VIRGIN MONEY UK

Interim Financial Results 2021

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
MONEY

Accelerating Digital

DAVID DUFFY

Chief Executive Officer

Strong financial performance…

Balance sheet mix

- NIM of 1.56% for H1 (1.60% for Q2), improved guidance for FY21
- Relationship deposits +12% HoH; cost of deposits down 20 bps
- Stable lending balances reflecting careful management through Covid-19

Efficiency

- H1 21 costs of £460m; expect further progress in H2
- Underlying cost:income ratio of 62%
- Expect FY21 costs of <£890m; phasing impacted by ongoing restrictions

Asset quality

- Asset quality remains resilient
- H1 21 impairment provision charge of £38m; 11bps cost of risk
- Maintaining strong provision coverage; total credit provisions of £721m

Balance sheet strength

- Capital remains robust: CET1 ratio improved to 14.4%[1]
- Significant CET1 management buffer of c.£1.3bn above regulatory minimum

Underlying ROTE
10.1%

Underlying profit before tax
£245m

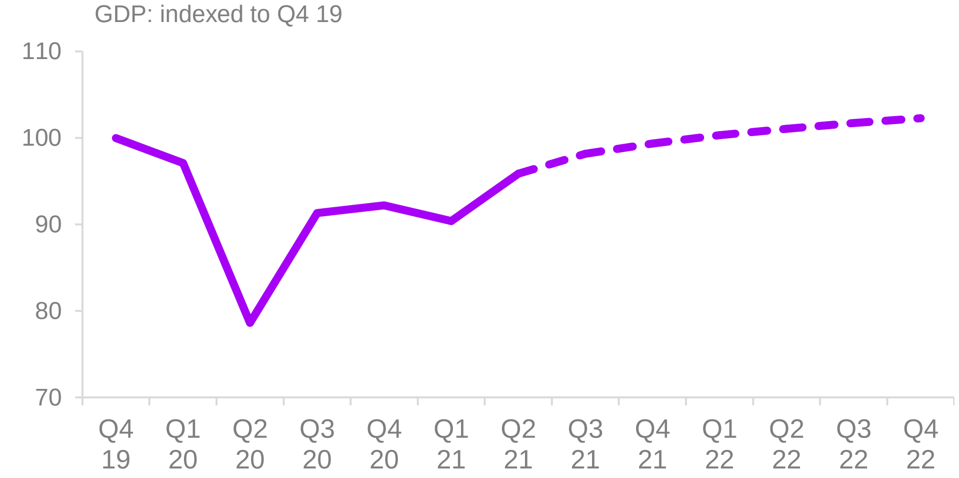
Statutory profit before tax
£72m

Robust CET1 ratio[1]
14.4%

[1] IFRS 9 transitional basis; 13.9% CET1 ratio excluding the benefit from the change in treatment of software intangible assets in the period

...supported by an improving backdrop

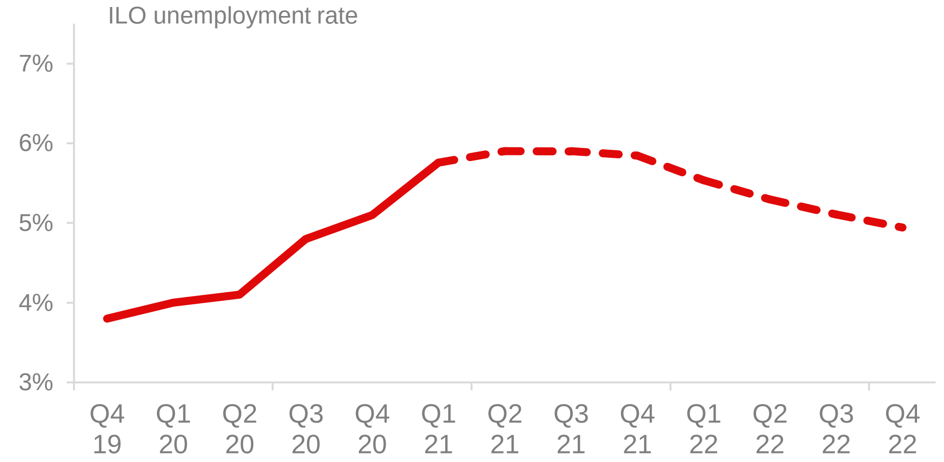
GDP: stronger than anticipated rebound



Source: Oxford Economics Base Case, March 2021[1]

Gathering pace of recovery

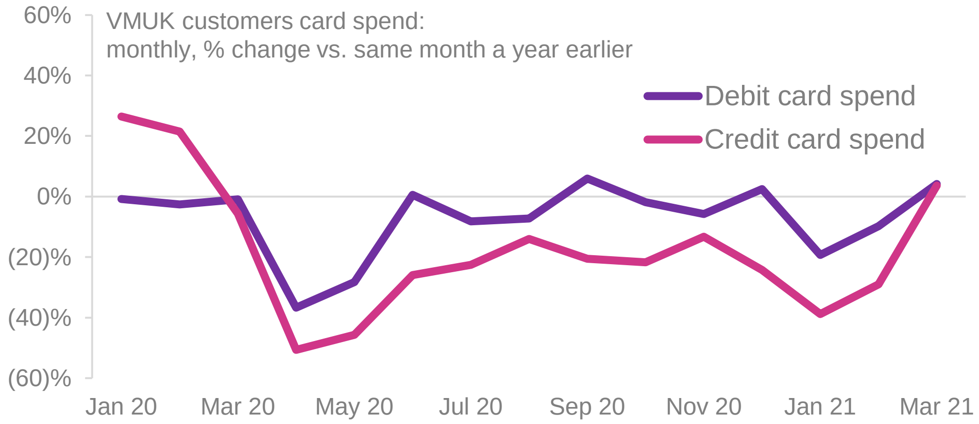
Unemployment: lower than initially feared



Source: Oxford Economics Base Case, March 2021[1]

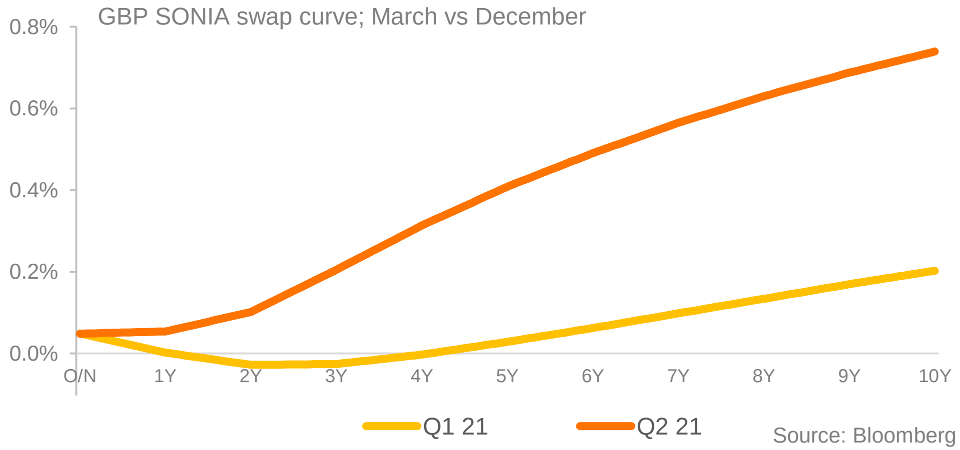
Continued government support

Card activity: improving consumer spending



Lockdown easing

Rates: significant yield curve steepening since December



Source: Bloomberg

Improving UK rate environment

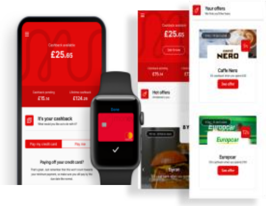
Digital acceleration will deliver further cost savings

Customer digital engagement

- Relationship management model
- Self-managed administrative processes
- Reduction in branch visits
- Reduction in cash usage

Support colleague remote working aspirations

- A "Life more Virgin" operating model
- Flexibility in property footprint
- Aligned leadership model



Technology optionality

- Customer expectations rising dramatically
- FinTech ecosystem potential
- Faster and cheaper process solutions
- Cloud based efficiency

Expect to update further at FY21

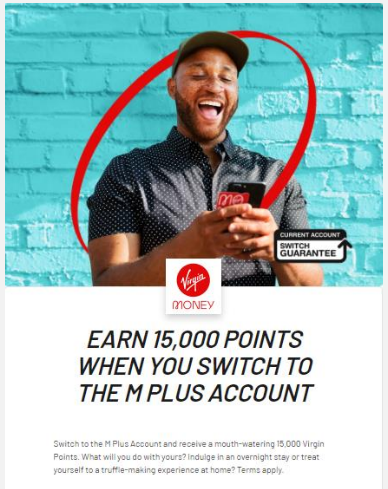
Laying the foundations for future customer growth

		VM Brand	Digital sales	VM Propositions	Growth and partnerships
	**PCA**	✓ >95% VM branded new sales	✓ c.90% digital sales	✓ Brighter Money Bundles with Virgin company offers	✓ >90% increase in monthly sales
	**Credit Cards**	✓ 100% VM / VAA branded sales	✓ 100% digital sales	✓ Up to 30% cashback; Buy now Pay later to follow	✓ 100k cashback users (2m+ potential)
	**Personal Loans**	✓ 100% VM branded sales	✓ c.90% digital sales	✓ In-app eligibility checker for better decisions in minutes	✓ More affluent customers applying post re-brand
	**BCA**	✓ 100% VM branded new sales	✓ c.60% digital sales	✓ Working Capital Health solution launches in H2	✓ Building to 20 Fintech partners
	**Mortgages**	✓ Single salesforce serving all brokers	✓ APIs integrated to 6,000 brokers	✓ Home coach app; Green mortgages to launch	✓ Significant additional lending opportunities

Building long term customer loyalty – more to come

TODAY

Power of Virgin Red



- **Expanding our customer reach:** offer of 15k Virgin Red Points to switch to a VM PCA – a core relationship product
- **Significant Group opportunity:** 17m UK customer relationships[1], 100k+ Red users to date and plans to grow to 1m+; billions of points earned through Virgin Atlantic Flying Club
- **Virgin Red - Earn and spend Virgin points:** launched Feb 2021; 100+ rewards and growing; across Group and beyond

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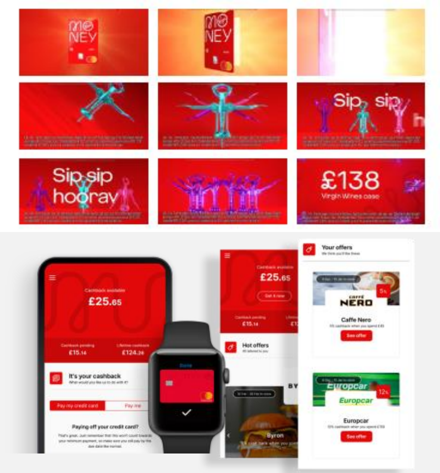
Virgin Money Rewards



- **Brighter Money Bundles:** Virgin Wine / VMG charity donations, more to follow; c.80k new accounts in H1
- **Cashback:** Merchant funded rewards on Credit Cards, 100k registered customers since launch; extending to debit cards and Businesses
- **In-app rewards:** Exclusive products, discounts from Virgin companies, priority gig tickets, competitions

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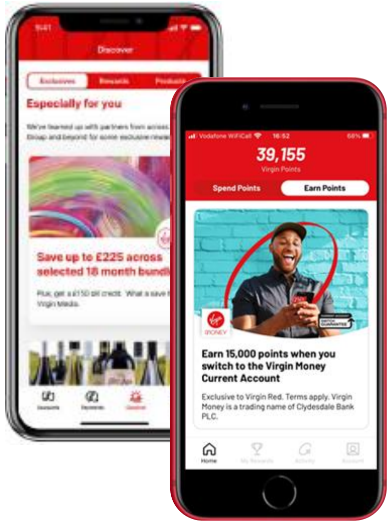
TOMORROW

Long-term loyalty value

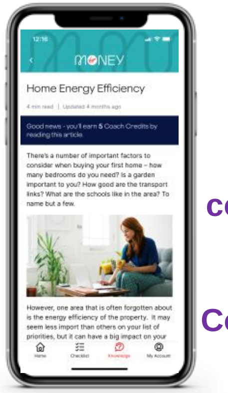


- **Reduced acquisition costs:** reduced reliance on aggregators, lower lead fees
- **More valuable customer relationships:** digital only, lower price sensitivity, increased product consideration across the Group to earn points
- **More opportunities to use points:** potential to pay credit card and more with points
- **Expand points earning potential:** more products, transition to "pointsback" from cashback

[1] Source: Virgin Group Company reporting

Building momentum in delivering ESG ambitions

- Put our (carbon) foot down
- Build a brighter future
- Open doors
- Straight-up ESG



