VIRGIN MONEY UK

Interim Financial Results 2020


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Chairman's Introduction

DAVID BENNETT

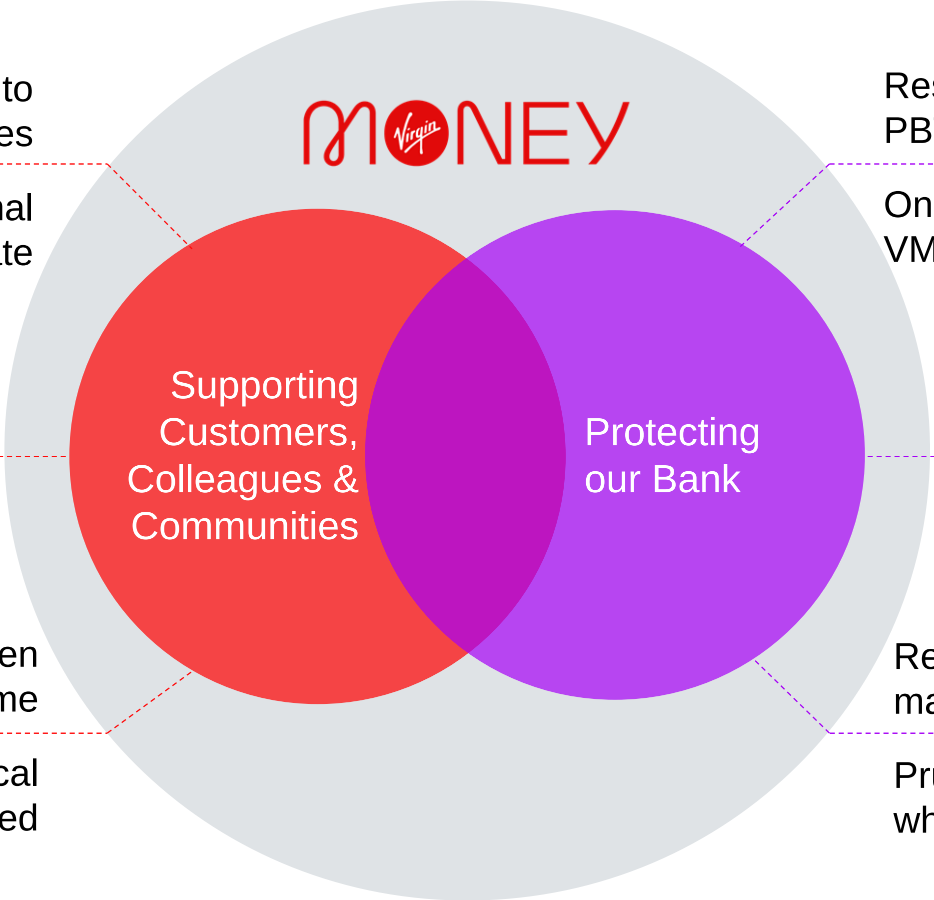
Chairman

Overview

DAVID DUFFY

Chief Executive Officer

Supporting our Customers, Colleagues & Communities while protecting the Bank



Supporting Customers, Colleagues & Communities

- Proactive contact and advice to support customers in uncertain times
- c.60k mortgage and c.40k personal payment holidays granted to date
- c.4.5k Business support facilities granted; c.£135m of CBILS approved
- Experienced Relationship Managers proactively supporting businesses
- >95% of store network remains open c.6k colleagues working from home
- VM Foundation donating >£850k to local charities; VMG platform fee waived

Protecting our Bank

- Resilient H1 performance; Underlying PBT of £120m; Stat PAT of £22m
- Ongoing strategic delivery: launched VM PCA; Digital Disruption hub in place
- Defensive portfolio: 82% mortgages, 11% business, 7% unsecured
- Low exposure to more impacted SMEs; Prime credit card portfolio
- Resilient CET1 of 13.0%; significant management buffer c.£800m
- Prudent liquidity LCR 139%; no wholesale funding required for 9-12m

All customer support and operational data as at 30th April

Resilient H1 financial performance as we execute strategy

Balance sheet mix optimisation

- Business lending +5.7%, Personal lending +6.2%; Mortgages (0.9)%
- Relationship deposits +4.3%
- NIM of 1.62% in line with guidance

Efficiency

- H1 costs of £465m (down 3% yoy); underlying cost:income ratio of 57%
- £76m of transformation net run-rate cost savings achieved to date

Asset quality

- Cost of risk of 23bps prior to COVID impact
- COVID impairment provision of £164m
- Considerable on balance sheet provision reserves of £542m

Exceptional costs

- £127m of exceptional costs; Integration and restructuring cost of £61m and acquisition accounting unwind of £57m
- PPI complaint uphold rate tracking much lower than provision assumption; no further PPI or legacy conduct provisions

Underlying profit before tax
£120m

Statutory profit after tax
£22m

Underlying RoTE
4.6%

CET1 ratio
13.0%

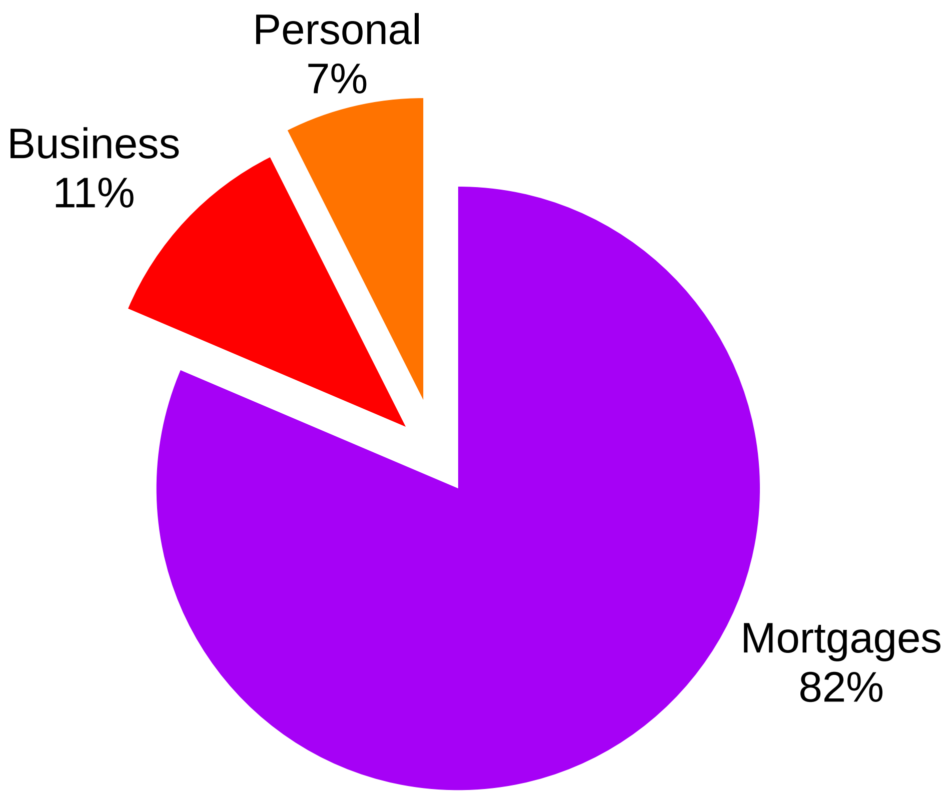
Balance Sheet Strength

IAN SMITH

Chief Financial Officer

Defensive loan book underpins asset quality

£73bn loan book primarily secured residential mortgages



With resilient portfolio-level asset quality attributes

Mortgages
£59.5bn,
82%

- 76% owner-occupied with prudent BTL book
- Average LTV 57%, only 17% is >75% LTV
- Low arrears 0.4% vs industry avg. of 0.7%[1]
- Majority of book underwritten under MMR rules
- <0.1% concentration in high LTI & high LTV

Business
£8.3bn,
11%

- Prudent and consistent risk appetite
- Defensive sector and business size mix
- 66% fully or partially collateralised
- Stable low arrears of 0.5% >90 DPD
- Portfolio PD has also been stable for 3 years

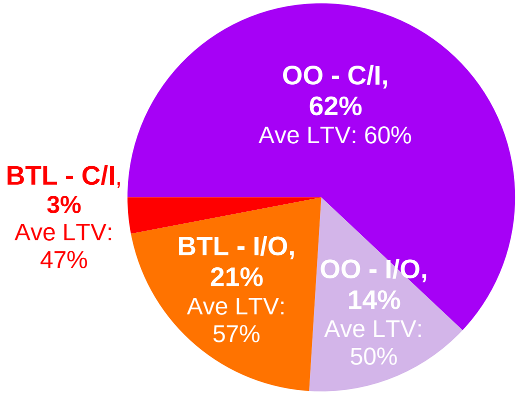
Personal
£5.3bn,
7%

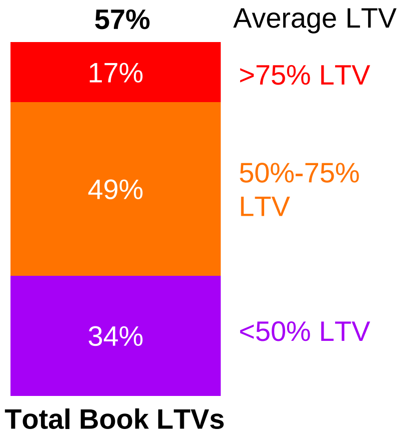
- Prime portfolios, rigorous underwriting standards
- £4.2bn cards; £1.1bn personal loans
- Focused on high-quality, more affluent customers
- Credit card arrears: 1.2% (industry: 2.3%[2])
- Personal loan arrears: 0.7% >90 DPD

[1] 3m+ arrears; Source: UK Finance
[2] 2 cycles past due, Source: Argus. Industry comparators sourced from Argus covering c.90-95% of the UK cards market and verified vs. UK Finance published figures

Mortgages: prudent, low LTV book

Low LTV mortgage book weighted towards owner-occupied





A prime book, originated under the highest standards

- Consistent, prudent underwriting; no sub-prime or self-cert
- Book built since UK mortgage market review raised standards
- Arrears are lower than industry (0.4% vs 0.7[1]%)

Owner-occupied (76%)

- Average LTV is 57.5%; only 3% is >90% LTV
- Average LTI c.3.0x; only 6% >4.5x LTI

Buy-to-let (24%)

- Average LTV is 55.6%; max LTV of 80%
- Conservative rental and borrower income requirements

Virgin Money and Government initiatives to support customers

Comprehensive Government income support schemes across employees and self-employed

c.60k mortgage payment holidays granted; c.15% of mortgage customers

Digital payment holiday request service launched to accelerate support to customers

“Money On Your Mind” digital advice service launched to support customers

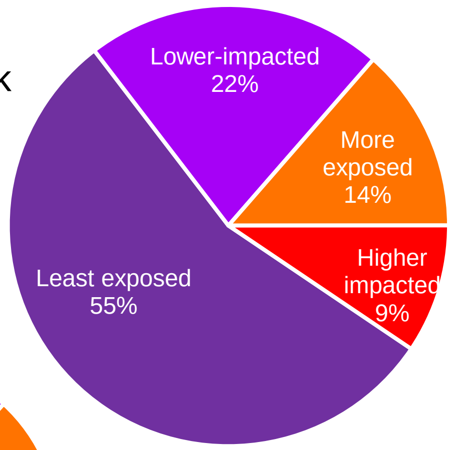
[1] 3m+ arrears; Source: UK Finance

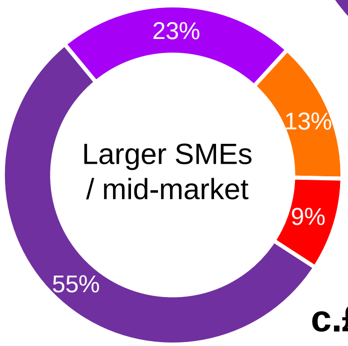
All customer support numbers as at 30th April

Business: diverse customer portfolio benefitting from support

Loan book weighted towards firms with stronger cashflows

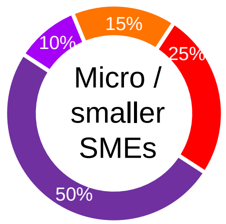
Business lending book
£8.3bn





c.£8bn

- 35% of lending customers
- 96% of balances
- Turnover typically >£2m - £100m
- Average loan size c.£1m



c.£0.3bn

- 65% of lending customers
- 4% of balances
- Turnover typically <£2m
- Average loan size c.£30k

With significant government and VMUK support in place

Government support

Wage and income support
- 80% of salaries & trading profits up to £2.5k p.m.
- Enables staff to be retained for recovery

Tax and rate deferrals
- Rates cancellations
- Tax returns out to 2021

CBILS
- Guarantee 80% of losses
- Pay customers interest and fees for 12m

Bounce Back / CLBILS
- Guaranteed loan support for varying sizes of businesses

Cash grants
- Up to £25k
- Supports very small businesses

VMUK support

Relationship support
- Proactive RMs
- Delegated authority to offer solutions

Payment holidays
- Pay only interest and no capital for 3m

CBILS
- Loans up to £5m
- For businesses with turnover <=£45m

Bounce Back / CLBILS
- Committed to support the schemes

Maturing facilities
- RMs can give 6m overdraft extensions

Business: defensive bias in our sector exposures

Least exposed sectors £4.6bn (c.55% book) includes:

Agriculture, Food and Drink
£1.7bn, 21%

- Includes cattle, dairy, arable, fishing
- Expected to be more resilient in this crisis
- Small migrant labour dependency
- High level of collateral

Health & social housing
£1.4bn, 17%

- Primarily care homes and social housing
- Care home revenues holding up; but operational challenges at present
- High level of collateral

