2023

Virgin Money UK PLC (VMUK) – Analysis Report

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EXECUTIVE SUMMARY

This report comprises stock evaluation and pillar III risk disclosure analysis of Virgin Money UK PLC bank. The aim of this report is to identify the bank's position against key risks, including solvency risk, liquidity risk and interest rate risk.

It is assessed that VMUK maintains compliance with respect to the CET1 ratio and liquidity coverage ratio regulatory requirements. VMUK also appears to have strategically managed its interest rate risk and is likely to have a positive effect on Net Interest Income (NII) in case of base rate increment by 100 basis points. The bank's last quarter report calculates ROA and ROE up to a moderate level compared to the industry average, indicating room for improvement in the bank's capitalisation.

The report identifies key challenges and opportunities posed to VMUK's performance in the industry, including comments on the bank's buyback strategies for improving ROE to its shareholders, and its active involvement in mortgage price war.

The report concludes with a recommendation to potential investors for growth opportunity in buying the VMUK: LN stock, following VMUK's strong financial performance in the third quarter of its financial year 2023, reported growth in net lending and deposits, improving margin, and broadly stable credit quality. However, keeping a watch on its overall performance and upcoming FY2023 annual results announcement at the end of November is vital.

1. INTRODUCTION

Britain's economy faces a growing risk of recession, as Prime Minster Rishi Sunak has warned of a potential 2024 recession due to persistently high inflation pushing the interest rate over 5% (Partington & Mason, 2023). The Central Bank aims to curb the inflation to its 2% target by increasing the base interest rate. The rising interest rates and the cost-of-living crisis are jointly suppressing consumer demand, potentially leading to a decline in inflation (Frost, 2023).

However, a significant decline in economic activity may lead to recession, causing increased unemployment and higher struggles for people to meet their financial obligations, resulting in a surge in loan defaults. Moreover, tightened credit standards during recessions reduce consumers' demand for new loans, affecting banks with narrowed interest-income generating loan portfolios. Additionally, banks allocated funds to bonds and other debt instruments lose value with rising interest rates, potentially adding to financial pressures.

Consequently, weaker banks may appear vulnerable to exposure from rising interest rates, increasing loan defaults, falling security prices, and sudden deposit withdrawals (Cohen, et al., 2023). Therefore, banks must position themselves wisely with excellent asset quality and strong performance indicators to survive and may even benefit from economic uncertainty.

This report focuses on the impact of an anticipated recession on a United Kingdom-based bank, **Virgin Money UK PLC (VMUK)**, a growing "challenger bank[1]" in the sector. The report aims to evaluate if VMUK is positioned well to sustain through a financial crisis or might exit the market or be acquired by competitor banks.

The report reviews the historical financial and stock information of VMUK. It assesses the key risks to the performance, focusing on the bank's solvency, liquidity, and interest rate risk profile. The report concludes with a recommendation to potential investors regarding Virgin Money's projected performance and overall financial robustness.

[1] The term 'challenger bank' refers to banks and financial services that have made a significant impact in the market by challenging the "big five" UK banks. KPMG describes four main categories of challenger banks in the UK: full-service retail banks (Virgin Money/CYBG and Metro Bank), specialised lenders (OneSavings Bank, Aldermore), retail banks (Tesco, Sainsbury), and digital banks.

2. OVERVIEW OF VIRGIN MONEY UK PLC

Virgin Money UK was incorporated in October 2015. In June 2018, the Virgin Money brand was merged into CYBG PLC, joining Clydesdale Bank and Yorkshire Bank under the group, making it the UK's sixth-largest bank. The group was subsequently rebranded as Virgin Money UK PLC in October 2019. The company now primarily operates in the United Kingdom through three brands: Clydesdale Bank, Yorkshire Bank, and Virgin Money.

VMUK: Background Snapshot: Source: (MarketLine, 2023)

Industry:	Banking, Financial Services
Head Office:	Virgin Money UK Plc, 40 St Vincent Place, Glasgow, Scotland, UK.
No. of employees:	6,800 approx.
Web Address:	https://www.virginmoneyukplc.com/
Financial Year End:	September
Trading Ticker:	LSE: VMUK, ASX: VUK, FTSE 250 component

VMUK offers a comprehensive range of banking products and services to individuals, small and medium-sized (SME) businesses, and commercial and corporate clients across the UK. VMUK operates through three principal business categories: Business, Personal, and Mortgages.

Within the Business segment, VMUK offers financing solutions to serve the needs of SMEs. The Personal Category extends a series of products and services to retail individuals. The Mortgages category offers multiple mortgage and re-mortgage solutions to various customer profiles, including existing buyers, first-time buyers, relocating clients, and buy-to-let customers (Library Catalogue, 2023).

1.1. Historical and Estimated Financials

As of FY2022, ended 30 September 2022

As of FY2022, VMUK's combined group served an average of 6.6 million retail and business clients in the UK.

During FY2022, the bank saw several progressing key performance indicators (KPIs), with asset growth rising from -1.3% to 3.15%, the cost-to-income ratio dropping from 81% to 62%, the Loan-to-Deposit Ratio (LDR) increasing from 108% to 111% and a notable increase in earnings per share from 27.30 to 32.40 British pence (Figure 1) (Bloomberg, 2023).