Green home content in Home Buying Coach app

Agriculture carbon audits pilot

£50 charity donation in Brighter Money Bundles

Business sustainability benchmark white paper

Future-Fit Foundation

Launch Sustainability-Linked Loans

Pilot green mortgage product

Baseline scope 3 lending emissions; set interim targets

H1 – strong progress across all ESG goals…

…H2 – with more to come

Call to action on Poverty Premium


Support the Guardian
The Guardian
News | Opinion | Sport | Culture | Lifestyle

Virgin Money to help customers avoid 'poverty premium' on energy bills

Scheme launched so low-income households are not paying too much for utilities

Readycash customers migrated to M Account

First bank to launch Macmillan Guides for front-line teams

MACMILLAN CANCER SUPPORT

Board gender diversity improved to 33%; more to do

Switched to biogas

c.9 tonnes of CO2 saved each day

Publish UN PRB report

Develop ESG training for Board, Leadership and all-colleagues

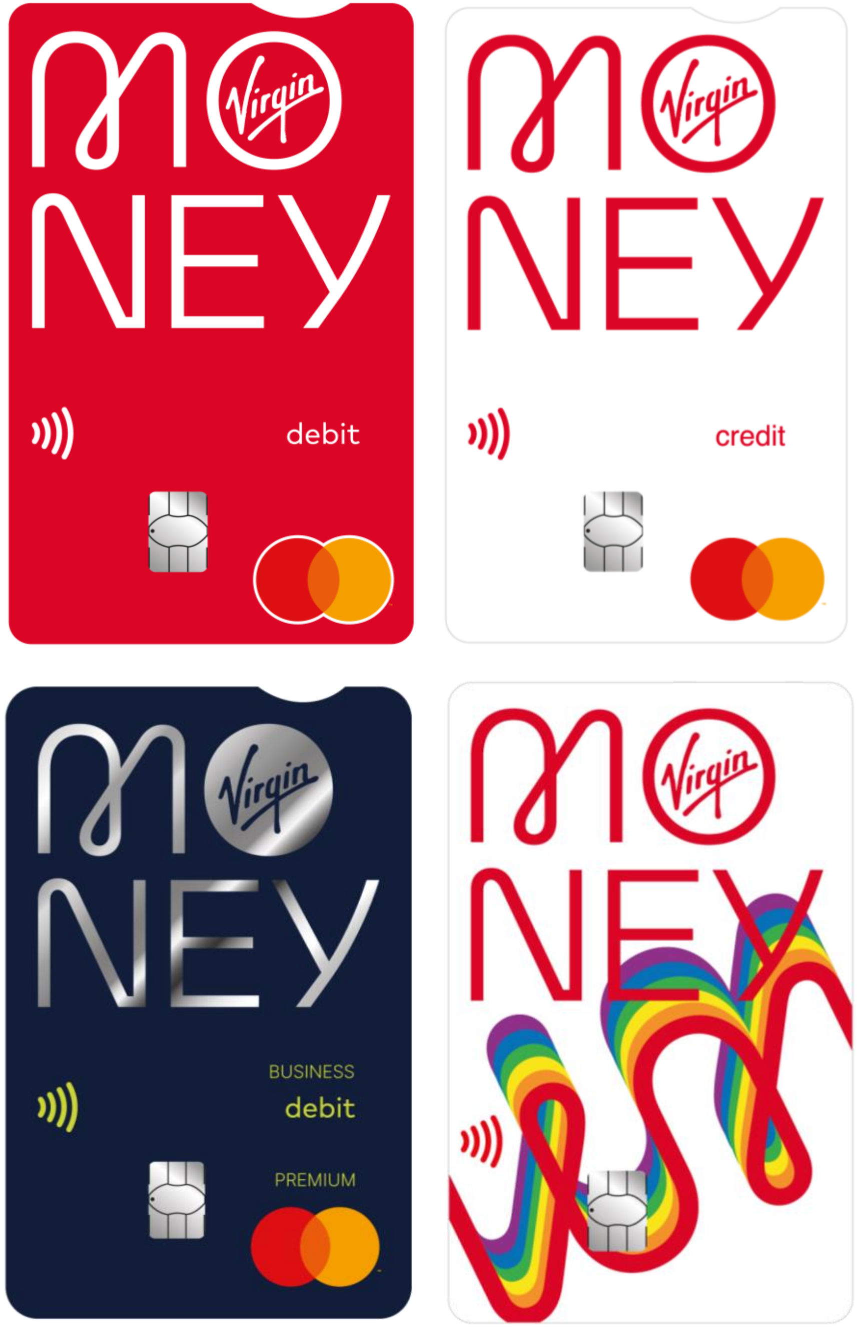
Publish ethnic diversity strategy and interim targets; further improve senior gender balance

Climate scenario modelling & TCFD development

Financial Results

CLIFFORD ABRAHAMS

Chief Financial Officer



Our strategy delivers shareholder value over time

Our strategic pillars

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

Deliver shareholder value

Demonstrating resilience through Covid-19…
Focus for FY 21

- Defensive balance sheet
- Provision coverage stable at 100bps
- Strong CET1 at 14.4%; 13.9% ex-software
- Return to statutory profit (H1 21: £72m)
- Improved underlying RoTE (H1 21: 10.1%)
- Structural Hedge re-introduced
- Inaugural SST[1] participation this year

Balance sheet resilience

+

…continuing to transform the bank…
Focus into FY 22

- Further progress to reduce costs; update at FY 21
- Finish Transformation agenda; control exceptional costs
- Reducing cost of funds
- Momentum on new propositions; digital foundations in place
- Dividend considerations

Double digit returns

…building an exciting, growth-led future
Focus for FY 22 and beyond

- Leverage strong brand advocacy
- Fully leveraging digital potential
- Expand NIM
- Above market lending growth
- Improving returns
- Capital generation and return

Profitable growth

[1] Solvency Stress Test

Stronger underlying PBT driven by reduced impairments

Underlying P&L	6 months to	6 months to	Change	6 months to	Change
£m	**31 Mar 2021**	**31 Mar 2020**	**Vs H1 20**	**30 Sept 2020**	**Vs H2 20**
Net interest income	677	702	(4)%	649	4%
Non-interest income	66	115	(43)%	76	(13)%
Total operating income	**743**	**817**	**(9)%**	**725**	**2%**
Total operating and administrative expenses	(460)	(465)	1%	(452)	(2)%
Operating profit before impairment losses	**283**	**352**	**(20)%**	**273**	**4%**
Impairment losses on credit exposures	(38)	(232)	84%	(269)	86%
Underlying profit before tax	**245**	**120**	**104%**	**4**	**n.m**
Net Interest Margin (NIM)	1.56%	1.62%	(6)bps	1.49%	7bps
Cost of risk	11bps	63bps	52bps	73bps	62bps
Underlying cost-to-income ratio	62%	57%	(5)%pts	62%	0%pts
Underlying Return on Tangible Equity (ROTE)	10.1%	4.6%	5.5%pts	(3.5)%pts	13.6%pts
Underlying Earnings Per Share (EPS)	12.6p	5.7p	6.9p	(4.3)p	16.9p

Return to statutory profit before tax

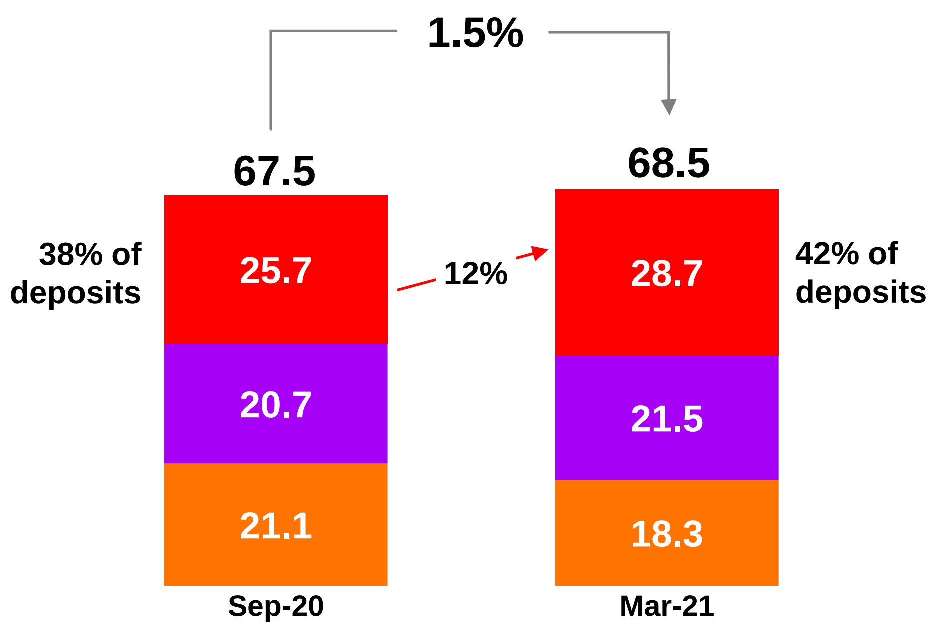
Statutory P&L	6 months to	6 months to	6 months to
£m	31 Mar 2021	31 Mar 2020	30 Sept 2020
Underlying profit before tax	**245**	**120**	**4**
Exceptional items			
- Integration & transformation costs	(49)	(61)	(78)
- Acquisition accounting unwinds	(47)	(57)	(56)
- Legacy conduct costs	(71)	-	(26)
- Other items	(6)	(9)	(5)
Total exceptional items	**(173)**	**(127)**	**(165)**
Statutory profit before tax	**72**	**(7)**	**(161)**
Statutory profit after tax	**80**[1]	**22**	**(163)**
Tangible Net Asset Value (TNAV) per share	257.5p	252.5p	244.2p

1 £8m tax credit reflects that the current period tax charge was more than offset by a deferred tax credit for additional historical losses recognised in the period and the tax credit on AT1 distributions

Improving deposit mix benefiting NIM

Growth in relationship balances, improved mix

Customer deposit balances
£bn

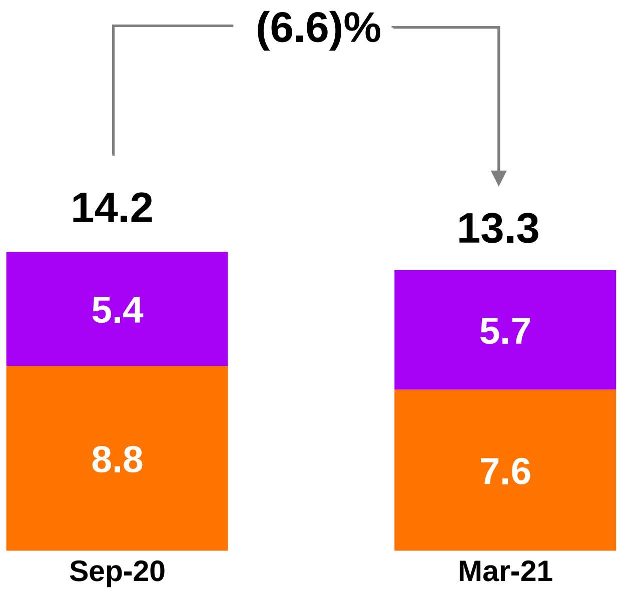


	Sep-20	Mar-21
Cost (bps)	81[1]	61
LDR	107%	105%

■ Term deposits ■ Non-linked savings ■ Relationship deposits

Retain funding flexibility and managing wholesale mix

Wholesale funding balances
£bn



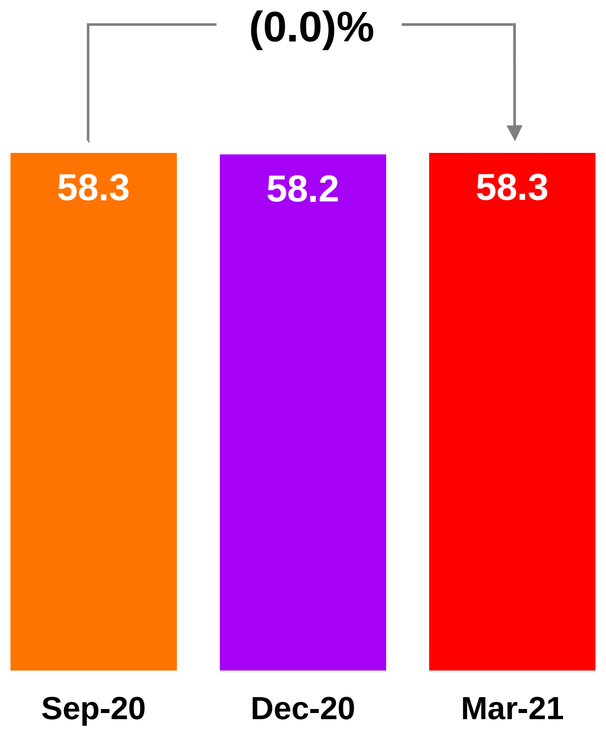
	Sep-20	Mar-21
Cost (bps)	125[1]	127
TFS/TFSME (% of lending)	7%	8%

