

Why buying Virgin Money will be good for our members



Buying Virgin Money will make Nationwide stronger and able to provide more financial benefits for our members

In March 2024, we confirmed our offer to buy Virgin Money. We will remain a building society and will be able to meet more of your banking needs. As a mutual, Nationwide's Board has a duty to act in the interests of current and future members. We therefore want to let you know how this acquisition will benefit you.

Value for our members, not shareholders

This deal will bring a profitable shareholder-owned bank into the mutual Nationwide Group. In the last financial year, Virgin Money generated pre-tax profits of £345 million¹ and announced distributions of around £270 million¹ to shareholders. After the deal, the Nationwide Group will be able to retain Virgin Money's profits in the UK for the benefit of its customers and members and to provide an immediate return from the purchase.

The capital that Nationwide is using to purchase Virgin Money is currently earning just over 5% in interest from the Bank of England. Using Virgin Money's pre-tax profits for the last financial year as an example, Nationwide would achieve a 12% return on the one-off purchase price. The price agreed for Virgin Money is also at a considerable discount to its book value, representing a difference of £1.5 billion². That means when we complete the deal, we expect to make a significant financial gain. The actual gain will depend on the fair value of Virgin Money's net assets at completion.

A stronger Society can offer better mortgage and savings rates

Virgin Money profits retained by the Nationwide Group will improve the financial strength of our building society. This means we expect to be able to provide a greater level of member financial benefits and incentives, including through better savings and mortgage rates compared to the market average. Adding Virgin Money to the Nationwide Group would make it bigger and stronger, and would lower its funding costs. This would increase the profits available to the Group to invest in better products and services.

1. Virgin Money UK plc Annual Report and Accounts 2023.

2. Virgin Money's book value is calculated from the value of its total tangible assets minus its total liabilities and Additional Tier 1 instruments. This is estimated at £4.4 billion, based on the shares in issue and the tangible net asset value per share of 337 pence, as at 31 December 2023 (Virgin Money UK plc Q1 Trading Update 2024). This is £1.5 billion more than the acquisition price of £2.9 billion.

Bringing the two businesses together gradually

Virgin Money will join Nationwide as a wholly owned subsidiary with a separate board, management team, and banking licence. It will be run separately for a number of years, in a similar way to how Nationwide successfully runs its buy to let mortgage business. This will allow us time to decide whether it is in the interests of members to combine some systems or services. We would only go ahead with this when it can be done with minimal disruption. Unlike mergers between banks in the past, our approach does not rely on quick integration or aggressive cost reduction. Virgin Money will have its own banking licence, and so the Financial Services Compensation Scheme protection will cover up to £85,000 of deposits per customer in each of Nationwide and Virgin Money.

Protecting customer service excellence

Nationwide's leading levels of customer service will not suffer. This deal will allow Nationwide to invest even more in service excellence in branches, digital platforms, and contact centres, as well as fraud prevention and support for vulnerable customers of Virgin Money and Nationwide. We can invest more because of the economies of scale that come from the deal, and because Virgin Money profits can be invested in improving its customer service rather than being paid to external shareholders.

Member exclusive products and payments

Last year, we provided a record level of member financial benefits, including from better savings and mortgage rates compared to the market average, and member exclusive products. Becoming a financially stronger Nationwide Group will improve our ability to maintain and improve these benefits. This year, we launched a Member Exclusive Bond, another Fairer Share Payment for eligible members, and an exclusive current account switching incentive for members.

Our Branch Promise

We have extended our Branch Promise by two years, meaning everywhere we have a Nationwide branch, we promise to still be there until at least the start of 2028. Over time, we will add Virgin Money's branches to our existing network of more than 600 Nationwide branches, and they will also benefit from our Branch Promise. Even where we have a Nationwide branch and a Virgin Money branch close to each other, we will keep them both open until at least the start of 2028³.

Mutual benefits for more people in the UK

After this deal, the Nationwide Group will be the second largest provider of mortgages and savings in the UK, increasing the impact that we make in communities. We will continue to commit 1% of our profits⁴ to charitable activities for the good of society.

3. Subject to any circumstances beyond Nationwide's control. Opening hours may vary. For more detail on our Branch Promise, see nationwide.co.uk/about-us/branch-promise

4. The 1% is calculated based on average pre-tax profits over the previous three years.

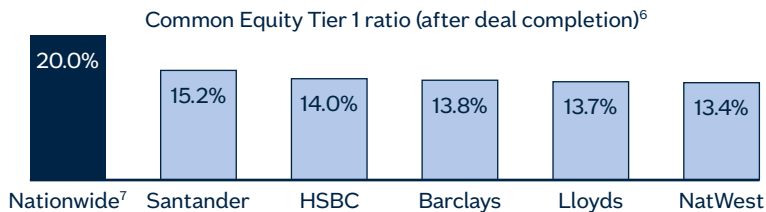
A broader range of products and services

Bringing the established business banking services of Virgin Money into the Nationwide Group will give us a broader and more diverse product range. This will make our income more resilient to economic changes and help protect the better interest rates on savings and borrowing that we offer. It also means we can start to support small and medium-sized businesses more quickly and efficiently than developing these services ourselves. This is something our members have been asking for, and a third of small business owners said they would likely switch if there was a building society offering a competitive business banking account⁵.

Good value for money and a strong balance sheet

We have carefully considered the needs of our members and their feedback on the things that are important to them. We are confident in the quality of Virgin Money's assets and the opportunities this deal brings for our members, following appropriate investigation and review. We believe the price agreed for the Virgin Money business represents good value and will lead to immediate financial benefits for the Society and its members.

Our balance sheet will remain best in class. As the graph below shows, even after buying Virgin Money, the key financial ratio used to demonstrate financial strength shows that Nationwide will be ahead of our peers and regulatory requirements. The three major credit rating agencies have reaffirmed Nationwide's existing strong ratings, recognising the transaction will provide the benefits of increased scale and diversification, and the potential to increase long-term profitability. Nationwide will continue to be a safe and secure place for our members' savings now and in the future.



Full details of the offer and answers to questions you may have are available on our website: nationwide.co.uk/virgin-money

5. 'Very likely' and 'Fairly likely' responses combined. Research conducted by Censuswide, with a sample of 1,000 small business owners (15 to 19 April 2024).

6. Santander UK, HSBC UK, Barclays, Lloyds Banking Group, NatWest Group. Financial year 2023.

7. Calculated by Nationwide using unaudited estimates of the position as at 30 September 2024. This is indicative only and subject to change, including due to external factors.