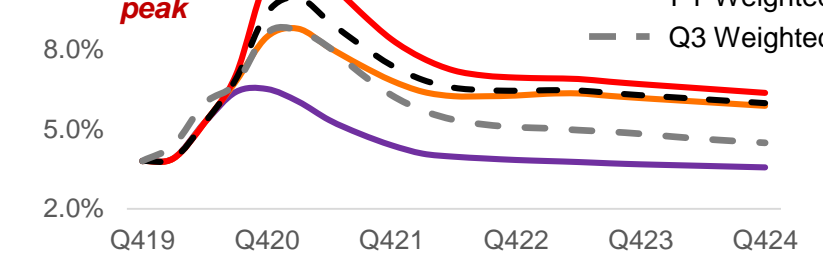
95% weighted to materially weaker economics

....drives prudent weighted average economic assumptions

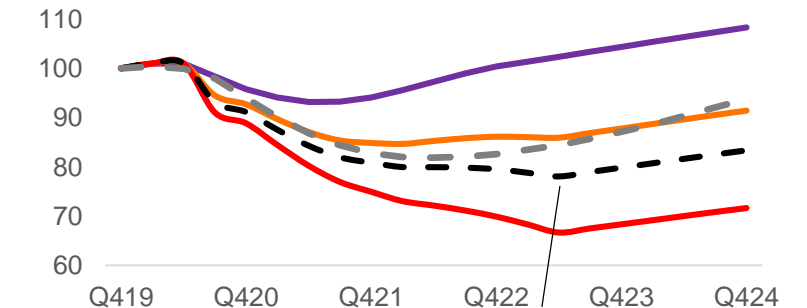
GDP
Annual change %



Unemployment
% at quarter end



House price index
Index at quarter end



Source: Oxford Economics

c.22% weighted average peak to trough 14

...with further prudence applied via post-model adjustments

Conservative modelled ECL supplemented by PMAs

1. Conservative economic assumptions

2. Downside probabilities

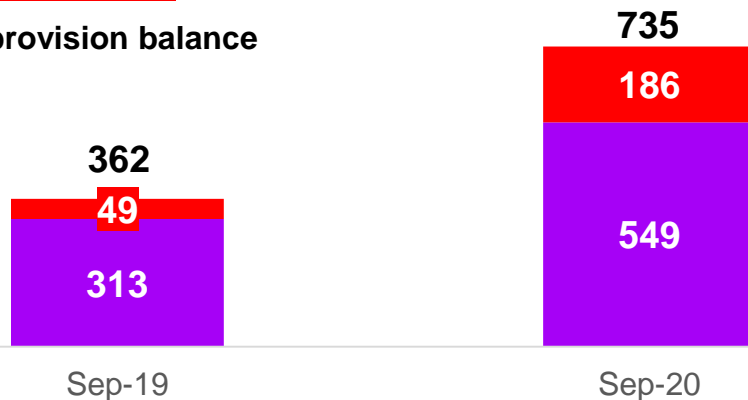
3. Supplemented by expert judgment

3. Refreshed post model adjustments reflect latest experience and credit risk judgment

Post model adjustments are used to incorporate risks not fully captured in models or inputs:

- Expert credit judgment on specific cohorts
- PMAs assessed for Mortgages £75m and Personal £111m; No PMAs held for Business
- Payment holiday implications drove a £43m increase on Mortgages & £23m on Personal
- Difficult-to-model elements like impact of roll-off of unprecedented Government support

Credit provision balance
£m



■ Modelled and individual ECL

■ Post model adjustments

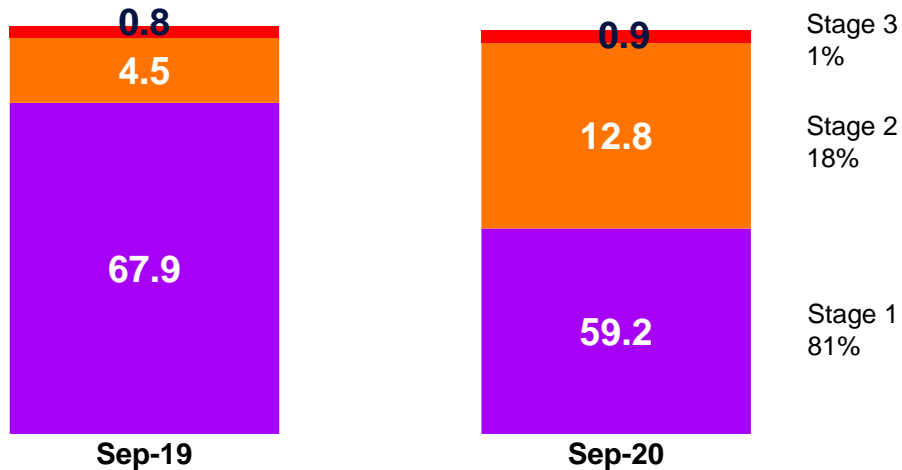
Risk appetite prudently tightened on new lending

- Tightened originations raising credit cut-offs on unsecured further from previously conservative levels
- Reduced new-to-bank originations on perceived less resilient cohorts given evolving environment
- BAU business lending focused on larger cash-generative businesses
- Continue to position conservatively given outlook and Brexit outcome impacts
- Operationally prepared for tougher environment

Economic modelling is main driver of stage 2 increases

Model & PMA driven increase in stage 2; stable stage 3

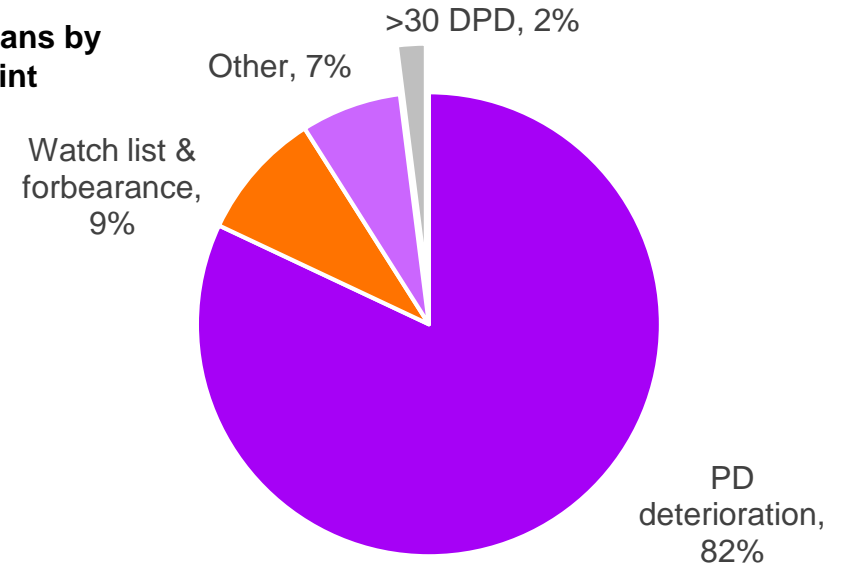
Gross loans and advances
£bn



- IFRS9 model updates & PMAs drove £8.3bn of stage 2 increase in FY20:
 - Mortgages – Increased £6.4bn or 76% of total
 - Business – Increased £1.5bn or 19% of total
 - Personal – Increased £0.4bn or 5% of total
- Business now 44% in stage 2 (FY19: 30%); includes the early-adoption of EBA requirements to retain forbore loans in stage 2 for a minimum of 2 years.

Economic-related PD migration drove bulk of stage 2 increase

Stage 2 loans by
trigger point
%



- PD deterioration: Primary driver of stage 2 increase given greater prudence in model outputs and overlays
- Forbearance & watch list balances primarily reflect actions taken in Business banking
- Arrears & credit performance on stage 2 balances remain resilient to date with no material change in asset quality

Increased coverage levels across all portfolios

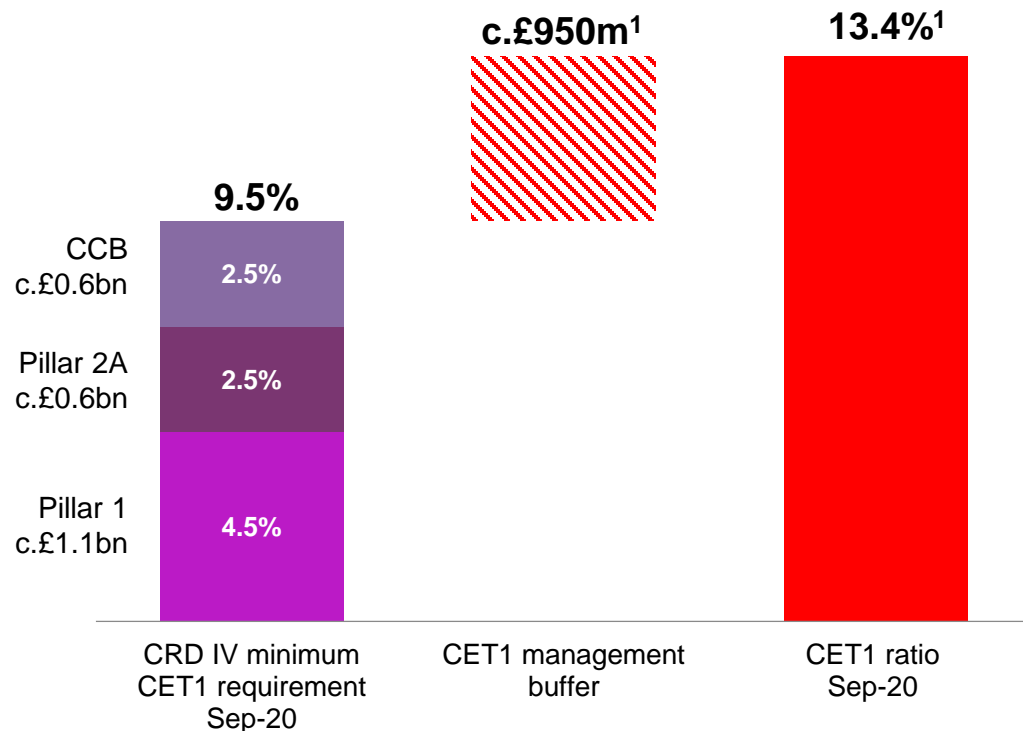
Considerable on-balance sheet provisions; limited write-offs to date

	Jun-20 ECL	Jun-20 Coverage Ratio	Sep-20 Gross Loans	Sep-20 ECL	Sep-20 Coverage Ratio	FY20 Cost of Risk
Mortgages	£81m	14bps	£58.6bn	£131m	23bps	16bps
Personal	£249m	490bps	£5.6bn	£301m	591bps	423bps
<i>o/w cards</i>	<i>£208m</i>	<i>509bps</i>	<i>£4.5bn</i>	<i>£222m</i>	<i>537bps</i>	<i>355bps</i>
<i>o/w loans & overdrafts</i>	<i>£41m</i>	<i>413bps</i>	<i>£1.1bn</i>	<i>£79m</i>	<i>824bps</i>	<i>721bps</i>
Business	£254m	321bps	£8.7bn	£303m	391bps*	212bps
Total	£584m	79bps	£72.9bn	£735m	102bps	68bps

- Conservative economics and weightings increases coverage across all portfolios to 102bps in total:
 - **Mortgages:** coverage increased to 23bps primarily driven by higher stage 2 balances as a function of conservative economics
 - **Personal:** coverage increased to 591bps primarily driven by provision overlay increases in loans and overdrafts
 - **Business:** increased to 391bps driven by further conservatism in model assumptions
- Cost of risk is expected to remain elevated due to challenging economic environment but expect FY21 to be lower than FY20 level, subject to no material further deterioration in the economic outlook

Capital levels remain robust – well positioned into 2021

Continue to hold a significant CET1 buffer vs reg. requirement



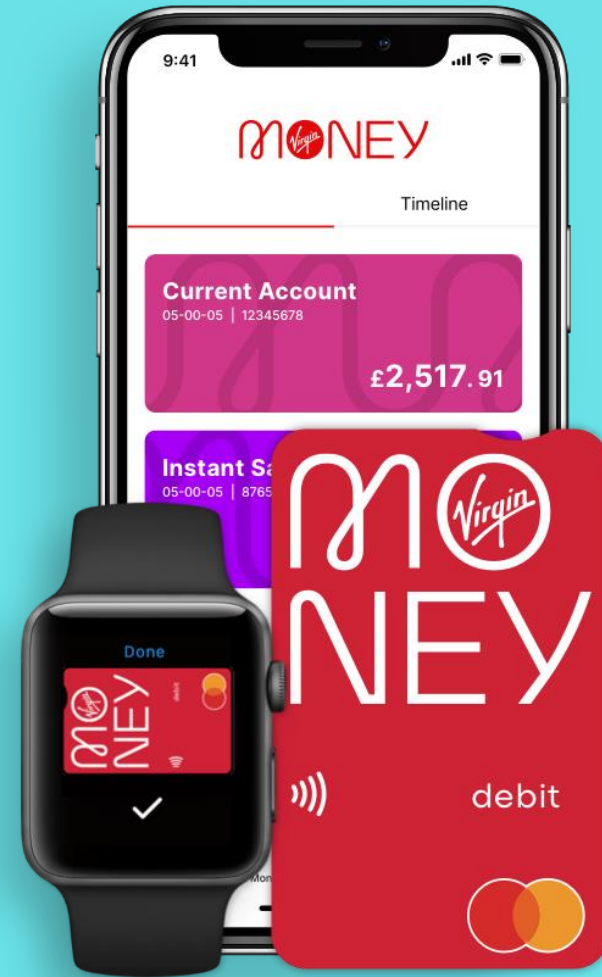
Resilient CET1 ratio including transitional relief

