VIRGIN MONEY UK

Full Year 2021 Trading Update
Fixed Income Presentation

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.

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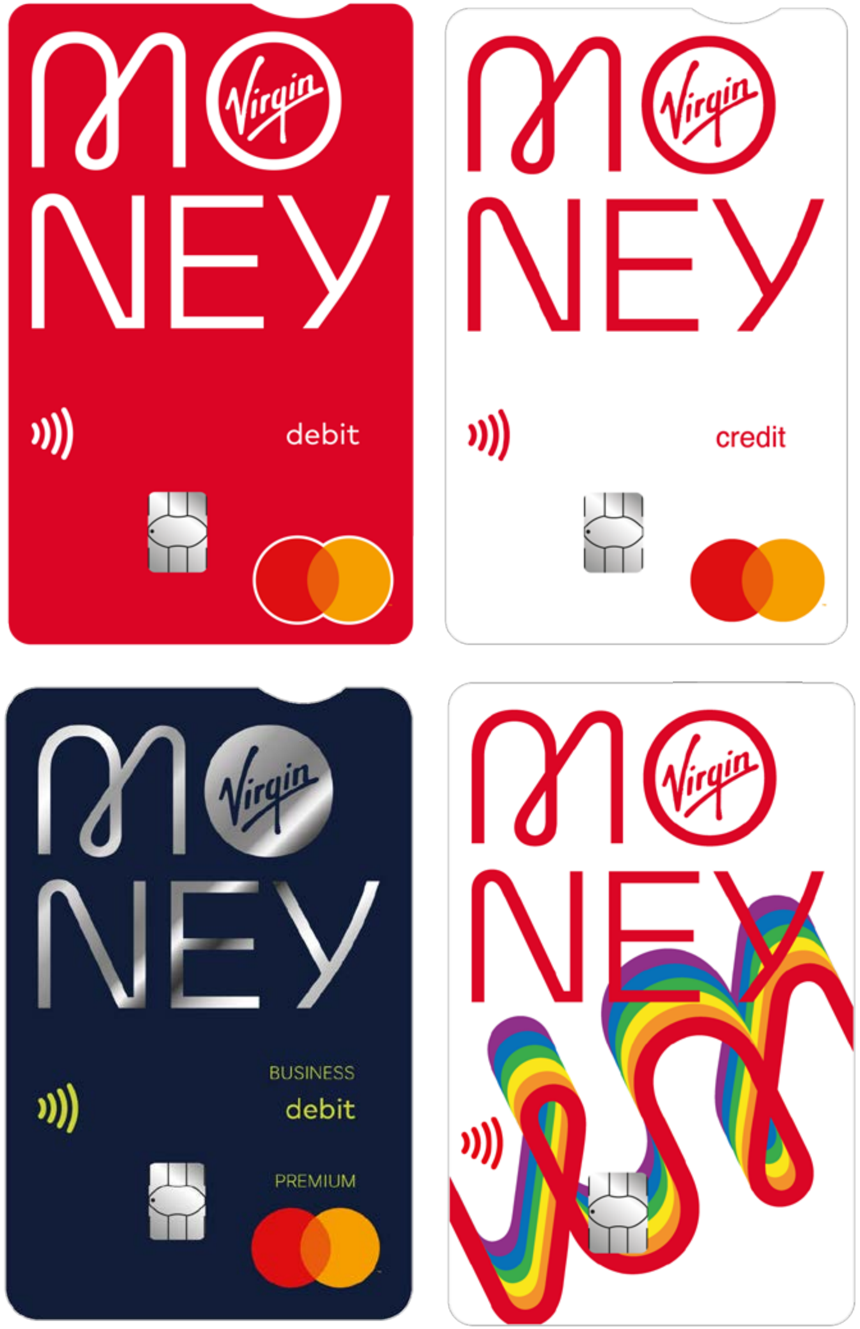
Account List
M Plus Current
05-00-05 | 12345678
VM Instant
05-00-05 | 87654321

Financial Results

Richard Smith

Head of Investor Relations

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 share[2]

Statutory ROTE
10.2%

Underlying profit before tax
£801m

Statutory profit before tax
£417m

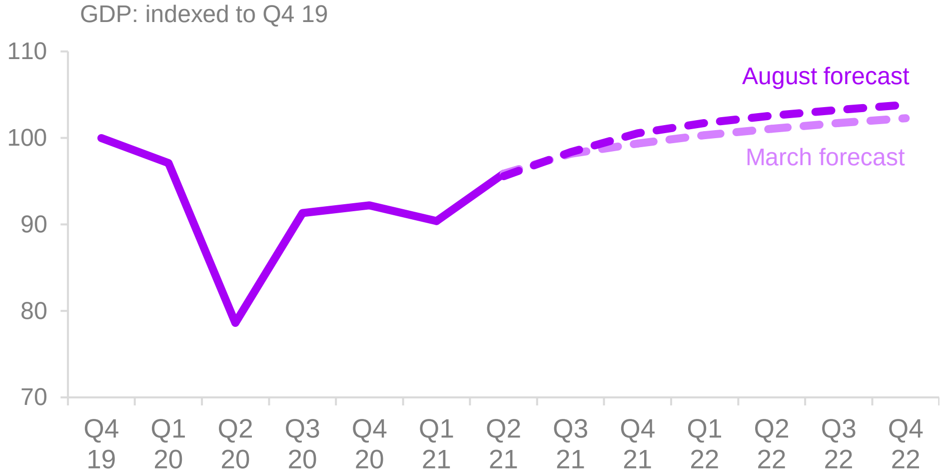
Robust CET1 ratio[1]
14.9%

[1] IFRS 9 transitional basis; 14.4% CET1 ratio excluding the benefit from the change in treatment of software intangible assets
[2] Subject to finalisation of full year results and shareholder approval

