VIRGIN MONEY UK

Interim Fixed Income Presentation 2023


Done
debit
Done
credit

Financial Results

Richard Smith
Head of Investor Relations & Sustainability

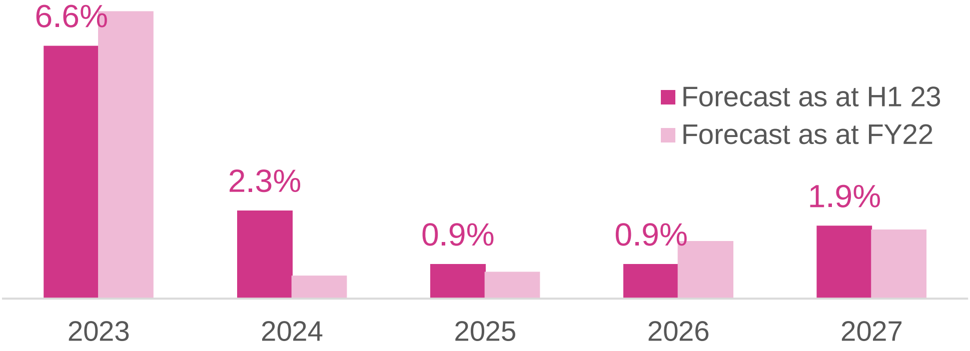
Investing in digital and driving profitable growth

	H1 23 achievements	FY23 guidance
Digitising the bank	• Now delivered £93m of £175m FY24 target annualised cost savings • Continuing to invest in digital capability and new propositions	Cost: income **51-52%**
Showing earnings momentum	• Pre-provision profit up 16% yoy, benefitting from stronger income • Expanded H1 23 NIM to 1.91%, at top of FY23 guidance range	
Delivering profitable growth	• Consistent inflows, 3% H1 deposit growth underpins funding and NIM • Delivering prudent growth in our target lending segments	NIM **c.1.90%**
Balance sheet resilience	• Strong liquidity (LCR 153%) and deposit franchise (72% insured) • Strengthened provision coverage to 72bps; above pre-pandemic levels	
Returning capital	• 14.7% CET1 ratio; committed to target range in FY24 via buybacks • £125m of buybacks now completed; 3.3p per share interim dividend	Buybacks subject to ACS outcome

UK economic outlook stabilising into 2024

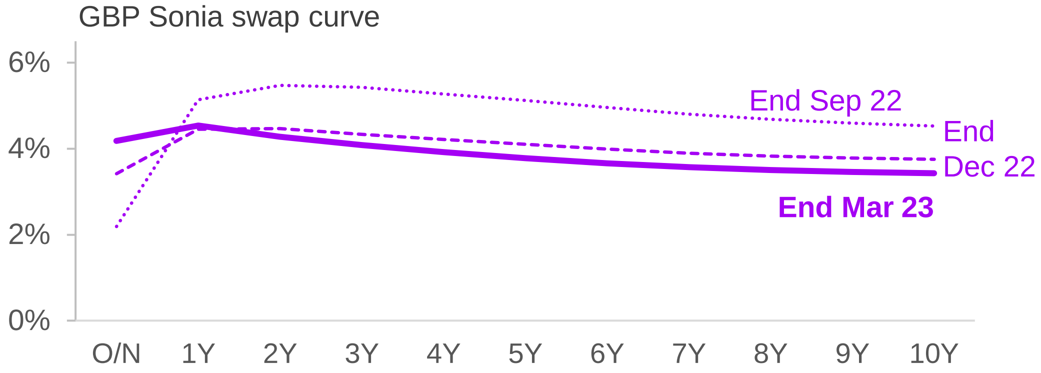
Slowing pace

CPI
Expected to moderate in 2024



Source: Oxford Economics Base Case, February 2023 and September 2022

Rates
Modestly lower yield curve supports income

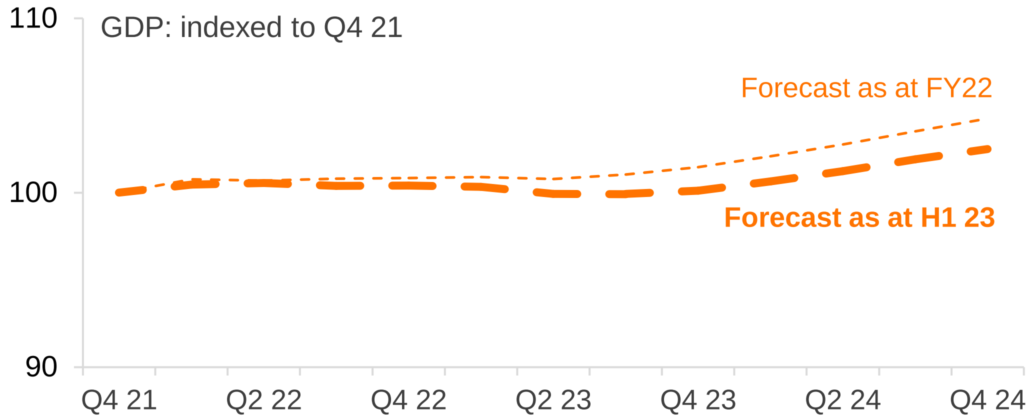


Source: Bloomberg

UK rate environment supportive

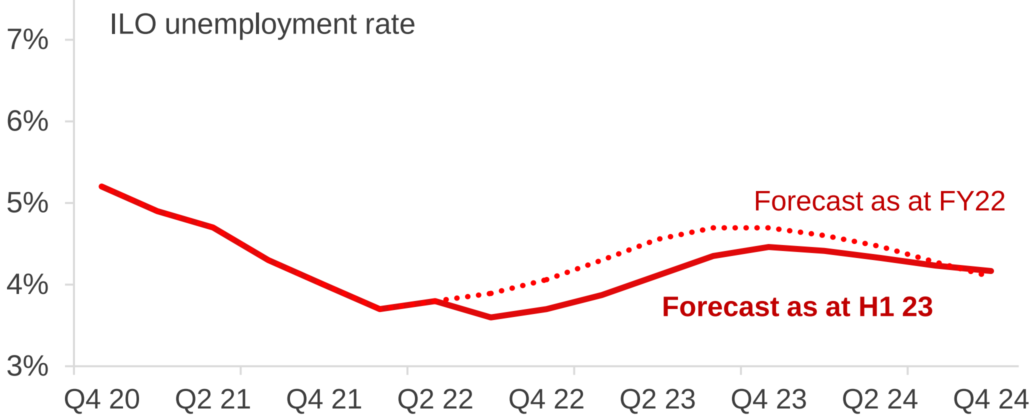
Stabilising outlook

GDP
Growth outlook remains weak



Source: Oxford Economics Base Case, February 2023 and September 2022

Unemployment
Remaining low by historical standards

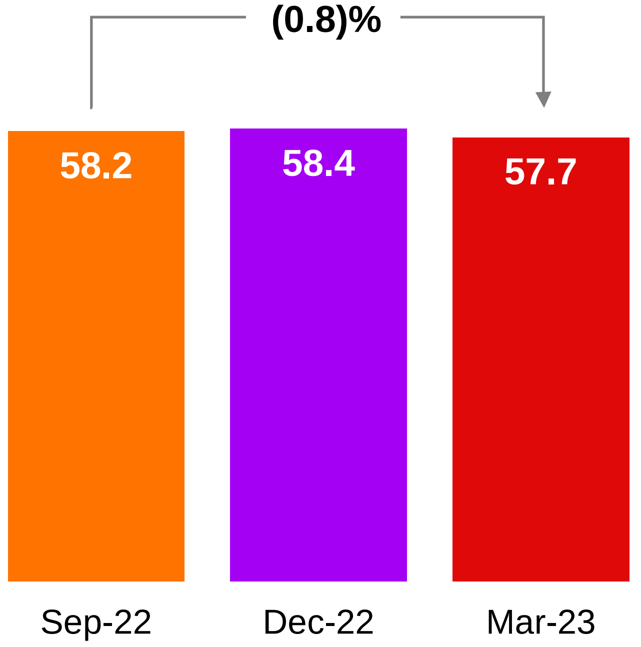


Source: Oxford Economics Base Case, February 2023 and September 2022

Resilient labour market

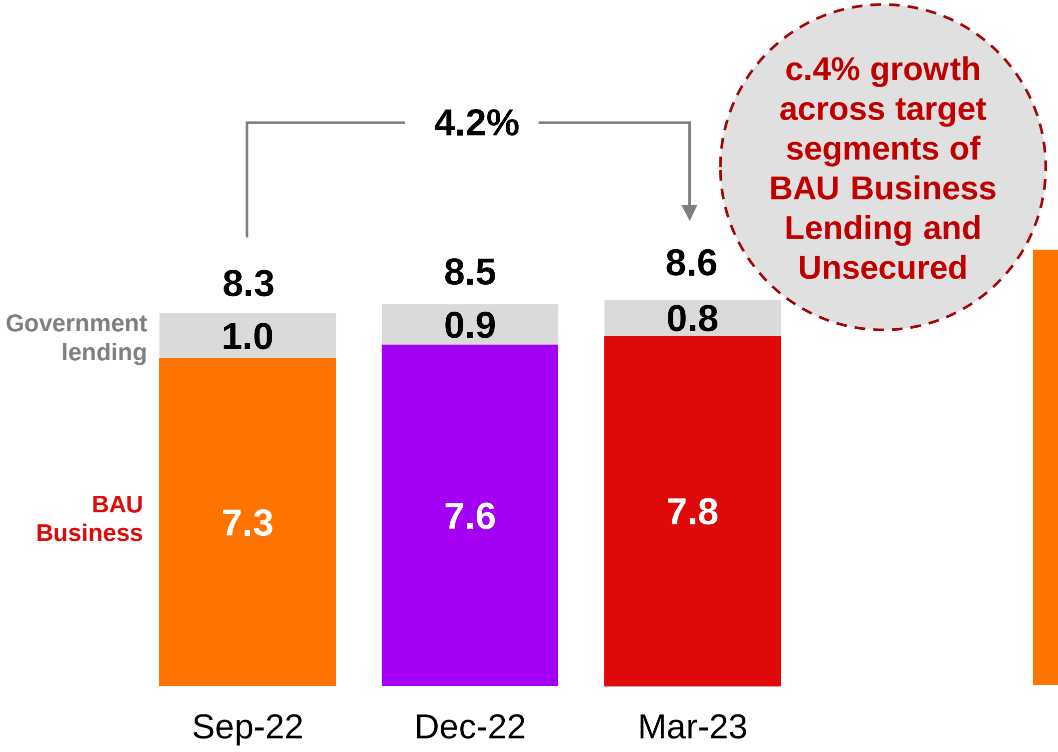
Delivering asset growth prudently in target segments

Mortgages



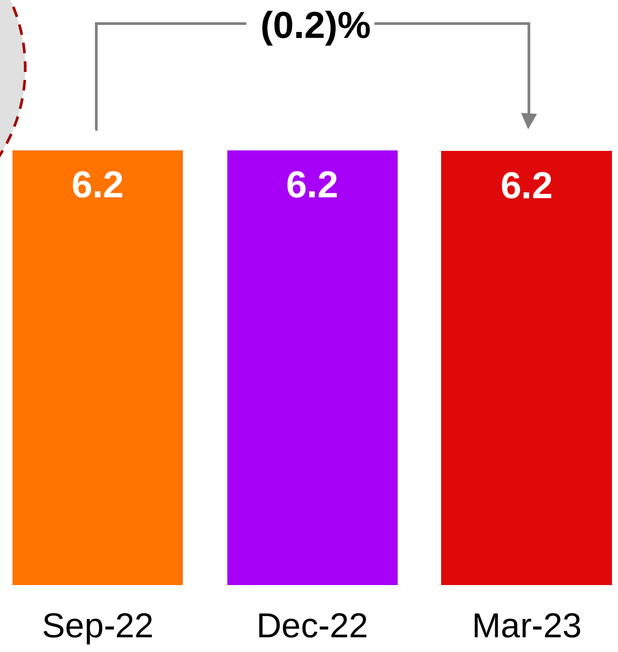
Continue to focus on protecting margin in a subdued market environment

Business



BAU growth of 7% in H1 23 offsetting run-off of government schemes

Unsecured

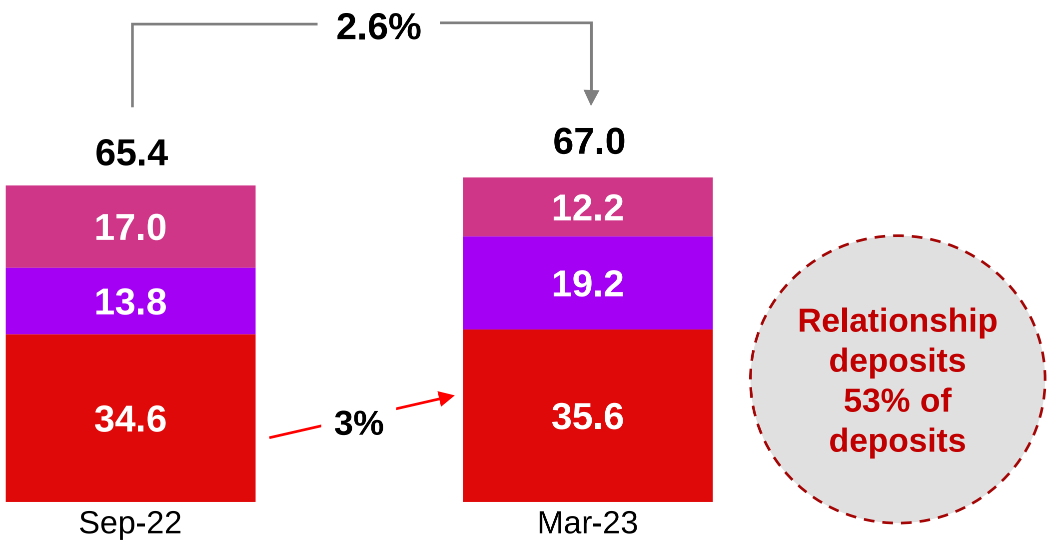


Moderated rate of cards growth reflects disciplined approach to credit and profitability

