



Virgin Money H1 2016 Results Presentation Transcript

Tuesday, 26th July 2016

H1 2016 Progress

Jayne-Anne Gadhia

Chief Executive, Virgin Money

Continued strong progress

Good morning everyone. Thanks very much indeed for joining us here today. I am really delighted to be reporting a very strong set of interim results for Virgin Money this morning. As you will have seen, I hope, underlying profit before tax increased by 53% compared to the first half of 2015, and that drove an increase in RoTE to 12.2%. We are particularly delighted that that has allowed the Board to declare an increased interim dividend, which is up 14% to 1.6p per share.

Everyone at Virgin Money is rightly proud of these results, and these are the best results that we have achieved together since the acquisition of Northern Rock. I think that they form a really strong platform for future growth. Of course, since we last spoke the results of the EU referendum vote have made the future of the UK economy much less certain. Since the vote to leave the EU, we have experienced continued strong customer demand and no evidence yet of changes in customer behaviour. However, as you know, some people are suggesting that the housing market might suffer and that unemployment may rise. For our part we certainly expect a reduction in the bank base rate, and although it may not fall as far as zero we have stressed our plans for just that scenario.

However, let me be really clear: our message today is one of confidence in the future of our business. That confidence is built on the three pillars of our strategy that have served us, we think, really well since we listed nearly two years ago. That is growth, quality and returns. We have built a platform for growth which is currently delivering above our plans and above our expectations in each of our major product lines. Our focus on quality and our lack of legacy issues has meant that in the good times we have been able to build protection against future uncertainties, whether that is in impairments, capital or liquidity. The flexibility of our operation and very tight management of costs protects our returns such that we are already producing a RoTE in excess of 12%, and we are pleased to be declaring a growing dividend today. Now let me explain a little more about these points in turn.

Growth: we will continue to grow despite uncertainty

First of all, our business growth has met or exceeded all of our planned expectations and, to be clear, we continue to expect it to do so. During the first half our mortgage balances grew by 9% compared to 1% market growth, and we took almost 3.6% of the gross mortgage business written in the UK according to the latest Bank of England figures at the end of May. Looking forward, it is hard to envisage any circumstances where we will write less absolute mortgage volume in 2017 than we expect to achieve in 2016. With our increasing retention and a potentially softening mortgage market, that would see our absolute market share of mortgages growing strongly.

Our cards business continued to build strongly, and at the end of the first half of the year we had written more than £1bn worth of new cards compared to one year ago. That saw us doubling the acquired business that we had bought from MBNA and migrated to our own systems in early 2015. As a result, we remain absolutely confident in achieving our target of £3bn worth of outstanding cards balances by the end of 2017.

Our retail deposits business grew extremely well to fund this asset growth. Indeed, we continue to take very high market shares in the cash ISA business.

Turning to the other income lines, our current account business has started to thrive during this period. Albeit from a low base, we have seen balances grow by 18%, and that has been driven by a doubling of new current account volumes during the period. With customers and commentators acknowledging that our basic bank account is amongst the best in the market, we continue to expect to see this thrive. Our other income lines are also meeting our planned expectations, and our strategic vision of the future sees them continue to grow, broadening and producing capital-light returns.

Despite the uncertain outlook in the UK economy, we see that our place in acquiring customers in this environment remains sound. Our relationship with mortgage intermediaries means that volumes of mortgages are not just price-dependent. Our cards business continues to appeal to a wide cross-section of UK customers, and we are in a position where we are able to take the best credit quality customers to meet our growth expectations.

We see no let-up in demand for retail deposits from Virgin Money, and indeed we have seen growth both in our online and our branch acquisition channels. As I said, we continue to invest in current accounts. We would expect to double the volume of current account sales in 2016 from 2017, and hopefully again in 2017. Our other operating income lines now have the focus of Anth Mooney to run those exclusively. As a result, we will be developing our asset management business, building out our travel insurance lines and developing our life and critical illness businesses.

We can build on this confident outlook because of our brand, because of the quality of our team, because of our franchise and because of our scale. Our relatively small business in the context of our product markets, alongside the huge fame of our brand, the quality of the service and the competitiveness of our products, gives us continuing confidence that our volume aspirations will be met even if market size is reduced.

Largely, that is a function of focus, but particularly of customer advocacy which has been increasing significantly since we last spoke. Indeed, our net promoter score has increased to an outstanding +28, and that is all to do with the focus that we put on giving our customers a great deal, personal service and the sort of delivery that they expect from a trusted bank that they want to partner with in managing their financial affairs.

I think it is worth reminding you that research from the Reputation Institute revealed in April that Virgin Money was one of Britain's most trusted banks, second only to the Nationwide. Indeed, our customer numbers have grown materially since we last spoke. We added customers at a rate of almost 50,000 a month in the first half of the year. We continue to create great customer experiences through our stores, online and in our Lounges.

Indeed, in the last month we have opened a new Lounge in Sheffield to significant customer acclaim. That Lounge is seeing new people come to our business in their hundreds on a daily basis in Sheffield alone. It is a unique model that we continue to expect to bring unique benefits to customers and to our business in the years ahead, whatever the uncertainties the economy might hold. It is clear to me that the power of the Virgin brand continues to be a real and measurable competitive advantage in driving valuable customer relationships at scale.

To be clear, we have entered the period of post-referendum uncertainty in a very strong position. We expect to build on the success of our H1 results and to continue strongly and confidently with great credit quality and strong customer relationships, to grow the business.

Quality: we have laid strong foundations for the future

The reason for my confidence is that our real focus on the quality of our business has given us demonstrably strong foundations for the future. Based on what we can see at the moment, we think it very unlikely that the cost of risk in our book will materially exceed the upper end of our guidance of 20bps in 2017. Now, let me explain why.

Mortgages

First of all, I wanted to be clear about the mortgage business that we write. We are not a specialist buy-to-let lender. We have not entered the high LTV market, except where supported through the Help to Buy Scheme and its governing guarantee. Our mortgage business is 82% residential, and our buy-to-let business has a single property focus where 85% of our customers have only one buy-to-let property with us. We never lend more than 75% on buy-to-let business and our average front-book LTV in this half has been 69%. That is against a portfolio where the average LTV is 55%, which makes us, we think, very well placed to face into any form of reduction in house prices or contraction in the housing market.

When we look at the credit quality of our customers, we remain extremely clear that our portfolio will perform well in a downturn. Indeed, as yet we have seen no deterioration in the superb credit quality that we continue to enjoy. Of course, that is no accident. We have always looked at the loan-to-value of our business, the credit cut-off of our mortgage customers and the affordability that makes us a responsible lender through the cycle.

The quality of our mortgage portfolio today and the lending policies that we commit to continually, as well as tightening in our credit appetite for the future – for example, we will be further reducing our LTV exposure and we do intend to reduce our buy-to-let lending somewhat – all that means that we remain sure of robust credit quality. That applies equally to our mortgage customers, to their properties, to our back book and to all the new business that we can continue to write.