Higher rate outlook and supportive macroeconomic backdrop

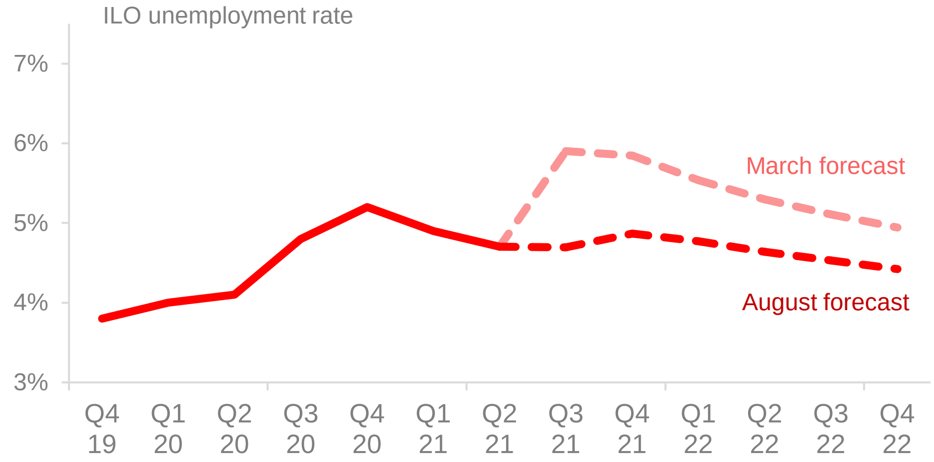
Gathering pace of recovery

GDP: stronger than anticipated rebound



Source: Oxford Economics Base Case, March and August 2021

Unemployment: lower than initially feared

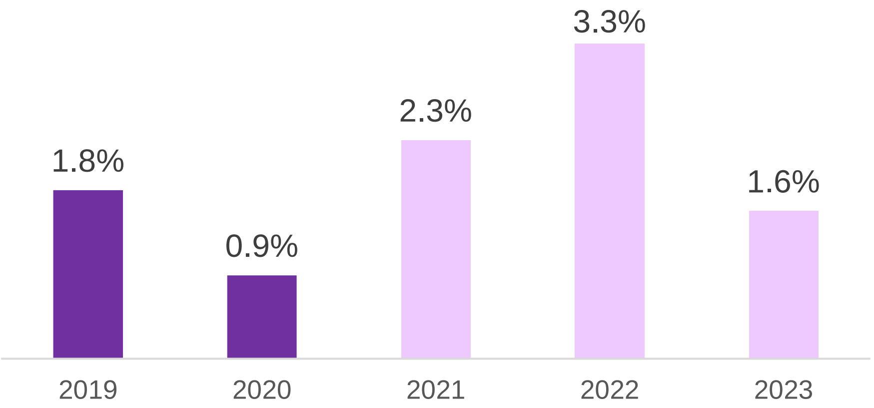


Source: Oxford Economics Base Case, March and August 2021

Stronger labour demand

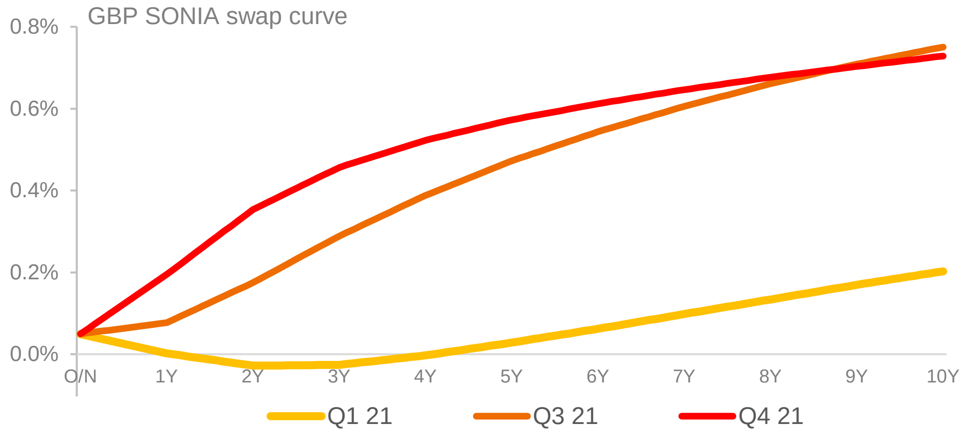
Temporary inflationary pressure

CPI: inflation to peak in 2022



Source: Oxford Economics Base Case, October 2021

Rates: significant yield curve steepening during this year

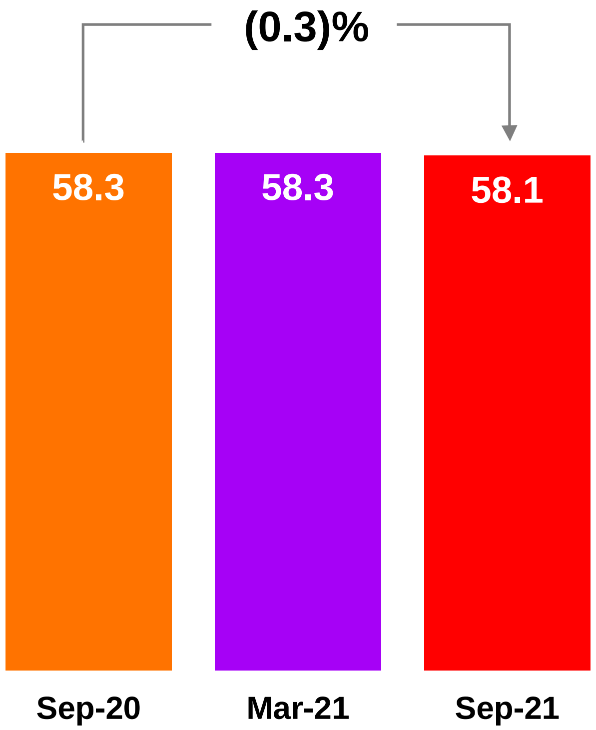


Source: Bloomberg

Improving UK rate environment

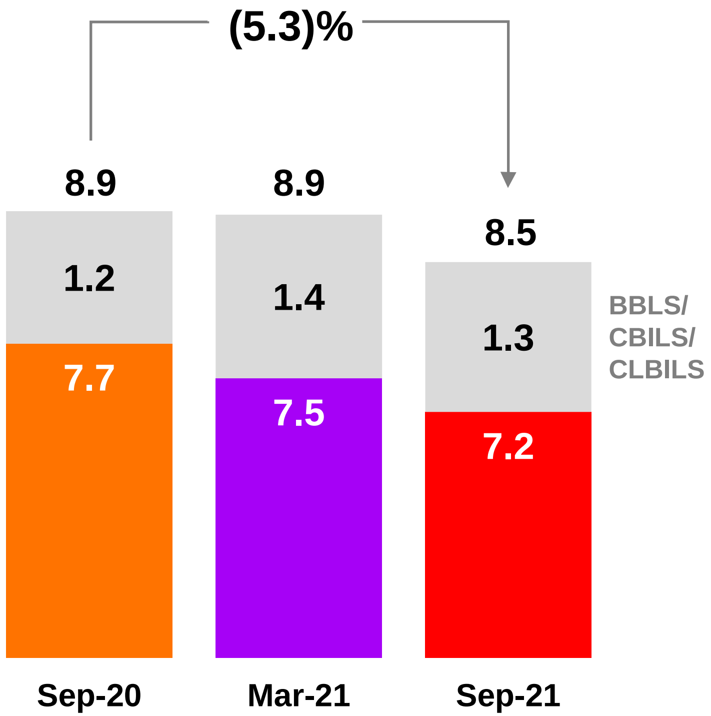
Overall lending stable in FY21 with pick up in Personal

