

VIRGIN MONEY UK PLC

Full Year 2021

Trading Update



Basis of preparation

BASIS OF PRESENTATION

This investor presentation constitutes a trading update for Virgin Money UK PLC for the year ended 30 September 2021 and is unaudited. This investor presentation is not, nor is it intended to be, a preliminary statement of annual results. Due to the results presented in this presentation being unaudited and not having been agreed with the Company's auditors as would be required for a preliminary statement of annual results, further adjustment could arise from the finalisation of the audit which would be reflected in the audited financial statements when published, however Virgin Money UK PLC confirms that it is not aware of, nor has the company been notified of, any matter which may result in the need to make a change to the information in this update in connection with finalising the audit. This investor presentation relates to the trading update of the same date. The audited financial statements will be included in the Group's Annual Report and Accounts which is expected to be published on 24 November 2021.

This investor presentation provides an update on the Group's acceleration of its Digital First strategy, following the conclusion of its digital strategy review which was announced at the time of its H1 results.

Virgin Money UK PLC ('Virgin Money', 'VMUK' or 'the Company'), together with its subsidiary undertakings (which together comprise 'the Group'), operate under the Clydesdale Bank, Yorkshire Bank, and Virgin Money brands.

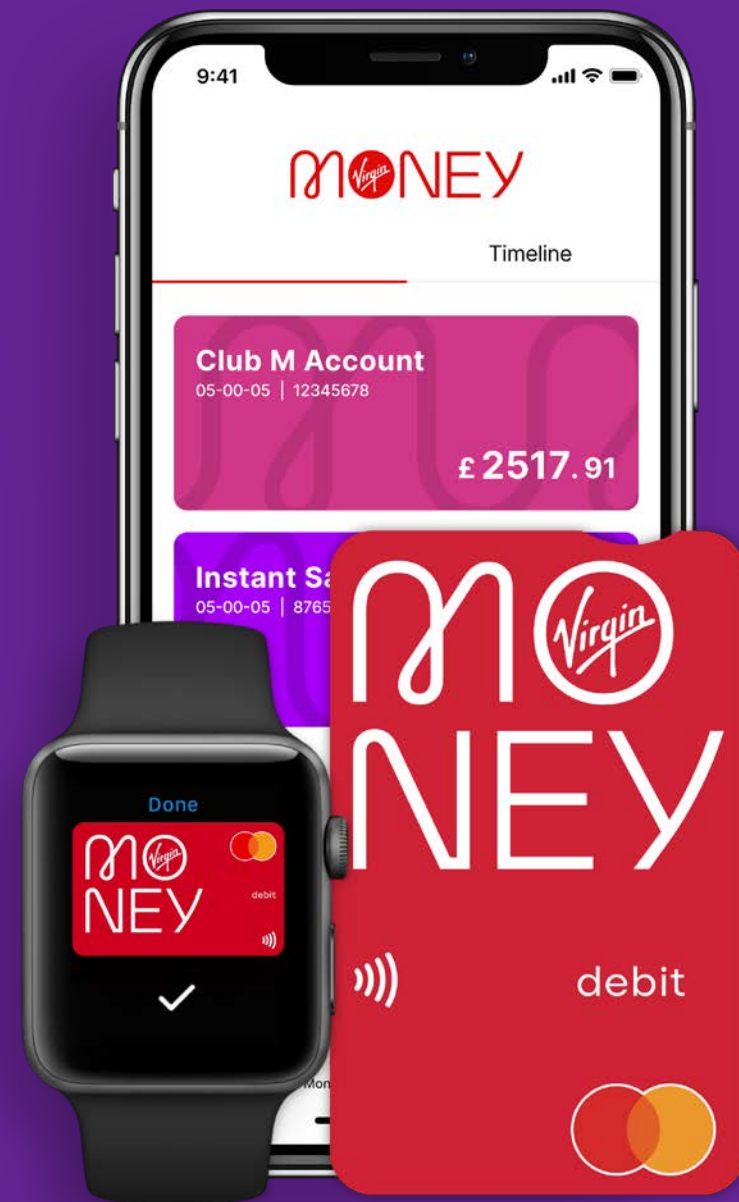
The information in this investor presentation is unaudited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 (the "Act"). Statutory accounts for the year ended 30 September 2020 have been delivered to the Registrar of Companies and contained an unqualified audit report under Section 495 of the Act, which did not draw attention to any matters by way of emphasis and did not contain any statements under Section 498 of the Act.

Accelerating Digital

DAVID DUFFY

Chief Executive Officer

The figures, commentary and comparisons set out in this presentation are based on the anticipated FY21 results as set out in the announcement of 4 November 2021, which are unaudited and have yet to be agreed with Virgin Money's auditors and so could be subject to change.





Strong expected financial performance in FY21

Balance sheet mix

- NIM of 1.62% for FY21 vs 1.56% for FY20; exit rate of 1.70% for Q4
- Relationship deposits +19% YoY; FY21 cost of deposits reduced 37bps vs FY20
- Stable lending balances with significantly above-market growth in credit cards

Efficiency

- FY 21 costs down 2% to £902m
- Integration & Transformation substantially completed
- Accelerating digital to drive productivity and growth

Asset quality

- Improving economic forecasts led to £217m writeback of provisions across H2
- Asset quality remains resilient but strong provision coverage maintained at 70bps
- ECL release of £131m; (18)bps cost of risk for FY21

Balance sheet strength

- Capital remains robust: CET1 ratio improved to 14.9%¹
- Strong TNAV progression; improved 46p to 290p during FY21
- Board intends to recommend dividend of 1p per share²