■ Debt securities ■ TFS/TFSME

[1] cost in H2 20

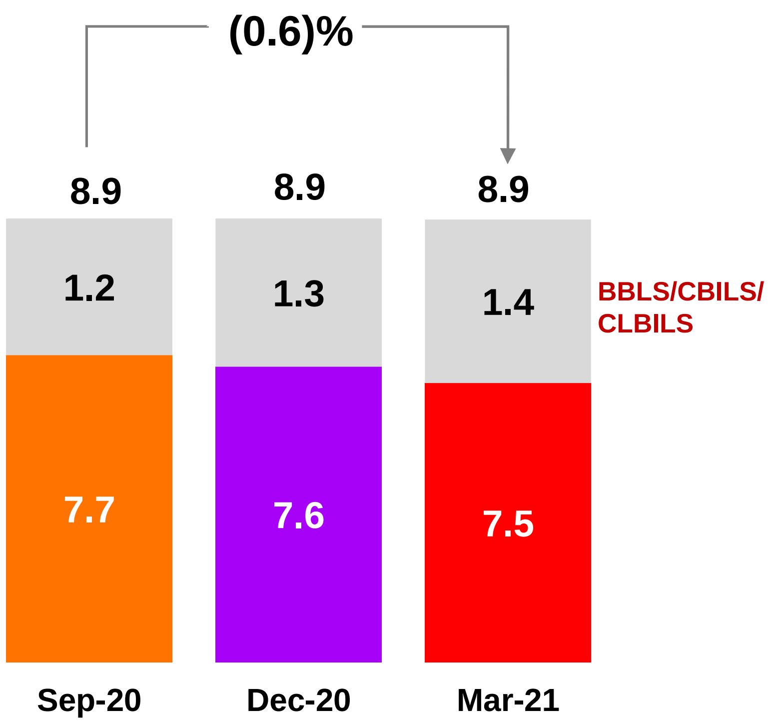
Lending balances stable, reflecting COVID-19 impacts

Mortgages



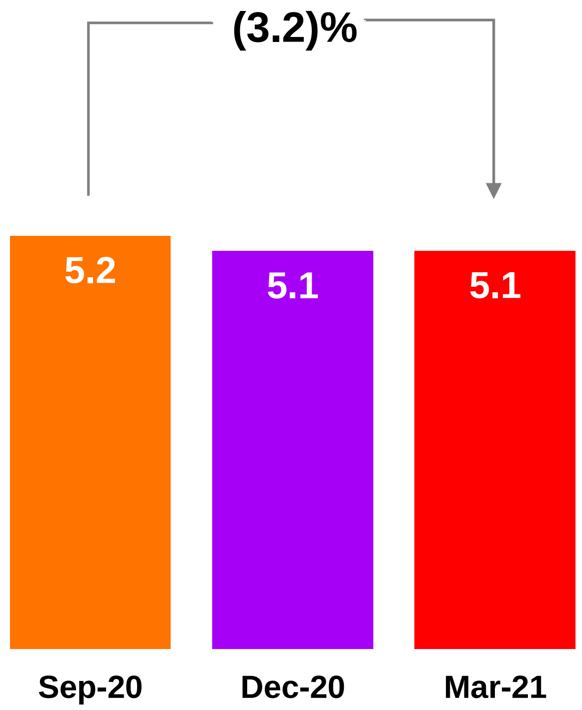
Continue to be selective in pricing focusing on margin over volumes

Business



Growth in Government-guaranteed lending; reduced BAU demand with prudent lending approach

Personal

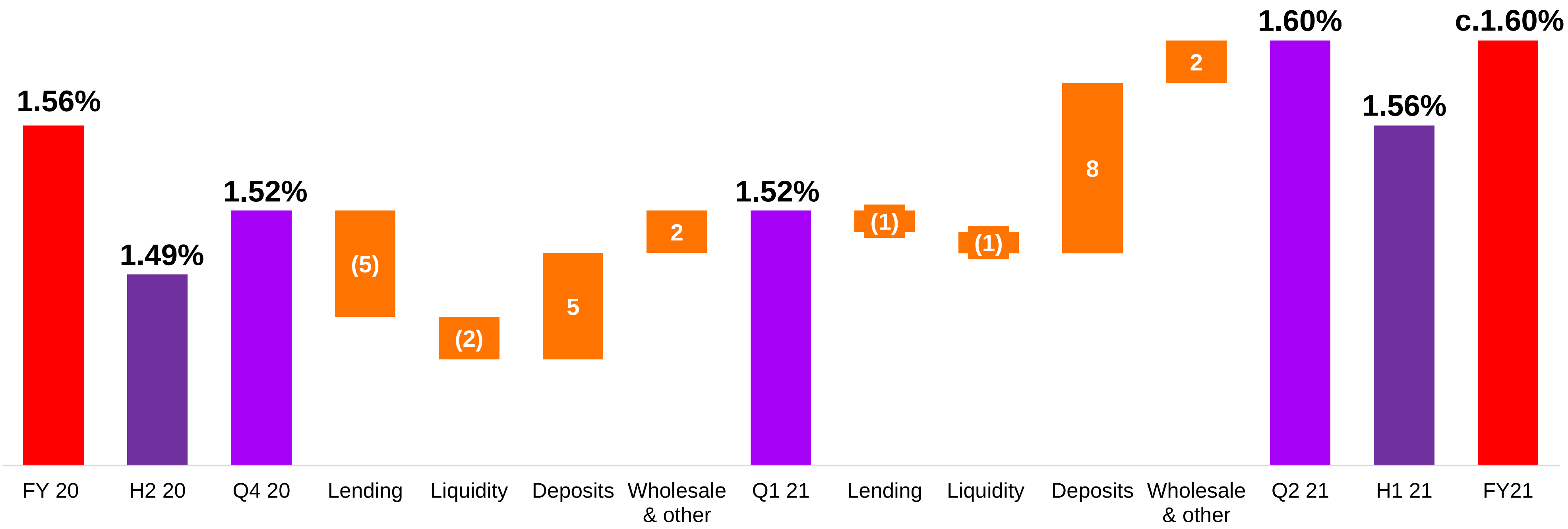


Resilient balances in high quality Virgin Money credit card portfolio

H1 21 NIM expansion; expect FY21 NIM of c.1.60%

Q2 21 margin expansion as deposit repricing impact feeds through

NIM evolution
(bps)

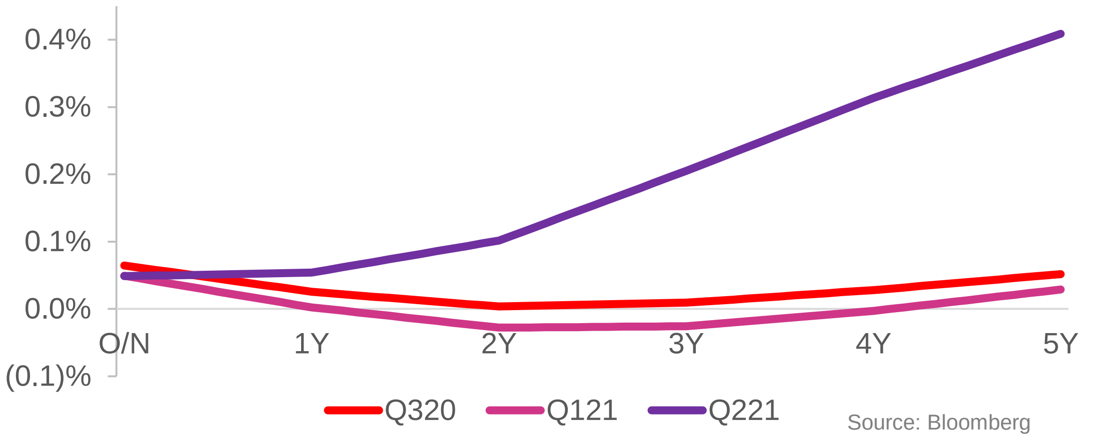


FY21 NIM expected to be c.1.60%

Re-established our structural hedge

Yield curve has materially steepened

Yield curve: Q320 (unwind) vs. Q121 vs. Q221 (restart)[1]



Proforma 1yr rate sensitivity to parallel shift, now re-hedged:

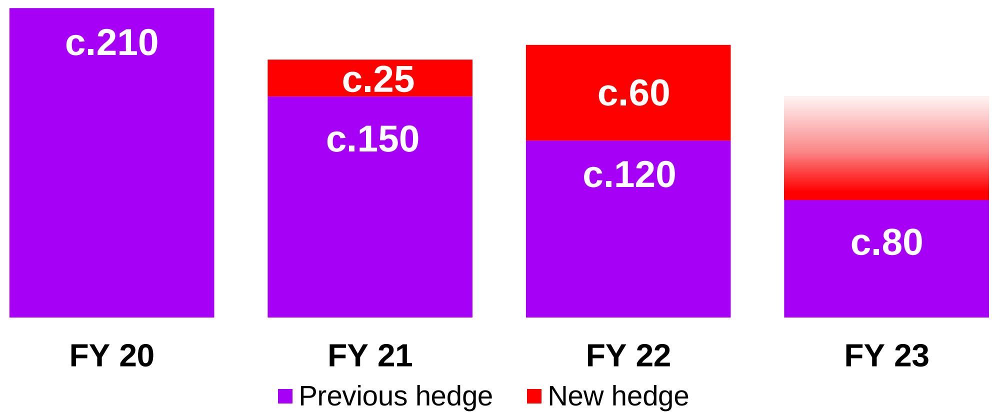
£m	Sensitivity + 25 bps	Sensitivity - 25 bps
NII impact	c.£25m	c.£(10)m

- Improved yield curve benefit locked in
- Rate sensitivity is positively geared to the rising rate environment with updated pass through assumptions

NII impact of restarted hedging programme

NII contributions[2]

£m



Updated hedge structure

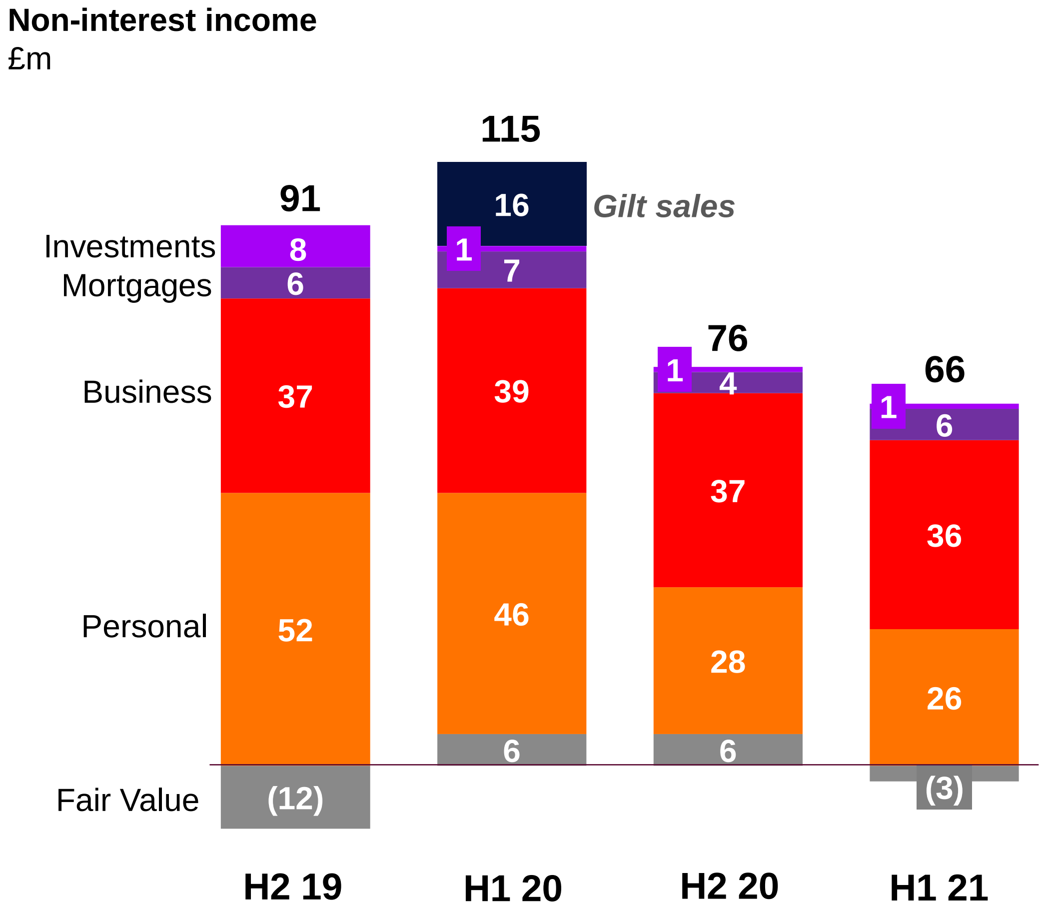
- No impact on existing profile of previous exited 3Q20 hedge
- Updated hedge capacity £25.9bn; now >95% re-invested
- WAL: 2.5yrs using mix of tenors; average yield c.30bps
- Rolling programme 1/60th each month onto new 5yrs swaps