Credit cards

Secondly, our credit card business benefits from exactly the same diligent focus on credit quality. The book that we acquired from MBNA was seasoned, and those accounts had never been more than 30 days past due. The way that we acquired new business is also clear. We set very high hurdles for our credit cut-off and we never down-sell. To the extent that our customers move into arrears, we have a rolling sale of debt programme with Arrow Global, which means that we do not carry credit cards with significant arrears and we charge them all off after 180 days. The team that have set up our excellent credit card franchise served in MBNA through the 2008 downturn, and as a result they have been able to bring all of the lessons of managing a credit card portfolio during a downturn to the management of our credit card business today.

The quality is strong. Indeed, the credit card growth and credit quality that we have experienced in H1 seems to me to be second-to-none. To be clear, we do not see a scenario where the credit card impairment cost of 2008/9 would continue here. We will continue to sell charged off debt as we do currently. Looking forward, we have already increased our cut-off levels to protect the quality of the book. That will also have the effect of reducing volumes of

new cards by about 20% from the current run rate. Nevertheless, we still continue to expect to achieve card volumes of £3bn by the end of 2017, but by acquiring only the highest credit quality customers in order to do that.

The issue for us, of course, will be if there is an increase in unemployment, but we start from a strong base with 4.9% unemployment in the UK currently. As things stand, if we were to apply a downside scenario which replicates the unemployment experience of 2008, then we could expect unemployment now to get to just a shade below 8%. Just to be clear, a downturn that severe is not our expectation. However, if that scenario were to be realised, and even if we made no other adjustments in our business and fell asleep at the wheel, the impairment consequence of that would mean that the Virgin Money business would still be able to deliver a strong and high-single-digit return on equity.

Deposits

The quality of our retail deposit base is equally encouraging. We have been able to reprice our deposit book over the last four years on a number of occasions, as you know. We have done that with a view to treating customers fairly but also remaining competitive in the marketplace. Our average cost of funds as a result reduced from roughly 285bps in 2012 to 138bps today. However, make no mistake: there is room to go further. Banks are starting to reduce their deposit rates and we are continuing to evaluate when a rate reduction may be appropriate for us as we plan for a zero base rate environment.

We are also very clear that we are largely protected from a full in-bank base rate, and this is an extremely important point for me to get across to everyone today. The majority of our asset and liability book is fixed and hedged, or reprices automatically on a base rate reduction. As a result, our net interest margin is largely protected. Just over £3bn of our mortgage book and just over £12bn of our savings would need to be manually repriced in the event of a base rate reduction.

In the first few months, the lag between that asset and liability repricing is likely to give us a small profit reduction in the mid-single-digit millions of pounds. Once those adjustments have been made our NIM remains strong and largely protected for the future. Our plans have been stressed assuming a zero base rate environment, and this is where our lack of a big fee-free current account base starts for the first time to work to our advantage. The squeeze on margins that may be felt as a consequence of having material PCA balances will not be felt at Virgin Money.

On NIM we guided to 160bps for this year, and from what we can see we will be close to that this year, not least because our front-book pricing has been somewhat better than we expected. We have decided not to guide to 2017 NIM now. We think it much better to focus on sustainable returns in the period of future uncertainty. Uncertainty of where the base rate will end up, and the reaction of competitors to that, makes a specific prediction of NIM for us difficult we think, and probably unhelpful at this point.

Returns: further progress towards mid-teens returns in 2017

We have a competitive and economic advantage at a time of rate reduction, and we will make sure that that comes through in the returns that our investors see. Those returns we continue to expect to be strong. During the first-half we have seen front book mortgage spreads improve, and of course the current yield curve means that swaps are priced in such a way that our asset spread on new mortgages is better than it has been for months. Given the

downward pressure on margins in a reducing base rate environment, we would expect asset pricing to continue to be robust, and indeed potentially to improve. As I said previously, we would expect our retail deposit pricing to reduce alongside the market, albeit we would of course make a commitment to continue to be competitive and to give our customers the best possible rate.

Clearly, with an uncertain future, we like other companies continue to focus on our costs. You will have seen that in H1 our costs have reduced slightly. That is thanks to a lower FSCS charge, and our jaws have been something that we have been particularly pleased about. With costs down by 2% and income up 14%, our operating leverage continues to come through. As a management team we are taking more time to focus harder on the costs that we can reduce, and during the coming months we would expect not just to hold our costs flat but to achieve some further level of reduction which reinforces our continued confidence of achieving 50% cost:income ratio in 2017. Broadly, we would expect to use those cost savings to protect returns from any increase in impairment, and as a consequence to protect us from a potentially deteriorating credit environment, so we can be well provisioned and well positioned for whatever the future may hold.

How are we going to address the cost-reduction? Broadly, we have concluded that it is important for us now to focus on top priority projects. This means that our digital development will continue to be our number one focus in the immediate future. That means that we will not invest in the development of our SME franchise at this time. We always said that we were waiting to hear the outcome of the referendum vote before we committed to that business, and whilst we still believe that it is right for the Virgin Money franchise to offer lending to small businesses, we do not think that this is a business that we should enter at a time of economic uncertainty. We have also concluded that we should not build out an unsecured loan portfolio at this time, largely for the same reasons, but instead focus on our experience and confidence in our prime position in the credit card market. Taking those two new product lines out of our investment portfolio allows us to focus on our digital development. That, along with the increasing efficiency of our operational capability, means that we are confident in our ability to reduce costs from plan in the years ahead.

All of this together means that we continue to be confident of delivering strong and solid returns. I am not now going to recommit to delivering mid-teens returns next year. Of course, I think that would be remiss of me given the uncertainty ahead. However, from what we can see now and our central case based on that outlook, I remain confident that we will continue to move strongly in that direction, and certainly to deliver solid double-digit returns both this year and next. As you have seen in H1 this year, our RoE already exceeded 12%. I would of course suggest that this is one of the strongest returns in UK retail banking. It is a prize and an achievement that we look to continue to build on. Now let me hand you over to Dave, who will explain some of the substance behind my remarks in a bit more detail.

Financial Results

Dave Dyer

Chief Financial Officer, Virgin Money

Balance sheet progress

Thank you Jayne-Anne, and good morning all. I am going to take the next few minutes talking about our very strong first half and then, given current circumstances, I hope you will forgive me for taking a little longer than usual to explain why our outlook for growth is positive, why the quality of our business is a robust foundation for the future, and why we are well protected against a probably reduction in base rates.

We believe our outstanding H1 results are clear evidence that our focus on growth, quality and returns has paid off, and that the diligent application of this approach will continue to pay dividends both literally and metaphorically in the uncertain period ahead.

Our success in mortgages and cards has resulted in the 11% increase in loans and advances to customers you see here. In mortgages we delivered record gross lending at £4.3bn, 19% up on H1 2015, and our net lending also grew by 29% versus the same period. Our credit cards book grew by 94% from H1 last year, and was 31% up on the end of 2015 as we continued to develop and expand our credit card offering. This pace of growth was ahead of the run rate required to hit our £3bn balance target for the end of 2017. Asset growth was largely funded by retail deposit growth, as well as the ongoing diversification in our wholesale funding base. Customer deposits grew by 8% to a record £27.1bn and taking a 4.8% market share, nearly three times our stock share of 1.6%.

In the wholesale markets we successfully issued £1.3bn of RMBS, made up of sterling, euro and dollar tranches. Ahead of the referendum we brought forward issuance originally intended for Q3, thereby completing our planned wholesale issuance for the year. The execution of a further deposit reprice combined with the tight pricing of our wholesale funding resulted in our total funding costs reducing further, with the weighted average now at 1.38%.

