

# VIRGIN MONEY UK

Interim Financial Results  
2020



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# Chairman's Introduction

DAVID BENNETT

Chairman





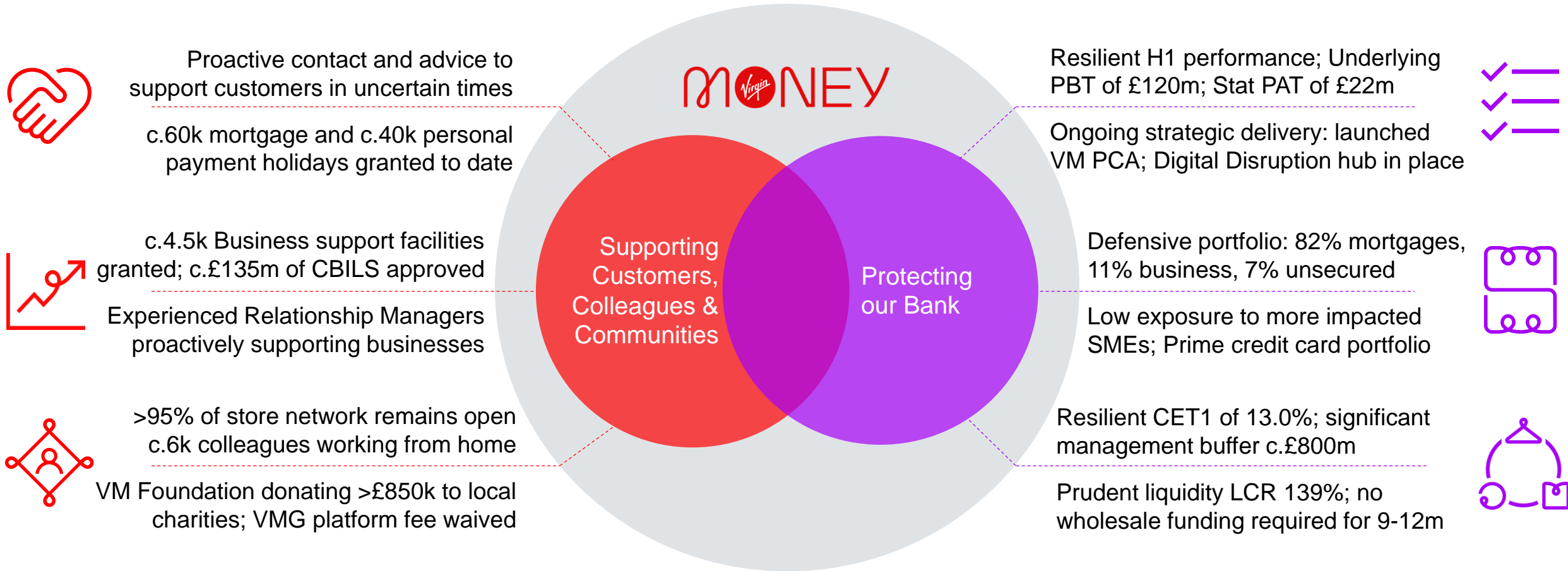
# Overview

**DAVID DUFFY**

Chief Executive Officer



# Supporting our Customers, Colleagues & Communities while protecting the Bank



# 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**

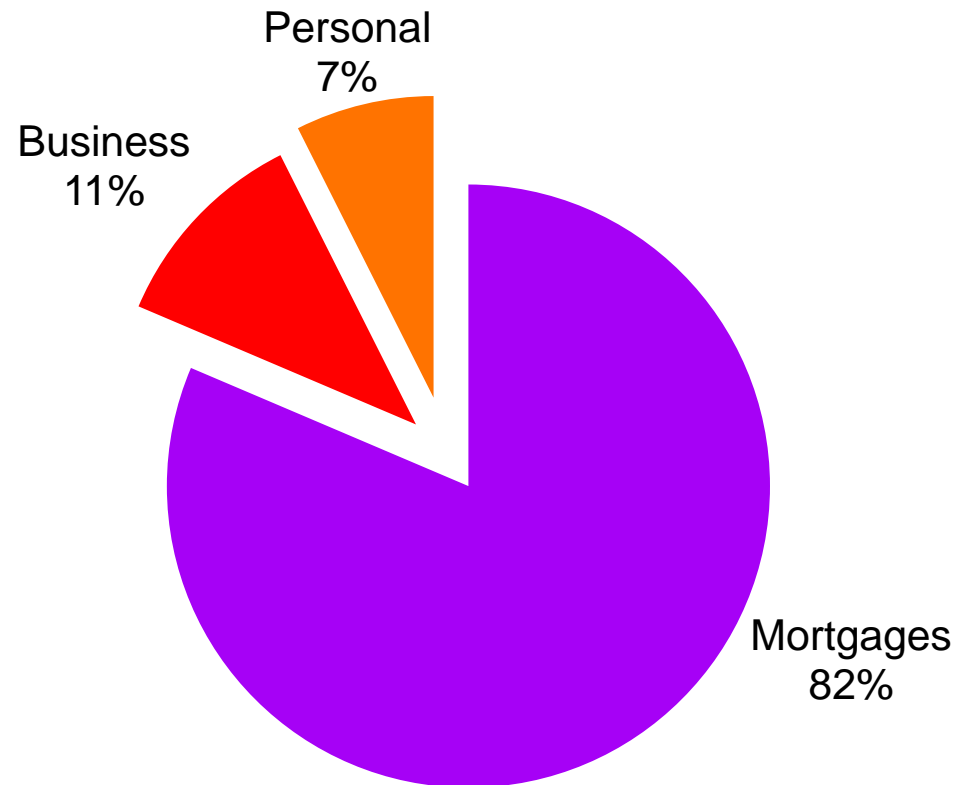
Chief Financial Officer



# 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%<sup>1</sup>
- 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%<sup>2</sup>)
- Personal loan arrears: 0.7% >90 DPD

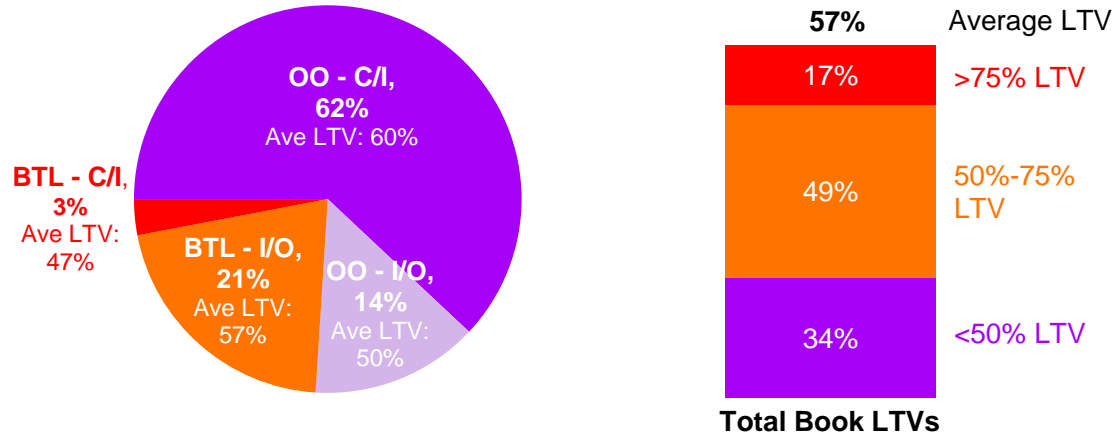
<sup>1</sup> 3m+ arrears; Source: UK Finance

<sup>2</sup> 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 0.71%)

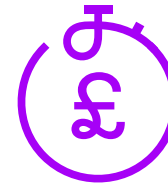
### Owner-occupied (76%)

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

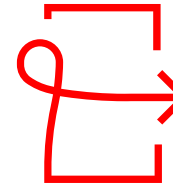
### Buy-to-let (24%)

- 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



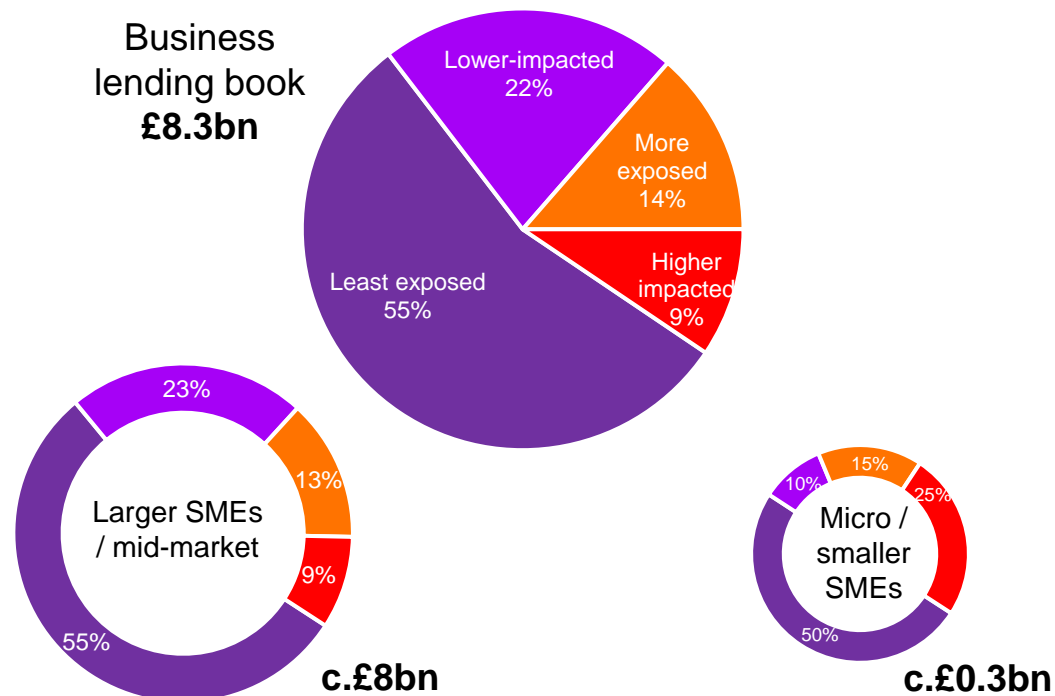
Digital payment holiday request service launched to accelerate support to customers



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

# Business: diverse customer portfolio benefitting from support

## Loan book weighted towards firms with stronger cashflows



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

- 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:

<p><b>Agriculture, Food and Drink</b> £1.7bn, 21%</p>	<ul style="list-style-type: none"> <li>• Includes cattle, dairy, arable, fishing</li> <li>• Expected to be more resilient in this crisis</li> <li>• Small migrant labour dependency</li> <li>• High level of collateral</li> </ul>
<p><b>Health &amp; social housing</b> £1.4bn, 17%</p>	<ul style="list-style-type: none"> <li>• Primarily care homes and social housing</li> <li>• Care home revenues holding up; but operational challenges at present</li> <li>• High level of collateral</li> </ul>
<p><b>Other key sectors</b> £0.7bn, 9%</p>	<ul style="list-style-type: none"> <li>• Wholesalers, including grocery and medical supplies</li> <li>• Renewable energy and utilities</li> </ul>

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

<p><b>Specialist Hotels and Real Estate</b> £0.7bn, 8%</p>	<ul style="list-style-type: none"> <li>• Mainly high-quality, branded, city centre hotels, high level of collateral</li> <li>• Conservative CRE exposure</li> </ul>
<p><b>Manufacturing</b> £0.6bn, 7%</p>	<ul style="list-style-type: none"> <li>• Very diverse customer base but with material private equity penetration</li> <li>• Have more flexible costs i.e. materials</li> </ul>