Other key sectors
£0.7bn, 9%

- Wholesalers, including grocery and medical supplies
- Renewable energy and utilities

Lower-impacted sectors £1.8bn (c.22% book) includes:

Specialist Hotels and Real Estate
£0.7bn, 8%

- Mainly high-quality, branded, city centre hotels, high level of collateral
- Conservative CRE exposure

Manufacturing
£0.6bn, 7%

- Very diverse customer base but with material private equity penetration
- Have more flexible costs i.e. materials

More exposed sectors £1.1bn (c.14% book) includes:

Business Services
(sub set of)
£0.6bn, 8%

- Wide-ranging sector, but good access to private equity and asset-backed lending
- Excludes Professional Practices (in least exposed) and Computer & Tech (mid-impact)

Legacy Property
£0.2bn, 3%

- Legacy CRE remnants (conservative smaller exposures); some specific accommodations
- Good level of security

Higher impacted sectors £0.8bn (c.9% book) includes:

Retail Trade
£0.4bn, 4%

- Smaller retailers, not high street chains
- No single big name exposures
- Exposed due to small scale and sector risk

Legacy Hospitality
£0.3bn, 3%

- Includes legacy portfolio of hotels, pubs etc, some traded well through previous cycles

Entertainment
£0.1bn, 2%

- Diverse portfolio incl. radio, activity parks; some have traded well in past downturns

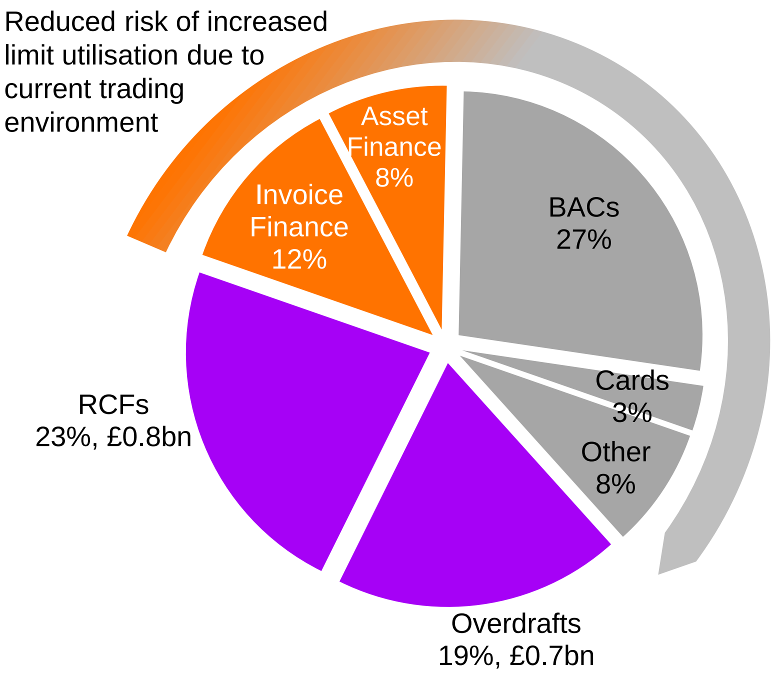
No meaningful exposure to airlines, oil and gas, travel, high street retail or speculative development CRE

Note: Sector allocations represent management view of categorisation; portfolio view per ONS Standard Industrial Classification (SIC) codes is set out in the Appendix

Business: continuing to support our customers

Outstanding credit lines have limited RWA or credit risk

Undrawn business lines c.£3.6bn; >50% unlikely to be utilised



Significant proportion of available credit lines are back-up and/or transactional facilities

(e.g. BACS limits risk cover 3-day payment clearing period)

- No sustained drawdown of undrawn facilities seen to date
- Undrawn RWAs on lines that are more likely to be used are equivalent to c.70% of fully drawn RWAs

Virgin Money and Government initiatives to support customers

Proactive support and advice from our Relationship Managers with >10k conversations already

Supported businesses with c.4.5k lending facilities, overdrafts and capital repayment holidays to date

c.£135m of CBILS lending support to customers approved to date

Committed to supporting customers via the Government's Bounce Back and CLBILS schemes also

All customer support numbers as at 30th April

Personal: strong customer and credit profile

Credit card book (£4.2bn) is prudently built

- c.2.1m customers, largely former VM prime, more affluent book
- Targeted upper-end of mass market; no credit impaired/CCJs
- £3.9bn originated through VM brand, £0.3bn through CYBG
- c.80% of book originated since 2015 onto VM's industry leading credit underwriting; no down-selling – maintained discipline
- Low risk appetite reflected through conservative acquisition:
  - Selective approach with high credit score cut-offs
  - Customers with higher indebtedness are declined
  - Stress tested on fully drawn line at stress rate (33.9% APR)

Credit cards customer profile	VM[1]	Industry average[2]
Average customer age	42	
Average income	£43k	
% homeowners	70%	
% self-employed	10%	
% debt to income	22%	31%
% persistent debt	3.1%	4.1%

Prime Personal loans portfolio (£1.1bn)

- c.130k direct personal loan customers; prime book
- Mix of existing PCA holders and quality, online customers from recently launched digital proposition
- Strong bias towards lower-risk, older homeowners
- Emerging arrears on most recent vintages lower than prior years
- £0.1bn of loans through Salary Finance JV to employed customers with payments deducted direct from salary:
  - c.45% of loans to employees of FTSE 100 firms
  - c.20% to employees of essential service providers (e.g. NHS)

Personal loans customer profile	VMUK[3]
Average customer age	46
Average income	£39k
% homeowners	74%
% self-employed	5%
% debt to income	26%

[1] Customers originated through VM brand since 2015; persistent debt reflects VMUK portfolio
[2] Sources: TUC and Argus
[3] VMUK direct personal loans portfolio of c.£1.0bn

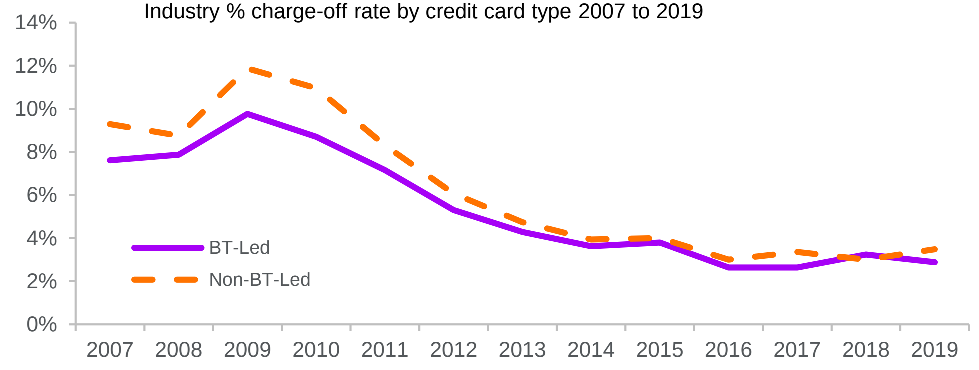
Credit Cards: portfolio built using insight from the GFC

Key lessons from the experience of the last crisis…

Management experience: informs portfolio construction

- Credit card management team has significant experience in managing scale portfolios through an economic cycle
- A key learning from the last downturn is that the same risk scoreband does not mean the same credit risk; less affluent customers experience greater volatility
- As a result risk appetite is optimised for affluent segments

BTs perform better: balance transfer cards see lower losses

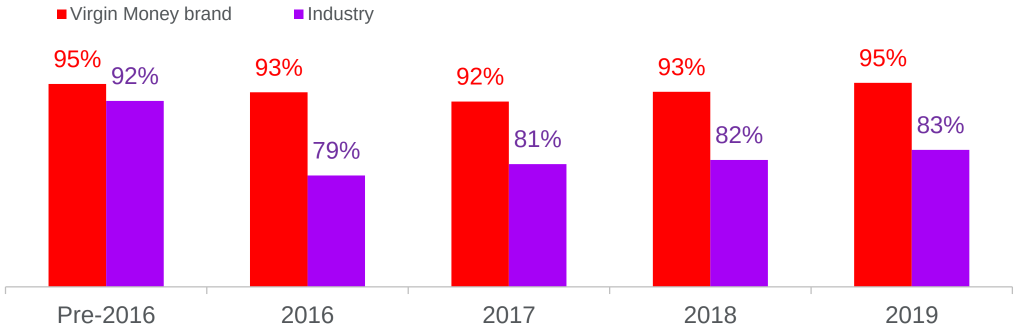


Source: Argus

…and how we have applied them in building a defensive book

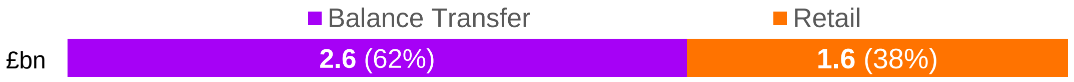
Higher quality origination: via prudent underwriting standards

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



Source: Argus; Industry comparators covering c.90-95% of the UK cards market and verified vs. UK Finance published figures

Building a BT-led book: with low arrears



- Origination and portfolio focused on lower risk BT customers
- Current arrears performance is 1.2%[1] on the BT book
- Only 16% of promotional rate balances mature in next 6 months

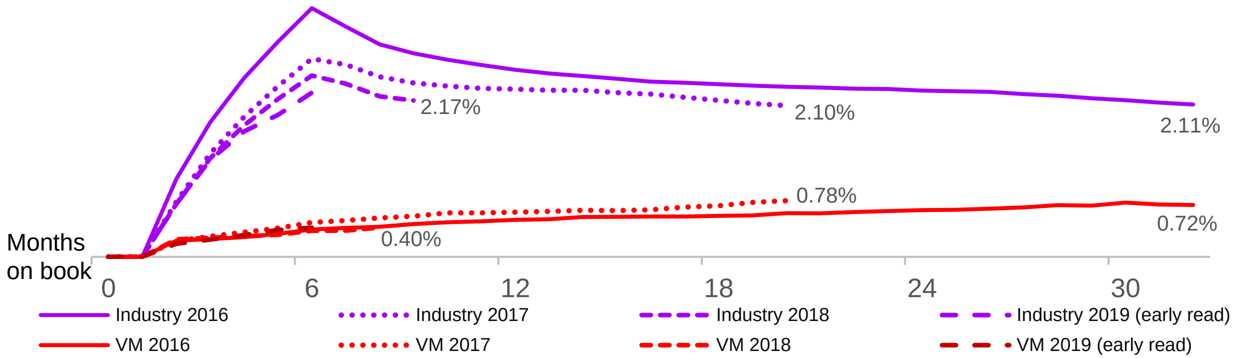
[1] 2 cycles past due

Personal: portfolio is well-positioned going into stress

Cards portfolio has historically outperformed on arrears

VM credit cards have outperformed industry delinquency rates with VM customers significantly less likely to fall into arrears

% accounts 2+ cycles past due, by acquisition year, Industry vs Virgin Money brand



Source: Argus; Industry comparators covering c.90-95% of the UK cards market and verified vs. UK Finance published figures

A spike in unemployment will be the biggest driver of delinquency

- Job losses are highly correlated with delinquency on unsecured credit, and will be the key indicator to watch for portfolio performance
- Affluent customers are more likely to have resources to draw on in an unemployment event, but our portfolio will not be immune

Virgin Money and Government initiatives to support customers

Comprehensive Government income support schemes across employees and self-employed

c.32k credit card payment holidays granted; <2% of cards customers

c.8k personal loan payment holidays granted; c.6% of loan customers

“Money On Your Mind” digital advice service launched to support customers

All customer support numbers as at 30th April

Conservative impairment approach given material uncertainties…

Comprehensive three stage modelling approach…

1. IFRS9 model scenario probability update

- Re-weighted current IFRS9 models to 100% for existing multi-year "Severe Downside" scenario
- Moderate GDP decline but slower and longer recovery; average unemployment of c.6% over 5 years

