VIRGIN MONEY UK

14 May 2024
Virgin Money UK PLC (the "Group", or the "Company, or "Virgin Money")
H1 2024 Trading Update

As previously announced, the boards of directors of Virgin Money UK PLC and Nationwide Building Society (Nationwide) have agreed the terms of a recommended cash acquisition of Virgin Money by Nationwide to be effected by means of a scheme of arrangement (Scheme). Further to the update set out in the Scheme Document published by the Company on 22 April 2024 in connection with the proposed acquisition, the Virgin Money Board recently finalised the appointment of Ernst & Young LLP (EY) as Virgin Money's auditors, following PricewaterhouseCoopers LLP giving notice that they would be resigning in light of potential conflicts arising from the possible acquisition. The Group will announce its Interim results for the six-month period ending 31 March 2024 on 13 June 2024, following the conclusion of EY's review. Additionally, the Company provides the following unaudited update on trading in H1 2024, ahead of the shareholder meetings to approve the Scheme and related matters, which are scheduled to be held on 22 May 2024.

This announcement is not a preliminary statement of Interim results. Due to the results presented in this update not having been subject to final review by the Company's auditors as would be required for a preliminary statement of Interim results, adjustments could arise from the finalisation of the review. The announcement therefore contains some details that remain subject to finalisation of the review, which is reflected in the use of ranges for some quoted financial metrics. At this point, Virgin Money UK PLC confirms it is not aware of, nor been notified of, any matter which may result in the need to make a change to the information in this update in connection with EY's review.

David Duffy, CEO:
"Over the first six months, we have continued to deliver on our strategic ambitions in line with expectations. While we expect there to be headwinds through the second half of the year, we remain well placed to deliver growth in our target segments."

H1 2024 Trading update – performance in line with expectations

Overview
The Group has delivered continued business momentum during H1, supported by ongoing strategic execution, with trading in Q2 broadly as anticipated. The Group believes the acquisition of Virgin Money by Nationwide presents an exciting opportunity to build on our significant strategic progress by combining two complementary businesses that together can offer more great products and services to a larger customer base, while delivering value for our shareholders.

Continued strategic execution
Virgin Money has continued to make progress in executing its strategy, following on from the update provided in the Q1 trading statement. Key highlights:

- Completed purchase of abrdn's c.50% stake in Virgin Money Investments in April for £20m following successful roll-out of new investment and pension services
- Fully rolled-out premium broker service to 225 mortgage intermediaries, covering c.40% of VMUK applications, contributing to a stronger pipeline of recommended cases from those brokers
- New virtual assistant Redi has now supported over 1 million conversations, attracting strong Smile scores and solving more than 50% of queries without the need for further escalation
- Financial crime prevention programme on-track; c.£15m invested during H1
- Progressing second phase of Consumer Duty review ahead of July implementation

Financial update to 31 March 2024
The Group delivered good financial progress during H1 while maintaining a strong capital position. This included ongoing growth in target lending segments, resilient margins, ongoing cost efficiencies mitigating inflation and broadly consistent credit quality trends. Key highlights:

Targeted growth in customer lending in line with strategy; deposit mix remains broadly stable
- Customer loans stable in H1 at £72.7bn as 5% growth across target lending segments of business and unsecured lending was offset by lower mortgages balances
- Mortgages 2% lower in H1 at £56.6bn, reflecting subdued market; customer demand has improved since the start of the calendar year, with application volumes higher in Q2 versus Q1

- Business lending 7% higher in H1 at £9.3bn, driven by strong demand in sector specialisms
- Unsecured lending increased 3% in H1 to £6.7bn, driven by 5% growth in credit card lending
- Customer deposits 2% higher in H1 at £68.2bn; overall deposit mix remains broadly stable

H1 Net interest margin (NIM) performing in-line with expectations

- NIM improved in Q2 relative to Q1, supported by EIR adjustments in our credit cards portfolio, reflecting strong customer activity and updated assumptions
- The Group expects NIM for H1 to be at the upper end of the FY24 190-195bps range

