

VIRGIN MONEY UK PLC
(Company or Virgin Money UK)

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VIRGIN MONEY UK PLC PERFORMS RESILIENTLY IN THE BANK OF ENGLAND STRESS TEST

The Bank of England (BoE) has today published the results of the 2022 Annual Cyclical Scenario (ACS) Stress Test. The ACS included Virgin Money UK alongside the 7 other largest banks and building societies in the UK.

The Group is pleased to confirm that the results for Virgin Money UK, on both a transitional and non-transitional basis, are significantly in excess of the published hurdle rates and it is not required to take any additional capital actions or to submit a revised capital plan.

Detail of the results

Following the application of the BoE's latest ACS, which reflects deep simultaneous recessions in the UK and global economies and higher global interest rates (full details of the stress are set out below), the Group's Common Equity Tier 1 (CET1) ratio low point under stress is 10.8% in Year 3 of the test after the application of strategic management actions, compared to the Group's reference rate of 5.9%. The stress test scenario therefore results in a CET1 drawdown of 4.0%. The leverage ratio low point under stress is 4.4% in Year 2, compared to a reference rate of 3.3%.

On a non-transitional basis, without the benefit of IFRS 9 transitional relief, the CET1 ratio low point is 9.7% after management actions in Year 1, equating to a CET1 drawdown of 4.8%, while the leverage ratio low point is 3.9% in Year 1. The CET1 and leverage ratio reference rates are 6.0% and 3.3% respectively on the non-transitional basis.

Robust capital position and generation supports planned shareholder returns

The Group's capital position has remained robust since the 30 June 2022 balance sheet start date of the stress test. The Group delivered underlying capital generation of c.180bps of CET1 in the twelve months to March 2023, whilst distributing c.100bps of capital back to shareholders, resulting in a 14.7% CET1 ratio as at March 2023.

As recently announced at half year 2023 results, the Group continues to expect to operate above a 14% CET1 ratio during FY23, given the level of macroeconomic uncertainty and expects to return to its target CET1 range of 13-13.5% in FY24. In line with the Company's published capital framework and dividend policy, the Group expects a 30% full year dividend payout level, supplemented with buybacks subject to ongoing assessment of surplus capital, market conditions and regulatory approval.

Given the successful completion of the ACS stress test, and as previously guided, the Group anticipates resuming its buyback programme during FY23, subject to Board and regulatory approvals.

The BoE Annual Cyclical Scenario Stress Test

This year's BoE ACS stress scenario, applicable to all participants, was designed to assess banks' ability to withstand an adverse scenario more severe than the global financial crisis (GFC), to ensure they are able to absorb rather than amplify shocks, and continue to serve UK households and businesses.

The test applied this hypothetical adverse scenario to the Group's balance sheet as at 30 June 2022 and compared the estimated CET1 ratio and Tier 1 leverage ratio positions of the Group before and after the impact of strategic management actions.

The stress scenario includes:

- A 5% start-to-trough fall in UK GDP
- A peak UK unemployment rate of 8.5%, more than double the rate at the start of the scenario, and slightly higher than the peak in the GFC
- A start-to-trough fall in UK residential property prices of 31%, materially larger than the 17% peak-to-trough fall experienced during the GFC
- A start-to-trough fall in UK commercial property prices of 45%
- A peak annual UK CPI inflation rate of 17%. Inflation then falls back over the horizon to the MPC's 2% inflation target by the end of the stress
- A rapid rise in UK Bank Base Rate, peaking at 6% (compared to 1% at the start of the scenario). Bank Rate gradually falls back over the stress scenario to just under 3.5% by the end of the projection period

The stress test is performed under the IFRS 9 accounting standard and requires the immediate recognition of expected credit losses on a perfect foresight basis, which places a 100% probability weight on the stress scenario. The BoE assesses the stress test results on an IFRS 9 transitional basis, in line with the phased implementation approach with results also shown on an IFRS 9 non-transitional basis, as set out above.

Further details

Details of the BoE's approach to the stress test and the detailed results in relation to all participating financial institutions can be found on the BoE website at [Stress testing | Bank of England](#)

Announcement authorised for release by Lorna McMillan, Group Company Secretary.

For further information, please contact:

<u>Investors and Analysts</u>	
Richard Smith	+44 7483 399 303
Head of Investor Relations & Sustainability	richard.smith@virginmoneyukplc.com
<u>Amil Nathwani</u>	+44 7702 100 398
Senior Manager, Investor Relations	amil.nathwani@virginmoney.com
<u>Martin Pollard</u>	+44 7894 814 195
Senior Manager, Investor Relations	martin.pollard@virginmoneyukplc.com
<u>Company Secretary</u>	
Lorna McMillan	07834 585436
Group Company Secretary	lorna.mcmillan@virginmoneyukplc.com
<u>Media Relations</u>	
Press Office	0800 066 5998
	press.office@virginmoneyukplc.com