+

2. Expert credit risk judgement overlays applied

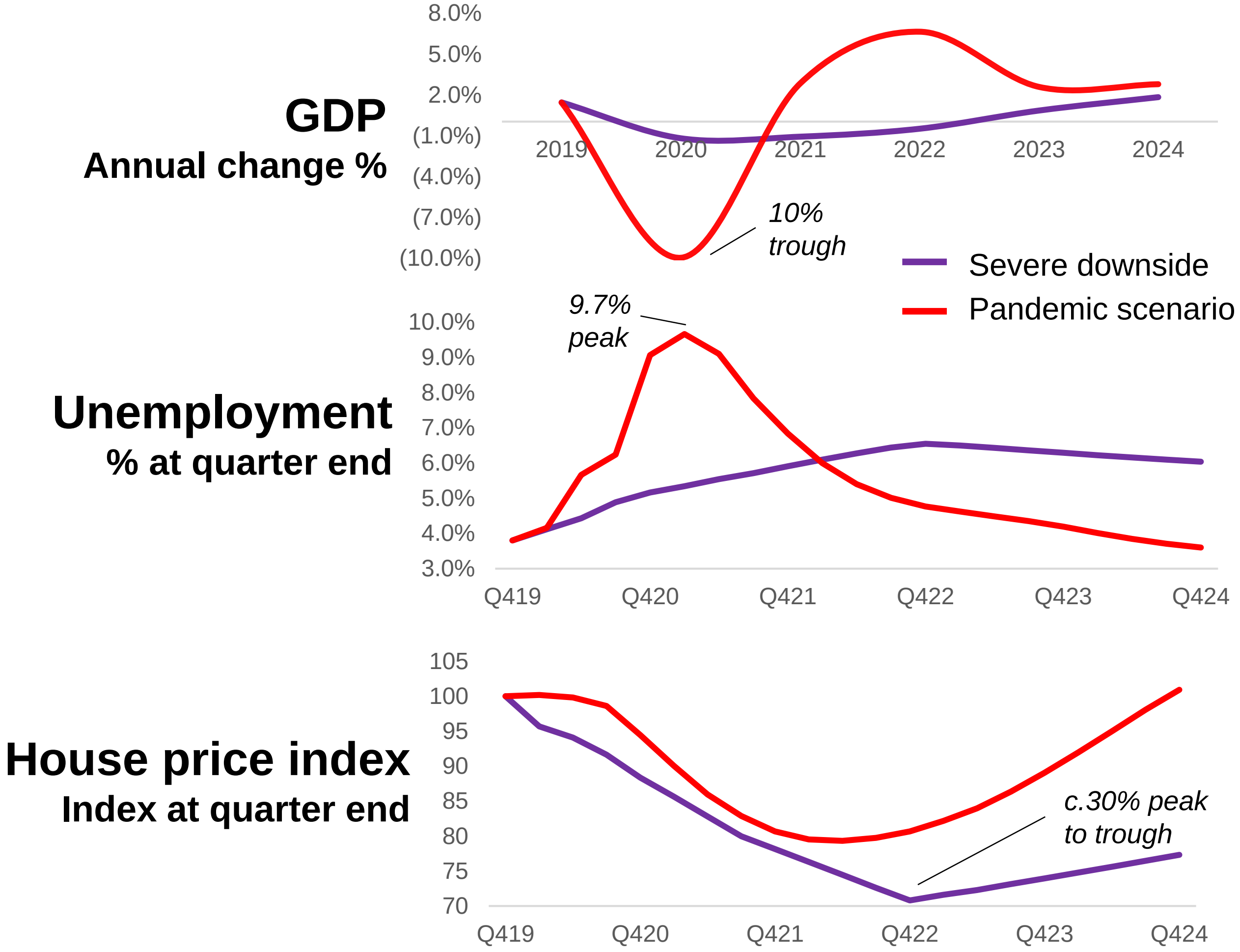
- Mortgage and Personal overlays reflect estimated rates of migration from payment holidays into credit losses
- Business overlays reflect customer-level analysis incorporating specialist views & sector stresses

+

3. Pandemic scenario modelling in business & credit cards

- Additional modelling of a "Pandemic" shock scenario for our largest at risk portfolios: business & credit cards
- Embeds further economic overlays for these portfolios with GDP decline of 10% and peak unemployment of 9.7%

…with prudent economic scenarios to inform provision

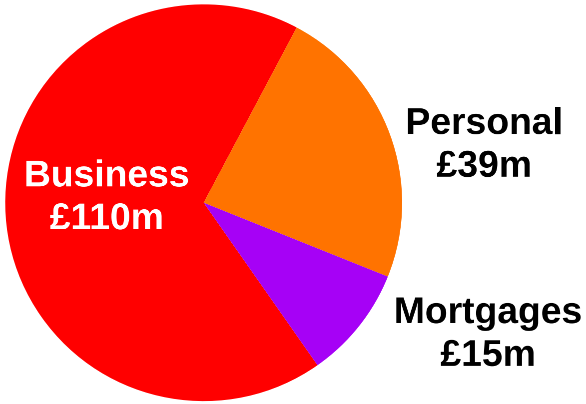


Source: Oxford Economics

…determined a prudent £164m COVID provision

Considerable on-balance sheet provisions & coverage

£164m COVID impairment provision



As at 30-Mar-20	Lending Balances	Total Credit Provisions	Coverage Ratio
Business	£8.3bn	£261m	323bps
Personal	£5.3bn	£231m	440bps
Mortgages	£59.5bn	£50m	9bps
Total	**£73.2bn**	**£542m**	**75bps**

CET1 impact limited due to EEL offset and IFRS9 transitional

- COVID-19 impairment P&L charge of £146m has a negligible impact on CET1 due to:

1. Excess Expected Loss (EEL) offset

- VMUK had a c.£90m regulatory EEL capital deduction within CET1 that partly offsets the post-tax P&L charge

2. IFRS9 transitional relief

- Remainder of post-tax P&L charge attracts IFRS9 transitional relief currently at 85%

Resilient capital position retained
CET1 ratio of 13.0%

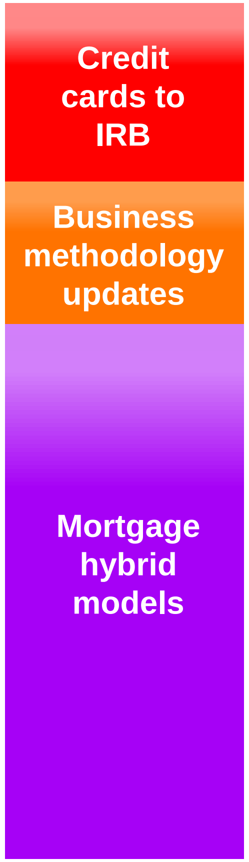
Low risk of RWA migration near-term; with RWA opportunities

VMUK IRB regime means lower risk of stress migration

- No COVID-related RWA inflation observed to date; low risk of significant inflation in FY20
- **Personal** books are on *Standardised* at 75%
- **Business** book is primarily on *Foundation IRB*
  - Average RWA density of 73%
  - Conservative regulatory LGD, experience based PD
  - Risk weights less sensitive under stress than AIRB
- **Mortgage** books are on *Advanced IRB*
  - Average RW density of 14% currently
  - VM book is through the cycle; 180DPD
  - CYB book is point in time + buffer; 90 DPD
  - RWA inflation driven by customer arrears & defaults (unemployment), HPI impact limited until >20% decline

No capital markets businesses so negligible market and counterparty RWAs

Medium term - actions could deliver c. 5–10% RWA reduction



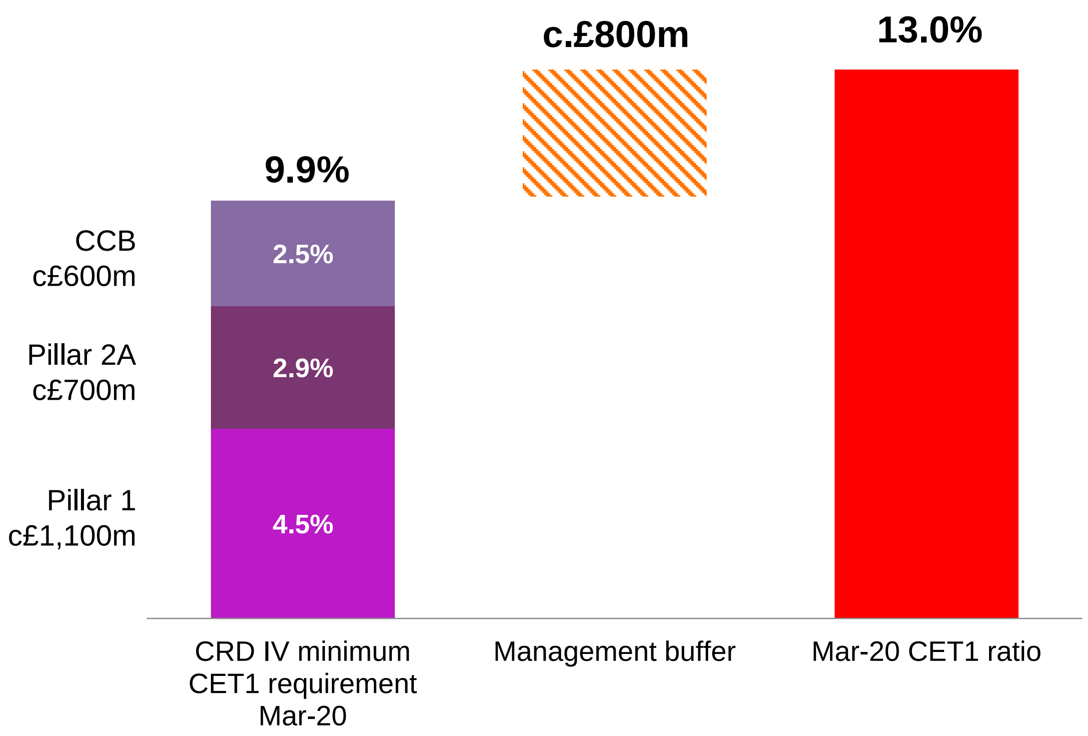
Indicative RWA optimisation (pre-migration)

- Reflects strong credit quality of the book
- Enhanced processes and calculation methodologies remove initial conservatism
- VM through-the-cycle book moves to hybrid
- CYB book IRB day-1 conservatism reduced as evidenced through use and experience

No material Basel III finalisation impact expected due to starting position

Significant CET1 buffer above regulatory requirement

Holding a significant buffer heading into the downturn



Significant capital resilience options available

RWA optimisation represents a significant opportunity

- c.5-10% reduction in RWAs potentially available (prior to any RWA migration)

Balance sheet actions

- Prioritise capital for existing Business customer support
- Slower pace of unsecured growth in market
- Lower mortgage growth expectations
- Potential PPI provision surplus

Transformation and re-branding re-phasing

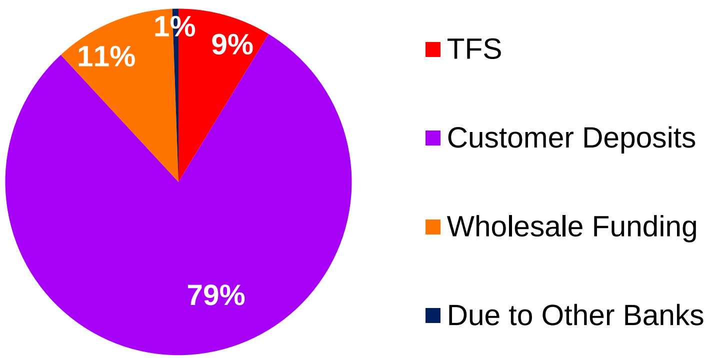
- Transformation – delay and re-phase near-term non-mandatory actions to defer restructuring cost spend
- Re-branding – delay the re-launch of our refreshed Virgin Money brand and all other re-branding activity to defer marketing cost spend

Prudent funding and liquidity position

Mainly deposit funded with a high quality liquid asset buffer…

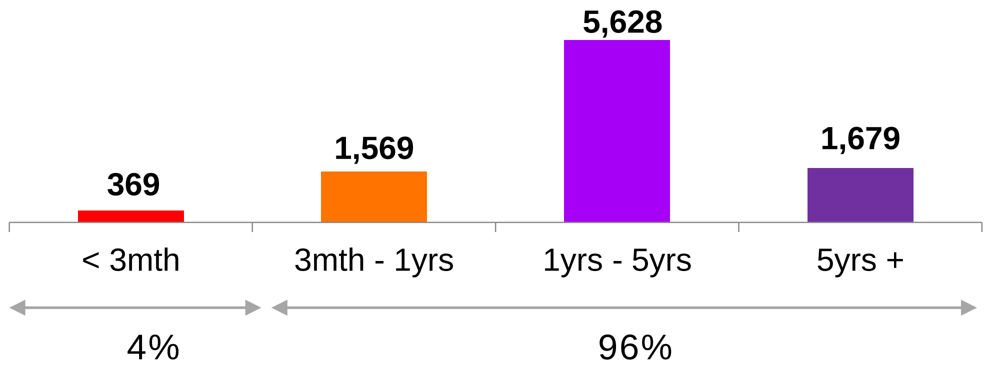
…no wholesale funding issuance required this year if needed

Funding Mix by Product
(%)



- Predominantly deposit funded, with a stable LDR of 113%
- Since 31 March deposit balances have increased as customers have spent less under lockdown; unclear on duration of trend
- Additional liquidity held for Brexit and FSMA Part VII transfer only partially released - LCR of 139% remains well ahead of all internal and regulatory requirements
- HQLA is 58% cash, 10% gilts and 32% debt securities

Debt Securities in Issue by Maturity
(£m)

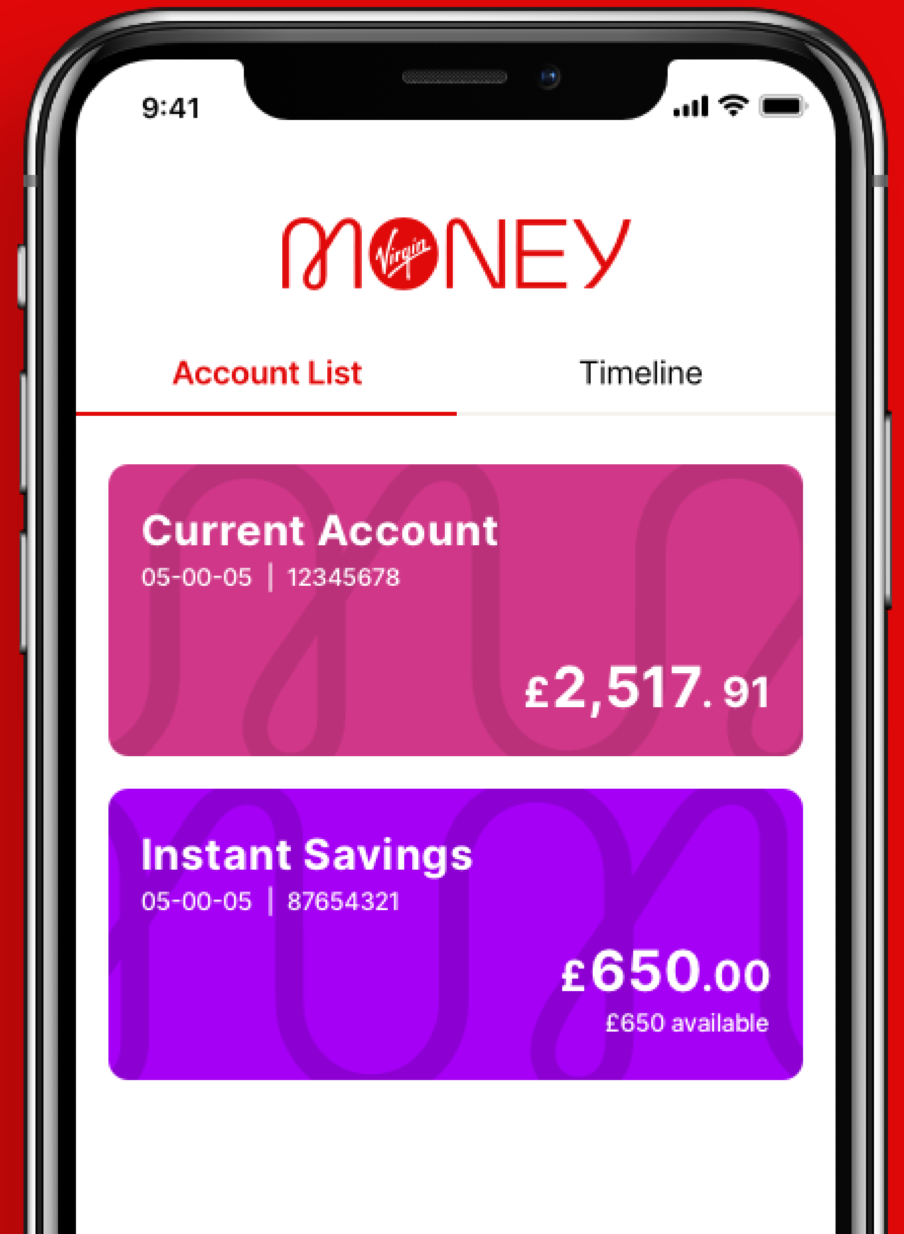


- Existing TFS balance of £7.1bn to be fully refinanced with TFSME
- No reliance on short-term Wholesale Funding
- Wholesale funding plan assumes 9-12 months of market closure if necessary (no help from central bank funding schemes assumed in this assessment)

