



02 August 2024

Virgin Money UK PLC: Third Quarter 2024 Trading Update

David Duffy, Chief Executive Officer:

"Our strategy remains on track, with financial performance in line with guidance. We delivered continued growth in deposits and unsecured lending in Q3 and remain focused on developing innovative new products for customers and maintaining good momentum into Q4. The acquisition by Nationwide is progressing as anticipated with the recent CMA clearance, and we expect it to complete in the final quarter of the calendar year."

Summary financials	Q3 2024	H1 2024	Change	Q3 2023	Change
Key growth metrics (£'m)					
Mortgages	56,012	56,627	(1.1)%	57,544	(2.7)%
Business	9,219	9,321	(1.1)%	8,730	5.6%
Unsecured	6,817	6,727	1.3%	6,300	8.2%
Customer lending	72,048	72,675	(0.9)%	72,574	(0.7)%
Customer deposits	69,827	68,184	2.4%	67,266	3.8%
Key performance metrics					
Net interest margin (NIM)	1.89%	1.94%	(0.05)%	1.93%	(0.04)%
Adjusted cost:income ratio (CIR) ^[1]	54%	52%	(2)%	51%	(3)%
Cost of risk (CoR)	25bps	26bps	1bp	30bps	5bps
Transitional Common Equity Tier 1 (CET1) ratio	14.4%	14.6%	(0.2)%	14.9%	(0.5)%

Overview

Following a strong H1, the Group has delivered continued strategic progress during Q3 and financial performance in-line with the updated guidance given alongside H1. The Group continues to expect the proposed acquisition of the Company by Nationwide Building Society ('Nationwide') to complete in calendar Q4 2024. Subject to the proposed acquisition completing, the Group will recognise further transaction-related adjustments, but anticipates remaining well-capitalised as part of the larger Nationwide group.

Strategic Update

- UK CMA^[2] has unconditionally cleared the proposed acquisition of VMUK by Nationwide following its Phase 1 investigation; proposed acquisition remains subject to other regulatory approvals
- Launched new fully digitised personal loans proposition in direct channels in July; expect to re-enter the open market for personal loans later this year
- Signed strategic partnership with Experian, which will improve VMUK's digital customer experience for unsecured lending, leveraging Experian's data, analytics and cloud-based technology
- Embedded second phase of Consumer Duty requirements, which came into effect in July, including full review of off-sale products and enhanced customer communications
- Financial crime prevention programme (FCPP) progressing as expected; implemented upgraded financial crime platform in July; deployed new machine learning models to improve fraud detection
- As noted at H1, the Group has deferred certain restructuring activity as part of its ongoing cost savings programme, in light of the proposed acquisition by Nationwide

Financial update to 30 June 2024

Customer lending lower in Q3; continued deposit inflows

- Customer loans 0.9% lower in Q3 at £72.0bn reflecting lower mortgage balances and broadly stable lending balances across target segments of business and unsecured lending combined
- Mortgages 1.1% lower in Q3 at £56.0bn, reflecting disciplined approach to trading to protect overall spreads, as well as the impact of higher redemptions given the rate environment
- Business lending 1.1% lower in Q3 at £9.2bn; delivered 5.5% growth YTD and pipeline remains strong; muted Q3 reflects seasonal effects of lower drawdowns and higher repayments versus Q2
- Unsecured lending 1.3% higher in Q3 at £6.8bn, driven by ongoing growth in credit card lending; delivered year-to-date unsecured growth of 4.6%
- Deposits 2.4% higher in Q3 at £69.8bn, reflecting strong ISA demand at the start of the new tax year; deposit mix remains broadly stable relative to FY23

Q3 NIM performing in-line with expectations

- Q3 NIM of 1.89% was lower versus H1 of 1.94% as expected, primarily reflecting a lower contribution from cards EIR adjustments, partially offset by the reinvestment rate of the structural hedge