Successfully driving deposit growth and optimising cost of funds

Strong growth in relationship deposits

Customer deposit balances - £bn

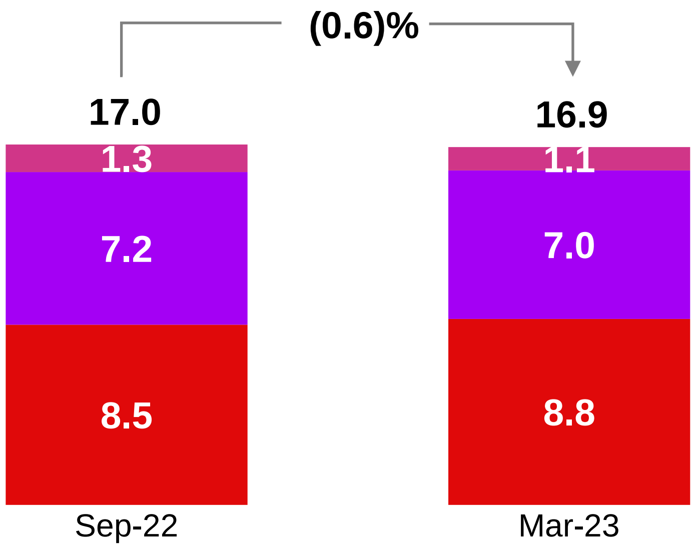


	Sep-22	Mar-23
Cost (bps)	65[1]	143
LDR	111%	108%

■ Relationship deposits ■ Non-relationship term deposits ■ Non-linked savings

Maintained good access to wholesale markets

Wholesale funding balances - £bn



	Sep-22	Mar-23
Cost (bps)	218[1]	422
TFS/TFSME (% of lending)	10%	10%

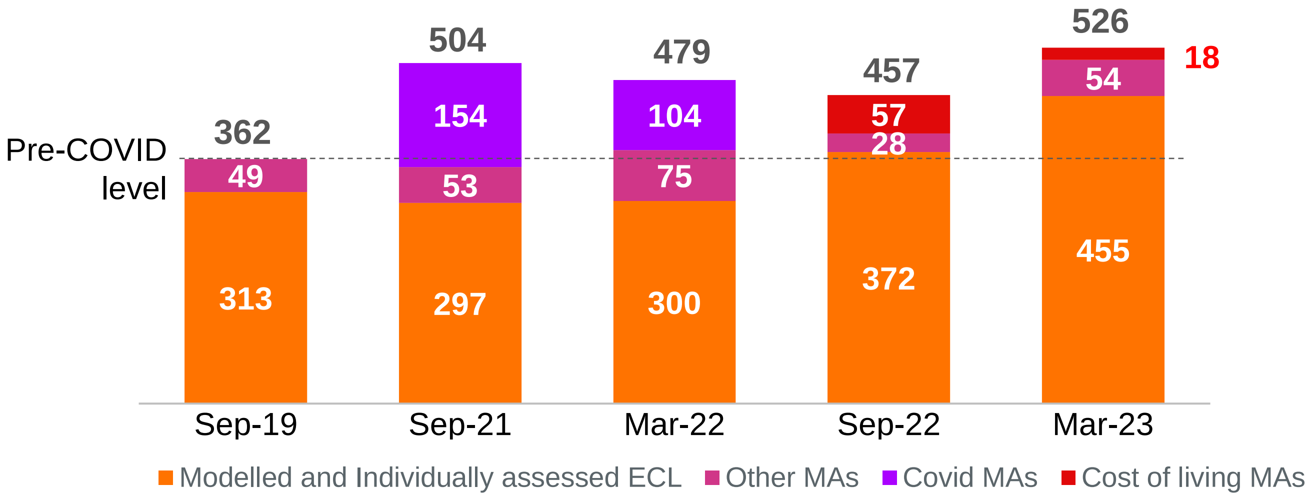
■ Debt Securities ■ TFS / TFSME ■ Due to other banks

[1] H2 22

Higher provisions reflect updated economic outlook

Updated ECL and MAs drive above pre-Covid provisions

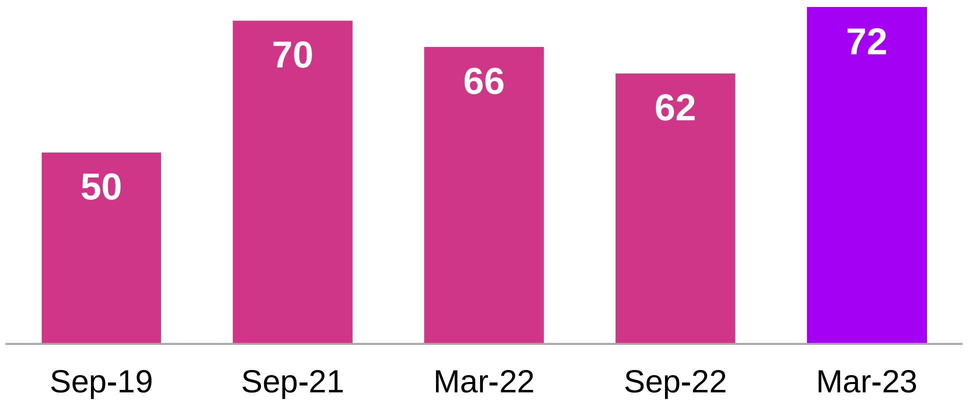
ECL - £m



- Refreshed macro-economic forecast drives c.£50m of the c.£80m increase in modelled and IA ECL relative to September 2022
- For additional prudence, £18m of MAs maintained to cover higher cost of living on retail portfolios and economic resilience for business
- Growth in other MAs reflects removal of negative MA (-£15m) held at FY22 for new Business LGD model (now within modelled result)

Provision coverage further strengthened

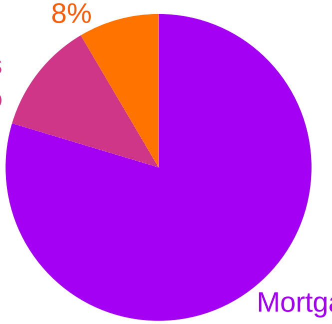
Coverage ratio - (bps)



- Coverage increased to 72bps reflecting updated macroeconomic scenarios (MES) & higher indebtedness in bureau data; anticipating future arrears increase
- Stage migration (Stage 2 now 10% from 8% at FY22) driven by updated MES and bureau data. 97% of Stage 2 balances remain <30 DPD
- Asset quality remains resilient, Stage 3 broadly stable (1.5% of book); small increase in cards arrears & write-offs from abnormally low levels, expected to continue
- c.1/2 of H1 40bps cost of risk reflects provision build; expect cost of risk for FY23 to be in the range of c.35-40bps

Well positioned balance sheet with tightened underwriting

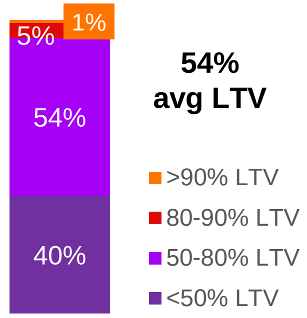
Group Portfolio: Defensively positioned, skewed to mortgages



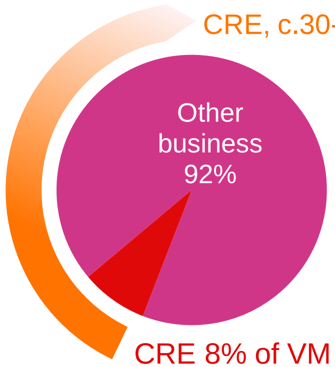
- Tightened underwriting further in H1
- Targeted approach to growth in current environment
- Resilient performances across recent stresses

Mortgages: Prudent underwriting reduces refinancing risk

- Low-risk book; affordability stressed to give headroom
- Avg. LTI of <3x for OO and high ICR cover on BTL
- Low LTVs reflecting risk appetite and HPI



Business: Lending to resilient sectors, with minimal CRE



- Majority of lending to specialist defensive sectors
- Key customers well placed to pass on cost increases
- <£0.5bn of CRE at average LTV of 51%[1]

Unsecured: Affluent customer base

- Further tightened underwriting since FY22
- Stress affordability of full credit line at 29.9% APR
- Spending remains skewed to discretionary items

VMUK Credit Card Customer demographics[2]

Average age	42
Average income	£42k
% homeowners	70%
% self-employed	10%
% debt to income	27%
% persistent debt	3.5%[3]

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[1] Excludes housing associations [2] Customers originated through VM brand since 2015; data as at Mar-23 [3] Persistent debt reflects total combined portfolio; data as at Dec-22

Updated outlook

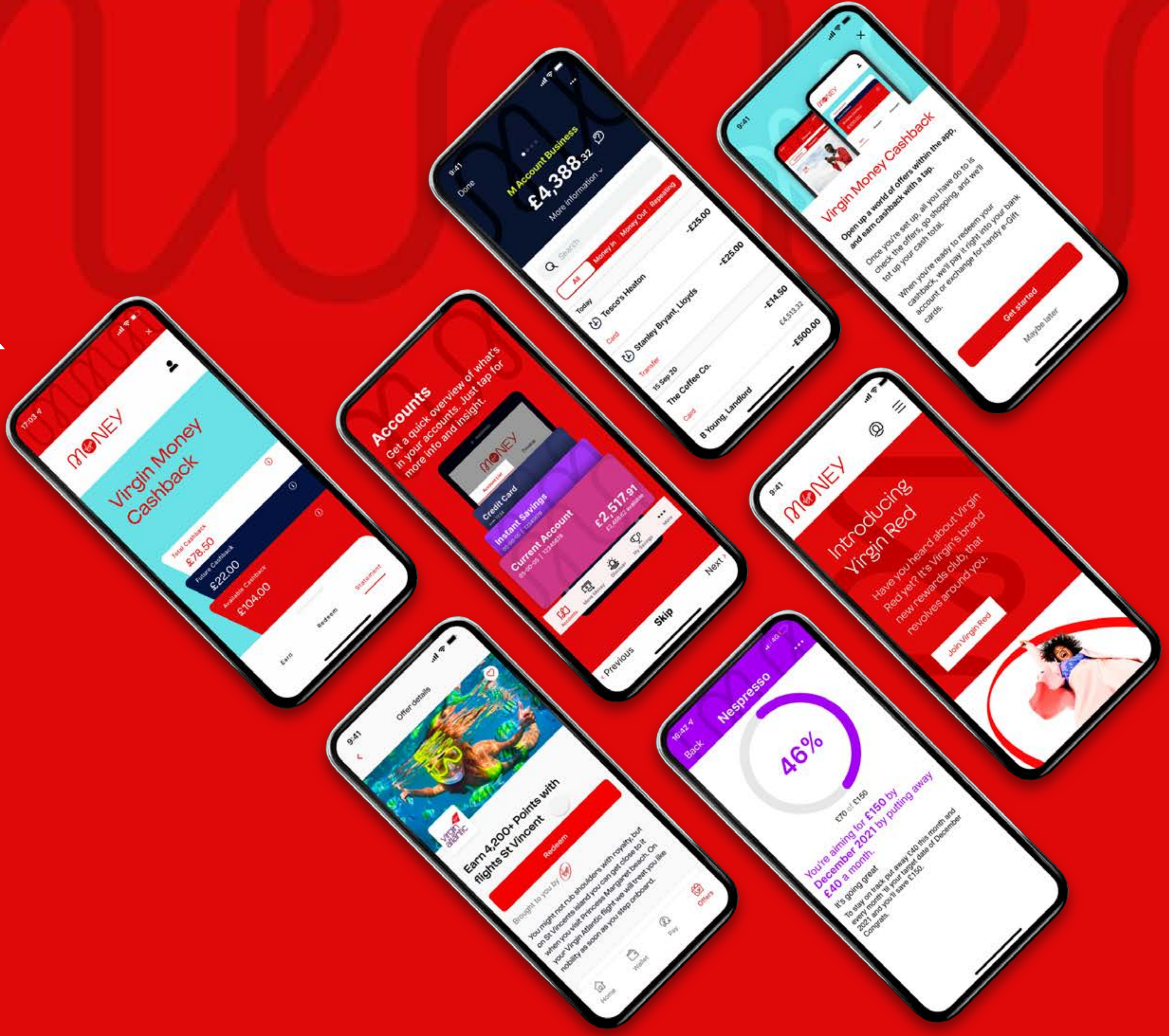
FY23 outlook	
NIM[1]	FY23 NIM expected to be c.190bps; stable H2 v H1
Cost: Income ratio	Expected to be 51-52%
Cost of risk	Expect cost of risk to be in the range of c.35-40bps
Restructuring costs	c.£275m across FY22-24, with majority of remainder in H223
CET1	Maintain CET1 >14% through FY23 during period of heightened macroeconomic uncertainty
Capital distribution	30% dividend payout; buybacks subject to outcome of ACS stress test in July and regulatory approval

FY24 outlook	
Income	Volume growth and resilient margin drives expansion
Costs	Cost: Income ratio to be <50%
Growth	Targeting growth in Unsecured, BAU Business and maintaining mortgage market share over medium term
Gross savings	Gross cost savings of c.£175m by FY24 generate headroom to absorb inflation, growth and re-investment
CET1 and capital	Return to target CET1 range by end of FY24
RoTE	Maintain target of >10%

Capital, Funding & Liquidity

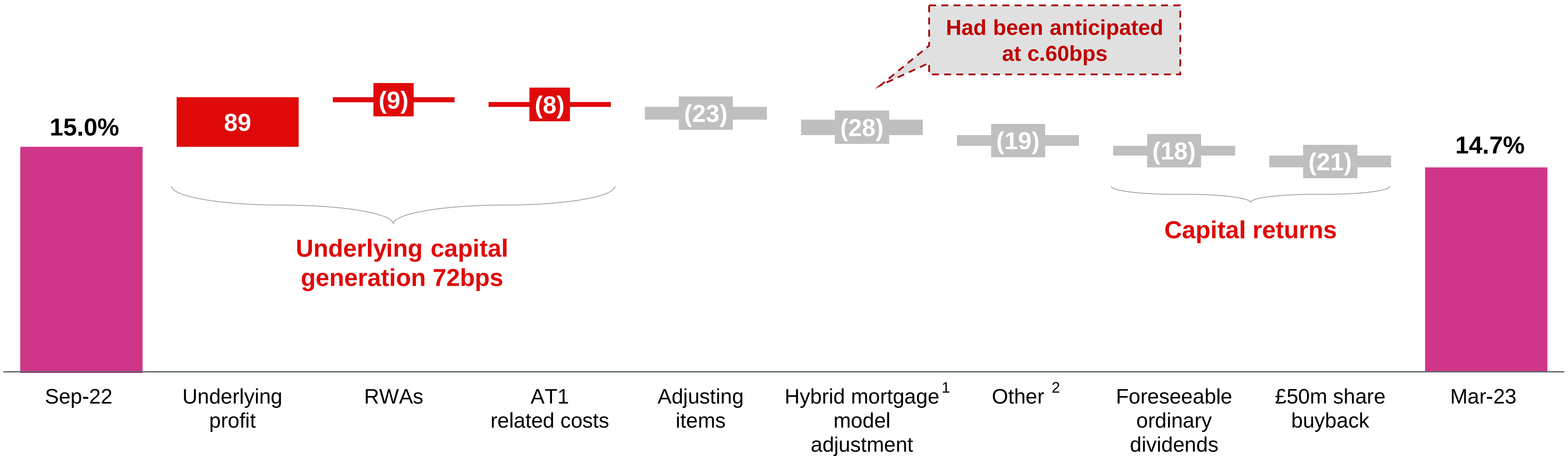
Justin Fox

Group Treasurer



Lower hybrid mortgage model adjustment; absorbed in robust CET1

Transitional CET1 ratio evolution (bps)



22.0%	**Total capital ratio**	21.2%
5.1%	**UK leverage ratio**	5.0%
14.6%	**IFRS 9 Fully Loaded CET1 Ratio**	14.4%
£24,148m	**RWAs**	£24,703m

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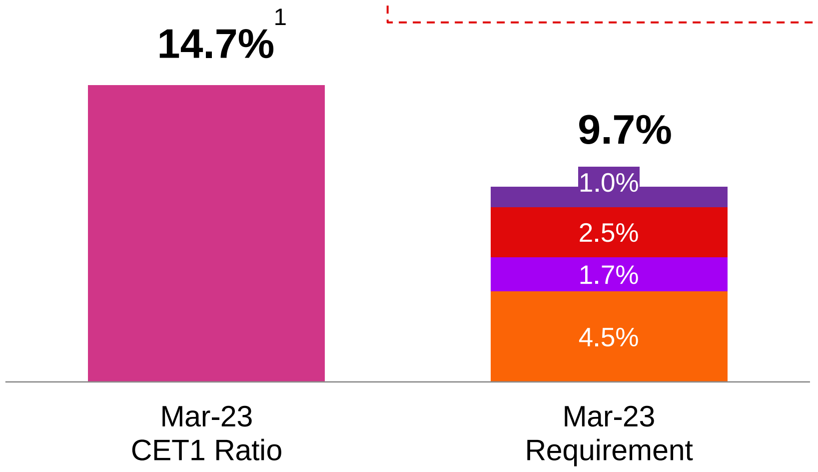
[1] Final hybrid mortgage model impact remains subject to regulatory approval [2] Mainly FVOCI reserve movements, reflecting change in value of investment securities attributable to credit spreads