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

<p><b>Business Services</b> <i>(sub set of)</i> £0.6bn, 8%</p>	<ul style="list-style-type: none"> <li>• Wide-ranging sector, but good access to private equity and asset-backed lending</li> <li>• Excludes Professional Practices (in least exposed) and Computer &amp; Tech (mid-impact)</li> </ul>
<p><b>Legacy Property</b> £0.2bn, 3%</p>	<ul style="list-style-type: none"> <li>• Legacy CRE remnants (conservative smaller exposures); some specific accommodations</li> <li>• Good level of security</li> </ul>

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

<p><b>Retail Trade</b> £0.4bn, 4%</p>	<ul style="list-style-type: none"> <li>• Smaller retailers, not high street chains</li> <li>• No single big name exposures</li> <li>• Exposed due to small scale and sector risk</li> </ul>
<p><b>Legacy Hospitality</b> £0.3bn, 3%</p>	<ul style="list-style-type: none"> <li>• Includes legacy portfolio of hotels, pubs etc, some traded well through previous cycles</li> </ul>
<p><b>Entertainment</b> £0.1bn, 2%</p>	<ul style="list-style-type: none"> <li>• Diverse portfolio incl. radio, activity parks; some have traded well in past downturns</li> </ul>

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

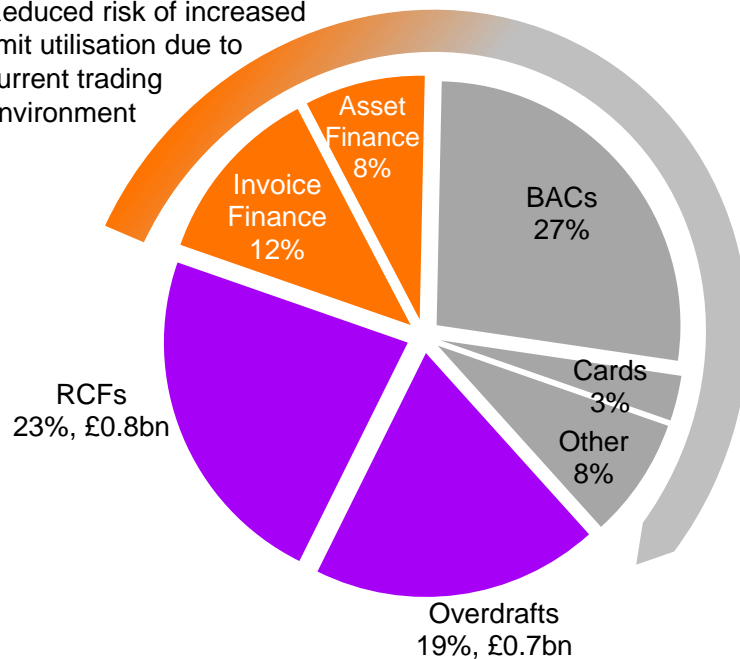


# Business: continuing to support our customers

## Outstanding credit lines have limited RWA or credit risk

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

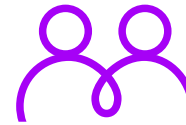
Reduced risk of increased limit utilisation due to current trading environment



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

# 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 <sup>1</sup>	Industry average <sup>2</sup>
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 <sup>3</sup>
Average customer age	46
Average income	£39k
% homeowners	74%
% self-employed	5%
% debt to income	26%

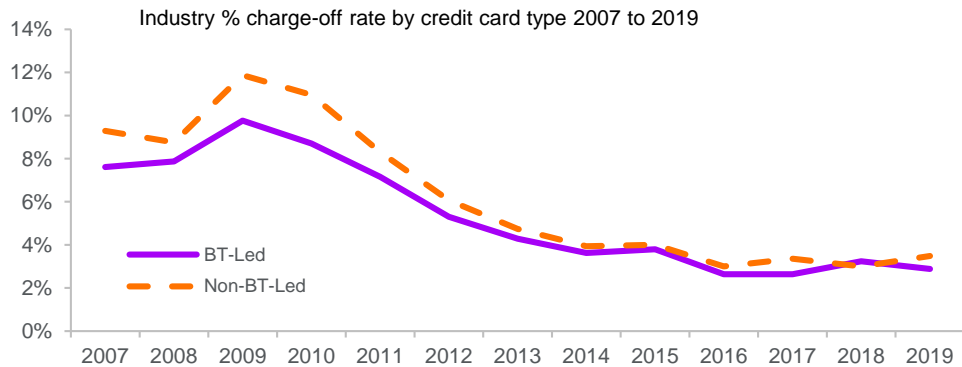
# Credit Cards: portfolio built using insight from the GFC

## 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

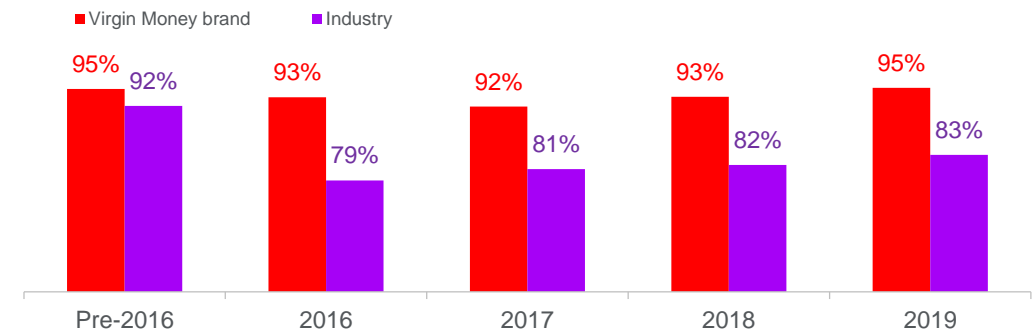


Source: Argus

## ...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%<sup>1</sup> on the BT book
- Only 16% of promotional rate balances mature in next 6 months

<sup>1</sup> 2 cycles past due

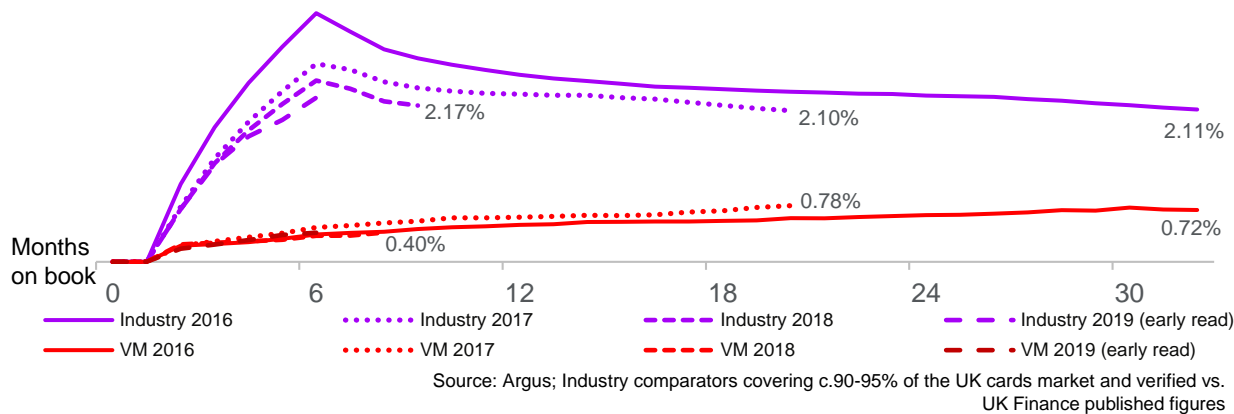


# Personal: portfolio is well-positioned going into stress

## 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**

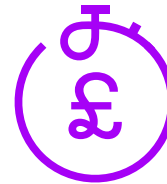
% accounts 2+ cycles past due, by acquisition year, Industry vs Virgin Money brand



## 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



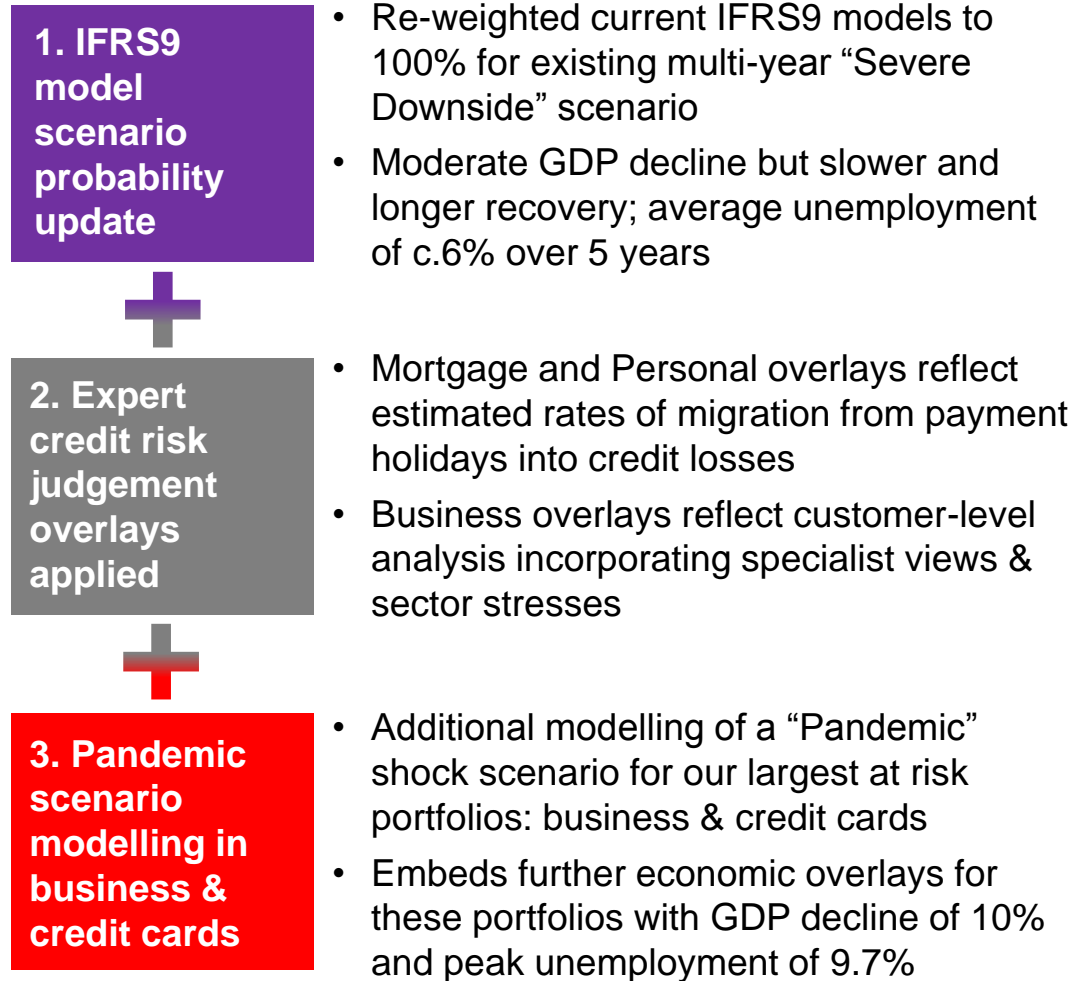
c.8k personal loan payment holidays granted; c.6% of loan customers