Our loan-to-deposit ratio of 109.6% remains well within our risk appetite of 115% and we expect this to reduce over the balance of the year as, as I have said, we have no further wholesale issuance. Finally, our capital levels remain strong at 15.3% CET1 ratio and 17.5% total capital.

P&L: further growth in returns

Moving on to the P&L, the strong growth in our mortgage and cards portfolios more than offset the net interest margin headwinds, and resulted in the 14% growth in net interest income you see here. Turning to other income, this has held up well in H1, growing by 9% and supported in part by the gain arising on our investment held in Visa Europe following its acquisition by Visa Inc. The recognition of the Visa Europe stake in H1 now reverses our prior guidance, in that other income will now likely be weighted to the first half of the year. As Jayne-Anne has indicated, this area remains a significant opportunity for us, and we have reorganised our people and refocused our proposition to take advantage of the considerable headroom our brand buys us in this space.

We further improved operational efficiency and delivered strong cost management. Total costs, which include the full annual FSCS levy of £7.8m, reduced by 2%. This resulted in a

16% positive jaws and an improved cost:income ratio now well below 60% and firmly on target for our 50% target for 2017. We continue to apply strict risk management and underwriting standards in both mortgages and credit cards. The increased impairment charge seen here was fully driven by the growth in balances, not by any deterioration in asset quality. As you can see, the cost of risk was flat at 12bps despite the increased cards mix.

As a result of that strong income, cost and impairment performance, we therefore delivered a 53% increase in underlying profit before tax. I will just say a little more about a couple of the metrics.

Net interest margin

I am pleased to say NIM behaved exactly as we expected, resulting in the 160bps for the period you see here. As anticipated, this came under pressure from both front-book mortgage spreads, which remain below those on the back-book. However, we were pleased to be able to deliver completion spreads ahead of H2 2015 and application spreads yet further ahead, reducing the ongoing difference between front-book spreads and back-book. We were able to largely offset asset side effects through increased card balances and deposit back-book repricing, and just as for mortgages, we saw improving deposit pricing over the period.

Asset quality

Our overall asset quality is reflected in our credit metrics improving or remaining stable. The total cost of risk is flat to prior period at 12bps, with the growth in the book driving the increased charge. Impaired loans remain stable at 0.4% of the lending book, and the ratio for provisions to impaired loans improved to 39.9%. All in all then, a picture of high quality, stability in performance and increased prudence in provisioning. I will say some more about this area later.

P&L: further growth in returns

Returning to the overall P&L then, the very strong profit performance delivered a 270bps improvement in return on tangible equity to 12.2%, and as a consequence underlying earnings per share improved by 4.1p to 15.5p. This period undoubtedly represents our best results since we acquired Northern Rock, and a continuation of the improving trend over every quarter since.

Statutory profit and tax

Just touching on statutory profit, you will see the continued reducing term in exceptionals. The fair value adjustment is on our hedges reflecting swap rates movement in the immediate aftermath of the referendum vote, but should reverse to zero over the life of the underlying derivatives. Some of you have noticed this morning there is a similar entry through reserves which has affected our TNAV, but exactly the same applies; as the derivatives underneath unwind, so will that adjustment. Of course, the period felt the full impact of the tax surcharge. Nevertheless, statutory profit after tax improved by 57%.

Well placed for growth in mortgages and credit cards

Mortgages

Let me say a little more about our confidence in continuing growth into the period ahead. Firstly, on mortgages we have a very strong pipeline at £2.4bn. Recent performance in the pipeline has seen, if anything, more rapid completion than before the referendum. Our application to completion conversion rates have also increased during the year. With

retentions robust and improving, we have every prospect of solid growth in the immediate future. Looking further forwards, we do expect to moderate from our above-plan levels of growth in the first half, partly through further credit tightening. However, we can reduce flow in certain segments, such as buy-to-let, and still produce healthy balance growth at the top of our 3–3.5% guidance. As Jayne-Anne has mentioned, part of our confidence in these projections is based on our ever-strengthening intermediary relationships and performance, as evidenced in our improving NPS scores and industry awards. We will retain focus on that if, as is possible, a slowdown in market growth occurs.

Credit cards

For cards, the story is similar. We have been outperforming our required run rates, and therefore can ease back volumes by tightening underwriting and still retain confidence in achieving our target of £3bn by the end of 2017. We do not expect a major contraction in card market volumes available to us, not least because we did not see that in the last stress period. Indeed, Virgin Money volumes actually peaked at around 615,000 cards per annum in 2009. Our forward volume requirements are less than half that number.

We remain confident we can maintain asset growth with an improved risk profile in the period ahead. As I have already indicated, we have had no difficulty raising deposits at volumes and rates better than plan, and fully expect that to continue. A further point for us on growth is capital strength. You have seen already that we have a high quality capital stack with over 15% CET1 and over 17% total capital. This provides a solid platform to support growth.

Our leverage ratio is strong for our asset mix

The area on capital we have reconsidered is leverage. We have discussed with investors and regulators the appropriate leverage levels for a low-risk book such as ours. Our H1 outcome at 3.8% is materially above the regulatory requirement of 3% plus buffers. The chart shows this 3.8% against peers, plotted according to the proportion of books in mortgages, illustrating that we are entirely in line with players who, like ourselves, have lower risk balance sheets. As a result, we are revising our leverage minimum to 3.6%. We are confident in doing this because of the very high quality of both our book and our capital stack, and our ongoing focus on retaining that strength. Over time, as our unsecured mix rises, we expect the actual ratio to move back towards 4% and we can reaffirm our 12% CET1 and 15% total capital floors.

Building from the first-half delivery of exceptional growth and with a strong capital position, we are well placed to remain true to our guidance of 3–3.5% mortgage share and £3bn credit card balances by the end of 2017.

Make up of our lending

On our growth, quality and returns focus, let me turn to quality. I thought it worth stressing the make-up of our book. It is 93% secured. It is not overly exposed to buy-to-let, with 82% of mortgages being residential. It is low LTV with an average of 55% across each of the residential and buy-to-let portfolios. It has 77% of residential and 83% of buy-to-let portfolios below 70% LTV. It may be worth underlining the point that we do not have any commercial real estate or indeed SME exposure. Those are areas that we think may be vulnerable over the coming period.

VM's mortgage book profile compares well to the market

Just to amplify the mortgage quality point we compare well across the market, and the chart specifically shows how our LTV profiles stand as against the challenger group. Perhaps even more importantly than the average LTV position, we do not have any exposure to the highest LTV bands and, as you will appreciate, it is there that stress will be felt first. Furthermore, where we have exposure over 90% it is covered by government guarantees.

I should mention one specific concern that some commentators have raised, which is the London bubble. With high house price inflation and high case size, there could be risk there. For us this is not an issue: our total exposure in Greater London to cases over £1m is £135m.

The mortgage book risk KPIs confirm underwriting rigour

Looking underneath the skin of the mortgage book, we take further confidence from a number of factors. Firstly, conservative underwriting, including our affordability stress testing, our caps on income multipliers, our caps on LTV, our caps on multiple buy-to-let loans. All of this leads to the outstanding performance on arrears that you see in the top-left chart. Our prudent provisioning is at levels higher than our modelling and our empirical evidence implies. As you can see at the top-right, this has meant a rising provision coverage despite a falling cost of risk experience. Lastly, our capital is further protected by the excess expected loss or EEL provision, which stands at £40m at the half-year.