Figure 1

Key figures and ratios for Virgin Money UK PLC 2018-2022

Key figures and ratios for Virgin Money UK PLC in the United Kingdom (UK) from 2018 to 2022

	2018	2019	2020	2021	2022
Customers (millions)		6.60	6.50	6.50	6.60
Average Full-time equivalent employees (thousands)	5,769	8,703	8,256	7,415	6,866
Asset growth (%)	3	2.90	-0.70	-1.30	3.15
Liquidity coverage ratio (%)	161	152	140	151	138
Loan to Deposit Ratio (LDR) (%)	116	114	107	108	111
Statutory cost to income ratio (CIR) (%)	112	99	76	81	62
Statutory RoTE (%)	-6.90	-6.80	-6.20	10.20	10.30
Statutory return on assets (%)	-0.34	-0.23	-0.16	0.52	0.60
Statutory basic earnings per share (in British pence)	-19.70	-17.90	-15.30	27.30	32.40
Total capital ratio (%)	20.60	20.10	20.20	22	22
Common Tier1 (CET1) ratio (%)	15.10	13.30	13.40	14.90	15
UK leverage ratio (%)	5.10	4.90	4.90	5.20	5.10
Source: (Bloomberg, 2023)					

Interim Financials – For six months ended 31 March 2023

In the interim financials, VMUK's net interest income (NII) improved by 9% from the last year as its lending and deposits portrayed growth (Figure 2). However, VMUK's profit decreased compared to the same period in the previous year, attributed to a cautious jump in impairment losses provision from £21 million last year to £144 million. This increase was prompted by a rise in borrowers falling behind with credit card payments.

Figure 2

Summary financials

	6 months to 31 Mar 2023 £m	Restated 6 months to 31 Mar 2022 £m	Change %	Restated 6 months to 30 Sep 2022 £m	Change %
Underlying net interest income (NII)	**855**	782	9	810	6
Underlying non-interest income[1]	**78**	66	18	84	(7)
Total underlying operating income	**933**	848	10	894	4
Underlying operating and administrative expenses	**(477)**	(456)	5	(458)	4
Underlying operating profit before impairment losses	**456**	392	16	436	5
Impairment losses on credit exposures	**(144)**	(21)	586	(31)	365
Underlying profit on ordinary activities before tax	**312**	371	(16)	405	(23)
Adjusting items[1]	**(76)**	(56)	36	(125)	(39)
Statutory profit on ordinary activities before tax	**236**	315	(25)	280	(16)
Performance metrics[2]					
Net interest margin (NIM)	**1.91%**	1.83%	8bps	1.86%	5bps
Underlying cost: income ratio[1]	**51%**	54%	(3)%pts	51%	-%pts
Cost of risk (CoR)	**0.40%**	0.06%	34bps	0.09%	31bps
Statutory return on tangible equity (RoTE)	**6.1%**	9.1%	(3.0)%pts	11.3%	(5.2)%pts
Common Equity Tier 1 (CET1) ratio (IFRS 9 transitional)	**14.7%**	14.7%	-%pts	15.0%	(0.3)%pts

(1) Hedge ineffectiveness is now presented as an adjustment to underlying earnings as detailed on page 90. The comparative periods have been adjusted accordingly.
(2) For definitions of the performance metrics, refer to 'Measuring the Group's performance' on pages 344 to 352 of the Group's 2022 Annual Report and Accounts.

Source: (Virgin Money UK, 2023)

Third Quarter Trading Update – As of 30 June 2023

In Q3, VMUK maintained stable overall credit quality compared to H1 (Half-year ended March 2023). Business lending was up by 1.6% derived by 2.6% growth in business-as-usual (BAU) lending balances, while unsecured loans increased by 2.4% from 3.9% growth on card balances. Key factors, like customer lending, customer deposits, NIM and CET1 ratio remained stable in Q3-2023 (Figure 3).

Figure 3

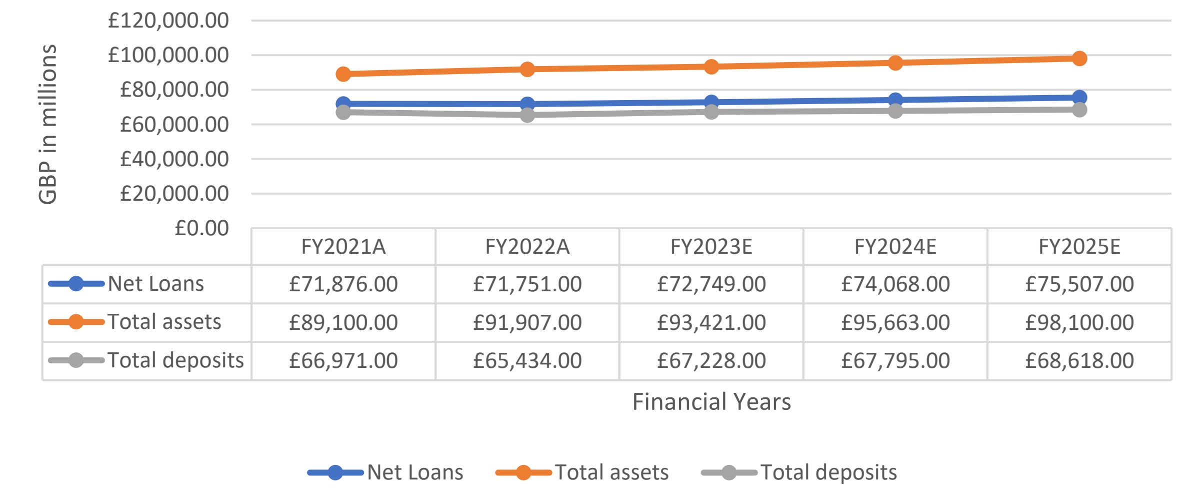
Summary financials	Q3 2023	H1 2023	Change	Q3 2022	Change
Key growth metrics (£'m)					
Mortgages	57,544	57,687	(0.2)%	57,761	(0.4)%
Business	8,730	8,596	1.6%	8,288	5.3%
Unsecured	6,300	6,152	2.4%	6,014	4.8%
Customer lending	**72,574**	**72,435**	**0.2%**	**72,062**	**0.7%**
Customer deposits	**67,266**	**67,030**	**0.4%**	**64,080**	**5.0%**
Key performance metrics					
Net interest margin (NIM)	1.93%	1.91%	0.02%	1.87%	0.06%
Underlying cost:income ratio	51%	51%	-	52%	(1)%
Cost of risk (CoR)	30bps	40bps	(10)bps	12bps	18bps
Transitional Common Equity Tier 1 (CET1) ratio	14.9%	14.7%	0.2%	14.8%	0.1%