Mortgages £58.1bn



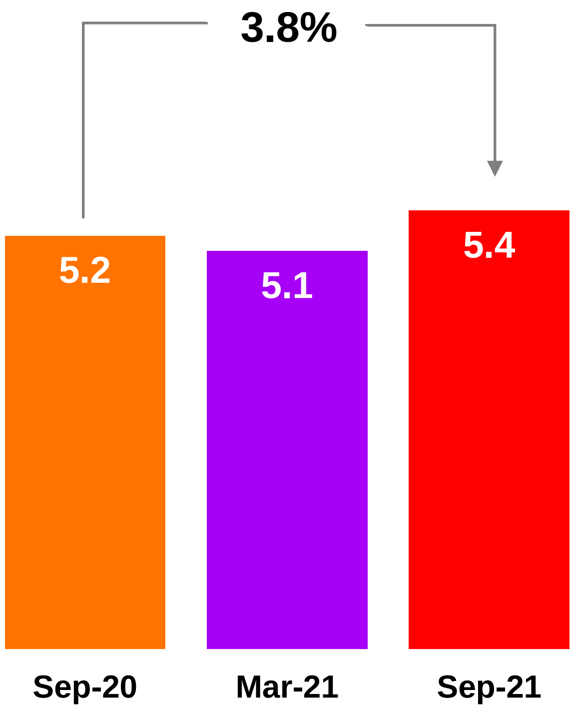
Continue to be selective in pricing focusing on margin over volumes

Business £8.5bn



Lower demand reflecting pull-forward effect of government schemes

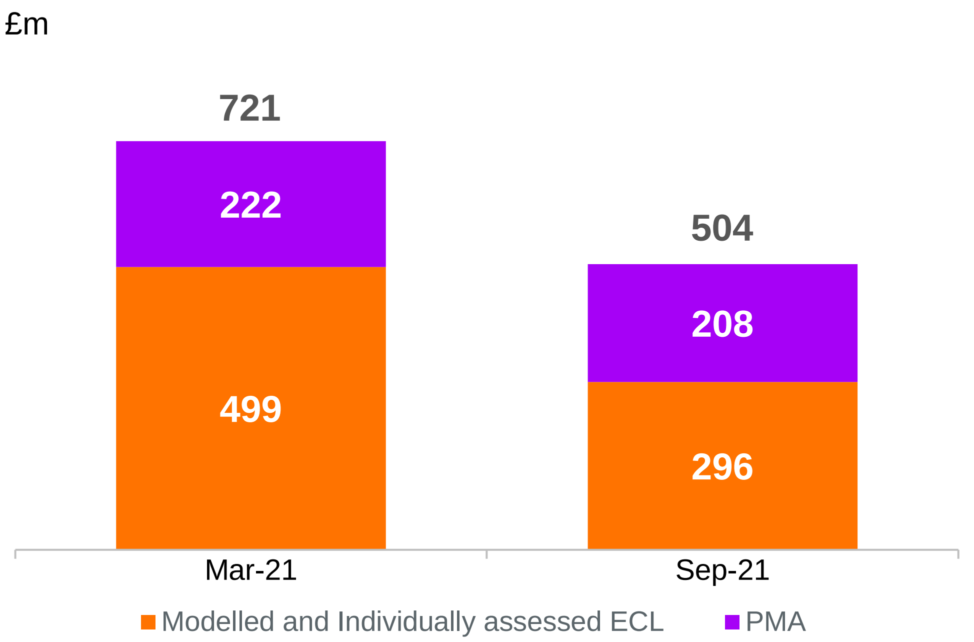
Personal £5.4bn



Resilience and growth in high quality Virgin Money credit card portfolio

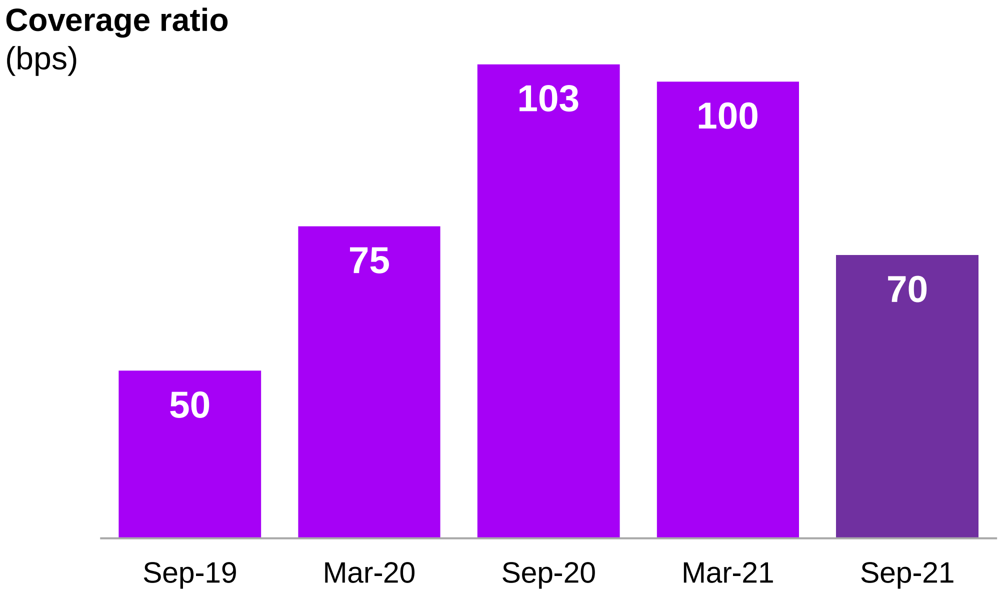
Improved macro-economics reflected in provision coverage

