VIRGIN MONEY UK

Full Year 2022 Fixed Income Presentation


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At Virgin Money, we do things
About us

Financial Results

Richard Smith
Head of Investor Relations

Delivering our strategy to drive profitable growth

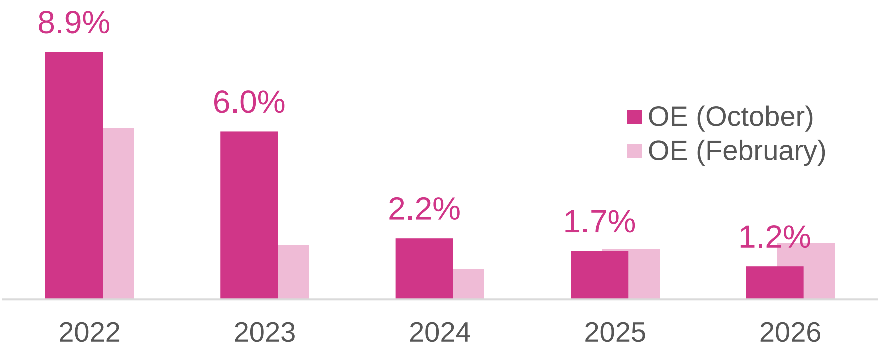
	FY22 achievements (✓= key guidance met)
Digitising the bank	• Delivered £69m of £175m FY24 target cost savings ✓ • Digital transformation on track
Showing earnings momentum	• Expanded FY22 NIM of 1.85% per upgraded guidance ✓ • Broadly stable costs delivered ✓
Delivering profitable growth	• Unsecured & BAU Business +7%; mortgage growth in H2 ✓ • 13% YoY growth in relationship deposits
Balance sheet resilience	• 7bp cost of risk per upgraded guidance ✓ • Robust provision coverage of 62bps; arrears remain low
Returning capital	• 15.0% CET1 ratio; Capital framework launched ✓ • 10p per share dividend; £125m buybacks launched

Delivering strong financial outcomes	Improved FY24 guidance
Statutory ROTE **10.3%** FY21: 10.2%	Statutory ROTE **c.11%**
Cost: income **52%** FY21: 57%	Cost: income **<50%**
Capital distributions announced **£267m** FY21: £14m	Return CET1 to target range

Uncertain economic outlook with higher inflation and interest rates

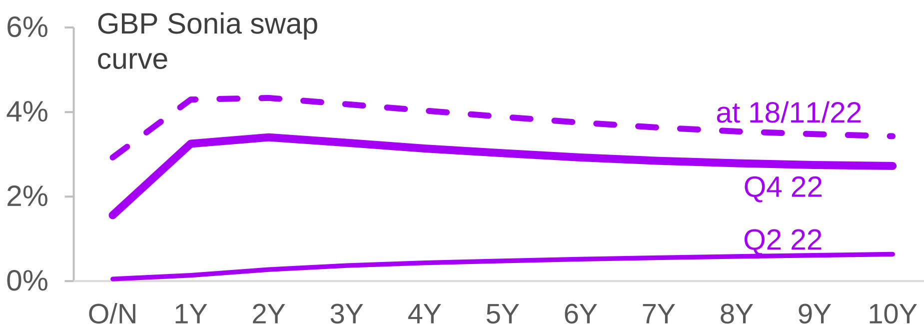
CPI
Sustained pick up in inflation

Higher prices



Source: Oxford Economics Base Case, October and February 2022

Rates
Significant yield curve shift supports income

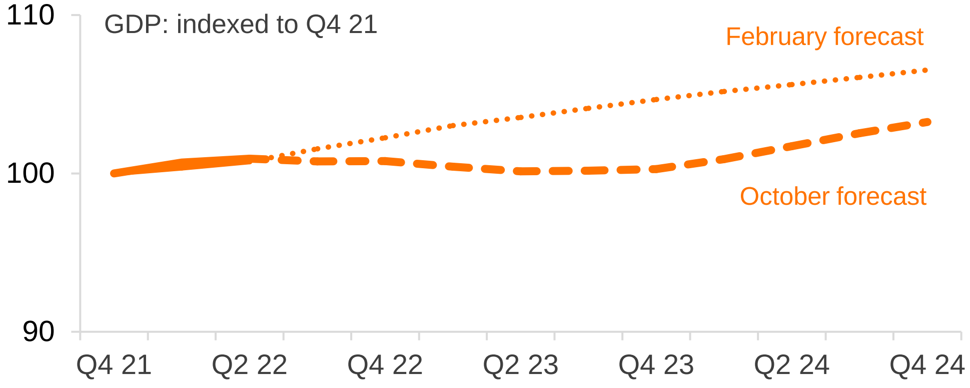


Source: Bloomberg; quarterly average unless stated (VMUK financial quarter)

Higher UK rate environment

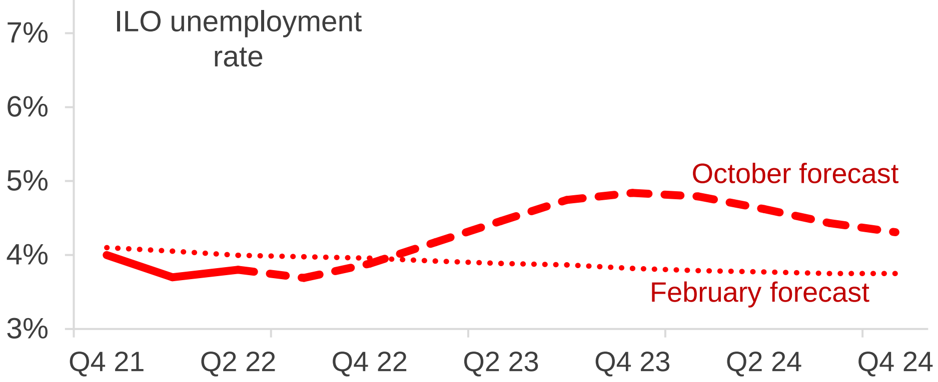
GDP
Further downgrades to the outlook

Recovery challenged



Source: Oxford Economics Base Case, October and February 2022

Unemployment
Predicted to increase, but remain low by historical standards



Source: Oxford Economics Base Case, October and February 2022

Resilient labour market

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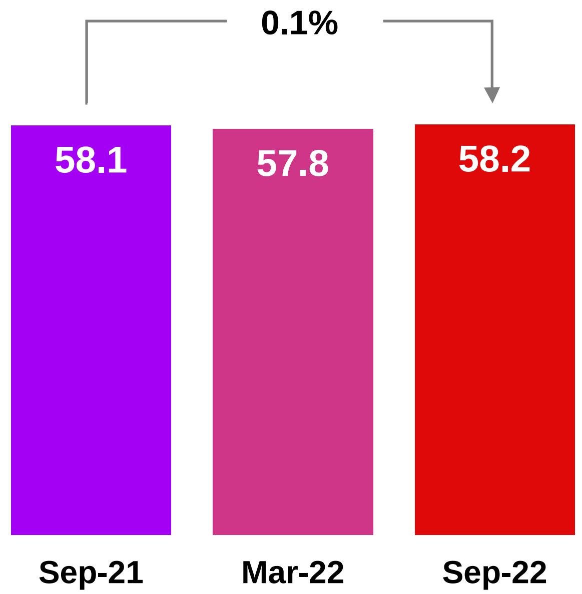
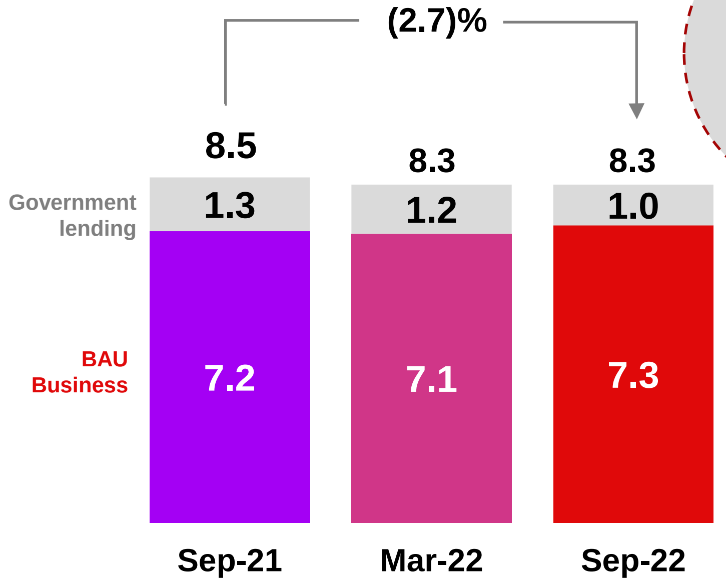
Delivering growth in target segments