Strong capital with significant buffers above regulatory minima

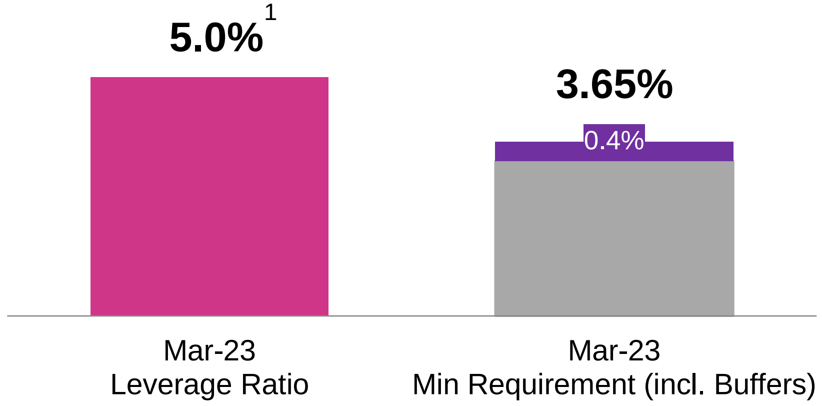
CET1

5.0% / c.£1.2bn buffer



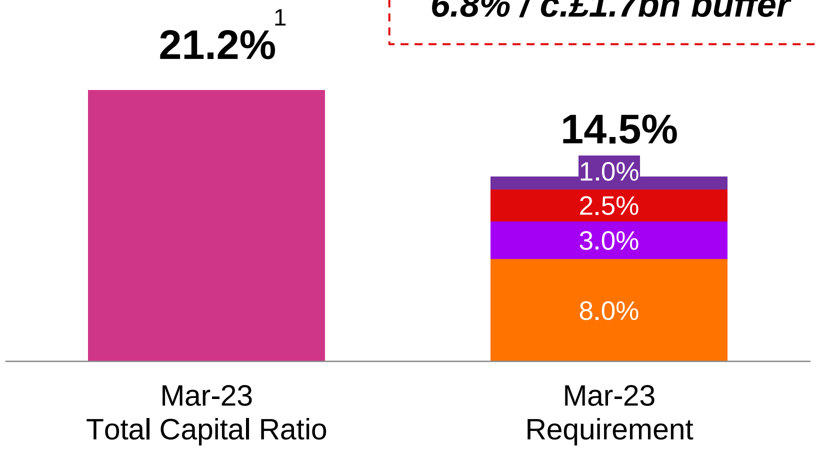
Leverage

1.35% / c.£1.1bn buffer



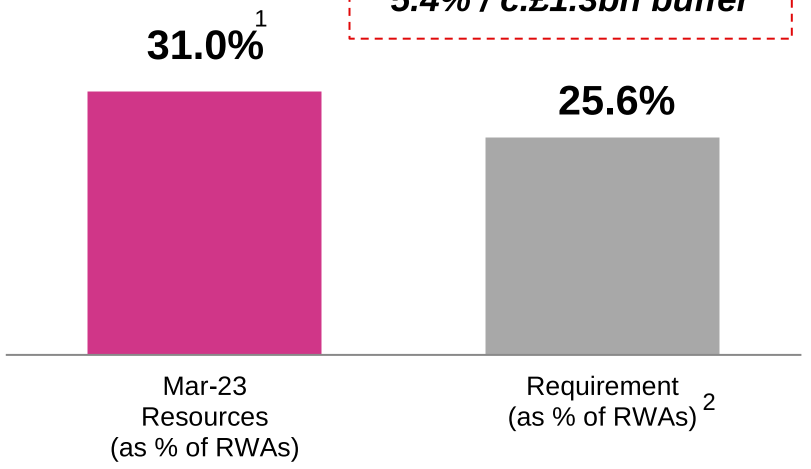
Total Capital

6.8% / c.£1.7bn buffer



MREL

5.4% / c.£1.3bn buffer



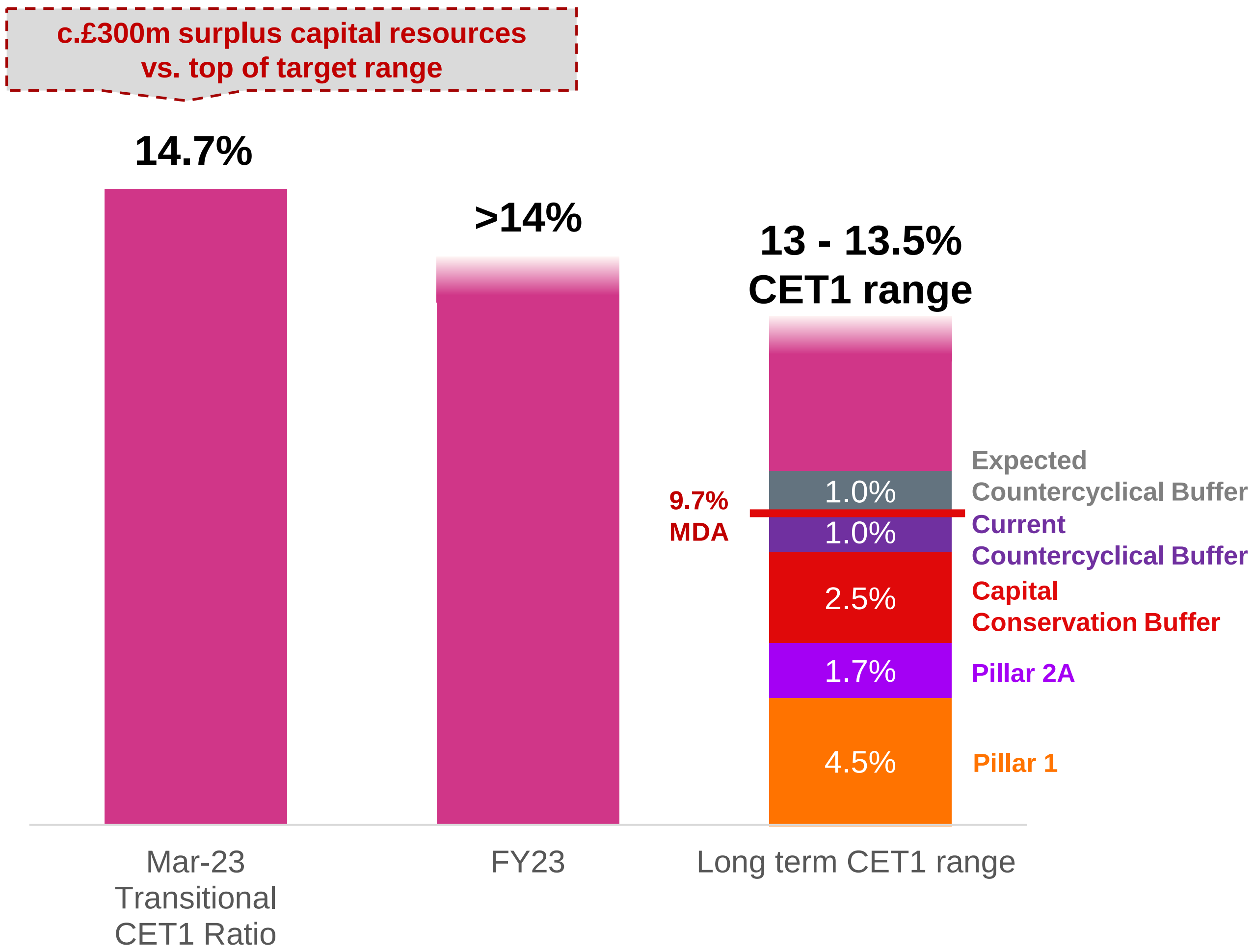
■ Pillar 1 ■ Pillar 2A ■ Capital Conservation Buffer ■ Countercyclical Buffer

[1] IFRS 9 transitional basis [2] The Group's loss-absorbing capacity requirement is the sum of its MREL plus any applicable buffers

CET1 strength – returning to target range by end FY24

Surplus capital resources available for growth and distribution

Not to scale

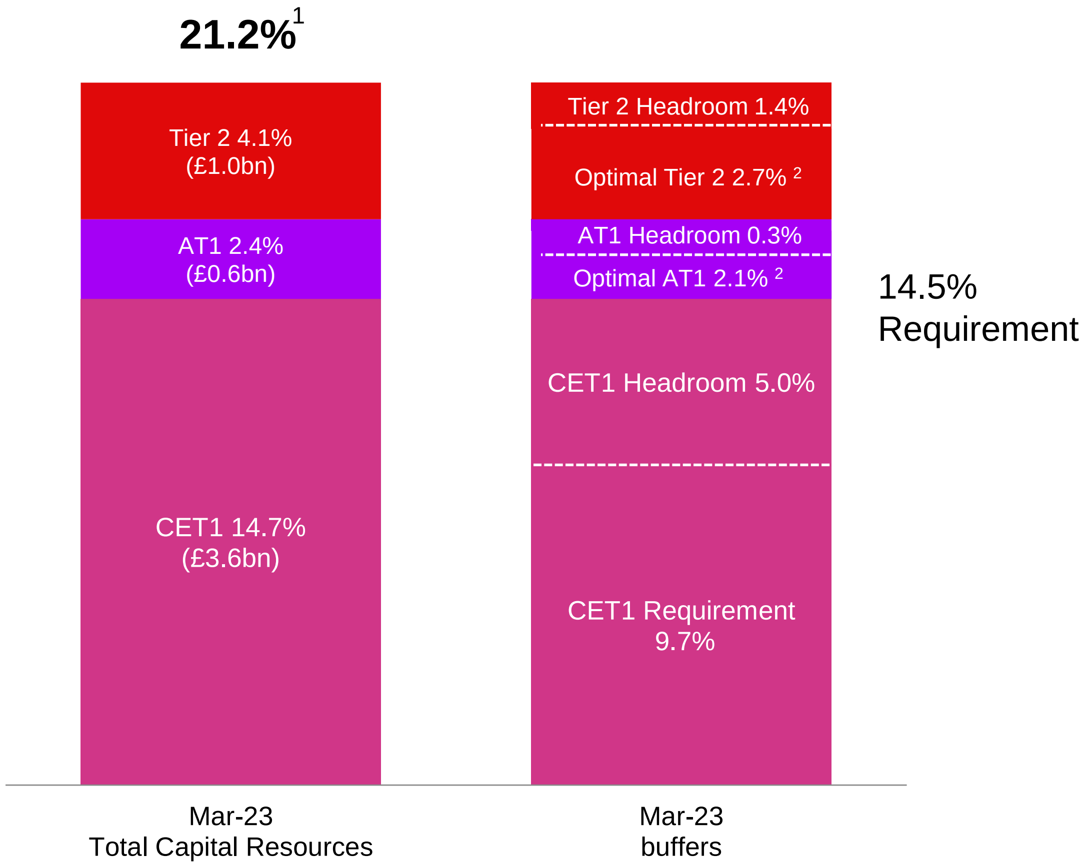


Capital framework supports ongoing distributions

- Further strong capital generation in the half, also benefitting from lower than expected impact from hybrid mortgage model adjustment
- 3.3p interim dividend announced, in line with dividend framework (1/3rd of FY22 dividend)
- Committed to 30% full year dividend pay-out (reflected in H123 CET1 accrual)
- Maintaining CET1 >14% through FY23 during period of heightened macroeconomic uncertainty
- The Group anticipates further buybacks subject to outcome of ACS stress test in July, given surplus to 14% FY23 CET1 level
- Return to target CET1 range by end FY24, assuming no material change in the economic outlook
- Basel 3.1 implementation expected to result in no material day 1 (1 Jan 2025) impact on the capital position
- Pension scheme remains in surplus and de-risked further

Well established capital stack

Capital stack breakdown



- 1% CET1 countercyclical buffer re-introduced in Jan-23 already incorporated in 9.7% minimum CET1 requirement; medium term CET1 range 13-13.5% assumes 2% CCyB level
- Intend to manage AT1/Tier 2 buffers in an efficient manner while maintaining headroom above regulatory optimum levels
- AT1 bucket optimised over 2022 with the tender and subsequent redemption of the £450m AT1 instrument
- Next capital call date the £250m Tier 2 in December 2023

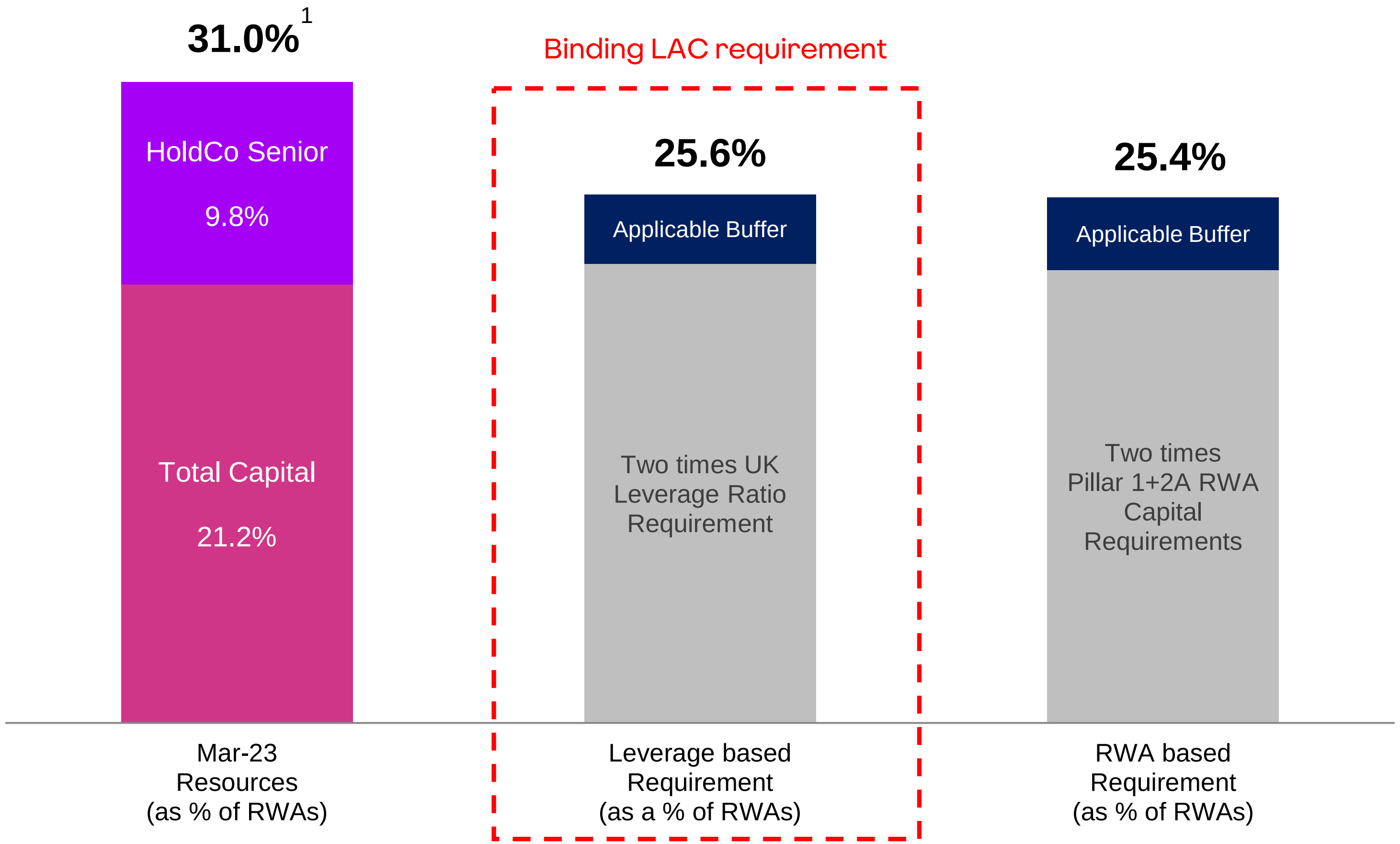
FY23 issuance plans:

- No incremental capital issuance required given healthy Total Capital ratio – 2023 issuance will be broadly limited to refinancing

[1] IFRS 9 transitional basis [2] 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%

MREL significantly in excess of requirement

MREL position vs requirement as a % of RWAs



- As at 31 March 2023, the Group's binding LAC requirement is Leverage based.
- MREL resources of £7.7bn at March 2023, equivalent to 9.1% of leverage exposures or 31% of RWAs
- Excess MREL of £1.3bn compared to current binding LAC requirement.