Credit card risk profile improving

Similarly, our cards book is exceptionally high quality. I hope many of you will have seen Michele's Spotlight presentation earlier this year, which drew a picture of a distinctive business model delivered by an experienced team. It is this team's application of detailed statistical analysis on underwriting and subsequent portfolio management that results in our recruiting high quality customers who then deliver us low arrears and low impairments.

To bring that to life just a little I will talk about one aspect. Entering the last recession, MBNA credit scorecards provided good risk discrimination. However, as events unfolded, our team's analysis proved that there were further dimensions of data which could improve customer risk identification, one being affluence. It transpired that two customers with otherwise identical credit scores could have quite different behaviours under stress according to their affluence segmentation. We now benefit from a decisioning process that includes these and further learnings, and produces a book that we know will be more resilient under stress.

These features and the rest of our rigorous process has seen the credit quality of our customers improve. The left-hand side chart here illustrates the ever-increasing proportion of our book with higher quality risk scores, and therefore lower credit loss expectations. Additionally, as illustrated in the right-hand side table, we further moderate our cost of risk through our debt sale programme with Arrow Global. As Jayne-Anne has said, this mitigation will continue into the coming period. All of this means we are well positioned to weather any deterioration which may materialise in the second half and beyond.

Credit card book profile improving on own platform

A further point on the cards book is the differential performance of cohorts within the book. The first block on the chart represents our older book, around 30% of the total, which is of outstanding quality for a mature portfolio: producing sub-2% impairments in H1, as indicated by the diamond. The 2013/14 vintage is of lower quality. This derives from the bounty arrangement with MBNA which did not allow us to sustain top quartile pricing and, as we have

learned, being lower down the pricing table reduces the quality of credit. However, it is the smallest part of the book at around 10% of balances and at around 3.2% impairments rates, it is still good quality as compared to the market.

The new book, written under our most up-to-date decisioning processes on our own platform, is emerging as even stronger quality than the old book. You can see, given the proportions of these cohorts and their different impairment performance, how the total impairment rate is blended down by the better quality elements. We expect that to continue into the future as business written on our own platform further dominates the outcome. To give you an indication of scale, we would expect that by the end of next year the older book would represent a little over 20% of the overall book, the 2013/14 book to be in the mid-single digits and the new book to make up the balance at over 70%.

As Jayne-Anne has said, both for mortgages and cards we are recalibrating our underwriting approaches at the margins, to recognise the potential for more difficult credit experience. This implies moderation and quality tightening, not significant curtailment of our lending, and has been modelled assuming a worse outcome than the latest HMT forecast for 2017. These HMT forecasts stand at 5.7% for unemployment and a fall in house prices of 0.6%. We are very aware that as we face into uncertainty, with potential for rising unemployment and falling HPI, the management of quality and impairments is paramount. However, the very high quality of our book, our rigorous underwriting and the further tightening I have referred to, give us confidence in reaffirming our 20bps cost of risk guidance for our central case view of 2017.

BBR reductions and 'even lower for even longer'

Now let me move onto returns. Going forwards, we expect an even lower for even longer base rate environment. As you can see on the slide, which covers all of the major current account providers except HSBC, for whom the data is not readily available, those players with high proportions of current accounts in their deposit books also tend to have low average costs of the deposits. The rate reduction which is possible in August will potentially be easier for us to accommodate than for some competitors. We have more room for manoeuvre on liability pricing.

Furthermore, a large proportion of our book is fixed and hedged, or reprices automatically and at around £3bn our SVR book is a relatively small proportion of our mortgage book. Therefore, any pass-on to that is not as difficult for us as for some. In summary then, we are planning on the basis that if base rates fall there will be a one-time hit to our NIM because of a timing lag between the repricing and the assets and liabilities. However, we are not yet expecting any further effects other than that to the front-book mortgage pricing and the positive drive from increasing cards mix. However, given the level of uncertainty around the macro environment and competitor response, we are not as yet giving guidance to 2017 NIM.

Cost remains a lever available to Virgin Money

We have long talked about our operational leverage, and the flat profile quarter-to-quarter during a period of strong balance sheet growth is evidence of this. We continue to expect to manage cost carefully whilst preserving our investment in our digital future. As indicated, investment as a proportion of spend has increased from 8% to 10% over the period. The second chart here also illustrates the proportion of our costs that are in central functions and operations, reducing from 57% to 54%. We believe we still have room to improve on these.

These broadly head-office costs give us a potential to tighten further. Given that potential and our progress to date, we are reaffirming our commitment to a cost:income ratio including FSCS of 50% in 2017.

Doing what we said we would do

To recap: in the first half of this year we have delivered further growth in high quality assets both in mortgages and credit cards; supported our asset growth with strong deposit delivery and increased wholesale diversification; further diversified our funding base supporting a NIM of 160bps; controlled operating costs whilst maintaining investment spend; continued our prudent risk management, and as a result delivered controlled impairments; and maintained strong capital levels. This strong performance resulted in a 53% increase in underlying profit before tax and a 270bps improvement in return on tangible equity to 12.2%. We have once again done what we said we would do, and I hope I have demonstrated that we have every reason to expect to carry on delivering to our commitments. As a result, we can confirm an interim dividend increase to 1.6p, reaffirming not just the performance of the business to date but also our confidence in our plans. All in all, I hope I have illustrated why we are able to confidently press forward with growth, maintaining or indeed improving quality, driving increased returns through NIM resilience, tighten cost control and manage impairments. Let me hand back to Jayne-Anne for some more on the outlook. Thank you.

Looking Forward

Jayne-Anne Gadhia

Chief Executive, Virgin Money

Outlook

Thanks, Dave. I hope that between us, Dave and I have been able to demonstrate that we are very well set for a lower base rate environment, and indeed that we may have some competitive advantage there. Whilst unemployment might increase, the protections on our credit card book see us very well set to manage them, with a team who gained valuable experience in dealing with a downturn much worse than the one that we anticipate now.

Our experience in the mortgage market has enabled us to write volume business at high quality, which we believe will continue and will protect us in the years ahead. As a result of all of that, I am very pleased to be able to stand here today and, with confidence, re-guide the market in the key areas to which we have always committed since we listed. We do expect to see mortgages growing, and we do expect to take the top end of our target of 3-3.5% share of gross lending in the mortgage market.

We continue to be very confident of writing high quality credit cards up to £3bn worth of balances by the end of 2017. Dave has demonstrated why we believe with confidence that we can continue to look in our central case at a cost of risk of around 20bps, at the top end of our initial guidance. As Dave has explained, we have looked again at our minimum leverage ratio and have reduced it to 3.6%, still well ahead of the regulatory minimum.

Our focus on costs means that we can continue to commit to a 50% cost:income ratio in 2017 and, as you will recall, that now includes the FSCS levy. We are confident of maintaining solid double-digit returns from this point and I would hope to make progress beyond that. We continue to focus on delivering on growth, quality and returns. Customers continue to come to us at the rate of nearly 50,000 per month, and our NPS score is ahead of all competitors so

far at +28. Our focus on digital banking will enable us to be fit for the future whatever that holds, and the Virgin brand continues to be a real competitive advantage as we look forward beyond Brexit.

