

VIRGIN MONEY HOLDINGS (UK) PLC: Q1 2016 TRADING UPDATE

VIRGIN MONEY POWERS AHEAD WITH RECORD MORTGAGE LENDING IN Q1 2016

- Recognised as one of Britain's most trusted banks¹
- Ranked the number one UK lender by mortgage intermediaries²
- The Group is making strong progress towards its mid-teens return target

Key Highlights

- Record gross mortgage lending, up 30% on Q1 2015, to £2.1 billion
- 3.4%³ share of gross mortgage lending in Q1 2016
- Residential gross mortgage lending increased by 35%; buy-to-let gross lending by 17%
- Net mortgage lending up 59% on Q1 2015 to £1.1 billion
- Credit card outstandings increased 77% on the same period to £1.8 billion

Jayne-Anne Gadhia, Chief Executive Officer said:

"I am delighted to report it has been another excellent quarter for Virgin Money. We had a record start to the year for mortgages and our savings franchise continues to flourish with a strong inflow of cash ISAs. I am particularly pleased with the performance of the credit card business which continues to exceed expectations one year on since launching to the public.

I would like to thank all of our customers and intermediary partners for their support in making it a record breaking start to the year for the business. We were delighted to be independently recognised as one of Britain's most trusted banks and the top UK lender by mortgage brokers. We will continue to put customers at the heart of everything we do and look to the future with confidence."

Business review

(£bn)	3 months to 31 March 2016	3 months to 31 March 2015	Growth
Gross mortgage lending	2.1	1.6	+30%
Net mortgage lending	1.1	0.7	+59%

(£bn)	As at 31 March 2016	As at 31 December 2015	Growth
Mortgage balances	26.5	25.5	+4%
Credit cards balances	1.8	1.6	+15%
Deposit balances	26.3	25.1	+4%

The UK mortgage market saw strong growth in both residential and buy-to-let lending during the period. Virgin Money (the "Group") grew gross mortgage lending by 30% to a record £2.1 billion in Q1 2016 compared to Q1 2015, a market share of 3.4%³. This lending growth was driven by increased residential gross lending which grew by 35%. Buy-to-let gross lending grew by 17% in the same period.

¹ The RepTrak survey is the result of more than 1,200 interviews with the UK general public (in Q1 2016) by the Reputation Institute. Virgin Money ranked second only to Nationwide, the UK's largest building society.

² Intermediary Tracking Study Q1 2016: commissioned by Virgin Money and conducted by BDR International. Virgin Money rated first for NPS (net promoter score). Lenders surveyed constitute two-thirds of the UK intermediary mortgage market by gross lending share.

³ Based on Bank of England data.

The Group saw a marginal improvement in front book margin spreads during the quarter relative to the second half of 2015, although spreads remain below the level experienced in the first quarter of 2015. Whilst net interest income has continued to grow strongly, the effect of lower front book pricing, relative to the same period last year, has continued to place downward pressure on Group net interest margin (NIM).

Credit card balances surpassed £1.8 billion at the end of the quarter as Virgin Money continued to grow the cards book towards the accelerated target of £3 billion of credit card outstandings by the end of 2017. The Group continued to expand and develop the credit card offering in the quarter with a range of products relevant to customers' borrowing and spending needs. The cards business continued to contribute positively and as planned to Group NIM.

During the quarter the Group continued to manage the cost and volume of retail deposits successfully. Deposits increased by 18% from 31 March 2015 to £26.3 billion and increased by 4% from £25.1 billion in Q4 2015. Growth in the cash ISA market was particularly pleasing and the Group's market share of cash ISA balances increased to 4.2% from 3.1% in the first quarter of 2015.

The Current Account, Investments and Insurance segment showed continued modest progress during the first quarter and income growth in this segment is expected to be weighted towards the second half of the year.

Costs were in line with expectations and the cost:income ratio reduced further due to continued operational leverage.

Our continued and diligent adherence to strict underwriting standards has led to asset quality remaining strong and the cost of risk remained stable in the quarter, reflecting the continued high quality of the asset base.

Profitability, earnings and underlying return on tangible equity were in line with expectations during the quarter.

Virgin Money continues to enjoy capital ratios well above regulatory requirements which positions it for growth and equips it to meet known changes to regulatory requirements.