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

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

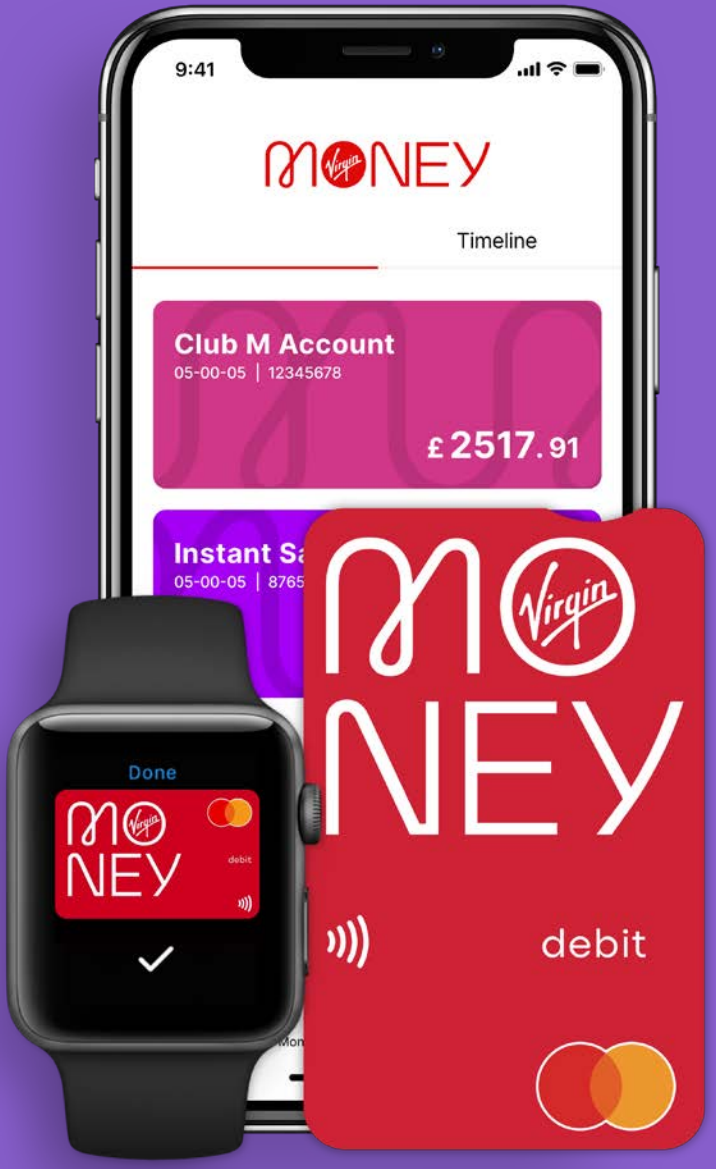
Medium-term outlook

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%

Capital, Funding & Liquidity

Justin Fox

Group Treasurer



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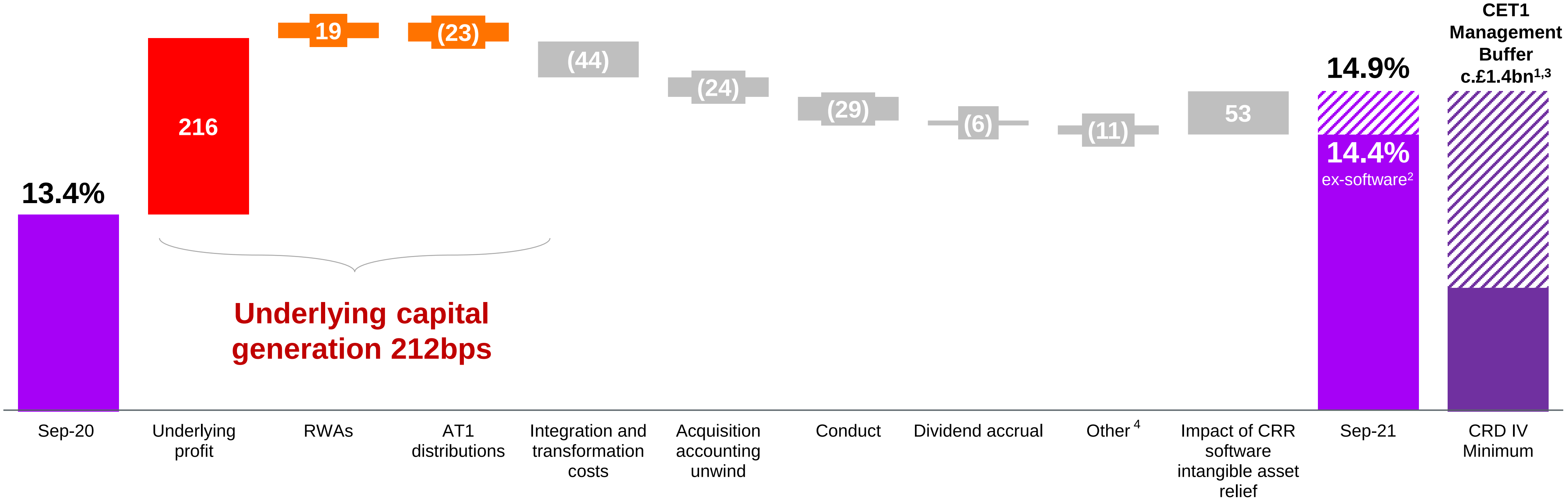
Improved capital generation

CET1 ratio evolution (bps)

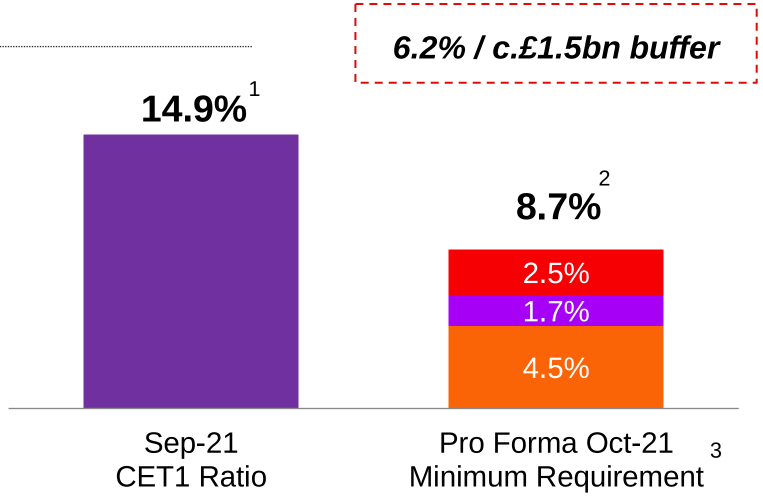


20.2%	**Total capital ratio**	22.0%
4.9%	**UK leverage ratio**	5.2%
12.2%	**IFRS 9 Fully Loaded CET1 ratio**	14.4%

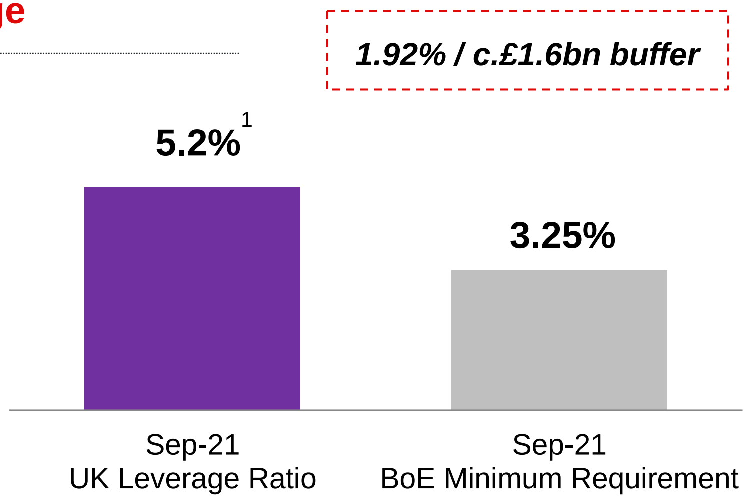
[1] IFRS 9 transitional basis [2] CET1 ratio excluding the benefit from the change in treatment of software intangible assets in the period [3] CRDIV minimum of 9.2% as at Sept-21
[4] Includes final pension scheme payment – c.15bps headwind