Financial Results

IAN SMITH

Chief Financial Officer



Resilient operating performance

Underlying P&L	6 months to	6 months to	Change	6 months to	Change
£m	**31 Mar 2020**	**31 Mar 2019**	**Vs H1 19**	**30 Sept 2019**	**Vs H2 19**
Net interest income	702	728	(4)%	705	0%
Non-interest income	115	115	0%	91	26%
Total operating income	**817**	**843**	**(3)%**	**796**	**3%**
Total operating and administrative expenses	(465)	(480)	3%	(467)	0%
Operating profit before impairment losses	**352**	**363**	**(3)%**	**329**	**7%**
Impairment losses on credit exposures (pre COVID-19)	(86)	(77)	(12)%	(76)	(13)%
Impairment charge for COVID-19	(146)	-	-	-	-
Total impairments	(232)	(77)	(201)%	(76)	(205)%
Underlying profit before tax	**120**	**286**	**(58)%**	**253**	**(53)%**
Net Interest Margin (NIM)	1.62%	1.71%	(9)bps	1.61%	1bp
Cost of risk pre COVID-19	23bps	21bps	(2)bps	20bps	(3)bps
Cost of risk post COVID-19	63bps		(42)bps		(43)bps
Underlying cost-to-income ratio	57%	57%	0%pts	59%	2%pts
Underlying Return on Tangible Equity (ROTE)	4.6%	10.4%	(5.8)%pts	11.2%	(6.6)%pts
Underlying Earnings Per Share (EPS)	5.7p	13.4p	(7.7)p	14.7p	(9.0)p

Statutory profit after tax of £22m

Statutory P&L	6 months to	6 months to	6 months to
£m	**31 Mar 2020**	**31 Mar 2019[1]**	**30 Sep 2019[1]**
Underlying profit before tax	**120**	**286**	**253**
Exceptional items	(127)	(277)	(527)
- Integration and transformation costs	(61)	(45)	(111)
- Acquisition accounting unwinds	(57)	(67)	(20)
- Legacy conduct	-	(33)	(400)
- Other items	(9)	(132)[2]	4[3]
Statutory profit / (loss) before tax	**(7)**	**9[4]**	**(274)**
Tax credit	29	-	58
Statutory profit / (loss) after tax	**22**	**9[4]**	**(216)**
Tangible Net Asset Value (TNAV) per share	252.5p	260.1p	249.2p

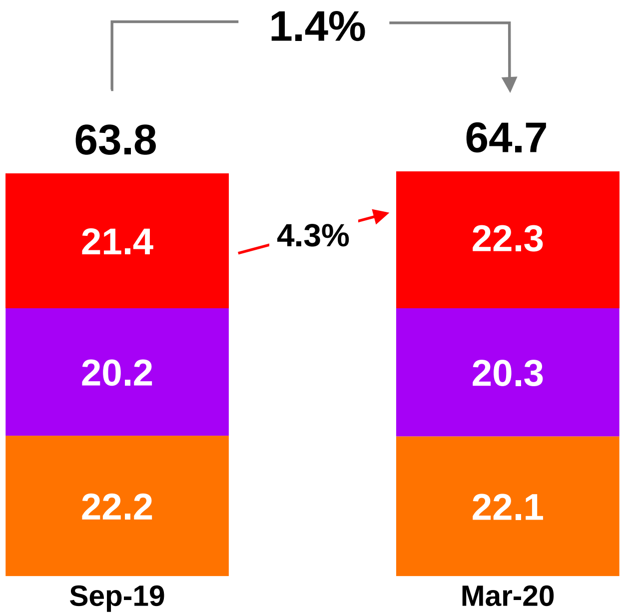
VIRGIN MONEY UK

[1] The comparative Statutory profit / (loss) after tax has been restated in line with the current period presentation. Refer to note 1.4 of the 2020 Interim Financial Report
[2] 2019 H1 other items include acquisition related costs and accounting charges such as transaction costs £(55)m, EIR adjustments of £80m and intangible asset write-offs £(127)m
[3] 2019 H2 other items include a £35m gain from ASI offset by £18m of consent solicitation fees and costs for participating in the RBS incentivised switching scheme
[4] Pro forma profit before/after tax for 6 months to 31 March 2019

Solid funding base; further relationship deposit growth

Growth in relationship deposits, mix well managed

Customer deposit balances
£bn

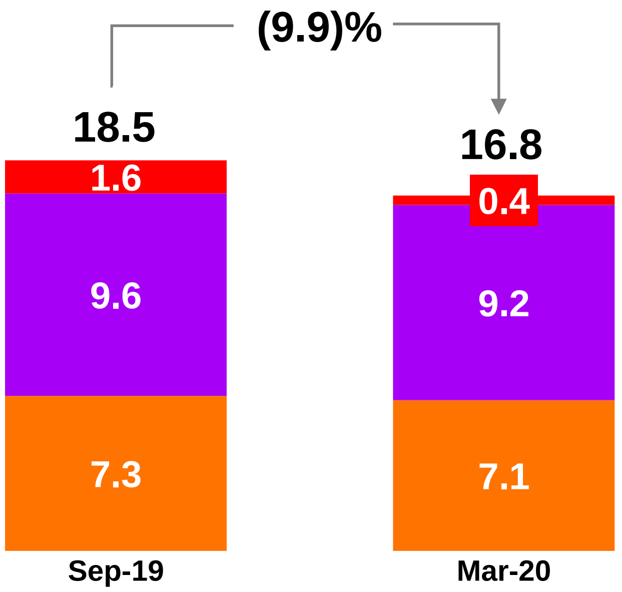


	Sep-19	Mar-20
Cost[1] (bps)	100	98
LDR	114%	113%

Term deposits · Non-linked savings · Relationship deposits

Retain funding flexibility and managing wholesale mix

Wholesale balances
£bn



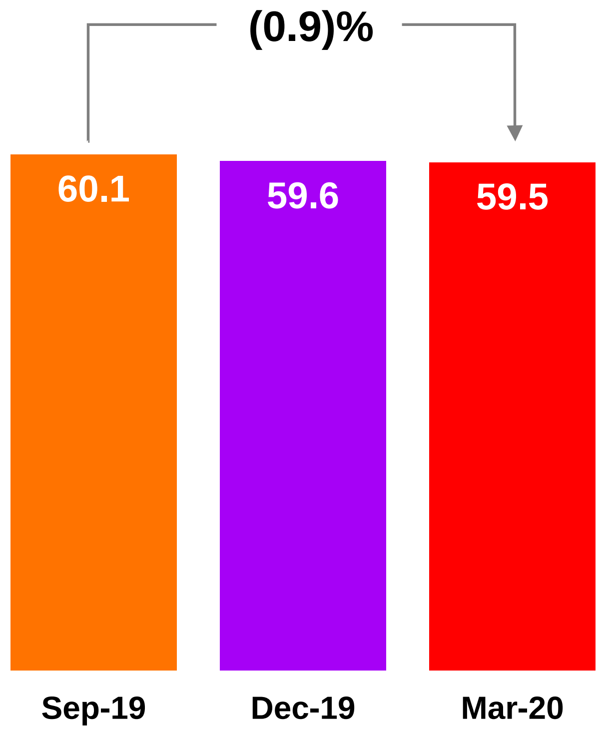
	Sep-19	Mar-20
Cost[1] (bps)	150	159
TFS (% of lending)	10%	10%

TFS · Debt Securities · Other banks

[1] Reflects cost of funds during the six month period

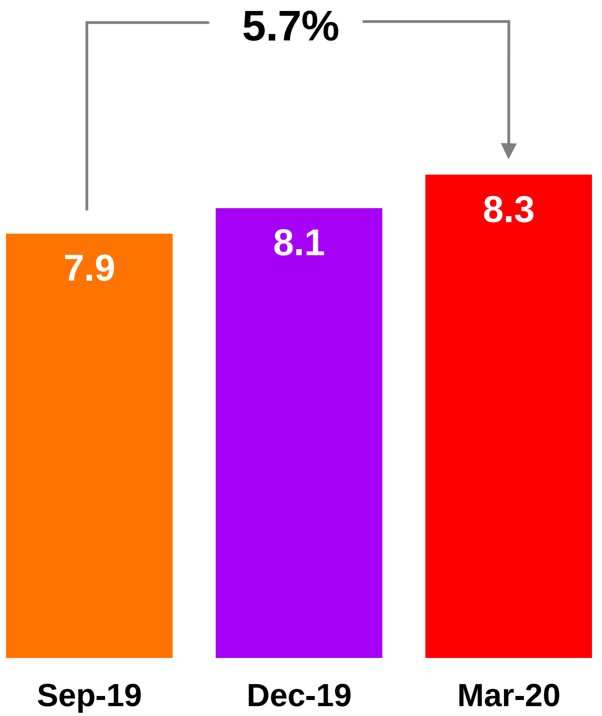
Lending growth in line with strategy

Mortgages £59.5bn



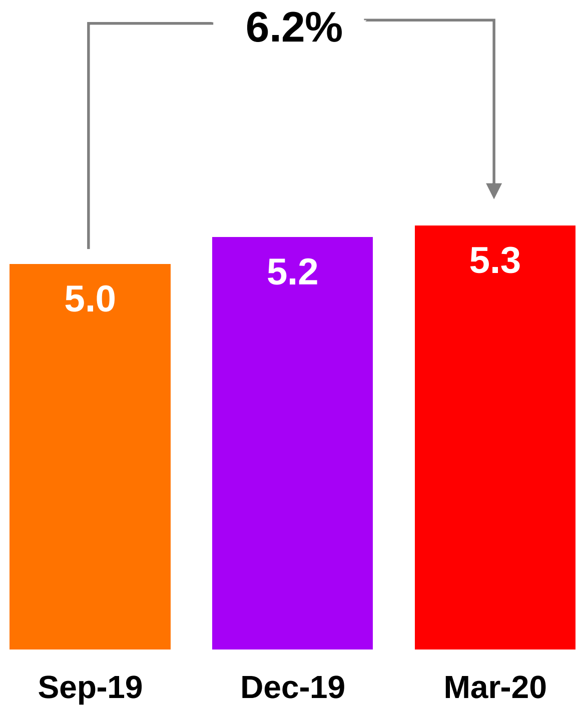
Continue to be selective in pricing focusing on margin over volumes

Business £8.3bn



Strong organic origination with support from RBS switching

Personal £5.3bn



Continued growth in high quality Virgin Money Credit Cards

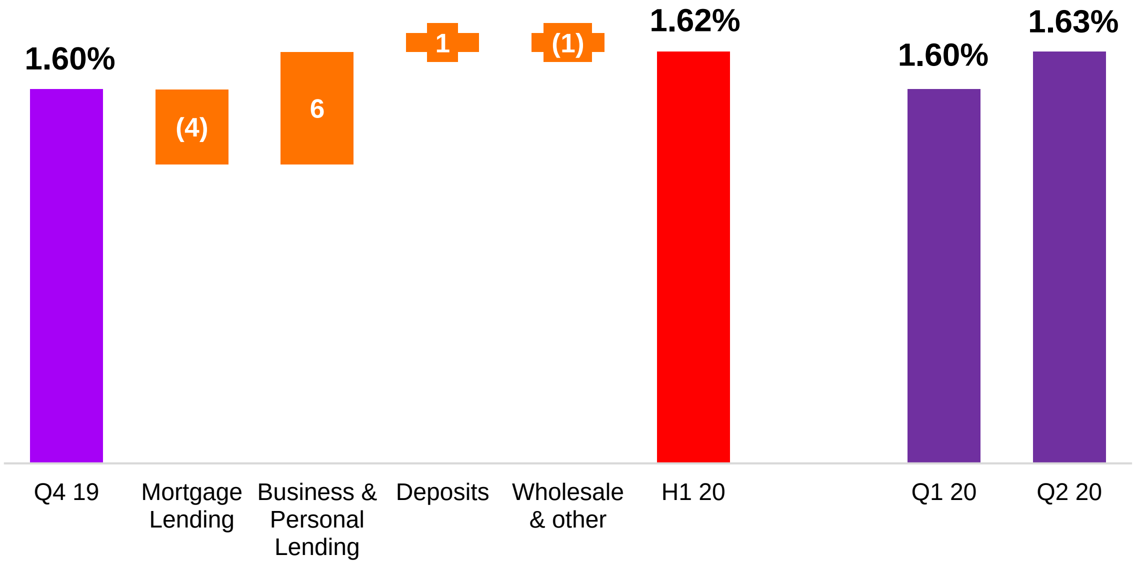
H1 20 NIM as guided; FY20 outlook impacted by rate cut