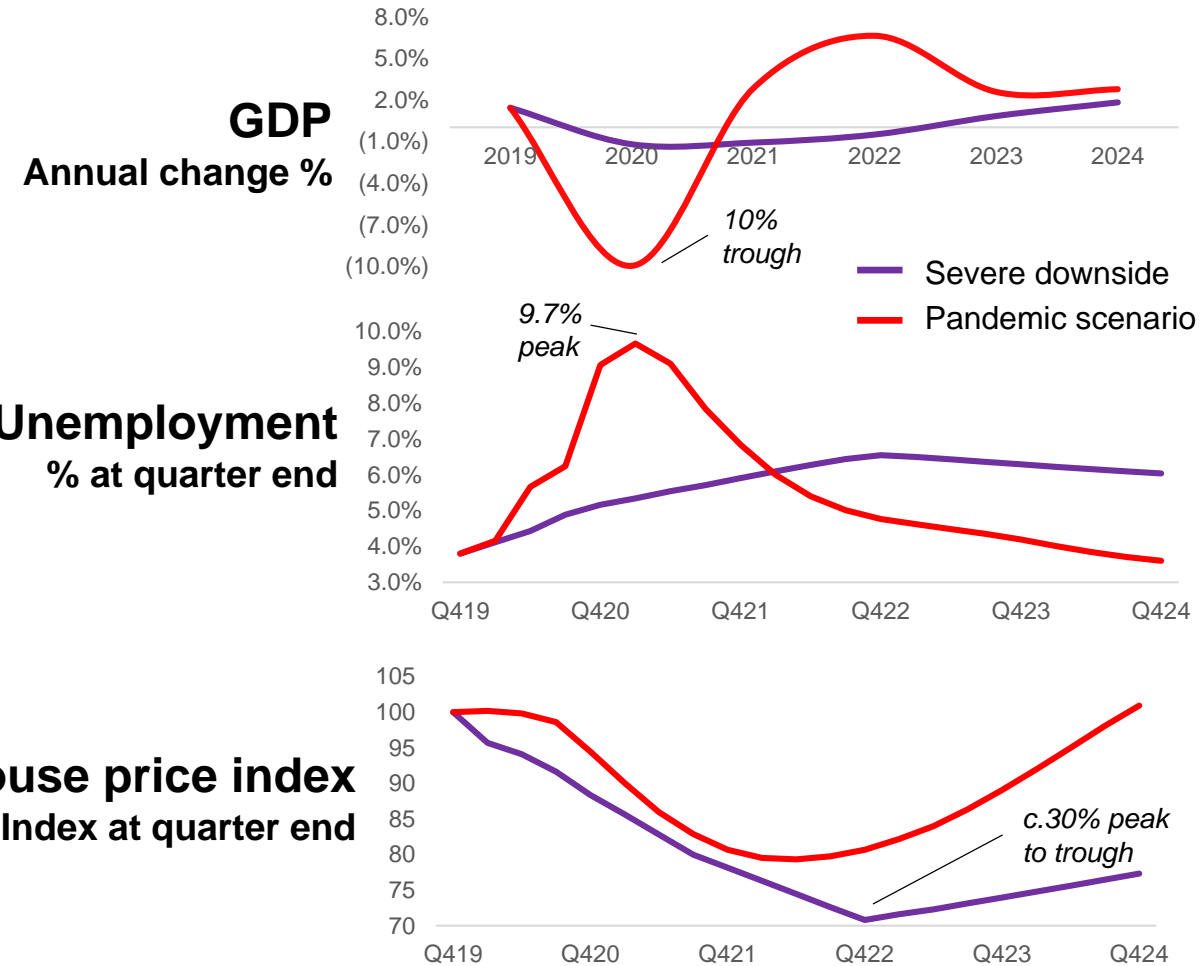
“Money On Your Mind” digital advice service launched to support customers

# Conservative impairment approach given material uncertainties...

## Comprehensive three stage modelling approach...



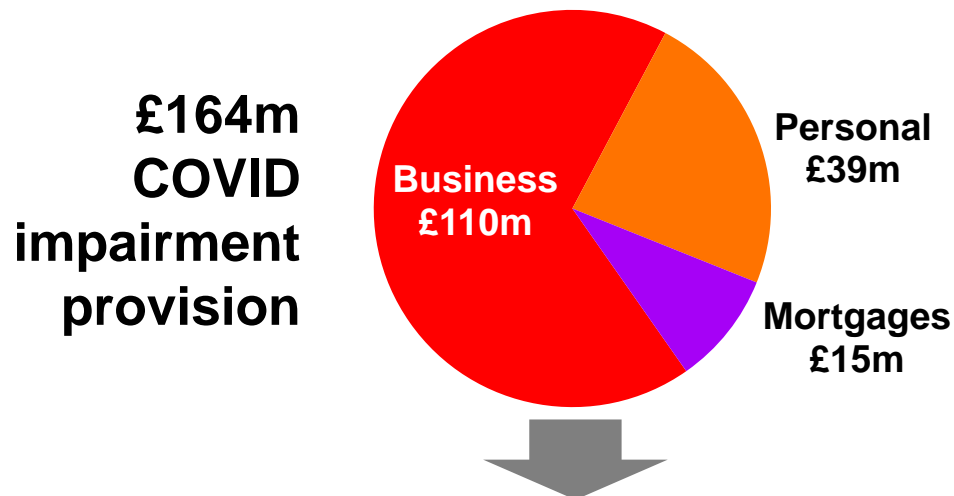
## ...with prudent economic scenarios to inform provision



Source: Oxford Economics

# ...determined a prudent £164m COVID provision

## Considerable on-balance sheet provisions & coverage



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

## 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



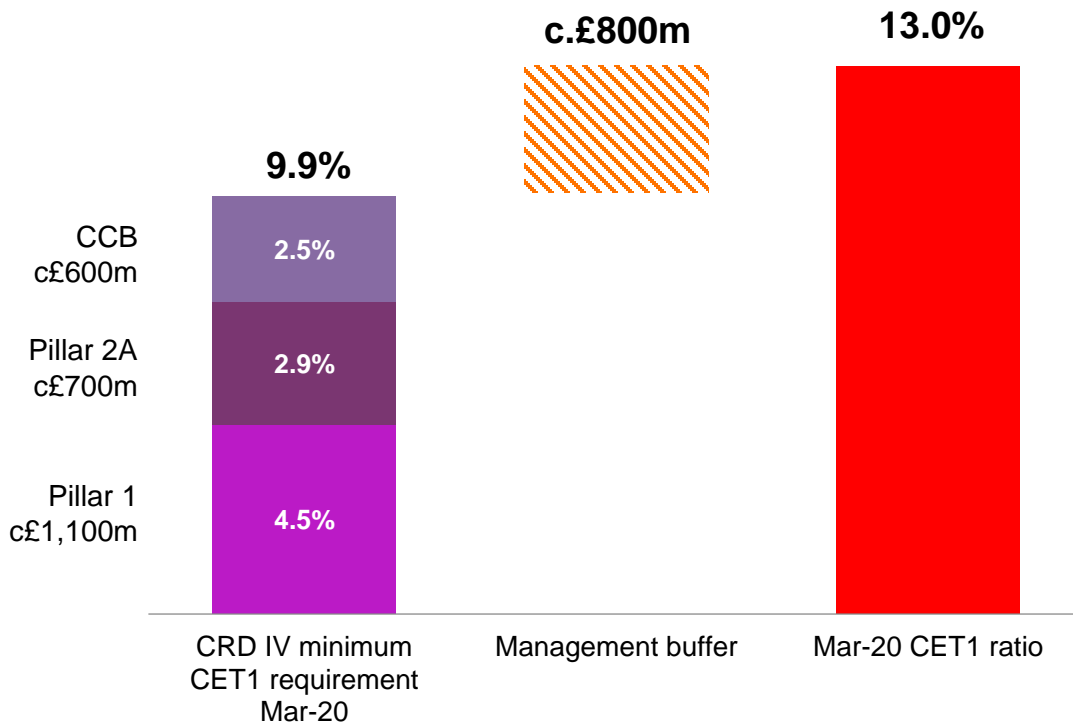
- Reflects strong credit quality of the book
- Enhanced processes and calculation methodologies remove initial conservatism
- VM through-the-cycle book moves to hybrid
- CYB book IRB day-1 conservatism reduced as evidenced through use and experience

**No material Basel III finalisation impact expected due to starting position**

Indicative RWA optimisation (pre-migration)

# 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

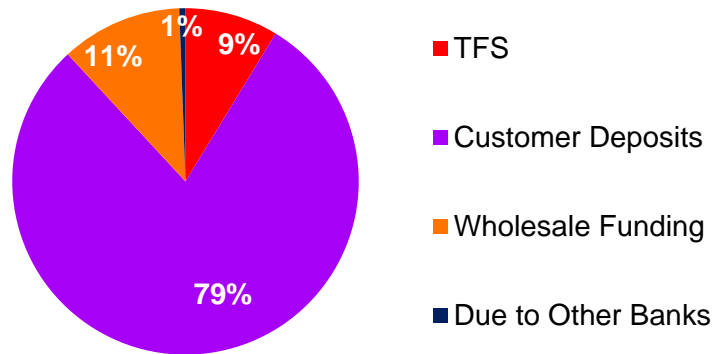
### Transformation and re-branding re-phasing

- 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...

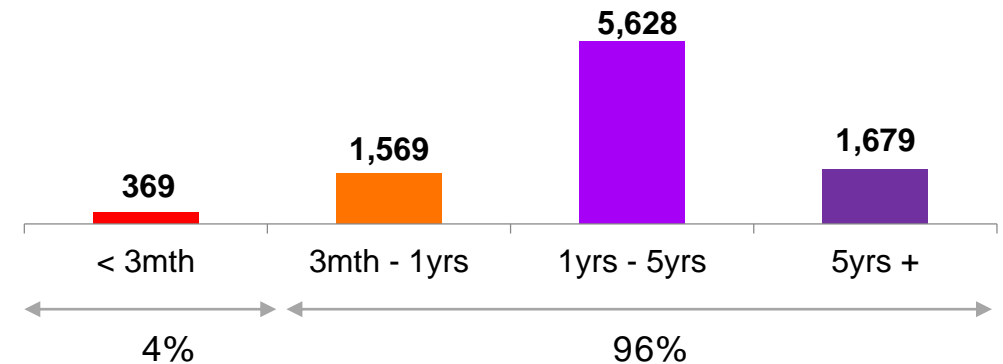
**Funding Mix by Product**  
(%)