All in all, we are delighted with our H1 performance and continue to look forward to delivering on our strategy, despite any uncertainties ahead. Thanks very much indeed for your time today and Dave, I and the whole management team are here and look forward to taking your questions. Thank you very much.

Q&A

Michael Helsby (Bank of America Merrill Lynch): Can I have two please, Jayne-Anne? You have put out an extremely confident message there on volume, not just in cards but in mortgages. I just want to explore where you are getting that confidence in your mortgage volume from: if the market dips like people expect because of buy-to-let or whatever, can we expect that your gross market share not to be the constraint, it is absolute volumes? That would be question one.

Question two is just on costs. I know I was surprised about how good the cost performance was in the first half of the year. I thought you might flex it a little bit going forward, but I did not anticipate that in the first half. In your remarks there you indicated that cost might actually go down in the coming months: is that just because of the FSCS levy or is that ex that? Any more comfort in terms of what you can tell us on costs would be very helpful.

Jayne-Anne Gadhia: Thanks, Mike. Let me start with mortgages. Part of the benefit, as I said earlier, of our scale is that we are able to focus so hard day-to-day on the volumes of mortgages that we acquire and I think we have said to the market previously, we look at what volume of mortgages we want for the year and we work out how many applications we need to get every day to do it. It enables us to manage operational efficiency strongly, and it means that we are absolutely on top of the new business that is coming in literally on a day-to-day basis. I see, personally, the number of mortgage applications that we get every day as one of the first emails that I get in the morning. We are absolutely focussed on it.

Clearly we stand here at the end of July and we are pretty confident where we are going to end up this year. Our plan for 2017, frankly, says if we write no more absolute volume of mortgages next year than this year, and our retention continues to improve – because actually mortgage retention has been better than plan this year – and the market softens, then actually that position is very good for us because it will give us absolute extra market share, balanced growth with quality and we are very confident of being able to achieve that because of our day-to-day focus on the volumes that we need.

Part of the reason for that confidence, as I think Dave and I both tried to explain, is that we have worked really hard on building very broad, deep and valuable relationships with intermediaries around the country. Some of you may have seen we have done an advertising campaign recently, for example, which encourages customers go to their intermediary, not necessarily have our product. We are really confident that our product and service with intermediaries will mean that they will recommend us. That has been very, very powerful. I stand here today thinking that broadly, whatever happens to the mortgage market, I would be pretty confident of the absolute volume of mortgages we are going to write next year. We absolutely focus on it, as I say, on a day-to-day basis.

On costs, I smile when you say you are surprised that costs are where they are. The management team smile with a grimace, because we set off this year knowing that in the year ahead, particularly if the vote were to create some uncertainty, that the old adage, income is not certain and costs are absolutely in our control and we absolutely said to ourselves, there is no excuse for costs not being in control. And so everything that we have done this year has been with a view to improving efficiency and managing costs. The improving efficiency point is really important and I do not quite know why, if I am honest, but operating leverage has come through more strongly this year than in previous years, maybe because we're four years on from acquiring Northern Rock, it is properly in our control now.

Just to give you an example, the operations team have done brilliantly. We did not think that we would get our time from application to offer down from where it was last year. I think it was about 14 days last year; it is down to 12 as I speak now, but volumes have gone up. That has meant that we have not had to increase the scale of the operation team materially at all. I think it has gone up by £2m, but volumes have gone up massively. That is one of the really important focusses. We have always said that we consciously wanted to de-layer the business, and you will see in our numbers that there are some payments made to senior leavers. That is a number of people that have left us during this period because we are shaping the business now perhaps differently and more efficiently, given the way in which we can see the future.

I should not underplay either the importance of the decision we have made to focus on digital. As you know, we had hoped that if the referendum vote had gone the other way it would have been our plan that we would move into SME. We had always said and guided the market that if the vote went the other way it was unlikely that we would go into SME, because it just does not seem the right time for us to take the risk of an unknown asset class. As I said earlier, we still think the brand is right for SME in the future, it is just that the time is not right now.

When you start to look at that and think, why do we not then pull back from anything peripheral to our important strategy now, digital, really focus all of our people and investment costs on the digital bank? We are going to get two benefits. One is an absolute cost saving, and that is not suggesting that we minimise investment. Dave has shown that our investment actually has gone up not down. However, we want to put all of our welly behind this particular programme, because obviously the investment in digital is going to give us additional cost benefits as well as commercial benefits going forwards.

As you look a bit more broadly, there are always areas that we can improve around procurement and contractual positions and we are doing all of that. What we are not saying is that we are going to have a big redundancy programme and reshape the scale of our business in that sense, but we do look at every pound that we spend and, like all businesses, there are pounds that you can save.

Rohith Chandra-Rajan (Barclays): I would like a couple too, if that is okay? First one on credit quality, and thanks very much for all the additional granularity that you have given us this morning on both the quality of both the mortgage and the cards book. I was just wondering if I could ask for a little bit more?

Jayne-Anne Gadhia: It is never enough, is it?

Rohith Chandra-Rajan: It is never enough, no. Firstly, just on the 20bps charge for next year in terms of how that would split, so what the underlying assumptions are by book. Then also your comment that if unemployment went up to 8% then you would still expect a high single-digit RoE seems to imply something like a 30bps impairment charge. Core expectation for next year 20bps could go up to 30bps, so what are the underlying assumptions by book there? That would be the first one.

The second one, just a bit more detail on the credit card margin which has fallen from 8.05% in the second half of last year to 6.84% in the first half of this. Clearly you are putting on new business at lower margin, but it looks like that incremental business has been put on at quite a low margin. If I just look at the £500m change in the balance, it seems to imply a less than 4% margin on the new business compared to the 7% EIR that you talk about. Just curious to know what is going on there please?

Jayne-Anne Gadhia: Okay. I will ask Michele to talk cards in a moment, if that is alright? As far as your first question is concerned, and again we should probably ask Michele to talk a little bit more about this, the vast majority of the 20bps guidance on cost of risk comes through on cards. Without wanting to sound in any way complacent on the subject, however hard we look at, shake and unpeel our mortgage book we do not see material impairment risk in the mortgage book. Most of that increase comes through on the cards business.

To your point, Rohith, you are absolutely right that in a very high-stress scenario the cost of risk could increase from 20bps to we think a maximum of 30bps, based on the experience of the 2008–10 crisis. The point I wanted to make was we do not expect the future, post Brexit, to get to that place. That we think would be a very top end of anything that could be of an issue. The reason that we give that guidance, Rohith, to be honest is to show how well protected we are, not how much at risk we think we are, if that makes sense.

Michele, would you like to come up and just add to all of that, please? This is Michele Greene, for those of you who have not met Michele before. I know you did a presentation to the market a few months ago. Michele was at MBNA for 17 years, brought our credit card business to Virgin Money and has run it subsequently.