Mortgages



Continue to be selective in pricing focusing on margin and credit quality

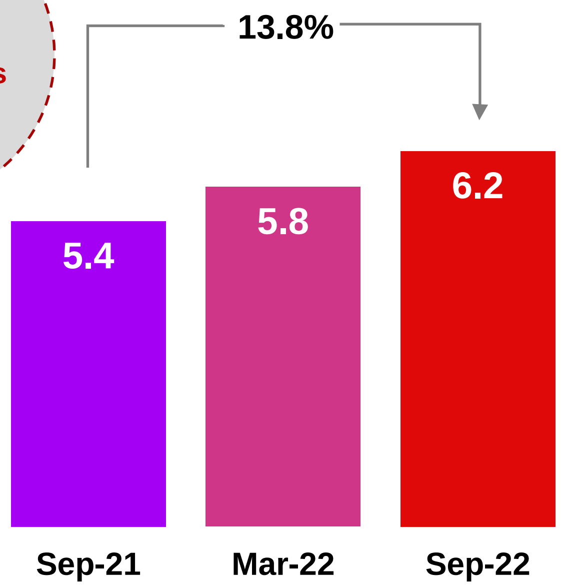
Business



7% growth across target segments of BAU Business Lending and Unsecured

BAU growth of 2% in FY22 offsetting run-off of government schemes

Unsecured

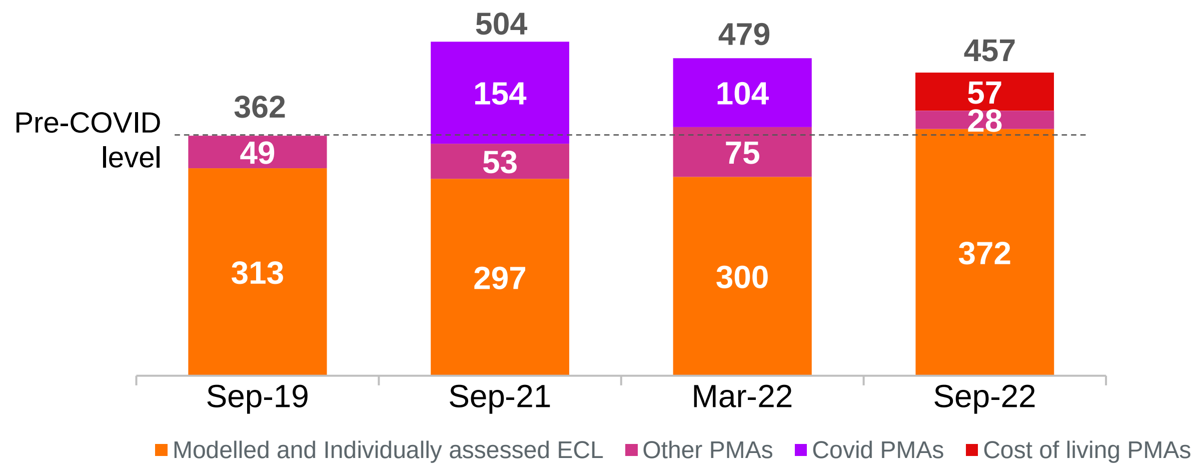


Growth in high quality Virgin Money credit card portfolio

Well provisioned for uncertain economic outlook

Prudent ECL and PMAs drive above pre-Covid provisions

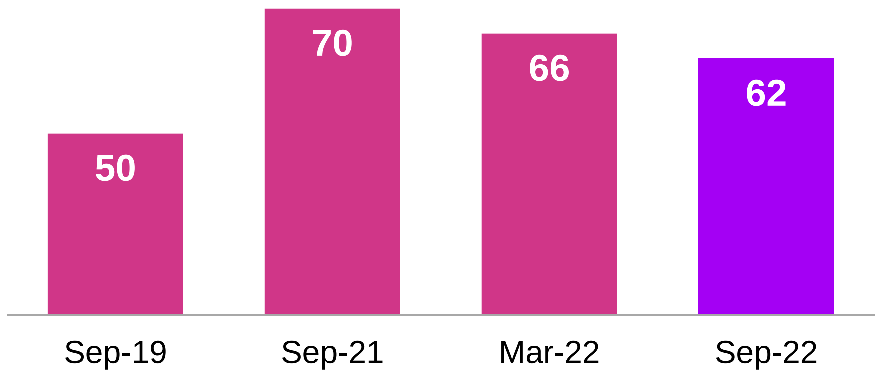
ECL - £m



- Worsening macro-economic forecasts drives c.£72m increase in modelled ECL from H1 22
- £154m of Covid-19 PMAs released during FY22
- For additional prudence, £57m total PMAs recognised to cover higher cost of living on retail portfolios and economic resilience for business

Prudent above pre Covid-19 provision coverage maintained

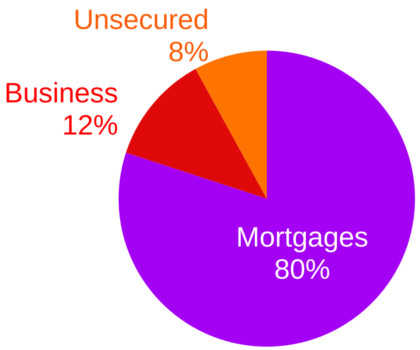
Coverage ratio - (bps)



- Robust coverage maintained, above pre-pandemic levels; asset quality across all portfolios remains robust
- 7bp cost of risk in FY22 reflects continued strong credit performance and release of Covid provisions
- In FY23 expect cost of risk around through the cycle level; of c.30-35bps

Well positioned balance sheet with tightened underwriting

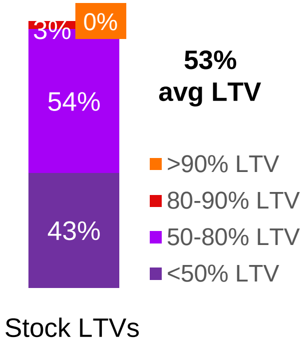
Portfolio: Defensively positioned book skewed to low-risk mortgages



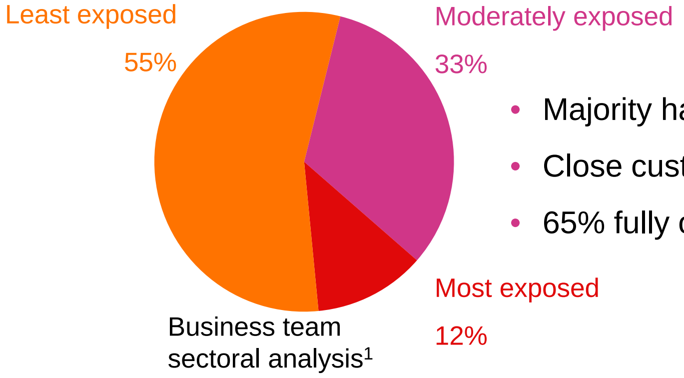
- Consistent, prudent risk appetite
- Targeted approach to growth; low arrears
- Resilient performances in recent stresses

Mortgages: prudent underwriting reduces refinancing risk

- Low-risk book; affordability stressed to SVR+3%
- Avg. LTI of 3.2x for OO and high ICR cover on BTL
- Low LTVs reflecting risk appetite and HPI



Business: Key sectors able to manage inflation



- Majority have passed cost increases into prices
- Close customer monitoring; no issues yet
- 65% fully or partially secured

Unsecured: Affluent customer base

- Further tightened underwriting since Covid-19
- Stress affordability of full credit line at 33.9% APR
- Spending remains skewed to discretionary items

VMUK Credit Card Customer demographics[2]

Average age	42
Average income	£42k
% homeowners	71%
% self-employed	9%
% debt to income	24%
% persistent debt	3.4%[3]

[1] Based on proprietary analysis by VMUK Business team, surveying 200 largest customers, accounting for over 1/3 of the book, see slide 30 [2] Customers originated through VM brand since 2015; data as at Sep-22 [3] Persistent debt reflects total combined portfolio; data as at Aug-22

Progress made in supporting a more sustainable future

Goals	Principles	2030 aspiration
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
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
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
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

Highlights

- ✓ Achieved 12% reduction in Scope 1 and 2 emissions
- ✓ Expanded scope and enhanced financed emission calculations (82% of lending)
- ✓ Net Zero targets and roadmaps for priority business and mortgage sectors
- ✓ 94 of Top 100 Suppliers completed CDP questionnaire

- ✓ Sustainable Business Coach embedded in new borrowing >£2.5m
- ✓ Launched Agri E Fund with no fee for lending supported by carbon audit
- ✓ Greener Mortgage product extended and Green reward launched
- ✓ £224m lending to energy and environment customers

- ✓ Poverty Premium Turn2us benefits calculator identified more than £1.1m of support
- ✓ Cost of Living Hub launched and taskforce established
- ✓ Bespoke account opening for Ukrainian refugees and donation to DEC
- ✓ c.40% colleagues involved in our six employee-run diversity and inclusion networks

- ✓ TCFD disclosure enhancements
- ✓ Upgraded to ‘Leader’ status in MSCI ratings and ‘Low Risk’ in Sustainalytics
- ✓ Climate Risk elevated to principal risk; Climate policy developed
- ✓ Materiality assessment confirmed ESG priorities of our stakeholders

Medium-term outlook upgraded

FY23 outlook	
NIM[1]	FY23 NIM expected to be 185-190bps
Cost: Income ratio	Expected to be c.50%
Cost of risk	In FY23, expect cost of risk around through the cycle level of c.30-35bps
Restructuring costs	c.£275m across FY22-24, with significant majority of remainder in FY23
CET1	Maintain CET1 >14% through FY23 during period of heightened macroeconomic uncertainty
Capital distribution	30% dividend payout; buybacks subject to ongoing assessment of surplus capital, market conditions and regulatory approval

FY24 outlook (subject to no material change in the macro-economic outlook)	
Income	Mix-driven NIM expansion; OOI to grow from digital proposition enhancements
Costs	Cost: Income ratio to be <50%
Growth	Targeting growth in Unsecured and Business (non-govt) 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	Expect c.11% Statutory RoTE in FY24, consistent with target of >10%

[1] Based on latest market-implied interest rate outlook post Autumn Statement, including BBR peaking at c.4.5% in FY23