Source: (Virgin Money UK PLC, 2023)

Past Performance to Future Estimation

In FY2022, VMUK had total assets of GBP91,907 million, total deposits of GBP65,434 million, and net loans of GBP71,751 million. Projected figures for FY2023 anticipate GBP93,421 million in total assets, total deposits increasing to GBP67,228 million, and net loans reaching GBP72,749 million, depicting positive shifts of 1.65%, 2.74% and 1.39%, respectively (Bloomberg, 2023) (Appendix 1).

Figure 4



	FY2021A	FY2022A	FY2023E	FY2024E	FY2025E
Net Loans	£71,876.00	£71,751.00	£72,749.00	£74,068.00	£75,507.00
Total assets	£89,100.00	£91,907.00	£93,421.00	£95,663.00	£98,100.00
Total deposits	£66,971.00	£65,434.00	£67,228.00	£67,795.00	£68,618.00

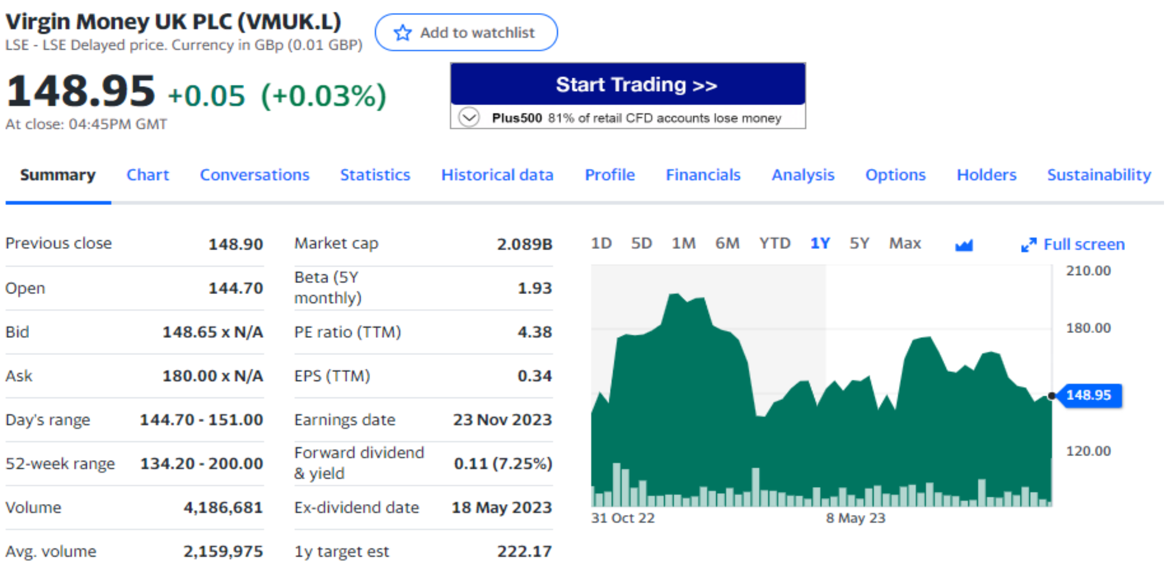
However, the financials are expected to remain stable or grow slightly until 2025, as illustrated in Figure 4. The graph highlights that the bank's net loans (an earning asset) and total deposits (funding liability) exhibit a consistent balance, suggesting a stable LDR over the forecasted period.

Stock Movement and Dividend Yield:

VMUK's stock performance has shown stability over the past year amid economic disparities like high inflation and rising interest rates (Figure 5). Trading at GBp148.95 (or GBP 1.4895) as of 31 October 2023 close price, VMUK is considered an affordable FTSE 250 stock. The 1-year target price of GBp222.17 suggests a potential 49.16% increase from the current price.

VMUK stock has received a "Hold" consensus rating from seven prominent analysts, demonstrating a growth potential (Mendonça, 2023). J. P. Morgan rates VMUK as Neutral (N) with a price target of 180p, with the NII (Net Interest Income) outlook improving from higher interest rates (Bloomberg, 2023). However, Deutsche Bank predicts modest downgrades in 2024 revenue expectations for VMUK (Bloomberg, 2023).