- 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

...no wholesale funding issuance required this year if needed

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

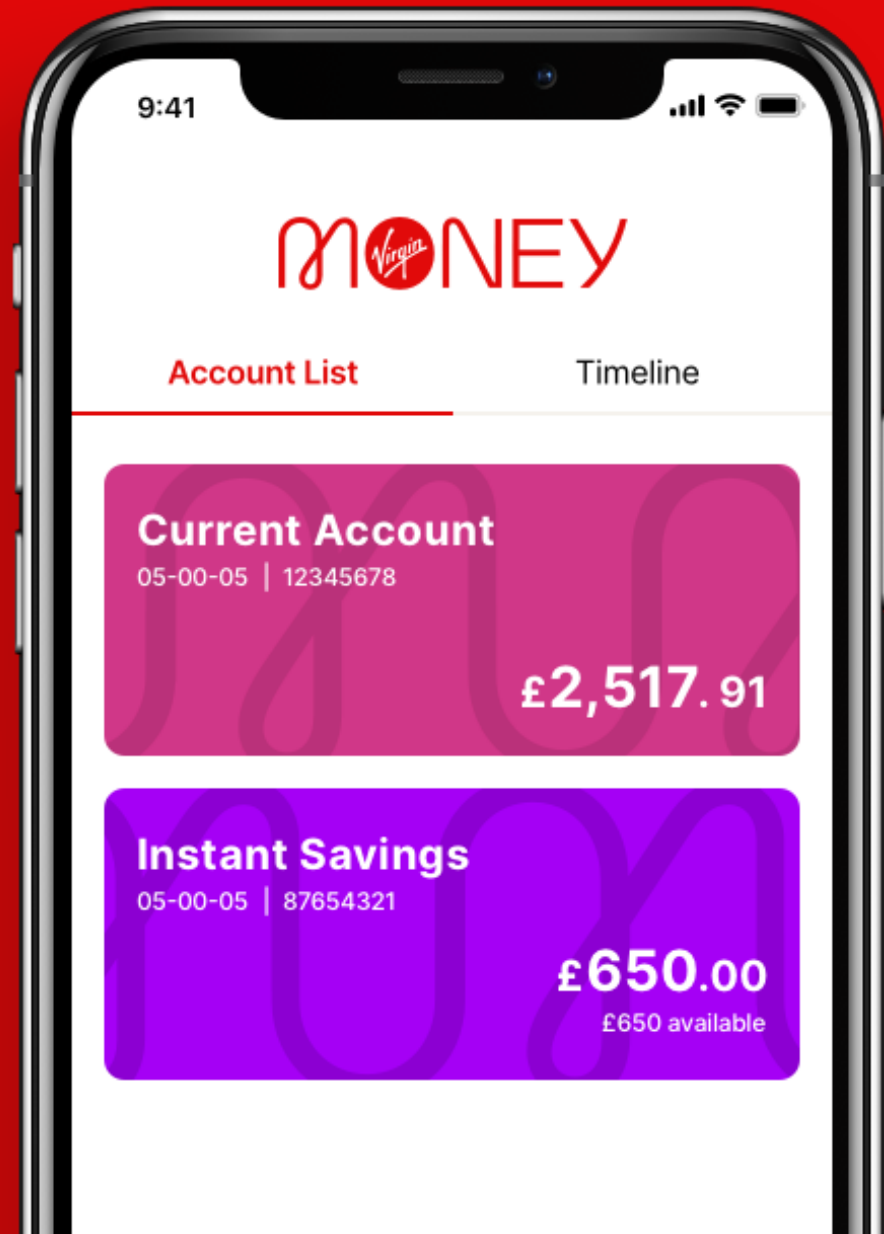


- Existing TFS balance of £7.1bn to be fully refinanced with TFSME
- No reliance on short-term Wholesale Funding
- Wholesale funding plan assumes 9-12 months of market closure if necessary (no help from central bank funding schemes assumed in this assessment)

# 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%
<b>Total operating income</b>	<b>817</b>	<b>843</b>	<b>(3)%</b>	<b>796</b>	<b>3%</b>
Total operating and administrative expenses	(465)	(480)	3%	(467)	0%
<b>Operating profit before impairment losses</b>	<b>352</b>	<b>363</b>	<b>(3)%</b>	<b>329</b>	<b>7%</b>
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)%
<b>Underlying profit before tax</b>	<b>120</b>	<b>286</b>	<b>(58)%</b>	<b>253</b>	<b>(53)%</b>
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

<b>Statutory P&amp;L</b>	<b>6 months to</b>	<b>6 months to</b>	<b>6 months to</b>
<b>£m</b>	<b>31 Mar 2020</b>	<b>31 Mar 2019<sup>1</sup></b>	<b>30 Sep 2019<sup>1</sup></b>
<b>Underlying profit before tax</b>	<b>120</b>	<b>286</b>	<b>253</b>
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) <sup>2</sup>	4 <sup>3</sup>
<b>Statutory profit / (loss) before tax</b>	<b>(7)</b>	<b>9<sup>4</sup></b>	<b>(274)</b>
Tax credit	29	-	58
<b>Statutory profit / (loss) after tax</b>	<b>22</b>	<b>9<sup>4</sup></b>	<b>(216)</b>
Tangible Net Asset Value (TNAV) per share	252.5p	260.1p	249.2p

<sup>1</sup> 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

<sup>2</sup> 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

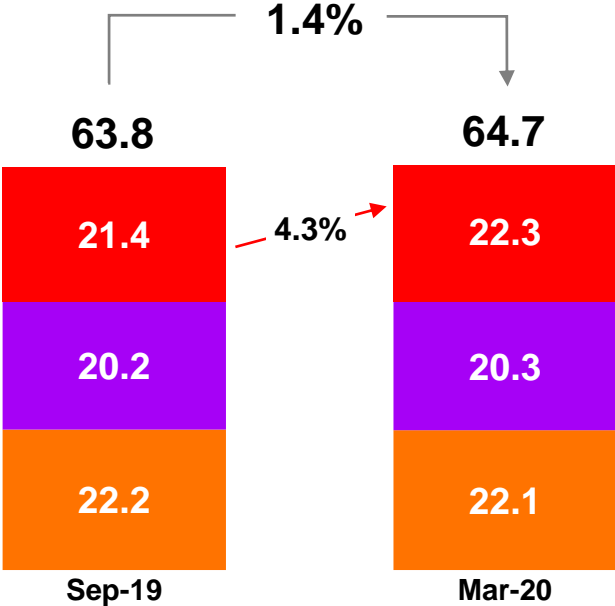
<sup>3</sup> 2019 H2 other items include a £35m gain from ASI offset by £18m of consent solicitation fees and costs for participating in the RBS incentivised switching scheme

<sup>4</sup> 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

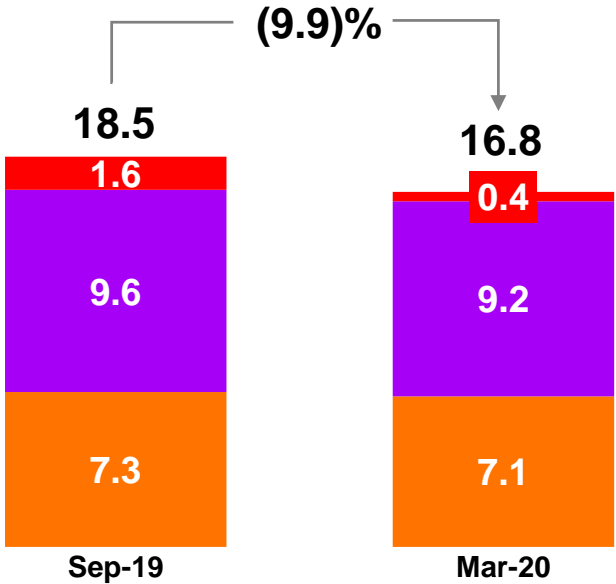


Cost <sup>1</sup> (bps)	100	98
LDR	114%	113%

■ Term deposits ■ Non-linked savings ■ Relationship deposits

## Retain funding flexibility and managing wholesale mix

Wholesale balances  
£bn

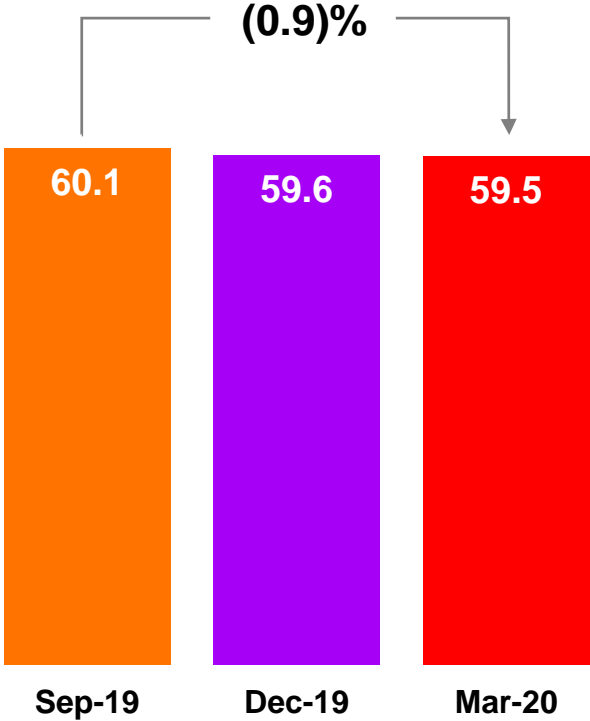


Cost <sup>1</sup> (bps)	150	159
TFS (% of lending)	10%	10%

■ TFS ■ Debt Securities ■ Other banks

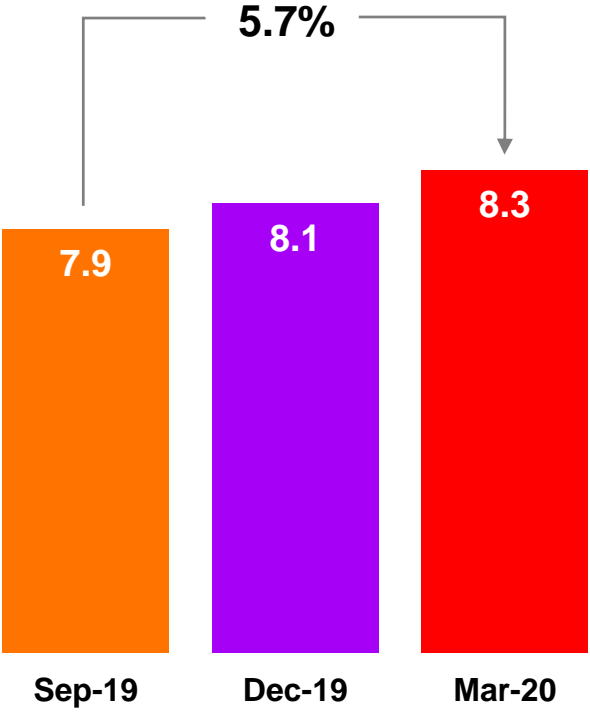
# Lending growth in line with strategy

Mortgages £59.5bn



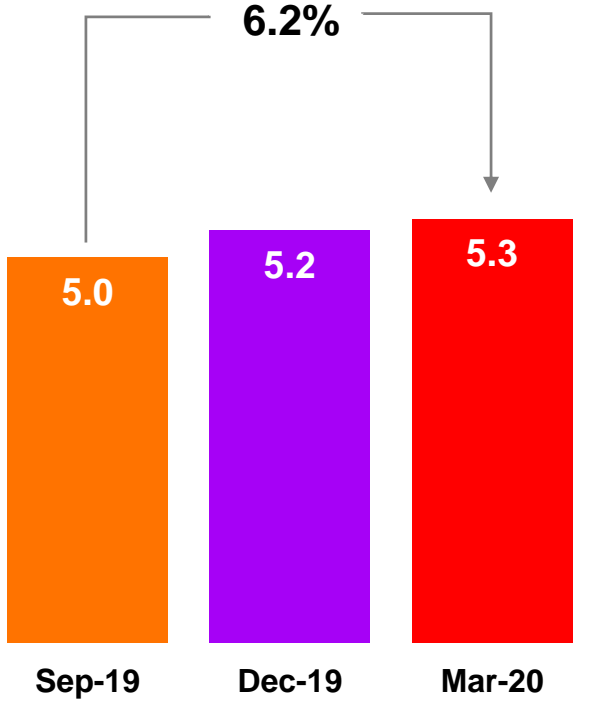
Continue to be selective in pricing focusing on margin over volumes

