Virgin Money UK
BofA Financials Conference

Clifford Abrahams, CFO | 22nd September 2022

Building strategic momentum despite uncertain economic backdrop

Successful digital execution

- Launched innovative, new digital propositions, including 'Slyce', 'Marketplace' and 'M-Track'
- Continued progress in digitising customer journeys; 43% at Q3 (FY21: 27%)

Balance sheet progress

- Strong growth in relationship deposits and in target lending segments (Unsecured and BAU Business)
- NIM has strengthened 14bps Q3 YTD vs Q421 exit rate; guidance upgraded to c.185bps for FY22

Continued cost-efficiency

- On track to deliver £175m of gross savings by FY24 from digital transformation programme
- Continue to expect FY22 costs to be broadly stable on FY21

Robust asset quality

- Prudent coverage of c.66bps at Q3, including c.£25m PMA for cost of living; expect single digit FY22 CoR
- Underwriting criteria tightened across portfolios to reflect higher cost of living

Capital returns underway

- Q3 CET1 14.8% well above target long term range of 13%-13.5%, post deduction for £75m buyback
- Dividend payout 30% per annum; inaugural buyback programme c.50% complete[1]

Q3 YTD Statutory RoTE

9.6%

(1) As at 15/09/22

Our strategy continues to deliver shareholder value over time

Our strategic pillars underpin our equity story

- Super Straight-forward Efficiency
- Delighted Customers & Colleagues
- Discipline & Sustainability
- Pioneering Growth

Our equity story delivers shareholder value over time

Balance sheet resilience

- Defensive balance sheet and robust asset quality; coverage > pre pandemic
- Lending weighted towards mortgages with an affluent unsecured book
- Strong CET1 ratio 14.8%; robustly in excess of 13-13.5% target
- Clear capital framework set; dividends at 30% pay-out, supplemented by buybacks
- Strong total capital returns yield expected in FY22

Well positioned for uncertain economic outlook

+

Digital transformation underway

- Benefitting from rate rises; FY22 NIM stabilising at c.185bps, + c.20bps vs FY21
- Restructuring on track: delivering modern tech platform & automated customer journeys
- Broadly stable costs expected in FY22; with gross savings of £175m by FY24 on track
- Statutory RoTE of c.10% achieved in FY22 YTD[1]
- New and exciting digital propositions launched, strong pipeline into FY23

Strategic execution driving improved earnings momentum

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Accelerating profitable growth

- Leverage strong brand potential & loyalty to drive core customer product holding growth
- Fully leverage digital potential and new propositions
- Deliver above market growth in our target areas
- Improve efficiency and deliver <50% C:I by FY24
- Increase capital generation supporting stronger capital returns to shareholders

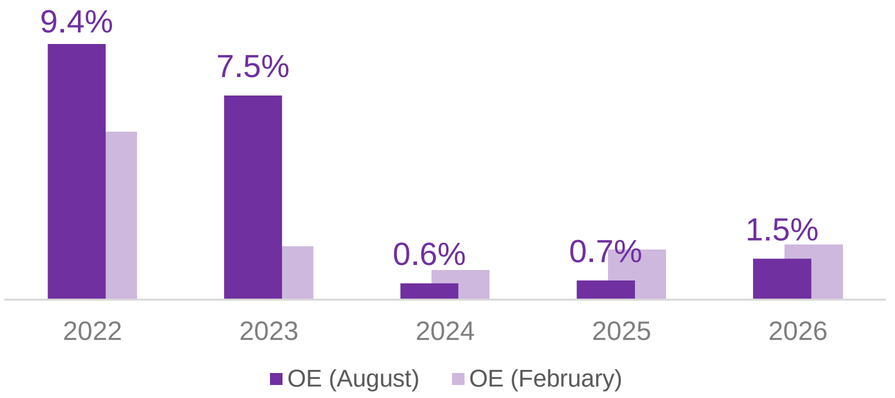
Digital propositions will drive growth across the whole book