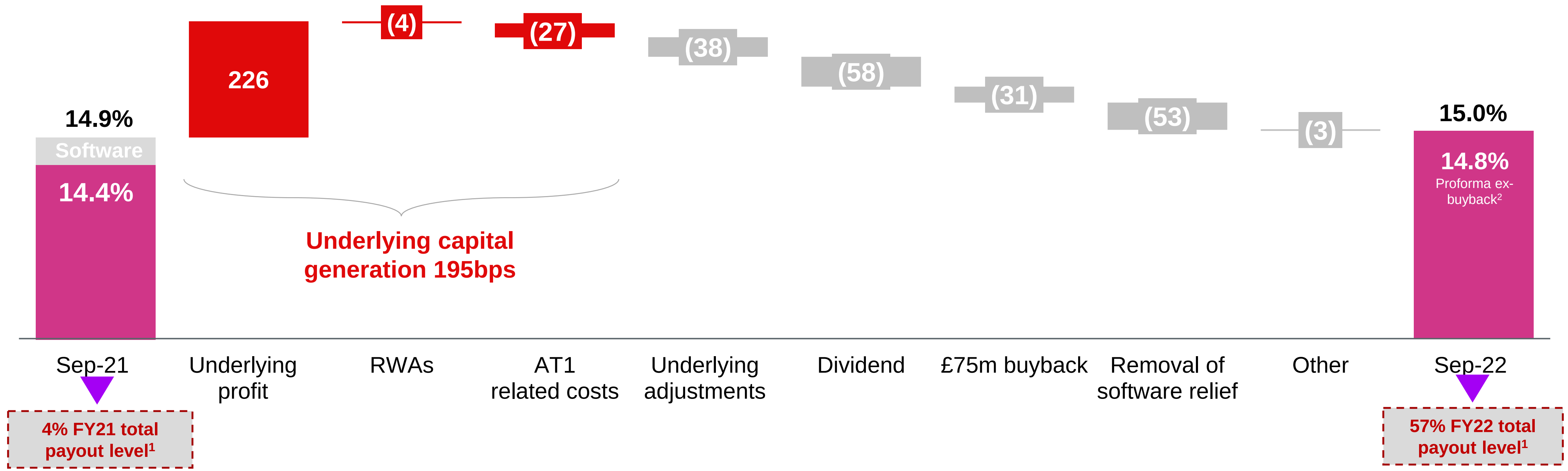
Capital, Funding & Liquidity

Justin Fox

Group Treasurer

Robust capital generation supports strong capital distributions

Transitional CET1 ratio evolution (bps)



22.0%	**Total capital ratio**	22.0%
5.2%	**UK leverage ratio**	5.1%
14.4%	**IFRS 9 Fully Loaded CET1 ratio**	14.6%
£24,232m	**RWAs**	£24,148m

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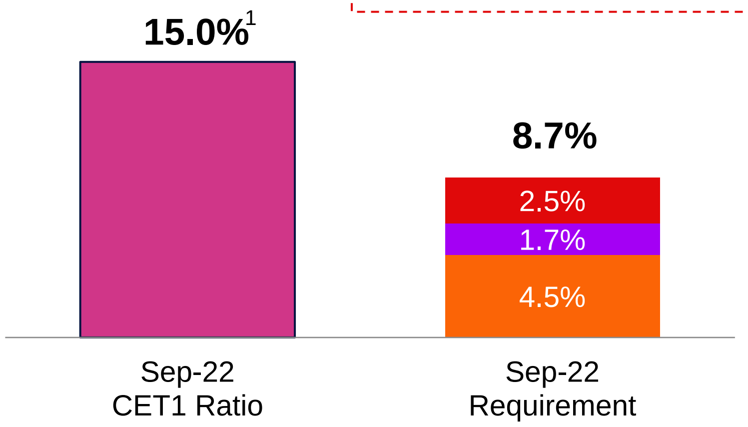
[1] Dividends and buybacks announced (including additional £50m) / Statutory Profit After Tax and AT1 distributions [2] After incorporating £50m buyback announced

Strong capital with significant buffers above regulatory minima

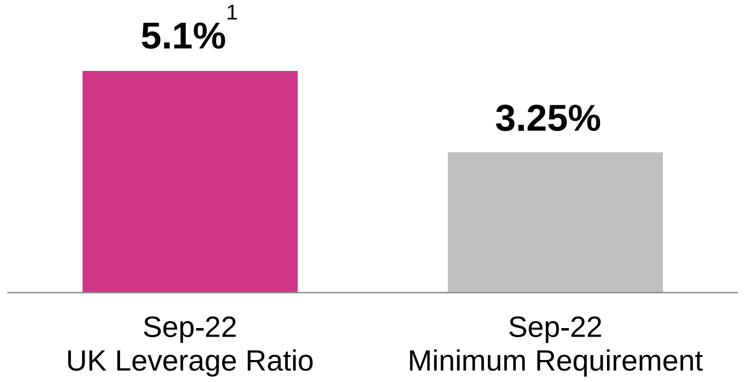
CET1

6.3% / c.£1.5bn buffer



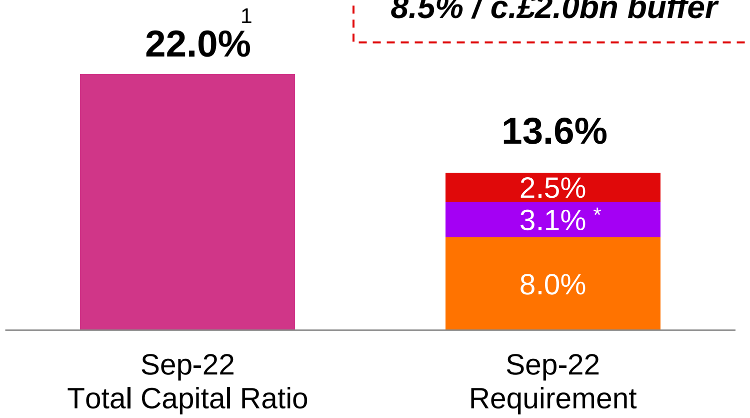
Leverage

1.88% / c.£1.6bn buffer



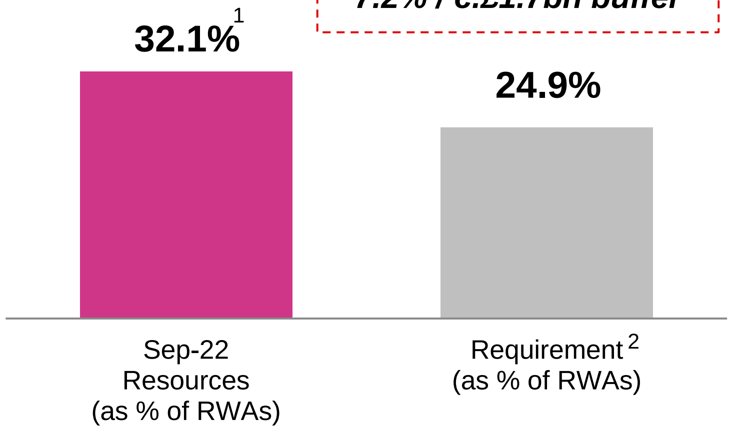
Total Capital

8.5% / c.£2.0bn buffer



MREL

7.2% / c.£1.7bn buffer



■ Pillar 1 ■ Pillar 2A ■ Capital Conservation Buffer

[1] IFRS 9 transitional basis

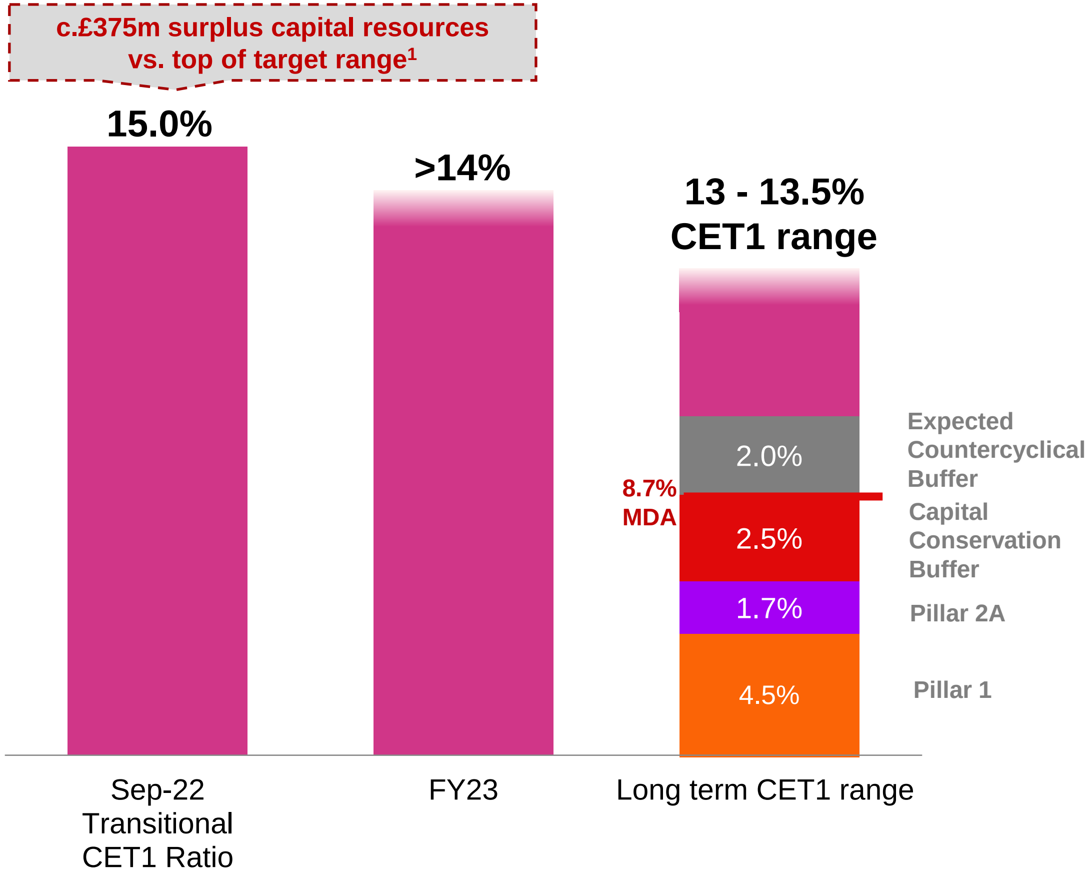
[2] The Group's loss-absorbing capacity requirement is the sum of its MREL plus any applicable buffers

* In October 2022, the PRA has advised the Group it will be subject to a Pillar 2A Total Capital requirement equivalent to 2.97%, of which 1.67% must be met with CET1