[1] VMUK Financial Year basis

[2] Based on 5 year swaps and SONIA at 27/04/21

H1 non-interest income reflects lower activity

Subdued non-interest income with lower Personal fees…



…expect to see a limited pick-up depending on economy

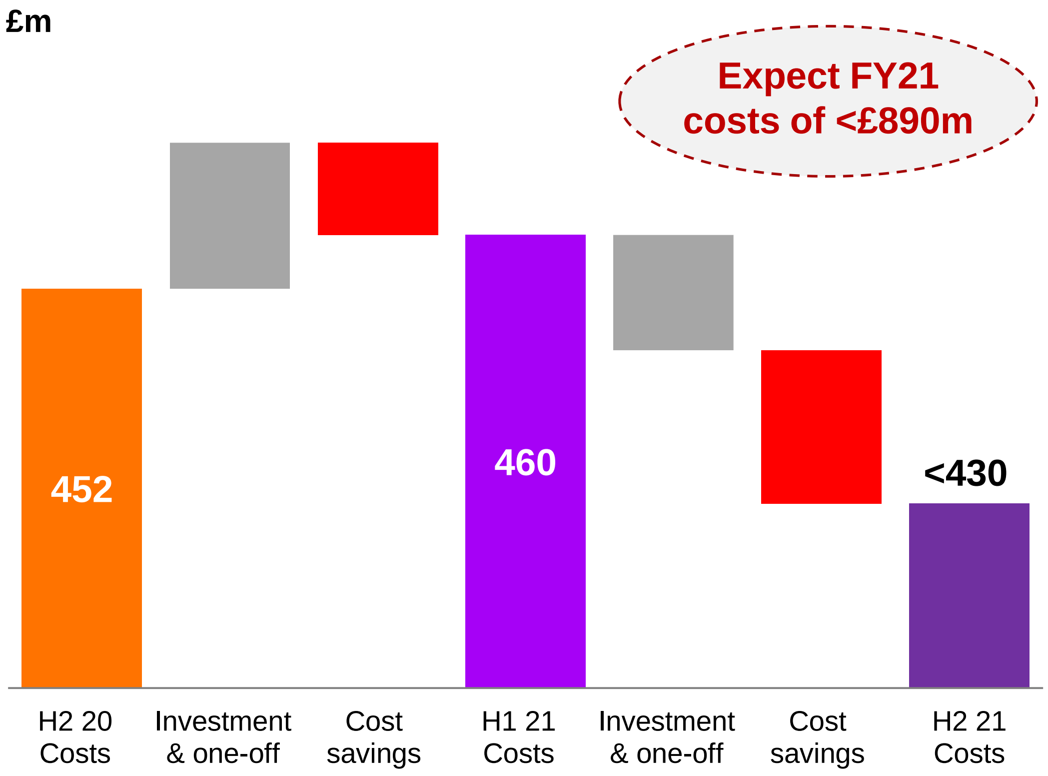
- Lower personal income driven by structural impact of 'high cost of credit review' and lower activity based card transaction fees
- Business fees broadly stable, with lower activity offset by higher debit cards income
- Improved Mortgage income vs. H2 20 driven by higher new lending activity
- Expect non-interest income to remain linked to activity levels and the broader economic backdrop

Longer-term opportunities

- ASI JV / Wealth opportunity
- Interchange fee growth from higher card usage
- Build out of Business fee-earning services

Pace of cost reduction building through 2021

H1 Transformation programme savings offset by investment

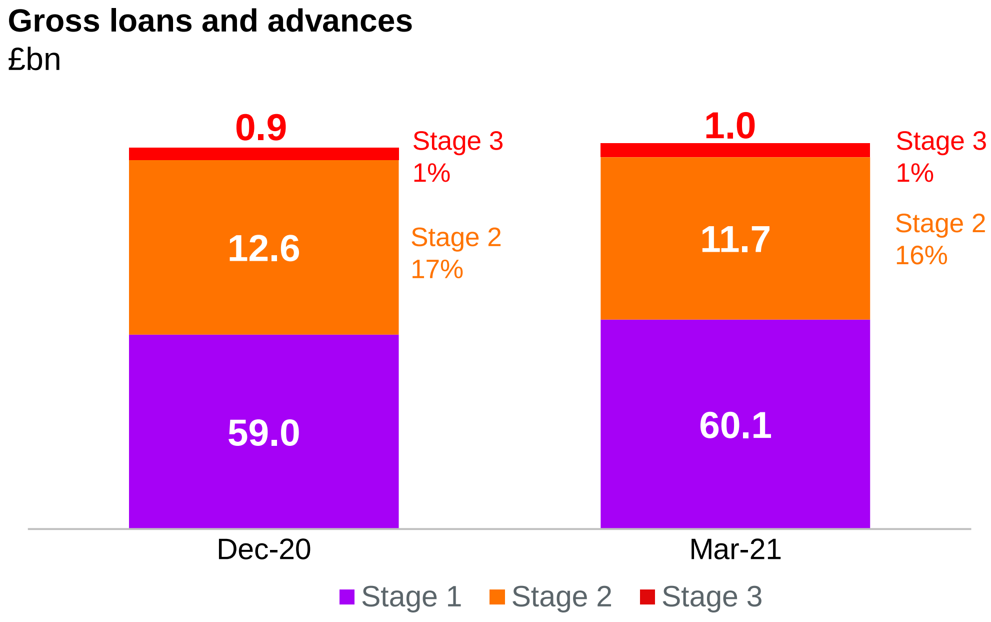


Improved exit rate into H2 with stronger reduction expected

- H1 cost savings offset by one-offs, increased systems investment and depreciation to support ongoing cost reduction into H2
- H2 outlook underpinned by continued Transformation programme savings, lower investment and non-repeat of one-offs
- Re-phasing of cost reduction through COVID-19 restrictions means higher guidance of <£890m for FY21; strong exit run rate into FY22
- FY21 Transformation costs expected to be c.£100m (of which H1: £49m)
- Further update on digital opportunities and costs alongside FY21

Stable asset quality and provision coverage

Stage 2 reduction; Stage 3 proportion unchanged



- Mortgages & Business drove c.£1bn of stage 2 reduction
- Business stage 2 declined to 40% (FY20: 44%) as a result of improved economic forecasts
- Mortgages stage 2 also reflects improved forecasts
- Overall stage 3 remained stable at 1%

Provision coverage maintained

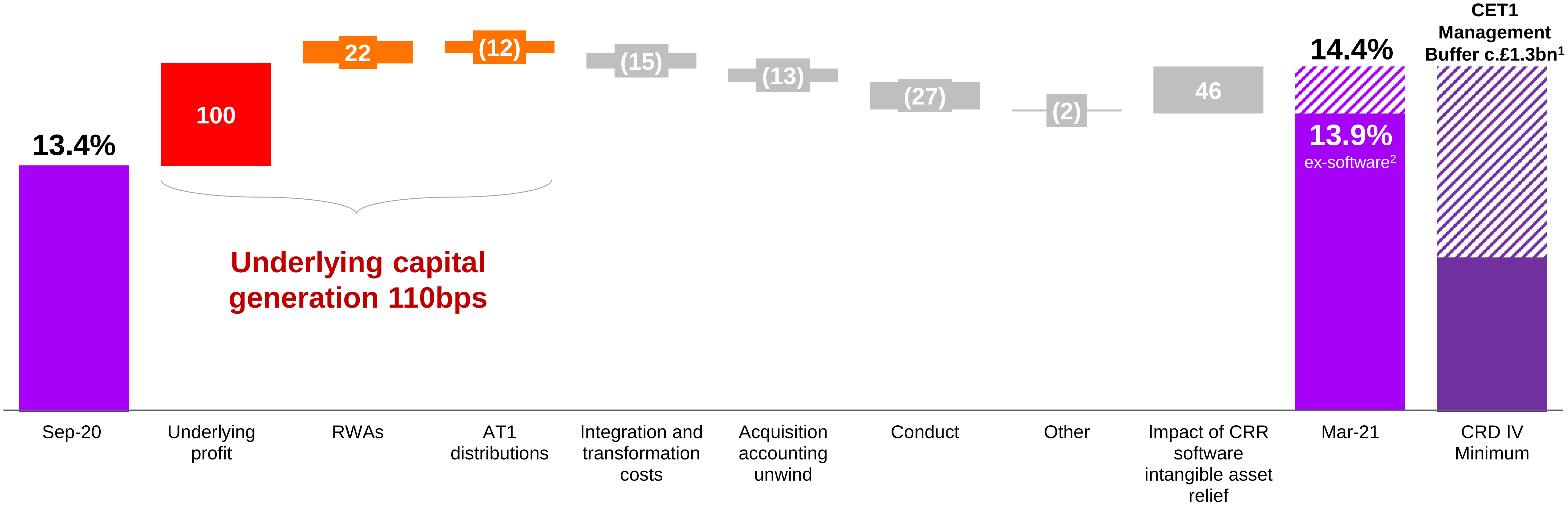
	Dec-20 Coverage Ratio	Mar-21 Gross Loans	Mar-21 ECL	Mar-21 Coverage Ratio	H121 Cost of Risk
Mortgages	20bps	£58.6bn	£132m	23bps	0bps
Personal	603bps	£5.4bn	£293m	603bps	107bps
o/w cards	*548bps*	*£4.3bn*	*£219m*	*550bps*	*128bps*
o/w loans & overdrafts	*841bps*	*£1.1bn*	*£74m*	*839bps*	*9bps*
Business	394bps[1]	£8.7bn	£296m	398bps[1]	26bps
Total	**99bps**	**£72.8bn**	**£721m**	**100bps**	**11bps**

- Refreshed economics reflect improvement in the outlook
- PMAs reflecting economic uncertainty
- Low cost of risk in H1 as no credit deterioration

1 Government-guaranteed loan balances excluded for purposes of calculating the Business division coverage ratio

Improved capital generation

CET1 ratio evolution (bps)



20.2%	**Total capital ratio**	21.2%
4.9%	**UK leverage ratio**	5.2%
28.4%	**MREL ratio**	29.3%

[1] IFRS 9 transitional basis, [2] CET1 ratio excluding the benefit from the change in treatment of software intangible assets in the period

FY guidance improved; medium term outlook unchanged

Clear roadmap to statutory double-digit returns

Our strategic pillars

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

RoTE elements

- Cost Reduction
- Impairment & exceptionals normalisation
- Capital Efficiency
- Balance sheet mix

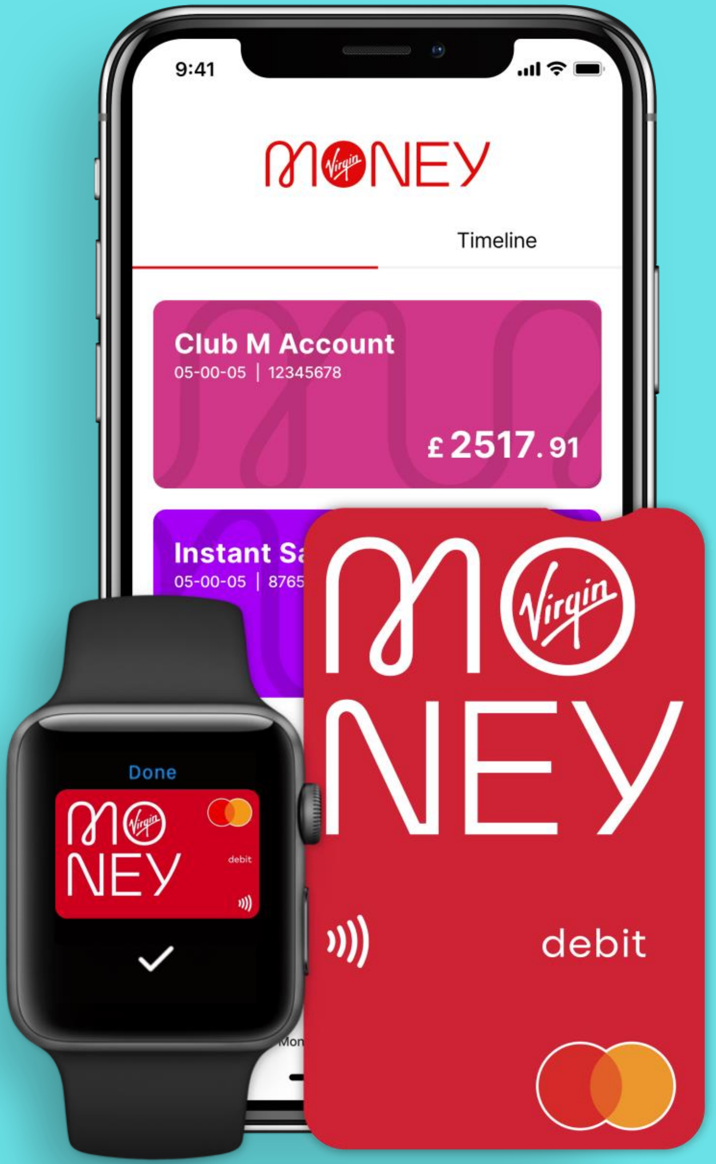
With an improved FY21 outlook

NIM	FY21 NIM of c.1.60%
Costs	Underlying costs of <£890m
Cost of risk	Subdued in near term through FY21
Capital	Expect to continue to exceed 13% by FY21
Dividend	SST outcome and impairment outlook key inputs to our approach to considering dividends

Conclusion

DAVID DUFFY

Chief Executive Officer



Building momentum on strategic delivery

Discipline & Sustainability	Delivering strong, strategic progress with an improved trajectory
Super Straightforward Efficiency	Accelerating our digital ambition to drive greater efficiency
Delighted Customers & Colleagues	Enhancing customer experience and delivering new ways of working
Pioneering Growth	Leveraging digital capability, the brand and building loyalty to deliver sustainable growth

Developing significant momentum on our journey to disrupting the status quo and delivering double-digit returns

Q&A

DAVID DUFFY

Chief Executive Officer

CLIFFORD ABRAHAMS

Chief Financial Officer

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Appendix

We are delivering the disruptive force in banking

VIRGIN MONEY UK

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

- ✓ Innovative brand & edge
- ✓ Customer lifestyle intelligence
- ✓ ‘Pay & play’ functionality
- ✓ Innovative digital platform
- ✓ Digital money-management tools
- ✓ Limited back-end legacy systems

ESG framework: supporting the recovery in the right way

To drive positive social and environmental impact through everything we do to disrupt the status quo