Statutory ROTE

10.2%

Underlying profit before tax

£801m

Statutory profit before tax

£417m

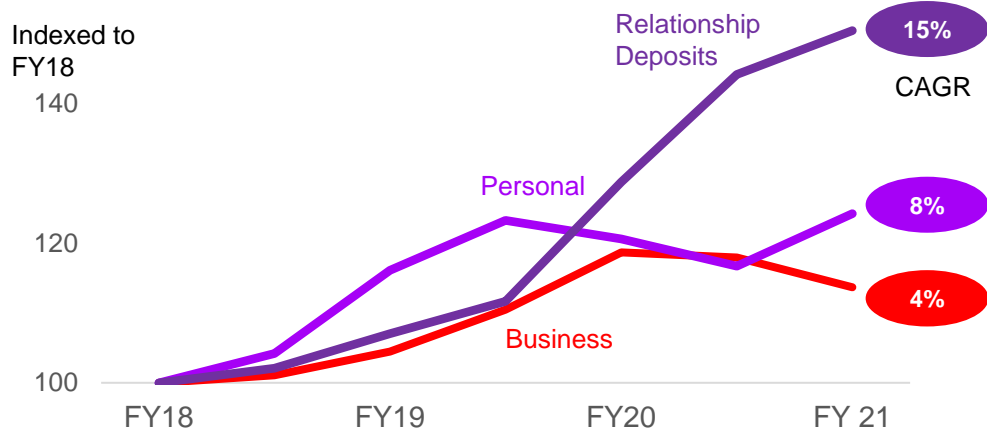
Robust CET1 ratio¹

14.9%

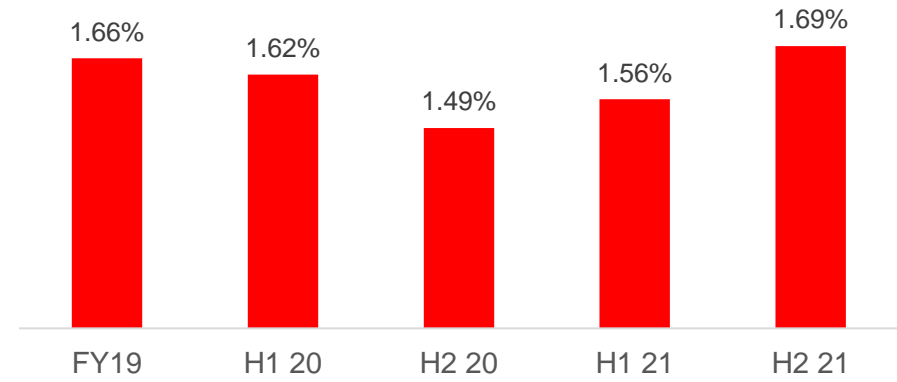


Improved financial performance driven by strategy

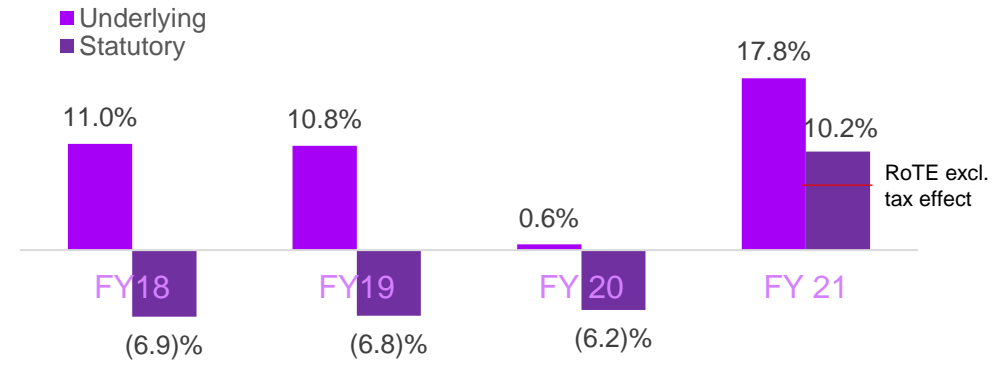
Growth in margin accretive products



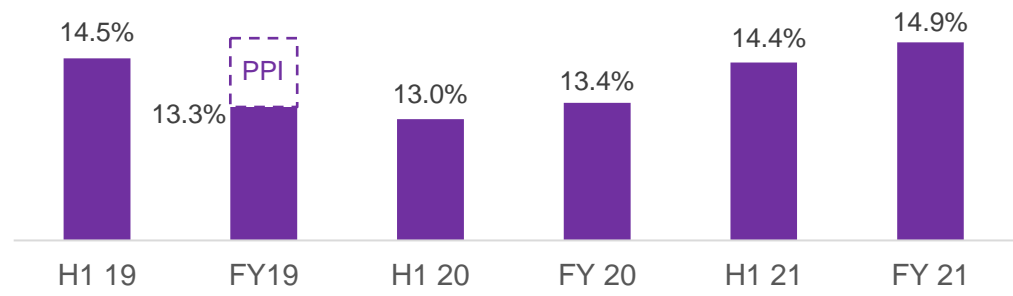
Supporting delivery of improved NIM



RoTE progression



Robust capital accretion¹



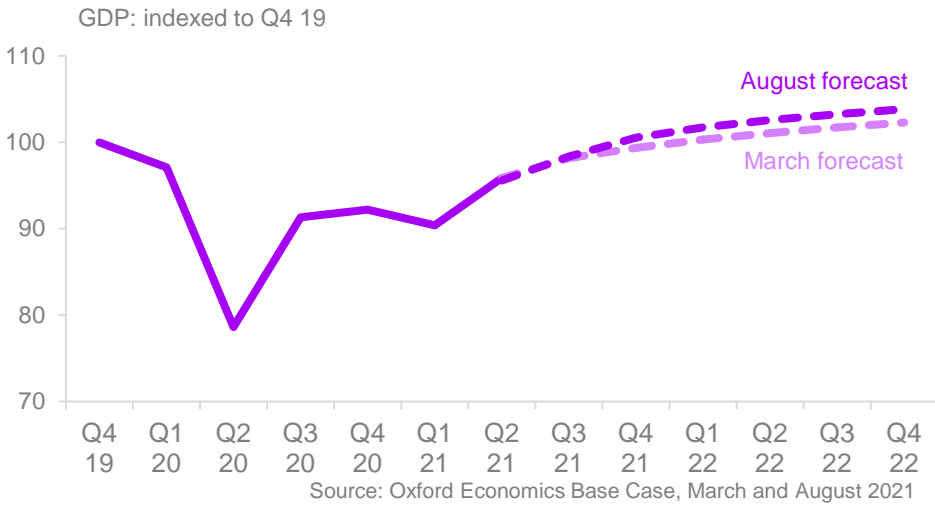
¹ IFRS 9 transitional basis



Higher rate outlook and supportive macroeconomic backdrop

Gathering pace of recovery

GDP: stronger than anticipated rebound



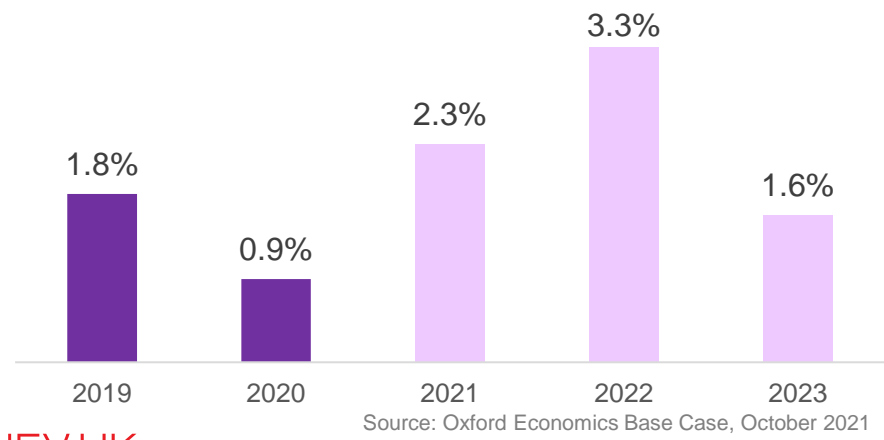
Unemployment: lower than initially feared



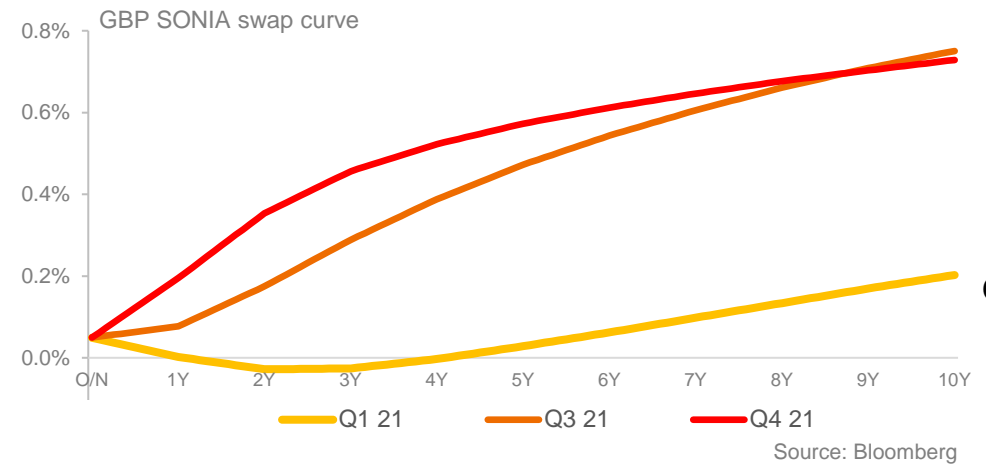
Stronger labour demand

Temporary inflationary pressure

CPI: inflation to peak in 2022



Rates: significant yield curve steepening during this year



Improving UK rate environment



Successfully delivered integration and rebranding

Delivered integration and synergies

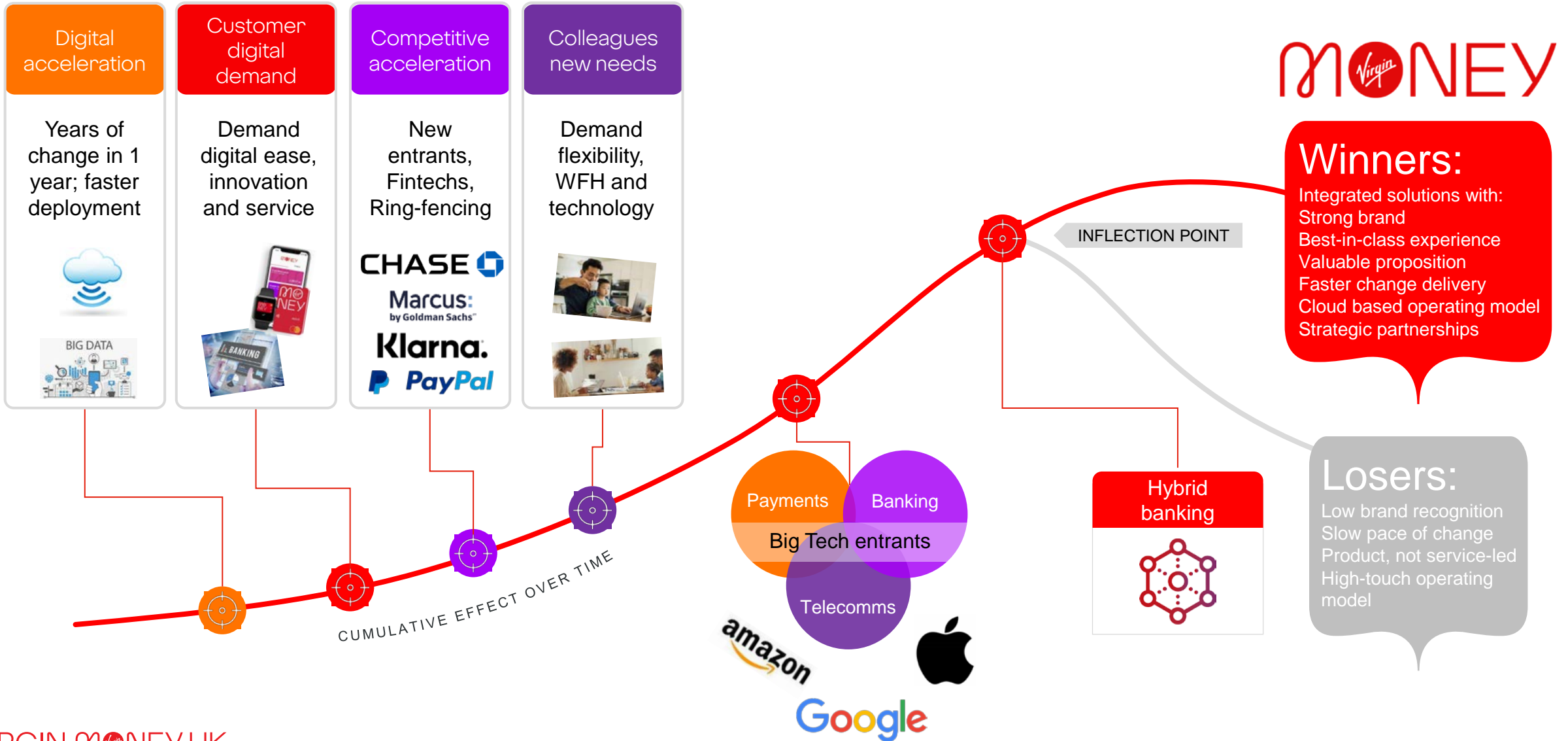
- ✓ FSMA Part VII delivered
- ✓ c.20% reduction in staff
- ✓ 44% decrease in branch network to 131 stores¹
- ✓ 38% reduction in main offices to 8 sites
- ✓ Significant progress on synergies
- ✓ 2.7m accounts rebranded
- ✓ c.2.5m customers using VM mobile apps
- ✓ Consolidated data warehouse contains over 3,000 differing data sets for over 8m customer accounts

While rebranding and starting to digitise the bank

- ✓ 3 legacy brands converged into 1
- ✓ Store network fully rebranded
- ✓ Vast majority of products now sold under VM brand, attracting more affluent customers
 - 95% growth in new PCA sales YOY
 - 100% new BCA sales VM branded
 - 100% credit card sales under VM/VAA brand
- ✓ Launch of national digital business bank
- ✓ Launched innovative branded services such as Money on your Mind and Brighter Money Bundles