(1) As at Q3 (June) 2022

Challenging economic outlook, with higher inflation

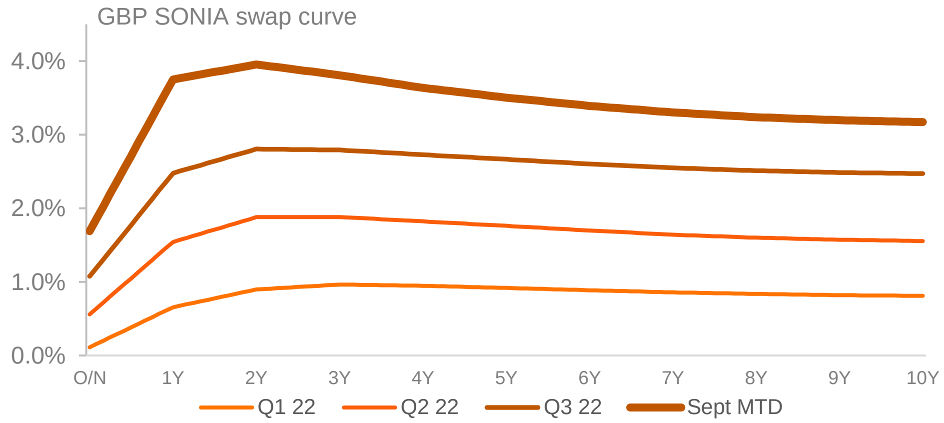
Higher prices

CPI: Sustained pick-up in inflation



Source: Oxford Economics Base Case, August 2022 and February 2022

Rates: significant yield curve shift

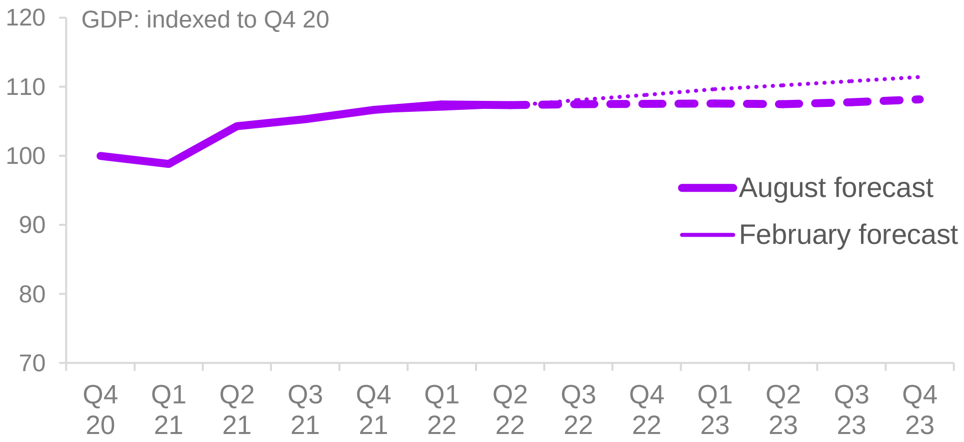


Source: Bloomberg; monthly average at VMUK quarter end

Higher UK rate environment

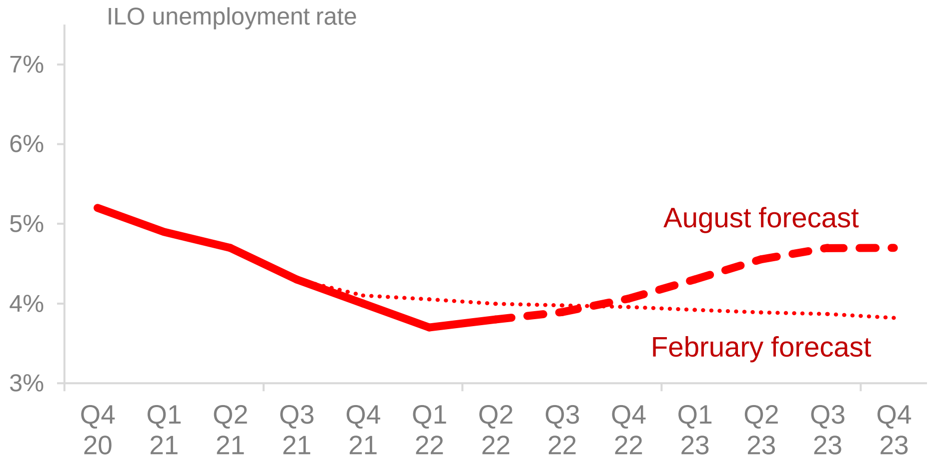
Recovery challenged

GDP: further downgrades to GDP outlook



Source: Oxford Economics Base Case, August 2022 and February 2022

Unemployment: predicted to increase but remain subdued



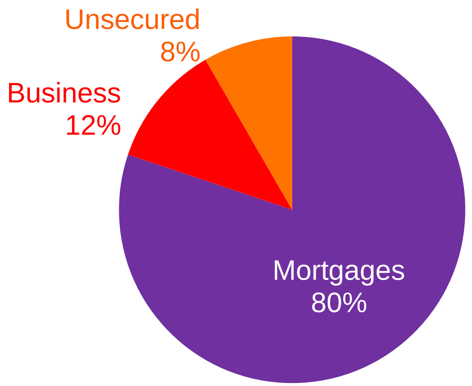
Source: Oxford Economics Base Case, August 2022 and February 2022