Business £8.3bn



Strong organic origination with support from RBS switching

Personal £5.3bn



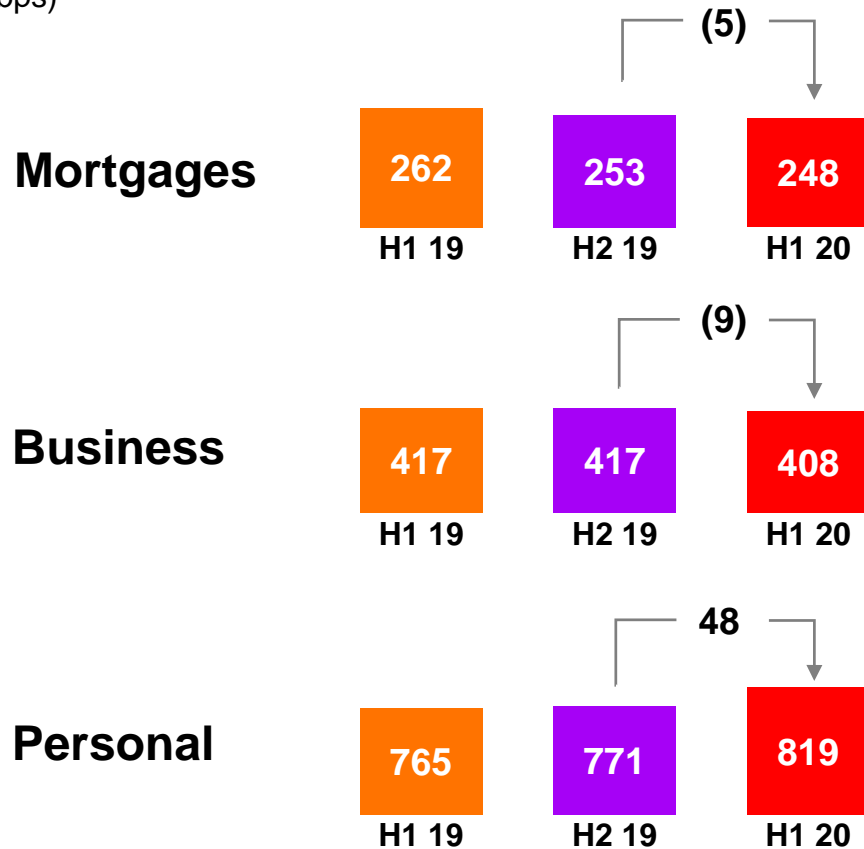
Continued growth in high quality Virgin Money Credit Cards



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

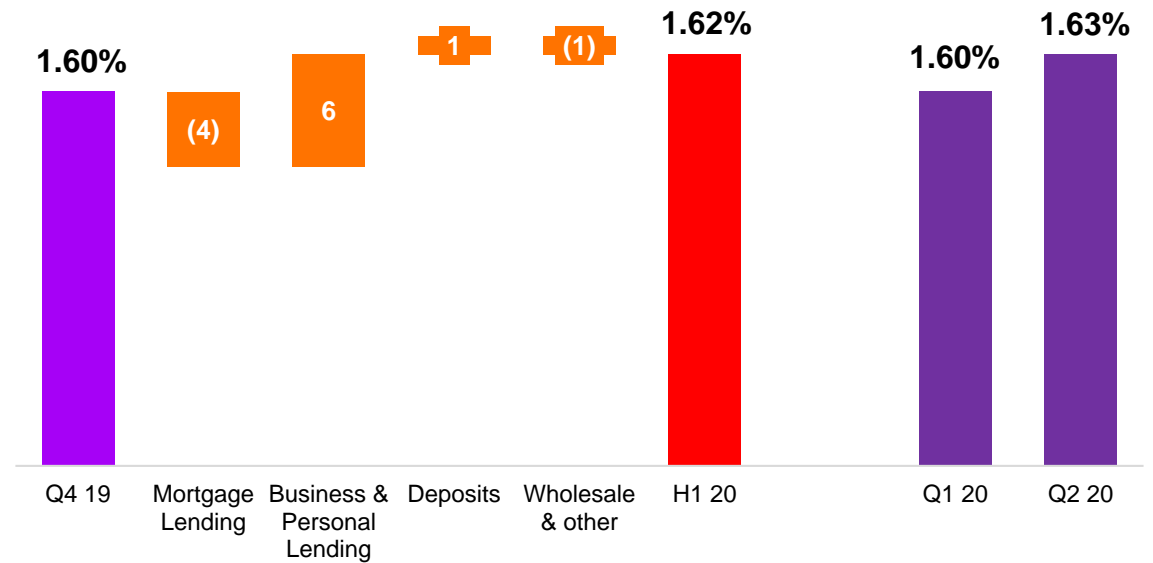
## Mortgage yield reduction slowing; Personal yield higher

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

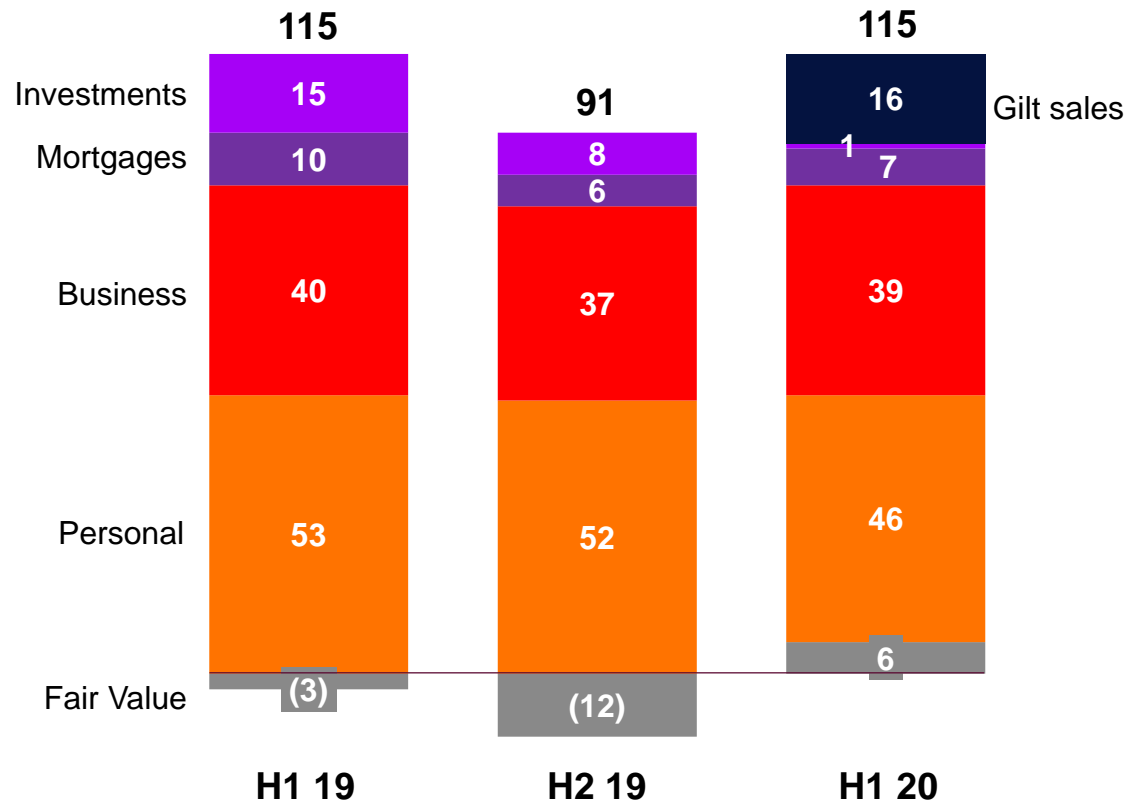
# Non-interest income benefits from gain on sale of gilts

H1 20 other income includes gain on gilts...

...with underlying divisional fee income fairly resilient

## Non-interest income analysis

£m

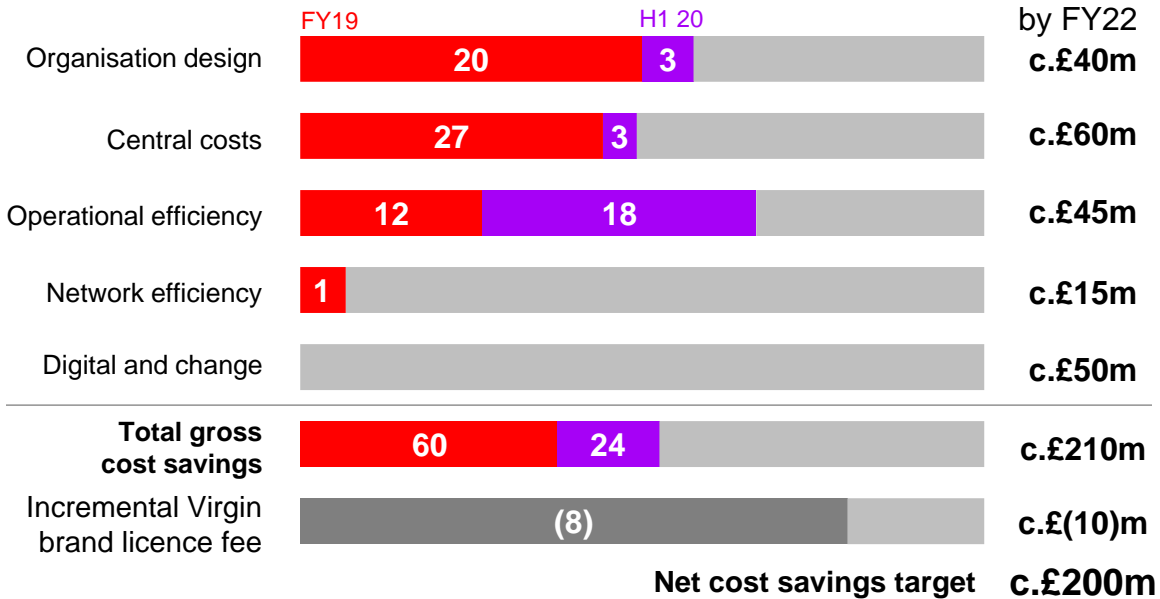


- Sale of gilts at attractive market levels; proceeds reinvested into other high-quality liquid assets
- Lower Personal income driven by HCCR overdraft fee changes and lower credit cards fees
- Business income remained stable over the last three halves underpinned by consistent account fees and customer 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

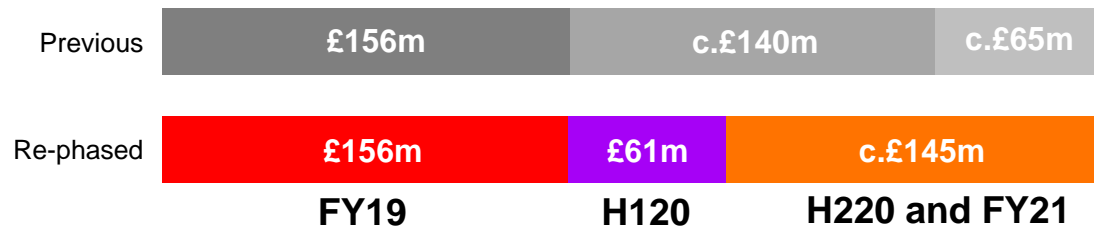
# Continued synergy delivery; future profile to be re-phased