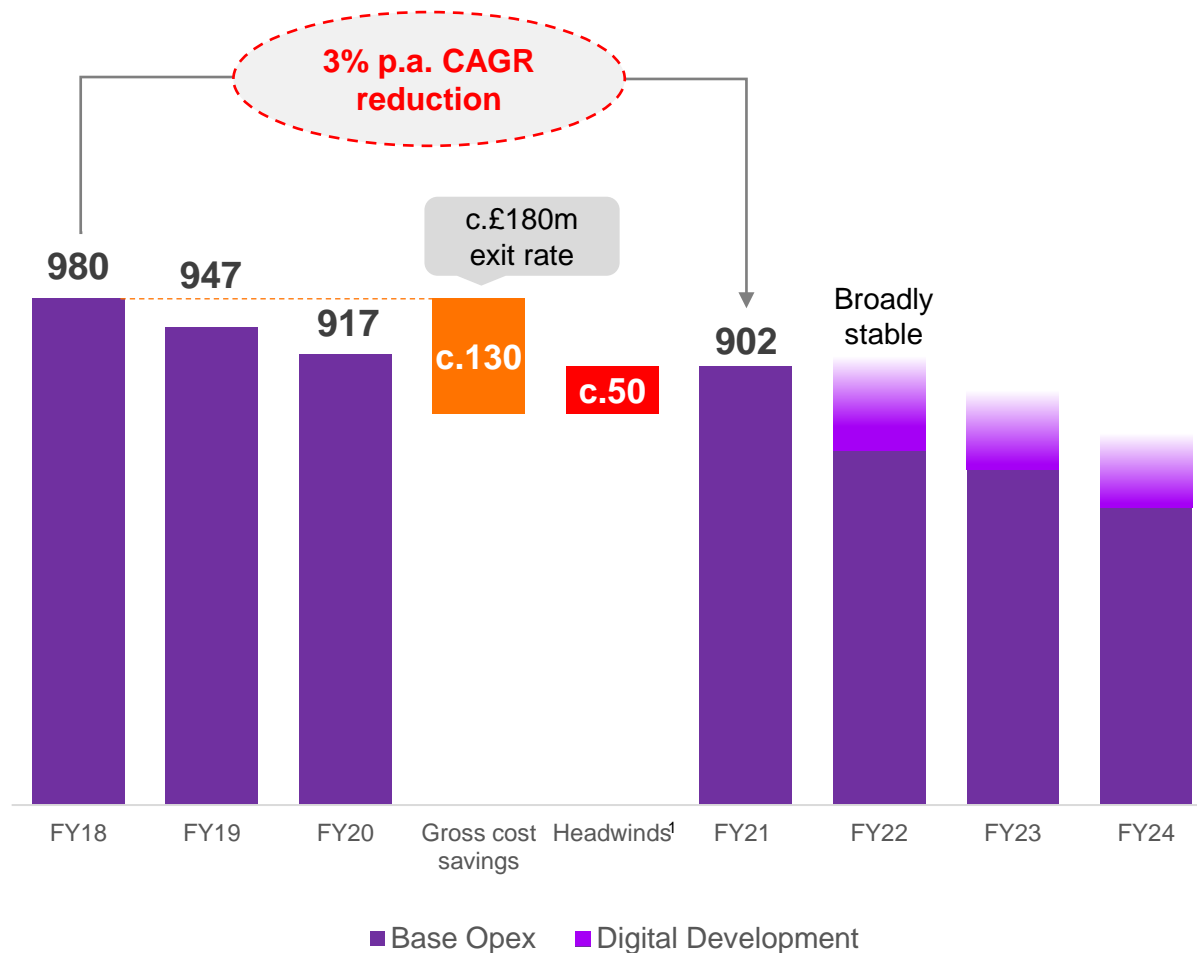


COVID has significantly accelerated digital trends in banking



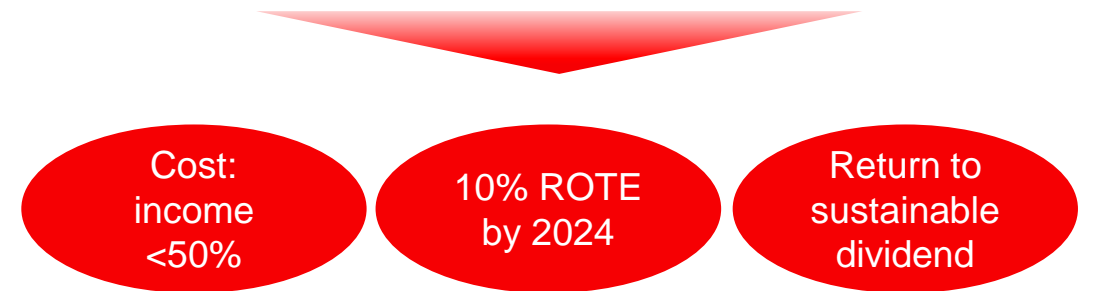


Significant cost reduction with higher headwinds and investment



Delivering cost reduction

- By FY21, delivered c.£180m exit run rate savings with c.£50m headwinds¹
- FY22-24, targeting c.£175m gross savings from c.£275m restructuring
- Expect around half of savings to be reinvested, including absorbing the impact of inflation
- FY22 costs broadly stable, reducing thereafter





What our investment will deliver

Customer & propositions

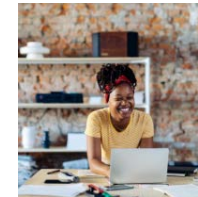
- ✓ Launch of national digital business bank underway
- ✓ Launch digital wallet with integrated Virgin Red loyalty scheme
- ✓ Launch PCA and BCA debit cashback
- ✓ Target accelerated growth of Investment JV with abrdrn
- ✓ Innovative subscription-based unsecured credit model
- ✓ Straight-through mortgage processing with home coach app



Best-in-class propositions and experiences

Colleagues & property

- ✓ Life More Virgin operating model: increased cloud-based remote working with digital tools for colleagues
- ✓ Rationalise property footprint including branches and offices
- ✓ Investment in colleague hubs for collaborative working



Efficient bank with motivated colleagues

Digital

- ✓ Strategic partnership with Microsoft delivering full cloud architecture
- ✓ Build single customer view with one digital gateway
- ✓ Automation of key customer journeys
- ✓ Investing in Digital First programme









Productivity and agility









Digital First Bank investment will drive efficiency

Customer and propositions - digitisation and improvement

	<u>From</u>	<u>By FY24</u>
 Customer interactions	70% voice	80% digital
 Fully digitised key customer journeys	Limited	100%
 PCA digital adoption	62%	>80%
 # non-digital accounts	1.3m	Low
 Mortgage application automation	Limited, paper-based	100% digital
 Service centres	6 Voice-led	Fewer, digitally-led

Colleagues and digital - productivity and agility

	<u>From</u>	<u>By FY24</u>
 Colleague interfaces	Multiple	Single sign on
 Property footprint	c.900k sq ft	c.300k sq ft
 Branches	162 ¹	Fewer, digitally-led
 Data Centres	6	2
 Infrastructure in Cloud	c.5%	c.75%
 IT delivery lead time	13 weeks	6 weeks

Investing to deliver improved efficiency with enhanced digital customer experience



New propositions target digital-driven growth in key segments

Strong growth from established digital propositions

Attracting new digital, affluent PCA customers

- Strong FY21 growth; 95% sales uplift
- 94% digitally registered
- Virgin brand attracting higher affluence customers
- Taking market share nationally via digital



Strong growth in higher affluence credit card segments

- Strong FY21 growth +4% vs market -6%
- 100% digital origination
- Prime affluent book with strong credit quality
- Scale business with 7.4% market share



New digital propositions to target key growth segments

Business

Differentiated digital business banking targeting best-in-class customer service with specialist RM support

Unsecured

Successful digital model expanded to adjacent segments with integrated rewards and digital wallet

Mortgages

Fully digitised processing, targeting underserved segments; greener mortgages; home buying coach

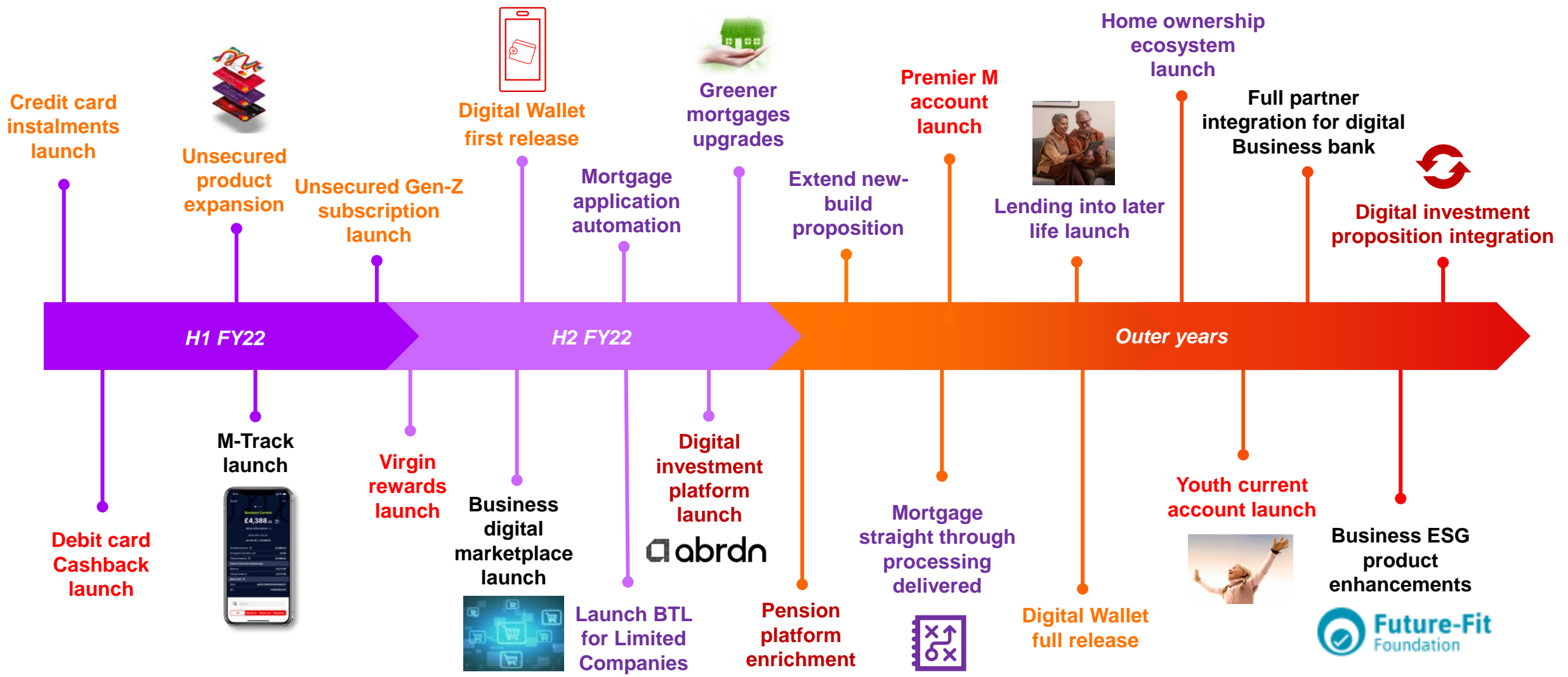
Investments

Straightforward proposition, with refreshed digital acquisition and servicing pathways

Delivering above market growth in Business and Unsecured; maintaining market share in Mortgages



Strong pipeline of propositions to drive growth





Launching a Digital Wallet with Virgin Red loyalty opportunity

Developing differentiated capabilities

- Collaborating with Global Payments to deliver digital wallet¹ with full BNPL capability and loyalty scheme
- Integrated brand experience and value proposition
- Best-in-class digital merchant services proposition with integrated customer data and insights
- Potential opportunity for customers to 'Earn and Burn' Virgin points
- Available to all UK consumers

Compelling competitive attributes

- ✓ Developing valuable customer proposition
- ✓ Credit and debit loyalty / Virgin Money cashback
- ✓ Full functionality of all major competitors
- ✓ Fully integrated into digital business bank
- ✓ Differentiated rewards model as a currency
- ✓ Trusted brand with broader opportunity

MONEY

globalpayments

POINTS

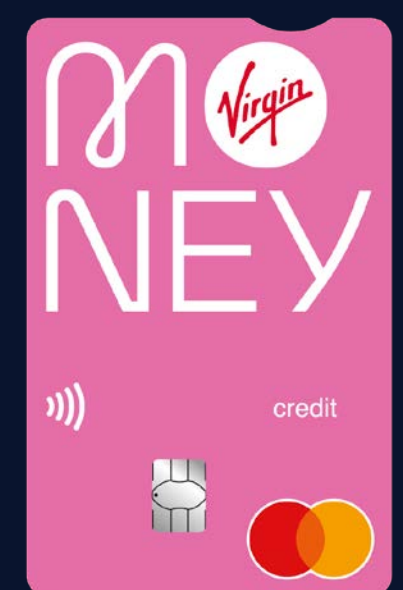
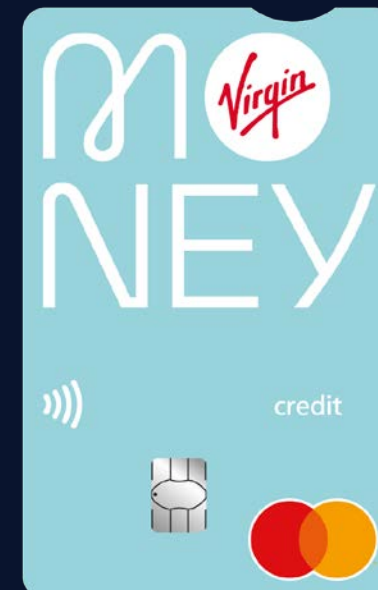
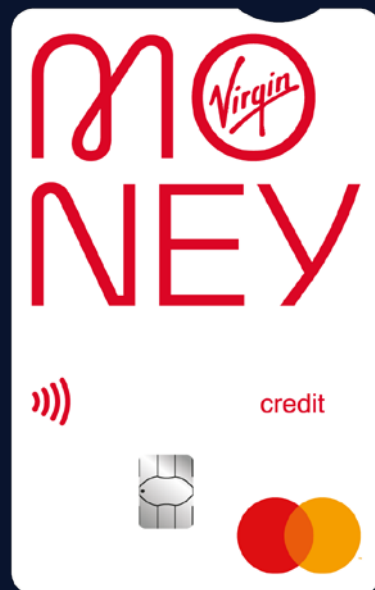
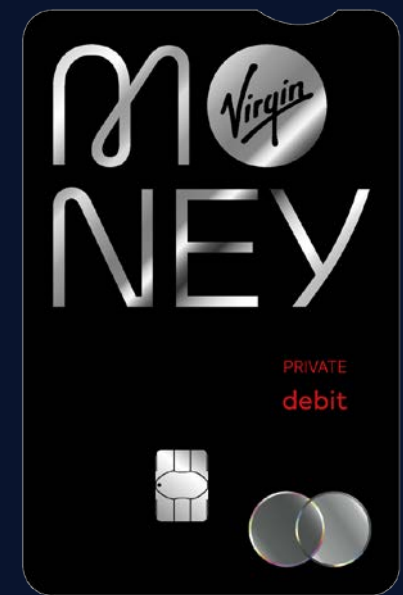
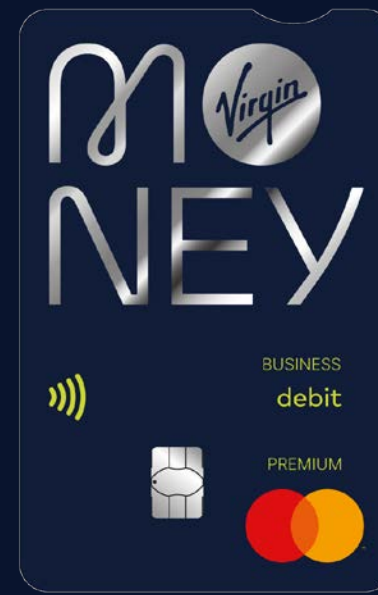
Expect further update in 2022