Mortgage yield reduction slowing; Personal yield higher

Average book yield
(bps)

H1 NIM in line with guidance; FY20 NIM impacted by rate cut

NIM evolution
(bps)

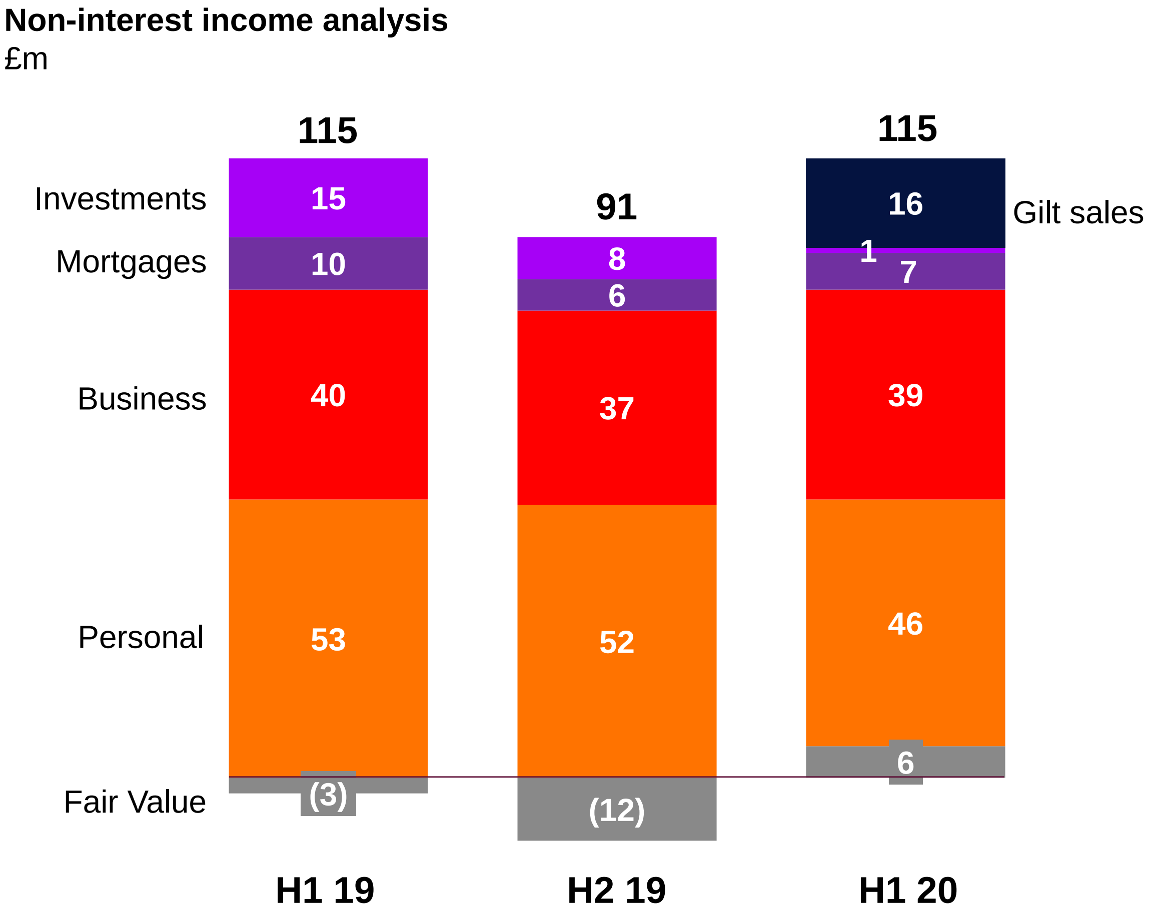


Now expect FY20 NIM to be between 1.55%-1.60%

NII out-turn will be dependent on volumes

Non-interest income benefits from gain on sale of gilts

H1 20 other income includes gain on gilts…



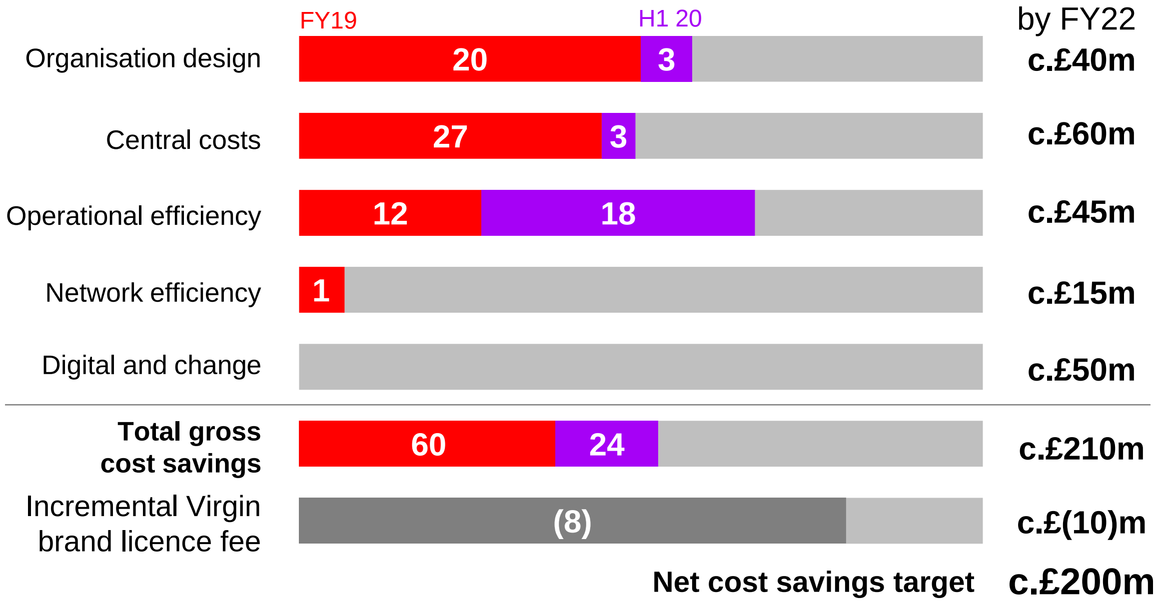
…with underlying divisional fee income fairly resilient

- Sale of gilts at attractive market levels; proceeds reinvested into other high-quality liquid assets
- Lower Personal income driven by HCCR overdraft fee changes and lower credit cards fees
- Business income remained stable over the last three halves underpinned by consistent account fees and customer interest rate and FX risk management products
- Mortgage fee income stable with contribution from life, home and insurance sales
- Investments fee income ceased to be recognised following transfer to ASI JV; now receive net share of JV profit which was negligible given still in start-up phase

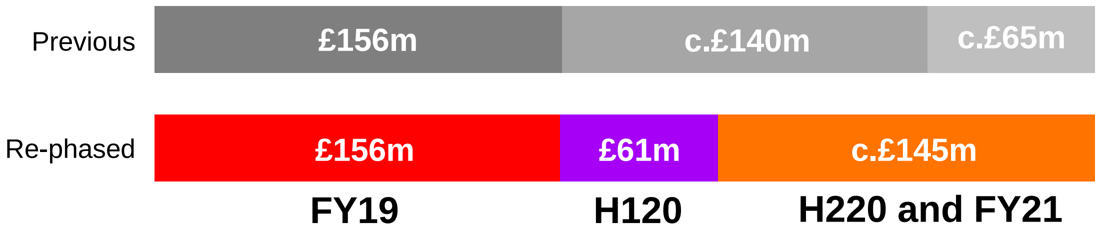
Continued synergy delivery; future profile to be re-phased

Transformation programmes continued to deliver net savings

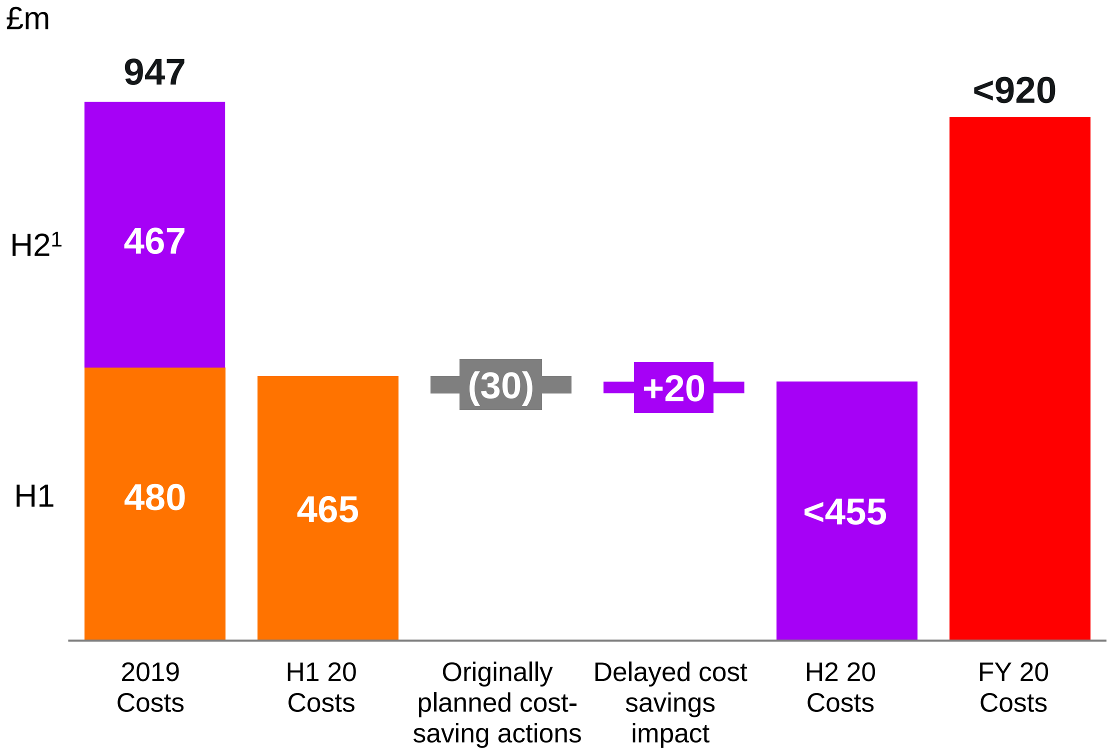
Run-rate net cost savings to date of £76m



Restructuring cost phasing – c.£360m over three years



Re-phased initiatives and H2 cost delivery due to COVID impact



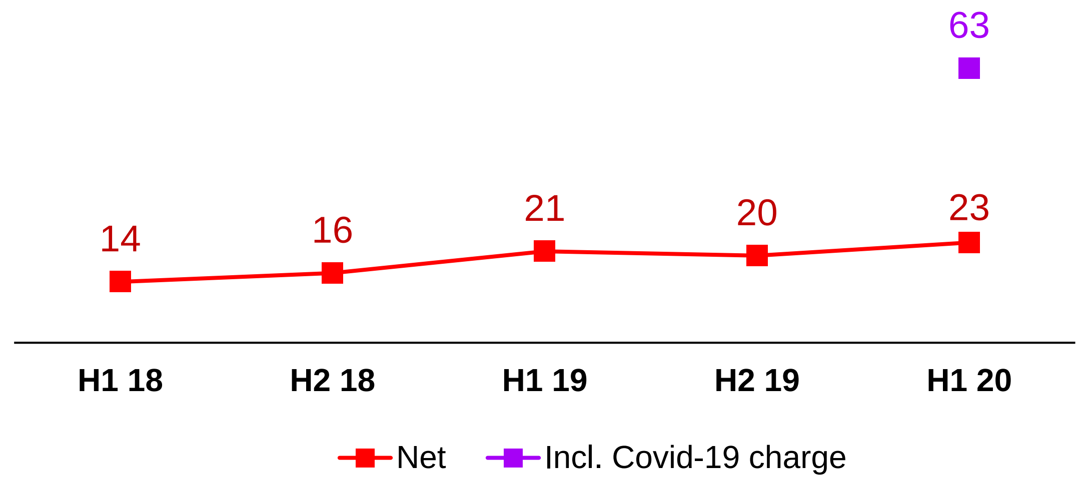
- H1 cost reduction benefitted from actions taken in FY19
- Original plan saw further initiatives taking FY20 costs to <£900m
- Delay to Transformation programme drives lower than planned cost savings in H2