CET1 outlook – returning to target range by end FY24

Surplus capital resources available for growth and distribution

Not to scale



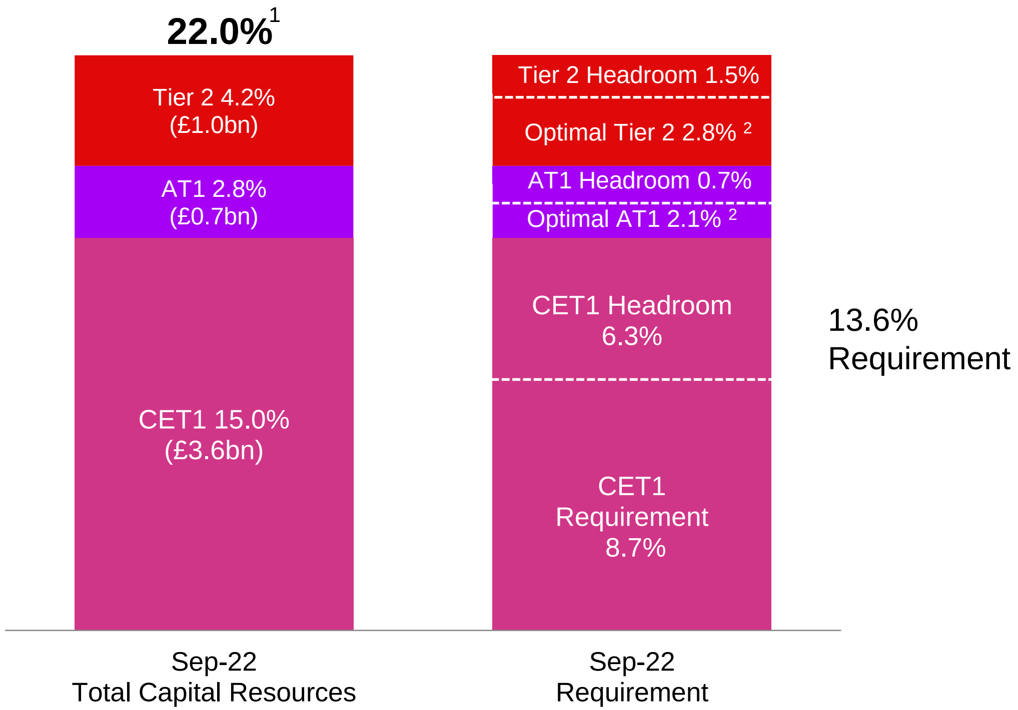
Capital framework supports ongoing distributions

- 10p FY22 dividend in line with 30% pay-out level
- Announcing £50m additional buyback, total of £125m announced
- Maintain CET1 >14% through FY23 during period of heightened macroeconomic uncertainty
- Given the timing of ACS stress test, the Group does not expect to announce further buybacks until Q4 23
- Return to target CET1 range by end FY24, assuming no material change in the economic outlook
- Expect c.£1-£1.5bn of additional RWAs for hybrid model implementation during H1 23
- Further capital distributions remain subject to approval and potential RWA headwinds:
  - Awaiting PRA Basel 3.1 consultation paper
  - Potential RWA migration depending on macro environment

[1] c.£375m is the surplus before deducting the additional £50m buyback announced at FY22

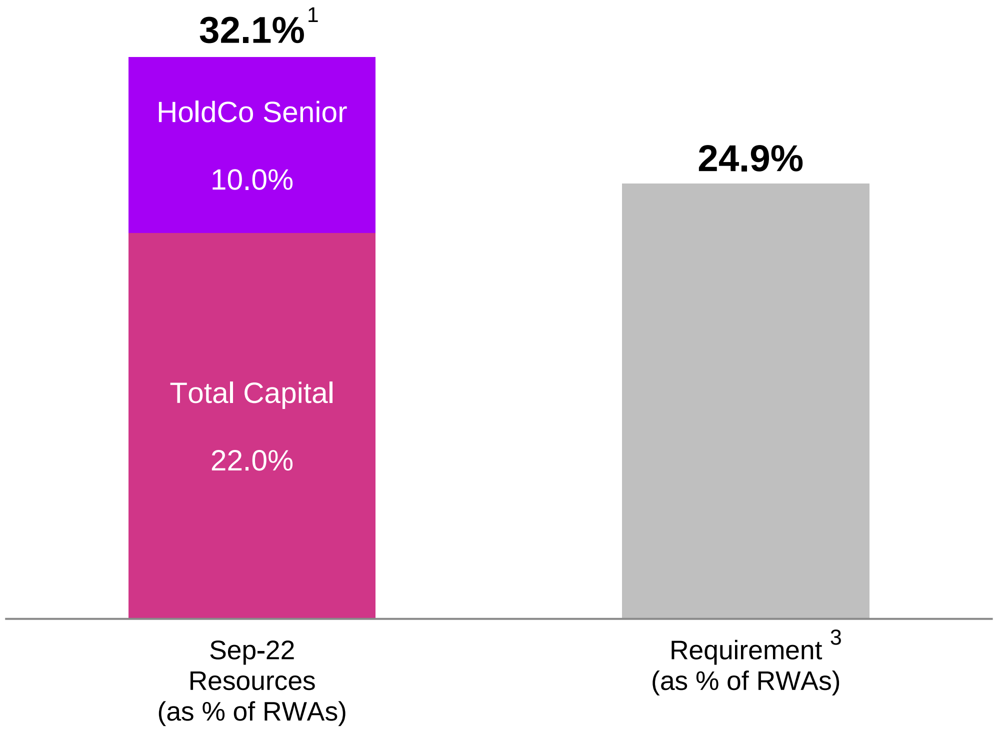
Well established capital stack

Capital stack breakdown



- Intend to manage AT1/Tier 2 buffers in an efficient manner while maintaining headroom above regulatory optimum levels

MREL significantly in excess of requirement



FY23 issuance plans:

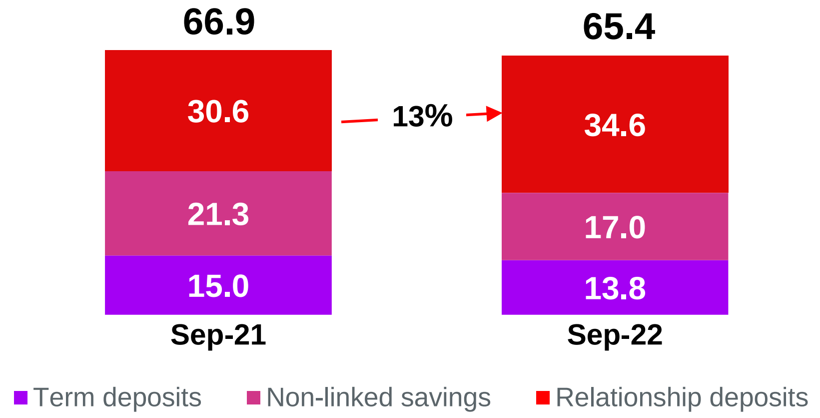
- No incremental capital issuance required given healthy Total Capital ratio – 2023 issuance will be broadly limited to refinancing
- HoldCo Senior issuance to remain broadly limited to maintaining current surplus to regulatory requirements

[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% [3] The Group’s loss-absorbing capacity requirement is the sum of its MREL plus any applicable buffers

Continued relationship deposit growth, optimising cost of funds

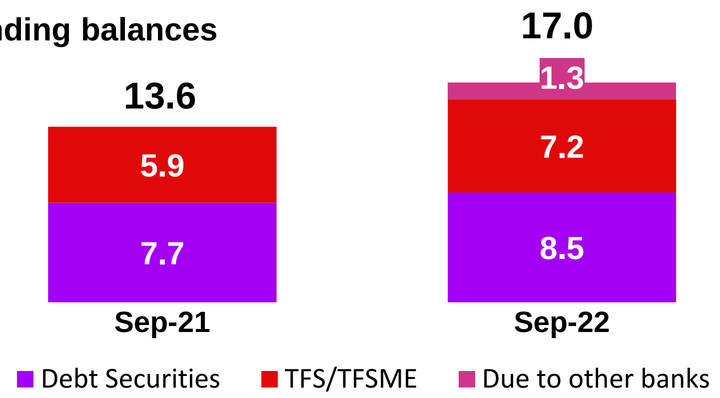
Strong growth in relationship deposits

Customer deposit balances
£bn



	Sep-21	Sep-22
Cost (bps)	53	53

Wholesale funding balances
£bn



	Sep-21	Sep-22
Cost (bps)	130	183

Optimised mix & maintained good access to wholesale markets

- Continuing to optimise funding mix with relationship deposits now 53% of total customer deposits (FY19: c.33%)
- Amidst a challenging environment, successfully issued c.£2.5bn of secured funding across our RMBS and Covered bond programmes in FY22
- As at FY22, the Group had £7.2bn of TFSME outstanding (£0.9bn qualifies for extension), with all TFS repaid. Represents 10% of lending
- Conservative repayment profile in advance of contractual maturity to manage refinancing risk
- Expect £1.5-2.5bn of secured issuance in FY23 subject to deposit flows and relative cost

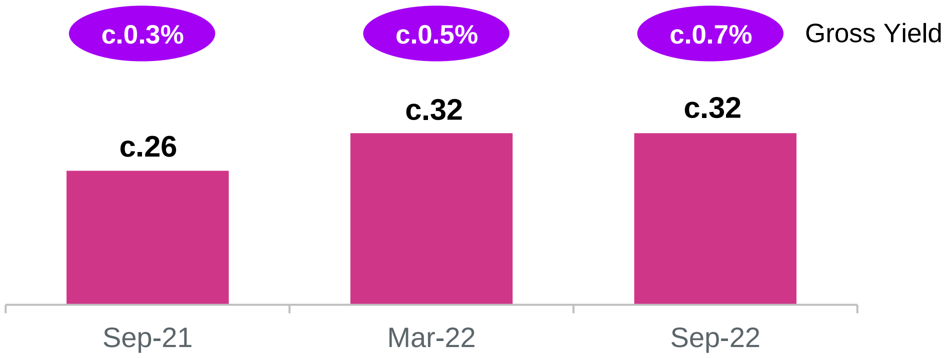
Funding & Liquidity Metrics

LCR	Loan-to-deposit ratio	NSFR
138%	111%	136%

Structural hedge will drive higher income at existing rates

Structural hedge yield improving from higher rates

Hedge Notional - £bn



- Increased gross yield during FY22 reflected re-investment of c.1/60th of hedge balance each month; H2 re-investment rate was c.2.7%; Q4 was c.3.0%
- Ongoing NII benefit as maturing balances will re-finance from less than 50bps in H1 23 to prevailing rates
- Gross yield does not reflect income from legacy hedge unwind; contribution was c.£120m in FY22 and will be c.£80m in FY23 (unwound by end FY25)