Financial Results

CLIFFORD ABRAHAMS

Chief Financial Officer

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Strengthened profitability driven by ECL release

Underlying expected P&L (unaudited)	12 months to	12 months to	Change
£m	30 Sep 2021	30 Sep 2020	FY21 vs. FY20
Net interest income	1,412	1,351	5%
Non-interest income	160	191	(16)%
Total operating income	1,572	1,542	2%
Total operating and administrative expenses	(902)	(917)	2%
Operating profit before impairment losses	670	625	7%
Impairment (loss)/ release on credit exposures	131	(501)	n.m.%
Underlying profit before tax	801	124	546%
Net Interest Margin (NIM)	1.62%	1.56%	6bps
Cost of risk	(18)bps	68bps	86bps
Underlying cost-to-income ratio	57%	59%	2%pts
Underlying Return on Tangible Equity (ROTE)	17.8%	0.6%	17.2%pts
Underlying Earnings Per Share (EPS)	47.9p	1.4p	46.5p
Ordinary dividend per share ¹	1.0p	-	-



Substantially improved statutory profitability

Statutory expected P&L (unaudited)	12 months to	12 months to	
£m	30 Sep 2021	30 Sep 2020	Comments
Underlying profit before tax	801	124	
Exceptional items			
- Integration & transformation costs	(146)	(139)	• c.£100m for integration and transformation; c.£45m to accelerate digital strategy
- Acquisition accounting unwinds	(88)	(113)	• Expect c.£50m remaining over next three years with the majority in FY22
- Legacy conduct costs	(76)	(26)	• £59m for PPI; remediation now complete
- Other items	(74)	(14)	• Includes c.£70m for intangible asset changes
Total exceptional items	(384)	(292)	
Statutory profit/(loss) before tax	417	(168)	
Tax credit	57	27	• Revaluation and recognition of historical losses following tax rate changes
Statutory profit/(loss) after tax	474	(141)	
Tangible Net Asset Value (TNAV) per share	289.8p	244.2p	

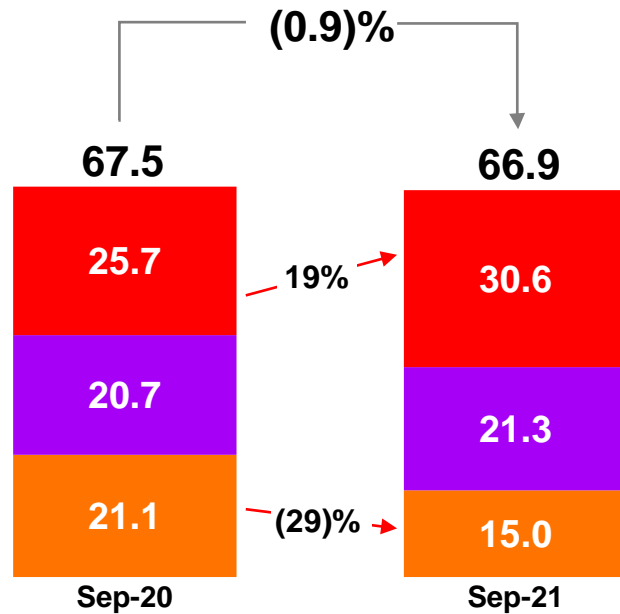


Delivering funding mix improvement and lower cost of funds

Strong growth in relationship deposits

Customer deposit balances

£bn



Cost (bps)

90

53

LDR

107%

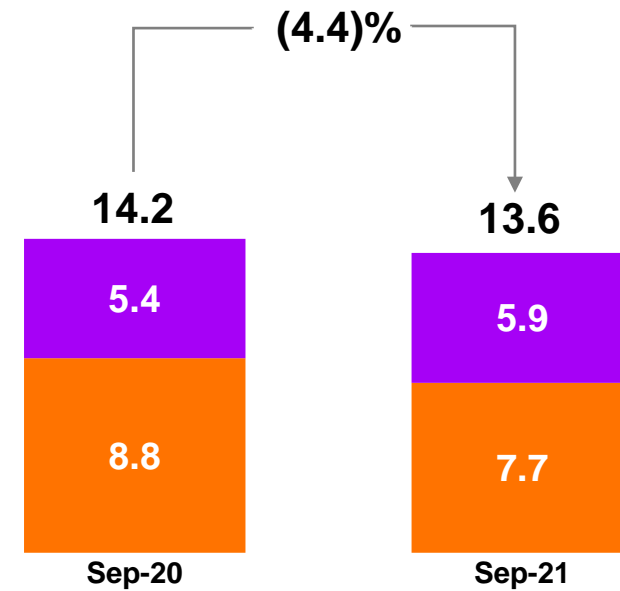
108%

■ Term deposits ■ Non-linked savings ■ Relationship deposits

Retain funding flexibility and managing wholesale mix

Wholesale funding balances

£bn



Cost (bps)

142

130

TFS/TFSME (% of lending)

7%

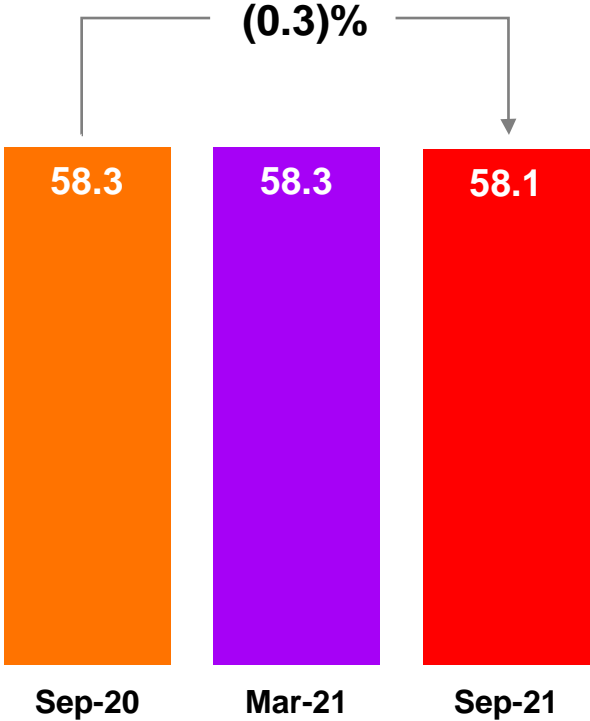
8%

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



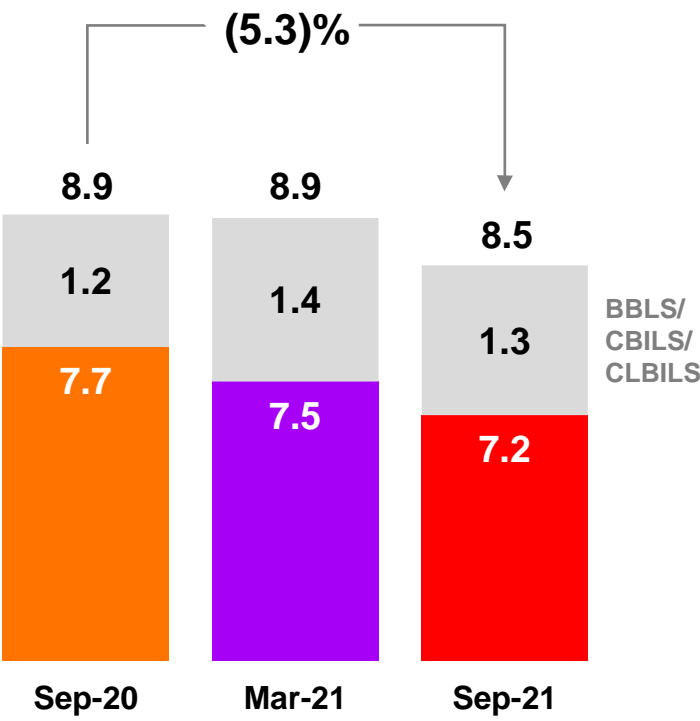
Overall lending stable in FY21 with pick up in Personal

Mortgages £58.1bn



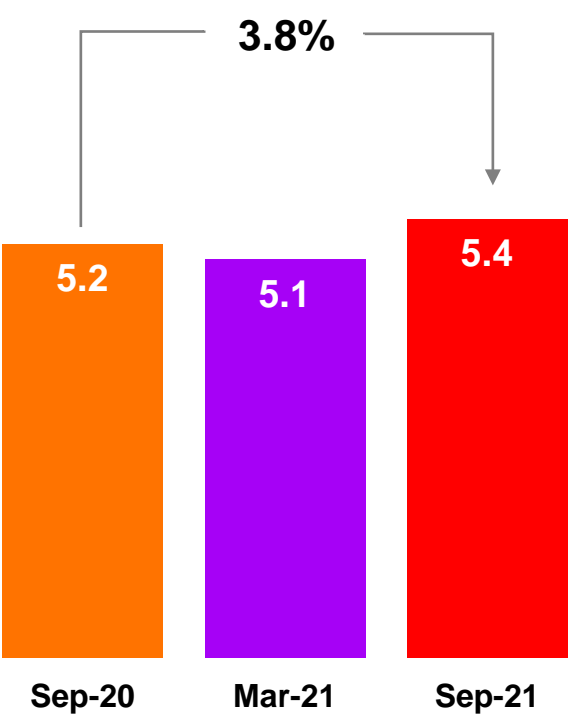
Continue to be selective in pricing focusing on margin over volumes