- Significant c£950m CET1 management buffer relative to CRDIV minimum requirement (also MDA)
- Stable transitional CET1 ratio of 13.4%; fully loaded CET1 ratio declined 70bps to 12.2% reflecting increased impairments
- Limited migration to stage 3 to date; not expected to commence until Government & other support measures roll off in 2021
- Difference between transitional and fully loaded CET1 ratios is expected to narrow somewhat in 2021 subject to economic conditions

Financial Results

ENDA JOHNSON

Interim Chief Financial Officer



Underlying profit impacted by significant impairment provision

Underlying P&L (pro forma basis)	12 months to	12 months to	Change
£m	30 Sep 2020	30 Sep 2019	FY20 vs. FY19
Net interest income	1,351	1,433	(6)%
Non-interest income	191	206	(7)%
Total operating income	1,542	1,639	(6)%
Total operating and administrative expenses	(917)	(947)	3%
Operating profit before impairment losses	625	692	(10)%
Impairment losses on credit exposures	(501)	(153)	(227)%
Underlying profit before tax	124	539	(77)%
Net Interest Margin (NIM)	1.56%	1.66%	(10)bps
Cost of risk	68bps	21bps	47bps
Underlying cost-to-income ratio	59%	57%	(2)%pts
Underlying Return on Tangible Equity (ROTE)	0.6%	10.8%	(10.2)%pts
Underlying Earnings Per Share (EPS)	1.4p	28.1p	(26.7)p

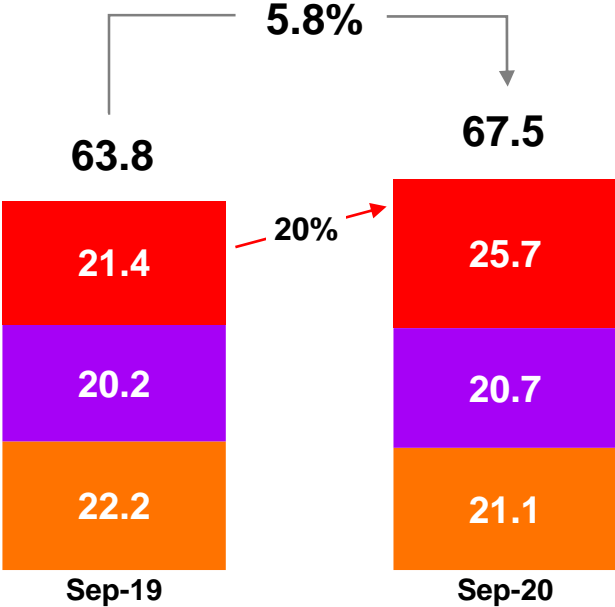
Substantial reduction in exceptional items with no PPI charge

Statutory P&L (pro forma basis)	12 months to	12 months to	
£m	30 Sep 2020	30 Sep 2019	Comments
Underlying profit before tax	124	539	
Exceptional items			
- Integration & transformation costs	(139)	(156)	• Delayed H1 restructuring activity restarted in Q4
- Acquisition accounting unwinds	(113)	(87)	• Includes impact of reclassified FV unwind noted at H1
- Legacy conduct costs	(26)	(433)	• 2020 charge reflects non-PPI other conduct matters
- Other items	(14)	(128)	• 2020 charge includes ASI JV and RBS switching costs
Total exceptional items	(292)	(804)	
Statutory loss before tax	(168)	(265)	
Statutory loss after tax	(141)	(179)	
Tangible Net Asset Value (TNAV) per share	244.2p	249.2p	

Strong funding position; COVID-related deposit growth

Growth in relationship deposits, mix well managed

Customer deposit balances
£bn

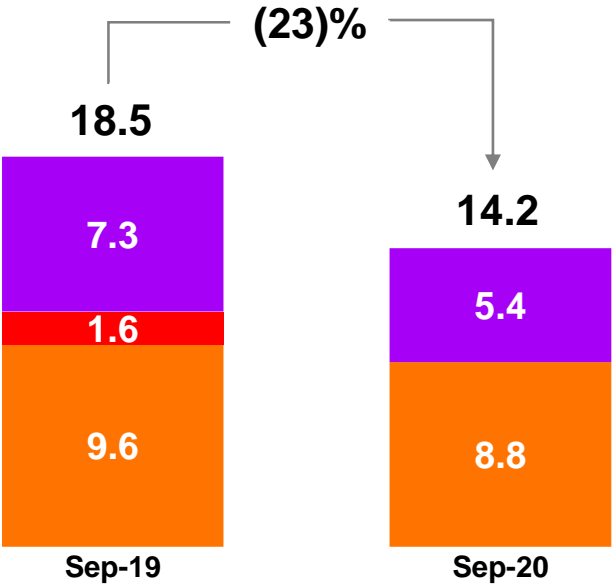


Cost (bps)	98	90
LDR	114%	107%

■ Term deposits ■ Non-linked savings ■ Relationship deposits

Retain funding flexibility and managing wholesale mix

Wholesale funding balances
£bn

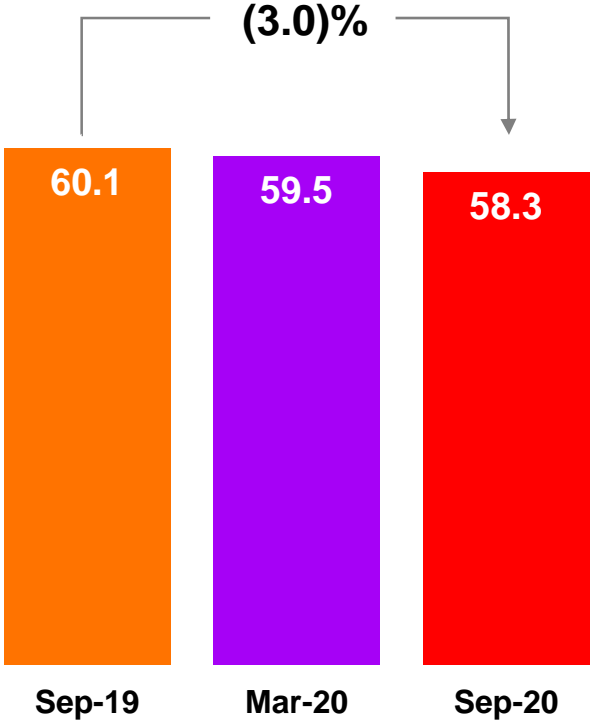


Cost (bps)	148	142
TFS (% of lending)	10%	7%

■ Debt securities ■ Due to other banks ■ TFS/TFSME

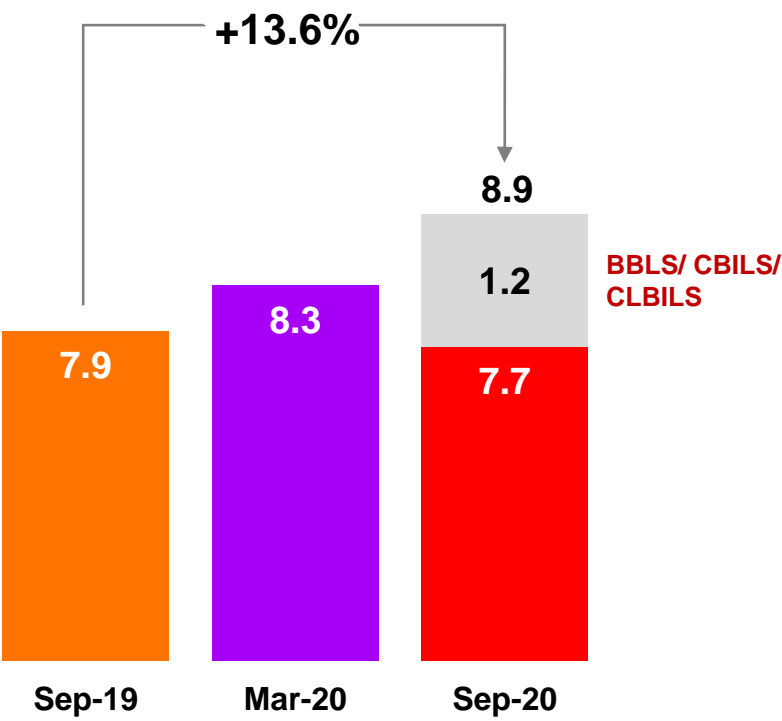
Lending balances reflect COVID-19 impacts

Mortgages £58.3bn



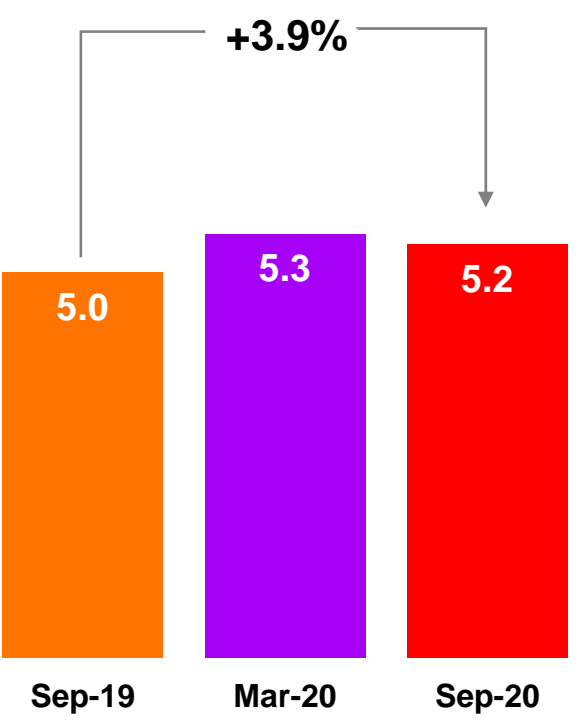
Continue to be selective in pricing focusing on margin over volumes

Business £8.9bn



YoY growth solely driven by Government-guaranteed lending in H2

Personal £5.2bn

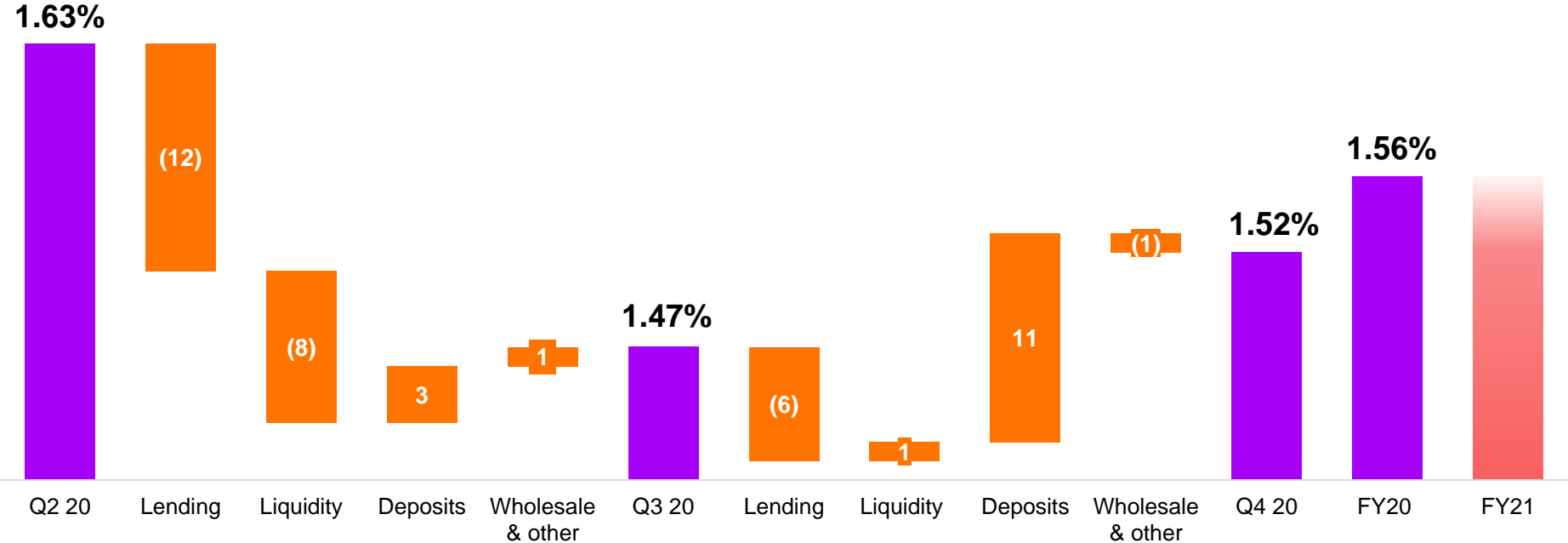


Resilient balances in high quality Virgin Money credit card portfolio

FY20 NIM in line with guidance; expect broadly stable in FY21

Q4 20 margin recovered as expected due to base rate cut deposit repricing; FY21 NIM expected to be broadly stable