[1] H2 2019 includes Bank Levy of £5m

Pre-COVID asset quality remained robust

Pre COVID-19 impairment was as expected

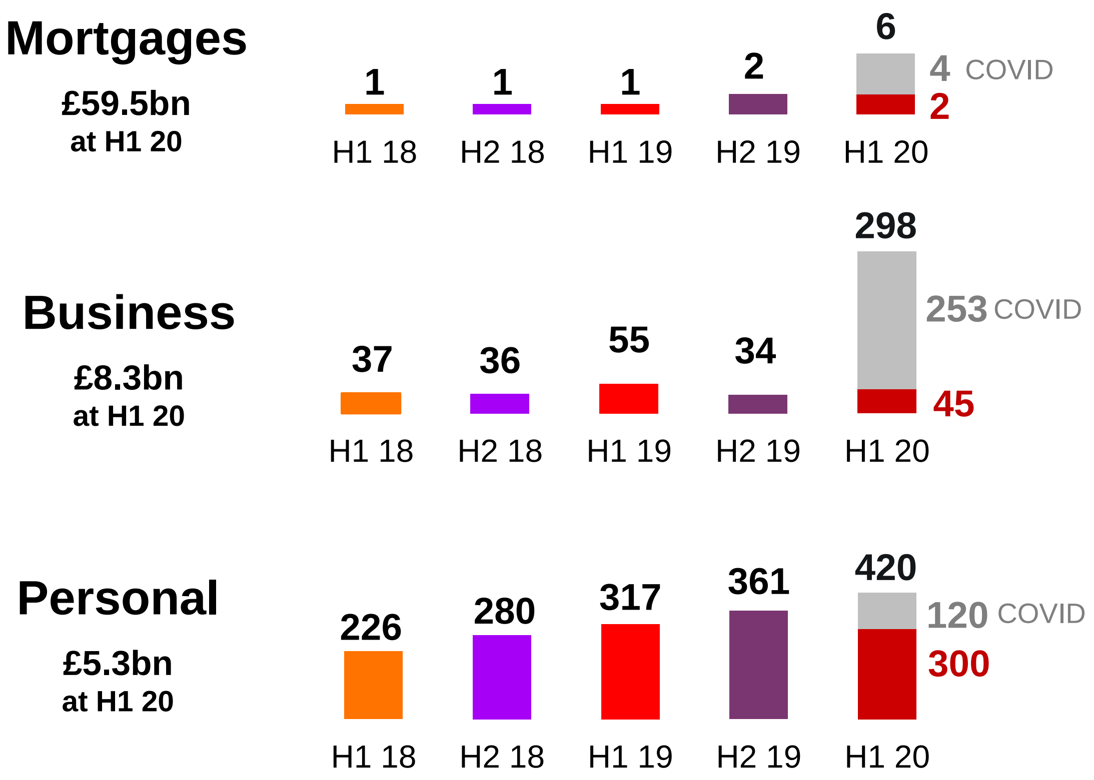
Net cost of risk
(bps)



	H1 18	H2 18	H1 19	H2 19	H1 20
P&L Charge	**£48m**	**£58m**	**£77m**	**£76m**	**£86m**
COVID-19 charge					**£146m**
Total charge					**£232m**

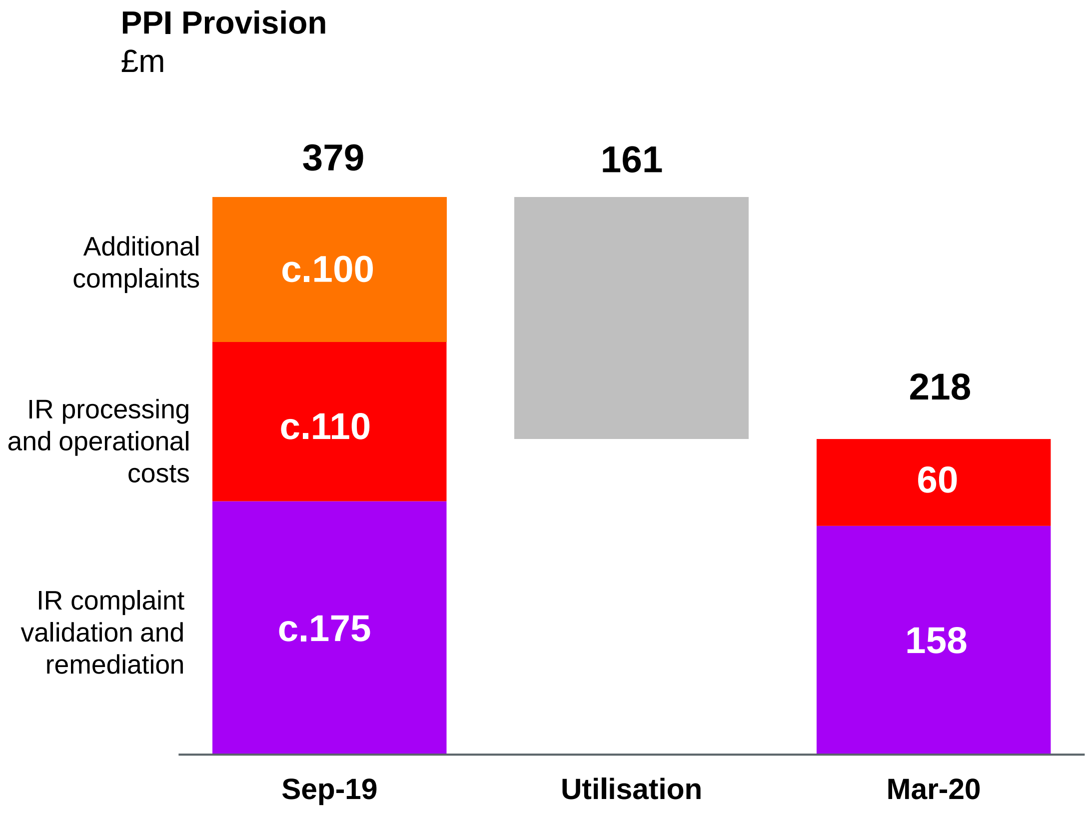
Pre-COVID divisional asset quality remained robust

Gross cost of risk by division (COVID-19 impairment in grey)
(bps)



PPI processing uphold rates much lower than assumptions

Well provided: good progress made; spend trending below plan



Uphold rate on processed complaints lower than assumed

Significant progress made on complaint and IR processing

- c.50k PPI complaints outstanding at Sep-19 all closed-out
- Only c.8k IRs of the initial c.325k IRs remain unprocessed
- Now expect c.100k complaints from IR population; slightly higher IR-to-complaint conversion rate than assumed
- c.25k PPI complaints from IR conversions closed; c.75k remain

Complaint uphold rate much lower than provision assumption

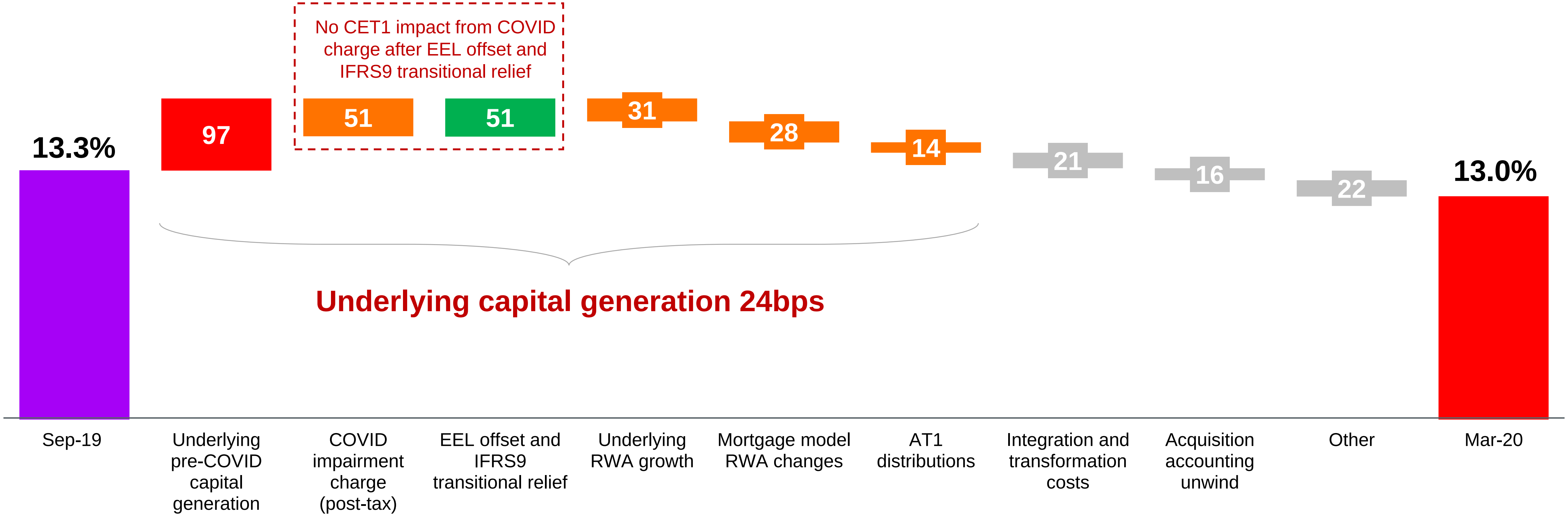
- Complaint validity lower than expected over past 6 months
- Average uphold rate c.25% vs. provision assumption c.40%
- Average redress and cost-to-do broadly in line with assumptions

Run rate implies a potential provision surplus

- While current uphold run-rate suggests a provision surplus, prudently maintaining existing assumptions until complete
- Previously expected to complete remaining cases by FY20, but operations currently paused at minimal cost due to COVID-19

Capital generation offset by exceptional items & model updates

CET1 ratio evolution (bps)



20.1%	**Total capital ratio**	19.5%
4.9%	**UK leverage ratio**	4.9%
26.6%	**MREL ratio**	25.6%

Outlook - guidance and targets

FY20 guidance

NIM	155-160bps
Underlying costs	<£920m
Dividend	FY20 Board decision will reflect economic environment at that time

Medium-term targets: too early to quantify COVID-19 impact

Too early to determine what, if any, impact on medium-term targets

- 75% mortgages
- 15% business
- 10% personal

Ambition for asset mix in medium term

- Above system asset growth
- High single digit CAGR in relationship deposits
- <115% loan-to-deposit ratio

- c.£200m net cost savings by FY22
- <£780m costs in FY22
- Mid 40%'s cost: income ratio in FY22

- <30bps cost of risk to FY22
- c.13% CET1 ratio
- Sustainable returns

>12%
Statutory RoTE by FY22

>100bps
CET1 generation p.a. by FY22

Progressive & sustainable
ordinary dividend, c.50% payout ratio over time

Conclusion

DAVID DUFFY

Chief Executive Officer

Self-help strategy re-phasing; strategic opportunities

Self-help strategy already in place…

Our Purpose:

Making you happier about money

Our strategic ambition:

To disrupt the status quo

Delivered through **our strategic priorities:**

Pioneering growth	Reshape balance sheet mix: • grow margin accretive assets • grow low cost relationship deposits
Delighted customers and colleagues	• Enhance the customer experience • Drive digital adoption • Colleagues delivering our purpose
Super straightforward efficiency	• Realise integration synergies • Digitise and simplify the business • Streamlined operating model
Discipline and sustainability	• Foster a disciplined risk approach • Optimise the Group's RWAs • Deliver sustainable returns

…with some H2 2020 re-phasing…

- Rebranding activity
- Full launch of Virgin Money Current account
- Further optimisation & efficiency
- VM Business Current Account launch

Re-phasing to create capacity to support customers and protect capital

…and strategic opportunities to consider

Emerging themes

- Importance of Purpose and building trust
- Transforming customer engagement: digital servicing, lower cash usage, further falls in branch visits
- Colleague enablement: enhanced remote capability, greater remote working
- Cost focus: physical footprint, distribution changes, shift to variable

Well positioned for an uncertain outlook

Protecting the bank and leveraging our strengths…

Defensive balance sheet
- Mortgages 82%; Business 11%; Personal 7%
- Significant on balance sheet provisions of £542m

Disciplined risk management approach
- Loan portfolios prudently built to exacting standards
- Proactive management of customers & credit lines

Resilient capital base
- 13.0% CET1, with c.£800m management buffer to reg. min
- Substantial opportunities to improve capital resilience

Prudent funding and liquidity position
- No reliance on short-term wholesale funding
- Prepared for 9-12 month shut-out of markets if need
- Excess liquidity being held; LCR of 139%

…while making use of extensive policymaker support

Supportive Governmental Policies
- Bounce Back / CBILS / CLBILS loan guarantee schemes
- Business rates relief
- Income support for individuals
- Income support for self employed
- Tax self-assessment delay

Supportive Regulatory Environment
- Countercyclical buffer cut to 0%
- ACS stress test delayed
- IFRS9 & forbearance guidance
- TFSME launched
- Additional liquidity measures
- Additional QE increase to £645bn

Q&A

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Appendix

We are delivering the disruptive force in banking

VIRGIN MONEY UK

Strengths of a major bank:

- ✓ Primary relationships
- ✓ Trusted brand, loyal customers
- ✓ Full personal and business offering
- ✓ Multiple distribution channels
- ✓ Digital capability and Open Banking
- ✓ Multi-product customers

Strengths of a neo bank:

- ✓ Innovative brand & edge
- ✓ Customer lifestyle intelligence
- ✓ 'Pay & play' functionality
- ✓ Innovative digital platform
- ✓ Saving pots functionality
- ✓ Limited back-end legacy systems

Progress continues on ESG performance

Environment

- ✓ Net zero carbon emissions and waste impact targeted by 2030
- ✓ All directly purchased electricity is from renewable sources
- ✓ 80% in-house waste recycling with zero waste sent to landfill
- ✓ Identifying a partner to help build out sustainable loans framework

Social

- ✓ Virgin Money Foundation donating >£850k to charities' COVID efforts
- ✓ Virgin Money Giving platform fee waived; new partnerships and features to enable fundraising from home
- ✓ 9k young people participated in "Make £5 Grow", improving financial well-being & entrepreneurship; Reworked for remote participation
- ✓ Supporting customers via affordable payroll-deducted loans in partnership with Salary Finance
- ✓ >4k customers in financial difficulty supported through partnerships
- ✓ c.100 apprentices currently across the business