Business £8.5bn



Lower demand reflecting pull-forward effect of government schemes

Personal £5.4bn



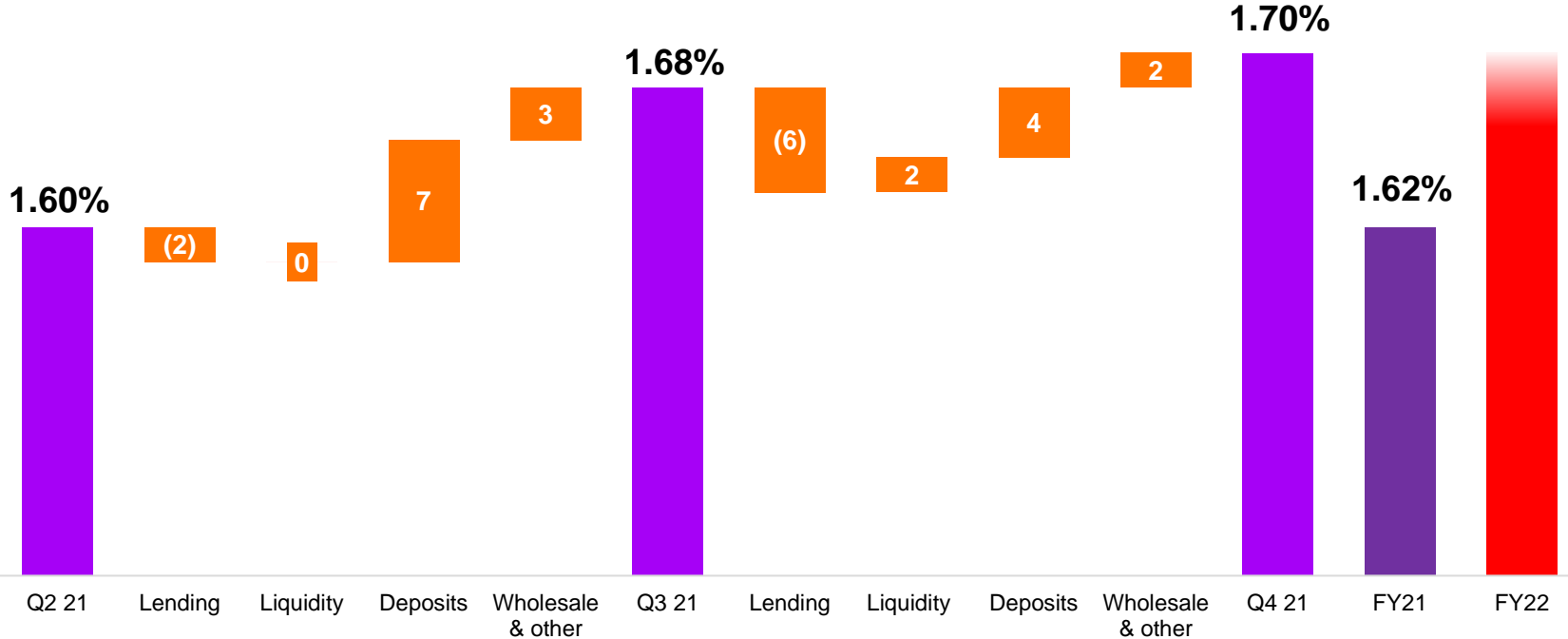
Resilience and growth in high quality Virgin Money credit card portfolio



FY21 NIM in line with guidance; expect year on year improvement

Q4 21 margin stabilised as expected with deposits offsetting asset spread pressures

NIM evolution (bps)



Expect FY22 NIM of c.1.70%

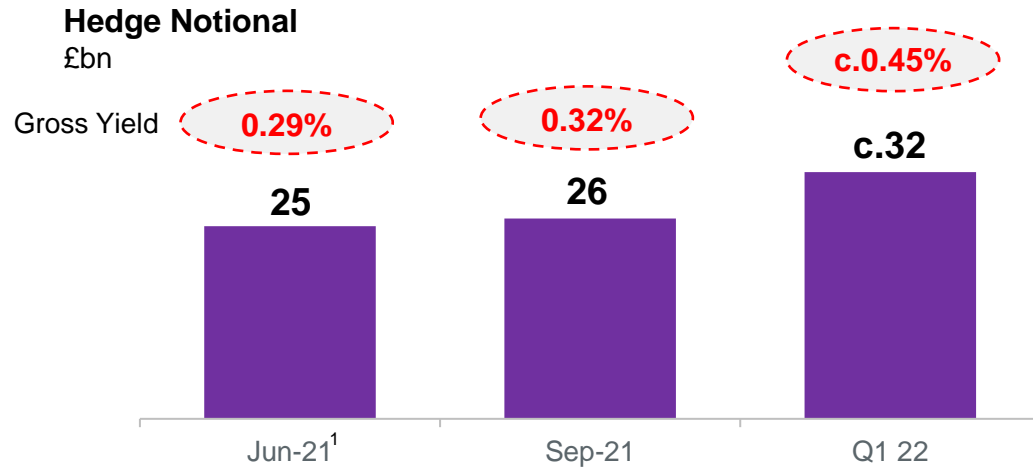
FY22 NIM drivers

- ▲ Structural hedge – higher size and higher rates
- ▲ Further deposit repricing
- ▲ Higher margin lending growth
- ▶ Liquidity management
- ▼ Mortgage competition



Expanding our structural hedge

Increased size of the structural hedge



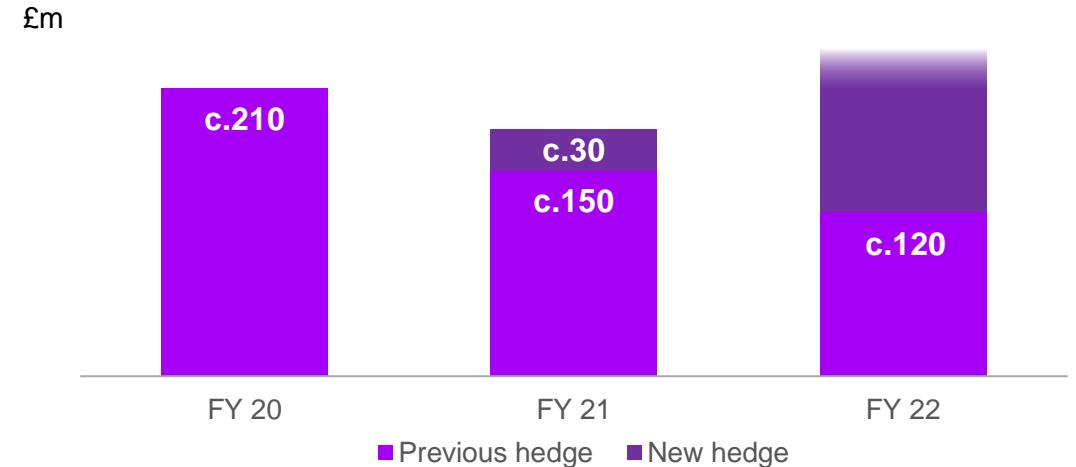
Proforma 1yr rate sensitivity to parallel shift, on larger hedge:

NII impact	Sensitivity + 25 bps	Sensitivity - 25 bps
Sep-21 actual	c.£30m	c.£(25)m
Pro-forma for Q1 22 hedge increase	c.£20m	c.£(10)m

- Lower sensitivity post hedge increase reflects additional value locked in and lower exposure to quantum and timing of BBR changes

Further increase in hedge capacity driving NII

Gross interest income contributions²



Further expansion – implemented during Q1 22

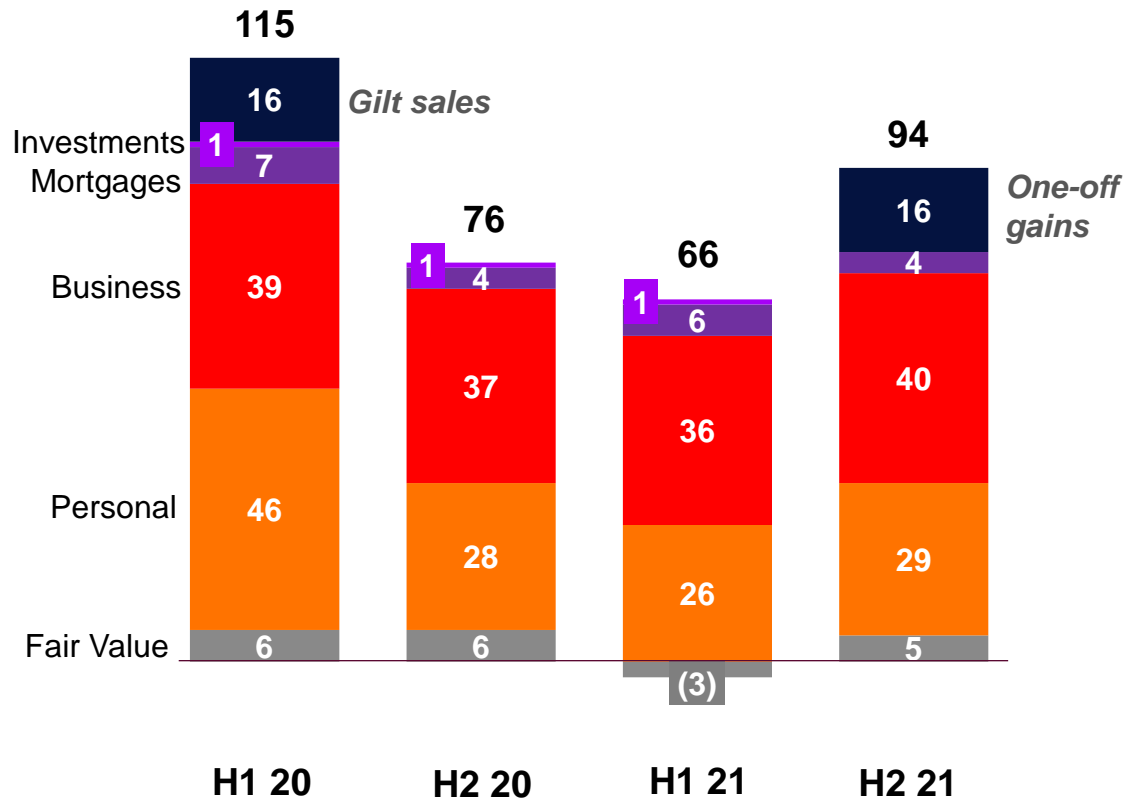
- Hedge increased by c.£6bn to c.£32bn following methodology review in H2 of rate sensitive balances and behavioural life of deposits
- Hedge benefits from rolling maturing balances at more elevated swap rates
- Expect gross contribution to be meaningfully higher in FY22 vs. FY21



Stronger other income supported by improving activity

Stronger performance in Personal and Business activity

Non-interest income
£m



Further opportunities to drive incremental other income

- One-off gains related to previously reduced valuations on two accounts
- Personal income improvement driven by strong recovery in consumer spending as restrictions eased
- Business income recovery as lockdown restrictions eased
- Expect increase in non interest income as a proportion of total income reflecting activity recovery and initiatives

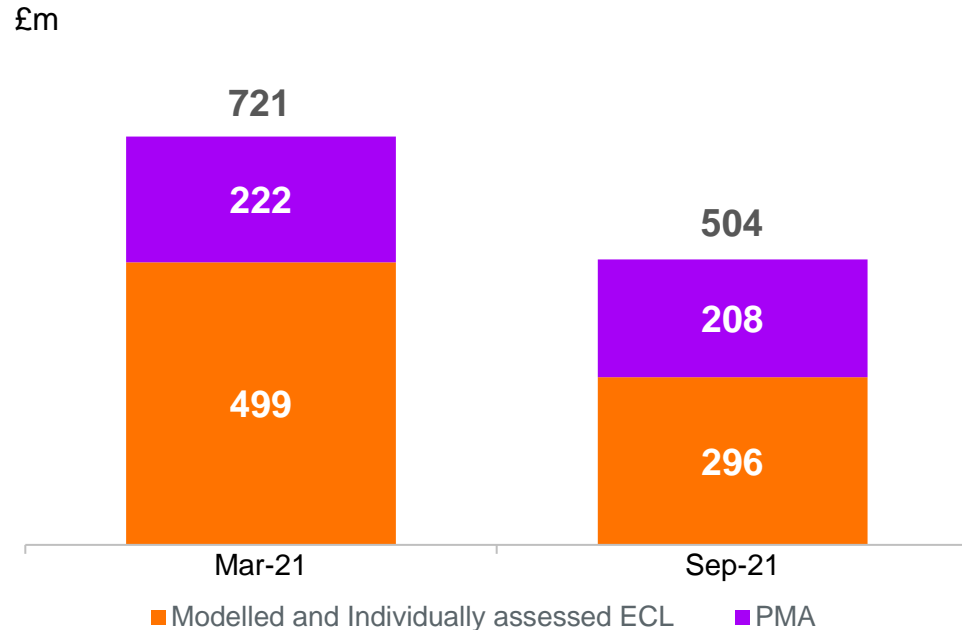
Key initiatives

- Acceleration of abrdn JV/Wealth opportunity
- Build out of Business fee-earning services
- Personal unsecured expansion and growth
- Launch digital wallet with integrated payments & loyalty