Group Interest Rate Sensitivity

Proforma rate sensitivity to parallel shift in all curves:

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

Virgin Money Fixed Income Investment Proposition

Key points

- **Currently trade wide of peers in unsecured debt markets; focused on reducing differential supported by;**
- Defensive lending portfolio, 80% UK secured mortgages
- Stable asset quality maintained across portfolios with robust coverage above pre pandemic levels
- Strong capital base and returning to target CET1 range by end of FY24
- Robust funding and liquidity position with strong growth in relationship deposits, now 53% of total customer deposits
- Tier 1 firm for regulatory purposes - subject to enhanced governance and oversight requirements, identical to that of larger UK peers

Asset Quality

7bps
Cost of Risk

£457m
Total Credit Provisions

62bps
Coverage Ratio

£57m
Cost of Living PMAs

Capital & Leverage [1]

15.0%
CET1 Ratio

13-13.5%
CET1 target range

32.1%
MREL Ratio

5.1%
UK Leverage Ratio

Liquidity & Funding

138%
Liquidity Coverage Ratio

111%
Loan to Deposit Ratio

13%
Increase in Relationship Deposits in FY22

136%
NSFR

Sustainable Impact

AA Leader
MSCI

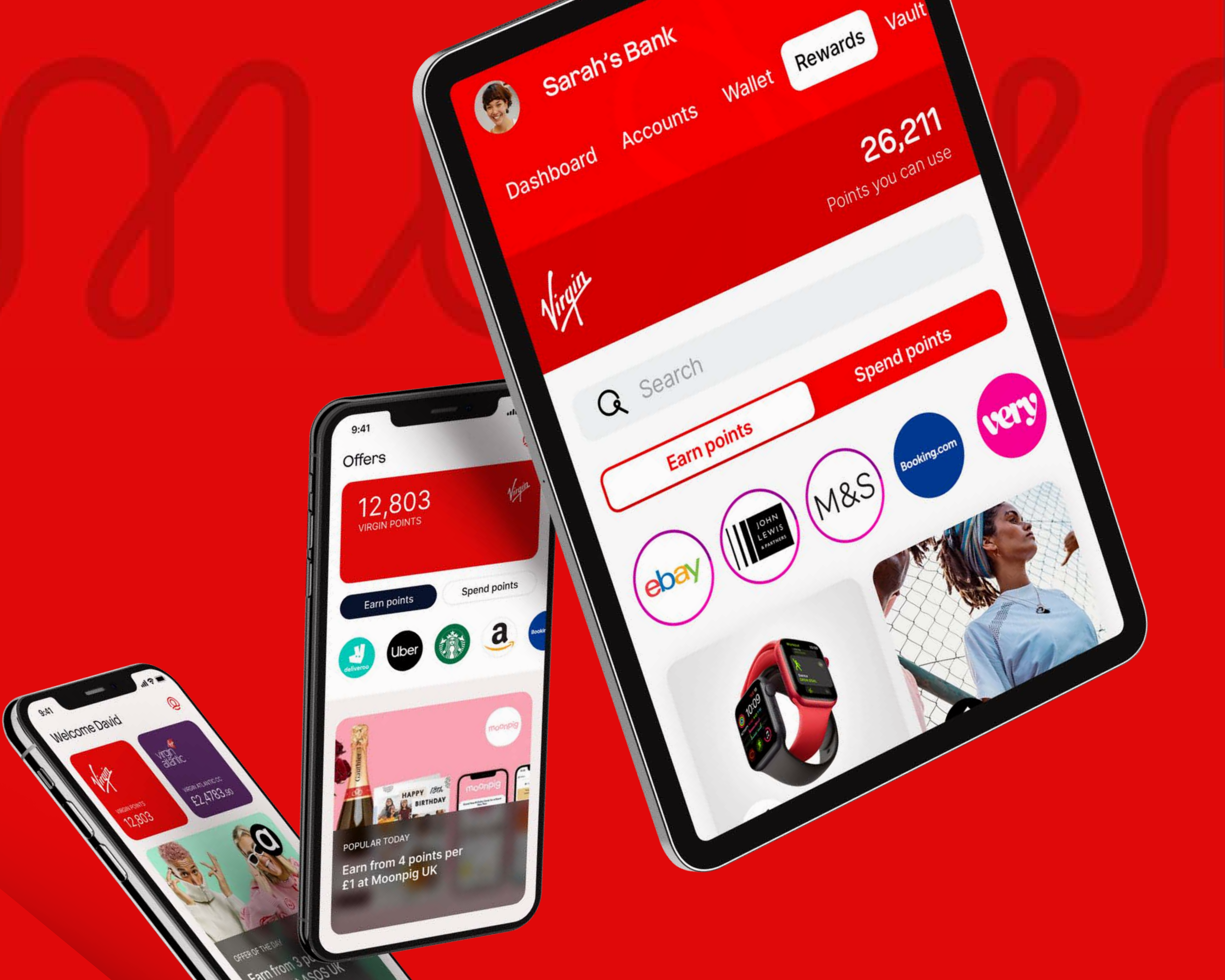
18.1 Low Risk
Sustainalytics

50/100
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


Sarah's Bank
Dashboard
Accounts
Wallet
Rewards
Vault
26,211
Points you can use
Search
Earn points
Spend points
9:41
Offers
12,803
VIRGIN POINTS
Earn points
Spend points
POPULAR TODAY
Earn from 4 points per £1 at Moonpig UK
Welcome David

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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 **£91.9bn**

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 **£65.4 billion**

Loan to Deposit ratio of **111%**

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

Good progress towards our net zero commitments

Progress against operational targets

	Actual 2022	2022 outcome (vs target)	Future goals
Scope 1 emissions	*Direct emissions from sources owned e.g. gas burned for fuel*		
Location-based [1]	3,395	**-17%** (target: -10%)	50% reduction by 2025
Market-based	748	**-77%** (target: -80%[4])	10% reduction in 2023
Scope 2 emissions	*Indirect emissions from purchased electricity*		
Location-based [2]	6,891	**-10%** (target: -10%)	50% reduction by 2025
Market-based	989	**+9%**	Targets under development
Scope 3 emissions	*Indirect emissions not controlled by VM e.g. in supply chain*		
Scope 3[3]	1,719	**-56%**	Targets under development

- Significant progress against execution of Operational levers to meet 2030 net zero operational and supplier emissions
- 100% green gas and electricity now powers all buildings directly within our control
- Roadmap to deliver additional Scope 3 baselines and associated targets with a negative impact on the environment progressed in FY23

Net zero targets covering 82% of lending

	Intensity metric	Est. 2020 intensity	Est. 2030 intensity	2030 target reduction
Mortgages[5]				
Whole portfolio *(c.£58bn)*	$kgCO_2e$/m2 financed	39	22	**43%**
Business				
Agriculture *(c.£1bn)*	tCO_2e/£m customer revenue	712	503	**29%**
Resources (Oil & Gas) *(c.£0.1bn)*	tCO_2e/£m lending	1,520	736	**52%**
Transport – Shipping *(<£0.1bn)*	tCO_2e/£m lending	1,881	911	**52%**
Transport - Road *(<£0.1bn)*	gCO_2e/passenger km travelled	148	89	**40%**

- Inaugural Science-based targets set against key GHG-intensive Commercial portfolios in line with NZBA commitments
- Supported by key strategic levers to reduce in-line with external decarbonisation pathways, including the acceleration of greener lending
- Targets and transition plans against remaining sectors set in FY23, against ambition to halve emissions across everything we finance

[1] Generated from the gas and oil used in all buildings where the Group operates; emissions generated from Group-owned and leased vehicles used for business travel; and fugitive emissions arising from the use of air conditioning and chiller/refrigeration plant to service the Group's property portfolio [2] Generated from the use of electricity in all buildings from which the Group operates [3] Related to business travel undertaken by all colleagues using rail, private vehicles, hired vehicles, contracted taxi services, air travel, waste, water and paper [4] The Market-based Scope 1 emissions target was not met this year, despite the Group's reduction in energy consumption. This is due to an increase in the UK Government's emissions factor, which is used in the calculation. [5] Calculated on Mortgage loan level data as at 31 March 2022

Improved Credit & ESG Ratings

Credit Ratings		Senior Unsecured	Issuer Credit Rating	Short-term	Tier 2	AT1	Outlook	Latest update
Moody's	VMUK	Baa1	**Baa1**	P-2	Baa2	Ba1	Stable	June 2022
	CB	(P) A3	**A3[1]**	P-2				
Standard & Poor's	VMUK	BBB-	**BBB-**	A-3	BB	B	Stable	March 2022
	CB		**A-**	A-2				
Fitch	VMUK	BBB+	**BBB+**	F2	BBB-	BB	Stable	July 2022
	CB		**A-**	F2				

- In-year 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]	**50/100** (was 49/100)	↑	**100-0** 100 as a best possible score	**Robust** (was Limited)	February 2022

- Material in-year improvement in all ESG Ratings reflecting significant recent focus, including enhanced disclosures