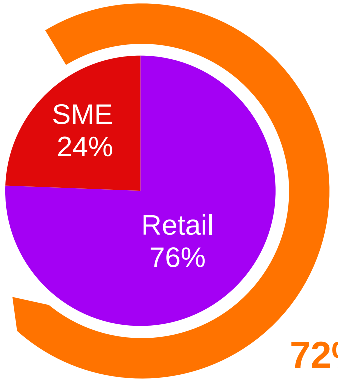
FY23 issuance plans:

- HoldCo Senior issuance to remain broadly limited to maintaining current surplus to regulatory requirements
- Expect to maintain a prudent management buffer above MREL requirement

[1] IFRS 9 transitional basis [2] Under the BoE MREL framework, the Group is required to hold capital resources and eligible debt instruments equal to the greater of two times the Total Capital Requirement or two times the UK Leverage Ratio requirement. In addition to MREL, the Group must also hold any applicable capital buffers, which together with MREL represent the Group's loss-absorbing capacity (LAC) requirement.

Targeted deposit growth, supporting resilience and income

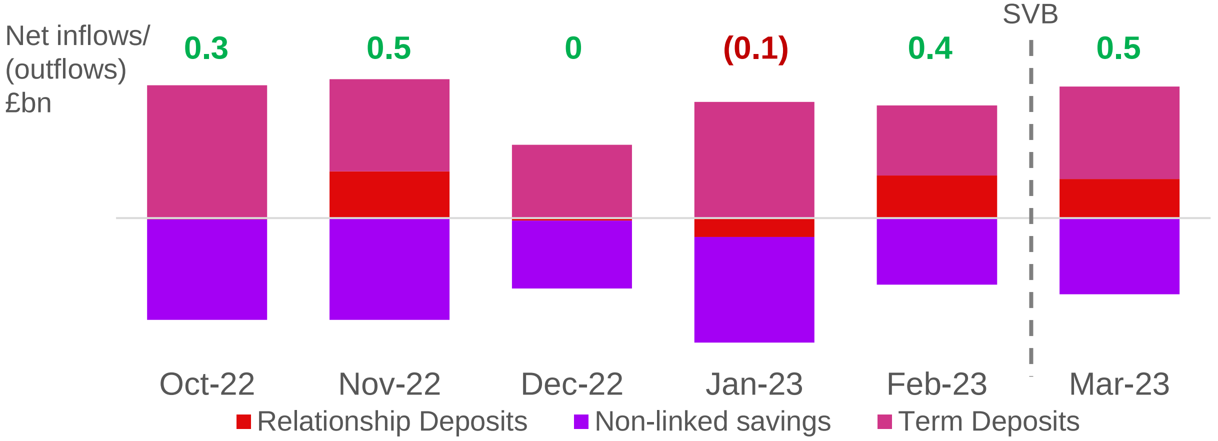
Book: Skewed to retail depositors, and insured balances



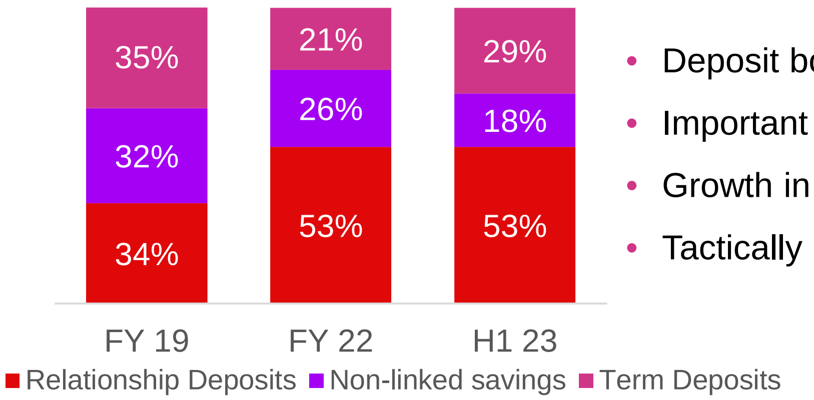
- Book c.3/4s retail customers
- PCA average balance of c.£5.5k
- 79% of PCA customers have <£5k in account
- 65% of BCA customers have <£5k in account

72% of balances insured by FSCS

Inflows: strong inflows across the half

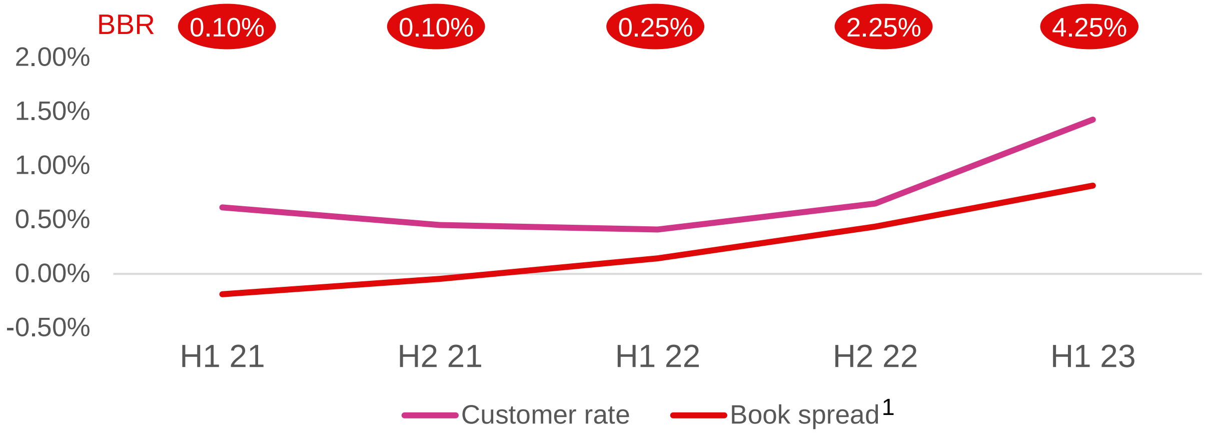


Product mix: managed towards RDs and tactical TDs



- Deposit book has evolved materially
- Important driver of NIM expansion
- Growth in loyal relationship balances
- Tactically leveraged TD opportunity

Deposit book spread: Improvement driving NIM benefit



Mature franchise with proven flexible deposit gathering capabilities

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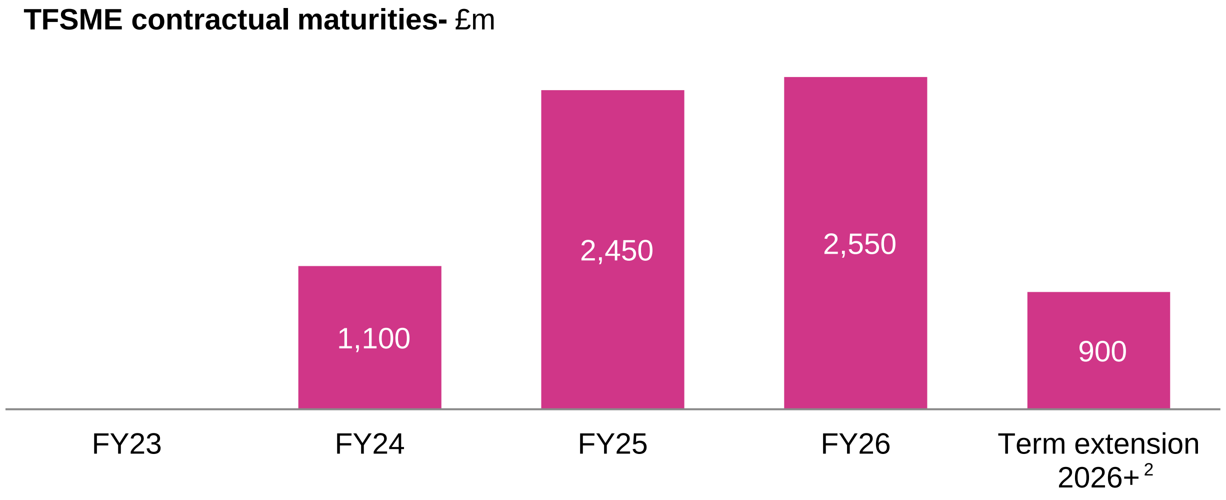
[1] Weighted average book spread for overall deposits. For fixed rate product and variable rate products included in the structural hedge, the book spread is the customer rate net of tenor-matched interest rate swaps. For variable rate products not included in the structural hedge, the book spread is the customer rate net of BBR

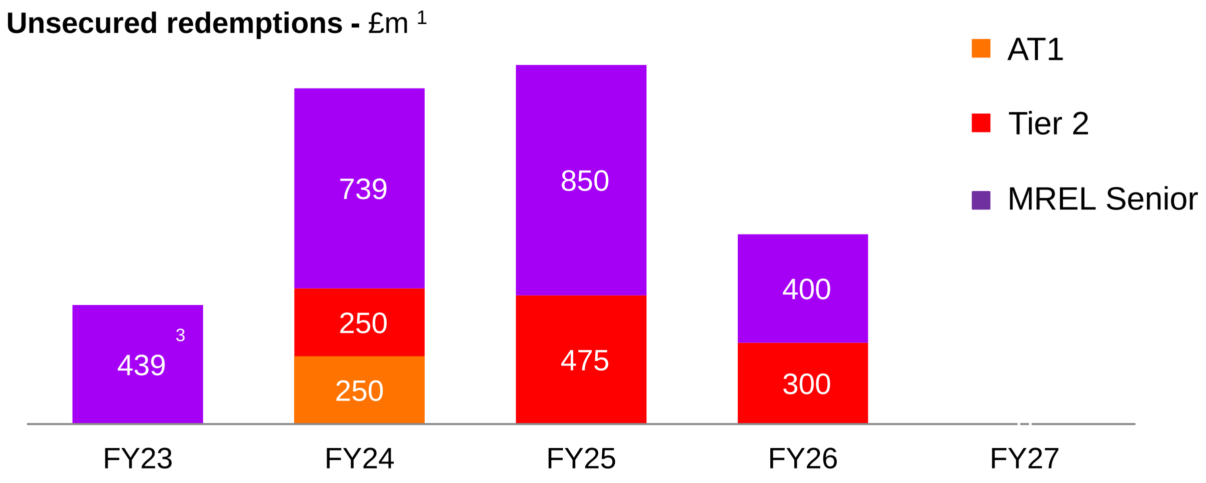
Stable and diversified wholesale funding base

Well placed to manage TFSME refinancing



- Well-established wholesale funding programmes and proven market access.
- £200m TFSME repaid to date - plan to continue to repay TFSME about 1 year ahead of contractual maturity, to manage refinancing risk
- Given the strong deposit performance in H1 2023, expect to issue the lower end of the £1.5-2.5bn of secured issuance guidance given at FY22, subject to ongoing deposit flows and relative cost

No upcoming unsecured refinancing needs within FY23

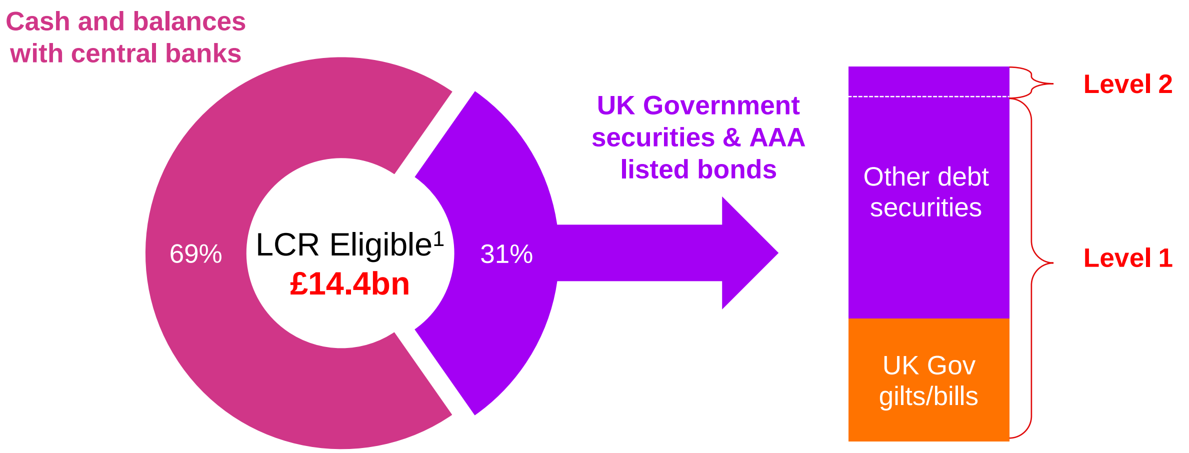


- Short term (<1 year) % of total debt securities in issue only 20%
- Following recently announced MREL call[3], no further capital or MREL call dates/maturities in FY23

[1] Unsecured debt securities redemption profile based on first call date. Spot GBP equivalent nominal amounts as at 31st March 2023 [2] Refers to TFSME tranches eligible for term extension to 6-10yrs in line with scheme rules on Government backed BBL lending [3] Intention to redeem the €500m MREL Senior Note on its first call date of 27th May 2023 was announced on 28th March 2023 and was pre funded with €500m Senior MREL Note in February 2023

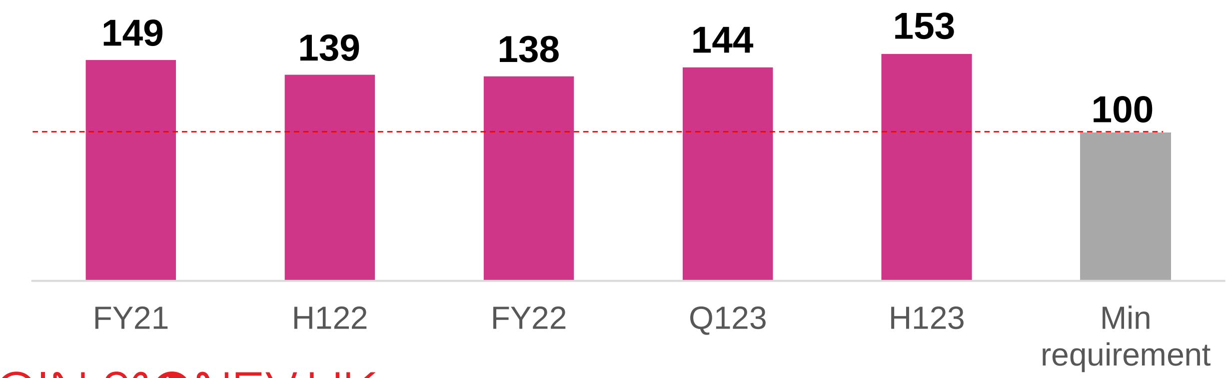
Prudent liquidity position

Comprised primarily of balances with BoE



LCR comfortably exceeding regulatory requirements

Liquidity Coverage Ratio - (%)



Readily available access to additional liquidity

- H123 LCR of **153%** continues to comfortably exceed regulatory requirements and the Group's more prudent internal risk appetite metrics
- LCR eligible pool of **£14.4bn** primarily cash at the BoE (69%) with remainder UK Government gilts/bills and high-quality AAA rated listed securities
- Additional **c.£5bn** of secondary liquidity drawing capacity via unencumbered pre-positioned collateral at the BoE
- Further **c.£19bn** of unencumbered assets eligible and readily available but not currently pre-positioned at the BoE.
- Liquid asset portfolio fully hedged from interest rate, inflation and FX risk
- Any movements in fair value recognised in CET1 via FVOCI reserve.