NIM evolution
(bps)



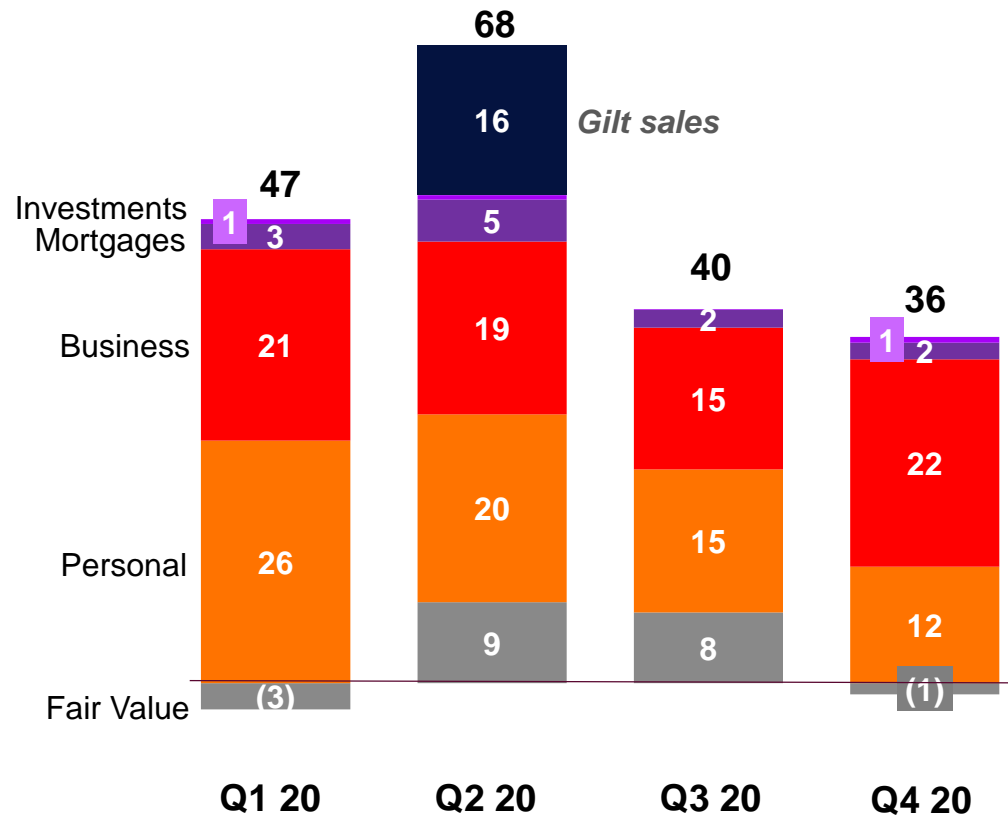
Broadly stable FY21 NIM vs FY20 level, based on current economic outlook and rate expectations

Subdued H2 non-interest income reflecting lower activity

Subdued H2 non-interest income with lower Personal fees...

...expected to remain subdued in FY21

Non-interest income
£m

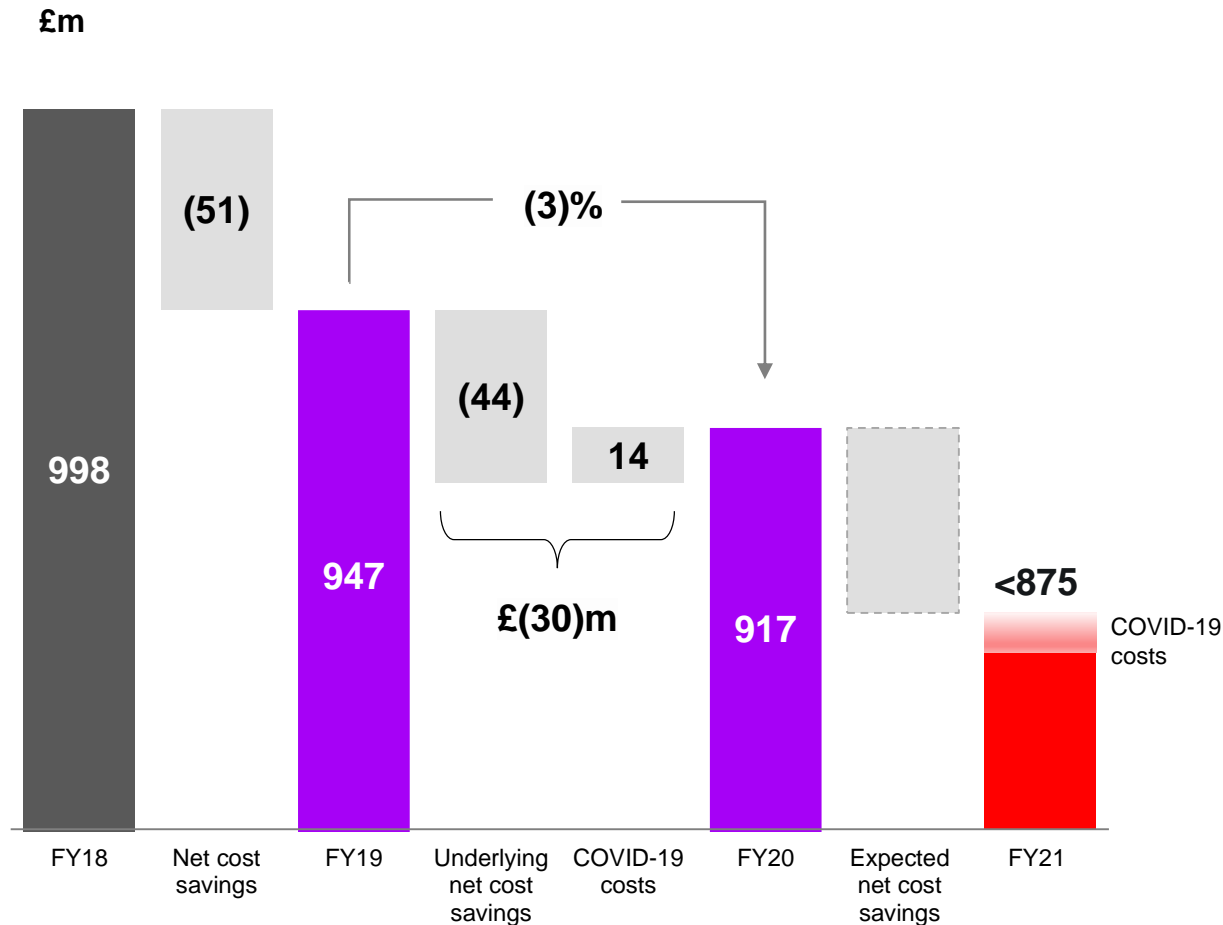


- Lower personal income driven by structural impact of 'high cost of credit review' and lower activity based credit card transaction fees
- Business fees declined in Q3 owing to lower activity levels, with Q4 boosted by a one-off £4m gain in relation to a growth finance business sale participation fee
- Mortgage income declined in H2 as lockdown impacted activity levels and associated insurance policy income
- H1 Sale of gilts at attractive market levels; proceeds reinvested into other high-quality liquid assets
- Rebased ASI JV income levels expected to build slowly in time
- Aligned to conservative economic assumptions, currently expect non-interest income to remain subdued in FY21

Delivered on cost reductions despite transformation pause

£30m of net cost savings delivered despite COVID costs...

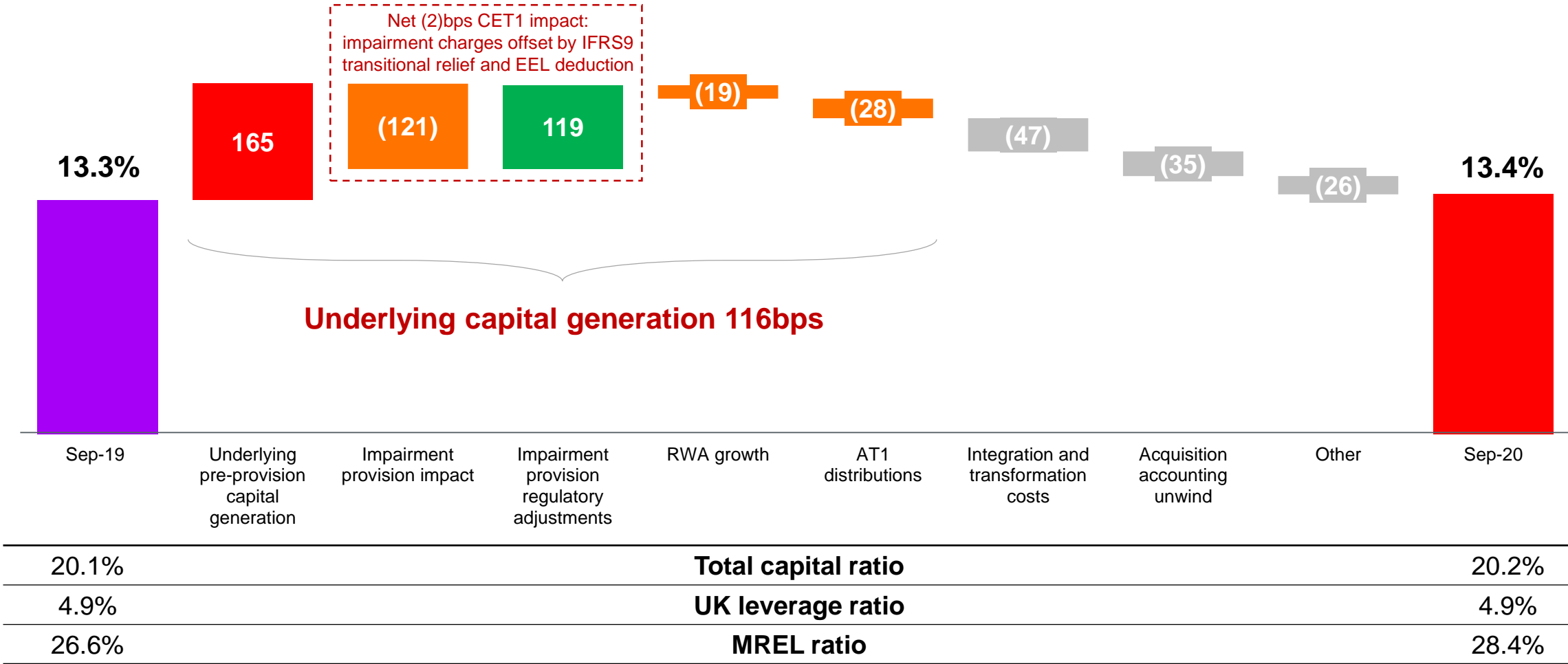
...with good progress on our efficiency initiatives



- 2020 costs benefitted from previous actions taken on costs despite delaying delivery of some of our planned 2020 cost initiatives
- Incurred c.£14m of incremental, unplanned COVID-19 costs during 2020 including payment holiday / Government-backed loan scheme system investments, customer service resource costs and home office equipment
- Restarted Transformation programme delivery in July with run-rate savings to support 2021 cost reductions
- Anticipate incurring a further c.£10-15m of ongoing COVID-19 related costs in 2021
- Expect to spend c.£75m of Integration and Transformation costs in 2021 to deliver ongoing programmes and complete re-branding