Strong capital with significant buffers above regulatory minima

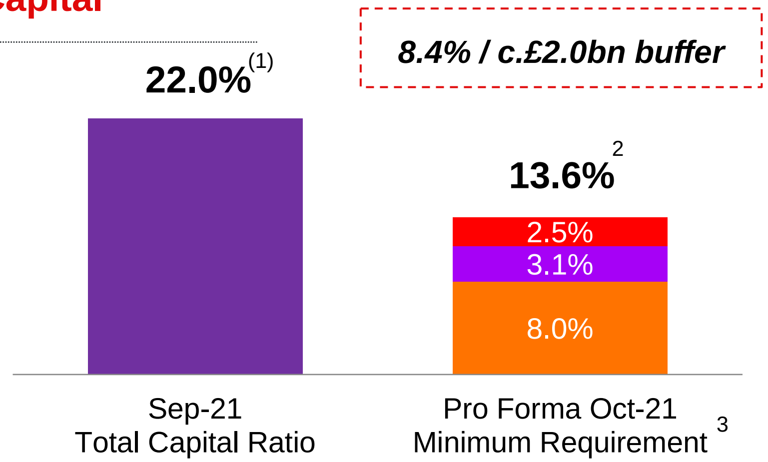
CET1



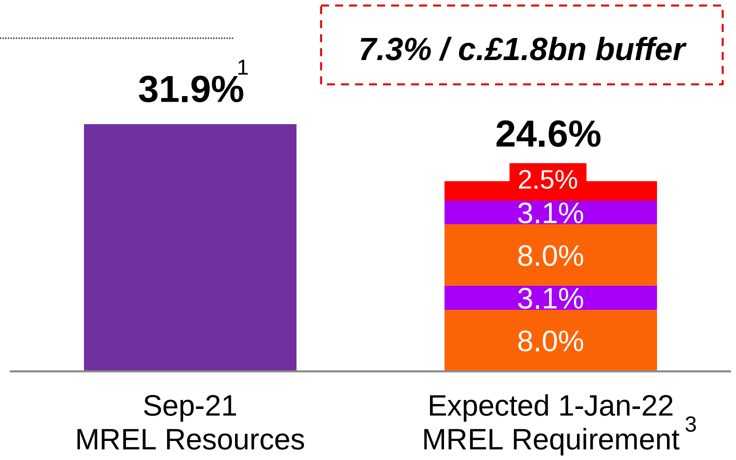
Leverage



Total Capital



MREL

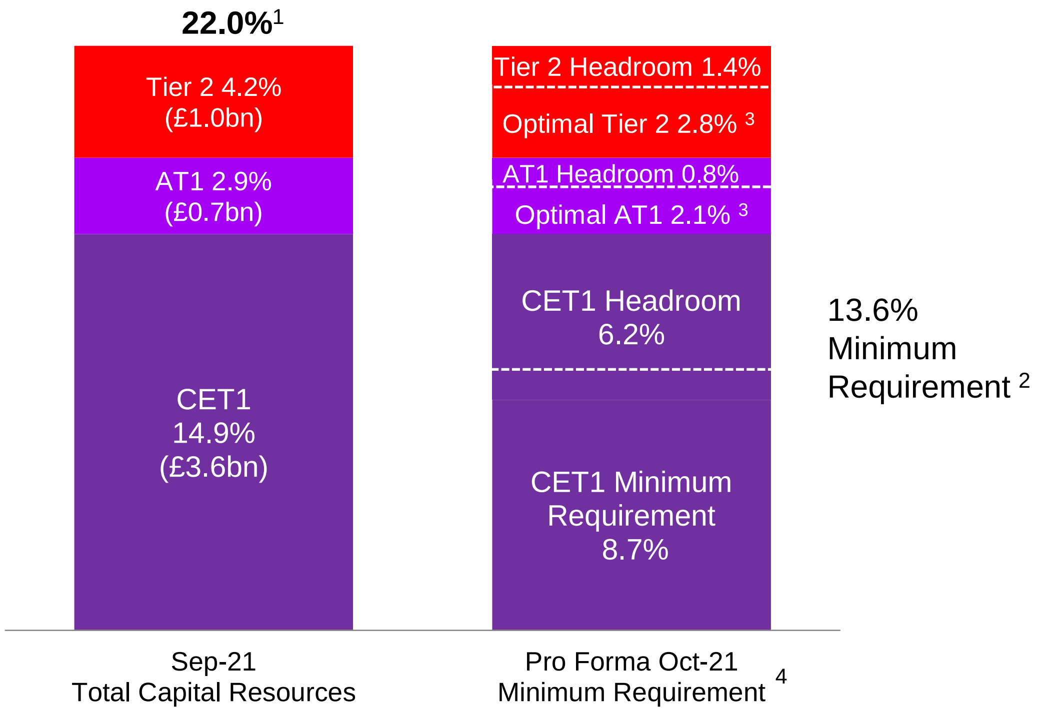


Pillar 1 Pillar 2A Capital Conservation Buffer

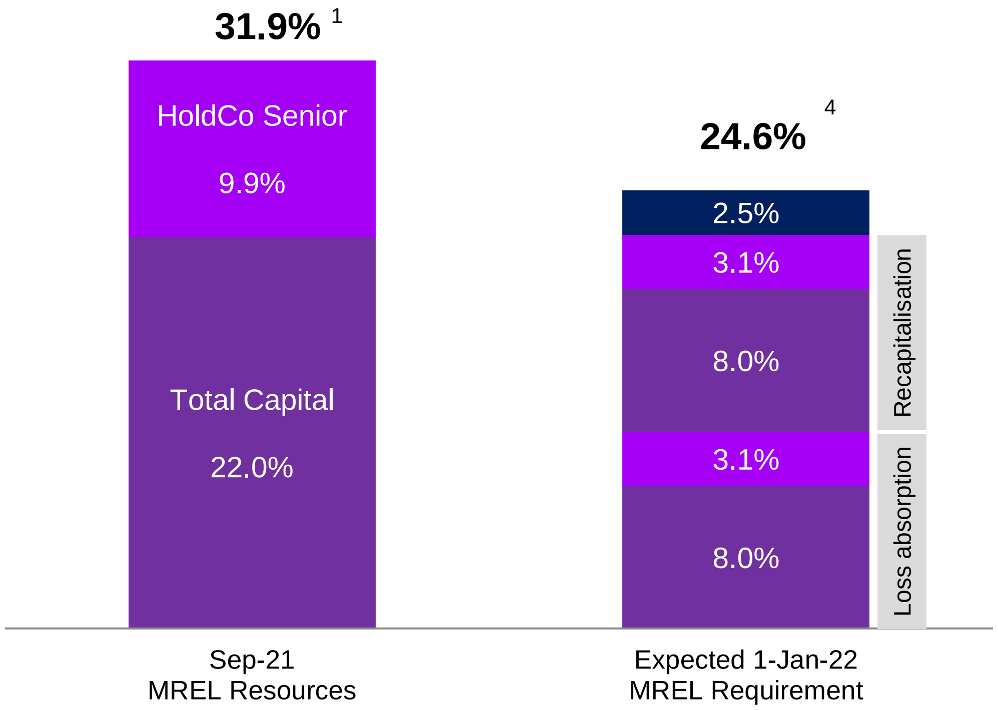
[1] IFRS 9 transitional basis [2] CRD IV Minimum Requirement [3] The PRA has advised the Group it will be subject to a Pillar 2A Total Capital requirement equivalent to 3.1% from 4th October (based on Sept-21 RWAs)

Well established capital stack

Capital stack breakdown



MREL in excess of expected end-state requirement



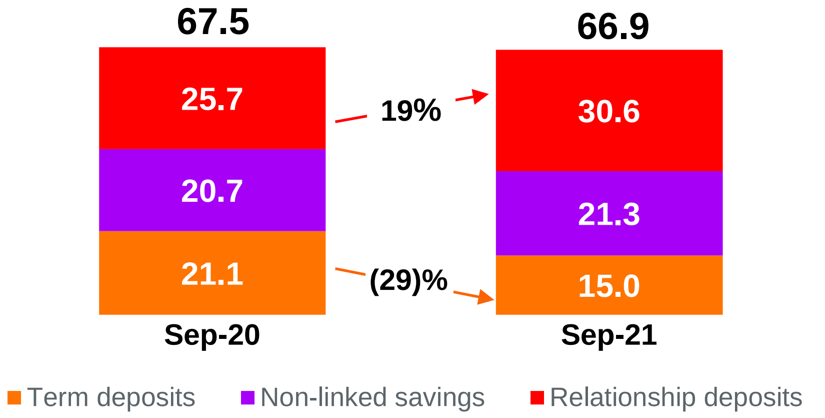
- During FY21 we took the opportunity to optimise our capital stack, reducing AT1 and increasing Tier 2
- Intend to manage AT1/Tier 2 buffers in an efficient manner while maintaining headroom above regulatory optimum levels
- No incremental capital issuance required given healthy Total Capital ratio – 2022 issuance will be broadly limited to refinancing
- No HoldCo Senior issuance anticipated given current MREL ratio is comfortably in excess of end-state requirements