Michele Greene: Maybe just a little bit more colour on the impairments first, and then I will tackle the NIM question on card. Jayne-Anne has referenced and Dave has referenced, and actually if you look at page 20 of Dave's presentation it is quite clear in terms of the mix of the portfolio, which is really important from the cards perspective as you look at the blended and permanent rate. I think there are several things that are really important. We have taken a lot of learnings from the 2008 and 2009 recession, and already we are thinking about: how could they impact our book as we manage it going forward? We are confident in the quality of the book that we are currently booking. The volumes are outperforming, the quality is outperforming our expectations. That has enabled us to apply some of the learnings now to tighten a little bit, thereby improving the overall total quality. We have already built a degree of stress into it to tighten, and that still enables us to grow because we are outperforming the volumes. We have a lot of confidence in terms of the absolute overall performance of the card book from the impairments perspective.

In terms of the NIM: again, when you look at the mix of the book you can see obviously that we have grown £1bn year-over-year already. That is clearly coming from the assets that are coming through EIR. We are holding our EIR rate as we had communicated previously. There

is no change in that. Really what you are seeing is last year, obviously because of migration and the building of the book, growth was lower and slower than it is this year so there was a heavier emphasis on the back book. We had always anticipated and I think communicated that we would expect to see the blend of the overall card NIM fall as the growth continued to outpace previous periods. That front book is holding in terms of our EIR assumptions, and we talked about it in the Spotlight. It really is all you are seeing is just a consequence of the front book beginning to overtake the back book. It is a pure mix consequence.

Jayne-Anne Gadhia: Thank you, Michele.

Nick Baker (Goldman Sachs): Morning. Firstly, just following up on Michael's question on mortgage volume, really: you seem clearly, absolutely committed to the 50% cost:income ratio target for 2017, and you clearly think about absolute lending volumes, so whatever the market does. However, in order to meet the 50% you clearly must be assuming that you write those at an acceptable level of NIM. So what gives you that confidence that not only the volume will come through, but it will come through at a margin that will allow you to hit that 50% number?

The second one really is on cards. Does the fact that a decent bit of the book is on 0% balance transfer mean that any seasoning of that book is delayed, so that if we are looking for it in 2017, maybe we are looking a bit too early, and that it will come through later, maybe in 2018?

Then thirdly, you have adapted your plan a number of times since IPO, so whether you have moved the loan-to-deposit ratio cap, you have accelerated the card growth, or you have brought the leverage ratio down. What incremental wiggle room is there within the plan, so that, for example, if NIM is a bit tougher, when you have an absolute volume target, you can still make the 50% cost:income ratio target?

Jayne-Anne Gadhia: Okay. Thank you for that. Michele, would you like to answer the cards part first and I will think about the other two? Thank you.

Michele Greene: So in terms of the seasoning, obviously in 2017 we will have the impact of reserving from 2018 into 2017. So obviously the book is clearly benefiting from both the quality of that new book, the fact that it is market-leading which, as I had explained previously, helps with adverse selection and then obviously the shape of the impairments curve will follow again what I have previously communicated, which is a slight step-up. So there is no change in the shape but clearly we are benefiting from the mix, just as we are on the overall total portfolio; we are benefiting from the overall total mix. There is no reason to think about it any differently than you would have done previously, would be the best way to think about it.

Jayne-Anne Gadhia: Thanks, Michele. I mean, I think unpicking your question, to say: what do you think your margin is going to be, going forward? So, just to reiterate for everyone: from our perspective, a number of things are happening with margin and asset spreads at the moment. As we both said, I think, over the last months front-book spreads on mortgages have been better than previously, and front-book spreads on deposits have been much better than we planned. That is obviously encouraging in a number of ways. I continue to make the point, which I hope keeps coming through, that when I hear us all talk like this, as a management team, I hope we demonstrate that we are absolutely, completely and utterly hands-on in managing our commercial business on a day-to-day business. We get MI every

day, we meet every day and we discuss any issues every day, and if we are off plan we talk about it every day, right? We are absolutely focussed on that.

What that means in the mortgage business in particular – and I should introduce Hugh in a moment – is that we are able, as far as possible, to manage our spreads very acutely. That is why, actually, we did not see a bulge in the buy-to-let business in the way that others did during the stamp duty period, because we knew that, actually, we just want to take a flat level of buy-to-let business during the period and we were able to price accordingly to get the volumes in that we needed. We got a little bit of a bulge because people wanted to complete earlier, but it did not bring forward all of our buy-to-let business. We can be quite precise and very deliberate in the shape of the portfolio, the volume of business we write and where we take margin, and in the areas that give us the best spread.

I cannot over-emphasise how important it is for us that we have that real laser-like focus on delivering the volumes within our planned parameters. Just to continue to repeat it, we do it every day. We know, as I say, the daily apps that we expect, the margins and spreads we expect on them, and if we do not get them we are working hard to work out how to get them tomorrow, alright?

So that is important on mortgages. On retail deposits, as I said: again, in a falling base rate environment we do believe that we have competitive advantage. There is definitely room, if the market is in the same place, to reprice, again, our portfolio. You can see that from our average cost of funds, at 138bps, to be honest; you can see that there is some additional wriggle room there. I know there are other challengers; I think we have seen Tesco and M&S reprice their deposits already, and we will see what happens over the coming months. However, we very clearly focus on the competitive environment and at some point, clearly, we are taking far too much deposit volume because we are not priced properly. We have been in that position a couple of times actually, this year, so we know that there is an opportunity to reprice. We normally lag, because we want to make sure that we are treating customers fairly, but we have to do it because otherwise we would be too long in liquidity.

As Dave said, and I think I said as well, because we do not have that big 0% current account book and we do not see a margin squeeze in the same way that we would anticipate, potentially, some of our competitors having that. So once we are through the reduction in base rate – and as you can imagine, I think my chairman said to Dave yesterday, 'Have you done 20 versions of the plan, looking forward?' to which the answer was, 'No, we have done many more than that' – we really, really, really stressed all of our potential assumptions to get to these numbers and our confidence in them.

As we look at a reduction in base rate, the way in which it will affect us is entirely to do with the timing difference between our repricing of asset and our repricing of liabilities; that is low-single-digit millions of impact on our net interest income line and therefore on our NIM. Once we are through that, we think our NIM tramlines stay pretty solid. So that, together with the consistency of cards pricing – and you heard that, since Hugh has joined us, Anth is running our non-interest income lines, because we have so much opportunity there that we have not quite broken through. As you know, Anth did a brilliant job in the mortgage and savings business, and so we are bringing his expertise into the new product lines and Hugh's expertise into running the banking lines, if you like. We are clear that we expect growth there too.

So, from an income perspective, of course it is not entirely certain but we are as planned, as detailed and as confident as we can be at this point in time, so I hope that helps. I mean just to be clear on net interest margin for this year, right? Last time we all got together, I said we would get to 160bps; for half one we have got to 160bps. If there was not to be a reduction in the bank base rate this year, we would still be confident of 160bps. The bank base rates single-digit numbers might take that down a little bit. If that is what is to happen, then we will be back up again, if you see what I mean.

In terms of what levers we continue to have, I think my point continues to be that we focus on every part of our business really hard all the time, and one of the things I have to say I am looking forward to a bit is, when we get through to the end of 2017, we can just guide for a year ahead. When you remind me that when we floated the business in November 2014, we gave guidance right the way out to 2017; we are delighted that, actually, given everything that has changed in the external environment, we are more or less on track for that. That is because we continue to unbundle that all of the time, we continue to work out how to achieve the overall goal all the time. We have been able to absorb the bank tax in that, as you know. We have been able to absorb FSCS in that, because we originally guided that the 50% cost:income ratio would be without FSCS, and we have made continuing progress to very strong returns. It is by pulling all of the different levers – I could not give you one – at every point in time, and as a management team being focussed on it all the time, that we remain confident of delivery. We have done it so far, I hope you would agree.