Goals	Principles	H1 achievements	H2 focus	2030 aspirations
Put our (carbon) foot down	**Reduce the negative impacts of our operations, suppliers and partners on society and the environment**	• 14% reduction in operational emissions, 7,074t CO_2e to 6,051t CO_2e on a location basis (scope 1 & 2)* • 496t CO_2e operational emissions on a market basis as all electricity is green (scope 2)* • GHG intensity ratio reduced to 1.50 (from 1.70)*	• Switched to biogas on 1 April • Embed sustainability in future colleague working model design • Top 100 suppliers (based on spend) identified to issue CDP questionnaire • Establish 2030 net zero roadmap	Net zero operational and supplier carbon emissions
Build a brighter future	**Deliver products and services that help our customers make a positive impact on society and the environment**	• Charity donations through VMG in Brighter Money Bundles campaign; £180k raised for good causes to date • White Paper on business sustainability benchmark • Over 1,000 customers engaged in green home content • Agricultural carbon audits piloted	• Launch Sustainability-Linked Loans in commercial banking for businesses of all sizes (no arrangement fee) • Pilot green mortgage product • Baseline carbon emissions in mortgage and business lending; set interim targets	At least 50% reduction in our carbon emissions across everything we finance
Open doors	**Work with customers, colleagues & communities to encourage sustainable practices & economic activity that creates shared prosperity**	• c.21k customers identified at risk of paying an energy Poverty Premium • External engagement and collaboration underway on Poverty Premium • First bank to pilot Macmillan Guides in front-line teams • £39.3m raised for good causes through VMG	• Partner with Fair By Design and GOFCoE to develop a national measure for Poverty Premiums • Develop solutions for energy Poverty Premiums and commence contact with customers • Publish ethnic diversity strategy and interim targets; further improve senior gender balance	No VM customers pay a Poverty Premium Fully diverse top-quartile of the organisation Help 20k charities raise £2bn
Straight-up ESG	**Align our strategic goals to ESG and embed them in all areas of the business with robust targets, tracking and disclosures**	• ESG scorecard included in 2020 LTIP • Climate scenario modelling started • First UN PRB report published in April • Board engaged in 2 ESG deep dives	• Develop and roll out ESG training for Board, Leadership and all colleagues • Develop approach to ESG role-based training • Continue the development of TCFD disclosures • New business case template including ESG used for investment planning cycle	Variable remuneration linked to ESG progress

TCFD Task Force on Climate-Related Financial Disclosures · UNEP Finance Initiative Principles for Responsible Banking · PCAF · Future-Fit Foundation · Fair By Design Ending the extra costs of being poor · Macmillan Cancer Support

* Data accurate as at Dec 20. Comparative data is as of Jun 20

Delivering innovative propositions to disrupt the status quo

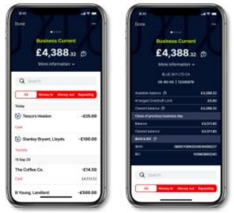
Virgin Money BCA launch

Business Rebranded

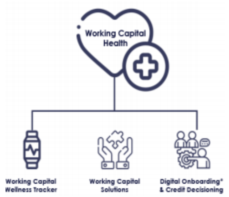
Home Buying Coach app - Phase 2 launch

Mortgage API Connectivity enhanced

VIRGIN MONEY UK
Stores re-branded



Improved SME Onboarding



Working Capital Health

Green mortgage launch

Business | **Mortgages** | **Business** | **Mortgages**

Proposition enhancements delivered as planned… | **…with more to come in H2**

Personal | **Personal**

Launched Brighter Money Bundles

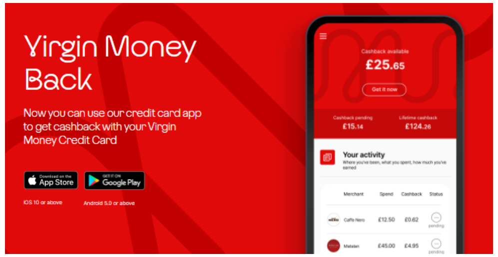
Launched Club M account

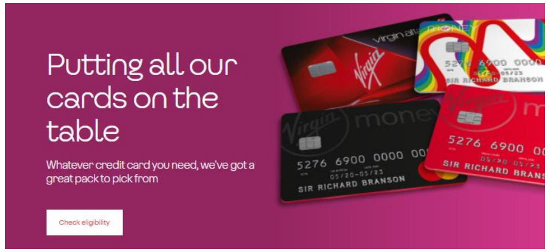
Exclusive ISA savings

Cashback credit card launch

Buy Now Pay Later Instalment card launch

PCA in-app rewards; including Debit cashback





Ongoing customer support due to COVID-19

Updated IFRS9 scenarios & weightings; Prudent overlays applied

Conservative economic scenarios

Scenario	Measure[1]	2021	2022	2023	2024
Upside 20%	GDP	8.7%	6.7%	2.1%	1.9%
	Unemployment	4.7%	4.1%	3.8%	3.6%
	HPI growth	4.3%	0.4%	3.5%	4.4%
Base 50%	GDP	0.6%	6.6%	2.5%	2.0%
	Unemployment	7.7%	7.2%	6.7%	6.2%
	HPI growth	0.7%	(3.9)%	(0.6)%	3.1%
Downside 30%	GDP	(4.3)%	6.7%	2.7%	2.2%
	Unemployment	9.1%	8.1%	7.4%	6.9%
	HPI growth	(3.7)%	(10.3)%	(6.0)%	2.2%
Weighted average	GDP	0.7%	6.7%	2.5%	2.0%
	Unemployment	7.5%	6.9%	6.3%	5.9%
	HPI growth	0.1%	(4.9)%	(1.4)%	3.1%

Prudently applied post-model adjustments

	Sep-20 ECL	o/w PMAs	Mar-21 ECL	o/w PMA	Change in PMAs
Mortgages	£131m	£75m	£132m	£97m	£22m
Personal	£301m	£111m	£293m	£67m	£(44)m
Business	£303m	-	£296m	£58m	£58m
Total	**£735m**	**£186m**	**£721m**	**£222m**	**£36m**

- Remain prudently positioned ahead of removal of Government support schemes
- Maintained conservative coverage levels via additional PMAs offsetting reduced modelled ECL

VIRGIN MONEY UK

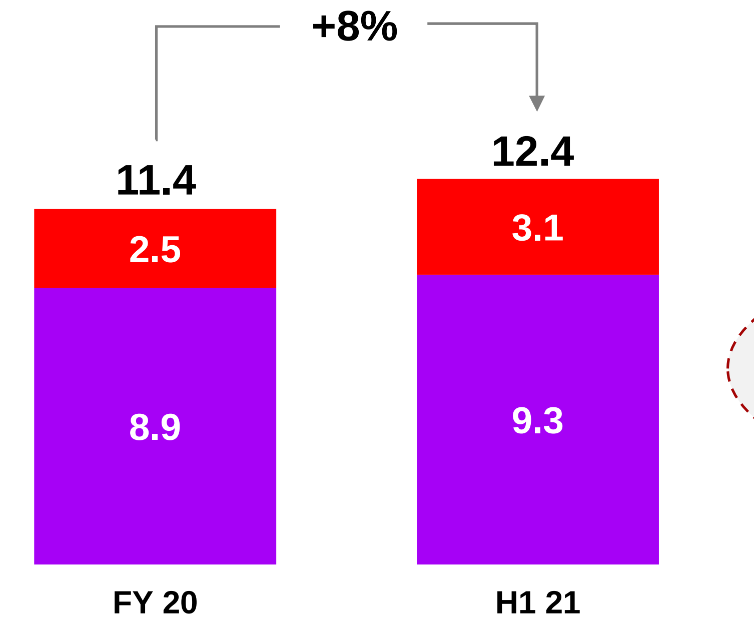
Source: Oxford Economics and company data

1 GDP (yoy %), Unemployment (average), HPI growth (yoy %)

Relationship deposits – H1 21

Businesses holding higher BCA balances for liquidity

Relationship deposit balances
£bn

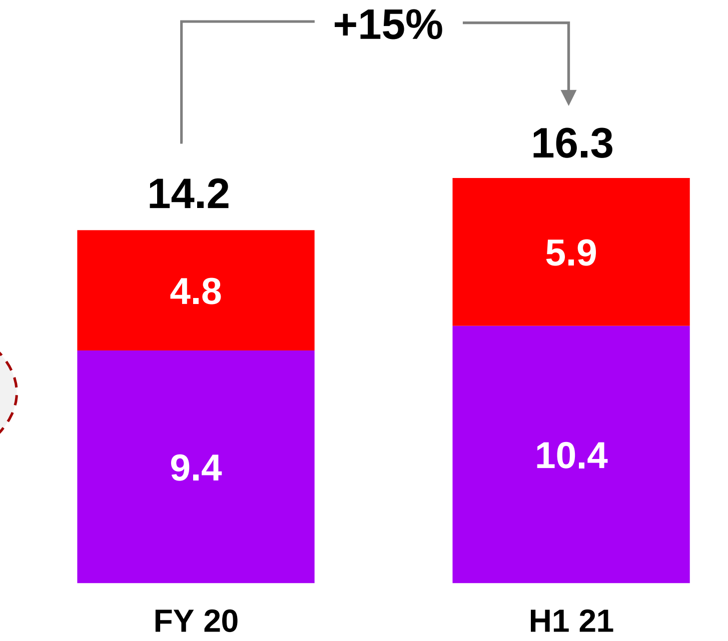


	FY 20	H1 21
Cost (bps)	13[1]	9

Balance outlook will in part depend on economic recovery and customer behaviour

Strong PCA and linked savings balance growth under lockdown

Relationship deposit balances
£bn

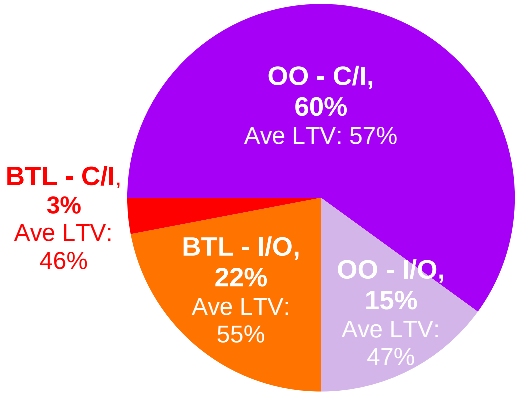


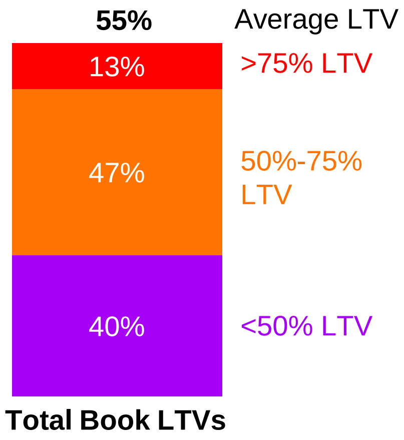
	FY 20	H1 21
Cost (bps)	25[1]	20

1 cost in H2 20

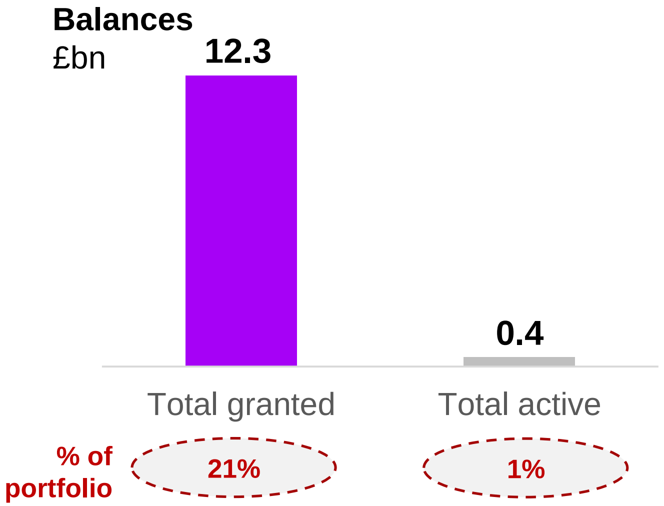
Mortgages: resilient asset quality to date

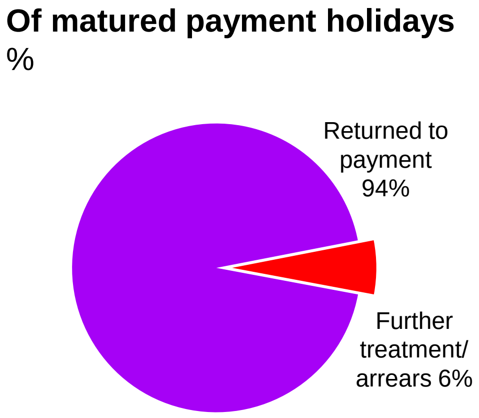
Low LTV mortgage book weighted towards owner-occupied





Payment holiday customers have largely returned to payment





A prime book, originated under the highest standards

- Consistent, post-MMR prudent underwriting; no sub-prime/self-cert
- Arrears lower than industry (0.4% vs 0.9[1]%)

Owner-occupied (75%)

- Average LTV is 56%; <0.5% is >90% LTV
- Average LTI c.3.4x

Buy-to-let (25%)

- Average LTV is 54%; max LTV of 80% for new lending
- Conservative rental and borrower income requirements

Payment holidays:

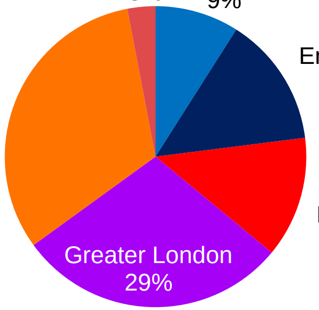
- Average LTV of active payment holiday customers is 60% vs 55% for overall portfolio
- Only 6% of customers maturing from payment holiday are currently in arrears or require further treatment; average LTV of 56% for those in arrears/further treatment
- Significantly higher coverage for those in arrears/further treatment

[1] 3m+ arrears; Source: UK Finance, as at Feb-21

Mortgage Lending – H1 21

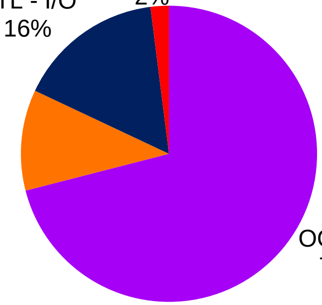
Mortgage lending location[1]

Stock of mortgage lending



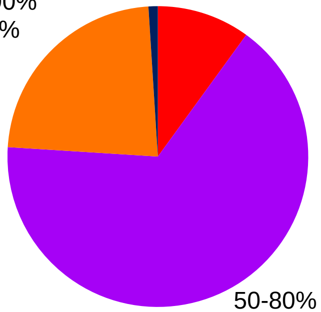
Repayment and borrower profile

Gross new mortgage lending



Loan-to-value of mortgage lending

- 55% average LTV of stock mortgage portfolio
- 69% average LTV of gross new lending



Gross new mortgage lending by LTV banding

New mortgage flows

	Q3 20	Q4 20	Q1 21	Q2 21[2]
Approvals	£0.9bn	£2.7bn	£3.0bn	£3.1bn
Gross Lending	£1.3bn	£1.7bn	£2.4bn	£2.7bn
Market share	3.1%	2.9%	3.3%	3.3%
% of GL from brokers	87%	87%	84%	85%
Redemptions	£(1.9)bn	£(2.3)bn	£(2.5)bn	£(2.6)bn
Net growth	£(0.6)bn	£(0.6)bn	£(0.1)bn	£0.1bn
Market share of stock	4.0%	3.9%	3.9%	3.9%

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

2 Market share data to end of Feb, based on BoE data

Business: key sectors performing in line with expectations

c.£7.5bn BAU book 76% in least and lower-impacted sectors		Key drivers of uncertainty
Least exposed £3.4bn 45%	• **Agriculture, Food & Drink:** Resilient performance; strong collateral • **Healthcare & social housing:** Some operational issues but resilient revenues and performance to date • **Utilities (incl. renewables):** Stable, strong PDs	• **Brexit:** Medium-term issues from changes to subsidy regime with farm/food exporters continuing to see headwinds • **COVID-19:** Resumption of inspections and normalisation in Healthcare
Lower-impacted £2.3bn 31%	• **Wholesalers, Professional practices:** Moved from least exposed at FY20 due to higher Government-scheme lending requests • **Specialist hotels:** Professional equity backed, prime-location • **Other:** Diverse includes cost-flexible manufacturers & Transport	• **Hotels:** Long-term change of customer mix, domestic/overseas, business/leisure could affect sector. Valuations and collateral still strong • **Wholesale trade in goods & services:** Availability of working capital, downstream risk of customers failing to make payments
More exposed £1.1bn 15%	• **Business services:** Higher levels of Government scheme lending; good access to borrowing & private equity • **Legacy property (historic CRE):** Remain smaller & well-collateralised; continued low arrears; only 3% of total portfolio	• **Pace of recovery:** Speed of recovery in business activity is key; also aligning returning employee costs with pick-up in sales activity • **Real-estate market:** Extent of structural changes impacting market
Higher impacted £0.7bn 9%	• **Retail:** Substantial Government support being provided; exposed to further lockdowns • **Legacy hospitality & Entertainment:** Operationally challenged, but significant government support at present	• **Lockdown exit:** sectors remain exposed to speed of recovery in activity levels and whether there are local lockdowns or sub-sector restrictions remaining in place
Govt. scheme lending £1.4bn	• **BBLS:** £0.97bn lent; 2/3rds to previously deposit-only customers • **CBILS/CLBILS:** £0.45bn c.80% to existing lending customers • As would expect, sector skew is to more exposed / higher impacted	• **Debt management/PAYG[1]:** PAYG will extend BBLS book maturity, by uncertain amount. Also likely to give first indication of default/fraud rates and scale of debt management challenge. • **Liabilities impact:** c.75% of loans remain on deposit, but may unwind as businesses potentially begin to use liquidity

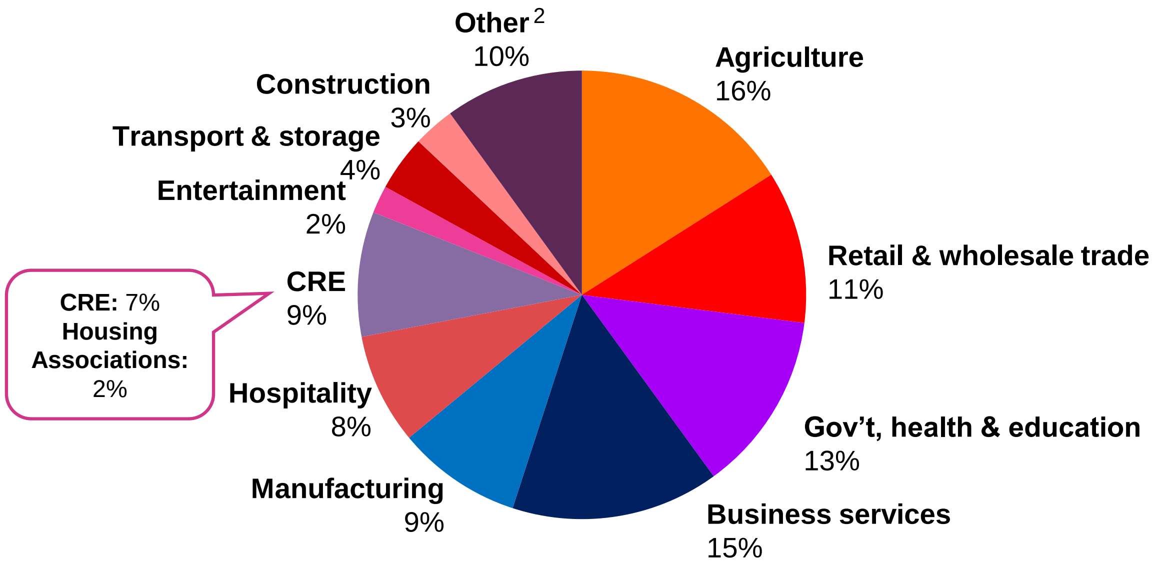
BAU: Least exposed, Lower-impacted, More exposed, Higher impacted

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

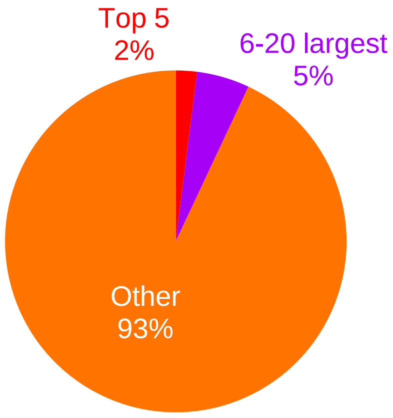
1 Pay as You Grow

Business Lending – H1 21

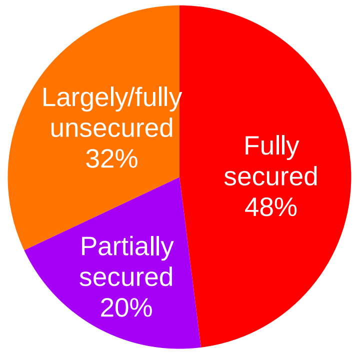
Business lending portfolio by industry sector[1]



Business lending portfolio

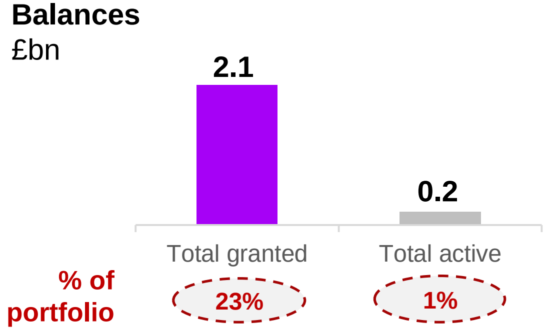


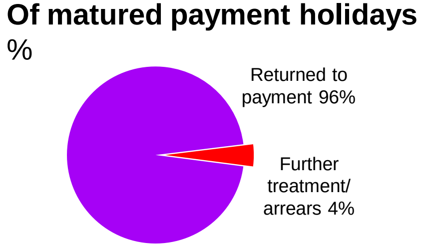
% of book by customer exposure



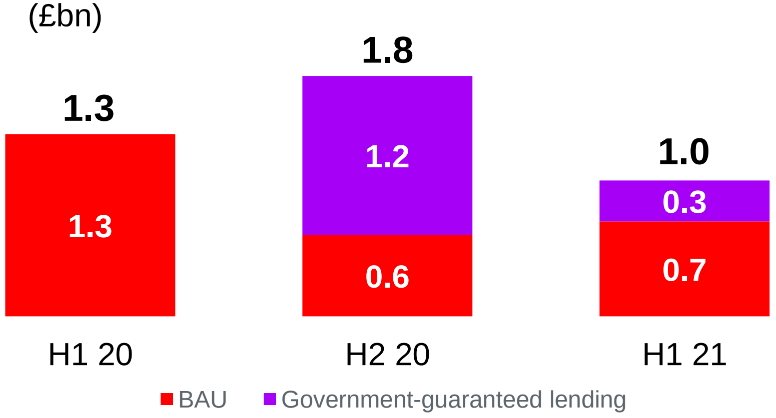
% of book by collateral cover[3]

Capital repayment holidays





Business banking drawdowns[4]



1 Sector allocations per ONS Standard Industrial Classification (SIC) codes
2 Other includes Utilities, Post & Telecommunications, Personal Services, Finance and other unassigned businesses
3 Excludes the HM Government backed Portfolio
4 Total funds advanced to customers from agreed lending facilities during the period

Credit Cards: asset quality & origination discipline maintained

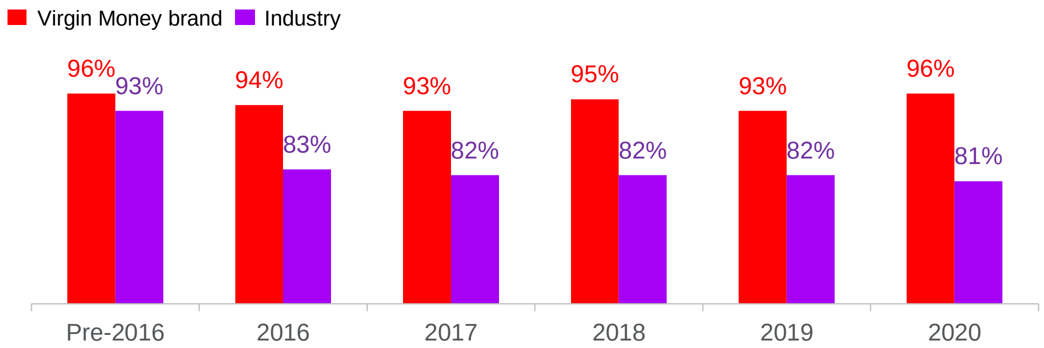
High quality cards book (£4bn): well positioned for uncertainty

- c.2m customers; c.95% of balances originated through VM brand
- Upper-end of mass market customers; no credit impaired or CCJs; c.85% originated post-2015 with prudent underwriting
- Arrears at 1.2% vs industry[1] of 1.9%; BT arrears of 1.1%; non-BT arrears of 1.4%
- Balance transfers now c.70% of cards portfolio; c.17% balances maturing from promo periods in next 6 months
- Low risk appetite reflected through higher customer acquisition cut-offs; higher indebted/lower affluence declined; affordability tested for stressed income on fully drawn line at 33.9% APR

Credit cards customer profile	VM[2]	Industry average[3]
Average customer age	42	
Average income	£41k	
% homeowners	71%	
% self-employed	9%	
% debt to income	23%	28%
% persistent debt	3.7%	5.9%

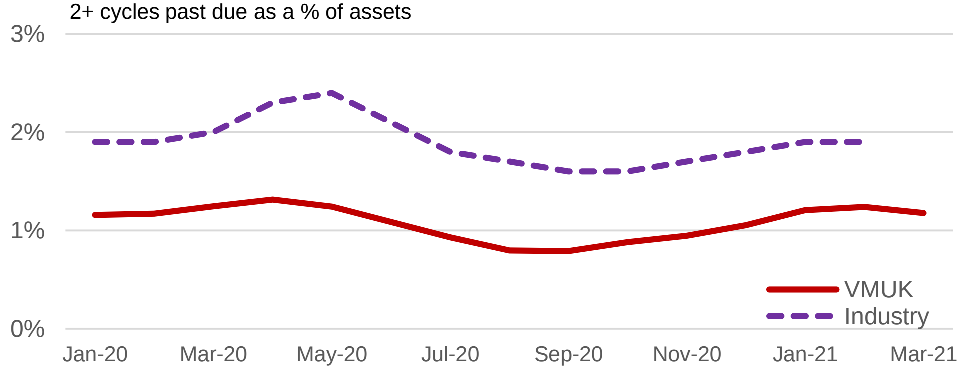
Strengthened originations; defensive high-quality BT-led book