Figure 5



Source: (Yahoo Finance, 2023)

VMUK's dividend yield has improved, with a 3.3p interim dividend per share declared in May 2023, offering an attractive 2.15% yield for investors, marking a 32% increase from the 2.5p interim dividend in May 2022 (Appendix 2).

3. VMUK: Risk Profile

3.1. Solvency Risk

Banks assess solvency risk to analyse if they possess enough capital to cover financial obligations. Common Equity Tier 1 (CET1) capital ratio is used as a solvency buffer, measuring a bank's capital adequacy to absorb financial distress or unexpected losses, calculated as:

$$CET1 = \frac{Common\ Equity\ Tier\ 1\ Capital}{Risk\ Weighted\ Assets\ (RWA)}$$

Bank of England sets out minimum requirement of CET1 capital ratio to 4.5%, Tier 1 capital ratio of 6% and total capital ratio of 8% (Bank of England, 2023).

According to Q3-2023 Pillar III Disclosure, the lender maintains strong capital ratios as a percentage of its risk-weighted exposure amount: 14.6% in CET1, 17% in Tier 1, and 21.1% in total capital (Figure 6).

Figure 6

Table 1: UK KM1 - Key metrics

The table below provides a summary of the main prudential regulation ratios and measures.

		A	B	C	D	E
		30 June 2023[1] £m	31 Mar 2023 £m	31 Dec 2022 £m	30 Sept 2022 £m	30 June 2022 £m
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	**3,637**	3,627	3,558	3,633	3,562
2	Tier 1 capital	**4,231**	4,221	4,151	4,299	4,228
3	Total capital	**5,253**	5,242	5,172	5,319	5,248
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	**24,898**	24,703	24,029	24,148	24,008
	Capital ratios (as a percentage of risk-weighted exposure amount) (%)					
5	Common Equity Tier 1 ratio	**14.6%**	14.7%	14.8%	15.0%	14.8%
6	Tier 1 ratio	**17.0%**	17.1%	17.3%	17.8%	17.6%
7	Total capital ratio	**21.1%**	21.2%	21.5%	22.0%	21.9%

Source: (Virgin Money UK PLC, 2023)

The 14.6% CET 1 ratio indicates that VMUK is well-capitalised and has a larger buffer of high-quality capital to absorb any expected or unforeseen losses to maintain its financial stability.

3.2. Liquidity Risk

Liquidity risk arises when a bank lacks sufficient liquid assets for urgent short-term financial obligations during economic stress. To mitigate this risk, Basel III requires a minimum threshold to liquidity coverage ratio (LCR), typically 100%, mandating banks to hold the stock of high-quality liquid assets (HQLA), like cash, central bank reserves, and certain government and corporate securities, to cover payment obligations (Bank of England, 2023). LCR is calculated as:

$$Liquidity\ Coverage\ Ratio\ (LCR) = \frac{HQLA}{Total\ expected\ net\ cash\ outflows\ over\ 30\ days}$$

Figure 7

Table 1: UK KM1 - Key metrics (continued)

		A	B	C	D	E
		30 June 2023[1] **£m**	31 Mar 2023 £m	31 Dec 2022 £m	30 Sept 2022 £m	30 June 2022 £m
	Liquidity Coverage Ratio[4]					
15	Total high-quality liquid assets (HQLA) (Weighted value average)	**13,381**	12,542	11,793	11,503	11,087
UK-16a	Cash outflows - Total weighted value	**9,875**	9,573	9,197	8,764	8,317
UK-16b	Cash inflows - Total weighted value	**528**	553	562	543	496
16	Total net cash outflows (adjusted value)	**9,347**	9,020	8,635	8,222	7,821
17	Liquidity coverage ratio (%)	**143%**	139%	137%	140%	142%

Source: (Virgin Money UK PLC, 2023)

VMUK's LCR of 143% for Q3 ended June 2023 signifies that the bank has a substantial portion of liquid assets and can withstand unexpected liquidity shocks (Figure 7).

3.3. Interest Rate Risk

VMUK anticipates a positive impact on NII if the BoE's interest rate rises by 100 basis points, as disclosed in the bank's sensitivity analysis within the interim report dated 31 March 2023.

Figure 8

12 months NII sensitivity	31 Mar 2023 £m	30 Sep 2022 £m
+25 basis point parallel shift	**10**	18
+100 basis point parallel shift	**41**	66
-25 basis point parallel shift	**7**	5

Source: (Virgin Money UK PLC, 2023)

The analysis reveals that VMUK's portfolio comprises more interest rate-sensitive loans than deposits, making asset composition more quickly responsive to interest rate fluctuations compared to deposit rates. With VMUK's loan amount surpassing deposits (refer to Figure 4, pg. 6) and earning subsequent spread, the bank appears to have strategically managed its interest rate risk, positioning itself to benefit from a higher base interest rate and earning a spread over interest rates (Appendix 3).

However, in the event of a sharp interest rate decline, VMUK's interest expense may remain the same, but interest income could decline, resulting in a negative NII. This scenario also raises the risk of loan defaults, as borrowers may opt to refinance existing loans at lower rates or resist paying higher rates, exposing the bank to credit risk.

The computed Probability of Default (PD) measure on the last adjusted mortgage variable rates indicates that VMUK models its credit risk to borrowers with an average perceived risk of default at 3.91% (Virgin Money UK PLC, 2023). To address increased base rates and increased risk of borrower defaults, VMUK has raised provisions for impairment losses on credit exposures, demonstrating proactive credit risk management.

