



Capital Markets Update

Released : 16/11/2017 07:00

RNS Number : 6479W
Virgin Money Holdings (UK) PLC
16 November 2017

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

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VIRGIN MONEY HOLDINGS (UK) PLC: CAPITAL MARKETS UPDATE

Virgin Money Holdings (UK) plc ("Virgin Money" or "the Group") is today giving a Capital Markets Update. As part of this, the bank will set out the Group's strategic priorities, focused on plans for its digital bank, as well as guidance for 2018. Virgin Money remains on track to meet financial targets for FY 2017, and there are no changes to the FY 2017 guidance provided at the Q3 2017 trading update.

Key highlights

- **New digital banking platform will transform Virgin Money's market presence; beta testing will commence in H2 2018, with full roll-out commencing in 2019**
- **A digital personal current account will sit at the heart of the new proposition and the Group is targeting £5 billion of customer deposits within 5 years of launch**
- **Entry into UK SME banking market announced, starting with a deposit account in January 2018 with £5 billion of SME deposits targeted within 5 years of launch**
- **Execution of Group strategy will lead to material return on tangible equity (RoTE) improvement over the longer term**

Jayne-Anne Gadhia, Chief Executive, Virgin Money, said:

"I am pleased to report that we continue to build our low-risk business model and execute our customer-focused strategy, set out at IPO, with excellent results. The UK economy has remained resilient and we have continued to grow responsibly in each of our core businesses, deliver on our financial targets and continue to be recognised as one of the best-rated UK retail banks for customer satisfaction.

"Looking forward, in order to capture a number of the highly attractive strategic opportunities in front of us, we have refreshed our strategic plan, taking into account expectations for the UK economy, the competitive landscape and exciting market opportunities.

"We believe that the combination of technology and regulatory change, including the consequences of Open Banking and PSD2, will level the competitive playing field in UK retail banking considerably. This creates a compelling opportunity for Virgin Money to transform its market presence and long term returns. To realise our vision for the future, we are building a differentiated, market-leading, data-driven digital bank that will be capable of meeting individual customers' tailored needs and provide significantly more than the functionality of a current account. We aim to increase our customer numbers by over 50 per cent from the current 3.3 million and believe that is an achievable target given the potential to access and attract up to 19 million UK customers across the Virgin Group.

"Traditional banks are investing in digital transformation but are burdened by legacy systems; whilst digital start-ups currently lack the customer base to disrupt the sector on any significant scale. Our end-to-end platform will enable us to capture market share by taking full advantage of our unique position and competitive advantages which are defined by a well-known and trusted brand, no legacy issues and an established scalable customer base.

"We are also delighted to announce the start of our journey into SME banking and we will be launching a new SME savings account in January 2018. This will enable us to start developing relationships with business customers and lay the foundations for potential broader future development in this

attractive, but poorly served market."

"We start the next phase of our evolution from a very strong position. We are proud of what Virgin Money has achieved since listing in 2014. We have scale positions in our core markets. Broadening our customer reach through our new digital and SME businesses will transform our market presence. We believe they will double our access to UK retail banking revenues. We will improve the depth of individual customer relationships and expect higher product penetration. We expect to capture around £10 billion of deposits from new sources through these new initiatives within 5 years from launch. Once operating at scale, the digital bank will enjoy a fully loaded operating cost per customer around 40 per cent lower than the equivalent for Virgin Money today.

"Along with our ambition to make 'everyone better off', our long-term strategy outlines a roadmap which we believe will provide a unique opportunity for value-accretive growth and sustainable returns in the near-term, and a business capable of generating and sustaining a materially improved return on tangible equity in the longer term."

Strategic Priorities

We will continue to drive Growth, Quality and Returns by:

- Continuing to deliver excellent customer service, satisfaction and trust in UK banking;
- Maintaining our high-quality balance sheet and strong capital position;
- Driving the benefits of our operational leverage and cost efficiency;
- Sustaining solid double digit RoTE in 2018 through value-accretive growth;
- Broadening our customer proposition and deepening customer relationships by realising our digital future;
- Diversifying funding sources to lower our average cost of funding;
- Launching a savings proposition for SMEs and beginning to develop relationships with business customers; and
- Exploiting the full potential of our digital banking platform to deliver material improvement to RoTE over the longer term.

Virgin Money Digital Bank

Virgin Money is building a differentiated digital banking platform which we believe will have the power to disrupt UK retail banking significantly. The new platform will leverage the power of data and world class analytics to drive a market leading customer proposition with the potential to drive significant shareholder value.

We are creating a best-in-class, data-driven digital bank, designed to bring significant customer benefits and unique value for the business through a low-cost, scalable model. A digital universal account will sit at the heart of the new proposition providing significantly more than the functionality of a current account.

Based on the strength of the Virgin brand and our ability to leverage our high-quality customer base of over 3 million existing customers, we anticipate our new digital banking platform will drive a lower cost of customer acquisition compared to traditional banking models, generate additional capital light revenue streams and acquire £5 billion of low cost funding within 5 years of launch.

The development of our new digital bank will transform the outlook for the business. In order to capitalise on the opportunity to create long term value, the digital bank will require investment in the early years to create momentum with customers and establish itself in the market.