The Group remains focused on prudent and efficient funding management and the loan-to-deposit ratio increased slightly during the quarter. Prudent liquidity management enables the Group to be confident in meeting all the current and known future regulatory liquidity requirements.

During the first four months of 2016, Virgin Money successfully offered two issues of Residential Mortgage Backed Securities (RMBS) totalling £1.3 billion, extending our reach in the wholesale markets beyond Sterling and Euros into US Dollars for the first time. Both offerings saw strong demand and were multiple times oversubscribed.

Outlook

Virgin Money has performed strongly in the first three months of the year with growth in mortgages, cards and savings, as well as earnings performing in line with expectations. The Group continues to earn returns in excess of its cost of capital and to make strong progress towards its target of mid-teens returns on tangible equity by the end of 2017. The Group looks to the future with confidence.

With residential mortgage volumes in the market growing and helping to drive year-on-year growth in Virgin Money's gross mortgage lending in the first quarter, the Group expects front book asset spreads to remain broadly stable at current levels for the rest of 2016. It is likely that the volume of buy-to-let lending will reduce in the second quarter compared to the volume written in the first quarter. Virgin Money entered the second quarter with a strong pipeline and continues to expect overall gross lending volumes to increase year-on-year in 2016.

During the quarter we have achieved strong growth in mortgage lending at spreads moderately ahead of Q4 2015 and we currently expect a NIM of around 160bps for the full year.

We continue to expect our credit card business to grow strongly towards its target of £3 billion of outstandings by the end of 2017 and to contribute as expected to returns.

Virgin Money is a strong, customer-focused, low risk retail bank, unburdened by conduct legacy issues. The Group has a strong capital base and excellent asset quality. The focus on maintaining a high-quality balance sheet is supported by our prudent risk appetite, comprehensive contingency planning and robust approach to risk management. As a result, the Group is well placed to navigate the economic uncertainty related to the lower for longer interest rate environment, the upcoming EU referendum and the evolving UK and European regulatory framework.

The EU referendum remains the largest source of domestic uncertainty. Irrespective of the outcome of the EU referendum, Virgin Money will continue to focus on growing the business by supporting customers with good value products and services and delivering strong shareholder returns.

MORE ON OUR STORY

Each quarter we will continue to update the market on selected aspects of our progress and achievements during the period.

Summary

We remain focused on ensuring our strategy is able to deliver long-term success and to generate sustainable returns for shareholders, allowing for ongoing developments in the economic, competitive and regulatory environment.

We are delighted with the performance of the business so far in 2016, including mortgage intermediaries ranking Virgin Money as the number one UK lender and being recognised as one of Britain's most trusted banks by consumers.

Our results demonstrate that our ambition to make 'everyone better off' and the strong culture underpinning the business is instrumental in driving our ongoing success for all of our stakeholders.

Mortgages

The UK mortgage market continues to improve and Bank of England data shows that the gross mortgage market was almost 40% higher in Q1 2016 compared to the same period in 2015. In this market context we were particularly pleased with the ongoing strength of our mortgage business which achieved a 3.4% market share of gross lending during the period.

Our mortgage business remains high-quality and we continue to focus primarily on providing residential mortgages. The mortgage book comprised 82% residential and 18% buy-to-let mortgages at the end of March 2016.

Our intermediary business continues to thrive and we have made excellent progress with our intermediary partners. Our intermediary net promoter score (NPS) improved from +40 at the end of Q4 2015 to +57 and we now rank top in our peer group, up from sixth in 2015.

Savings

Our savings business has enjoyed an excellent first quarter of the year, with a strong performance in new business as well as growing existing customer balances. New net inflows in Q1 2016 of £1.8 billion were almost double Q1 2015. Our ISA campaign enjoyed a strong start with momentum building strongly towards the end of the tax year. ISA applications accounted for more than 70% of total applications in March 2016.

We continue to offer customers a range of competitively-priced instant access and fixed term savings products, both available as ISAs, through all our channels: store, online, digital, postal and telephone. Our digitally-led distribution model, supported by our efficient national store footprint, continues to be a key factor in growing our retail deposit business cost effectively.