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

Updated IFRS9 scenarios & weightings; prudent overlays applied

Conservative economic scenarios

Scenario	Measure[1]	2022	2023	2024	2025
Upside 10%	GDP	3.9%	2.8%	3.2%	3.4%
	Unemployment	3.8%	4.2%	4.0%	3.7%
	HPI	8.3%	(2.3)%	(1.8)%	5.7%
Base 55%	GDP	3.6%	0.3%	2.1%	2.7%
	Unemployment	3.9%	4.6%	4.4%	3.8%
	HPI	6.8%	(4.6)%	(3.0)%	4.4%
Downside 35%	GDP	2.6%	(5.6)%	0.8%	2.1%
	Unemployment	4.0%	6.0%	7.1%	7.3%
	HPI	3.5%	(13.3)%	(11.6)%	(2.7)%
Weighted average	GDP	3.3%	(1.5)%	1.7%	2.5%
	Unemployment	3.9%	5.0%	5.3%	5.0%
	HPI	5.8%	(7.4)%	(5.9)%	2.0%

Prudently applied post-model adjustments

	Mar-22 ECL	o/w PMA	Sep-22 ECL	o/w PMA	Change in PMAs
Mortgages	£66m	£42m	£56m	£34m	£(8)m
Unsecured	£221m	£44m	£284m	£32m	£(11)m
Business	£192m	£93m	£117m	£18m[2]	£(75)m
Total	**£479m**	**£179m**	**£457m**	**£85m**	**£(95)m**

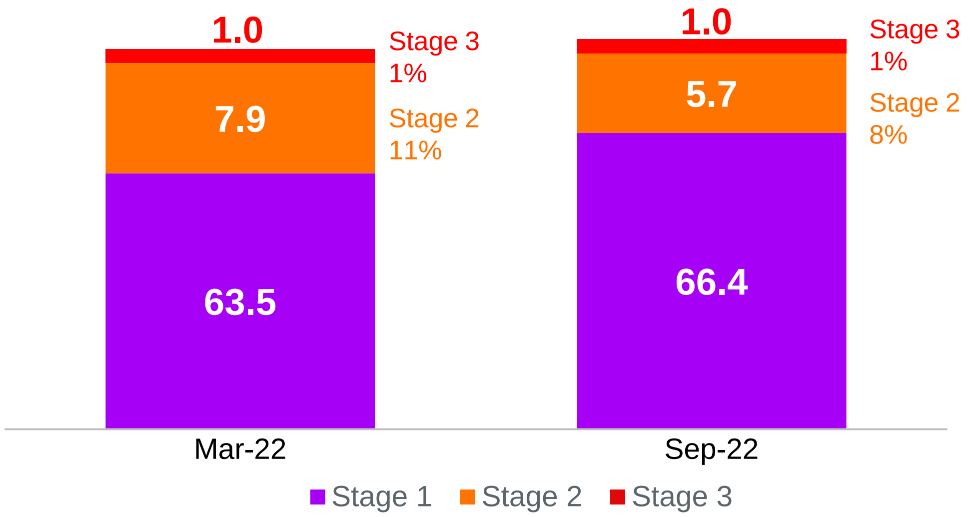
- Remain prudently positioned given uncertain economic environment
- Maintained conservative coverage levels via PMAs
- Latest BoE forecasts sit between our base and downside scenarios
- 100% weighting to downside would lead to c.£80m increase in modelled ECL, in line with PMAs
- Reduction in Business reflects removal of Covid sector stress PMA

Source: Oxford Economics (September 2022) and company data [1] GDP (yoy %), Unemployment (average), HPI growth (Q4 to Q4); [2] Reflects net PMA position, including £12m negative PMA for LGD model changes

Stable asset quality and provision coverage

Stage 2 reduction; Stage 3 proportion unchanged

Gross loans and advances
£bn



- Stage 2 reduction reflects the effect of releasing COVID-related PMAs relating to payment holidays, with customers moving back to stage 1
- Stage 3 remained stable at 1%

Provision coverage remains strong

	Mar-22 Coverage Ratio	Sep-22 Gross Loans	Sep-22 ECL	Sep-22 Coverage Ratio	FY22 Cost of Risk
Mortgages	11bps	£58.4bn	£56m	9bps	(5)bps
Unsecured	404bps	£6.5bn	£284m	466bps	322bps
o/w cards	*422bps*	*£5.6bn*	*£246m*	*481bps*	*347bps*
o/w loans & overdrafts	*297bps*	*£0.9bn*	*£38m*	*388bps*	*161bps*
Business	258bps[1]	£8.2bn	£117m	159bps[1]	(112)bps
Total	**66bps**	**£73.1bn**	**£457m**	**62bps**	**7bps**

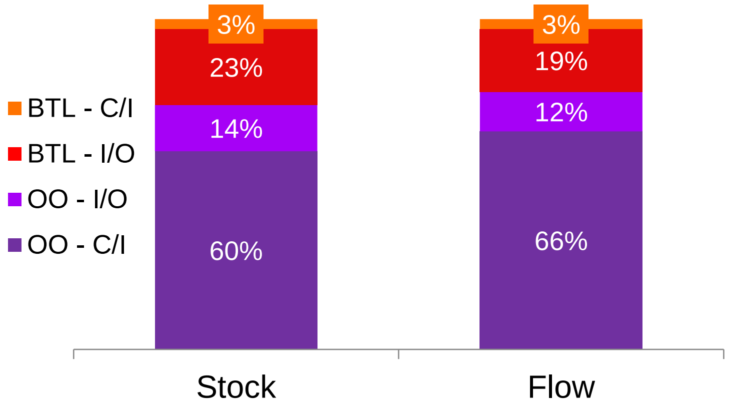
- Refreshed economics reflect updated economic outlook, driving higher modelled ECL
- Covid PMAs removed, impacting coverage; PMAs added for cost of living
- Low cost of risk in FY22 reflective of no material credit deterioration

[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



A prime book, originated under the highest standards

- Consistent, post-MMR prudent underwriting; no sub-prime/self-cert
- Appropriate, tailored buffers for living costs in affordability assessment
- 22% of the mortgage book has a maturing fixed rate in FY23
- Mortgages underwritten at SVR+3% allowing affordability headroom to higher rates

Owner-occupied (74%)

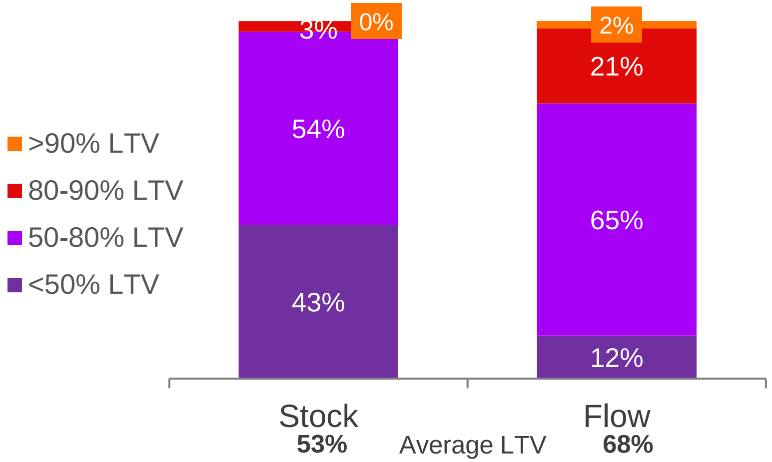
- Average LTV is 52.7%; 0.5% is >90% LTV
- Prudent average LTI; 3.2x in 2022
- Arrears lower than industry (0.6% v 0.8%[1])

Buy-to-let (26%)

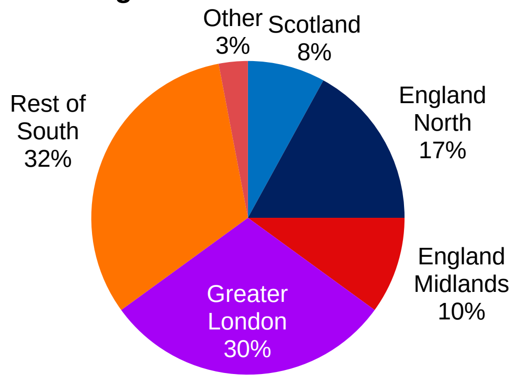
- Average LTV is 52.4%; max LTV of 80% for new lending
- Conservative rental and borrower income requirements
- Arrears lower than industry (0.3% v 0.4%[1])

Low LTV and geographically diversified

Loan-to-value of all mortgage lending



Mortgage stock lending location[2]



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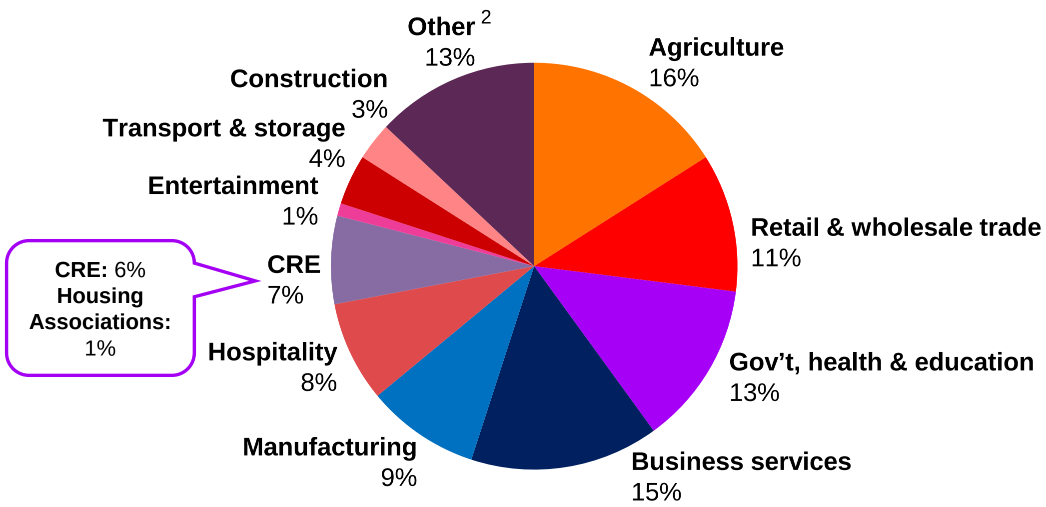
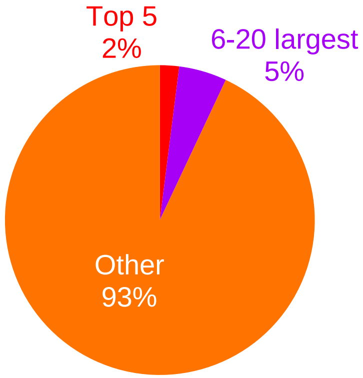
[1] Source: Sep '22 UK Finance, 3m+ arrears by volume [2] Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirements. Other includes Wales, Northern Ireland, Channel Islands and those new accounts where the region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