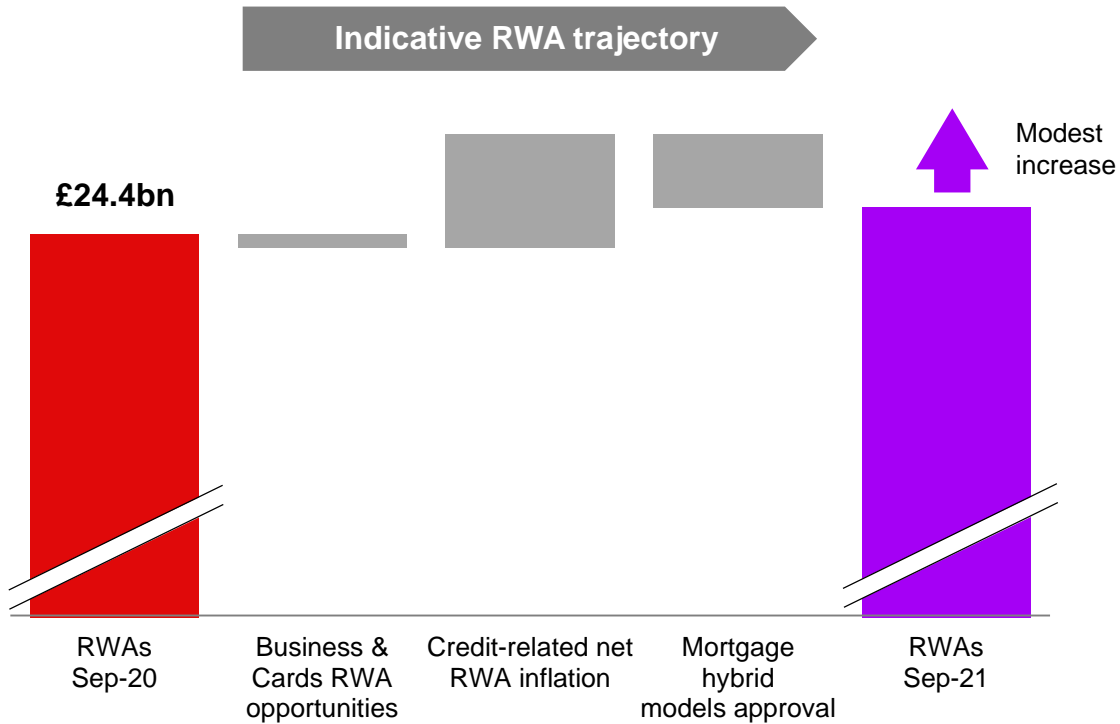
Capital generation offset by exceptional items

CET1 ratio evolution (bps)



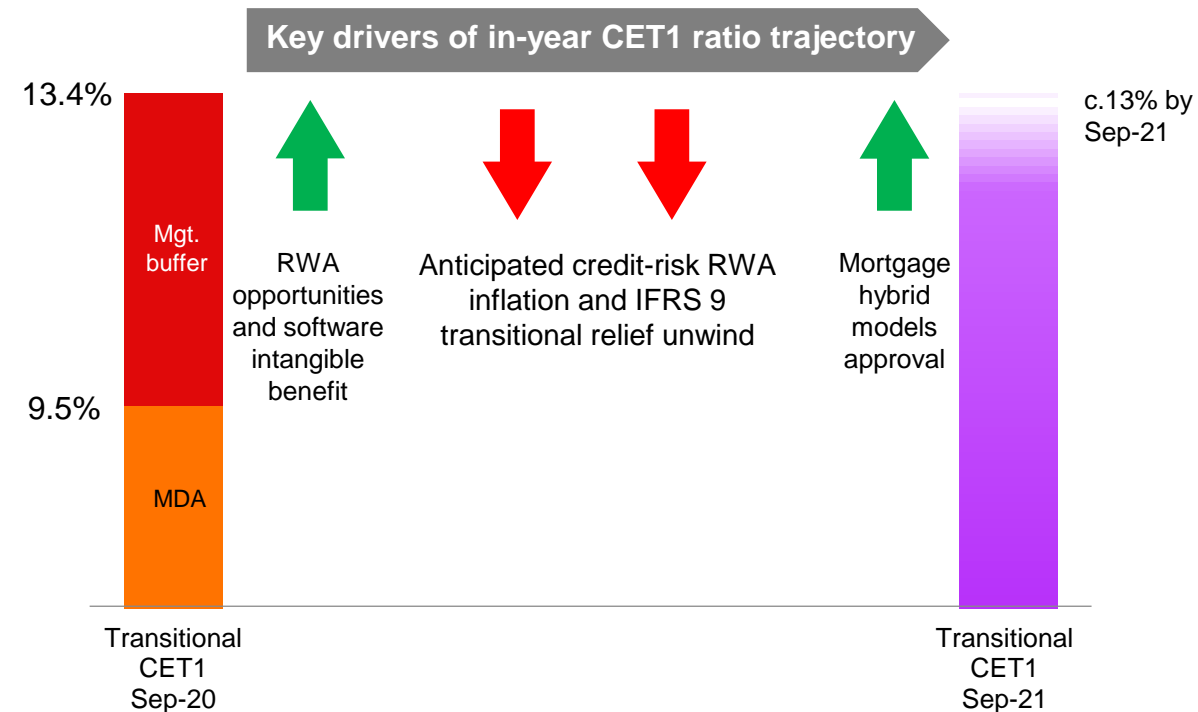
2021 RWA & capital position subject to economic developments

Credit RWA inflation partially mitigated by RWA opportunities



- Credit RWA inflation expected in FY21 as Government support recedes; timing and impact is subject to economic conditions
- RWA opportunities partially offset credit-related RWA inflation:
 - Business model updates and Credit Cards IRB expected H1
 - Mortgage hybrid models approval expected next summer
 - All initiatives remain subject to PRA approval

Expect to maintain significant CET1 buffer above MDA through FY21



- Credit RWA inflation & IFRS 9 transitional relief unwind impact in FY21
- Assuming no further material deterioration in the economic outlook we expect this to be broadly offset by:
 - EBA software intangible capital benefit of c.40bps by Dec-20
 - RWA opportunities in Business and Credit Cards
 - Implementation of Mortgage hybrid models once approved

Guidance and medium term outlook

FY 2021 guidance

NIM	Broadly stable vs FY20 level
Costs	<£875m inclusive of c.£10-15m of COVID-19 costs
Cost of risk	Lower than FY20 level

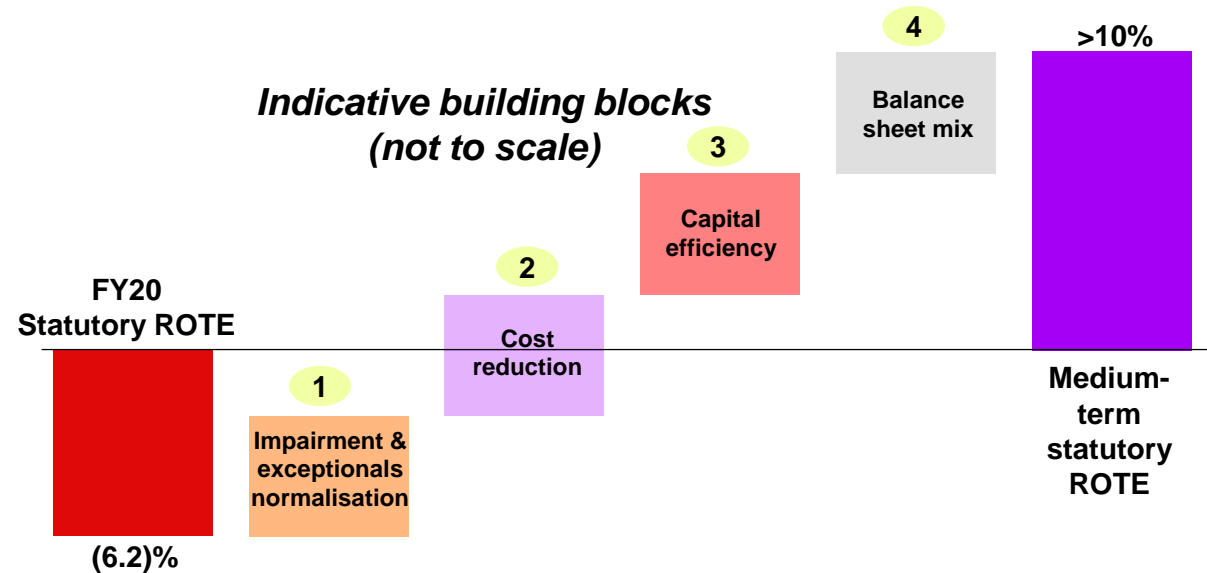
Opportunities

- Pace of economic recovery
- Mortgage spreads
- Deposit repricing
- Improved customer spending
- Steepening yield curve

Risks

- Interest rate outlook
- Macroeconomic deterioration
- Brexit impacts

Expect to deliver a double digit statutory RoTE in the medium term



Note: assumes no significant further deterioration in expectations for the economic outlook or change in interest rates

- 1. Impairment & exceptional cost normalisation:** anticipate 2020 to be peak of impairment charges and exceptional costs to reduce over time
- 2. Cost reduction:** significant opportunity to reduce costs further through digitisation and leveraging the evolving operating model to become more efficient
- 3. Capital efficiency:** executing on our RWA & capital efficiency opportunities
- 4. Balance sheet mix:** optimise our balance sheet mix over time through a more margin accretive lending mix and lower cost deposit and funding base

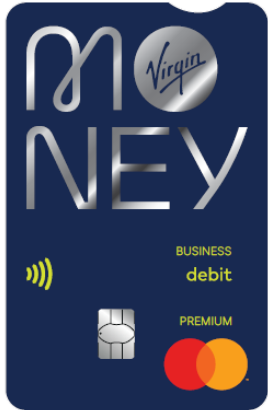
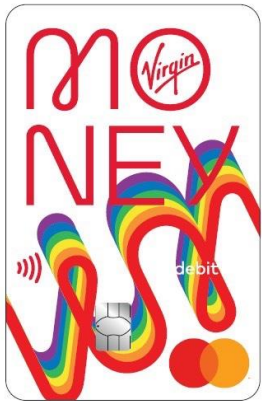
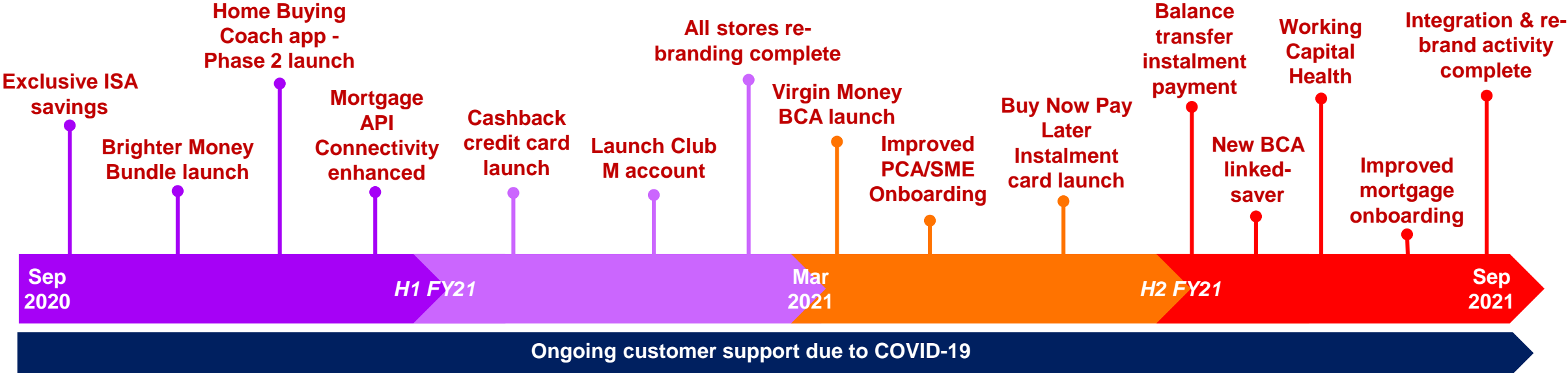
Outlook

DAVID DUFFY

Chief Executive Officer



2021 will see a year of exciting launches and rebranding

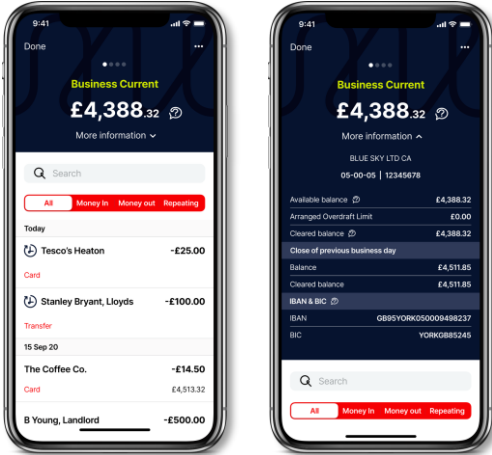


We intend to disrupt the UK business banking market

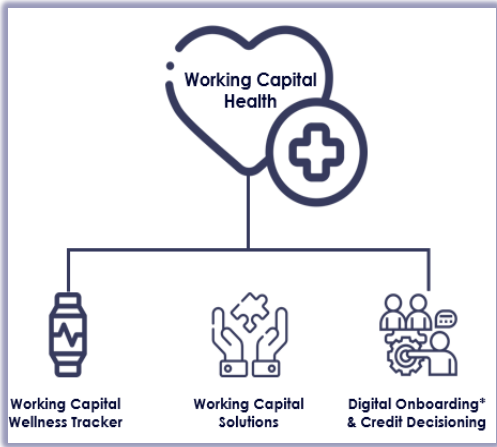
£35m BCR Capability & Innovation grant received – Virgin Money to match fund the investment