Our current expectation is that the financial impact in the first full year of digital bank trading will be an increase of approximately 10 per cent in our total group operating costs. We would expect to gain momentum in the build of the digital bank customer base with revenues growing over the next two years towards the point where the digital bank breaks even.

Beyond that, we expect the digital bank to progress towards making a material contribution to the business. We estimate that within 5 years of launch the digital bank could provide an increase in return on tangible equity of three percentage points. This makes no allowance for improvements to operational efficiency that will be derived as we deploy digital functionality in our current core business.

We will start a beta phase of testing in H2 2018, with a full roll-out of the digital bank planned to commence in 2019.

SME

The Virgin brand has strong appeal to SME owners. The SME banking market is currently concentrated in the hands of four incumbent banks and there is an opportunity for a customer-focused disruptor to deliver better service and value for customers.

In January 2018, we will commence a phased SME development programme by launching a savings proposition for SMEs. This will allow us to start developing relationships with business customers ahead of our plans to launch a Business Current Account (BCA) by the end of 2018. Supplemented by our existing scale and underpinned by our market-leading brand trust and awareness, this is a logical next step in the evolution of our business. Given the scale of the market and current dominance of four incumbent banks, we believe that we could achieve £5 billion of funding within 5 years of launch. The immediate opportunity is based on our current platform.

We can confirm that we are looking at the opportunity to apply for funding from the RBS state aid alternative remedies package, announced by HM Treasury in September 2017.

Outlook and Guidance for FY 2018

The UK economy remains supportive with low unemployment and a resilient housing market and we continue to experience robust customer demand and stable customer behaviour. The strength of our core business, combined with our strategy and plans for the future, means that we anticipate sustaining a solid double digit return on tangible equity in 2018.

In order to manage margin in the face of ongoing competitive pressure in the UK mortgage market, and consistent with our long term strategy to deliver high quality sustainable returns, we expect our share of gross lending to be at the lower end of our previously guided range of 3 to 3.5 per cent.

We expect the credit card product mix will start to evolve with the launch of affinity products. While relatively modest in 2018, we expect this shift in product mix to support a percentage growth rate in balances in the mid-single digits.

As a result of lower front book spreads in the mortgage market, we anticipate a reduction in Banking NIM to between 165 and 170 basis points in 2018.

We will continue to manage costs tightly and drive operating leverage through the business. As a result we expect to keep operating costs broadly stable on 2017.

Our lending discipline, combined with our strict and consistent application of underwriting standards, supports our high-quality balance sheet and resilience in our lending portfolios. We anticipate our cost of risk to be no higher than 20 basis points in 2018, including the impact of IFRS 9.

Investment in our strategic priorities will increase the level of overall investment spend. This will increase from £90 million in 2017 to £100 million in 2018. Within that total, investment in the core business, consistent with prior years, will be £50 million and will include the launch of SME deposits and the SME current account proposition, investment in the Digital Bank will amount to £40 million of capitalised spend and the increment of £10 million will be a non-trading charge in relation to Virgin Atlantic financial service products. The total amount will be funded from existing resources and is included in our capital guidance.

We expect our CET1 capital ratio will remain above 12 per cent at all times. Allowing for guidance from the PRA in relation to IFRS9, and expected transitional relief, we expect to finish 2018 with a CET1 ratio towards the upper end of a 12-13 per cent range.

We intend to continue to pay a progressive dividend, meaning a continued increase in the amount of the dividend in pence per share.

The key UK macro-economic assumptions underpinning outlook and guidance for 2018 are:

- 0.5% base rate in 2018
- GDP growth of 1.2% in 2018
- Unemployment of 5.3% in 2018
- House Price Inflation of 2.1% in 2018

ENDS

The Capital Markets Day presentation will be held at Chartered Accountants Hall, 1 Moorgate PI, London EC2R 6EA

A copy of the presentation and a live webcast will be available at <https://uk.virginmoney.com/virgin/investor-relations/results-and-presentations/>

Conference call and Webcast information:

Date: Thursday 16 November 2017

Time: 09:30

Dial: +44 20 3059 8125

Participant Password: Virgin Money

Link: [Register to view](#)

An operator will assist you in joining the call.

The person responsible for arranging for the release of this announcement on behalf of Virgin Money is Katie Marshall, Company Secretary.

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Virgin Money Investor Relations

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.
- More than 13,500 charities have registered with Virgin Money Giving and, by the end of Q3 2017, over £590 million had been donated to charities through the service since its launch in 2009, resulting in an estimated £18 million more donated to charities because of its not-for-profit model.

The information contained within this announcement is deemed by Virgin Money to constitute inside information as stipulated under the Market Abuse Regulation No 596/2014. Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

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 exit by the UK from the European Union (EU) and the potential for one or more other countries to exit the Eurozone or EU, 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, including as a result of the exit by the UK from the EU, 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.

Virgin Money Holdings (UK) plc - Registered in England and Wales (Company No. 03087587). Registered Office: Jubilee House, Gosforth, Newcastle upon Tyne NE3 4PL.

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The company news service from the London Stock Exchange

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