Tight labour market

(1) As at 12/09/2022

Robust balance sheet, well-capitalised and returning capital

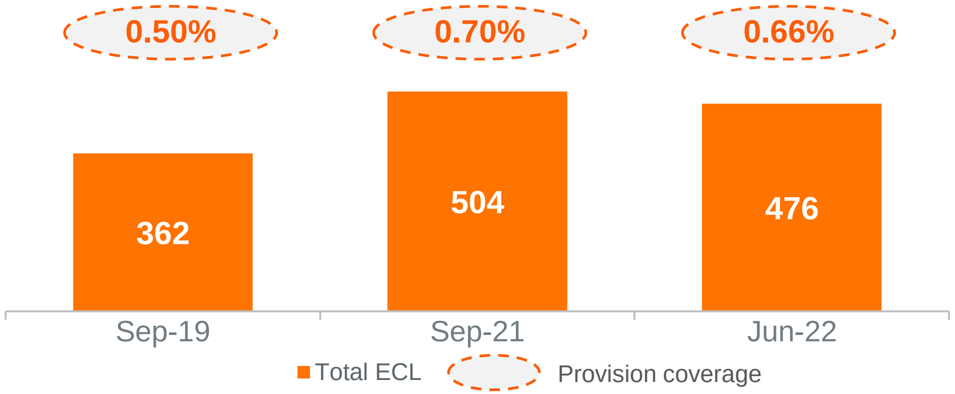
Balance sheet mix: Defensively positioned loan books



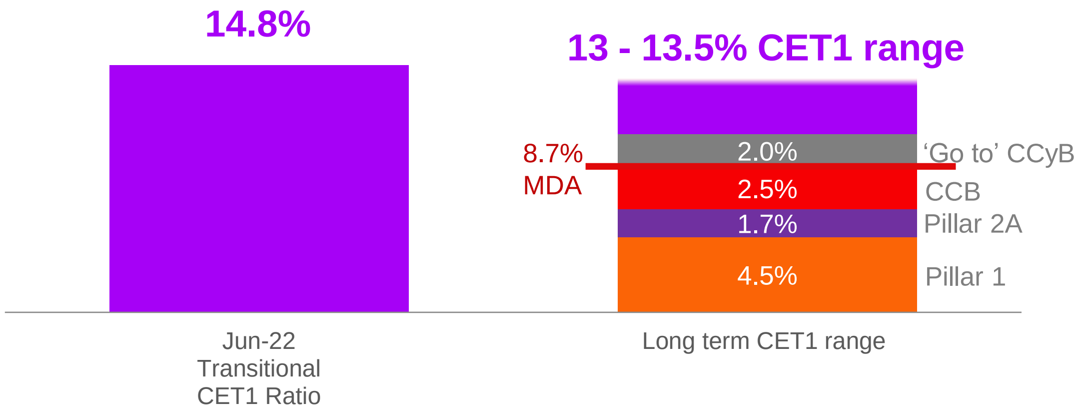
- **Mortgages** weighted towards owner occupied (74%); 54% average LTV of total stock
- **Business** c.70% fully or partially secured; diversified sector; weighted to larger SME's
- **Unsecured** primarily high quality cards; affluent customers, able to absorb higher living costs

Balance sheet mix as at Q3 2022 (June 2022)

Provisioning: Robust asset quality; strong provision coverage



Capital: Strong CET1, well in excess of target range



Capital return: Distributing capital to shareholders

% of buyback completed [1]

- **Buyback**: Existing buyback launched in June 2022 well-progressed; Board will consider top-up and will update alongside FY22 results
- **Dividend**: 2.5p interim dividend paid; accruing 30% full year pay-out
- **Total capital return:** Strong expected yield for FY22, including £75m buyback and 30% dividend pay-out

(1) As at 15/09/22

Progress towards becoming a digital bank

Customer and propositions - digitisation and improvement

	FY21	By FY24	Q3 22 progress
Customer interactions	70% voice	80% digital	**c.50% voice**
Fully digitised key customer journeys	27%	100%	**43%**
PCA digital adoption	62%	>80%	**65%**
# non-digital accounts	1.3m	Low	**1.2m[1]**
Mortgage application automation	Limited	100% digital	**On-track to deliver in FY24**
Service centres	6 Voice-led	Fewer, digitally-led	**5 service centres**

Colleagues and digital - productivity and agility

	FY21	By FY24	Q3 22 progress
Colleague interfaces	Multiple	Single sign on	**Underway**
Property footprint	c.900k sq ft	c.300k sq ft	**c.700 sq foot**
Branches	162[1]	Fewer, digitally-led	**131**
Data Centres	6	2	**1st exits end FY23**
Infrastructure in Cloud	c.5%	c.75%	**Migration starts FY23**
IT delivery lead time	13 weeks	6 weeks	**11 weeks (new Agile projects)**

Progress in target areas, building pace of change

(1) As at H1 2022

Strong pipeline of exciting new digital products and propositions

Launched in FY22

Slyce

- Buy Now Pay Better; c.30k waitlist[1]
- Access to credit and credit score building
- Digital, regulated, simple and transparent