Figure 9

Virgin Money UK Credit Risk Model:
Average Probability of Default (PD)

VMUK: Asset Products (Interest Income)	
Current Account Mortgages	4.33%
Overdraft Terms	14.90%
Residential Standard Variable Rate	9.49%
Loyalty Rate (For mortgagers > 7 years)	9.24%
Buy to Let Variable Rate	9.69%
Average Interest Income Rate	**9.53%**
Probability of Repayment (p)	96.09%
Probability of Default (1 - p)	**3.91%**

Source: (Virgin Money UK PLC, 2023)

Observing Virgin Money's active adjustments to variable-rate mortgage revert rates in response to base rate changes, and its apparent use of financial derivatives to hedge interest rate risk, indicates the bank's proactive approach in managing interest rate risk.

4. VMUK: Competitive Analysis

4.1. Key Ratios Comparison: ROA and ROE

As of last quarter, VMUK's return on assets (ROA = net income / average total assets) is 0.5%, reflecting a modest profit in relation to assets. The return on common equity (ROE = net income / average total common equity) is 7.5%, show a reasonable return to its shareholders (Appendix 4).

While the ROA of 0.5% falls below the industry average of 0.8%, the competitive ROE of 7.5% aligns with its peers. (Figure 10). The moderate ROA and ROE indicate that VMUK is likely operating with a more conservative risk profile, and there is room for improvement in optimising its capital.

Figure 10

Return on Assets Benchmarks

Name	Ticker	Return on Assets
Metro Bank PLC	LSE:MTRO	0.0%
Barclays PLC	LSE:BARC	0.4%
Financials	SECTOR:FIN.GB	0.4%
Virgin Money UK PLC	OTCPK:CBBY.F	0.5%
NatWest Group PLC	LSE:NWG	0.6%
Close Bros Group	LSE:CBG	0.6%
Secure Trust Bank Plc	LSE:STB	0.8%
Lloyds Banking Group PLC	LSE:LLOY	0.8%
HSBC Holdings PLC	LSE:HSBA	1.0%
Erste Group Bank L	LSE:0MJK	1.1%
JPMorgan Chase & Co.	LSE:0Q1F	1.3%
Bank of Georgia Group PLC	LSE:BGEO	6.1%

Return on Common Equity Benchmarks

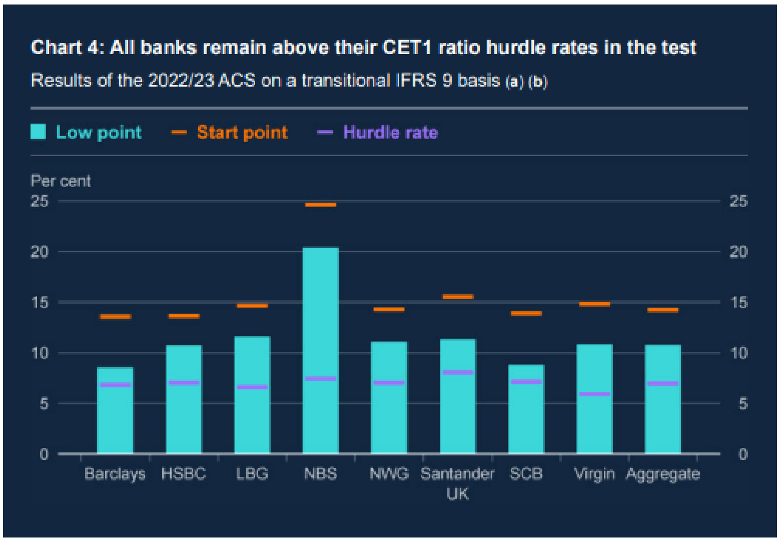
Name	Ticker	Return on Common Equity
Metro Bank PLC	LSE:MTRO	0.2%
Financials	SECTOR:FIN.GB	1.2%
Close Bros Group	LSE:CBG	4.9%
Secure Trust Bank Plc	LSE:STB	6.2%
Virgin Money UK PLC	OTCPK:CYBB.F	7.5%
Barclays PLC	LSE:BARC	8.0%
NatWest Group PLC	LSE:NWG	13.1%
Erste Group Bank L	LSE:0MJK	13.7%
Lloyds Banking Group PLC	LSE:LLOY	14.1%
HSBC Holdings PLC	LSE:HSBA	15.2%
JPMorgan Chase & Co.	LSE:0Q1F	18.2%
Bank of Georgia Group PLC	LSE:BGEO	41.2%

Source: (Finbox, 2023)

4.2. Stress Test

According to the Central Bank's stress testing, the major UK banks are well-capitalized and able to withstand severe macroeconomic stress. Virgin Money, having passed these tests, subsequently revealed a £175 million share buyback plan for its 2023 financial year on 02 August 2023, demonstrating confidence in its financial strength and reporting that margins had broadly held up despite challenges in the mortgage business (Metcalf, 2023) (Shabong, 2023).

Figure 11



Sources: Participating banks' STDF data submissions, Bank analysis and calculations.

Source: (Bank of England, 2023)

5. Virgin Money UK PLC: Future Outlook

5.1. Key Challenges

⇒ **Interest Rate and Inflation Dynamics:** The historical data suggests an assumption about the base rate not exceeding 6% (Bank of England, 2023) (Appendix 5). The BoE has held the interest rate steady since the last increment in August 2023, following the success in reducing the inflation rate from 11.10% last year to 6.70% in September 2023 (YCharts, 2023). As mentioned in section 3.3. of the report, VMUK may face potential downside in NII in case of a major reduction in the base rate.