## Transformation programmes continued to deliver net savings

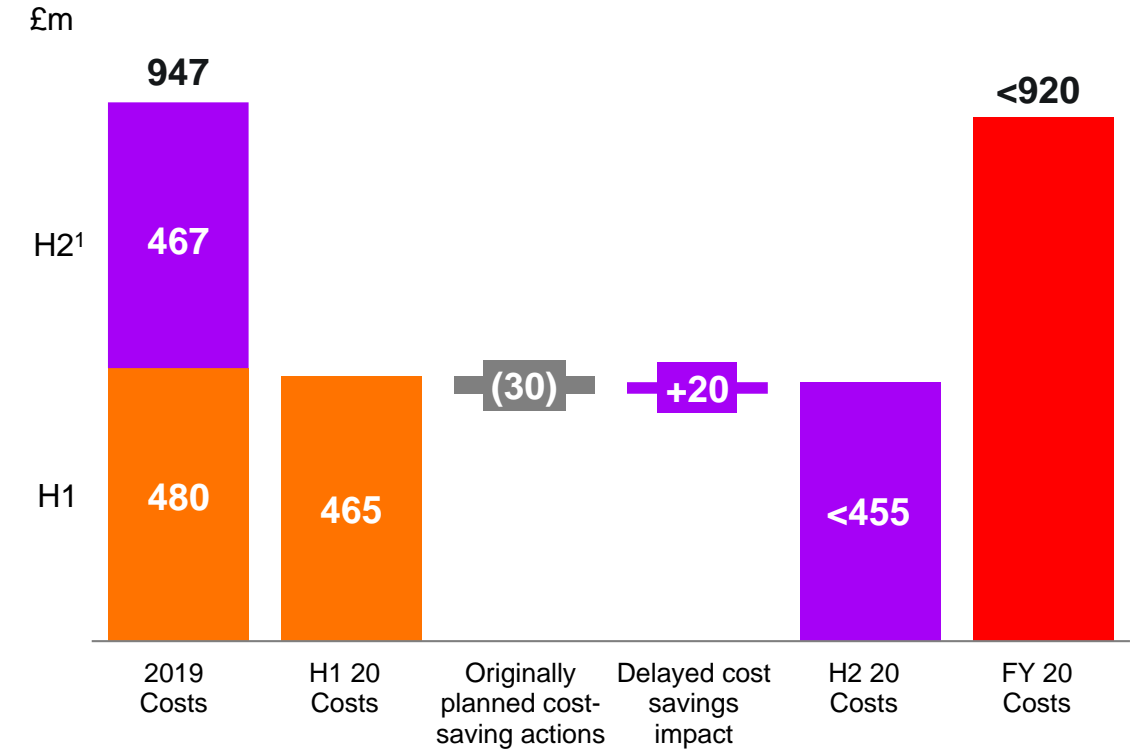
### Run-rate net cost savings to date of £76m



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



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

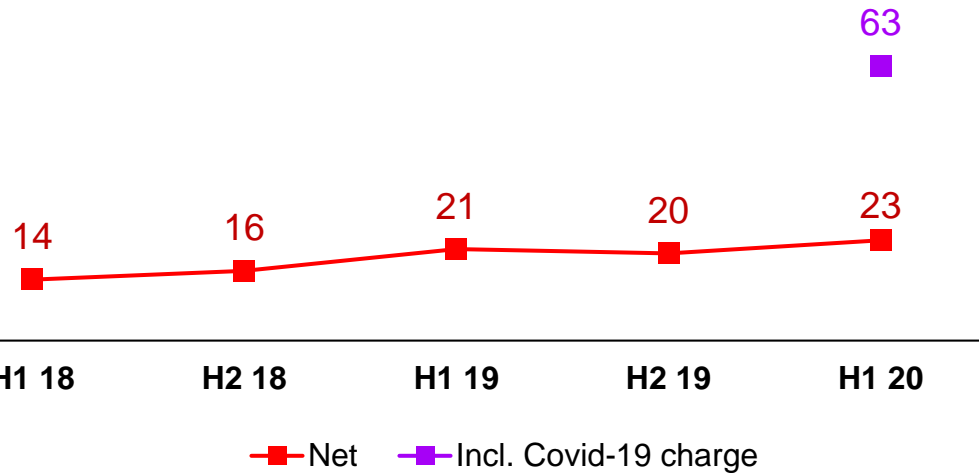


- H1 cost reduction benefitted from actions taken in FY19
- Original plan saw further initiatives taking FY20 costs to <£900m
- Delay to Transformation programme drives lower than planned cost savings in H2

# Pre-COVID asset quality remained robust

## Pre COVID-19 impairment was as expected

Net cost of risk  
(bps)



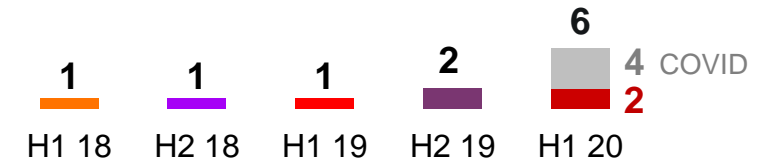
	H1 18	H2 18	H1 19	H2 19	H1 20
P&L Charge	£48m	£58m	£77m	£76m	£86m
COVID-19 charge	-	-	-	-	£146m
<b>Total charge</b>					<b>£232m</b>

## Pre-COVID divisional asset quality remained robust

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

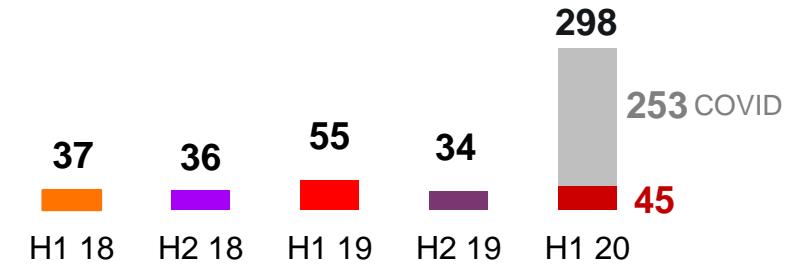
### Mortgages

£59.5bn  
at H1 20



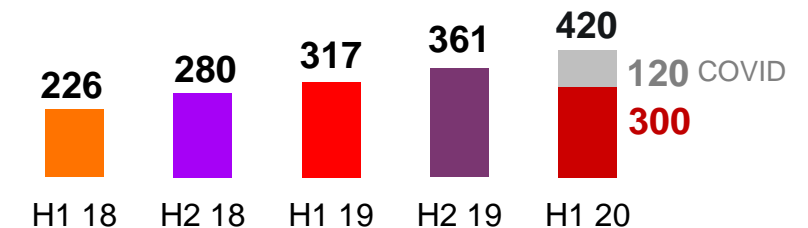
### Business

£8.3bn  
at H1 20



### Personal

£5.3bn  
at H1 20

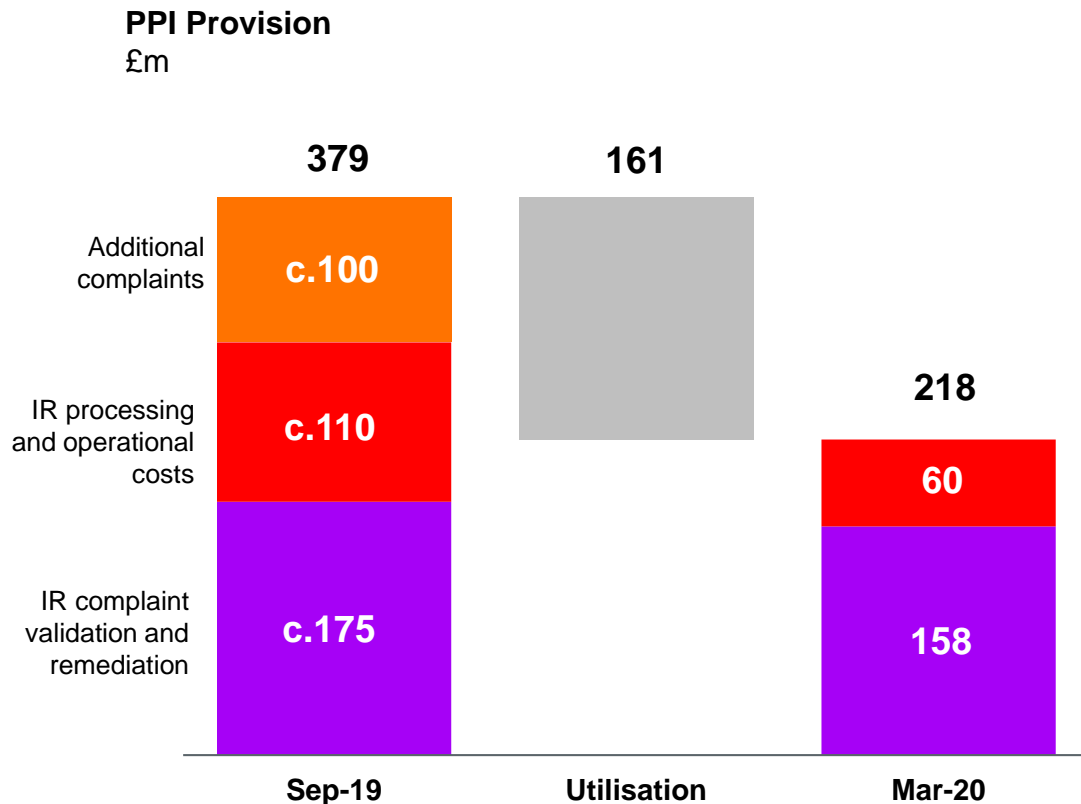




# PPI processing uphold rates much lower than assumptions

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

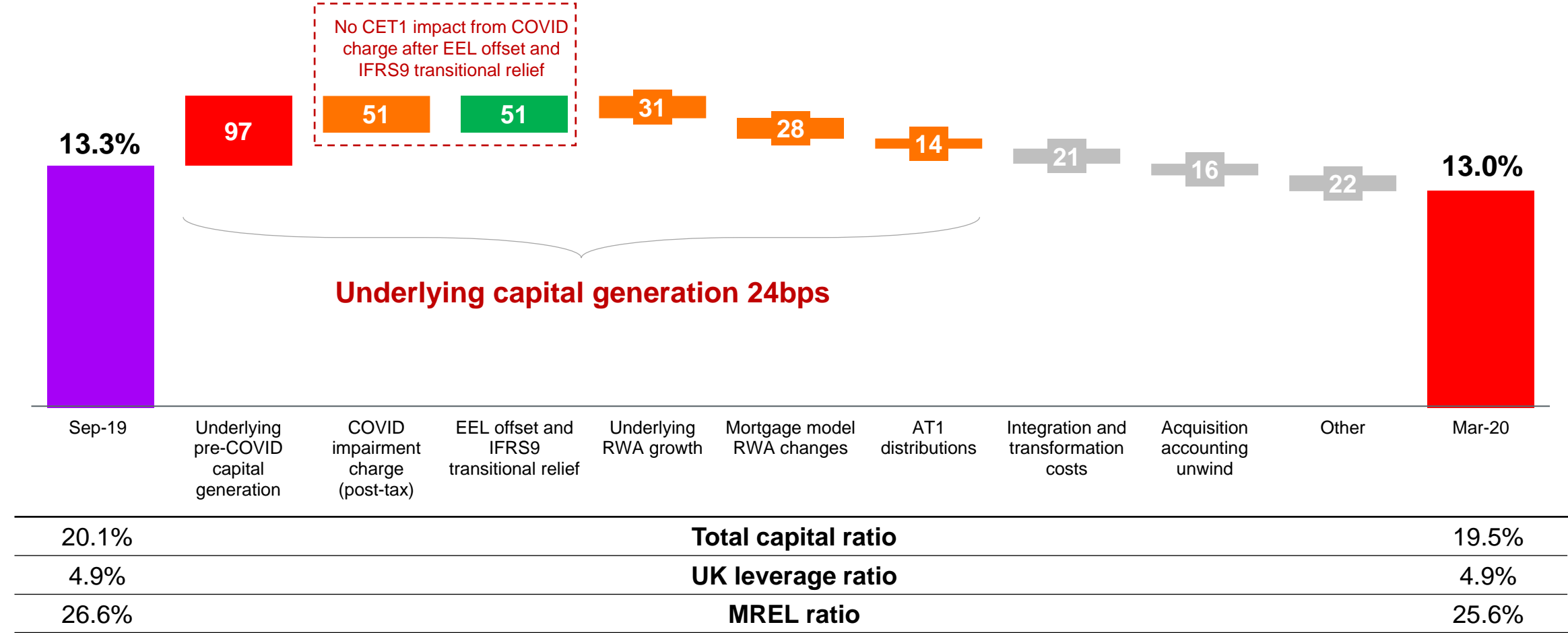
- Complaint validity lower than expected over past 6 months
- Average uphold rate c.25% vs. provision assumption c.40%
- Average redress and cost-to-do broadly in line with assumptions