[1] IFRS 9 transitional basis [2] CRD IV Total Capital Minimum Requirement [3] The Group is required to meet its Pillar 1 and Pillar 2A capital requirements with at least 56.25% CET1 capital, no more than 43.75% AT1 capital and no more than 25% Tier 2 capital. From an optimal perspective, the Group would therefore meet its Pillar 1 and Pillar 2A requirements with 56.25% CET1, 18.75% of AT1 and 25.00% Tier 2. "Optimal AT1" is therefore defined as (Pillar 1+Pillar 2A)*18.75% and "Optimal Tier 2" is defined as (Pillar 1+Pillar 2A)*25.00% [4] The PRA has advised the Group it will be subject to a Pillar 2A Total Capital requirement equivalent to 3.1% from 4th October (based on Sept-21 RWAs) and Oct-21 CRD IV capital buffers

Strong funding position; delivered mix improvement

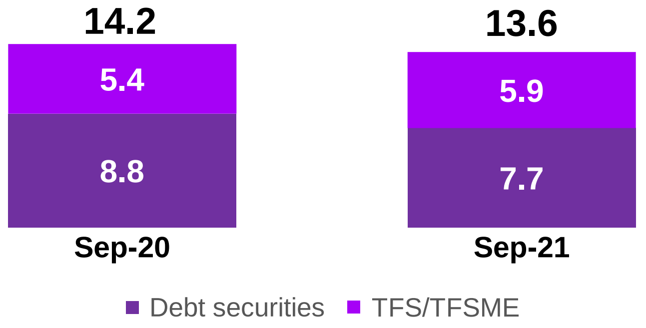
Growth in relationship deposits, reduction in wholesale funding

Customer deposit balances
£bn



Cost (bps)	**90**	**53**

Wholesale funding balances
£bn



Cost (bps)	**142**	**130**

Secured issuance expected to normalise through 2022

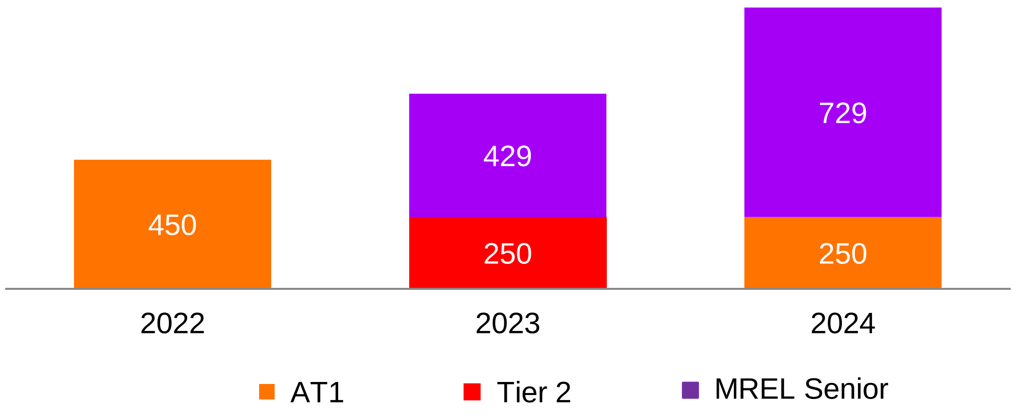
- Reduction in cost of both customer deposits and wholesale funding benefitting NIM
- Incremental cost of customer deposits vs wholesale finely balanced
- As at the Scheme closure on 31 October 2021, the Group had drawn £7.2bn of TFSME allowance, at the same time repaying all TFS drawings
- Secured issuance expected to normalise through 2022 post closure of TFSME - £2-3bn of issuance anticipated, subject to deposit flows and relative cost