Launching a fully re-branded Virgin Money for Business current account with a striking new Premium Debit Card



Building a digital Fintech ecosystem to deliver innovative new services to support businesses banking needs

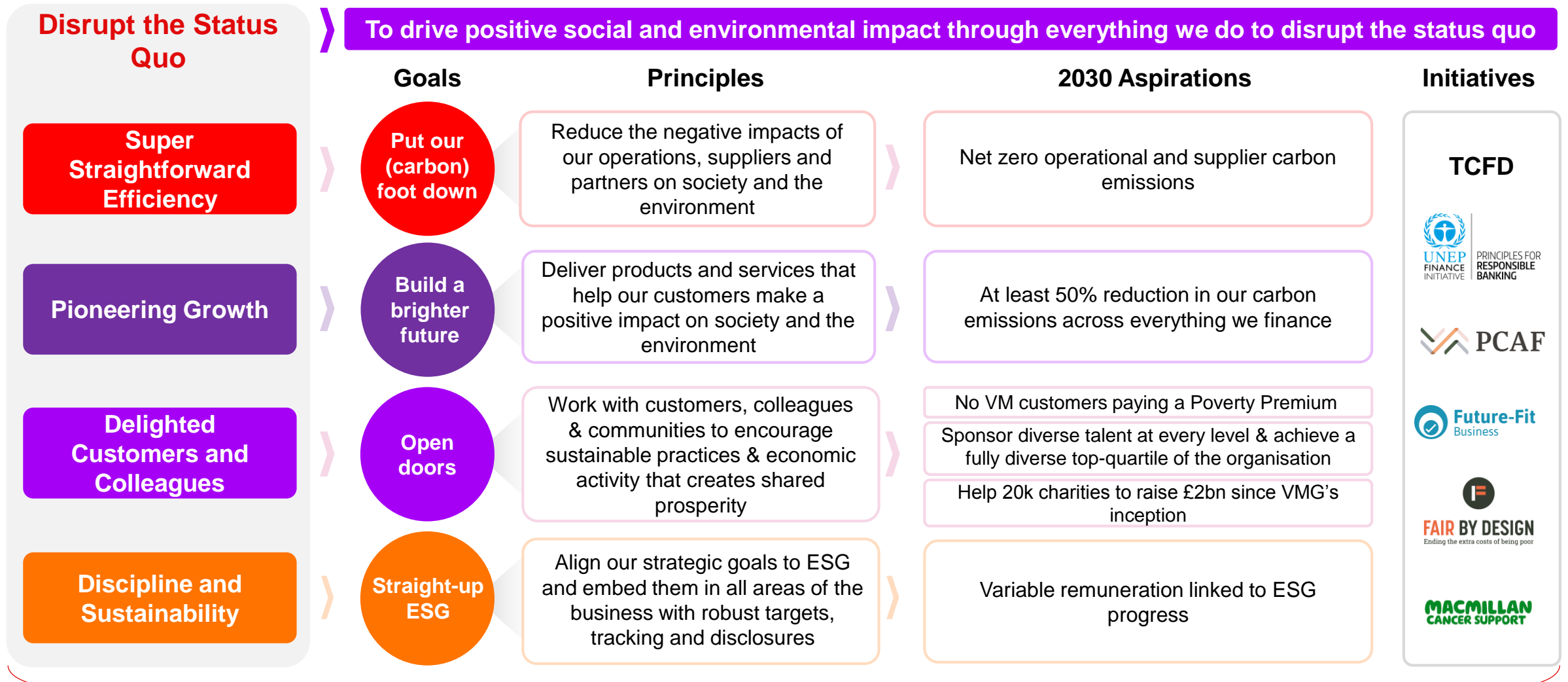


Introducing our innovative 'Working Capital Health' proposition in 2021



Harnessing the power of data & customer networks to improve digitised onboarding

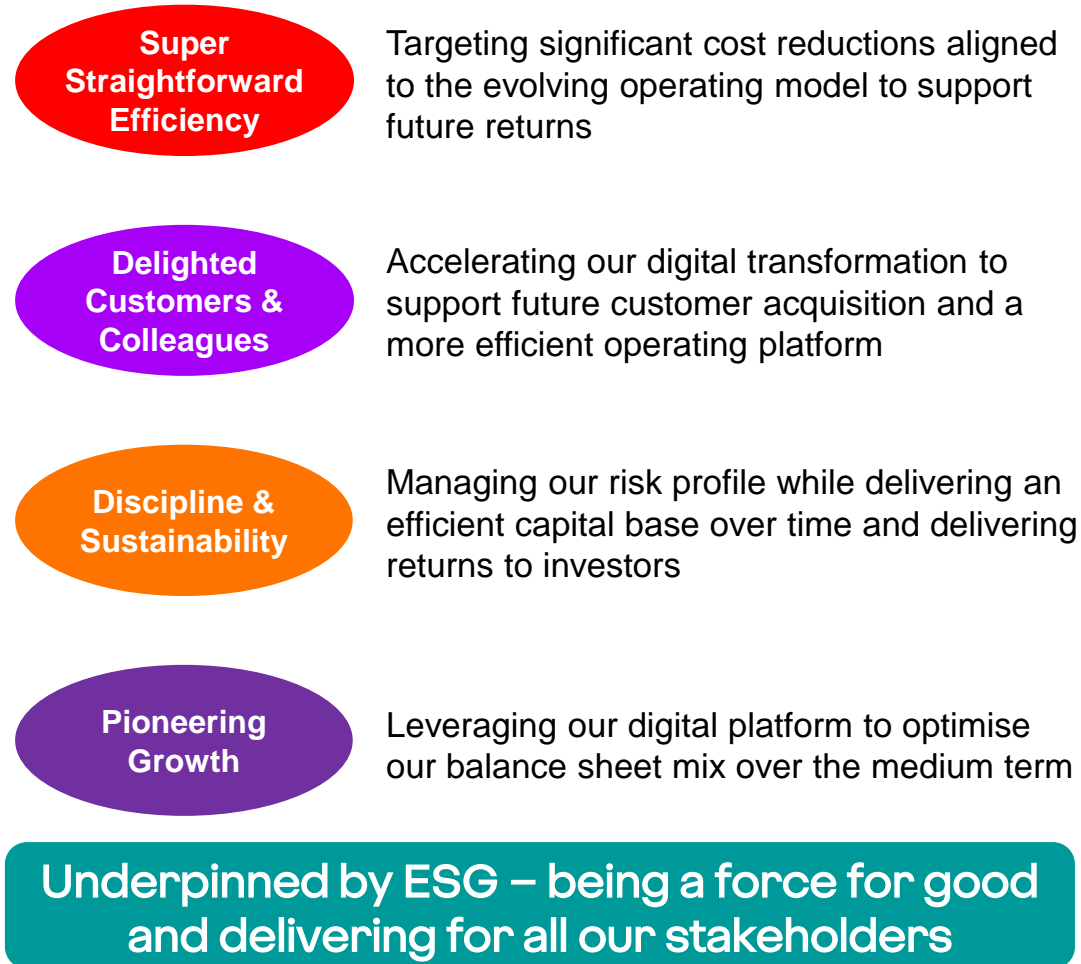
Strengthened our sustainability strategy to be a force for good



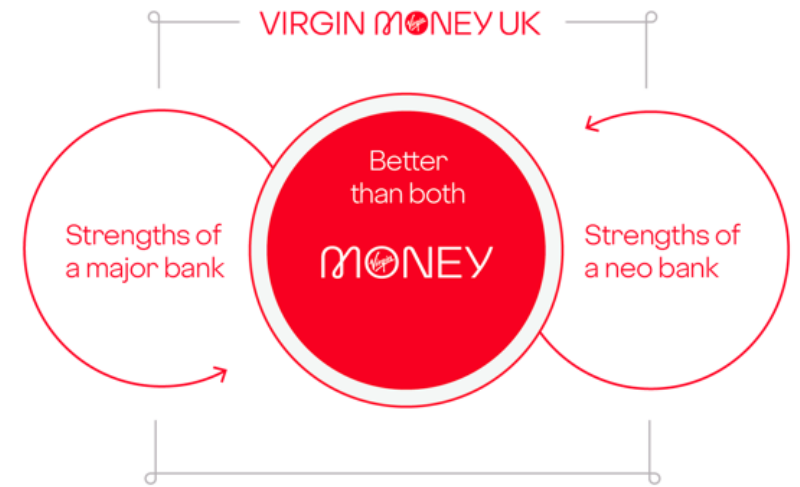
Delivering our strategy to create value

Delivering our strategy will create shareholder value...

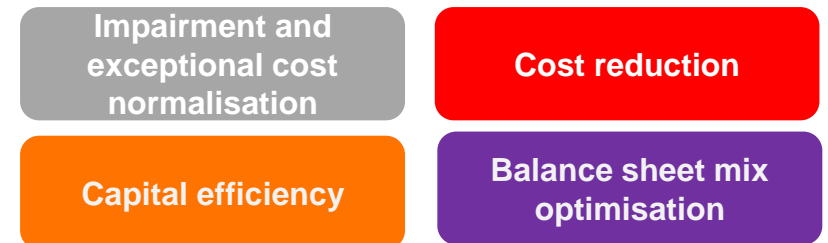
...delivering improved returns in the medium term



A differentiated business model...



...with clear drivers of returns improvement...



...to support our medium term ambition

Expect to deliver double digit statutory returns on tangible equity, assuming no significant further deterioration in expectations for the economic outlook or change in interest rates

Q&A

DAVID DUFFY

Chief Executive Officer

ENDA JOHNSON

Interim Chief Financial Officer

MARK THUNDERCLIFFE

Chief Risk Officer



Investor Relations Contacts

Andrew Downey

Head of Investor Relations

t: +44 20 3216 2694

m: +44 7823 443 150

e: andrew.downey@virginmoneyukplc.com

Richard Smith

Senior Manager, Investor Relations

t: +44 20 3216 2665

m: +44 7483 399 303

e: richard.smith@virginmoneyukplc.com

Martin Pollard

Investor Relations Manager

t: +44 191 279 5780

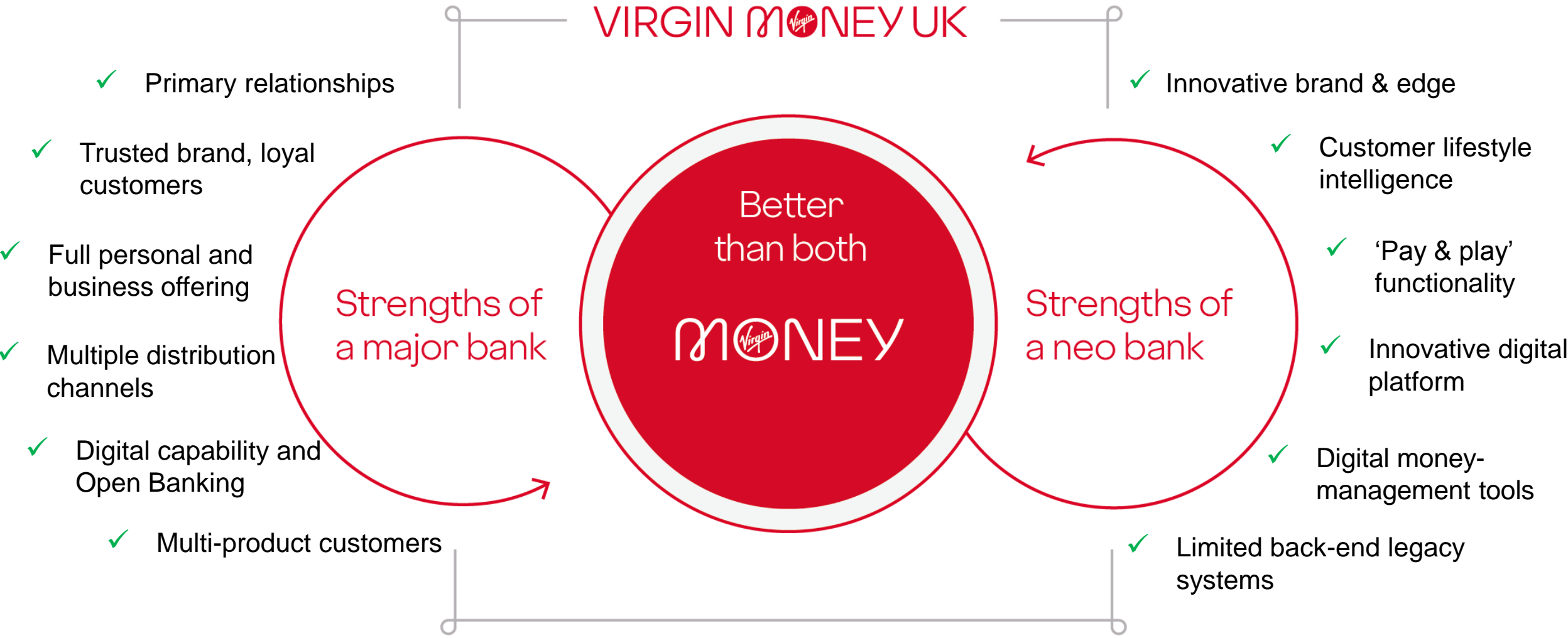
m: +44 7894 814 195

e: martin.pollard@virginmoneyukplc.com

Appendix



We are delivering the disruptive force in banking



IFRS 9 multiple economic scenarios

Scenario	Economic Measure	2020	2021	2022	2023	2024
Upside (5% weighting)	GDP (yoy %)	(10.8%)	10.2%	3.5%	1.9%	1.8%
	Unemployment (average)	5.5%	5.1%	3.9%	3.7%	3.6%
	House price growth (yoy %)	(4.2%)	(1.8%)	6.7%	4.0%	3.8%
Base (50% weighting)	GDP (yoy %)	(14.0%)	7.9%	4.6%	2.1%	1.8%
	Unemployment (average)	6.1%	7.8%	6.3%	6.3%	6.0%
	House price growth (yoy %)	(7.3%)	(8.5%)	1.5%	1.9%	4.1%
Downside (45% weighting)	GDP (yoy %)	(16.9%)	5.0%	5.7%	2.0%	1.9%
	Unemployment (average)	6.7%	10.0%	7.2%	6.8%	6.5%
	House price growth (yoy %)	(11.2%)	(15.6%)	(6.7%)	(2.2%)	4.8%
Weighted average	GDP (yoy %)	(15.1%)	6.7%	5.1%	2.1%	1.9%
	Unemployment (average)	6.3%	8.6%	6.6%	6.4%	6.1%
	House price growth (yoy %)	(8.9%)	(11.4%)	(1.9%)	0.2%	4.4%