High quality origination: via prudent underwriting standards



Source: Industry data Verisk Financial | Argus. Jan-Dec 20; Industry comparators covering c.90-95% of the UK cards market and verified vs. UK Finance published figures

Leading to lower delinquency: arrears well below industry



Source: Industry data Verisk Financial | Argus Feb-21 Flash Report
Note: Industry arrears only available up to Feb-21

[1] Arrears defined as 2+ cycles past due; Industry data Verisk Financial | Argus to Feb-21
[2] Customers originated through VM brand since 2015; persistent debt reflects VMUK portfolio
[3] Sources: TUC and Verisk Financial | Argus

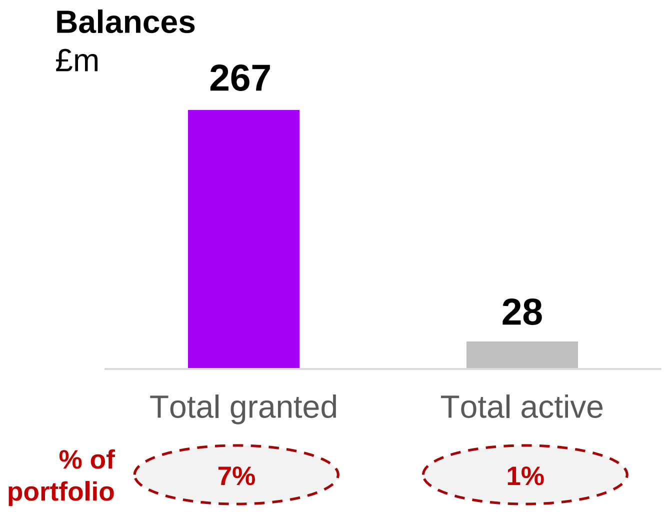
Personal: resilient quality supported by payment holidays

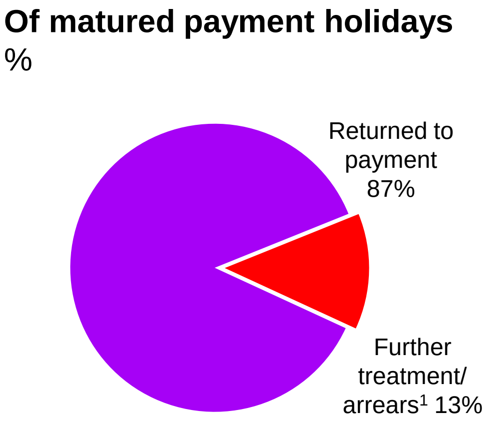
Cards: Post payment holiday performance is as expected

- Continue to identify and provide proactive support to impacted customers
- Lower proportion of payment holiday requests from balance transfer customers relative to the overall book

Payment holidays:

- Payment holiday coverage at c.22% vs 5.5% overall book



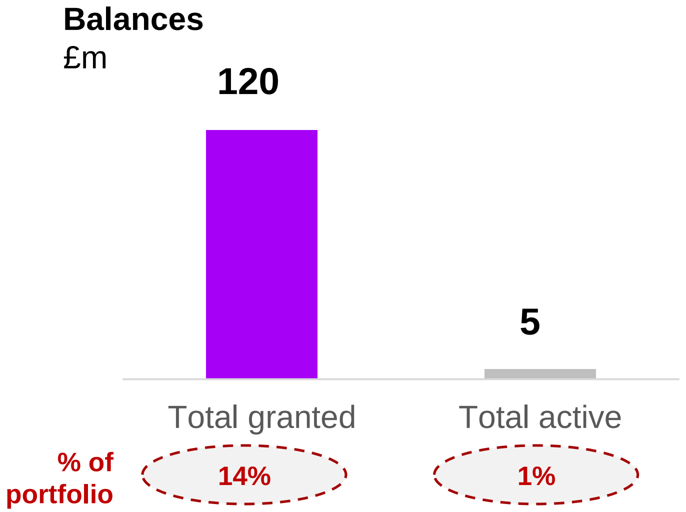


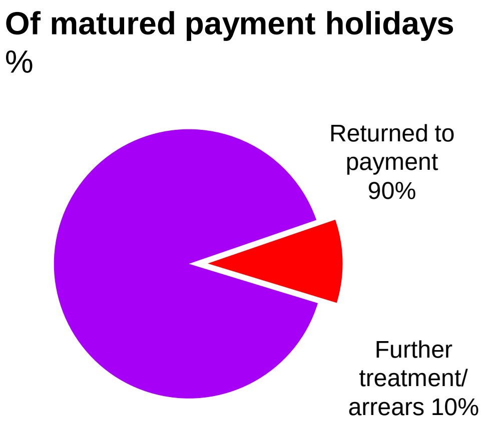
Personal Loans: Encouraging early payment holiday exit levels

- Maintained prudent criteria, with limited appetite for potentially lower resilience segments i.e. self-employed, higher indebtedness
- Strong customer profiles (85% homeowners, low self employed, higher average income levels)
- Loan and overdraft arrears at 0.7% >90 DPD (FY20: 0.5%)

Payment holidays:

- Payment holiday coverage at c.20% vs 8.4% overall book[2]





[1] Excluding balances already in arrears

[2] Personal loans & overdrafts

Balance sheet

£m

	at Mar 2021	at Sep 2020
Mortgages	58,270	58,290
Business	8,891	8,948
Personal	5,050	5,219
Total customer loans	**72,211**	**72,457**
Other financial assets	15,884	15,608
Other non-financial assets	2,044	2,194
Total assets	**90,139**	**90,259**
Customer deposits	68,538	67,511
Wholesale funding (excl. TFS / TFSME)	7,631	8,819
TFS / TFSME	5,658	5,408
Other liabilities	3,232	3,589
Total liabilities	**85,059**	**85,327**
Equity and reserves	5,080	4,932
Liabilities and equity	**90,139**	**90,259**

Risk weighted assets

£m

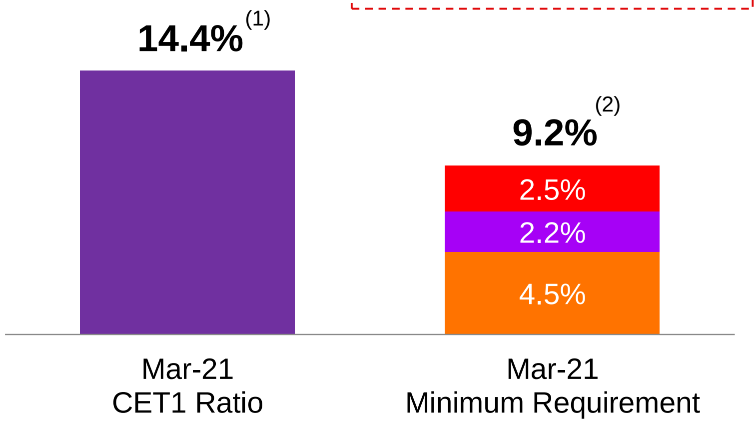
	at Mar 2021	at Sep 2020
Mortgages	9,627	9,484
Business	6,436	6,716
Personal	4,018	4,151
Other	1,210	1,137
Total credit risk	**21,291**	**21,488**
Credit valuation adjustment	139	175
Operational risk	2,557	2,557
Counterparty risk	165	179
Total RWAs	**24,152**	**24,399**
Total loans	**72,211**	**72,457**
Credit RWAs / total loans	**29%**	**30%**
Total RWAs / assets	**27%**	**27%**