Adjusted cost:income ratio higher in Q3, as guided at H1

- Adjusted expenses in Q3 modestly higher YoY, contributing to an adjusted CIR of 54% (Q3 23: 51%), reflecting cost headwinds from inflation and deferral of cost savings
- Notable expenditure of £32m, included £10m of restructuring costs, £10m related to the FCPP, £5m of transaction related costs and £7m of VMI^[3] expenses^[4]

Asset quality remains solid, with stabilising arrears trends

- Overall credit quality remains solid; arrears trends stabilised during Q3, including a reduction in the credit cards arrears rate. The Group's macroeconomic scenarios were unchanged during Q3
- Credit provisions reduced to £611m (H1 24: £616m), primarily reflecting lower lending balances; provision coverage of 84bps remained stable (H1 24: 84bps)
- Q3 impairment charge was £45m, equivalent to an annualised CoR of 25bps; YTD CoR of 26bps

Capital, funding and liquidity remains strong

- CET1 remains robust at 14.4% on an IFRS 9 transitional basis, with no further capital distributions announced, as previously guided
- For further detail on capital movements, please see the Group's Q3 Pillar 3 document
- Funding and liquidity remains strong, including 12-month average LCR of 155% and 12-month average NSFR of 137%
- The strong funding position and deposit performance in Q3 enabled the Group to further reduce its TFSME outstandings by £1.1bn in Q3 to £3.95bn, with the LDR reducing to 103% (FY23: 109%)
- The Group redeemed the remaining £144m stub of its £250m 9.25% AT1 instrument in June; the Group is not planning any MREL or capital issuance this year, subject to the acquisition process

Outlook

Following VMUK's Q3 performance, which was in-line with expectations, the Group re-iterates its FY24 guidance, which was last updated at H1 24. The Group also expects to recognise further transaction-related adjustments, subject to the completion of the proposed acquisition of the Company by Nationwide:

- Anticipate 5-10% growth across target lending segments of business and unsecured lending in FY24
- Expect NIM to be in the range of 190-195bps for FY24, with NIM lower in H2 vs. H1 primarily reflecting a lower contribution from cards EIR adjustments
- Adjusted cost:income ratio anticipated to be higher in H2 vs. H1, reflecting the latest outlook for income, inflation and deferred cost savings
- Incurred £10m of transaction costs to date, expected to be significantly higher during rest of year
- Continue to expect the cost of risk to be in the range 30-35bps for FY24
- As previously announced, the Board does not intend to announce any further share buybacks or dividends given the proposed acquisition of the Company by Nationwide
- Continue to expect statutory RoTE to be lower in H2 vs. H1

Nationwide acquisition

- The proposed acquisition remains subject to certain outstanding conditions, including the receipt of PRA and FCA approval and sanction by the Court
- We continue to expect the transaction to conclude in the final quarter of the calendar year
- Expect to recognise further transaction-related adjustments, including TMLA^[5] exit fee and day-1 accounting harmonisation changes; expect to remain well capitalised as part of Nationwide Group

The Company further announces that a copy of the Q3 Pillar 3 Disclosures 2024 will shortly be available to view on the Company's website at: <https://www.virginmoneyukplc.com/investor-relations/results-and-reporting/financial-results/>. A copy of the document has been submitted to the National Storage Mechanism and will shortly be available for inspection at: <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>
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Announcement authorised for release by Lorna McMillan, Group Company Secretary.

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[1] Adjusted to exclude notable items, including transaction costs and the new Bank of England Levy in FY24

[2] Competition and Markets Authority

[3] Virgin Money Investments

[4] Given fully consolidated accounting following the buy-out in April; there was also £6m of notable income recognised during Q3 relating to VM income

[5] Virgin Money licences certain rights to use the "Virgin Money" brand from Virgin Enterprises pursuant to a brand licence agreement between Virgin Money and Virgin Enterprises, to which Virgin Money became a party on 18 June 2018 (the "TM A")

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