## 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)



# 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: <ul style="list-style-type: none"> <li>grow margin accretive assets</li> <li>grow low cost relationship deposits</li> </ul>
Delighted customers and colleagues	<ul style="list-style-type: none"> <li>Enhance the customer experience</li> <li>Drive digital adoption</li> <li>Colleagues delivering our purpose</li> </ul>
Super straightforward efficiency	<ul style="list-style-type: none"> <li>Realise integration synergies</li> <li>Digitise and simplify the business</li> <li>Streamlined operating model</li> </ul>
Discipline and sustainability	<ul style="list-style-type: none"> <li>Foster a disciplined risk approach</li> <li>Optimise the Group's RWAs</li> <li>Deliver sustainable returns</li> </ul>


## ...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





# 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
<b>Existing multi-year Severe Downside</b>	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%
<b>Pandemic Shock</b>	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

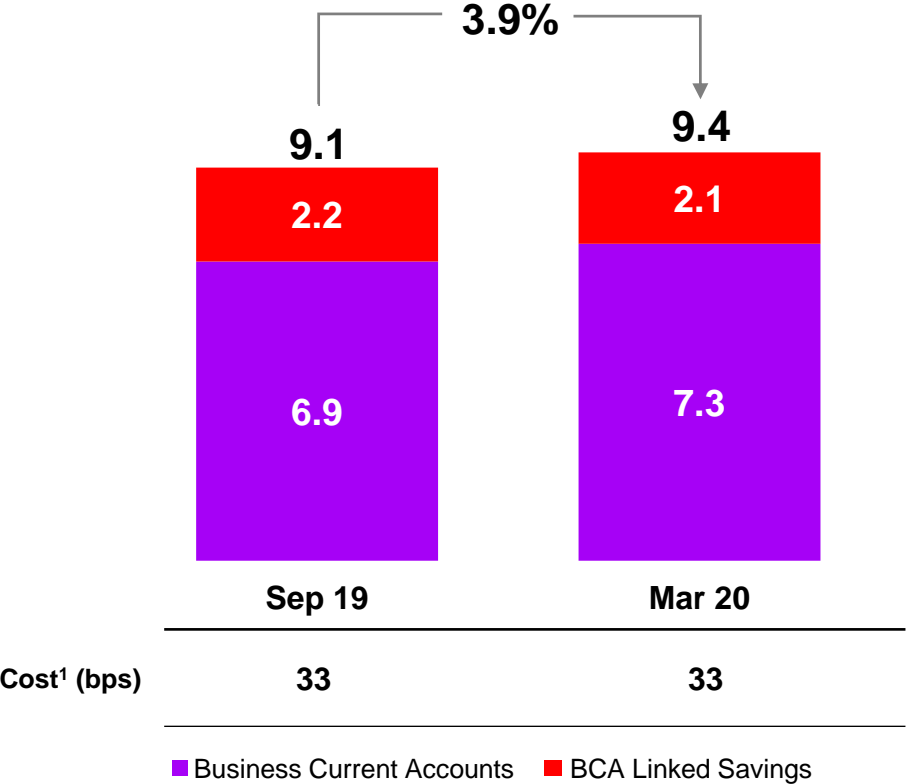
£m

	at Mar 2020	at Sep 2019
Mortgages	59,521	60,079
Business	8,327	7,876
Personal	5,335	5,024
<b>Total customer loans</b>	<b>73,183</b>	<b>72,979</b>
Liquid assets and other	14,868	16,391
Other assets	2,003	1,629
<b>Total assets</b>	<b>90,054</b>	<b>90,999</b>
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
<b>Total liabilities</b>	<b>84,980</b>	<b>85,978</b>
Equity and reserves	5,074	5,021
<b>Liabilities and equity</b>	<b>90,054</b>	<b>90,999</b>

# Good growth in Relationship Deposits

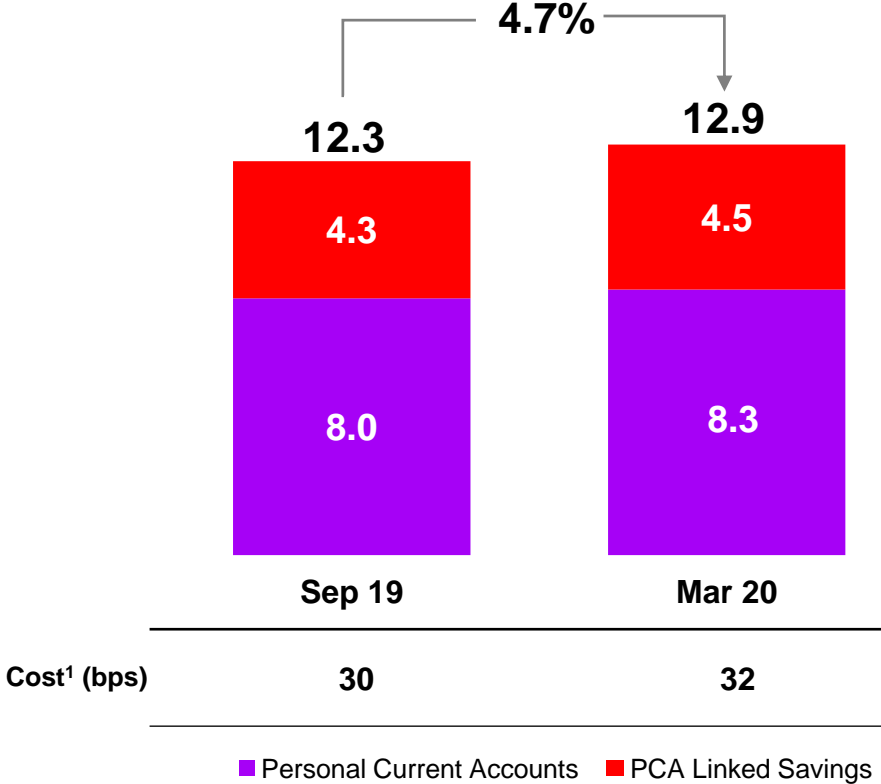
## Good growth in Business Current Accounts

Relationship deposit balances  
£bn



## Strong growth in Personal relationship deposits

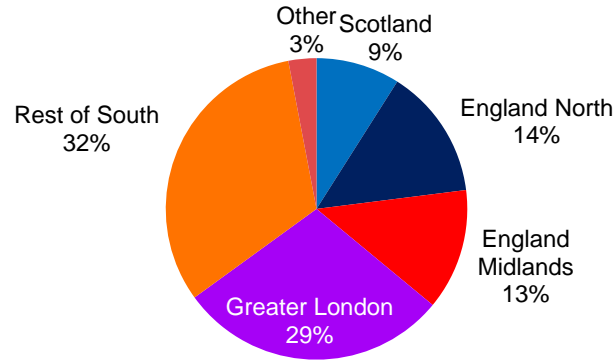
Relationship deposit balances  
£bn



# Mortgage Lending – H1 20

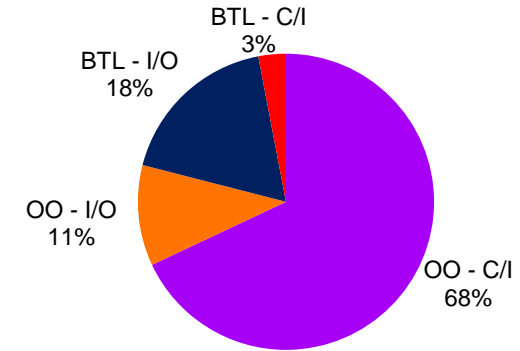
## Mortgage lending location (1)

Stock of mortgage lending



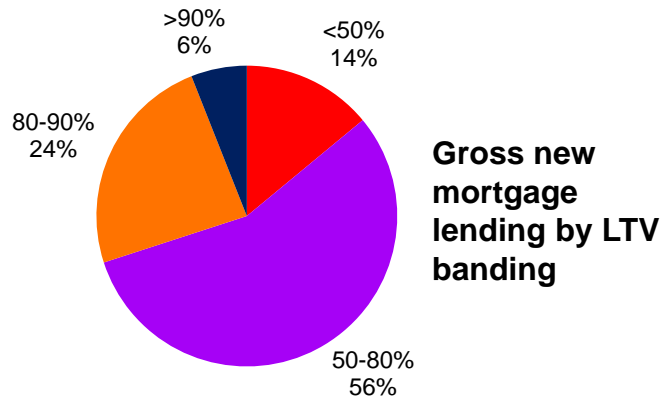
## Repayment and borrower profile

Gross new mortgage lending, H1 20



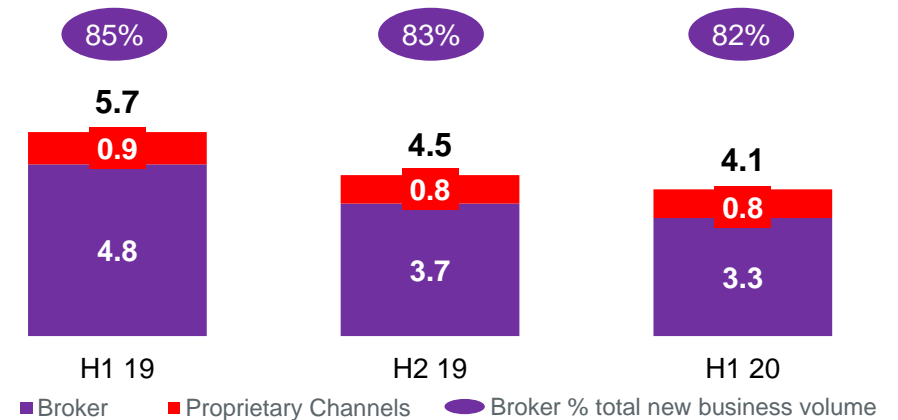
## Loan-to-value of mortgage lending

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



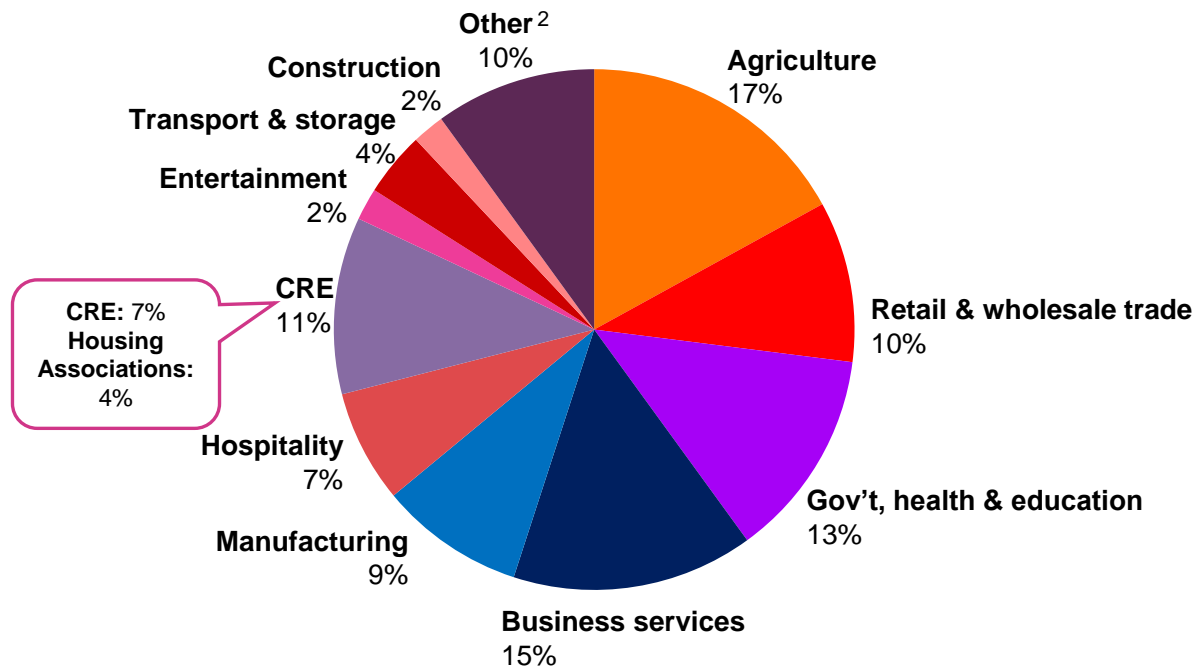
## Gross new mortgage lending volumes (£bn)