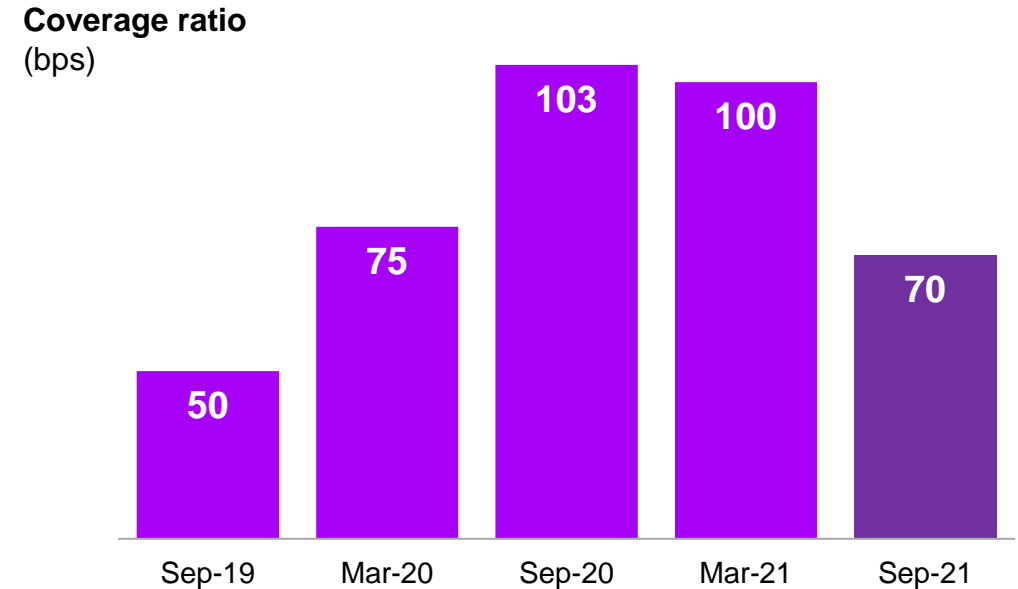
Improved macro-economics reflected in provision coverage

Improved forecasts drive lower modelled ECLs and PMAs



- Improved macro-economic forecasts drive a c.£200m reduction in modelled ECL
- Retaining over £200m of PMAs to allow for additional prudence as government support is removed
- Expect remaining PMAs to be unwound over time

Prudent provision coverage maintained

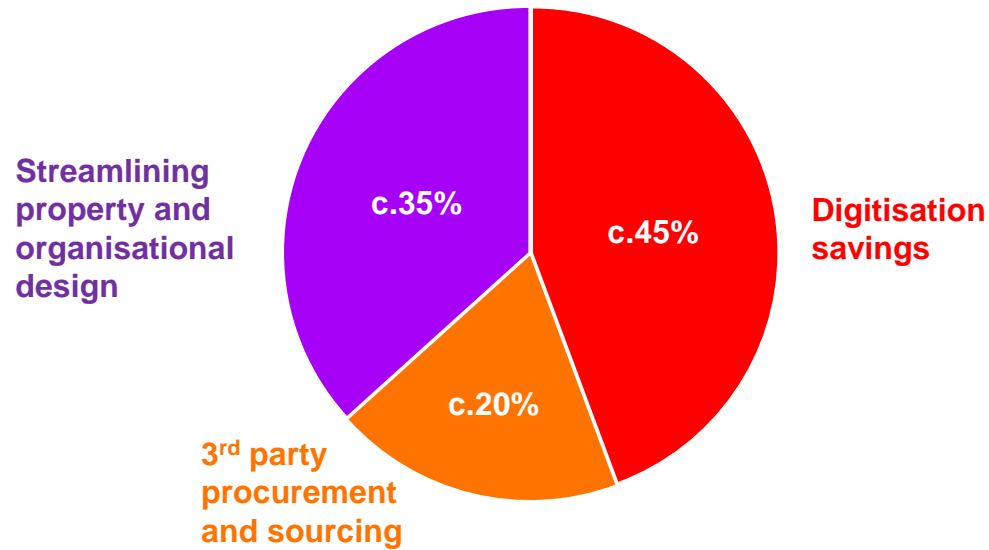


- Robust coverage maintained, remain above pre-pandemic levels
- Cost of risk in FY21 reflects continued strong credit performance; asset quality across all portfolios remains robust
- Expect cost of risk to increase in FY22 towards through the cycle level



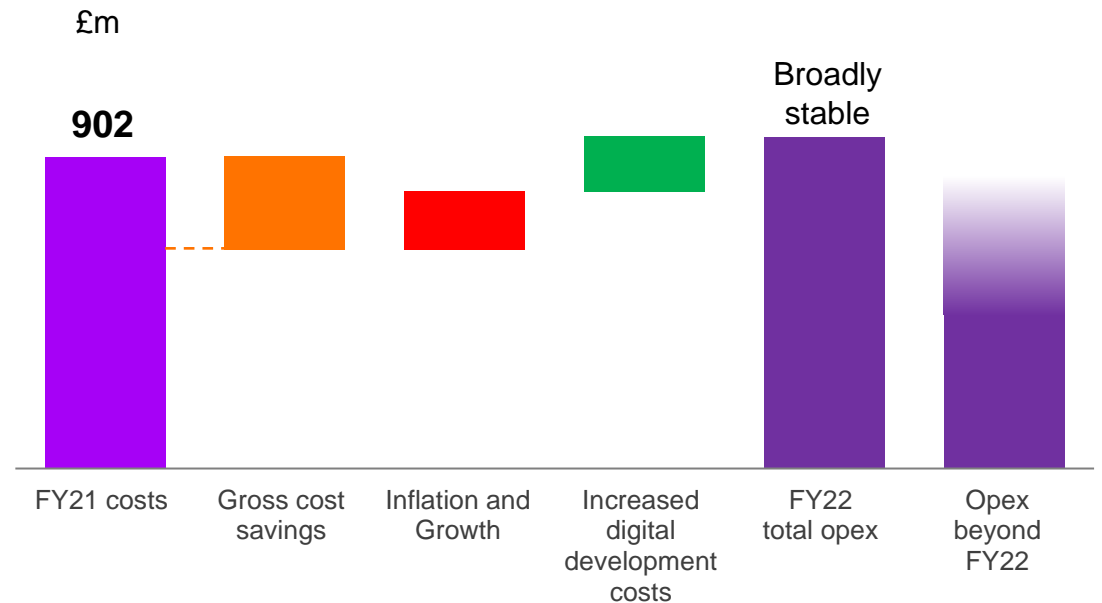
Investing for the future: accelerating our Digital First strategy

Targeting gross cost savings of c.£175m by FY24



- Target gross cost savings of c.£175m over the next 3 years
- Expect to reinvest around half of gross savings inclusive of inflation
- Expect below the line cost of accelerating digital to total c.£275m by FY24, with around half taken in year 1; c.1/3 to be spent on each of:
 - Property changes and closures
 - Delivery of IT changes
 - Other items including severance

Costs expected to be broadly stable in FY22



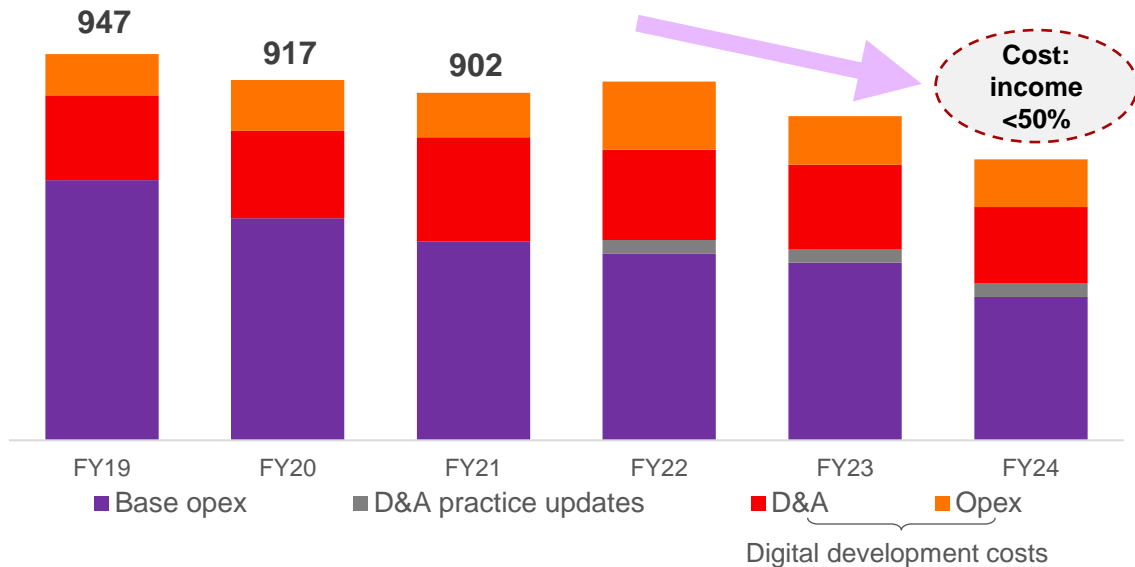
- Continued gross cost savings from new and existing initiatives in FY22
- Increased volumes, harmonisation of colleague terms and wage inflation increase FY22 costs relative to FY21
- Increased digital development costs reflect larger programme and prudent change to accounting practices



Digital investment to drive lower cost: income ratio over time

Front load investment to drive capacity for ongoing change

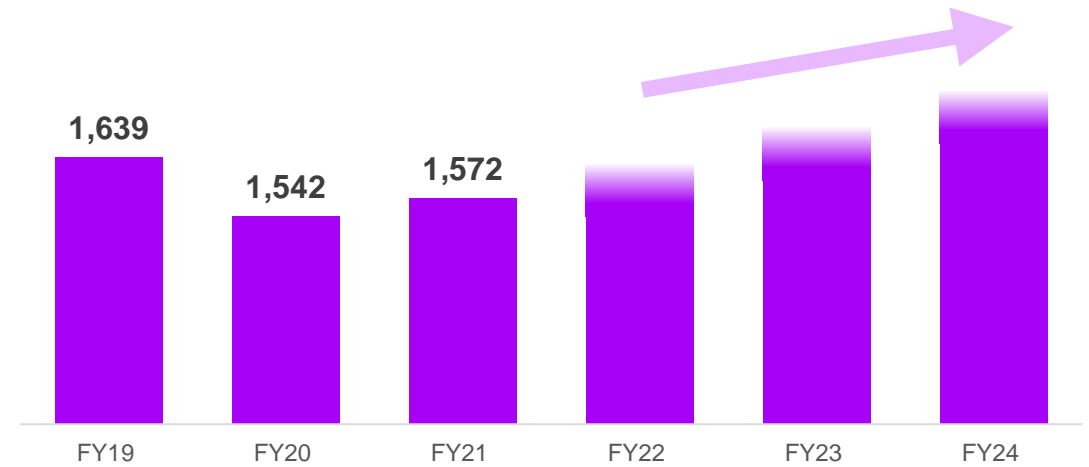
Cost progress over time



- D&A practice update reflects costs that are no longer capitalised
- Digital development D&A and Digital development opex offset BAU cost savings in FY22
- More prudent approach to capitalisation supports lower future D&A
- Digitisation will drive lower base costs and lower cost of change