Business lending: Defensively positioned, granular book

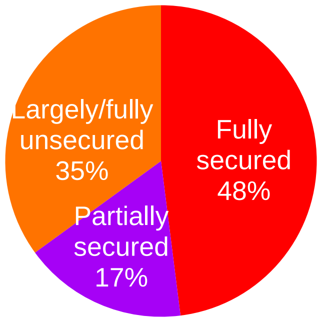
Business lending portfolio by industry sector[1]



Business lending portfolio

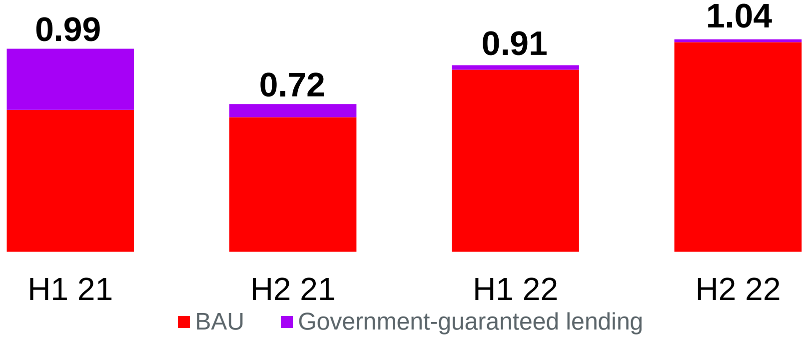


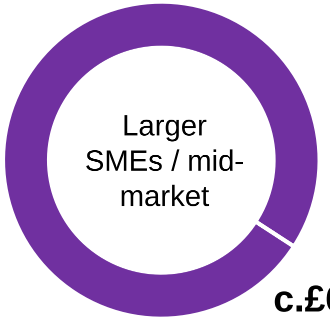
% of book by customer exposure



% of book by collateral cover[3]

Business banking drawdowns[4] (£bn)





c.£6.9bn

- c.10% of lending customers
- c.83% of balances
- Turnover typically >£2m - £100m
- Average loan size c.£1m

c.£1.4bn

- c.90% of lending customers
- c.17% of balances
- Turnover typically <£2m
- Average loan size c.£30k

[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

Business lending: Sectoral analysis suggests protection vs inflation

- Surveyed top 200 business borrowers (those with >£8m loans, total value of £3bn, so >1/3 of the portfolio)
- Analysis tested businesses resilience to inflation, and ability to protect profitability
- Vast majority of businesses are seeing input cost inflation
- c.90% confirmed they have put price increases through
- Key areas of future risk are labour costs and interest rates
- Import / export risks for our portfolios are limited
- Energy costs are less material, most businesses have fixed contracts in place
- Businesses remain well-collateralized reflecting prudent credit underwriting

Least Exposed
c.£4.6bn, 55%

Agriculture (£1.3bn)

- **Dairy Cattle and Rest of Agri £0.5bn:** Increased output prices offsetting inflationary pressures; labour availability remains a challenge in dairy and horticulture sector
- **Arable - £0.3bn:** Higher sale prices more than offsetting higher input costs

Healthcare (£1bn):

Resilient revenues and performance to date, with strong collateral

- **Self funded homes and specialist care** have greater capacity to pass on increased input costs

- **Business Services, ex Professional Sectors (£0.8bn):** Diverse sector.
- **CRE (£0.5bn):** Diverse tenant base, generally lean operating models. Legacy CRE lending is 3% of total portfolio and stable. Funding cost is a more material factor than inflation
- **Hotels (£0.5bn):** UK customer base holding up, weaker sterling attracting tourists. Valuations and collateral strong
- **Utilities (£0.4bn):** includes c.£200m lending to renewable energy providers, minimal impact
- **Housing Associations (£0.2bn):** stable, low risk
- **Other sectors (£1bn):** lower exposed include Finance, Forestry & Fishing, Professional Services, Education and Government

Moderate Exposure
c.£2.7bn, 33%

- **Mixed farming with Beef & Sheep - £0.4bn:** Increased costs not entirely offset by higher sale prices. Medium-term issues from changes to subsidy regime are affecting smaller farmers depending on degree of reliance on subsidy income
- **Council funded Care Homes** less able to pass on cost increases, but some Local Authorities have put through out of cycle increases. Homes with mix of private/funded places more able to manage price
- **Wholesale (£0.5bn):** More capacity to pass on increased input costs although is downstream risk of customers failing to make payments. More exposed to import/export risk
- **Construction (£0.2bn):** Availability of products, rising prices of raw materials and inability to pass on inflation where fixed price tender in place
- **Other sectors (£1.2bn):** Assessed as more exposed are rest of Manufacturing, Resources and Transport & Storage

Most exposed
c.£1.0bn, 12%

- **Pig & Poultry £0.1bn:** Sector seeing lower output prices with further challenges from inflation; some rebalancing of supply and demand now feeding into higher prices.
- **Retail £0.4bn and Hospitality £0.3bn:** Consumer affordability pressure is reducing discretionary spend
- **Entertainment £0.1bn:** Labour costs are significant proportion of input costs, also at risk from reducing discretionary spend
- **Energy Intensive Manufacturing <£0.1bn:** Drinks manufacturing and any form of metal manufacturing which is more energy intensive. Minimal exposure however

Unsecured: asset quality and origination discipline

Affluent customers able to absorb higher living costs

Credit Cards:

- c.1.9m active accounts in total
- VMUK arrears at 1.3% (FY21: 1.1%) vs industry[1] of 1.6%; VMUK BT arrears of 1.3%; non-BT arrears of 1.6%
- Balance transfers c.2/3s (62% at 0%) of cards portfolio; c.16% balances maturing from promo periods in next 6 months
- Prudent risk appetite reflected in high acquisition cut-offs, focus on high resilience segments; affordability stressed on fully drawn line at 33.9% APR
- Diversification strategy has seen limited acquisition (1.2% FY22 card lending) of 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

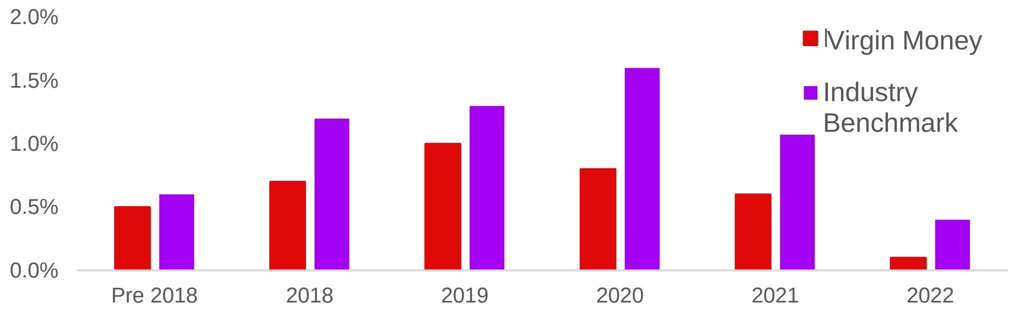
Personal Loans:

- c.100k direct customers, prime loan book
- FY22 new sales remained only to existing customers; limited appetite for potentially lower resilience segments i.e. self-employed & higher indebtedness
- Strong customer profiles (c.72% homeowners and low% self employed)
- Loan and overdraft 2+ arrears at 1.7% (FY21: 1.2%)

High quality, well-positioned cards book

Strong arrears performance: when benchmarked to industry

Benchmarked delinquency by vintage (accounts 2+ in arrears), Q2-22



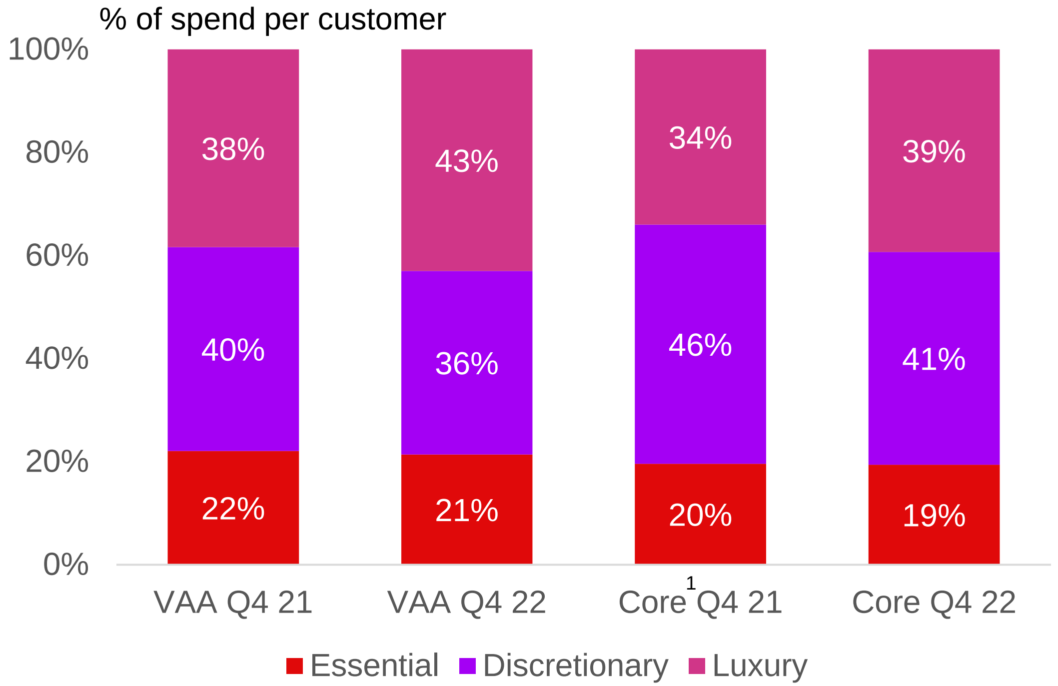
Source: Industry data Verisk Financial | Argus. Q2-22; Industry comparators covering c.90-95% of the UK cards market and verified vs. UK Finance published figures