⇒ **Share Buybacks Impact on Capital:** VMUK active share buybacks may strain its CET1 ratio down. Despite claiming sufficient capital margin for buybacks, its continuous buyback plan until 2025, as stated in the consensus report (Virgin Money UK PLC, 2023) creates concerns. If additional losses occur due to interest rate fluctuations, VMUK may face unexpected pressure on liquidity and CET1, posing liquidity and solvency risks.

⇒ **Conservative Provisions and Financial Health:** While VMUK has provisioned itself according to its conservative outlook, its approach highlights certain risks (Financial Times, 2023). The fact that VMUK trades at about 40% of its tangible book value may attract value investors but can also signal underlying issues, raising concerns about the bank's financial health.

⇒ **CMA Rating and Customer Satisfaction:** Virgin Money ranks 14th in consumer ratings by the Competition and Markets Authority (CMA) (The Grade, 2023), indicating room for improvement in customer satisfaction and credibility for growth.

5.2. Opportunities to VMUK

⇒ **Stock Valuation and ROE:** Trading below book value makes VMUK stock an attractive "Buy". Also, with VMUK's buyback strategy, the ROE to existing shareholders may potentially grow.

⇒ **Fitch Ratings Positive Outlook:** In June 2023, Fitch revised VMUK's outlook to Positive from Stable and affirmed the long-term Issuer Default Rating (IDR) at 'BBB+' (Fitch Ratings, 2023), indicating a positive outlook for VMUK.

⇒ **Digitization and Cost-Saving Strategies:** VMUK's active involvement in digitising financial services and cost-saving strategies (including branch closures) is expected to enhance the profit margin.

⇒ **Competitive Mortgage Strategies:** VMUK competes with the peer banks by cutting mortgage rates in the mortgage 'price war' and introducing new product strategies to capture the market share. Recently, Virgin Money launched a two-year fix for re-mortgagers with a lower 5.09% rate but a 1% product fee, differing from traditional fixed product fees.

⇒ **Proactive Credit Risk Management:** VMUK actively manages its credit risk with high provisions in impairment loss exposure, sending the signal to the market for preparedness to any potential losses or challenges.

5.3. Conclusive Remarks

Based on current financial information and risk assessments, VMUK PLC will likely survive the economic shifts and present a stock "buy" opportunity to investors. However, it is crucial to continuously monitor the bank's performance during significant economic challenges. Virgin Money's FY2023 full-year results announcement on 23 November 2023 is anticipated to provide a comprehensive view of the bank's standing and prospects. Investors are advised to stay vigilant for updates following the full-year results announcement.

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ab=ALL&query=any,contains,Virgin%20Money%20UK&offset=
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APPENDICES:

Appendix 1: Virgin Money Updating Valuation – report by J. P. Morgan

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Europe Equity Research
09 October 2023

J.P.Morgan

Virgin Money: Summary of Financials

Income Statement	FY21A	FY22A	FY23E	FY24E	FY25E
Net interest income	1,412	1,592	1,726	1,754	1,759
Non interest income	144	150	150	151	156
Net revenues	1,556	1,742	1,876	1,904	1,915
Non interest expense	(902)	(914)	(955)	(960)	(979)
Pre-Prov. Profits	654	828	921	944	936
Provisions	131	(52)	(275)	(279)	(337)
Adj. PBT	417	595	413	601	544
Income taxes	57	(58)	(100)	(150)	(136)
Minority interest	(79)	(70)	(70)	(70)	(70)
Adj. Net profit	395	467	243	380	338
PPOP per share	45.35	57.46	67.02	74.27	80.99
Reported EPS	27.39	32.41	17.67	29.91	29.28
Adj. EPS	27.4	32.4	17.7	29.9	29.3
DPS	1.00	10.00	5.30	8.97	8.78
Diluted shares outstanding	1,442	1,441	1,374	1,272	1,156

Balance Sheet Gearing	FY21A	FY22A	FY23E	FY24E	FY25E
Loans/Deposits	107.3%	109.7%	108.2%	109.3%	110.0%
Loan/Assets	-	-	-	-	-
Customer deposits/Liabilities	80.1%	76.5%	76.4%	75.1%	74.0%

Ratio Analysis (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Net interest margin	1.62%	1.85%	1.91%	1.91%	1.90%
Non interest income/Net revenue	9.3%	8.6%	8.0%	7.9%	8.1%
Leverage ratio	4.7%	4.6%	4.5%	4.4%	4.3%
Revenue/Assets	1.7%	1.9%	2.0%	2.0%	2.0%
RORWA	1.6%	1.9%	1.0%	1.5%	1.3%
RWA	24,232	24,148	25,180	26,092	27,105
Avg. RWA	24,316	24,190	24,664	25,636	26,599
Avg. IEA	84,000	85,111	87,264	88,907	90,435
Gross Loans	-	-	-	-	-
Avg. IBL	81,149	81,455	83,365	84,523	85,091
LLR	(91)	(104)	(114)	(112)	(110)
NPLs	957	1,038	1,142	1,085	1,030
P/BV (x)	0.5	0.4	0.4	0.4	0.4
P/TBV (tangible book value) (x)	0.5	0.4	0.5	0.4	0.4
Adj. P/E (x)	5.7	4.9	8.9	5.3	5.4
Dividend yield	0.6%	6.4%	3.4%	5.7%	5.6%
Dividend payout	3.7%	30.9%	30.0%	30.0%	30.0%