Funding & Liquidity Metrics

LCR	Loan-to-deposit ratio	FY21 increase in Relationship Deposits of
151%	108%	19%

Repricing wholesale funding liabilities; further opportunities ahead

Upcoming unsecured redemptions (2022-2024) [1]



	Security	First Call Date	Issue Coupon / Spread	Current Yield / Spread [2]	Differential (bps)
AT1	£450m AT1	08/12/2022	8.000%	3.528% [3]	**(447)**
AT1	£250m AT1	08/06/2024	9.250%	3.926% [3]	**(532)**
T2	£250m Tier 2	14/12/2023	7.875%	2.085% [3]	**(579)**
MREL	€500m Senior	27/05/2023	MS+85 bps	MS+33 bps	**(52)**
MREL	£300m Senior	22/06/2024	G+250 bps	G+115 bps	**(135)**
MREL	€500m Senior	24/06/2024	MS+325 bps	MS+55 bps	**(270)**

…achieving significantly tighter pricing than prior issues

- In May 2021, the Group successfully issued €500m of MREL senior debt and £300m of Tier 2, achieving significantly tighter pricing than prior issues
- Following the Tier 2 issuance, announced the redemption of £230m 8.75% AT1
- £700m of AT1, £250m of Tier 2 and c.£1,158m equiv. of MREL Senior approaching first call date over 2022-2024
- As of today, market pricing for VMUK has improved across AT1, Tier 2 and MREL Senior since issue, with current secondary market trading levels materially tighter
- This presents an opportunity to further reduce the cost of the Group's wholesale funding over time, benefiting NIM and CET1

Successful issuance and capital optimisation in 2021…

£300m 10.25NC-5.25 Tier 2 (priced at G+225 bps / 2.625% coupon) - subsequent call of £230m AT1 (8.75% coupon)

€500m 3NC-2 MREL Senior (priced at MS+85 bps)
Virgin Money UK's second EUR MREL Senior issuance

[1] Unsecured debt securities redemption profile based on first call date [2] Bloomberg bid data as at 26 October 2021 [3] Yield-to-call

Issuing entity structure

External Investors

↑

Issues external AT1, Tier 2 and MREL-eligible Senior Unsecured

Virgin Money UK PLC
(Holding Company)

↑

Issues internal AT1, Tier 2 and MREL-eligible Senior Unsecured

Clydesdale Bank PLC
(Operating Company)

Issues external RMBS[1] and Covered Bonds [2]

↓

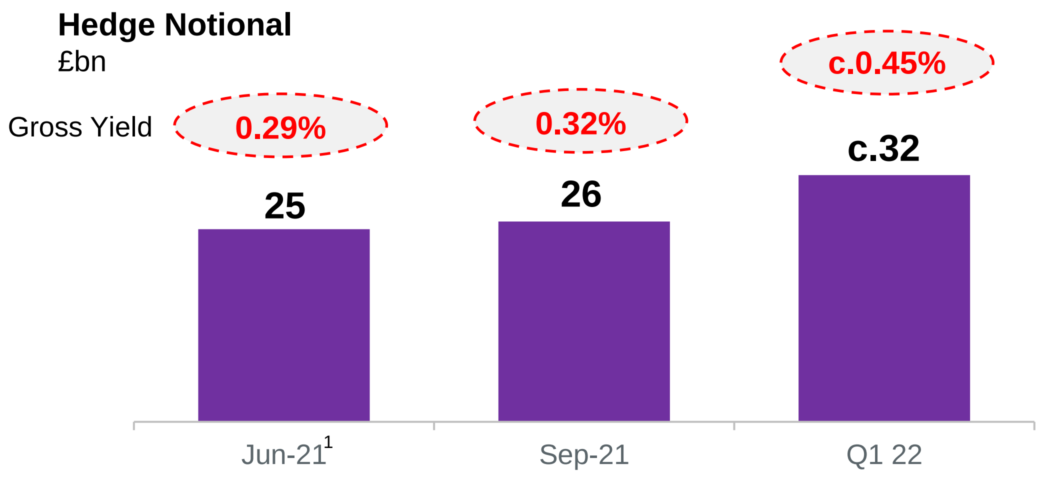
External Investors

- The Group has a simple, vertical structure, comprising its holding company and resolution entity, Virgin Money UK PLC, and main operating subsidiary and ring-fenced bank, Clydesdale Bank PLC
- All external regulatory capital and MREL issued by Virgin Money UK PLC
    - Virgin Money UK PLC does not have any legacy capital securities
- All external regulatory capital and MREL instruments are downstreamed internally to Clydesdale Bank PLC via back-to-back issuance
- All secured issuance is via Clydesdale Bank PLC; programmes rationalised over the course of 2022:
    - Future issuance will be from the Regulated Covered Bond Programme or Lanark Master Issuer

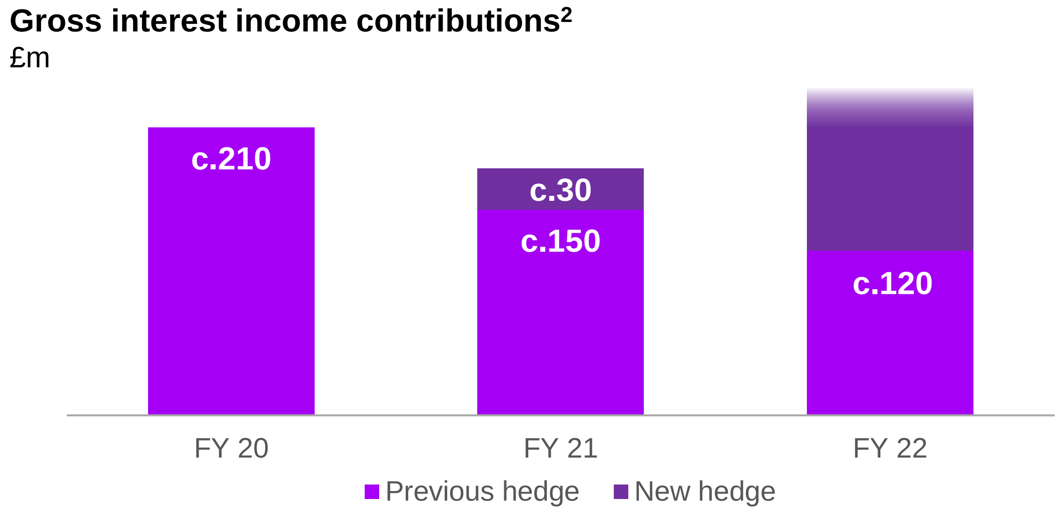
[1] RMBS issuance via SPVs consolidated as part of Clydesdale Bank PLC [2] Clydesdale Bank PLC also issues external 'OpCo' Senior Unsecured, but currently has none outstanding