Credit Cards

As indicated at our cards spotlight session on 20 April 2016, we continue to make significant strides with our credit card business and celebrated the first anniversary of the public relaunch of the Virgin Money Credit Card business in March 2016.

We were delighted to win four awards at the uSwitch awards in February, including Best Overall Customer Service, Best Application Process and Best for Balance Transfers. We also won the Judges Award at the 2016 Card and Payment Industry Awards. This is a special award in recognition of the development of our cards business, including the successful migration of 675,000 customer accounts to our new operating platform in 2015, and the creation of a new payments business under the Virgin brand in such a short period.

We were especially pleased with the results of our most recent credit card customer satisfaction survey which reported a NPS of +42. We believe this reflects our ongoing commitment to high standards of customer service and our provision of easy to use, transparent products.

Insurance

Our travel insurance proposition continues to perform particularly strongly and we continue to work closely with our strategic partner Ageas to build upon our general insurance proposition for customers. We were very pleased with the increasing momentum in our home insurance line in Q1 2016 and we look forward to building on that. We are also looking forward to developing a new life insurance strategy having mutually agreed to end our current distribution agreement with Friends Life.

Customers and Distribution

We provide award-winning customer service to over 3 million customers and operate a digitally-led distribution model supported by Contact Centres, Stores and Lounges.

Our customer Lounges are unique in UK banking and are a strong commercial success. They deliver excellent customer satisfaction ratings and achieved a NPS of +88 at the end of the first quarter. The Lounge concept was also awarded the Customer Satisfaction Innovation of the Year award by the Institute of Customer Service in February 2016.

During the first quarter we saw continued growth in customer numbers and customer satisfaction. Research from the Reputation Institute revealed that Virgin Money was one of Britain's most trusted banks in April 2016 and second only to Nationwide, Britain's biggest building society.

Virgin Money Giving

Virgin Money Giving continues to go from strength to strength and a record amount of money was donated through charity fundraising pages linked to the 2016 Virgin Money London Marathon, up 12% compared to last year.

Culture

We are proud of a culture that sustains our ambition to make 'everyone better off'. It provides the foundation for our differentiated approach to banking and it cannot be readily and credibly replicated in the UK banking sector.

Our ambition to make 'everyone better off' combined with our prudent approach to financial and risk management has resulted in strong relationships with our customers, corporate partners, shareholders, regulators and ratings agencies.

We are committed to ensuring that our culture is always flexible, inclusive and balanced and we signed up to the HMT Women in Finance Charter in March 2016, an initiative designed to improve gender diversity in senior positions in the financial sector.

Analyst and investor call

An analyst and investor call will be held as follows:

Date: Wednesday 4 May 2016

Time: 9.30am

Dial: +44 20 3059 8125

An operator will assist you in joining the call.

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NOTES TO EDITORS

About Virgin Money

- Virgin Money offers savings, mortgages, credit cards, current accounts, currency services, pensions, investments and protection products to customers across the UK
- Virgin Money's business ambition is to make "everyone better off" – this philosophy underpins our approach to business by offering good value to customers, treating employees well, making a positive contribution to society and delivering a profit to shareholders
- Virgin Money is the official sponsor of the London Marathon, the biggest annual one-day fundraising event in the world. Virgin Money has helped London Marathon runners raise over £315 million, including funds raised through Virgin Money Giving the not-for-profit online fundraising service, since 2010.

Note: all figures contained in this trading update are unaudited

Forward looking statements

This document contains certain forward looking statements with respect to the business, strategy and plans of Virgin Money Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Virgin Money Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other G8 central banks; fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to Virgin Money's credit ratings; the ability to derive cost savings; changing demographic developments, including mortality, and changing customer behaviour, including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for one or more countries to exit the Eurozone or European Union (EU) (including the UK as a result of a referendum on its EU membership), and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural and other disasters, adverse weather and similar contingencies outside Virgin Money's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices; regulatory capital or liquidity requirements and similar contingencies outside Virgin Money's control; the policies and actions of governmental or regulatory authorities in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; market relating trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and the success of Virgin Money in managing the risks of the foregoing.

Any forward-looking statements made in this document speak only as of the date they are made and it should not be assumed that they have been revised or updated in the light of new information of future events. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange plc or applicable law, Virgin Money expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in Virgin Money's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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