Balance Sheet	FY21A	FY22A	FY23E	FY24E	FY25E
Net loans	71,876	71,751	72,749	74,068	75,507
Net intangibles	373	267	246	251	256
Total assets	89,100	91,907	93,421	95,663	98,100
Interest earning assets	83,866	86,355	88,174	89,640	91,230
Deposits	66,971	65,434	67,228	67,795	68,618
Total liabilities	83,627	85,567	87,995	90,287	92,696
Shareholder equity	4,558	5,674	4,832	4,783	4,810
Minority interests	915	666	594	594	594
Total liabilities and Shareholder equity	89,100	91,907	93,421	95,663	98,100
Interest bearing liabilities	80,488	82,422	84,309	84,738	85,444

Book Value Per Share	316.1	393.8	351.8	376.1	416.2
Tangible Book Value Per Share	290.63	383.88	342.57	376.18	411.46

Asset Quality/Capital	FY21A	FY22A	FY23E	FY24E	FY25E
Loan loss reserves/Loans	-	-	-	-	-
NPLs/Loans	-	-	-	-	-
Loan loss reserves/NPLs	12.4%	9.8%	10.0%	10.2%	10.5%
NPL y/y growth	11.0%	8.5%	10.0%	(5.0%)	(5.0%)
Basel 3 CET1 Ratio	14.4%	14.6%	14.1%	13.6%	13.3%
CAR	-	-	-	-	-
Basel 3 Capital	3,482	3,519	3,552	3,544	3,595

Ratio Analysis (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Return on equity (ROE)	9.2%	9.1%	4.6%	7.9%	7.1%
Return on assets (ROA)	0.4%	0.5%	0.3%	0.4%	0.3%
RoNAV	10.2%	9.7%	4.9%	8.3%	7.4%
Tax rate	13.7%	9.7%	24.3%	25.0%	25.0%
Net loans y/y growth	(0.8%)	(0.2%)	1.4%	1.8%	1.9%
Assets y/y growth	(1.3%)	3.2%	1.6%	2.4%	2.5%
RWA y/y growth	(0.7%)	(0.3%)	4.3%	3.6%	3.9%
Deposits y/y growth	(1.1%)	(2.3%)	2.7%	0.8%	1.2%
Net interest income y/y growth	4.5%	12.7%	8.4%	1.6%	0.3%
Revenues y/y growth	1.2%	12.0%	7.7%	1.5%	0.6%
Adj. EPS y/y growth	1812.8%	18.3%	(45.5%)	69.2%	(2.1%)
BVPS y/y growth	13.2%	24.6%	(10.7%)	6.9%	10.7%
LLP/Loans	-	-	-	-	-
Equity/Assets	4.8%	5.7%	5.7%	5.1%	5.0%
Assets/Equity	20.9	17.7	17.6	19.7	20.2

Source: Company reports and J.P. Morgan estimates.
Note: £ in millions (except per-share data).Fiscal year ends Sep

Source: (Bloomberg, 2023)

Appendix 2: VMUK Dividend History

How our dividends work

Description	Dividend (per ordinary share)	Ex Dividend Date	Record Date (shareholders)	Record Date (CDI holders)	Payment Date
Interim 2023	3.3p	18 May 2023	Close of business on 19 May 2023 (GMT)	Close of business on 19 May 2023 (AEDT)	21 June 2023
Final 2022	7.5p	9 February 2023	Close of business on 10 February 2023 (GMT)	Close of business on 10 February 2023 (AEDT)	15 March 2023
Interim 2022	2.5p	19 May 2022	Close of business on 20 May 2022 (GMT)	Close of business on 20 May 2022 (AEDT)	21 June 2022
Final 2021	1p	10 February 2022	Close of business on 11 February 2022 (GMT)	Close of business on 11 February 2022 (AEDT)	11 March 2022
2020	No dividend in 2020				
2019	No dividend in 2019				
Final 2018	3.1p	17 January 2019	Close of business on 18 January 2019 (GMT)	Close of business on 18 January 2019 (AEDT)	15 February 2019
Final 2017	1p	18 January 2018	Close of business on 19 January 2018 (GMT)	Close of business on 19 January 2018 (AEDT)	10 February 2018

Source: (Virgin Money UK, n.d.)

Appendix 3: VMUK Interest Income and Interest Expense Calculation

Virgin Money UK adjusted mortgage variable revert rates following the Bank of England's announcement of a 0.25% increase in the base rate on 3 August 2023

VMUK: Asset Products (Interest Income)		VMUK: Savings and Deposits (Interest Expense)	
Current Account Mortgages	4.33%	Current Account Tracker	4.33%
Overdraft Terms	14.90%	Private saving Account (£1,000,000 and over)	5.61%
Residential Standard Variable Rate	9.49%	Private saving Account (£500,000 to £999,999)	5.35%
Loyalty Rate (For mortgagers > 7 years)	9.24%	Private saving Account (£0 to £499,999)	5.09%
Buy to Let Variable Rate	9.69%		
Average Interest Income Rate	**9.53%**	**Average Interest Expense Rate**	**5.10%**

Source: (Virgin Money UK PLC, 2023)