David Wong (Credit Suisse): Two questions, if I may. First of all, could you perhaps update us on your thoughts around your capacity or appetite for inorganic opportunities post-Brexit? That is the first question.

On the second question, back to your credit cards book: I mean, you have made clear that you have been focussing a lot more on the affluent section of the market to preserve the credit quality. Remind us, maybe, what the profile of that segment is: is it a segment you think could be affected by changes post-Brexit if, say, financial services firms in London were to reduce employment in the UK, for example?

Jayne-Anne Gadhia: Okay. I will ask Michele to talk about affluence afterwards, but in terms of inorganic opportunities, I think we did not say anything post-Brexit different than we said pre-Brexit, which is that we always look at opportunities and consider whether or not they would create shareholder value. However, the strength of our H1 results implies, I think, that we are pretty good at managing organic growth. Acquiring customers to our own brand, as it were, with our own credit underwriting criteria is something that is very powerful and very valuable, we think.

We think that growing customers that are loyal to us – 50,000 a month, with an NPS score of +28, creates long-term value in a different way than acquiring a portfolio of assets might. So we will always continue to look but we are very, very confident of our organic plan. Michele?

Michele Greene: Yeah. So a bit of context around the affluent segmentation. So actually, the financial strategy segments have about 52 different affluence segmentations in them. We consolidate that down to about 12. One of the things that we learned the last time: our scorecards did not actually reflect affluence in the scorecards themselves. One of the things we learned was that, while the scorecards continue to work, affluence was actually a really important lead indicator of either stress or resilience. So we actually, subsequent to that,

include FSS segmentation in the scorecards. The real point we are making is by knowing that affluence can actually impact an individual's stress, that is actually already reflected in terms of how we decision today, and actually we are paying even more attention to that in terms of any expectation we may have around an impact of a potential increase in unemployment. There are quite a number of the segments, and they are embedded in the scorecards in terms of how we are actually thinking and planning the business today and into the future.

Ian Gordon (Investec): Morning, can I have two, please? Firstly, I think at Q1 you called out re-mortgage flow as being an important driver of your resilient volumes. Obviously, looking at industry data, as expected re-mortgage has been far stronger in buy-to-let relative to house purchase, and it has also been true to a proportionally lesser extent in the owner-occupier segment. Can you just give me a bit of granularity on how important re-mortgage has been in Q2 and continues to be in your forward-looking flow?

Then secondly, just a sort of general question: there is a wide expectation that we will get some stimulus measures on 4th August alongside base rate cuts. The real question is: what do you want? Both from a macro perspective – I could construe that, given your mortgage competence, you do not actually think we need any – then on a micro perspective, are you looking for any tinkering with FLS? Clearly, unlike some of the specialist lenders, you do not have further drawing headroom. Is that an area where you are crossing your fingers?

Jayne-Anne Gadhia: No, funnily enough Bloomberg asked me almost the same question on that point this morning, Ian, which is: what do you need out of a 4th August easing from the Bank of England? I think you have answered the question yourself, really. I do not think we need anything. So we are certainly not lobbying for anything, if that is part of the question. Clearly, anything that is made available to the banking system that helps earnings and gives, to Nick's point, that certainty of net interest income, if it is an extension of FLS or whatever, would definitely be helpful. However, we have not predicated our plans on anything coming out of the Bank of England in that way. That would all be upside, from our perspective, to the extent that that is economically beneficial.

I should introduce Hugh Chater, who has not been on stage before everyone before. Hugh joined us – I think we concluded it was your second board meeting yesterday.

Hugh Chater: Beginning of June.

Jayne-Anne Gadhia: So Hugh joined from MBNA for a number of years, then went to RBS, where he ran their retail banking products and joined us two months ago.

Hugh Chater: Yes.

Jayne-Anne Gadhia: He is now running, certainly, mortgages for us, mortgages and savings. So would you like to answer the re-mortgage question, please?

Hugh Chater: Yeah, sure. So, morning everybody. I think there are three data points in terms of the importance of re-mortgage for us in the first half. The first, specifically on buy-to-let, is that we have seen a shift from 40% of the volume being re-mortgaged to 60%. So, clearly in that particular class of lending, it has become significant, and we expect that probably to actually maybe grow a little bit. I mean the percentage of re-mortgaging in buy-to-let, rather than buy-to-let itself.

The other point, or the other two, have sort of been touched on already. One is our retention rate. So, as Jayne-Anne mentioned, we are seeing retention rates over plan. They are running

just over 75% at the moment, so we are very pleased with that performance because, apart from anything else, it shows how loyal our customers are to our brand in obviously a very competitive market.

I think the third area is that part of what we have done in terms of the investments with our intermediary partners, which again Jayne-Anne talked about, is to further incentivise them, given the work they do in terms of building cases for us around re-mortgage activity, to further incentivise them to bring that business back to us. So we would actually expect that our performance in re-mortgage and retention in particular is going to further improve.

I think all of that comes out in the wash in what was a very strong net growth figure, so we significantly outperformed the market in terms of our market share in net growth for the first half, and I think a lot of that is to do with this loyalty to the brand that we are building with our existing mortgage customers.

Ian Gordon: Thanks very much. Are you able to give me the proportion of your owner-occupier which is re-mortgaged?

Hugh Chater: Sorry, say that again?

Ian Gordon: Are you able to give me the same split as you gave me for buy-to-let within your owner-occupier, as in what proportion of your flow is re-mortgage?

Hugh Chater: Yes, so it is very similar; we are seeing a growth there, and I think across the market as a whole there is some indication that re-mortgage rates are increasing relative to purchase rates, so I think we are very well placed to take advantage of that.

Ian Gordon: Thank you.

Chris Cant (Autonomous): Good morning. I am just trying to square a couple of your comments regarding the provisioning rate, the RoTE you are targeting and the leverage guidance you are now giving. You gave a slide way back when you IPO'd showing the waterfall from your NIM to your RoTE with your leverage. Obviously, you have now upped the leverage, and if I strip out your AT1, in terms of your RoTE you are talking about 31 times leverage at 36%; you have about 45bps of AT1 at present. If I think about the RoTE you are now targeting, which you are saying is robust, double-digit but not 15%, so let us call it 12% or 13%, that would imply about a 40bps ROA, down from 60 guidance at IPO. Just working back up with the 20bps provisioning charge rate guidance you give, it seems to imply either a very, very low revenue return on assets and therefore a very low NIM, or a cost:income ratio that would be some way north of 50% but I am struggling to see how you do not end up with either a very low NIM or a cost-income ratio above 50%, based on the guidance you have given.

Jayne-Anne Gadhia: So I am hoping Mr Dyer will be able to answer that. I think, given the detail of that question, Chris, could we ask Adam to come back to you and just work through all of those points? I definitely understand what you are saying; it is a difficult, detailed question to answer at this point, other than to reinforce the fact that we expect our NIM to be in the range of 160bps, we are confident of our 50% cost:income ratio and our leverage position, to be really clear, is a minimum risk appetite position, not the level that we expect to run at. I suspect that might be the circle that helps square it.