Cost savings programme mitigating ongoing inflation

- Continue to execute cost saving programme, partly offsetting headwinds from inflation, including annual wage rises, and the new BoE levy (annual charge, £10m in Q2)
- The Group expects the adjusted cost:income ratio[1] to remain broadly stable in H1 (FY23: 52%)
- Incurred further restructuring costs in H1 in line with expectations; some initial transaction costs incurred in H1, expected to be significantly higher in H2

Asset quality remains solid; cost of risk (CoR) tracking in-line with expectations

- Credit quality remains solid and arrears trends are broadly consistent with those set out as part of the Q1 trading statement
- The Group expects a CoR in H1 of between 25-30bps, incorporating a benefit from the ongoing SICR[2] review on the Group's credit card portfolio and a modestly improving economic outlook

Capital, funding and liquidity remains strong

- CET1 ratio improved further in Q2 and is expected to be >14.5% at H1, as capital generation and the cancellation of the share buyback more than offset RWA growth in the period
- The cancellation of the c.£87m unutilised element of the £150m share buyback programme, given the proposed acquisition, drove c.35bps improvement in Q2
- Liquidity remained robust throughout the period with the 12-month average LCR >150%
- Funding remains strong; the Group successfully issued a new €750m Senior MREL note in March to maintain a prudent management buffer above its regulatory requirement

Outlook

Following a strong H1, during the second half the Group expects downward pressure on NIM relative to H1, primarily reflecting a lower expected contribution from cards EIR adjustments, and ongoing competition. The Group also anticipates cost pressures from inflation and investment in H2, which will only be partially mitigated by the ongoing cost savings programme:

- Continue to anticipate 5-10% growth across target lending segments of business and unsecured lending in FY24, as guided at FY23
- Expect NIM in H2 to be impacted by lower contribution from cards EIR adjustments, ongoing competition and lower interest rates, partially mitigated by the reinvestment rate of the structural hedge
- Continue to expect NIM to be in the range of 190-195bps for FY24, as guided at FY23, with NIM lower in H2 vs. H1
- In light of the proposed acquisition by Nationwide, the Group has deferred certain restructuring activity
- Adjusted cost:income ratio anticipated to be higher in H2 vs. H1, reflecting the latest outlook for income, inflation, ongoing investment and cost savings
- Continue to expect the cost of risk to be in the range 30-35bps for FY24, as guided at FY23, incorporating SICR review on credit card portfolio and a modestly improving economic backdrop
- As previously announced, the Board intends to recommend a FY24 dividend of 2p per share[3]
- Given the proposed acquisition by Nationwide, the Group has cancelled its share buyback programme and does not intend to announce any further share buybacks or dividends
- As a result of these factors, statutory RoTE expected to be lower in H2 vs. H1

Key dates

- Shareholder meetings to approve Scheme - *22nd May 2024*
- Virgin Money UK PLC Interim Results publication - *13th June 2024*

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[1] Adjusted to exclude notable items including transaction costs, and the new Bank of England Levy in FY24. Refer to [link]
[2] Significant increase in credit risk
[3] Defined as the "FY 2024 Dividend" in the Scheme Document. Refer to [link]

Investors and Analysts	
Richard Smith Head of Investor Relations & Sustainability	+44 7483 399 303 richard.smith@virginmoney.com
Amil Nathwani Senior Manager, Investor Relations	+44 7702 100 398 amil.nathwani@virginmoney.com
Martin Pollard Senior Manager, Investor Relations	+44 7894 814 195 martin.pollard1@virginmoney.com
Media	
Andrew Scott Head of Media Relations	+44 7483 911 591 andrew.s.scott@virginmoney.com
Simon Hall Senior Media Relations Manager	+44 7855 257 081 simon.hall@virginmoney.com
Press Office	+44 800 066 5998 press.office@virginmoney.com
Teneo	
Doug Campbell (UK) Julia Henkel (Australia)	+44 7753 136628 +61 406 918080

Announcement authorised for release by Lorna McMillan, Group Company Secretary.

Forward looking statements

The information relates to Virgin Money UK PLC and its subsidiaries, which together comprise the "Group".

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No statement in this announcement is intended as a profit forecast, profit estimate or quantified benefit statement for any period and no statement in this announcement should be interpreted to mean that earnings per share for Virgin Money for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per share for Virgin Money or the Group.