Source: Oxford Economics

Balance sheet

£m

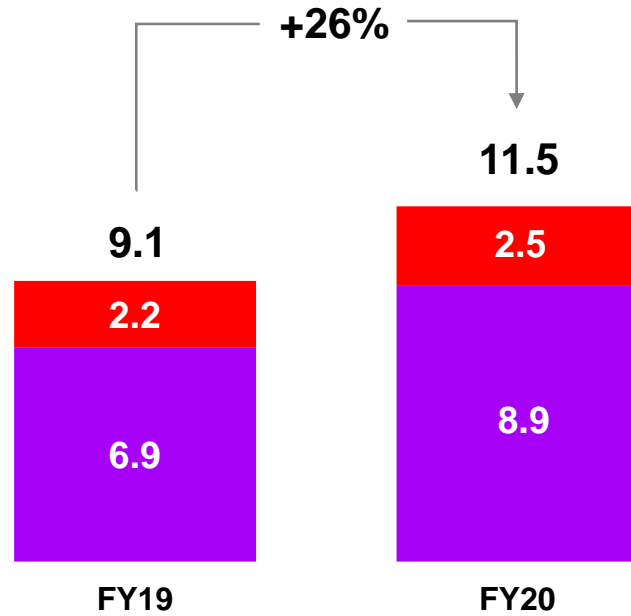
	at Sep 2020	at Sep 2019
Mortgages	58,290	60,079
Business	8,948	7,876
Personal	5,219	5,024
Total customer loans	72,457	72,979
Liquid assets and other	15,608	16,391
Other assets	2,194	1,629
Total assets	90,259	90,999
Customer deposits	67,511	63,787
Wholesale funding (excl. TFS / TFSME)	8,819	11,164
TFS / TFSME	5,408	7,342
Other liabilities	3,589	3,685
Total liabilities	85,327	85,978
Equity and reserves	4,932	5,021
Liabilities and equity	90,259	90,999

Relationship deposits - 2020

Businesses holding higher BCA balances for liquidity

Relationship deposit balances

£bn



Cost (bps)

31

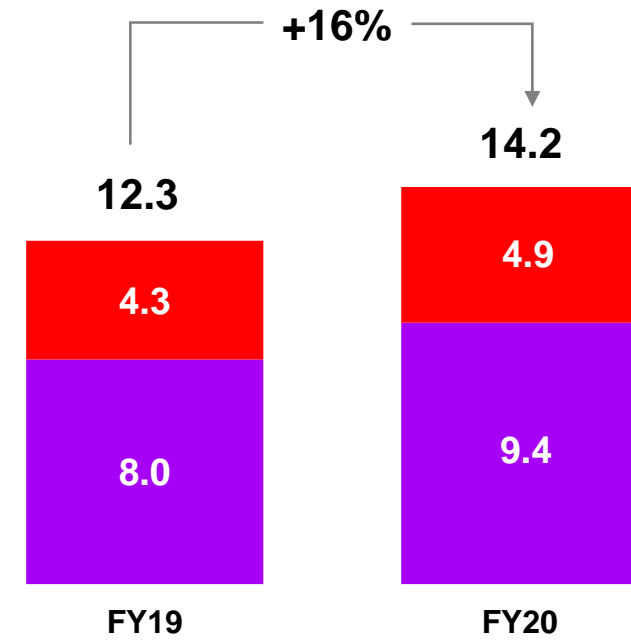
23

■ Business Current Accounts ■ BCA Linked Savings

Strong PCA and linked savings balance growth under lockdown

Relationship deposit balances

£bn



FY19

FY20

29

28

Cost (bps)

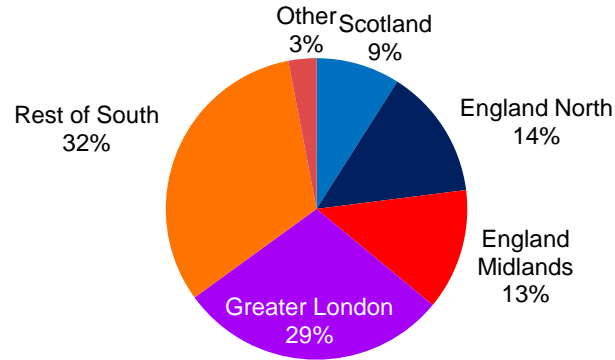
■ Personal Current Accounts ■ PCA Linked Savings

Balance outlook will in part depend on economic recovery and customer behaviour

Mortgage Lending – 2020

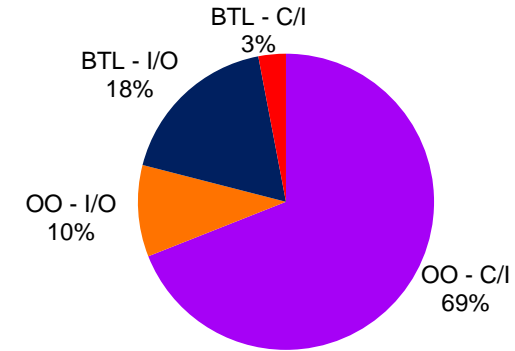
Mortgage lending location (1)

Stock of mortgage lending



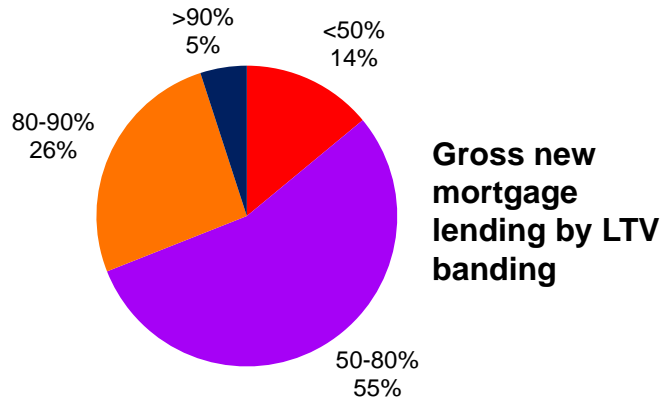
Repayment and borrower profile

Gross new mortgage lending



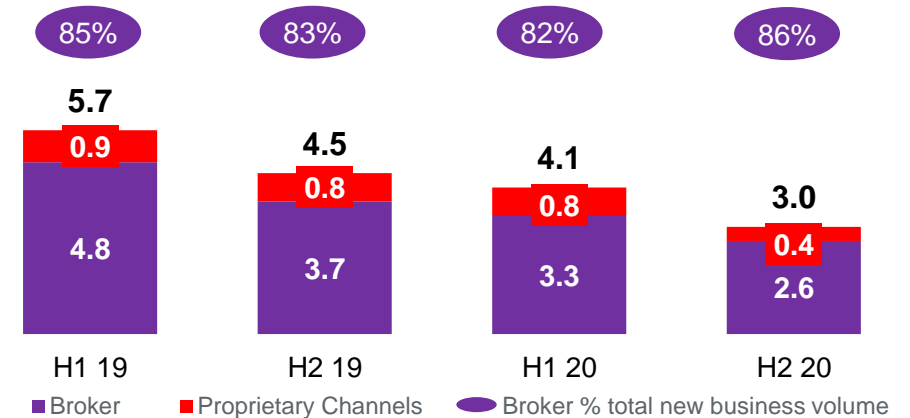
Loan-to-value of mortgage lending

- 57.3% average LTV of stock mortgage portfolio
- 69.9% average LTV of gross new lending



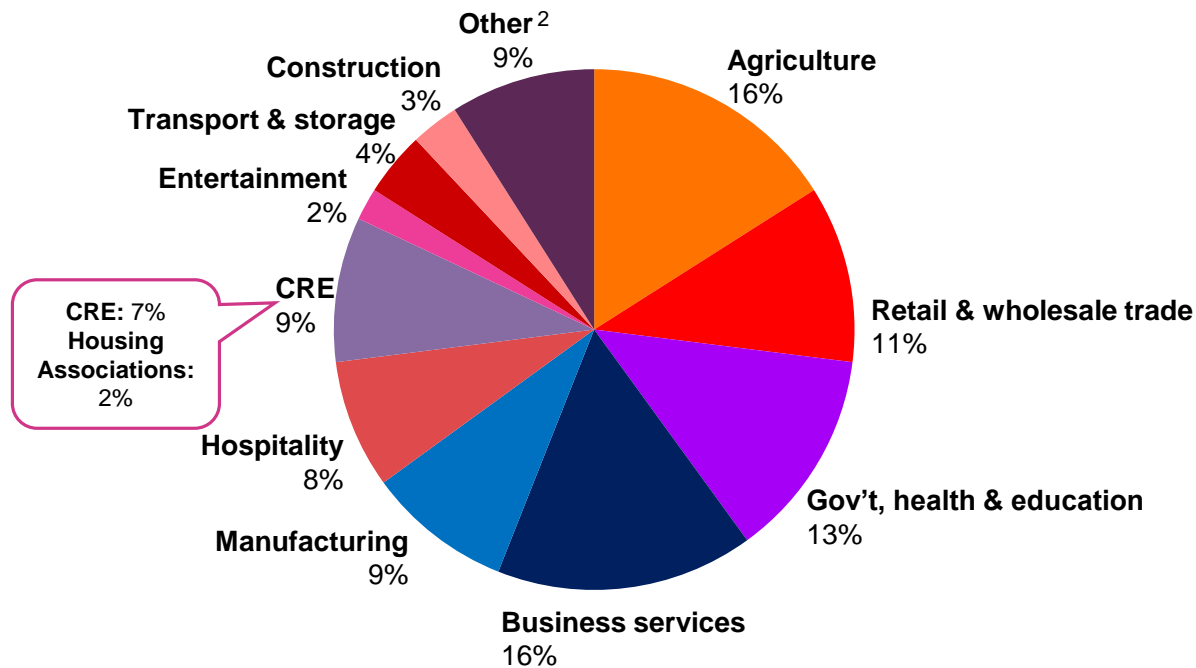
Gross new mortgage lending volumes (£bn)

(£bn)

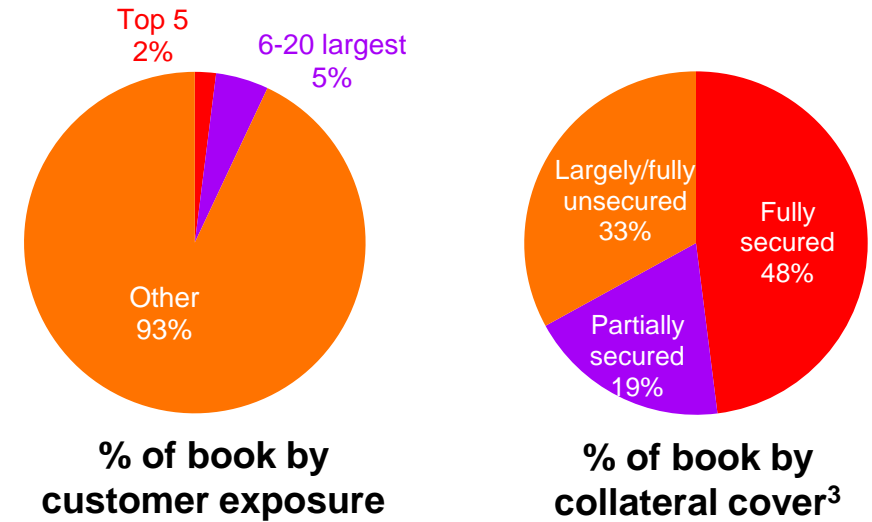


Business Lending – 2020

Business lending portfolio by industry sector¹



Business lending portfolio



Business banking drawdowns

(£bn)