Strong Funding & Liquidity metrics

LCR	Loan-to-deposit ratio	NSFR
153% **Headroom of c.£5bn**	**108%**	**136%**

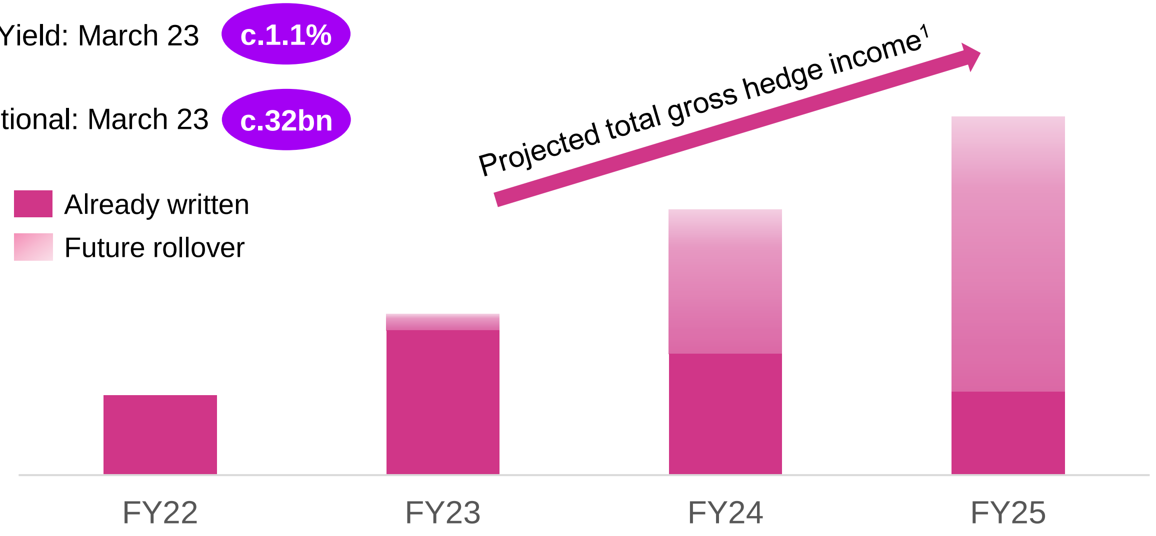
[1] Excludes encumbered assets.

Hedge income will continue to drive net interest margin benefit

Structural hedge gross income outlook

Gross Yield: March 23 **c.1.1%**

Hedge notional: March 23 **c.32bn**



- FY23 contribution from current locked in profile significantly higher than FY22; material re-investment benefit, given run-off rates in H2 at c.1% to rates c.4%
- Legacy hedge unwind continues (not included above); contribution was c.£120m in FY22 and will be c.£80m in FY23 (and unwound by end FY25)
- Expect hedge notional to reduce modestly over H2 assuming no change to current behaviour; expect no material NII impact based on current rate curve

Structural hedge provides resilience to rate outlook

Proforma rate sensitivity to parallel shift in all curves:

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

- Updated sensitivity in year 1 is based on assumed commercial response at current base rate
- Assumes the balance sheet is constant; Y 2 & 3 impacts driven by hedge re-investment; asymmetry reflects difference in pass-through at +/-25bps
- Size of structural hedge is calibrated to an assumed level of deposit pass-through; actual level of pass-through could be different in practice

[1] Assuming static structural hedge size and based on current rate curve (including 5 year swap rate at an average of 3.9%)

Virgin Money Fixed Income Investment Proposition

Key points

- **Currently trade wide of peers in unsecured debt markets; remain focused on reducing differential supported by;**
- Tier 1 firm for regulatory purposes - subject to enhanced governance, oversight and rigorous stress testing requirements, identical to that of larger UK peers
- Defensive lending portfolio, 80% UK secured mortgages
- Robust and stable funding and liquidity position supported by successful deposit growth, relationship deposits 53% of deposits
- Continued wholesale issuance via well-established wholesale funding programmes and proven markets access.
- Resilient asset quality with further strengthening of provision coverage
- Strong capital base and returning to target CET1 range by end of FY24

Asset Quality

£526m
Total Credit Provisions

72bps
Coverage Ratio

97%
Stage 2 Balances <30DPD

1.5%
Stage 3 balances as % of book

Capital & Leverage[1]

14.7%
CET1 Ratio

13-13.5%
CET1 target range

31.0%
MREL Ratio

5.0%
UK Leverage Ratio

Liquidity & Funding

153%
Liquidity Coverage Ratio

108%
Loan to Deposit Ratio

72%
of Total Deposits Insured

136%
NSFR

Sustainable Impact

AA Leader
MSCI

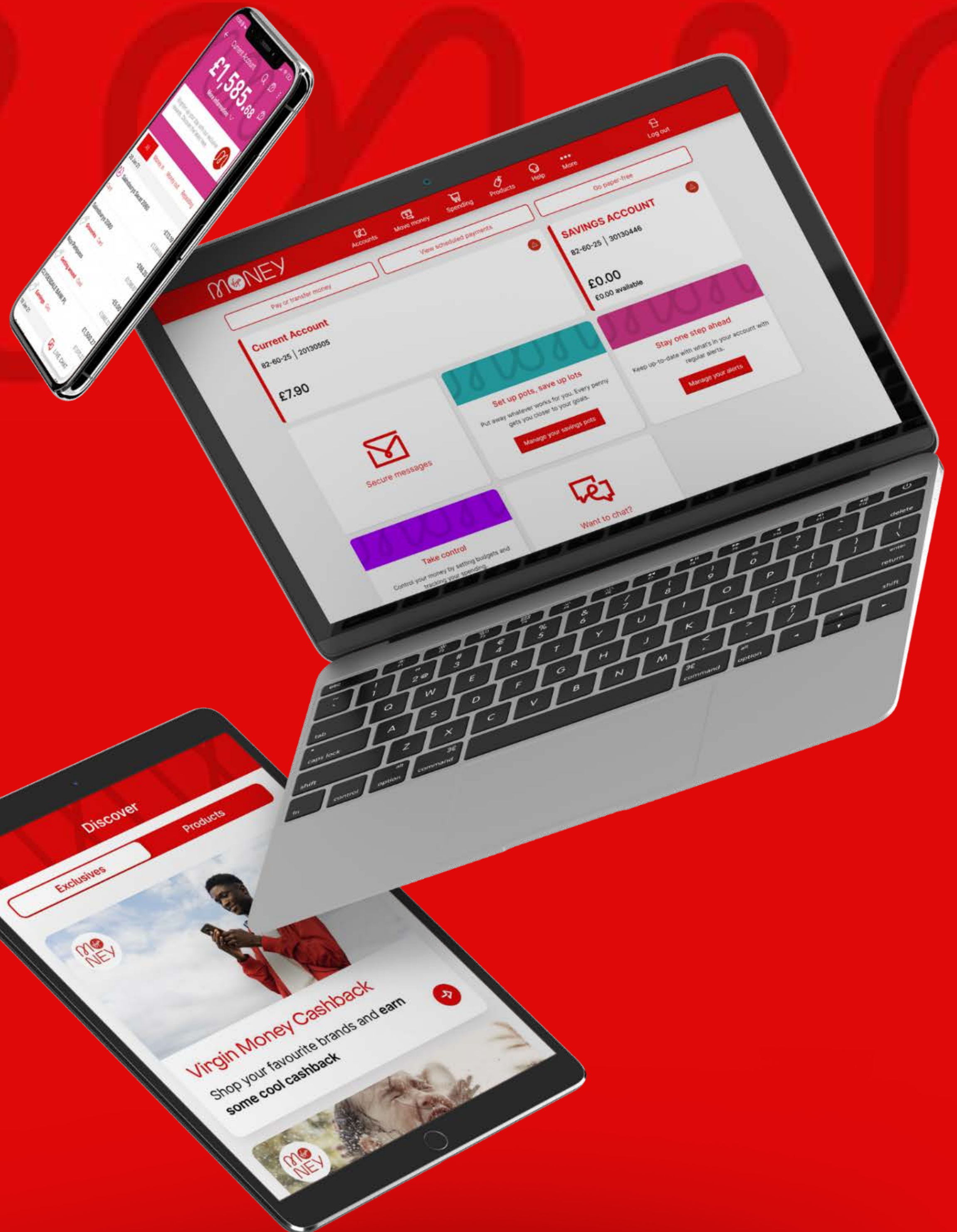
18.1 Low Risk
Sustainalytics

51/100 Robust
Moody's ESG Solutions[2]

2030
aspiration for net zero operational and supplier carbon emissions

[1] IFRS 9 transitional basis [2] Formerly Vigeo-Eris (V.E)

Q&A


Current Account
£7.90
SAVINGS ACCOUNT
£0.00
Set up pots, save up lots
Stay one step ahead
Secure messages
Want to chat?
Take control
Discover
Products
Exclusives
Virgin Money Cashback
Shop your favourite brands and earn some cool cashback

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Appendix

Virgin Money has 180 years of banking expertise

Customer focused, UK retail bank with a refreshed strategy

CYBG (now VMUK) acquired Virgin Money in 2018

6th largest bank in UK

c.6.6m customers

Total assets of £92.5bn

Strong customer proposition with a highly trusted brand

Part of the wider Virgin family

Group-wide loyalty and rewards programme

Iconic Virgin brand with widespread awareness

National coverage and scale with innovative digital platform

National coverage with complementary presence

Delivering retail and SME customers an innovative digital platform

Automation of key customer journeys

Wide range of retail and business products

Customer Lending mix:

- 80% mortgages
- 12% business
- 8% personal

Customer deposits of £67.0 billion

Loan to Deposit ratio of 108%

Issuing entity structure

External Investors

↑

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

Virgin Money UK PLC
(Holding Company)

↑

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

Clydesdale Bank PLC
(Operating Company)

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

↓

External Investors

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

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

Delivering on our strategy: a more digital, cost-efficient bank

Customer and propositions – digitisation and improvement

	FY21	By FY24	H123 progress
Customer interactions	70% voice	80% digital	**44% voice**
Fully digitised key customer journeys	27%	100%	**44%**
PCA digital adoption	62%	>80%	**69%**
# non-digital accounts	1.3m	Low	**0.8m**
Mortgage application automation	Limited	100% digital	**Now expected 2024**
Service centres	6 Voice-led	Fewer, digitally-led	**5 service centres**

Colleagues and digital – productivity and agility

	FY21	By FY24	H123 progress
Colleague interfaces	Multiple	Single sign on	**Underway**
Property footprint	c.900k sq ft	c.300k sq ft	**c.450k sq foot**
Branches	162[1]	Fewer, digitally-led	**130**
Data Centres	6	2	**1st exits FY24**
Infrastructure in Cloud	c.5%	c.75%	**Migration starts FY24**
IT delivery lead time	13 weeks	6 weeks	**10 weeks (new Agile projects)**

£93m of cumulative annualised gross cost savings at H123; will deliver c.£175m by FY24

Progress made in supporting a more sustainable future

Goals	Principles	2030 aspiration	Highlights
Put our (carbon) foot down	Reduce the negative impacts of our operations, suppliers and partners on society and the environment	Net zero operational and supplier carbon emissions	✓ Achieved 12% reduction(1) in Scope 1 and 2 emissions ✓ Ongoing work to define and calculate operational scope 3 emissions and deep-dive into emissions data from largest emitting Business customers
Build a brighter future	Deliver products and services that help our customers make a positive impact on society and the environment	At least 50% reduction in our carbon emissions across everything we finance	✓ Enhanced Sustainable Business Coach data capture and reporting functionality ✓ On track for 6% Sustainability Changemakers(2) at FY ✓ Committed to extend Mortgages Green Reward for a further 7 months
Open doors	Work with customers, colleagues & communities to encourage sustainable practices & economic activity that creates shared prosperity	No VM customers pay a Poverty Premium Fully diverse top-quartile of the organisation	✓ Turn2us benefits calculator used by c.29k people identifying >£1.7m of benefits(3) ✓ Launched National Databank partnership with Virgin Media, O2 & Good Things Foundation ✓ Expanded Macmillan Guide population across stores network and delivered enhanced vulnerability training to front line colleagues
Straight-up ESG	Align our strategic goals to ESG and embed them in all areas of the business with robust targets, tracking and disclosures	Variable remuneration linked to ESG progress	✓ TCFD disclosure to be enhanced for FY23 reporting process ✓ Further development of Climate Risk stress testing models underway ✓ Modern Slavery statement annual refresh completed and uploaded

1 Annualised comparison 2 Businesses whose core activities are enabling consumers or other businesses to operate in a more economically and environmentally sustainable way 3 As at end Feb '23

Credit and ESG Ratings

Credit Ratings		Senior Unsecured	Issuer Credit Rating	Short-term	Tier 2	AT1	Outlook	Latest update
Moody's	VMUK	Baa1 (was Baa2)	**Baa1** (was Baa2)	P-2	Baa2 (was Baa3)	Ba1 (was Ba2)	Stable	June 2022
Standard & Poor's	VMUK	BBB-	**BBB-**	A-3	BB	B	Stable	March 2022
Fitch	VMUK	BBB+	**BBB+**	F2	BBB-	BB	Stable	July 2022

- FY22 upgrade from Moody's reflecting strong capital, funding & liquidity position underpinned by robust asset quality

ESG Ratings	Latest Score (↑ = FY22 move)	Scale	Rank	Latest update
Sustainalytics	**18.1** (was 25.7) ↓	**0-100** 0 as a best possible score	**Low Risk** (was Medium)	June 2022
MSCI	**AA** (was A) ↑	**AAA to CCC** AAA as a best possible score	**Leader** (was Average)	September 2022
Moody's ESG Solutions[2]	**51/100** (was 50/100) ↑	**100-0** 100 as a best possible score	**Robust**	April 2023

- Improvement in all ESG Ratings reflecting significant recent focus, including enhanced disclosures

[1] Long-term bank deposit rating [2] Formerly Vigeo-Eris (V.E)

Robust funding and liquidity position; defensive balance sheet

Resilient balance sheet: defensively positioned

- Strong CET1 ratio of 14.7%, MREL ratio of 31.0% vs. 25.6% requirement
- Robust provision coverage at 72bps, well provided for economic downturn
- Defensively positioned book, skewed to low-risk mortgages
- Prudent underwriting and skew to affluent customers in Unsecured
- Business lending weighted to sectors able to manage inflation risks

Deposit base: weighted to retail and insured

- 76% of customer deposit base weighted to retail deposits
- 72% of total deposits insured under FSCS
- 79% of PCA customers with balances <£5k
- 65% of BCA customers with balances <£5k
- £1.7bn of total net deposit inflows in H1

Stable funding base

- NSFR stable at 136% at H1 (FY22: 136%), comparing well to peers
- High concentration of deposits from retail & small business customers
- Short term (<1 year) % of total debt securities in issue only 20%
- £7.0bn TFSME outstanding at H123 (£0.2bn was repaid during H1)
- Funding plan includes TFSME re-financing well ahead of contractual maturity