Governance

- ✓ 40% of senior management are female
- ✓ Quarterly Board update on Group sustainability strategy
- ✓ Transformation & Integration Committee established to oversee strategic programmes
- ✓ Updated ESG focus aligned to Risk Committee principal risks

Sustainability commitments

- Signatory to U.N. Principles for Responsible Banking
- Developing a roadmap for net zero by 2030
- Developing demanding benchmarks for appraising businesses that are actively engaged in activities that advance the cause of environmental sustainability
- Targeting 5% of business loans to firms focused on activity promoting environmental sustainability
- Supporting vulnerable customers & financial inclusion via product development and service enhancements
- Supporter of HM Treasury's Women in Finance Charter
- Achieved our target 40% women in senior management by 2020
- Senior leadership diversity and colleague engagement embedded in LTIP targets
- Two volunteering days per year for all colleagues

Impairment economic scenarios

Scenario	Economic Measure	2020	2021	2022	2023	2024
Existing multi-year Severe Downside	GDP (yoy %)	(1.2%)	(1.1%)	(0.5%)	0.8%	1.8%
	Unemployment (average)	4.6%	5.6%	6.3%	6.4%	6.1%
	House price growth (yoy %)	(11.6%)	(11.6%)	(9.4%)	4.4%	4.5%
Pandemic Shock	GDP (yoy %)	(10.0%)	2.8%	6.6%	2.6%	2.8%
	Unemployment (average)	6.3%	8.4%	5.3%	4.4%	3.8%
	House price growth (yoy %)	(5.6%)	(14.6%)	(0.0%)	10.4%	13.3%

Source: Oxford Economics

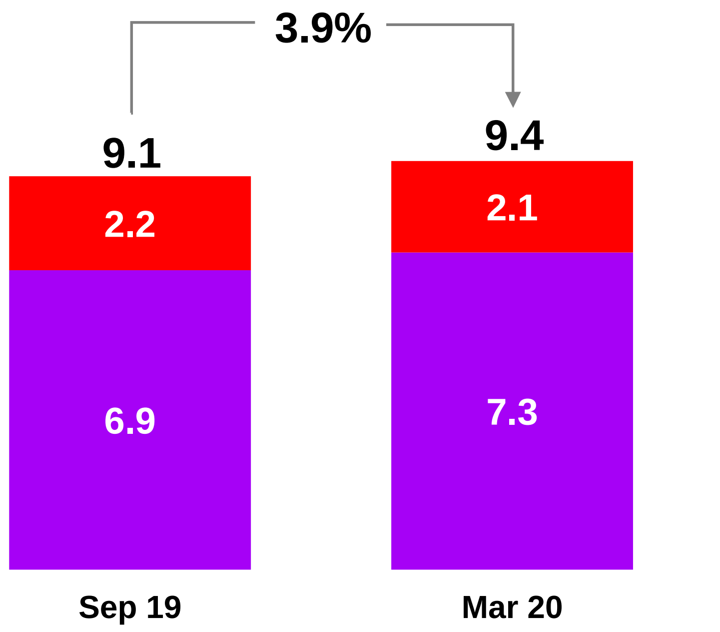
Balance sheet

£m	at Mar 2020	at Sep 2019
Mortgages	59,521	60,079
Business	8,327	7,876
Personal	5,335	5,024
Total customer loans	**73,183**	**72,979**
Liquid assets and other	14,868	16,391
Other assets	2,003	1,629
Total assets	**90,054**	**90,999**
Customer deposits	64,652	63,787
Wholesale funding (excl. TFS)	9,693	11,164
TFS	7,142	7,342
Other liabilities	3,493	3,685
Total liabilities	**84,980**	**85,978**
Equity and reserves	5,074	5,021
Liabilities and equity	**90,054**	**90,999**

Good growth in Relationship Deposits

Good growth in Business Current Accounts

Relationship deposit balances
£bn

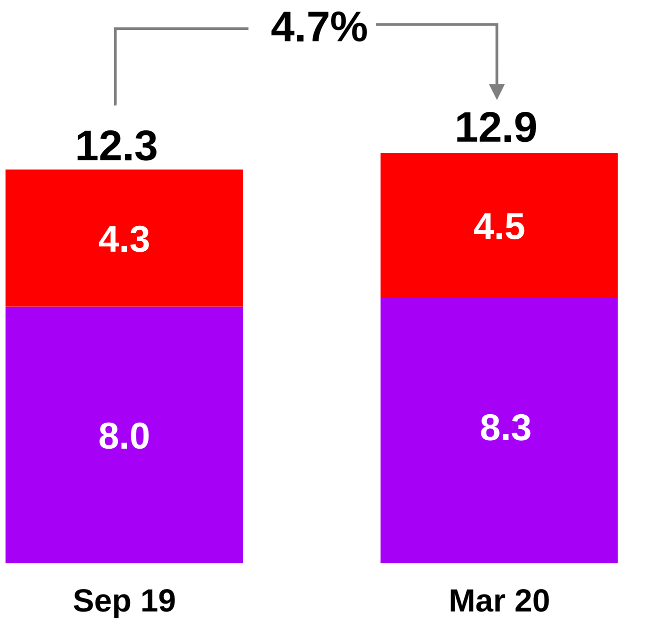


	Sep 19	Mar 20
Cost[1] (bps)	33	33

■ Business Current Accounts ■ BCA Linked Savings

Strong growth in Personal relationship deposits

Relationship deposit balances
£bn



	Sep 19	Mar 20
Cost[1] (bps)	30	32

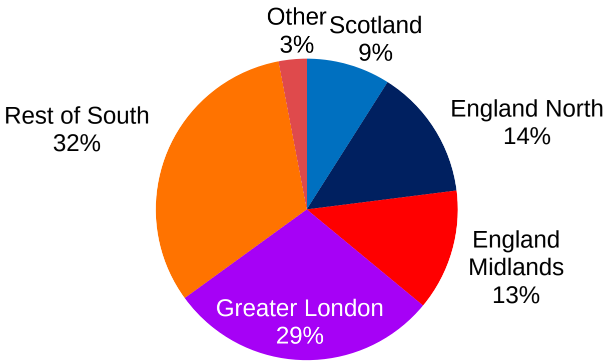
■ Personal Current Accounts ■ PCA Linked Savings

[1] Reflects cost of funds during the six month period

Mortgage Lending – H1 20

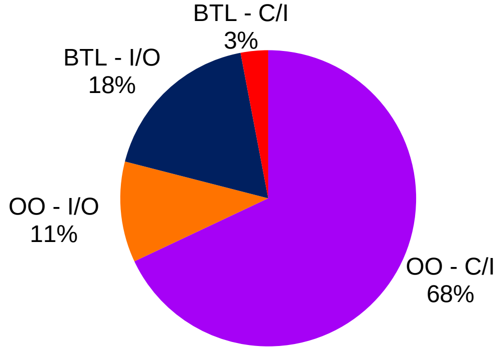
Mortgage lending location [1]

Stock of mortgage lending



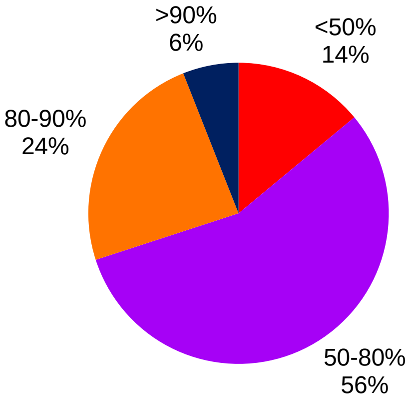
Repayment and borrower profile

Gross new mortgage lending, H1 20



Loan-to-value of mortgage lending

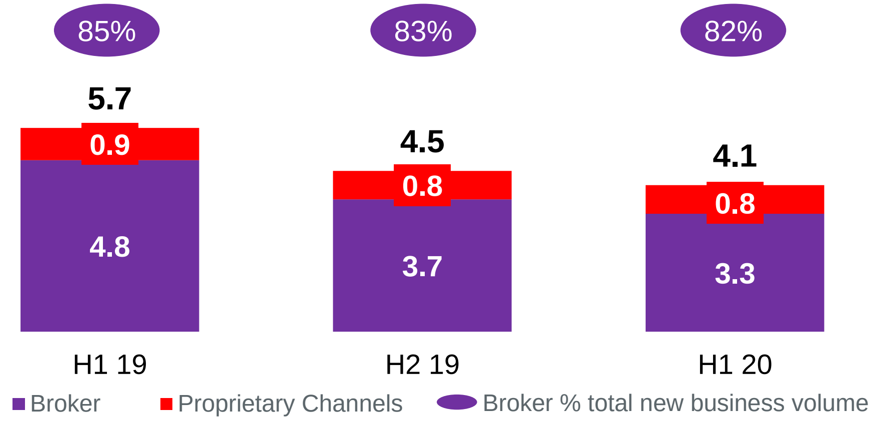
- 57.0% average LTV of stock mortgage portfolio
- 68.3% average LTV of gross new lending (H1 20)



Gross new mortgage lending by LTV banding

Gross new mortgage lending volumes

(£bn)

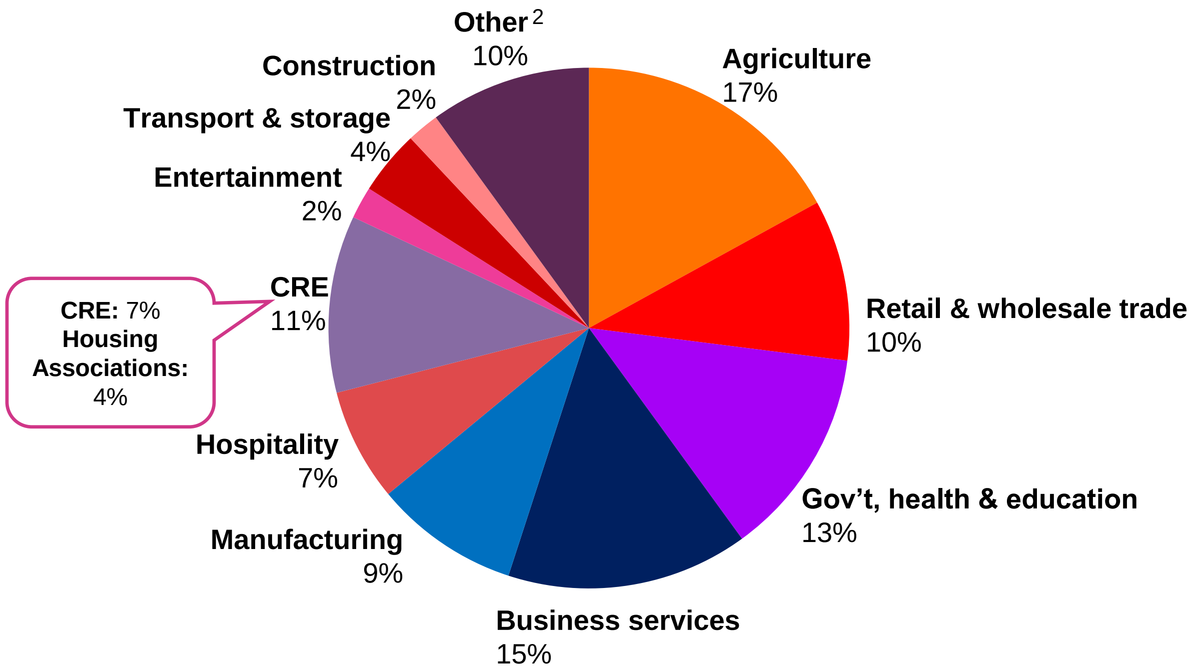


VIRGIN MONEY UK

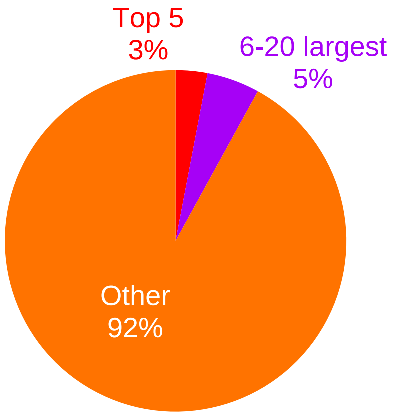
(1) Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirements. Other includes Wales, Northern Ireland, Channel Islands and those new accounts where the region might be unknown until collateral matching has occurred.