H1 20



H2 20

¹ Sector allocations per ONS Standard Industrial Classification (SIC) codes

² Other includes Utilities, Post & Telecommunications, Personal Services, Finance and other unassigned businesses

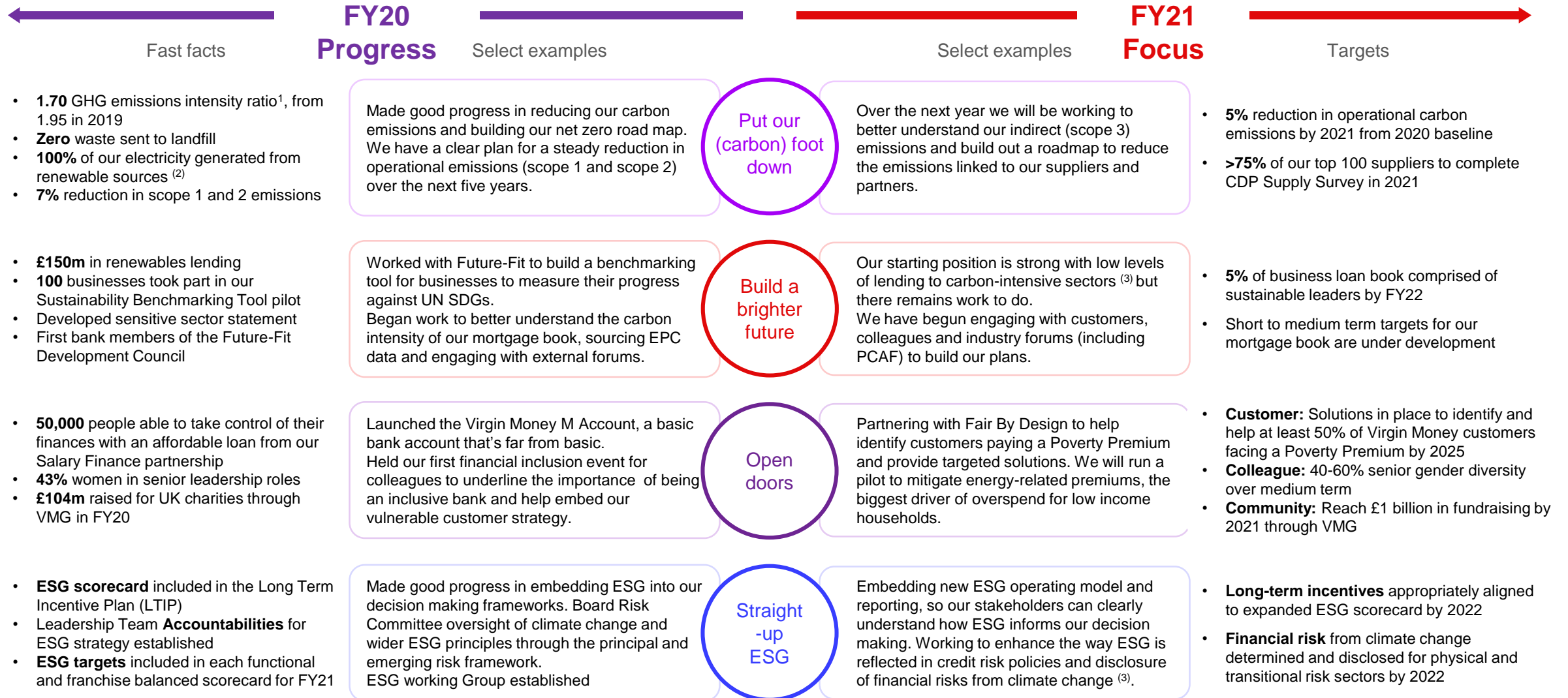
³ Excludes the HM Government backed Portfolio

Risk weighted assets

£m

	at Sep 2020	at Sep 2019
Mortgages	9,484	8,846
Business	6,716	7,124
Personal	4,151	4,042
Other	1,137	1,045
Total credit risk	21,488	21,057
Credit valuation adjustment	175	192
Operational risk	2,557	2,606
Counterparty risk	179	191
Total RWAs	24,399	24,046
Total loans	72,457	72,979
Credit RWAs / total loans	30%	29%
Total RWAs / assets	27%	26%

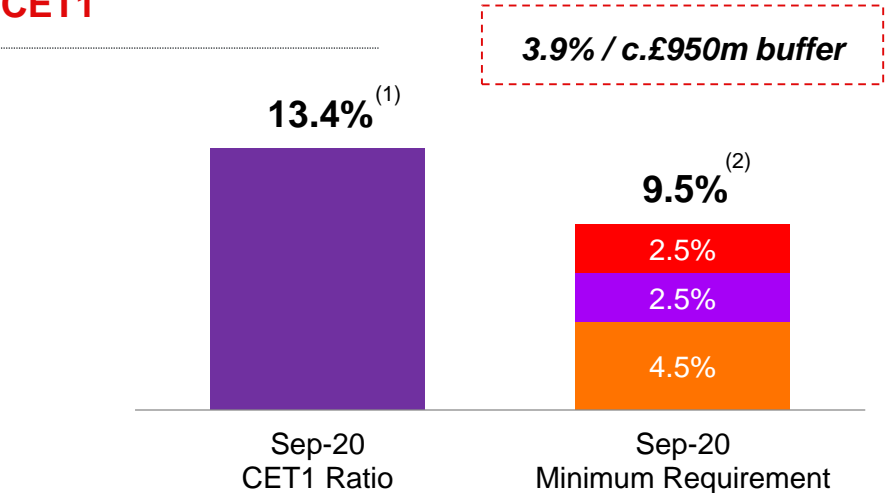
ESG: Progress in FY20 and clear focus for FY21