Liquidity: LCR and HQLA

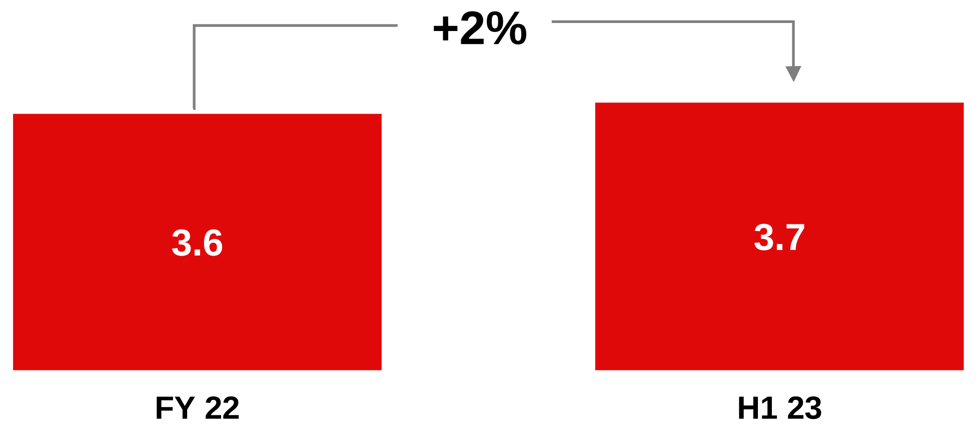
- LCR increased to 153% at H1 (FY22: 138%)
- c.£14bn HQLA is 80% cash / gilts & 20% AAA rated investment securities
- All investment securities are hedged for interest rate, inflation and FX risk
- All investment securities held at FVOCI – FV movements in CET1 resources
- Additional c.£5bn of secondary liquidity

Strong retail deposit base underpins robust funding and liquidity position

Growth in active relationship customer accounts

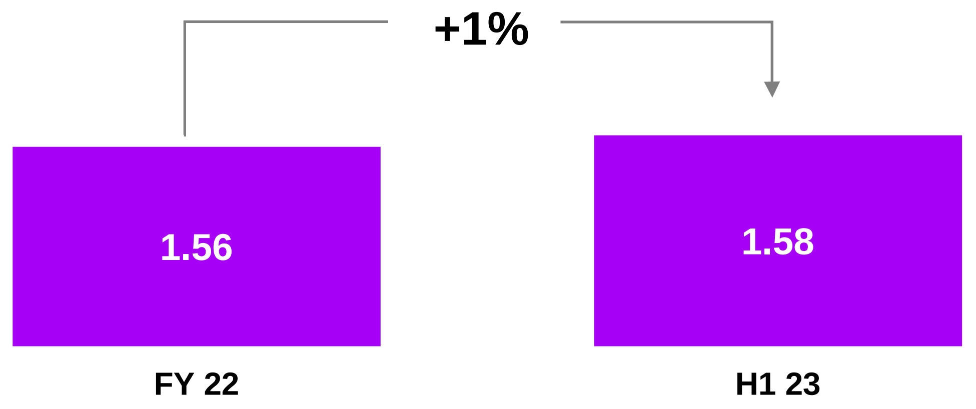
Total active relationship customer accounts[1]

Active accounts
m



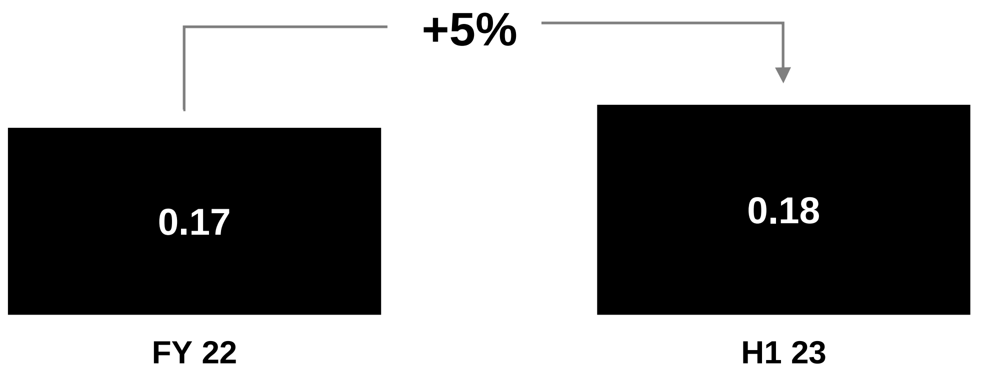
Personal Current Accounts

Active accounts (transaction in last 12m)
m



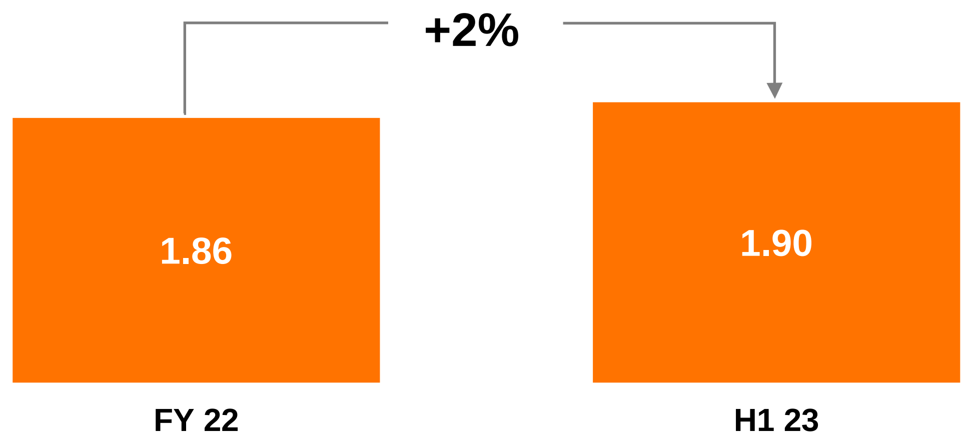
Business Current Accounts

Active accounts (transaction in last 12m)
m



Credit Cards

Active accounts (balances >£0)
m



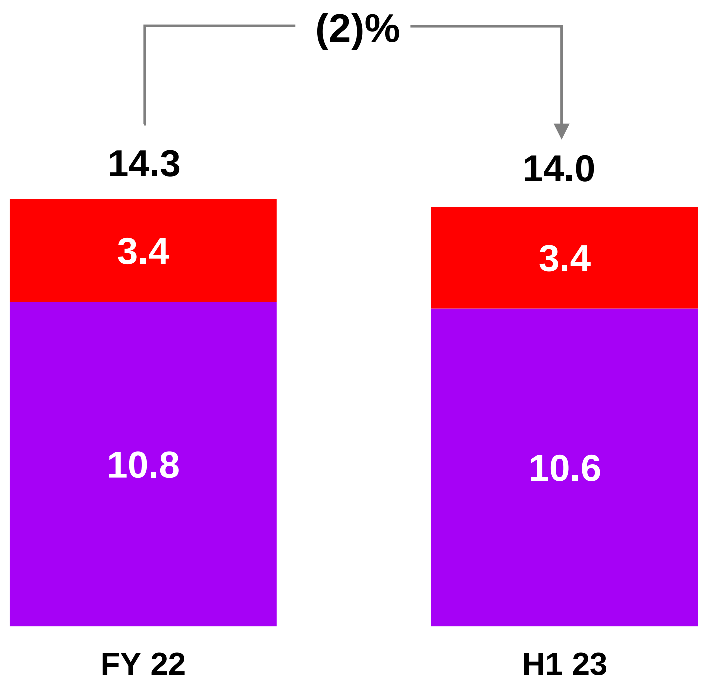
VIRGIN MONEY UK

1 Defined as active PCA, BCA and Credit Card accounts

Overall growth in relationship deposits

Business

Relationship deposit balances
£bn

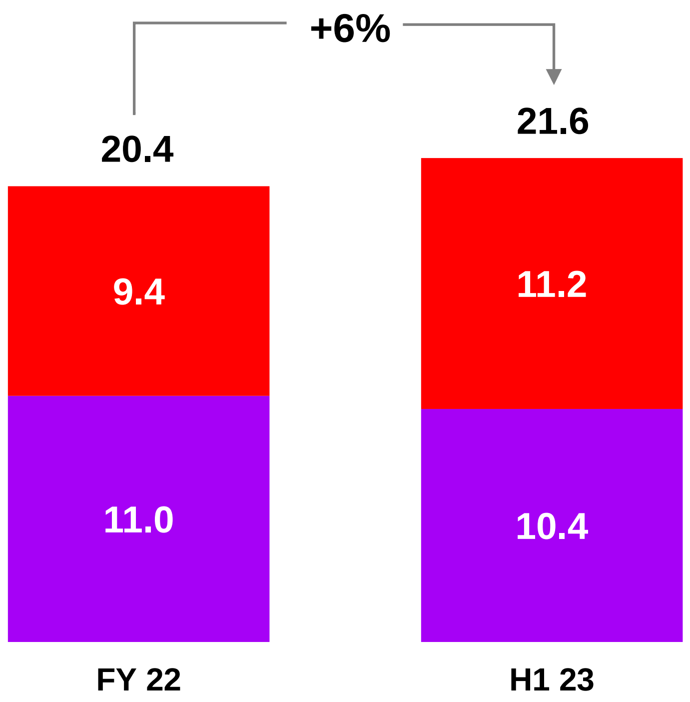


	FY 22	H1 23
Cost (bps)	51[1]	146

Business Current Accounts BCA Linked Savings

Personal

Relationship deposit balances
£bn



FY 22	H1 23	
62[1]	128	Cost (bps)

Personal Current Accounts PCA Linked Savings

[1] H2 22

Updated IFRS9 scenarios & weightings; supplemented by overlays

Updated economic scenarios

Scenario	Measure[1]	2023	2024	2025	2026
Upside 10%	GDP	1.3%	3.5%	3.3%	2.7%
	Unemployment	4.1%	4.0%	3.8%	3.7%
	HPI	(5.4)%	(1.6)%	4.1%	6.6%
Base 60%	GDP	(0.4)%	1.5%	2.5%	2.3%
	Unemployment	4.2%	4.3%	4.0%	3.8%
	HPI	(8.1)%	(3.8)%	2.0%	6.1%
Downside 30%	GDP	(4.2)%	(2.2)%	1.6%	1.9%
	Unemployment	4.9%	6.4%	7.2%	7.2%
	HPI	(15.1)%	(11.5)%	(6.0)%	4.2%
Weighted average	GDP	(1.4)%	0.6%	2.3%	2.2%
	Unemployment	4.4%	4.9%	4.9%	4.8%
	HPI	(9.9)%	(5.9)%	(0.2)%	5.6%

Provision coverage supplemented by management adjustments

	Sep-22 ECL	o/w MA	Mar-23 ECL	o/w MA	Change in MAs
Mortgages	£56m	£34m	£59m	£31m	£(3)m
Unsecured	£284m	£32m	£355m	£24m	£(8)m
Business	£117m	£18m	£113m	£16m[2]	£(2)m
Total	**£457m**	**£85m**	**£526m**	**£72m**	**£(13)m**

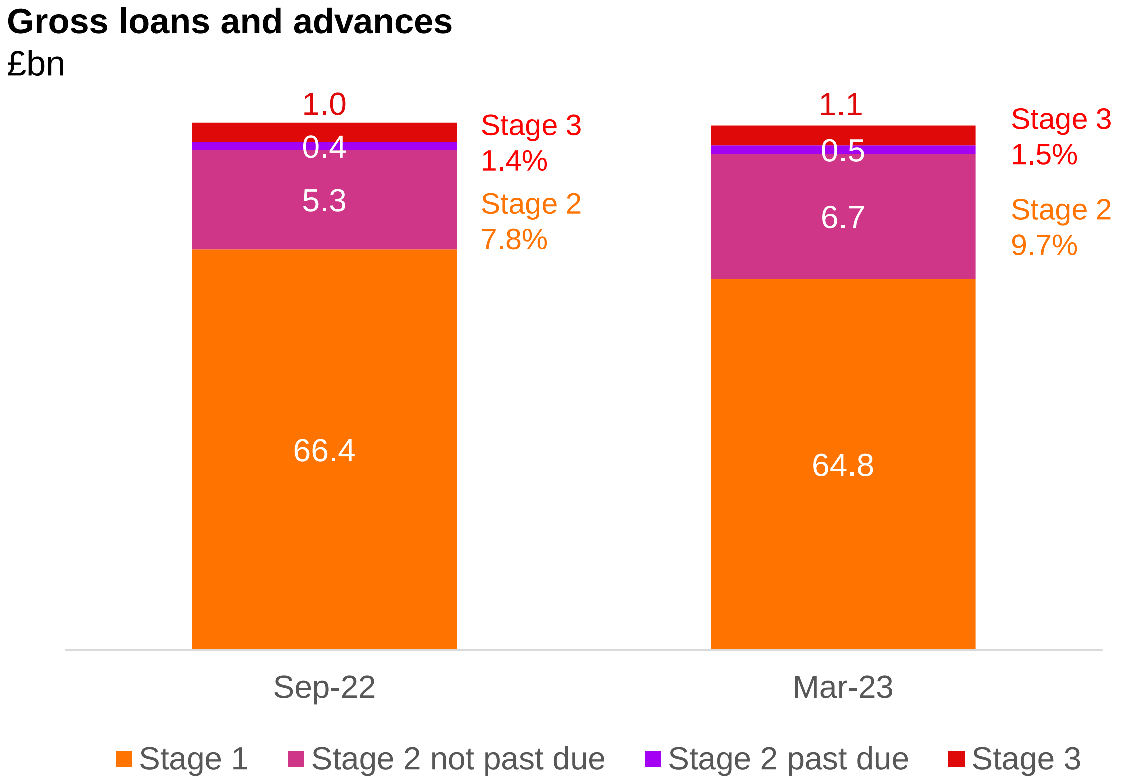
- Remain well positioned given uncertain economic environment
- Higher ECL results in further increase in coverage (now 72bps)
- Increase in Unsecured ECL reflective of higher modelled ECL, net of reduction in Management Adjustments (MAs)
- Reduction in MAs reflective of risks being better reflected in modelled outcome, given updated macroeconomics and bureau data

Source: Oxford Economics (February 2023) and company data

[1] GDP (yoy %), Unemployment (average), HPI growth (Q4 to Q4); [2] Reflects net MA position, including removal of £15m negative MA in H1 for LGD model changes, now reflected in modelled outcome

Resilient asset quality and improved provision coverage

Stage 2 increased; Stage 3 proportion unchanged



- Stage 2 increase mainly reflects stage migration in Unsecured, primarily reflective of refreshed MES and latest bureau indicators
- Stage 3 remained broadly stable at 1.5%; 94% of Stage 2 balances are not past due (FY22: 93%)

Provision coverage remains strong

	Sep-22 Coverage Ratio	Mar-23 Gross Loans	Mar-23 ECL	Mar-23 Coverage Ratio	H123 Cost of Risk
Mortgages	9bps	£58.0bn	£59m	10bps	1bps
Unsecured	466bps	£6.5bn	£354m	575bps	410bps
o/w cards	*481bps*	*£5.6bn*	*£319m*	*602bps*	*470bps*
o/w loans & overdrafts	*388bps*	*£0.9bn*	*£35m*	*412bps*	*56bps*
Business	159bps[1]	£8.5bn	£113m	145bps[1]	34bps
Total	**62bps**	**£73.0bn**	**£526m**	**72bps**	**40bps**