Business Lending – H1 20

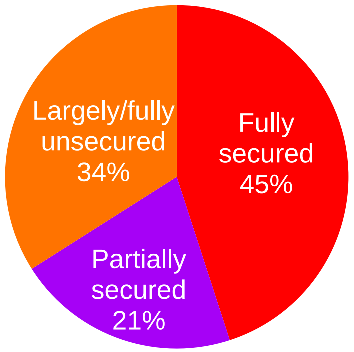
Business lending portfolio by industry sector[1]



Business lending portfolio



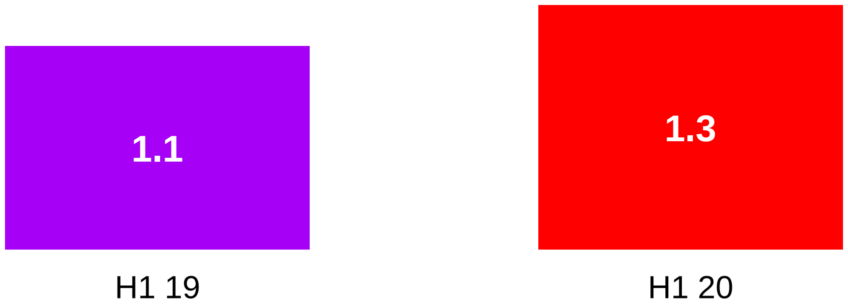
% of book by customer exposure



% of book by collateral cover

Business banking drawdowns

(£bn)



VIRGIN MONEY UK

1 Sector allocations per ONS Standard Industrial Classification (SIC) codes
2 Other includes Utilities, Post & Telecommunications, Personal Services, Finance and other unassigned businesses

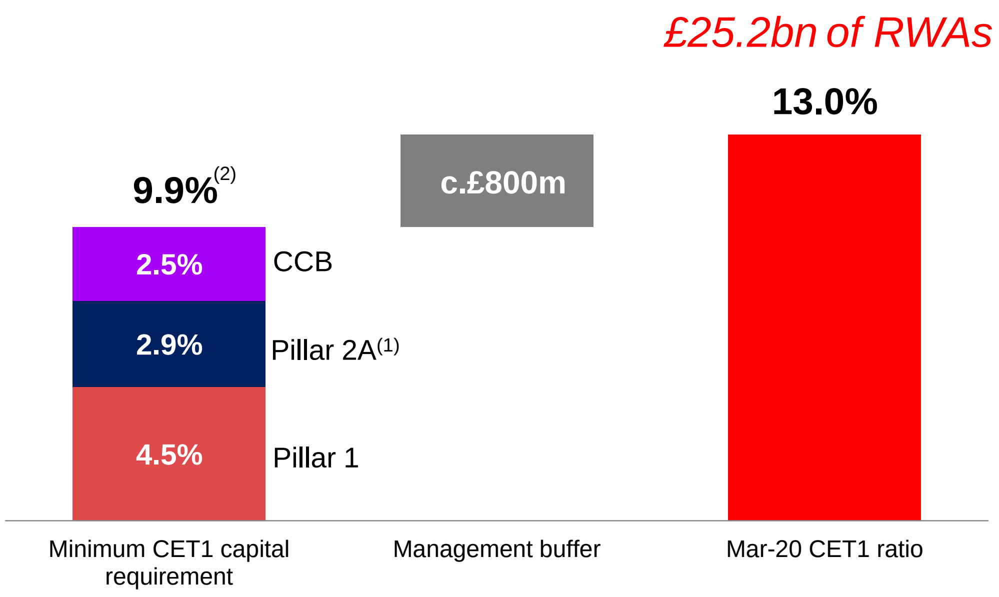
Risk weighted assets

£m

	at Mar 2020	at Sep 2019
Mortgages	9,104	8,846
Business	7,580	7,124
Personal	4,238	4,042
Other	1,214	1,045
Total credit risk	**22,136**	**21,057**
Credit valuation adjustment	202	192
Operational risk	2,606	2,606
Counterparty risk	229	191
Total RWAs	**25,173**	**24,046**
Total loans	**73,183**	**72,979**
Credit RWAs / total loans	**30%**	**29%**
Total RWAs / assets	**28%**	**26%**

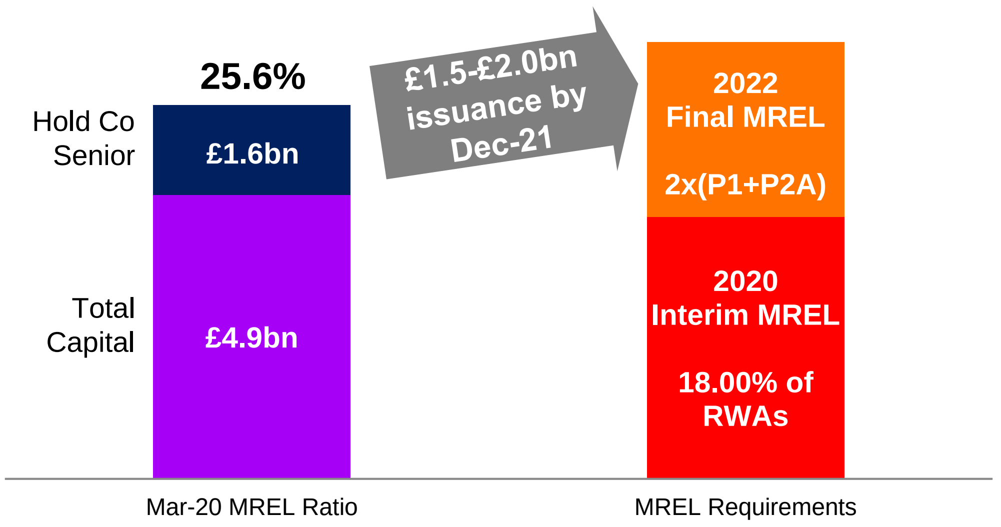
Robust capital position

Significant management buffer maintained



- CET1 ratio in line with 13% target operating level
- Scope to further optimise capital requirements
- Robust capital position provides sufficient capacity to execute CMD strategy and deliver our targets

Interim MREL requirement met; on track for end-state



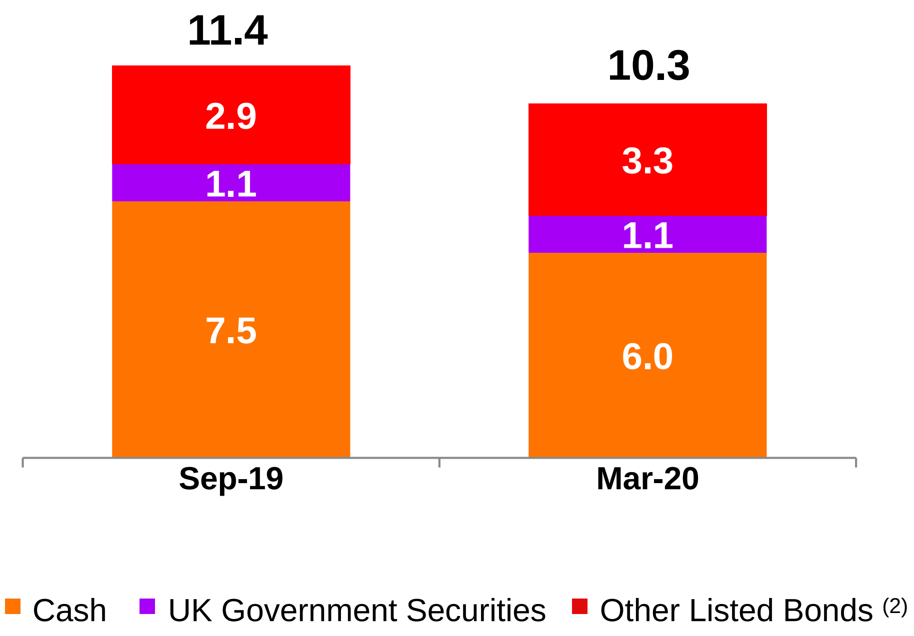
- 2020 interim MREL requirement met
- Final MREL dictated by Dec-21 Pillar 2A
- Planned issuance of £1.5-£2.0bn by Dec-21

(1) Incorporates perceived risks relating to the integration of the two businesses
(2) On 11 March 2020, as part of the package of measures to combat the COVID-19 virus, the FPC announced a reduction the UK CCyB to 0% with immediate effect. The FPC expects to maintain the 0% rate for at least 12 months, so that any subsequent increase would not take effect until March 2022 at the earliest.

Strong liquidity position

High quality liquid asset buffer…

Liquid Asset Portfolio [1]
(£bn)



…and continue to hold excess liquidity

- Additional liquidity held over Brexit and Part VII transfer only partially released
- LCR of 139% well above regulatory requirement of 100%, equivalent to a surplus of c.£2.9bn
- Continue to manage liquidity risk against an internal risk appetite more prudent than regulatory requirements, ensuring a substantial buffer in the event of any sudden sharp outflows

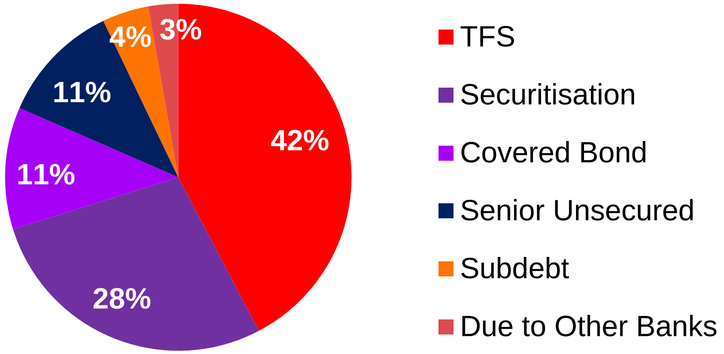
Key Ratios	Mar-20	Sep-19
Liquidity Coverage Ratio	139%	152%
Net Stable Funding Ratio	129%	128%

(1) As at Mar-20
(2) Bonds issued by supra-nationals and AAA-rated covered bonds

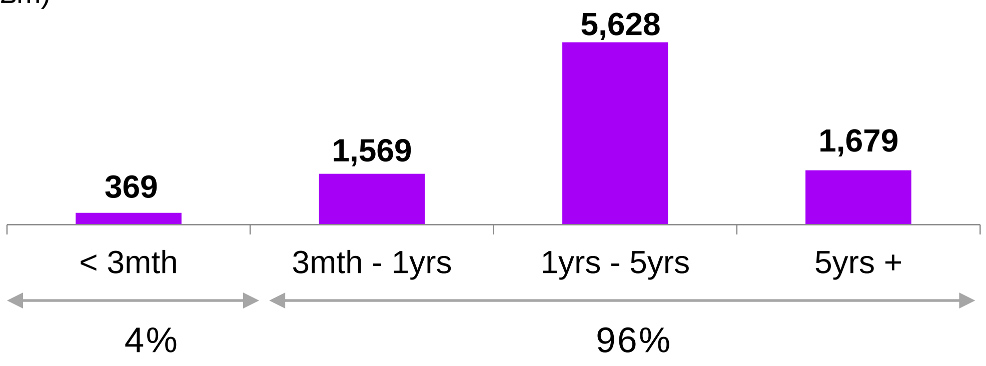
Continued diversification of wholesale funding

Full range of funding programmes…

Wholesale Funding by Product (1)
(%)



Debt Securities in Issue by Maturity (1)
(£m)



…minimal residual 2020 funding need

- Well managed wholesale maturity profile with <1 year maturities representing 21% of total
- No reliance on short-term Wholesale Funding
- Expect initial allowance under the new TFSME to be c.£7.0bn
  - to be used to refinance outstanding £7.1bn of TFS
- Access to TFSME and deposit inflows leaves minimal residual 2020 funding need:
  - Will look to maintain access to Secured Funding Markets in existing currencies; and
  - Continue MREL build - planned issuance of £1.5-£2.0bn by Dec-21

(1) As at Mar-20

Credit Ratings reflect robust business model but macro uncertainty

		Credit Rating: Moody's	Credit Rating: S&P Global	Credit Rating: Fitch Ratings	Product	Programmes
Virgin Money UK PLC	Long-term	Baa3 / Stable	BBB- / Negative	BBB+ / Rating Watch Negative	Senior Unsecured, Subordinated Debt	GMTN, A$ MTN
	Short-term	P-3	A-3	F2	-	-
Clydesdale Bank PLC	Long-term	Baa1[1] / Stable	BBB+ / Negative	A- / Rating Watch Negative	Senior Unsecured, Covered Bonds, RMBS	GMTN, A$MTN, RCB, Lanark, Gosforth
	Short-term	P-2	A-2	F2	-	-

- On 8 November 2019, Moody's changed the outlook on the UK to 'Negative' from 'Stable'. Moody's view is that UK institutions have weakened and the UK's economic and fiscal strength are likely to be weaker going forward. Subsequently, Moody's took ratings action on 15 UK banks and building societies, changing the outlook on the Group's long-term ratings to 'Stable' from 'Positive'.
- On 27 March 2020, Fitch downgraded the UK rating one notch to "AA-", with 'Negative' outlook. The downgrade reflects the deep near-term damage to the UK economy and significant weakening in the UK's public finances caused by the coronavirus outbreak, in addition to lingering Brexit uncertainty. Subsequently, Fitch took ratings action on 18 UK banks and building societies, changing the outlook on VMUK and CB's long-term ratings to 'Rating Watch Negative' from 'Stable'.
- On 17 January 2020, S&P changed the outlook on CB's long-term rating from 'Positive' from 'Stable', reflecting the progress the Group has made in raising additional loss-absorbing capital ("ALAC") buffers. On 23 April 2020, S&P changed the outlook on VMUK and CB's long-term ratings to "Negative" (from "Stable and "Positive", respectively), as part of a broader action on the European banking sector. The outlook revisions reflect their view that the economic stress triggered by the coronavirus outbreak is likely to put pressure the Group's asset quality and earnings, and it may struggle to maintain an ALAC ratio sustainably above 8% in 2020.

(1) Long-term bank deposit rating

Structural hedge & NII benefit

- Structural hedge used to minimise volatility and stabilise earnings on income related to low & non-interest bearing liabilities and equity (as well as assets that display the same characteristics)

6 months ended	Mar-20			Sep-19		
£m	Average balance	Yield (1)	Net Interest Income (2)	Average balance	Yield (1)	Net Interest Income (2)
NIBs	10,230	0.9%	48	10,130	1.0%	52
Administered Deposits	9,400	0.9%	45	9,300	0.9%	43
Equity & Other	4,222	0.9%	18	4,884	0.9%	23
Total	**23,852**	**0.9%**	**111**	**24,314**	**1.0%**	**118**

16% of NII

17% of NII

- Structural hedge of £23.9bn, or 26% as a percentage of balance sheet
- Structural products are 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. If balances remain stable, yield will eventually equal 5 year average of the 5 year swap rate
- Generated net interest income of £111m in H1 2020

(1) Yield: Annualised Net Interest Income over Average Balance
(2) Net Interest Income: Average balance hedged over the period multiplied by the average yield on the fixed leg of the swap. Hedging may have been in the form of external swap execution or use of internal offsetting exposures, so the yield is a proxy derived from income that was allocated to the products based on swap rates at the time the hedging requirement arose.

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