Expect solid income growth over time

Income progress over time

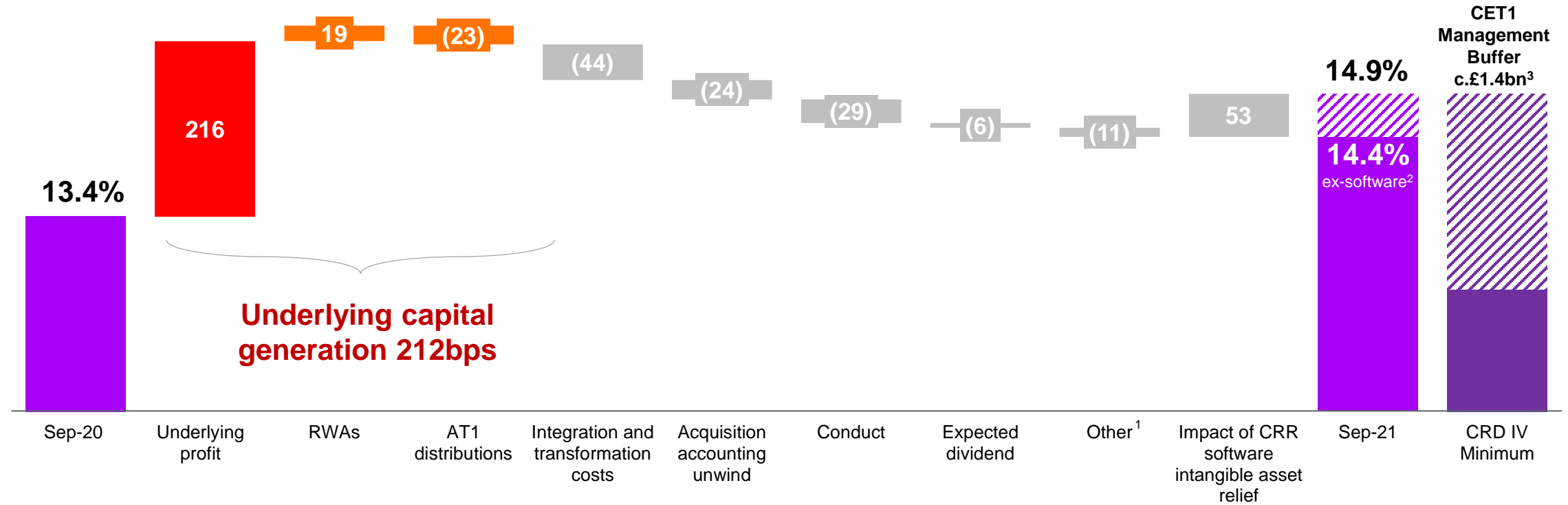


- Growth in lower-cost current accounts and Relationship Deposits
- Structural hedge and higher interest rates opportunity
- Strong growth in unsecured and business lending (excluding Government schemes)
- Targeted growth in mortgages focused on specialist segments
- Growth initiatives to drive stronger non-interest income growth



Improved capital generation

CET1 ratio evolution (bps)



20.2%	Total capital ratio	22.0%
4.9%	UK leverage ratio	5.2%
28.4%	MREL ratio	31.9%

¹ Includes final pension scheme payment – c.15bps headwind

² CET1 ratio excluding the benefit from the change in treatment of software intangible assets in the period

³ IFRS 9 transitional basis; CRDIV minimum of 9.2% as at Sept-21, CET1 Pillar 2A requirement reduced 50bps in October to give updated CRDIV minimum of 8.7%



Medium-term outlook confirmed

FY22 outlook

NIM	FY22 NIM expected to be c.170bps
Costs	Underlying costs expected to be broadly stable in FY22
Cost of risk	Expect cost of risk to rise towards through the cycle range
Restructuring costs	Expect c.£275m across FY22-FY24, with around half in FY22
Dividend	SST outcome and impairment outlook key inputs to capital framework and dividend policy

Medium-term outlook

RoTE	Expect to deliver a statutory double digit return in FY24
Growth	Above market growth in Business & Unsecured; maintain mortgage share
Income	Mix-driven NIM expansion; OOI to rise as proportion of income
Gross savings	Gross cost savings of c.£175m by FY24; c.50% to be reinvested, including offsetting inflation
Costs	Cost: Income ratio to be <50%

Conclusion

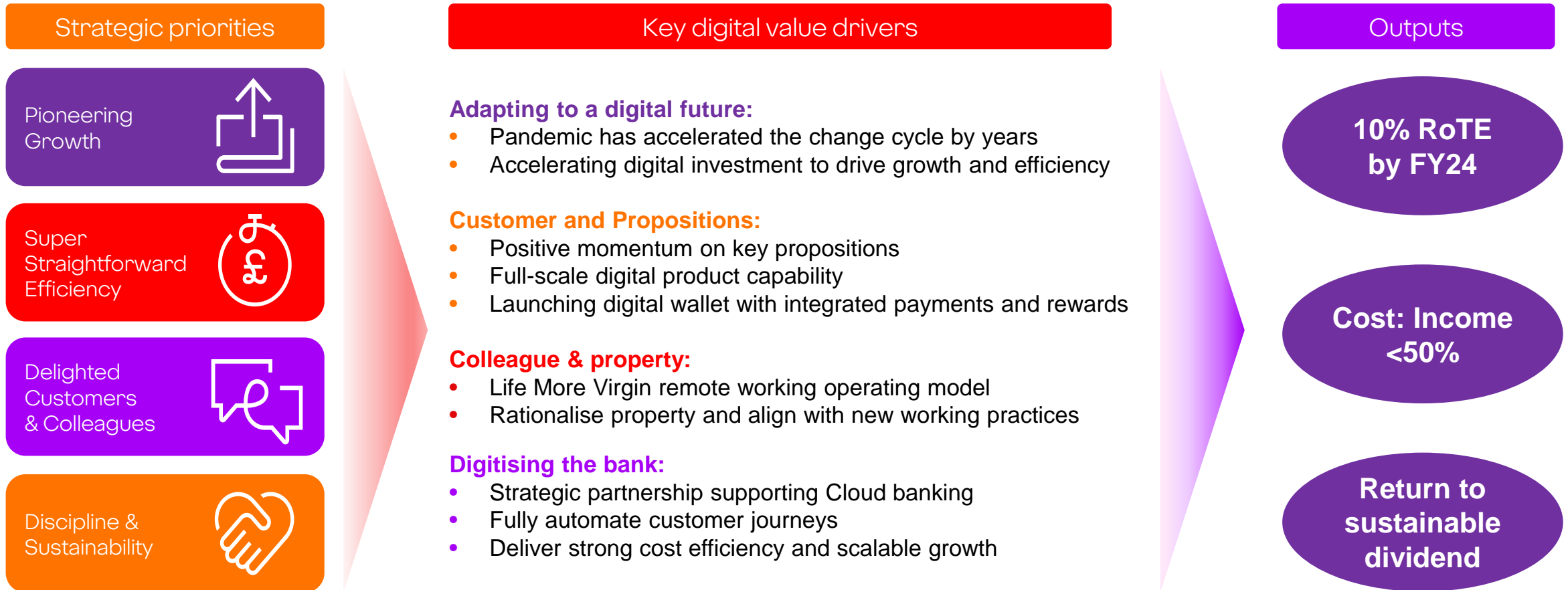
DAVID DUFFY

Chief Executive Officer





Investing in our digital future to drive strong profitable growth



Q&A

DAVID DUFFY

Chief Executive Officer

CLIFFORD ABRAHAMS

Chief Financial Officer



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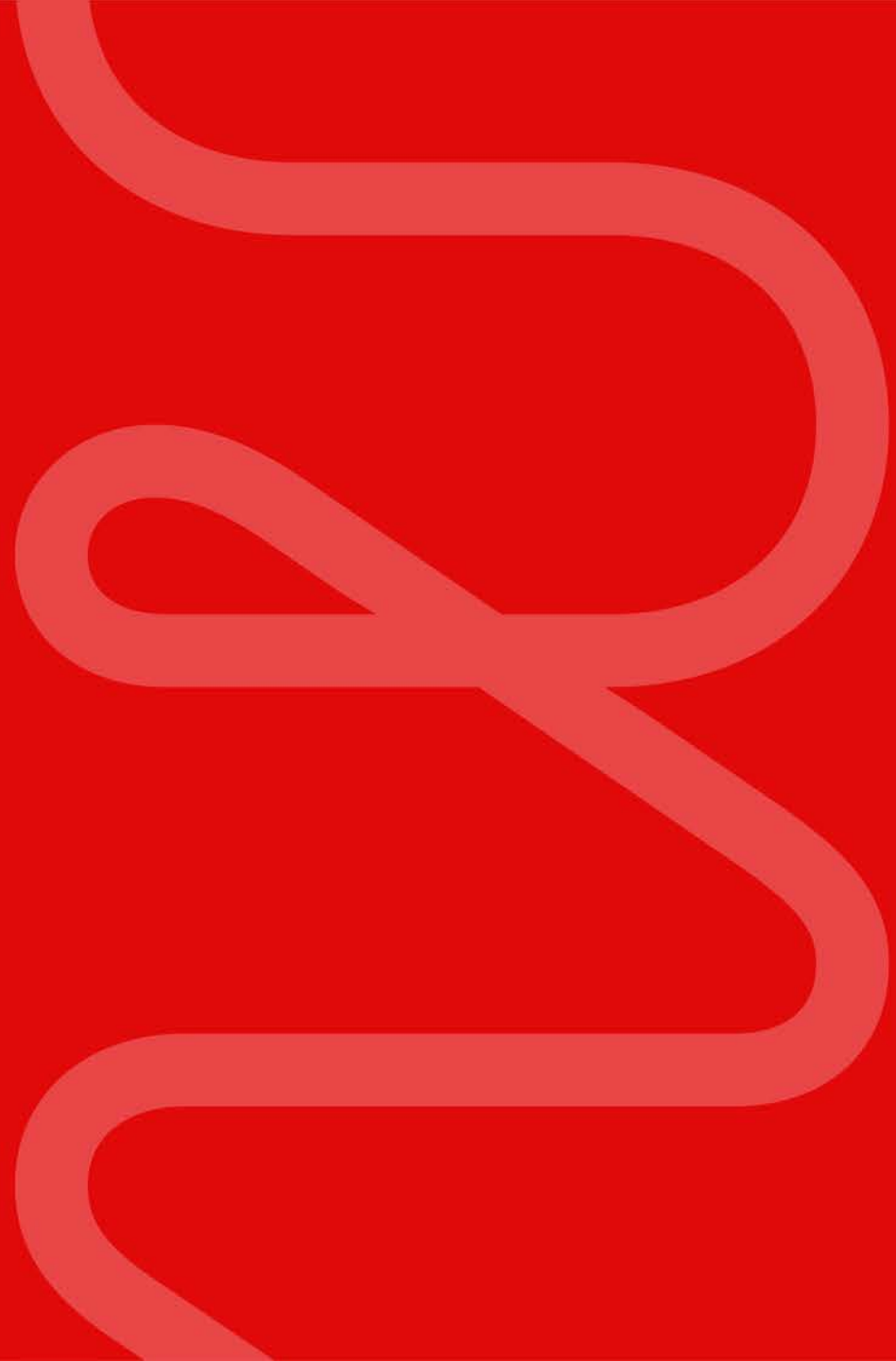
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Appendix