(£bn)

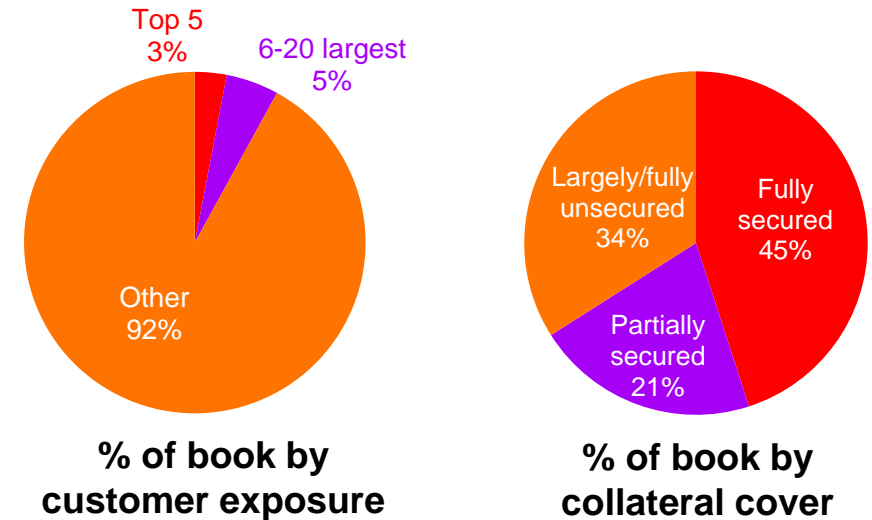


# Business Lending – H1 20

## Business lending portfolio by industry sector<sup>1</sup>



## Business lending portfolio



## Business banking drawdowns

(£bn)



H1 19



H1 20

# Risk weighted assets

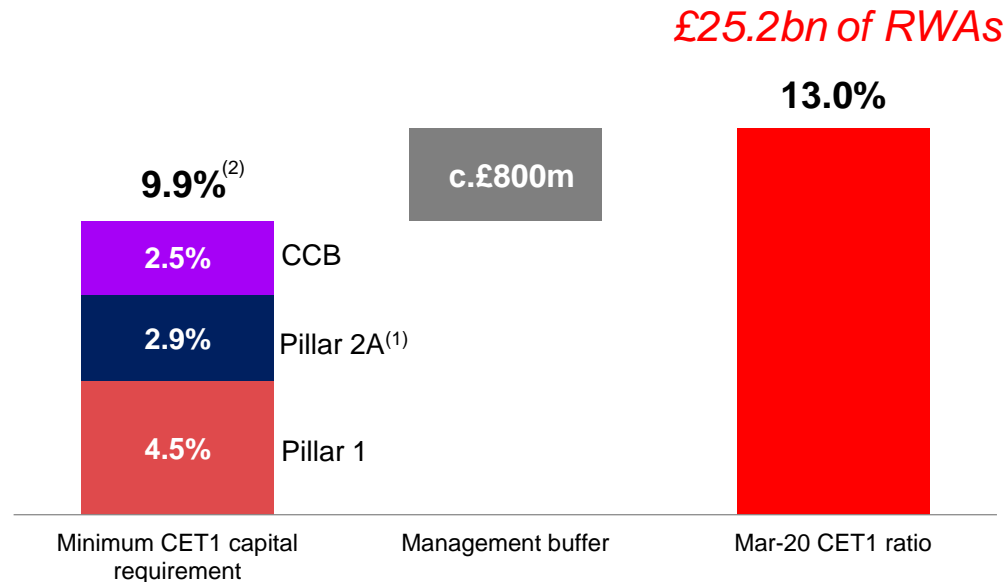
£m

	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
<b>Total credit risk</b>	<b>22,136</b>	<b>21,057</b>
Credit valuation adjustment	202	192
Operational risk	2,606	2,606
Counterparty risk	229	191
<b>Total RWAs</b>	<b>25,173</b>	<b>24,046</b>
<b>Total loans</b>	<b>73,183</b>	<b>72,979</b>
<b>Credit RWAs / total loans</b>	<b>30%</b>	<b>29%</b>
<b>Total RWAs / assets</b>	<b>28%</b>	<b>26%</b>

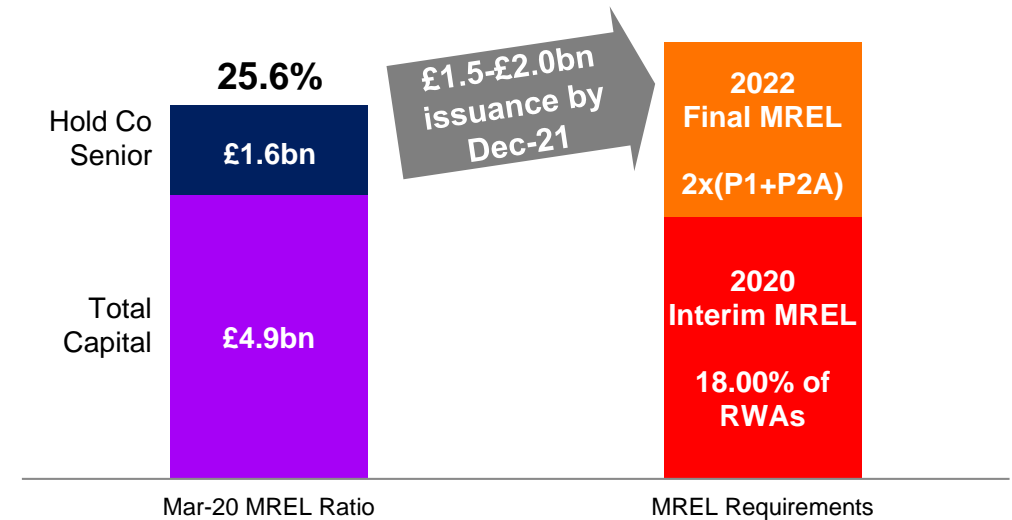


# Robust capital position

## Significant management buffer maintained



## Interim MREL requirement met; on track for end-state



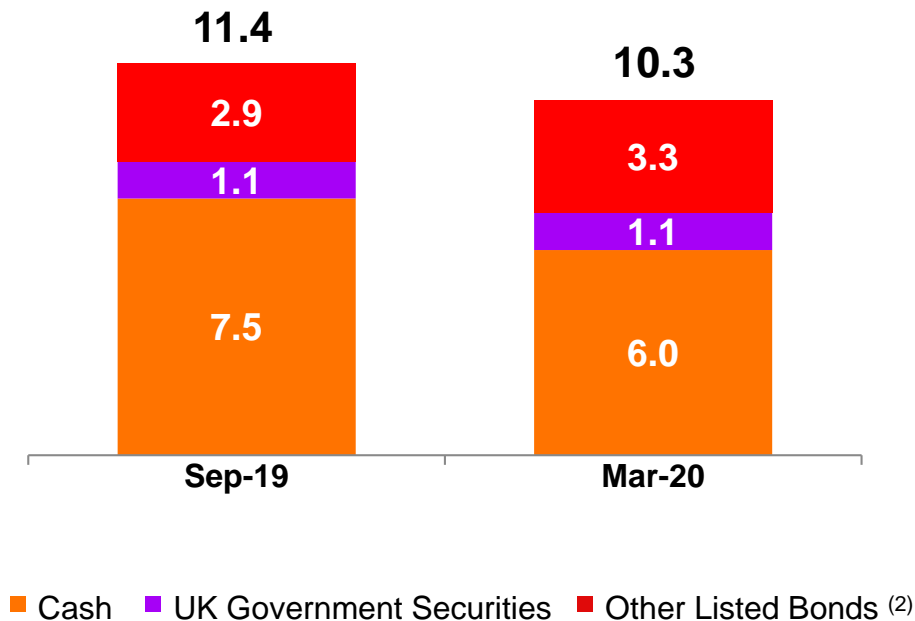
- CET1 ratio in line with 13% target operating level
- Scope to further optimise capital requirements
- Robust capital position provides sufficient capacity to execute CMD strategy and deliver our targets

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

# 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

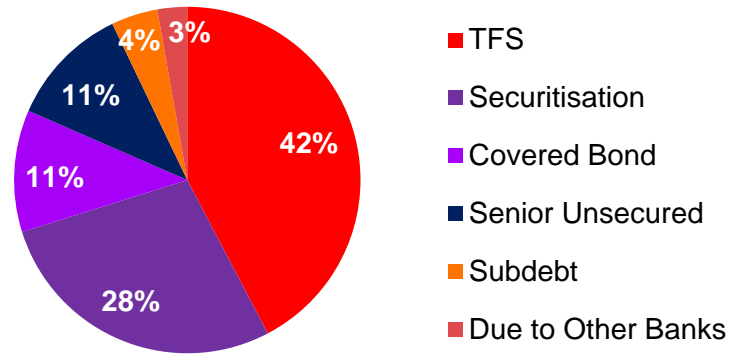
Key Ratios	Mar-20	Sep-19
Liquidity Coverage Ratio	139%	152%
Net Stable Funding Ratio	129%	128%

# Continued diversification of wholesale funding

## Full range of funding programmes...

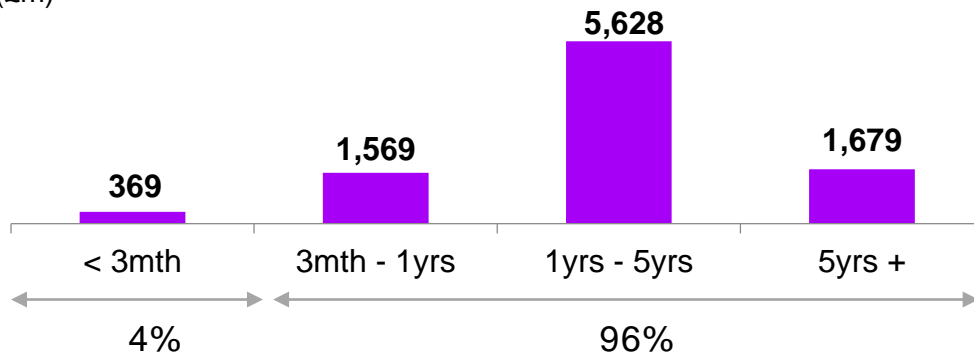
### Wholesale Funding by Product (1)

(%)



### 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

# Credit Ratings reflect robust business model but macro uncertainty

		Credit Rating			Product	Programmes
		MOODY'S	S&P Global	FitchRatings		
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 <sup>(1)</sup> / 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.

# 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		
	Average balance	Yield <sup>(1)</sup>	Net Interest Income <sup>(2)</sup>	Average balance	Yield <sup>(1)</sup>	Net Interest Income <sup>(2)</sup>
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
<b>Total</b>	<b>23,852</b>	<b>0.9%</b>	<b>111</b>	<b>24,314</b>	<b>1.0%</b>	<b>118</b>

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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The background features large, faint, stylized letters 'VM' in a light purple color, centered behind the main text.

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about money