Fixed income investor appendix

Strong capital with significant buffers above regulatory minimums

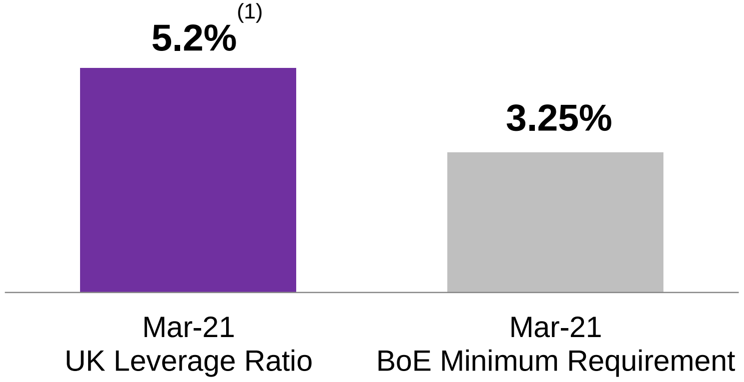
CET1

5.2% / c.£1.3bn buffer



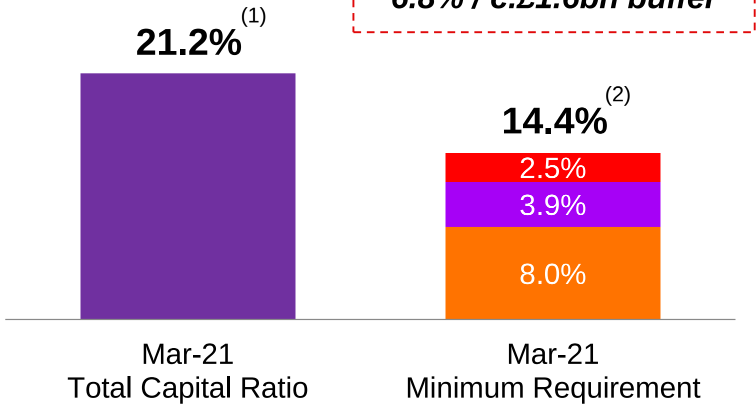
Leverage

1.95% / c.£1.7bn buffer



Total Capital

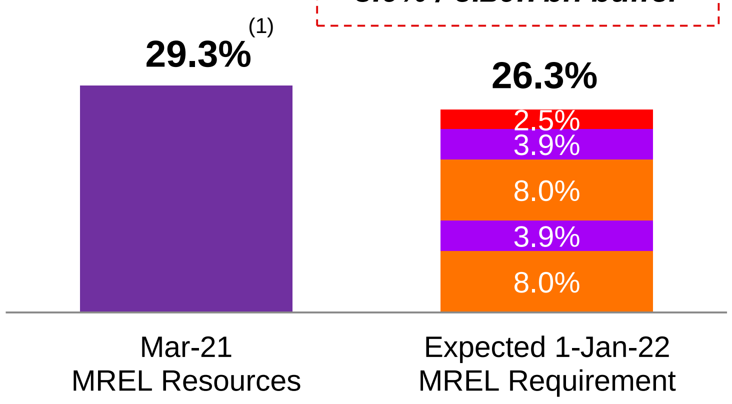
6.8% / c.£1.6bn buffer



MREL

3.0% / c.£0.7bn buffer

£0.5 of MREL senior debt planned in FY21

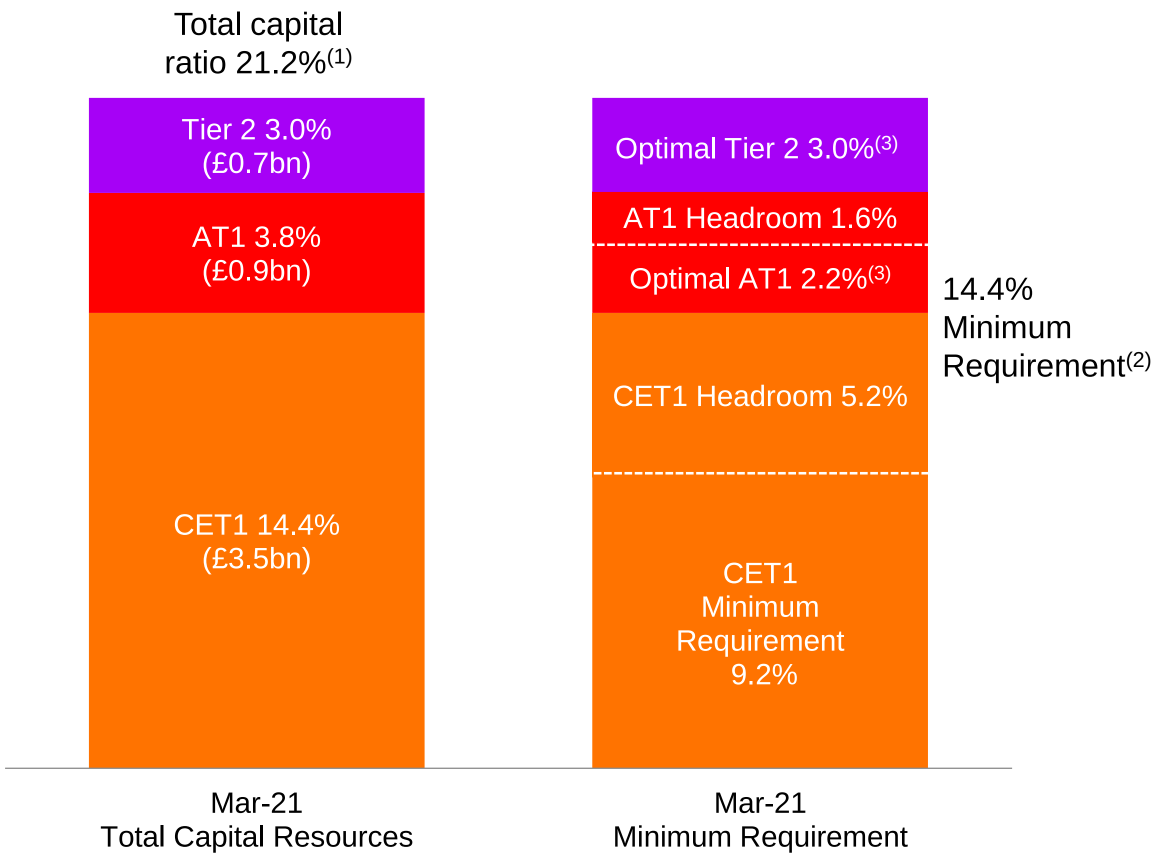


Pillar 1 | Pillar 2A | Capital Conservation Buffer

(1) IFRS 9 transitional basis
(2) CRD IV Minimum Requirement

Well established capital stack

Capital stack breakdown



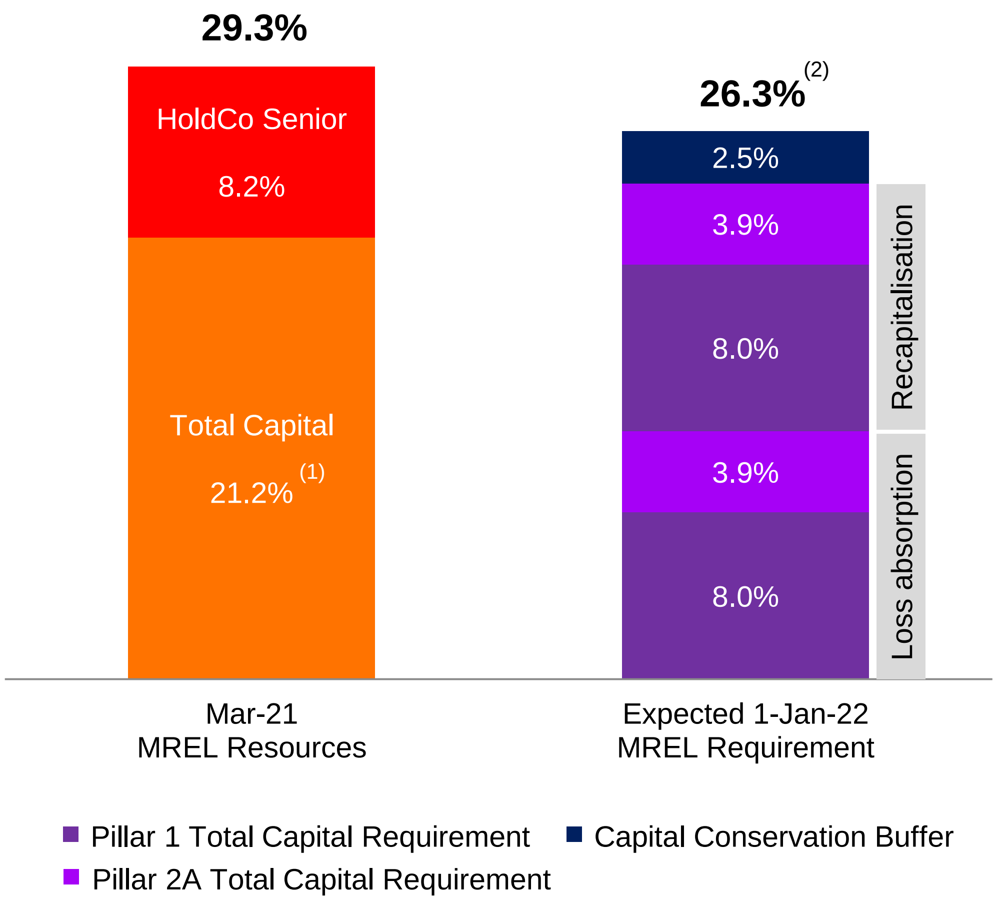
Aim to manage capital structure in an efficient manner

- Excess capital of 6.8% largely due to excess CET1
- No FX exposure in the capital structure, providing stability during periods of market volatility
- On both AT1 and T2 needs, we look to regulatory optimum levels as a minimum and then judge a prudent headroom over and above that takes into account potential RWA volatility. Over time we look to manage that headroom in an efficient manner without changing overall loss absorbing capacity
- VMUK has Available Distributable Items ("ADIs") of £790m; representing 10 times its 2021 AT1 coupon payments of £79m

(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%.

Well positioned for end-state MREL requirements

MREL in excess of expected end-state requirement



FY21 issuance focused on building prudent management buffer

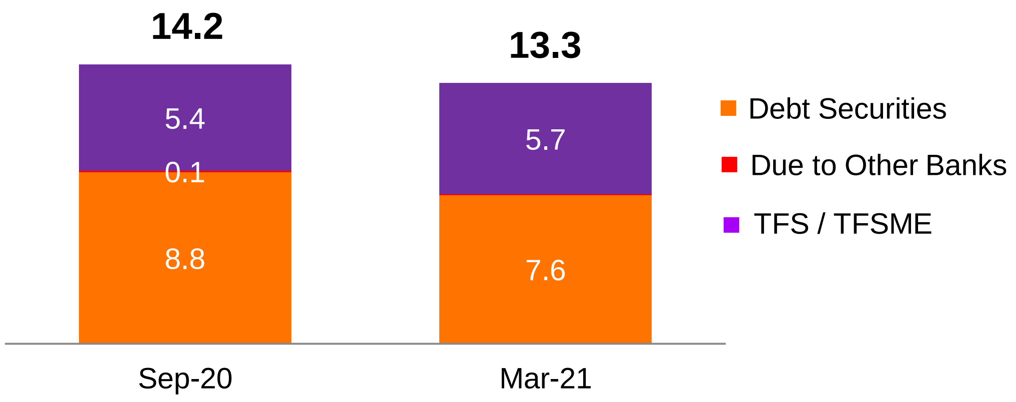
- In Jan-21, the Bank of England published the Group's interim and end-state MREL requirement
- Pillar 2A Total Capital requirement reduced to 3.9% in H121 and is now set in nominal terms, providing stability should RWAs increase during periods of stress
- MREL ratio of 29.3% comfortably exceeds both interim and end-state MREL requirement
- Future MREL issuance is focused on building a prudent management buffer to regulatory requirements
  - Planned issuance of £0.5bn of MREL-eligible senior unsecured debt in FY21

(1) IFRS 9 transitional basis
(2) Based on Mar-21 Pillar 2A Total Capital Requirement and Mar-21 CRD IV capital buffers

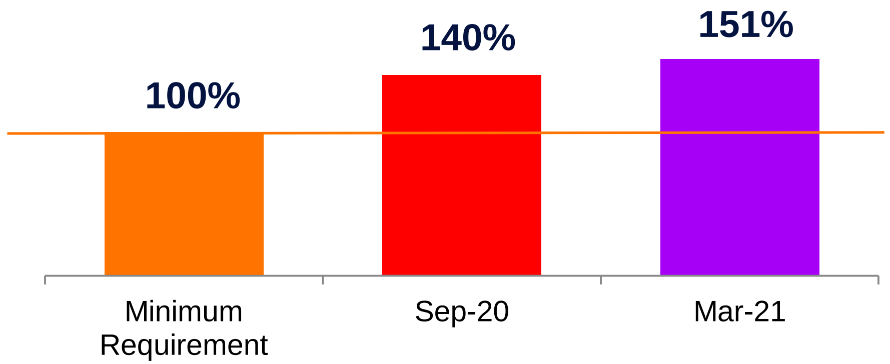
Strong funding & liquidity position

Significant excess liquidity…

Wholesale Funding
(£bn)



Liquidity Coverage Ratio



…modest 2021 Wholesale Funding requirement

- LCR of 151% well above regulatory requirement of 100%, equivalent to a surplus of c.£3.9bn
- No reliance on short-term Wholesale Funding
- £1.5bn of TFS repaid in H121, £2.6 billion outstanding; initial TFSME allowance of £7.2bn, £3.1bn drawn as at H121
- Access to TFSME and deposit inflows leaves modest 2021 funding need

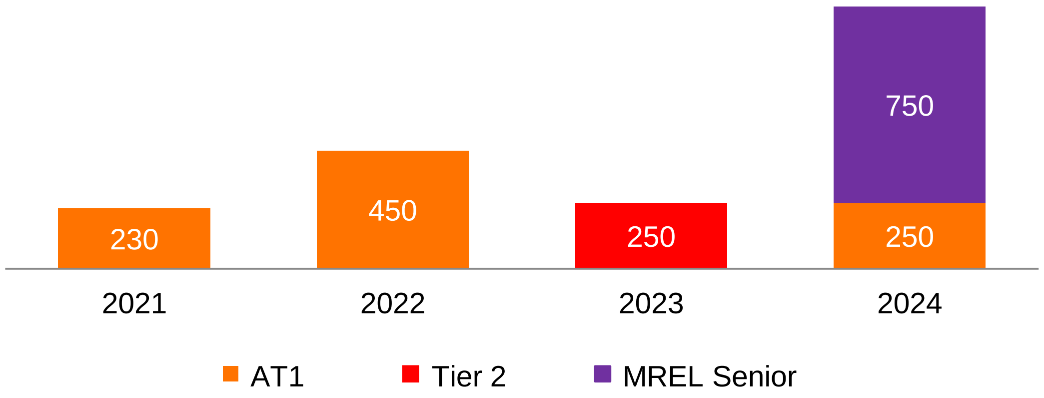
FY21 Issuance Plan

Secured	MREL Senior	Capital
Responsive to deposit flows; expect max 1 trade	£0.5bn	Broadly limited to refinancing

(1) Bonds issued by supra-nationals and AAA-rated covered bonds

Potential to reprice wholesale funding liabilities

Upcoming unsecured redemptions (2021-2024)[1]



	Security	First Call Date	Issue Coupon / Spread	Current Yield / Spread[2]	Differential (bps)
AT1	£230m AT1	10/11/2021	8.750%	3.492%[3]	**(503)**
AT1	£450m AT1	08/12/2022	8.000%		
AT1	£250m AT1	08/06/2024	9.250%		
		WA Coupon	***8.522%***		
T2	£250m Tier 2	14/12/2023	7.875%	2.165%[3]	**(571)**
MREL	£300m Senior	22/06/2024	G+250 bps	G+161 bps	**(89)**
MREL	€500m Senior	24/06/2024	MS+325 bps	MS+97 bps	**(228)**

Present an opportunity to reduce cost of Wholesale Funding

- £930m of AT1, £250m of Tier 2 and c.£750m equiv of MREL senior approaching first call date over 2021-2024
- Future call decisions will be assessed on a broad economic basis, balancing factors including the relative funding cost, current and future regulatory capital and MREL value, rating agency treatment and wider wholesale funding needs - subject to PRA approval
- 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 reduce the cost of the Group's wholesale funding over time

(1) Unsecured debt securities redemption profile based on first call date
(2) Bloomberg bid data as at 22 April 2021.
(3) Yield-to-call

Credit & ESG Ratings

			Virgin Money UK PLC	Clydesdale Bank PLC	Commentary
CREDIT	**Moody's**	*Long-term* *Short-term*	**Baa3** Stable **P-3**	**Baa1**[1] Stable **P-2**	No impact following the UK sovereign downgrade in October 2020, as the Group's ratings do not include any government support uplift. Relaunched its Request For Comment on proposed changes to its Bank Rating Methodology in April 2021.
	Standard & Poor's	*Long-term* *Short-term*	**BBB-** Negative **A-3**	**A-** Negative **A-2**	Negative outlooks on most UK banks, citing the potential earnings, asset quality and capitalisation pressures arising as a result of the Covid-19 pandemic. On 22 January 2021, S&P upgraded the long-term rating of Clydesdale Bank PLC by one notch to A-, reflecting the Group's improved additional loss-absorbing capacity following Virgin Money UK PLC's MREL issuance.
	Fitch	*Long-term* *Short-term*	**BBB+** Negative **F2**	**A-** Negative **F2**	Negative outlooks on most UK banks, citing the deep near-term damage to the UK economy and significant weakening in the UK's public finances caused by the Covid-19 outbreak, in addition to lingering Brexit uncertainty
ESG	**Sustainalytics**		**27.5**		Last update: 21 May 2020; 3.3 point improvement versus previous score
	MSCI		**BBB**		Last update: 23 March 2021; upgraded 1 notch in 2020 from previous score

(1) Long-term bank deposit rating

Virgin Money Fixed Income Investment Proposition

Key points

- Defensive lending portfolio, 81% UK secured mortgages
- No material deterioration in asset quality to date 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

11bps
Cost of Risk

£721m
Total Credit Provisions

100bps
Coverage Ratio

Capital & Leverage(1)

14.4%
CET1 Ratio

21.2%
Total Capital Ratio

29.3%
MREL Ratio

5.2%
UK Leverage Ratio

Liquidity & Funding

151%
Liquidity Coverage Ratio

105%
Loan to Deposit Ratio

134%
NSFR

12%
Increase in Relationship Deposits in H121

Sustainable Impact

BBB
MSCI

27.5
Sustainalytics

2030
aspiration for net zero operational and supplier carbon emissions

5%
of business loan book comprised of sustainable leaders by FY22

(1) IFRS 9 transitional basis

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VIRGIN MONEY UK

Interim Financial Results
2021