Credit cards customer profile	VM[2]	Industry average[3]
Average customer age	42	
Average income	£42k	
% homeowners	71%	
% self-employed	9%	
% debt to income	24%	28%
% persistent debt	3.4%[4]	6.3%

[1] Arrears defined as 2+ cycles past due; Industry data Verisk Financial | Argus to Aug-22 [2] Customers originated through VM brand since 2015; data as at Sep-22 [3] Sources: TUC and Verisk Financial | Argus [4] Persistent debt reflects total combined portfolio; data as at Aug-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 no signs of stress
- 80% of spend on discretionary and luxury provides headroom to reduce spending

Pre-emptive tightening of underwriting supports credit quality

Portfolio performance characteristics provide confidence

- Repayment rates stable; no signs of customers reducing repayments
- Retail Interest bearing balances broadly stable; additional retail spend is manageable
- Performance as expected given affluent nature of customer base and significant affordability headroom built in through underwriting

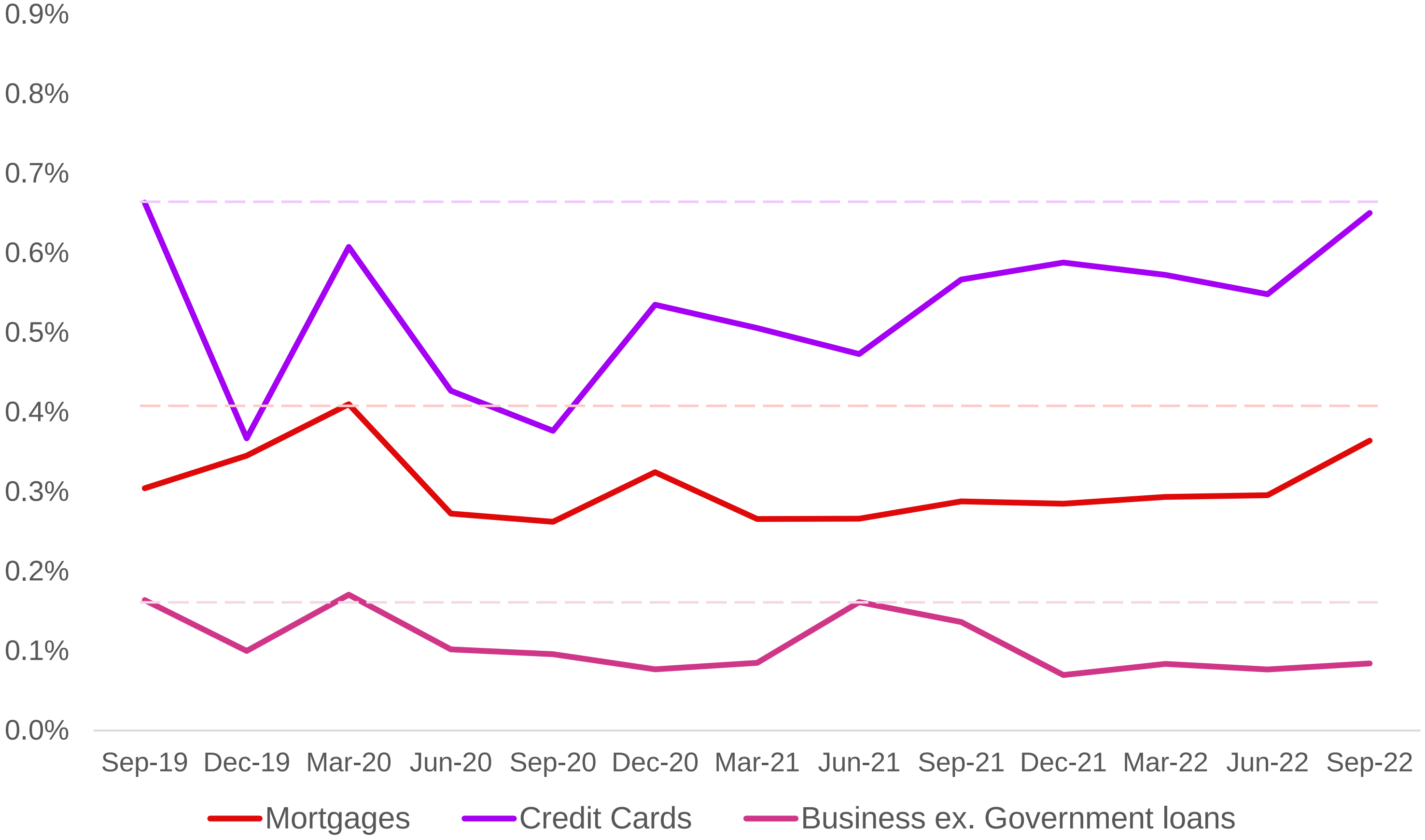
Prudent, proactive management of risk over time

- 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 reflecting inflation, and squeeze on customer affordability
- Updated economic vulnerability segmentation to manage risk

[1] Core reflects analysis of seasoned customer accounts which are outside of initial promotional periods

Emerging arrears normalising from low levels

30-89 day arrears by portfolio

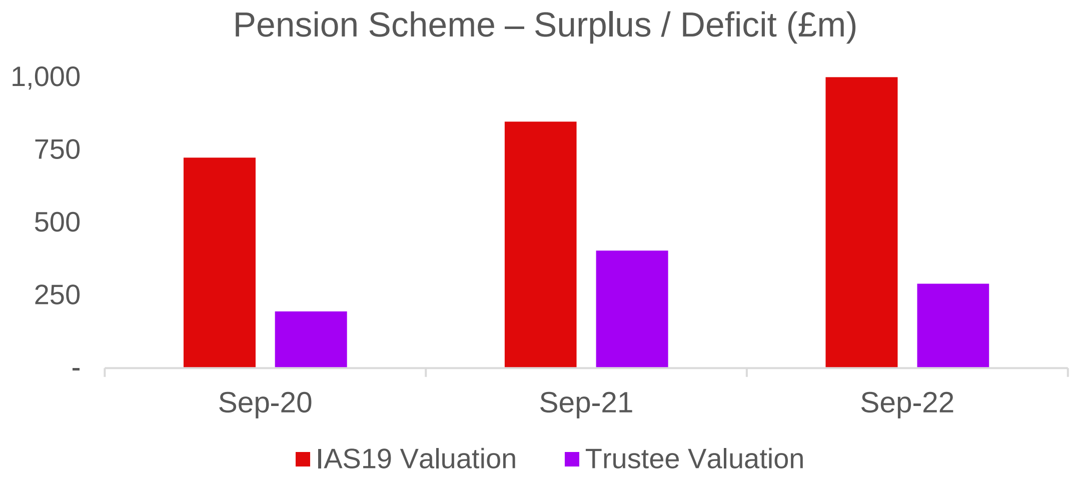


Emerging arrears show limited stress

- Arrears performance during the pandemic has reflected additional government support
- Increase in early arrears reflect normalisation to pre-COVID levels
    - Business – low emerging arrears reflecting quality of portfolio and government support
    - Credit Cards – small increase in early arrears, remain below pre-pandemic Sep-19
    - Mortgages – limited change in Q4; trending to pre-pandemic levels

Pension Scheme risk managed prudently

Strong funding position and reducing LDI portfolio



Date	End Q2 FY22	End Q3 FY22	End FY22
LDI portfolio value	£2,540m	£1,883m	£963m
% scheme assets	57%	53%	30%

Summary

- The Scheme's de-risking plan has delivered resilience to stress and improvements in Group and Trustee valuations and funding levels:
  - **IAS19** – the basis for the bank's P&L, balance sheet and capital reporting. A continued surplus provides a buffer against the requirement to hold capital against the Scheme
  - **Trustee** – a valuation completed on an actuarial basis for the next Triennial Valuation, due by end FY23 (effective date 30 September 2022)
- LDI scheme assets prudently reduced c.50% since Q2 2022 insulating from recent volatility
- At 30 September 2022 there was £613m of surplus collateral in the LDI portfolio, sufficient to cover +350bps in interest rates
- Trustee has also taken additional steps to reduce the LDI risk

Balance sheet

£m

	at Sep 2022	at Sep 2021
Mortgages	58,155	58,104
Business	8,247	8,477
Unsecured	6,163	5,414
Total customer loans	**72,565**	**71,996**
Other financial assets	17,545	15,035
Other non-financial assets	1,797	2,069
Total assets	**91,907**	**89,100**
Customer deposits	65,360	66,870
Wholesale funding (excl. TFS / TFSME)	9,812	7,700
TFS / TFSME	7,200	5,895
Other liabilities	3,195	3,161
Total liabilities	**85,567**	**83,626**
Equity and reserves	6,340	5,473
Liabilities and equity	**91,907**	**89,100**

Risk weighted assets

£m

	at Sep 2022	at Sep 2021
Mortgages	9,155	10,010
Business	6,196	6,040
Unsecured	4,817	4,311
Other	914	1,182
Total credit risk	**21,082**	**21,543**
Credit valuation adjustment	258	103
Operational risk	2,623	2,481
Counterparty risk	185	105
Total RWAs	**24,148**	**24,232**
Total loans	**72,565**	**71,996**
Credit RWAs / total loans	**29%**	**30%**
Total RWAs / assets	**26%**	**27%**

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VIRGIN MONEY UK

Full Year 2022 Fixed Income Presentation