Expanding our structural hedge

Increased size of the structural hedge



Further increase in hedge capacity driving NII



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

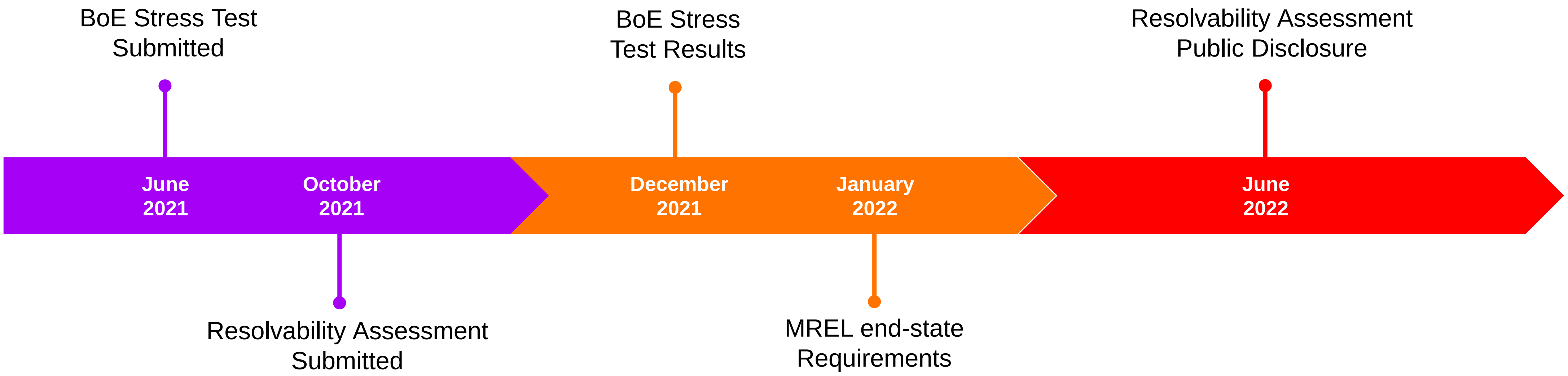
Further expansion – implemented during Q1 22

- 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 higher in FY22 vs. FY21

VIRGIN MONEY UK

[1] £25.9bn reported at H1 included £0.9bn of AT1 previously included in the structural hedge; this is now hedged to call date and so excluded from hedge analysis
[2] Gross interest income

A year of regulatory deliverables



- Following completion of the FSMA Part VII process in October 2019, the Group became a Tier 1 firm for regulatory purposes
- As such, it is subject to enhanced governance and oversight requirements, identical to that of larger UK systemic institutions
- These are expected to demonstrate the Group’s strength and resilience to stress and provide confidence to investors

Credit & ESG Ratings

			Virgin Money UK PLC	Clydesdale Bank PLC
CREDIT	**Moody's**	*Long-term*	**Baa2** Stable	**Baa1**[1] Stable
		Short-term	**P-2**	**P-2**
	Standard & Poor's	*Long-term*	**BBB-** Stable	**A-** Stable
		Short-term	**A-3**	**A-2**
	Fitch	*Long-term*	**BBB+** Stable	**A-** Stable
		Short-term	**F2**	**F2**
ESG			**FY21**	**FY20**
	Sustainalytics		**25.7**	**27.5**
	MSCI		**A**	**BBB**
	Vigeo-Eris (V.E)		**49/100**	**42/100**

Commentary

All the Group's ratings now back on Stable outlook having navigated the pandemic with no rating downgrades

In January 2021, Standard & Poor's upgraded the long-term rating of Clydesdale Bank PLC by one notch to A-. The upgrade reflects the Group's improved additional loss-absorbing capacity following Virgin Money UK PLC's MREL issuance.

In July 2021, Moody's upgraded Virgin Money UK PLC's long-term rating to Baa2 from Baa3 following revisions to their Advanced Loss Given Failure framework.

Continued improvement in ESG ratings over the period evidenced by upgrades in all major ratings over the period.

[1] Long-term bank deposit rating

Progress made in supporting a more sustainable future

Goals	Principles	2030 aspiration	Highlights
Put our (carbon) foot down	**Reduce the negative impacts of our operations, suppliers and partners on society and the environment**	Net zero operational and supp lier carbon emissions	✓ Signed up to net-zero banking alliance ✓ Development of financed emissions methodology
Build a brighter future	**Deliver products and services that help our customers make a positive impact on society and the environment**	At least 50% reduction in our carbon emissions across everything we finance	✓ Launched Sustainability-Linked Loans for businesses of all sizes (no arr. fee) ✓ Developed first Greener mortgage product
Open doors	**Work with customers, colleagues & communities to encourage sustainable practices & economic activity that creates shared prosperity**	No VM customers pay a Poverty Premium Fully diverse top-quartile of the organisation	✓ Working with partners to develop a national measure for Poverty Premiums ✓ Senior gender diversity >40%; launched BAME career sponsorship programme
Straight-up ESG	**Align our strategic goals to ESG and embed them in all areas of the business with robust targets, tracking and disclosures**	Variable remuneration linked to ESG progress	✓ TCFD reporting to be included in ARA ✓ ESG scorecard included in 2020 LTIP and plan to enhance for 2021 LTIP ✓ Board-level ESG oversight and training throughout the organisation

Virgin Money Fixed Income Investment Proposition

Key points

- Defensive lending portfolio, 81% UK secured mortgages
- Robust asset quality across portfolios
- Conservative economic scenarios and weightings
- Strong capital base, well positioned for end-state MREL requirements, high levels of liquidity
- Significant progress on ESG journey, ESG ratings improving

Currently trade wide of peers in debt markets, although differential reducing

Asset Quality

(18)bps
Cost of Risk

£504m
Total Credit Provisions

70bps
Coverage Ratio

Capital & Leverage [1]

14.9%
CET1 Ratio

22.0%
Total Capital Ratio

31.9%
MREL Ratio

5.2%
UK Leverage Ratio

Liquidity & Funding

151%
Liquidity Coverage Ratio

108%
Loan to Deposit Ratio

19%
Increase in Relationship Deposits in FY21

Sustainable Impact

A
MSCI

25.7
Sustainalytics

49/100
V.E

2030
aspiration for net zero operational and supplier carbon emissions

[1] IFRS 9 transitional basis

Q&A

Money on your mind?
Talk to one of our 300-strong Red Team, whether you bank with us or not.
Search Virgin Money Red Team
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VIRGIN MONEY UK

Full Year 2021 Trading Update
Fixed Income Presentation