Business M-Track and Marketplace

- Significant growth in digitally-led BCA sales
- Partnering with innovative fintechs
- Offering new solutions for customers

PCAs with debit cashback

- > 216k new accounts opened since Q121
- Revolving Brighter Money Bundles campaign
- Strong growth in merchant-funded cashback

Coming next

Digital Wallet

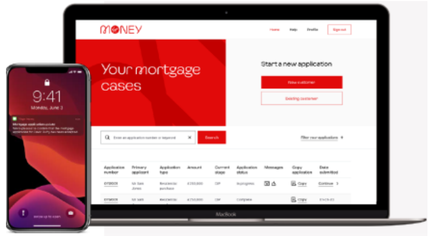
Initial launch building to a full digital wallet proposition over time

POINTS

- Ability to earn and spend points
- Access to unique rewards
- Expanding reward programme
- Instalment capability
- Point of sale issuance

Mortgages

New digital platform with end to end digitisation



- New customer portal; omni-channel
- Paperless, automated case tracking
- Extended market reach
- Consistent reliable decisions
- Improved turnaround times

(1) As at 22/09/2022

Latest guidance

FY22 financial guidance from Q3 trading update

NIM	FY22 NIM expected to be around 185bps
Costs	Underlying costs expected to be broadly stable in FY22
Cost of risk	Expect single digit cost of risk for FY22
Restructuring costs	Expect c.£275m across FY22-FY24
Capital Return	FY22 30% dividend payout; Board will consider top-up to existing £75m Buyback programme and will update alongside FY22 results

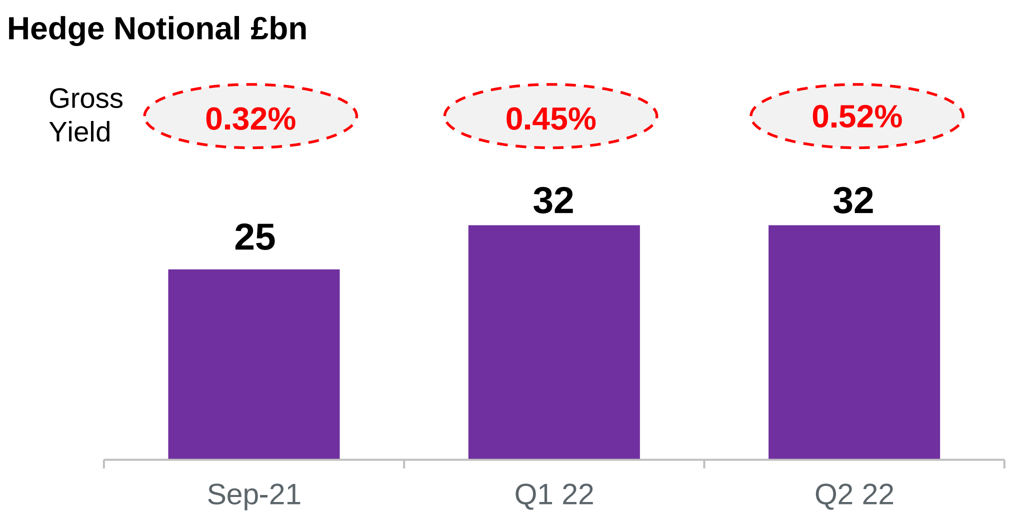
Medium-term outlook from Interim results

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%
CET1	CET1 target range 13-13.5% long term; expect to operate above that for the time being
Capital Return	30% dividend pay-out supplemented by buybacks, subject to ongoing assessment of surplus capital, market conditions and regulatory approval

Appendix

Structural hedge supportive to NIM; group positively geared to rising rates

Structural hedge - size and gross yield as at H1 2022



- Increase in gross yield reflects re-investment benefit of c.1/60th of total hedge balance each month at the prevailing 5Y swap rate
- Gross yield does not reflect income from the legacy hedge unwind
- Legacy hedge of c.£15bn at H122 will be fully unwound by FY25; contribution was c.£150m in FY21 and will be c.£120m in FY22
- Size of structural hedge subject to ongoing review of balance stability as market pricing and customer behaviour evolves

Group interest rate sensitivity as at H1 2022

NII impact	Year 1	Year 2	Year 3
+25bps parallel	c.£10m	c.£20m	c.£35m
-25bps parallel	c.£(5)m	c.£(20)m	c.£(35)m

- The sensitivities assume an immediate 25bps parallel shift in interest rate curves, including the bank base rate and forward rate curve
- Assumes the balance sheet is constant; does not reflect new business margin implications
- Size of structural hedge is calibrated to an assumed level of deposit pass-through; actual level of pass-through could be different in practice
- Year 2 and 3 impacts driven by structural hedge re-investment

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