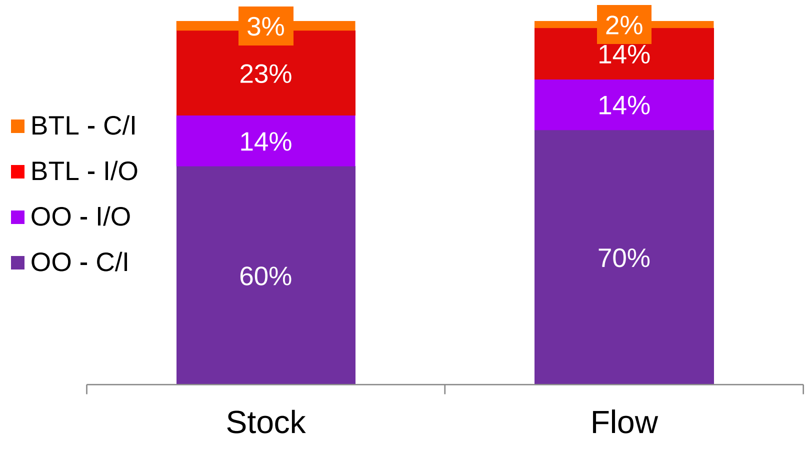
- Refreshed economics reflect updated economic outlook, driving higher modelled ECL
- Arrears have increased from low pandemic levels, and are anticipated to increase further, as is reflected in stage migration and higher coverage levels
- Cost of risk 40bps in H1; expect c.35-40bps for FY23

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

Mortgages: Low LTV, high quality portfolio

Prime mortgage book weighted towards owner occupied

Repayment and borrower profile (H1 23)



A prime book, originated under the highest standards

- Consistent, post-MMR prudent underwriting; prime-focused mortgage book
- Appropriate, tailored buffers for living costs in affordability assessment
- Majority of mortgage stock underwritten at SVR+3% allowing rate headroom
- c.10% of the mortgage book has a maturing fixed rate in H2 23

Owner-occupied (74%)

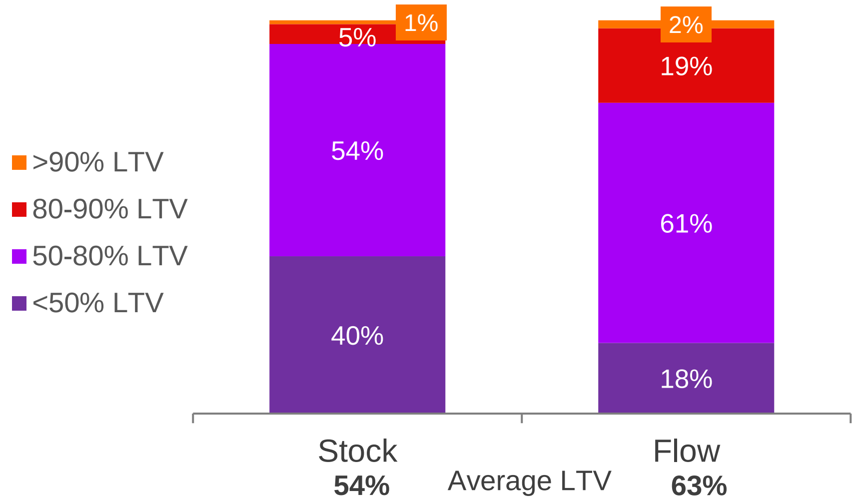
- Average LTV is 54.3%; 1.3% is >90% LTV
- Prudent average LTI; <3x in 2022
- Arrears lower than industry (0.5% v 0.8%[1])

Buy-to-let (26%)

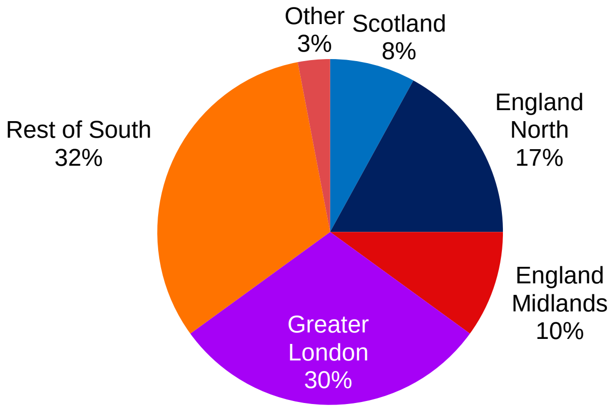
- Average LTV is 53.5%; max LTV of 80% for new lending
- Conservative rental income and borrower affordability requirements
- Arrears lower than industry (0.2% v 0.4%[1])

Low LTV and geographically diversified

Loan-to-value of all mortgage lending (H1 23)



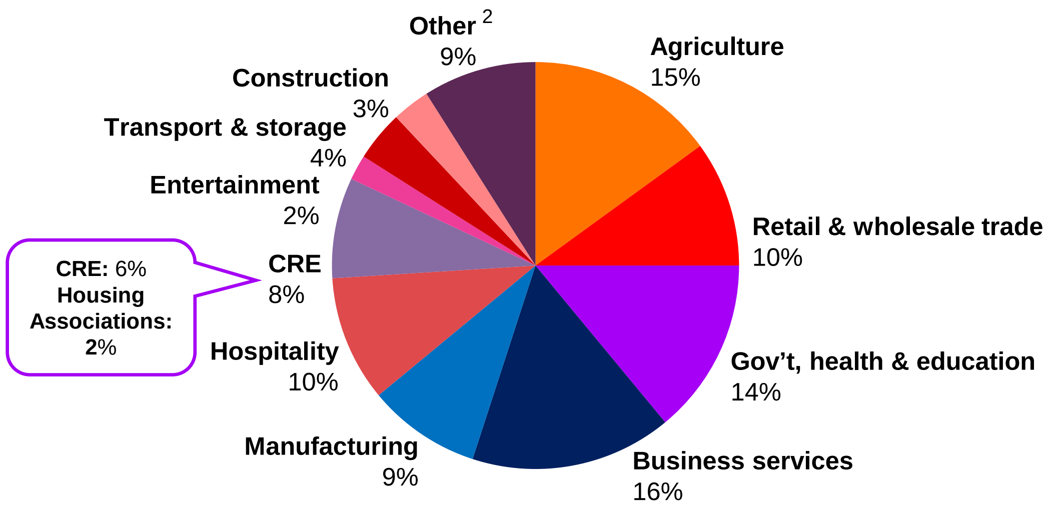
Mortgage stock lending location[2]



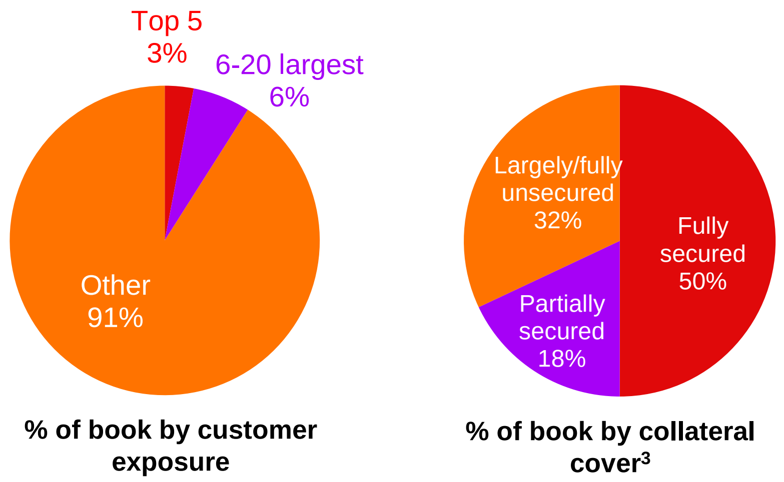
[1] Source: UK Finance average 3m+ arrears by volume as at Dec-22 [2] Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirements. Other includes Wales, Northern Ireland, Channel Islands and those new accounts where the region might be unknown until collateral matching has occurred

Business lending: Defensively positioned, granular book

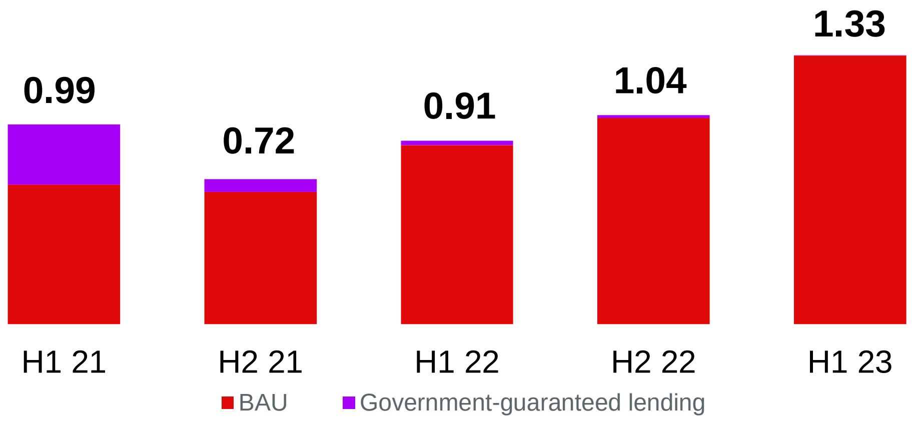
Business lending portfolio by industry sector[1]



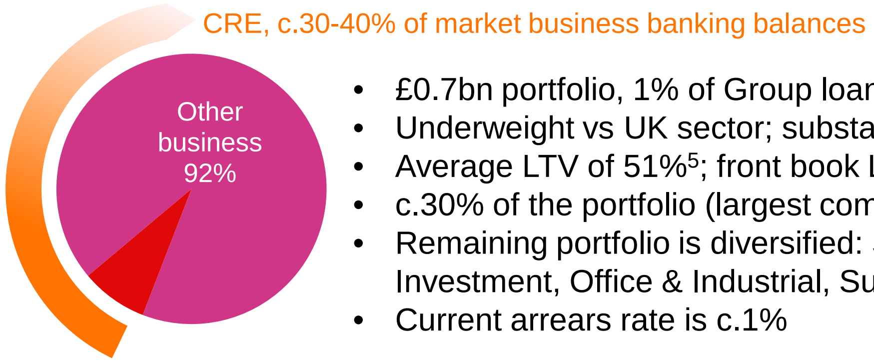
Business lending portfolio



Business banking drawdowns[4] (£bn)



Remain underweight Commercial Real Estate



- £0.7bn portfolio, 1% of Group loans, and c.1% market share
- Underweight vs UK sector; substantially de-risked post-GFC
- Average LTV of 51%[5]; front book LTV typically below 65%
- c.30% of the portfolio (largest component) is Social Housing
- Remaining portfolio is diversified: Student Accommodation, Resi Investment, Office & Industrial, Supermarkets, Healthcare
- Current arrears rate is c.1%

CRE 8% of VM business loans; (1% of total loans, c.1% market share of UK CRE)

[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 [5] Excludes housing associations

Unsecured: Performing resiliently, affordability tightened further

Affordability stress builds in resilience to higher living costs

Credit Cards:

- c.2m active accounts in total
- VMUK arrears at 1.6% (FY22: 1.3%) vs industry[1] of 1.7%; VMUK BT arrears of 1.5%; non-BT arrears of 1.9%
- Arrears increased modestly, expect continued trend higher near term; vintage performance continues to compare well to industry (see chart, right)
- Balance transfers c.2/3s (54% at 0%) of cards portfolio; c.20% balances maturing from promo periods in next 6 months
- Prudent approach to underwriting further strengthened by stressing affordability by assuming a fully drawn line at the maximum APR of 29.9%
- Diversification strategy continuing with 5.9% of new lending in H123 to customers with historic impaired credit, via appropriate pricing for risk
- Appropriate, tailored buffers for current and expected living cost increases are factored into affordability assessments

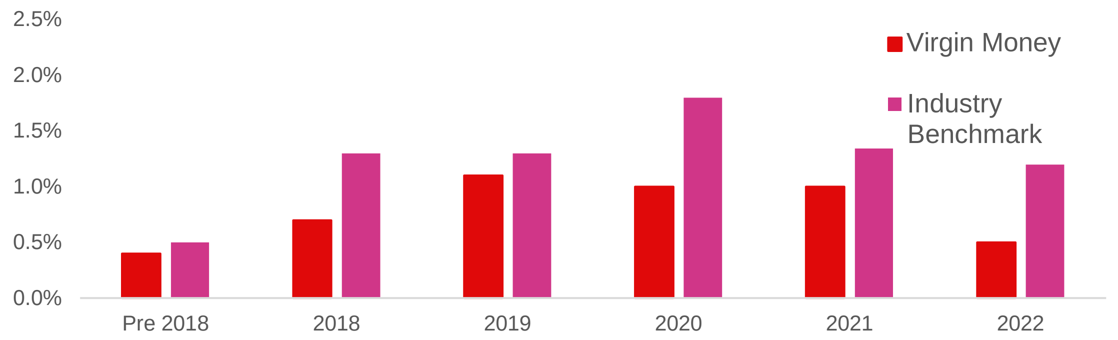
Personal Loans:

- c.83k direct customers, prime loan book
- Sales continue to remain only to existing customers; limited appetite for potentially lower resilience segments i.e. self-employed & higher indebtedness
- Strong customer profiles (c.79% homeowners and <4% self employed)
- Loan and overdraft 2+ arrears at 1.8% (FY22: 1.7%)

Above market portfolio quality; focused on affluence

Robust arrears performance: when benchmarked to industry

Benchmarked delinquency by vintage (no. of accounts 2+ in arrears), Q4-22



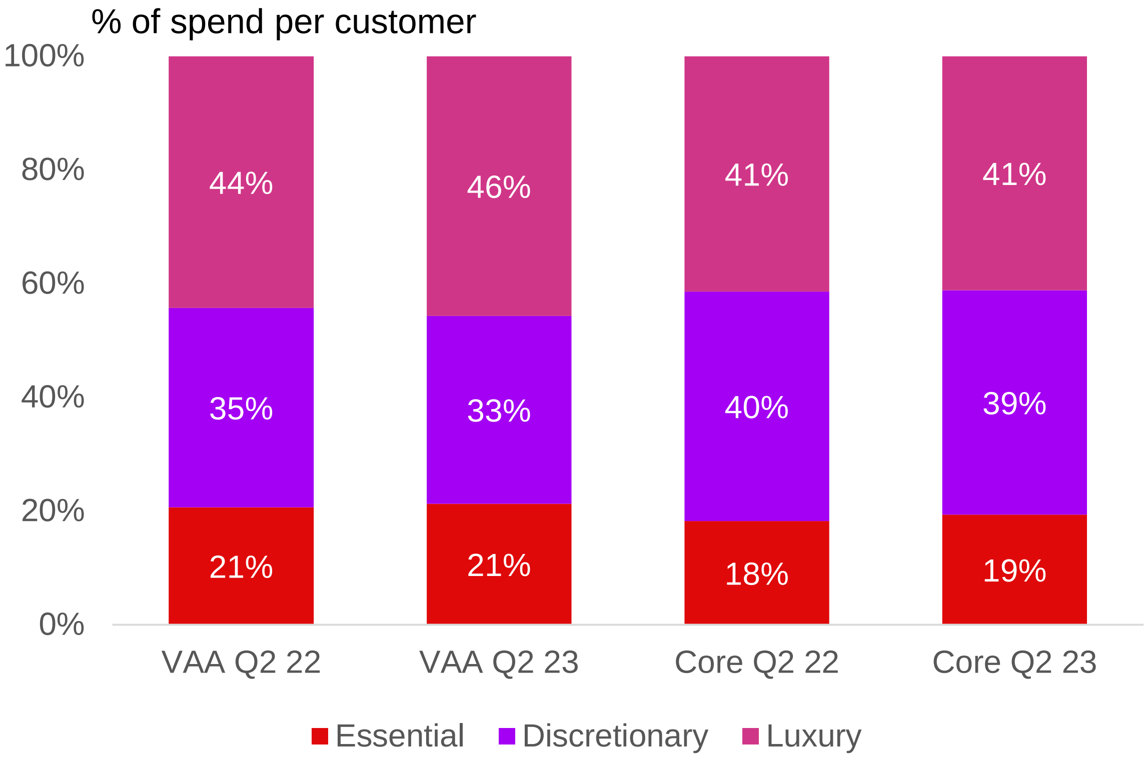
Source: Industry data Verisk Financial | Argus. Q4-22; Industry comparators covering c.90-95% of the UK cards market and verified vs. UK Finance published figures