Appendix 4: Last quarter's ROA and ROE of VMUK:


VMUK L GB 1 162.35 -4.70 L162.25 / 162.35 L 2388 x 1031
At 15:27 Vo 704,856 O 167.00 L H 167.00 L L 162.05 L Va 115.178
VMUK LN Equity 98) Report Page 3/5 Security Description: Equity
Profile | Issue Info | Ratios | Revenue & EPS | ESG

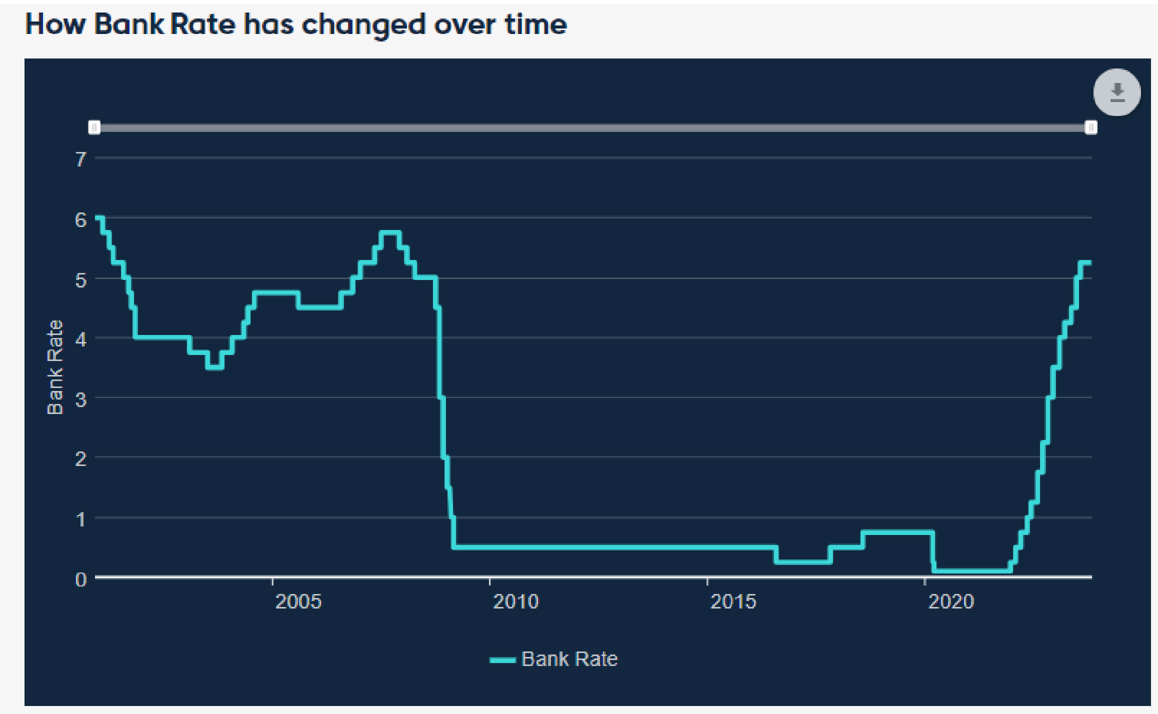
Fiscal Year End 09/2022
Last Quarter End
Current/T12M (GBP)

Issue Data		Per Share Data		Asset Quality	
Last Px	GBp/162.45	EPS	0.32	NPA to Tot Ast	1.1%
P/E	5.5	EPS T12M	0.30	NPA to Tot Ln	1.4%
Dvd Ind Yld	4.1%	DPS	0.10	LLR to Non Perf Ast	43.8%
P/B	0.39	Bk Val Per Sh	4.12	Cap & LLR to Non Per...	655.8%
P/S	0.7	Rev/Bas Sh	1.64	Rsrv Ln L to Tot Ln	0.6%
P/CF	0.5	T12M CPS	3.19	Prov Ln L to Tot Ln	0.1%
Mkt Cap	2,173.7M	Curr Shares Out	1.3B	NCO To Avg Tot Ln	N.A.
Curr P/FCF	N.A.	Op Inc / Avg Earn Ast	0.76%	Ln L Cov	N.A.
Growth Potential		**Profitability**		**Liquidity, Funding & Cap**	
EPS - 1 Yr Gr	18.7%	NIM	2.1%		
Ast 1Y Gr	3.2%	Effic Ratio	62.3%	Tot Ln to Tot Dep	110.3%
BPS 1Y Gr	18.4%	Ovrhd Effic Rt	49.4%	Earn Ast to IB Liab	251.3%
Tot Ln 1Y Gr	-0.2%	Prtx Mrgn	34.7%	CE to Tot Ast	6.9%
Tot Dep 1Y Gr	-2.3%	Eff Tx Rate	9.7%	Tier 1 Cap Rt	17.8%
NII 1Y Gr	16.1%	ROA	0.5%	Tot Rsk Bsd Cap Rt	22.0%
Earn Ast 1Y Gr	0.4%	ROE	7.5%		
Retntn Rt	69.8%	NI / Profit - 1 Yr Gr	13.3%		

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2023 Bloomberg Finance L.P.
SN 1694030 GMT GMT+0:00 G637-3311-172 10-Nov-2023 15:42:31

Source: (Bloomberg, 2023)

Appendix 5: Base Interest Rate Movement 2000 - 2023



Source: (Bank of England, 2023)