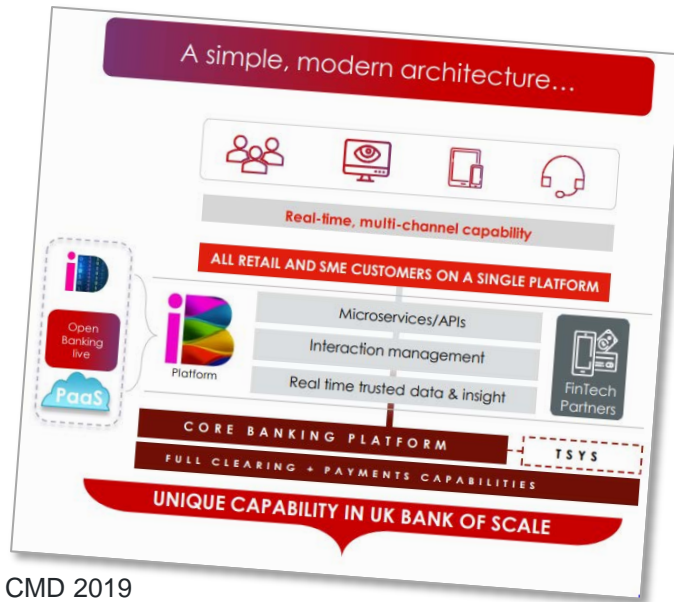


Refreshed technology to deliver scalable growth platform

iB platform has performed well

Opportunity to refresh

Delivering a modern Digital First Bank

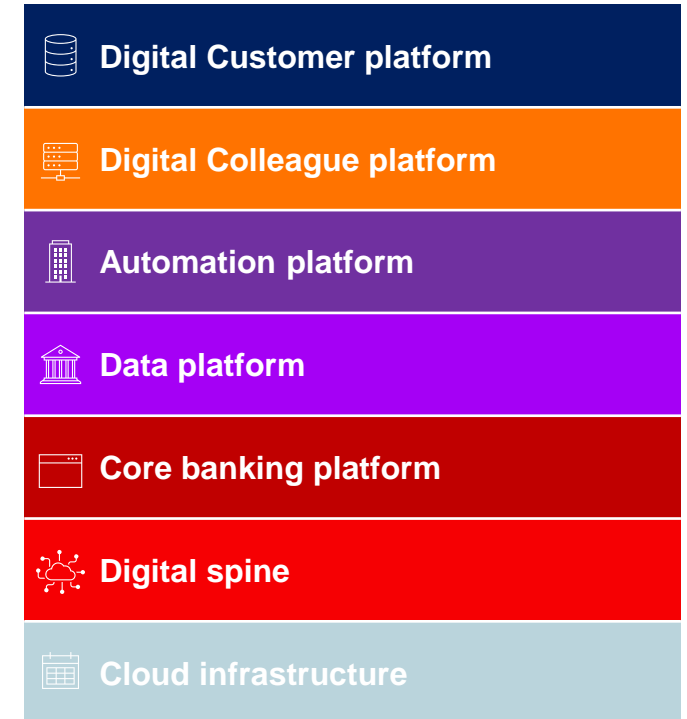


CMD 2019

- ✓ Enabled successful, safe customer migrations
- ✓ Supported partnerships to deliver new propositions
- ✓ Enabled Covid response: home working, customer support and government scheme delivery

- ✓ Significant technology change since iB launch:
 - New ways of working: from physical to virtual
 - Cloud and web-hosting now mainstream
 - Big Data, AI, and DevOps now essential tools
 - APIs allow rapid assembly of new propositions with FinTech partners
- ✓ Focus since CMD has been on customer outcomes: integration, rebrand, propositions
- ✓ Opportunity to accelerate previous plans
- ✓ Focus now shifting to simplifying infrastructure to support digital growth

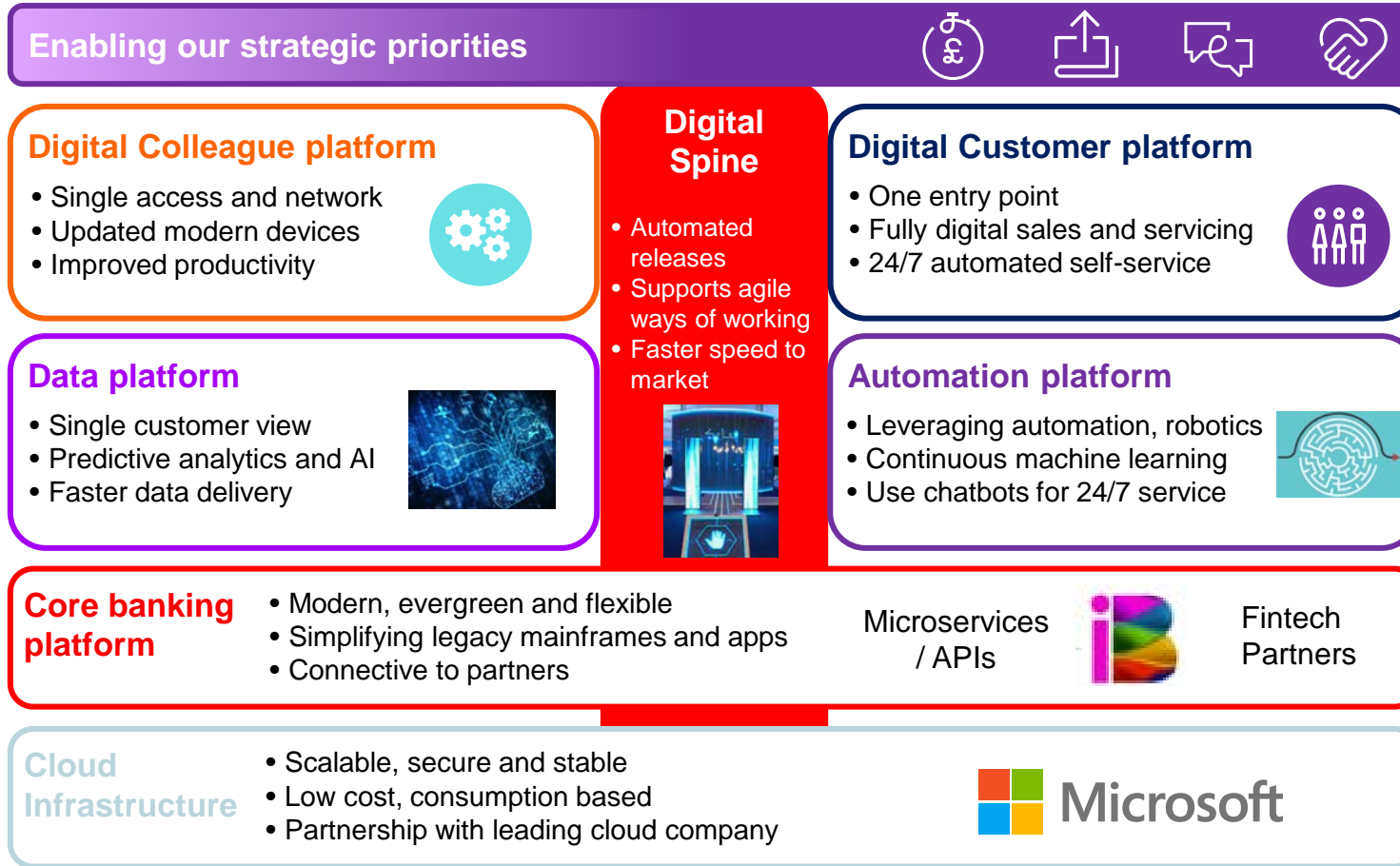
Target Digital Bank architecture:



Investing to deliver improved efficiency with an enhanced digital customer experience



Digital First investment enhances our capability



Retaining and attracting new customers

Integrated Virgin brand experiences that attract customers; improve CX scores and RNPS

Empowering our colleagues

Enabling colleague productivity and improved Colleague Engagement scores

New revenue growth opportunities

Unlocking the value of data to provide insights into what our customers want

Driving operational efficiencies

Highly automated back office reducing the need for expensive, slow, manual processes

Enabling agility – cheaper, faster development

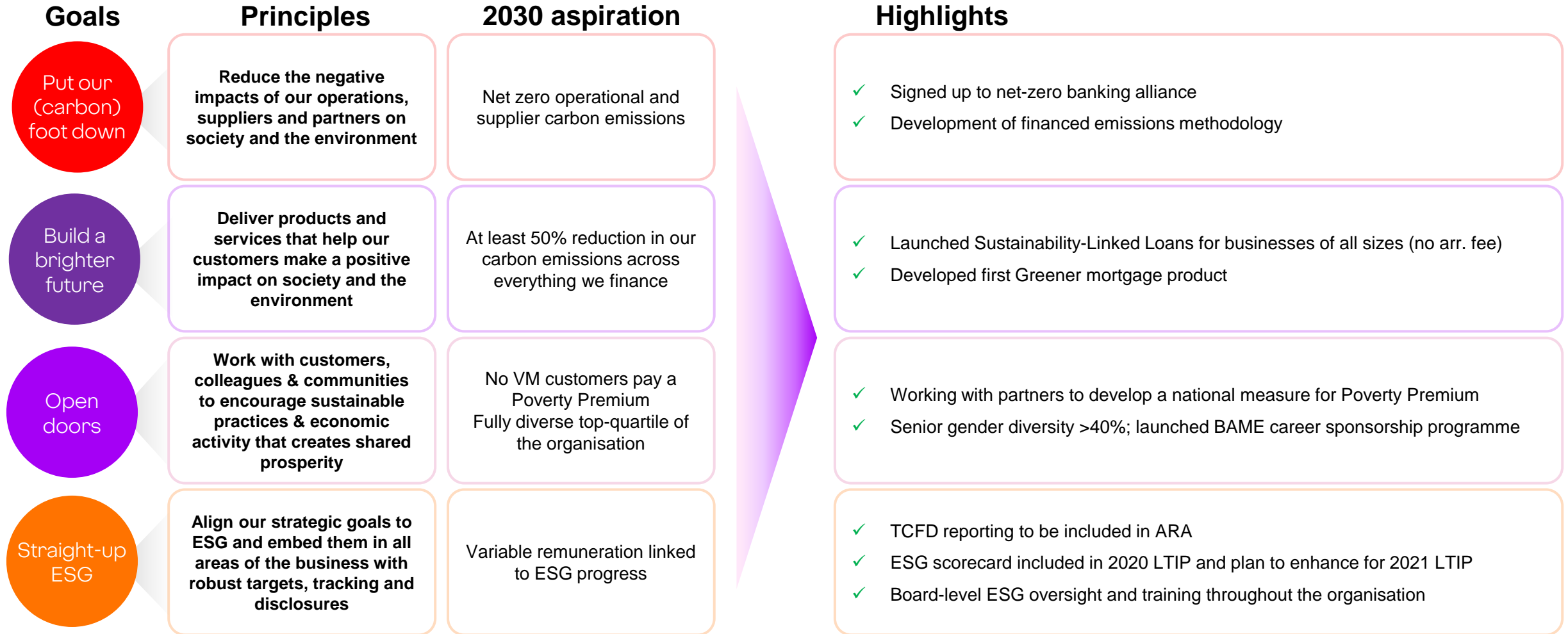
Ability to efficiently and quickly deliver products and services that drive profitable growth

Enabling lower cost IT – better, cheaper tech

Simplified technical landscape, with low-cost cloud platforms which reduce our support overhead



Progress made in supporting a more sustainable future



Disclaimer

Forward looking statements

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VIRGIN MONEY UK PLC

Full Year 2021

Trading Update