Credit cards customer profile	VM[2]	Industry average[3]
Average customer age	42	
Average income	£42k	
% homeowners	70%	
% self-employed	10%	
% debt to income	27%	28%
% persistent debt	3.5%[4]	5.3%

[1] Arrears defined as no. of accounts 2+ cycles past due; Industry data Verisk Financial | Argus to Dec-22 [2] Customers originated through VM brand since 2015; data as at Mar-23 [3] Sources: TUC and Verisk Financial | Argus [4] Persistent debt reflects total combined portfolio; data as at Dec-22

Unsecured: spending, payments & underwriting support resilience

Spend tracking reflects affluence of customer base



- Consistent c.20% of cards spend across portfolios is on essentials
- 80% of spend on discretionary and luxury provides headroom for customer to reduce spending if required

Pre-emptive tightening of underwriting supports credit quality

Portfolio performance characteristics provide confidence

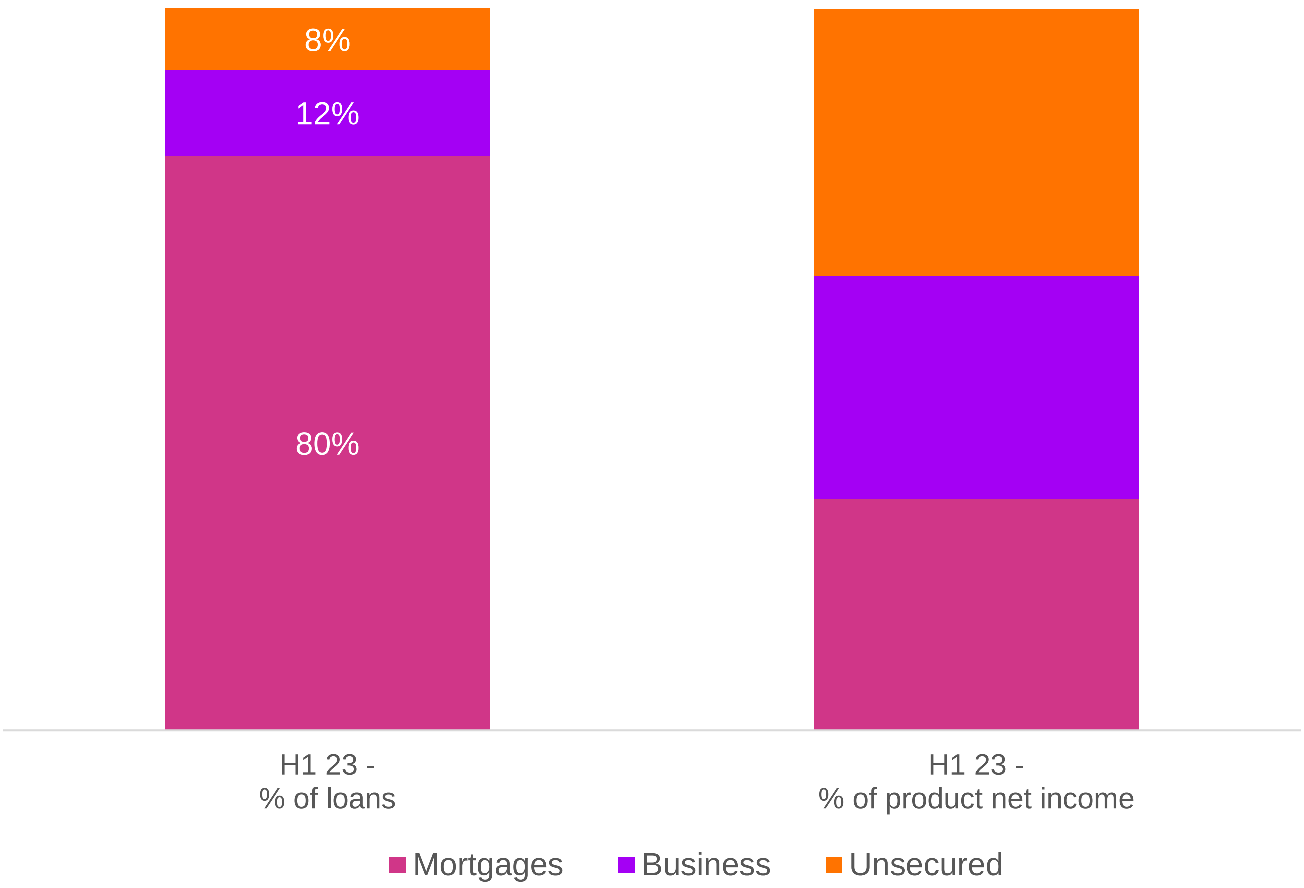
- Overall spend per active customer broadly stable YoY, despite inflation
- Customers continue to manage total outlays and adjusting behaviour
- Repayment rates stable; no signs of customers reducing repayments
- Performance as expected given affluent nature of customer base and significant affordability headroom built in through underwriting

Prudent, proactive management of risk over time

- Introduced risk based pricing at origination pre COVID
- Credit criteria tightened significantly during COVID, only normalised Sep-21; vintages written under these criteria expected to perform strongly
- Further tightening through 2022 and 2023 reflecting inflation, and squeeze on customer affordability
- Updated economic vulnerability segmentation to manage risk

Increasingly diversified income stream

Improving asset mix driving income growth

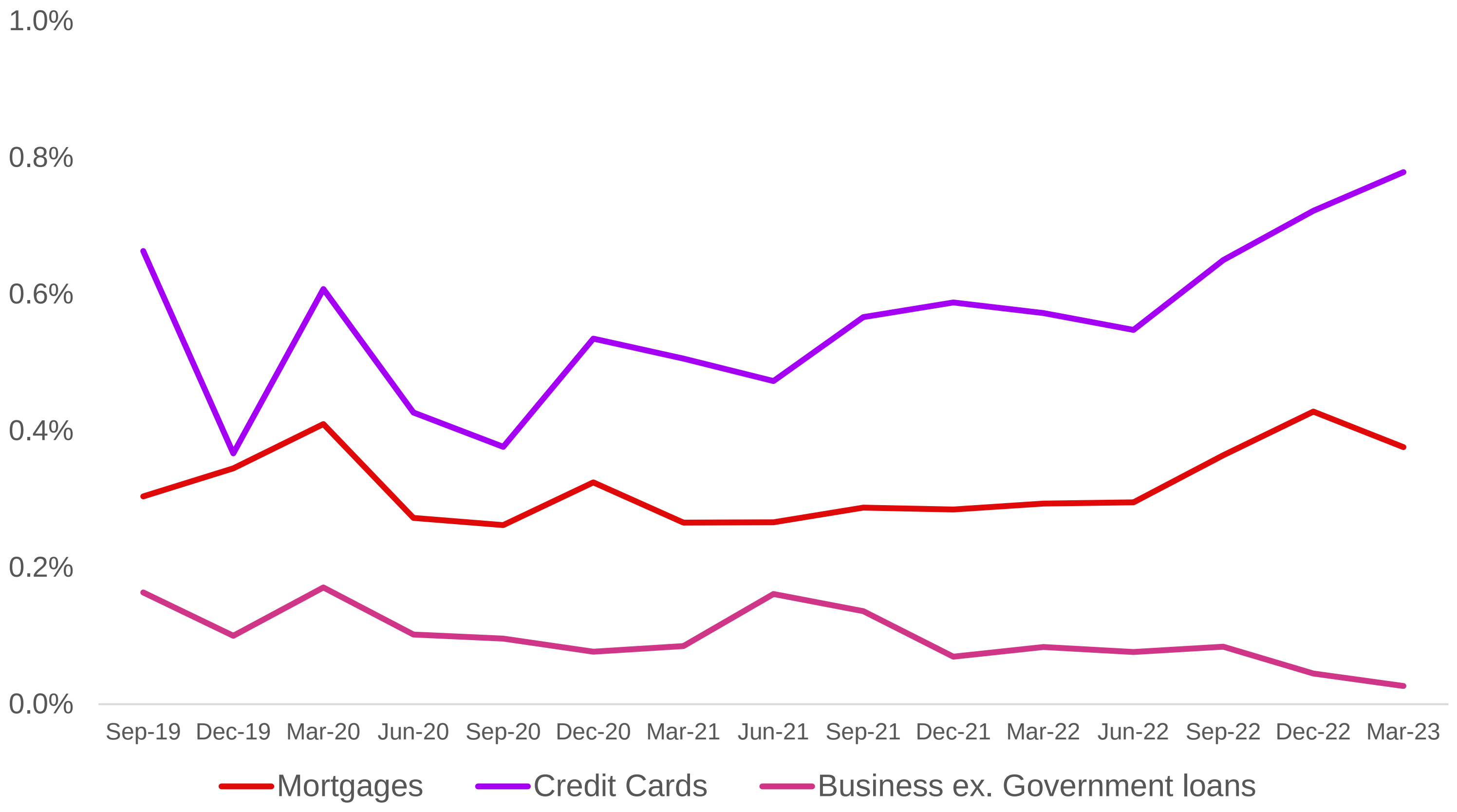


Diversifying income and lessening mortgage spread impact

- Strategy delivering stronger income mix shift through rebalancing
- Mortgages represent only 42% of all gross income (including liquid assets and swaps)
- Mortgages represent c.1/3 of asset income, post funding allocation
- Diversification therefore limits impact of reductions and pressure on mortgage spreads
- Group also seeing mortgage front book to back book delta narrowing, with back book now just over 100bps

Emerging arrears increased from post-COVID low levels

30-89 day arrears by portfolio

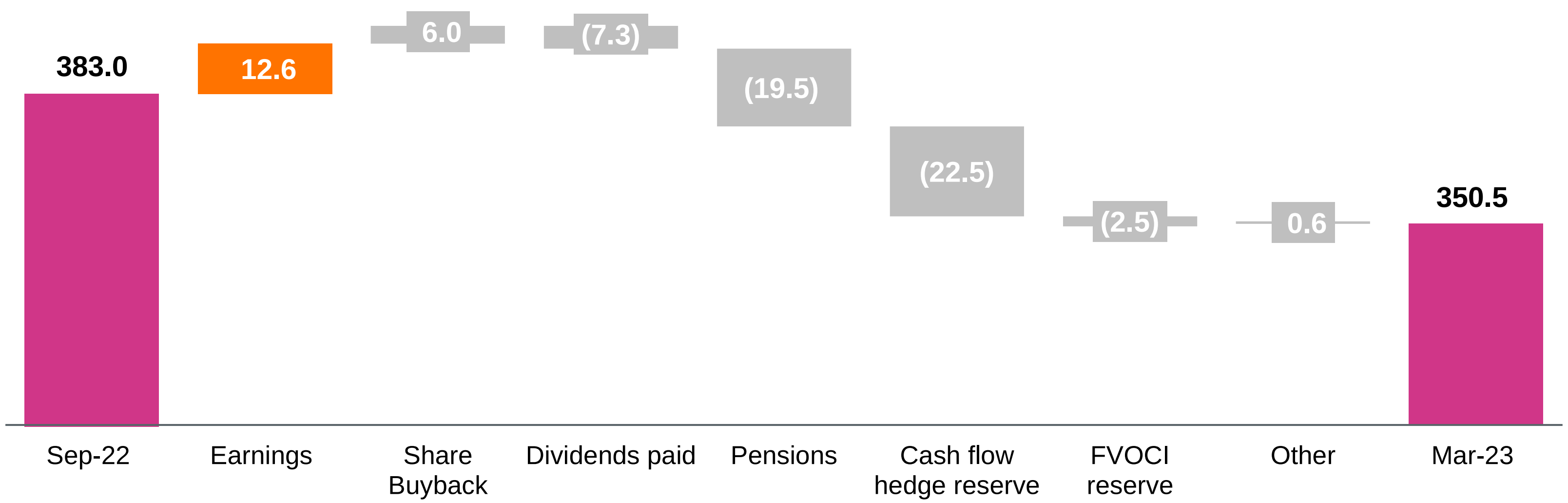


Emerging arrears show limited stress

- Arrears performance during the pandemic has reflected additional government support
- Increase in early arrears reflects normalisation, consistent with credit environment and expectations
  - Credit Cards – increase in early arrears, reflective of weaker credit environment
  - Mortgages – low emerging arrears, reflecting strong quality of portfolio
  - Business – low emerging arrears reflecting quality of portfolio and government support

TNAV dilution driven by CFHR and pension movements

TNAV evolution HoH (pence per share)



	Sep-22	Mar-23	Change	
Tangible Equity	£5,407m	£4,795m	£(612)m	£(318)m due to CFH reserve
Ordinary shares in issue	1,412m	1,368m	(44)m	Reflects impact of buyback
TNAV per share	**383.0p**	**350.5p**	**(32.5)p**	

Underlying dilution in TNAV per share

- TNAV reduced as accretion from earnings and share buyback offset by normalisation of cash flow hedge (CFH) reserve and lower pension surplus
- TNAV of 350.5p at H1 23 compares to 313.2p at H1 22, prior to rate volatility
- Group currently uses cash flow hedging as its main accounting strategy
- CFH currently net pay fixed reflecting structure of the balance sheet; high weighting to mortgages, lower structural hedge
- Group saw £689m increase in CFH reserve across FY22, leading to 47.7p of TNAV accretion in FY22
- As expected, CHR has partially unwound in H1 23 to £381m, due to lower rates and run-off, leading to a 22.5p reduction in TNAV
- Expect average balances in the CFH reserve to be c.£300m in FY24 given current maturity and rate profile
- A reduction in surplus on the pension reserve (from c.£650m after-tax at FY22, to c.£400m) also reduced TNAV during the period (no impact on CET1)

Balance sheet

£m

	at Mar 2023	at Sep 2022
Mortgages	57,687	58,155
Business	8,596	8,247
Unsecured	6,152	6,163
Total customer loans	**72,435**	**72,565**
Other financial assets	18,501	17,545
Other non-financial assets	1,560	1,797
Total assets	**92,496**	**91,907**
Customer deposits	67,030	65,360
Wholesale funding (excl. TFS / TFSME)	9,896	9,812
TFS / TFSME	7,000	7,200
Other liabilities	2,940	3,195
Total liabilities	**86,866**	**85,567**
Equity and reserves	5,630	6,340
Liabilities and equity	**92,496**	**91,907**

Risk weighted assets

£m

	at Mar 2023	at Sep 2022
Mortgages	9,359	9,155
Business	6,579	6,196
Unsecured	4,721	4,817
Other	1,040	914
Total credit risk	**21,699**	**21,082**
Credit valuation adjustment	183	258
Operational risk	2,623	2,623
Counterparty risk	198	185
Total RWAs	**24,703**	**24,148**
Total loans	**72,435**	**72,565**
Credit RWAs / total loans	**30%**	**29%**
Total RWAs / assets	**27%**	**26%**

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VIRGIN MONEY UK

Interim Fixed Income Presentation 2023