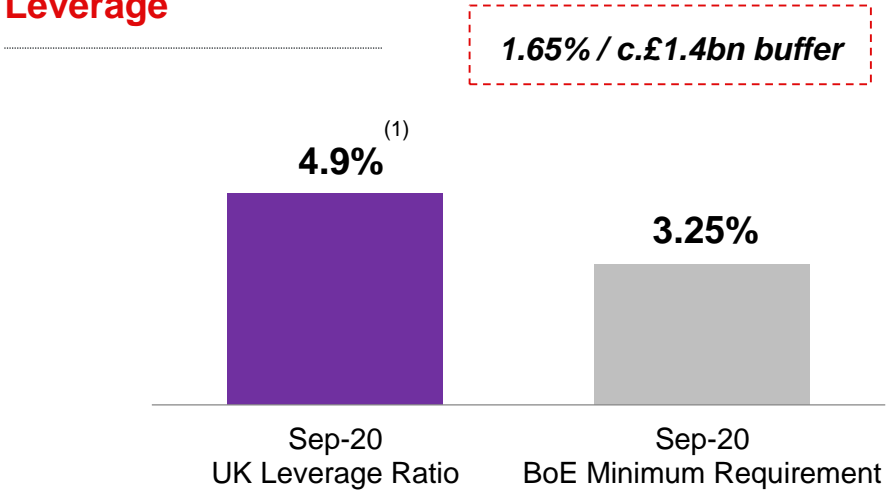
Fixed income investor appendix

Strong capital with significant buffers above regulatory minimums

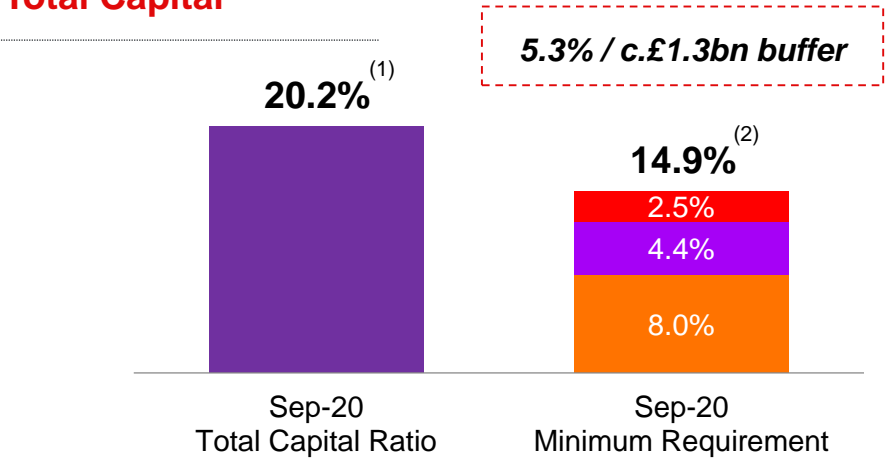
CET1



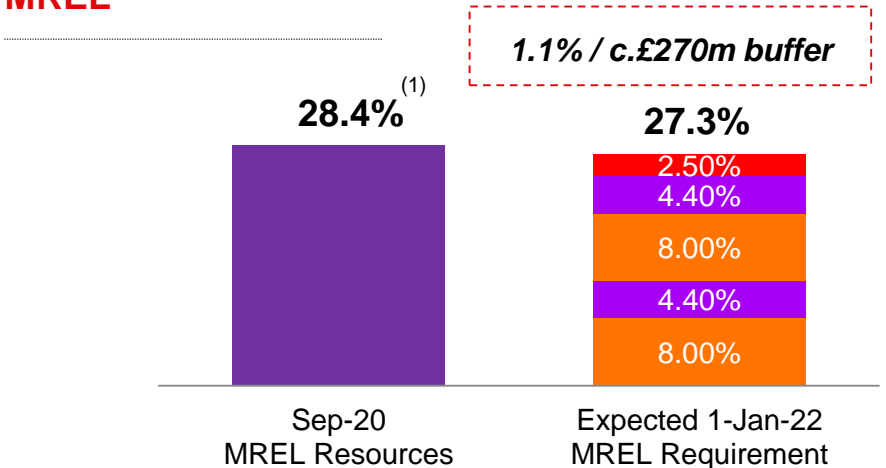
Leverage



Total Capital



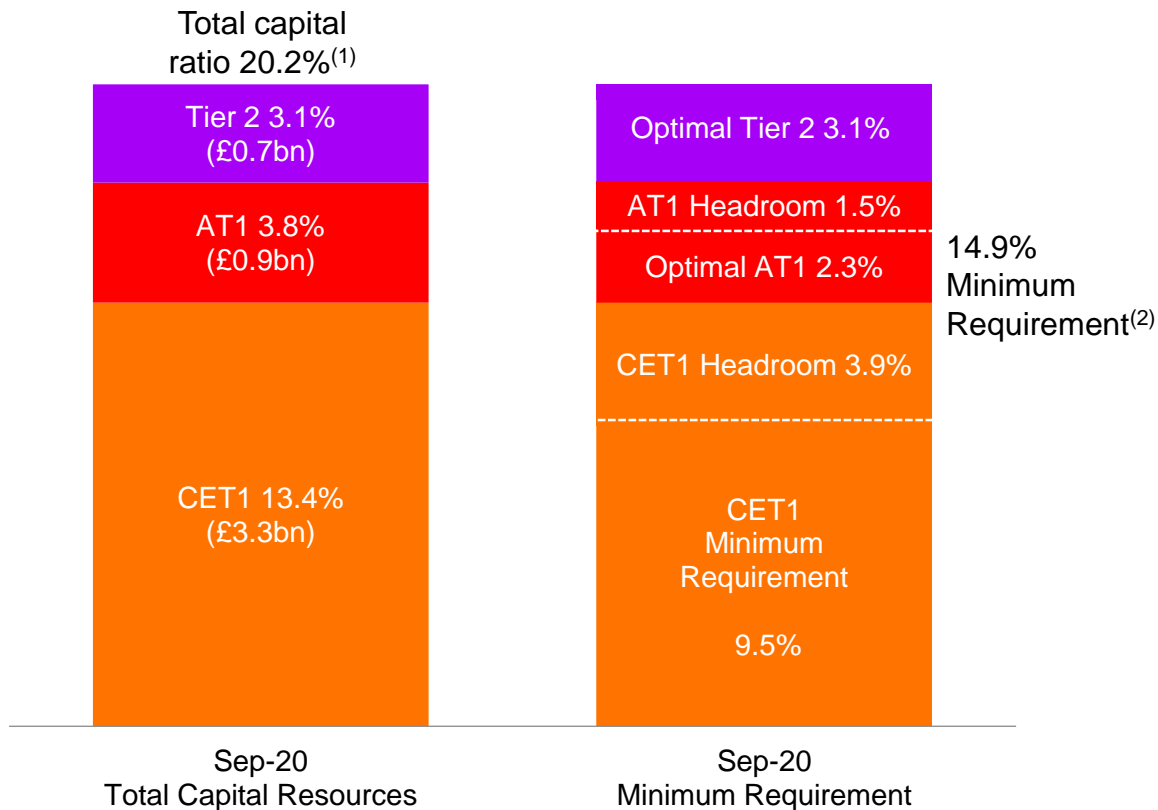
MREL



£0.5-0.75bn of MREL senior debt planned in FY21

Well established capital stack

Capital stack breakdown

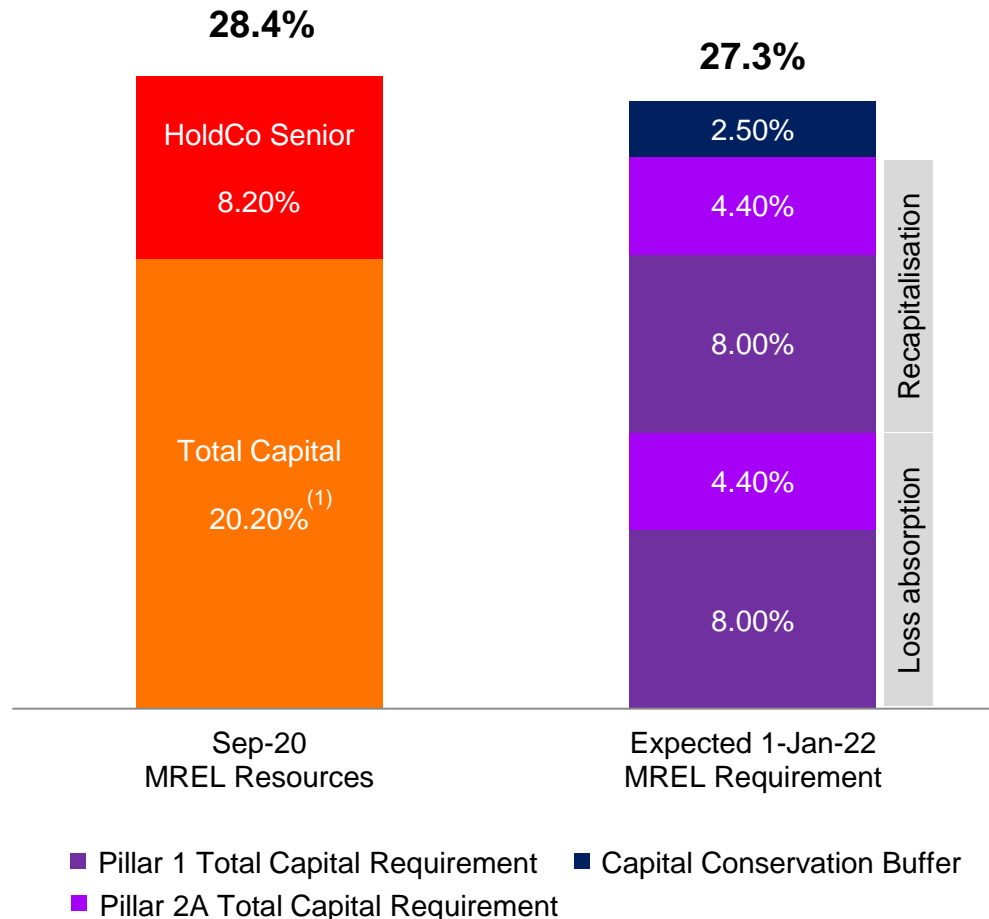


Aim to manage capital structure in an efficient manner

- Excess capital of 5.3% largely due to excess CET1
- No FX exposure in the capital structure, providing stability during periods of market volatility
- On both AT1 and T2 needs, we look to regulatory optimum levels as a minimum and then judge a prudent headroom over and above that takes into account potential RWA volatility. Over time we look to manage that headroom in an efficient manner without changing overall loss absorbing capacity
- VMUK has Available Distributable Items (“ADIs”) of £789m; representing c.10 times its 2021 AT1 coupon payments of £79m

Well positioned for end-state MREL requirements

MREL in line with expected end-state requirement



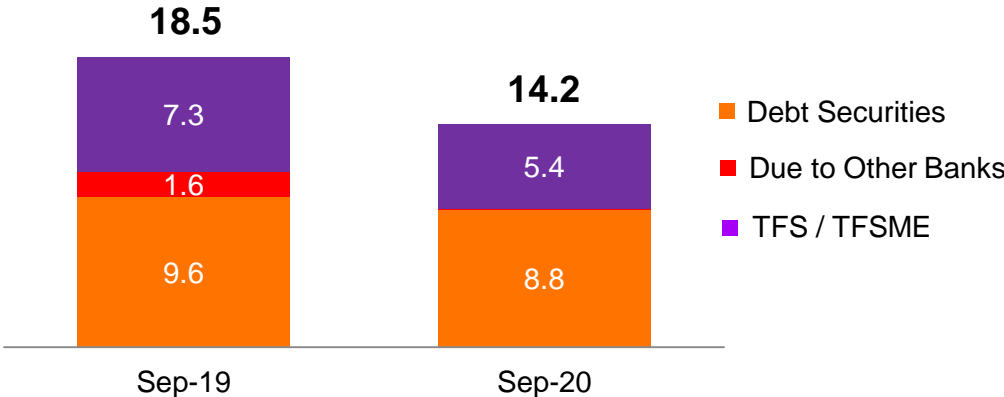
FY21 issuance focused on building prudent management buffer

- MREL is subject to phased implementation and will be fully implemented from 1 Jan 2022; BoE expected to confirm end-state requirement in calendar Q4 2020
- Pillar 2A Total Capital requirement reduced to 4.4% in 2020 and is now set in nominal terms, providing stability should RWAs increase during periods of stress
- MREL ratio of 28.4% comfortably exceeds interim MREL requirement and is in line with expected end-state MREL requirement
- Future MREL issuance is focused on building a prudent management buffer over the expected end-state MREL minimum requirement
 - Planned issuance of £0.5-0.75bn of MREL-eligible senior unsecured debt in FY21

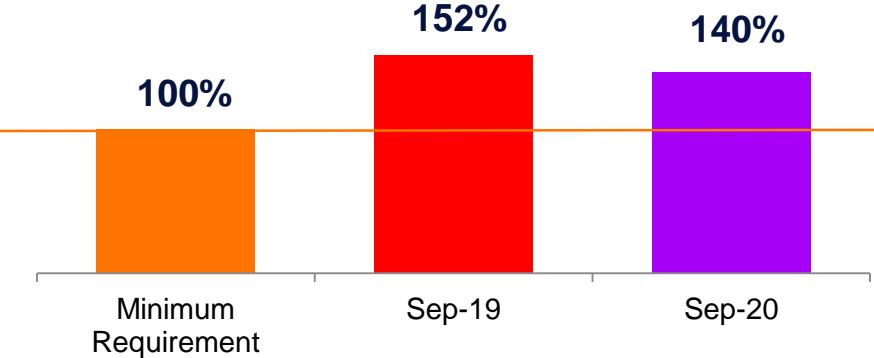
Strong funding & liquidity position

Significant excess liquidity...

Wholesale Funding (£bn)



Liquidity Coverage Ratio



...modest 2021 Wholesale Funding requirement

- LCR of 140% well above regulatory requirement of 100%, equivalent to a surplus of c.£3.1bn
- No reliance on short-term Wholesale Funding
- £3.2bn of TFS repaid during 2020, £4.1 billion outstanding; initial TFSME allowance of £7.2bn, £1.3bn drawn in H2 2020
- Access to TFSME and deposit inflows leaves modest 2021 funding need

FY21 Issuance Plan

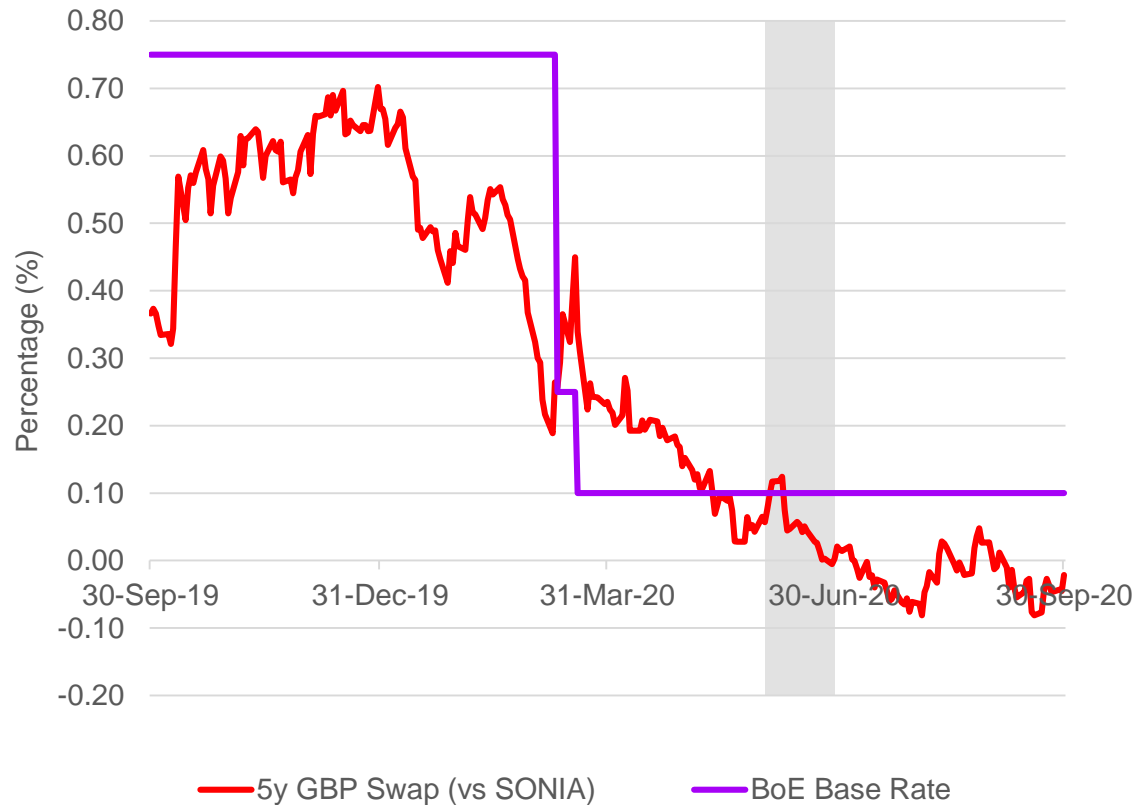
Secured Responsive to deposit flows; expect to be modest	MREL Senior £0.5-0.75bn	Capital Broadly limited to refinancing
--	-----------------------------------	--

Credit & ESG Ratings

		Virgin Money UK PLC	Clydesdale Bank PLC	Commentary
CREDIT	Moody's	<i>Long-term</i> <i>Short-term</i> Baa3 Stable P-3	Baa1⁽¹⁾ Stable P-2	No impact following the UK sovereign downgrade in October 2020, as the Group's ratings do not include any government support uplift.
	Standard & Poor's	<i>Long-term</i> <i>Short-term</i> BBB- Negative A-3	BBB+ Negative A-2	Negative outlooks on most UK banks, citing the potential earnings, asset quality and capitalisation pressures arising as a result of the Covid-19 pandemic
	Fitch	<i>Long-term</i> <i>Short-term</i> BBB+ Negative F2	A- Negative F2	Negative outlooks on most UK banks, citing the deep near-term damage to the UK economy and significant weakening in the UK's public finances caused by the Covid-19 outbreak, in addition to lingering Brexit uncertainty.
ESG	Sustainalytics		27.5	Last update: 21 May 2020; 3.3 point improvement versus previous score
	MSCI		BBB	Last update: 27 May 2020; upgraded 1 notch from previous score

Structural hedge fully unwound, locking in NII contributions

Following the reduction in BoE Base Rate...



...our structural hedge was fully unwound

- Historically, the Group had a Structural Hedge of c.£24bn, used to minimise volatility and stabilise earnings on income related to low & non-interest bearing liabilities and equity
- Structural products were hedged on a 5-year rolling basis, consistent with investment objectives to optimise and stabilise earnings as the BoE Base Rate goes up and down
- Following the reduction in BoE Base Rate, and noting future market rate expectations, the Group concluded that its 5-year structural hedge had generated maximum value.
- During Q3 2020 the Group's Structural Hedge was fully unwound, locking in expected NII contributions from the hedges over the next 5 years
- In the future, the Group anticipates a more dynamic approach to hedging these balances and based on the current rate outlook, expects no significant adverse impact on NII in FY21 and beyond compared to the 5-year rolling approach

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