Chris Cant: Even with that, it actually does become quite difficult, given the provisioning guidance you are giving and the RoTE guidance you are giving.

Jayne-Anne Gadhia: Do not forget the provisioning; just to be clear, I do not want everybody to be misled by Rohith's comment: we are saying that we would max it at 20bps, and we included that in our original ROA position.

Chris Cant: Sub-20 actually makes it harder to get to a high revenue.

Jayne-Anne Gadhia: Sorry, say again?

Chris Cant: Sub-20 would make it harder to get to a high revenue return on assets; that is the issue. So your provisioning guidance, if it was higher than that, I could understand how you have a 160 NIM. You have guided 15% of your revenue would come from OOI, so you need to gross that up, then put in on a 50% cost:income ratio.

Jayne-Anne Gadhia: So we will come back on those details to you, yeah.

Chris Cant: Okay.

Jayne-Anne Gadhia: What I can tell you is we are very confident of our numbers.

Arun Melmane (Macquarie): Morning. Can I just go back on Chris' question? Maybe not on the detail. You have talked about how your RoTE will be double digits, and then I wondered: you said about house prices having a minimum impact on your cost of risk. What assumptions are you making on volume for the sector if house prices went down ten, for instance?

Jayne-Anne Gadhia: The volume of mortgages?

Arun Melmane: Yes, the volume. So what is your volume assumption that goes through your plans to get you where you are?

Then on your NIM numbers, are you assuming some help from base rates? I presume you are, in terms of deposit repricing.

Jayne-Anne Gadhia: Yes, so on both of those I would say if you look at both our H1 results and the top end of the 3.5% guidance is the market that we expect today, and assume that in absolute terms we would expect to be roughly level next year, that would give you a view on mortgage volumes, I think.

In terms of the NIM position and the repricing of retail deposits, I am not sure there is much to add to what I have said previously, which is that we do see room to reprice again, particularly in a lower base rate environment, and we would expect that obviously to have a material impact on our ability to sustain our net interest margin.

Arun Melmane: Initially, when you started off – do you think you are stretching the growth targets to get you to your double-digit RoTE targets now?

Jayne-Anne Gadhia: Do we think we are stretching growth targets?

Arun Melmane: Yeah, stretching the model.

Jayne-Anne Gadhia: No. The reason that I can say that with some confidence is that we have actually, because of the uncertainty ahead – the point that Dave in particular has been making is that our business thus far had been overdelivering in terms of volume, and to be absolutely honest we were thinking that if we came through Brexit, would we be in a place where we wanted to say, 'Do you know what, this business has definitely got into an area where we can see that we can up all of our guidance for volumes and we need to think about the capital necessary to support a bigger business.'

What we have actually said now is, 'Look, given Brexit, we are going to focus on credit quality at the volume we previously guided, and that enables us to live within our means whilst we see how uncertainty unfolds,' if you see what I mean. So from our perspective, we do not think that we are overdoing volume.

Arun Melmane: Alright, thank you.

Fiona Simpson (Morgan Stanley): Hello, just one question on mortgages more broadly. I would just be interested on any more colour you could give on spreads. You are obviously indicating, broadly speaking, they are firming up. Are you seeing that across all segments, so you are seeing that across lower LTV, as well as maybe the buy-to-let and higher LTV? I would just be interested in that given that you are talking about maybe shifting a little bit away from the buy-to-let high LTV, which traditionally has had a nice spread pick-up. Are you seeing any sort of change in the dynamics there?

Jayne-Anne Gadhia: Hugh?

Hugh Chater: Sure. So I think the short answer is we are seeing inconsistent, probably, pricing moves by competitors, but most of those moves seem to be happening in the direct space rather than the intermediary-driven business. So I think the short answer is we are confident across all of our range of LTV price points that we are going to be majoring on, if you like, for the remainder of this year and heading into next year. We are not seeing any downward pressure in those areas right now, given our focus on intermediary business.

Ivan Jevremovic (UBS): Hi, I just wanted to come back to the cards EIR quickly. I understand that it is held, but I recall from the Spotlight that the key sensitivity was to yield curves. So is that something that we should be thinking about, and just more broadly, are there any assumption changes that we should be aware of? Thank you.

Jayne-Anne Gadhia: Yeah. The short answer is there are no assumption changes. If you think about the growth of the book to the £3bn, which is in line with our expectations previously, in terms of the mix of that book and how we will drive it and the customer behaviour, there should not be any expectation of a fundamental shift in that to impact the EIR rate in any way.

Ivan Jevremovic (UBS): On the yield curve, to be clear, was that on the product rates or the yield curve that you observed in the market? Thank you.

Jayne-Anne Gadhia: So, again, the same, because our plan, as you know, is to hold market-leading positions, have a certain mix of the products we have out in the market and we continue to do that. So that, between the sort of first, second and third on the long-duration 0%, is part of the mix of the book today and part of the ongoing expectation, and then the spread across the rest of the other market-leading balance transfer and retail products. So really, continue to assume business as usual in terms of our expectation of how we expect to play in the market.

Guy Stebbings (Exane BNP Paribas): Hi, just a question on non-interest income. If we strip out the visa gain in the half, then underlying it has not been a huge amount of growth in the first half of the year. What gives us confidence that it should continue to grow broadly in line with total income, which has previously been discussed?

Jayne-Anne Gadhia: Anth, do you want to come and talk about that?

Anthony Mooney: Hi, morning everyone. I think, on non-interest income, Jayne-Anne has described the opportunity that we feel we have. There is definitely room for a strong consumer brand in this space. Just to bring that to life a little, we have talked before about the 400,000-plus travel insurance policies we sell without any material above-the-line spend. Sales have grown 45% year-on-year in that space, and I think it gives us confidence that when we get it right, in a part of the market that works, we know how to drive that forward.

I think our confidence for the future comes from that fact that we believe we can build out a broader range of customer propositions, beyond single-product relationships, which is pretty much where we have been before. So I think confidence is high. My job, of course, as Jayne-Anne said, after spending the last two years working on mortgage and savings is to bring some of that momentum to the non-interest income space, and I look forward to doing that very much.

Jayne-Anne Gadhia: Just to add to that, did I see Zack is here somewhere? Yeah. So, Zack has taken on the role of CEO of our asset management business, with a view to really driving the asset management business, doing the same with the insurance lines. I think, to be absolutely honest – and I know I have said this before, so we have to get it right this time – we are of course absolutely focussed on our main business lines, and this is about putting the focus on the other income line to achieve the same sort of outcome for that.

Thank you all so much for spending time here today and listening to our story. One thing that I should say is that this will probably be Dave Dyer's last presentation to the market; Dave is with us until the end of the year and had always announced that he is going to retire. I know a number of people had asked when Peter Bole would be joining us, and he will be joining us on 1st November, so next time Peter will be here. Dave is staying on in what is called a part-time role but we are not entirely sure how long that means – that is about five days a week at Virgin Money! – as our Strategy Director. So you will still see Dave going forwards but Peter will be here next time. Thank you all very much indeed, thank you.

[END OF TRANSCRIPT]