Continued strong progress

£213.3m
UPBT
+33%

£35bn
Total Assets
+16%

RoTE of
12.4%
up from 10.9% in 2015

32.7p
EPS¹
+22%

5.1p
Total dividend
+13%

Source: Company information from Virgin Money Holdings (UK) plc 2016 Annual Report and Accounts, unless otherwise stated

Note: (1) Underlying EPS
A track record of success
VM has made consistent progress across all metrics since the purchase of Northern Rock

**Strong growth…**

- Balances (£bn)
  - 2011: 13.9
  - 2012: 16.8
  - 2013: 19.6
  - 2014: 21.9
  - 2015: 25.5
  - 2016: 29.7

**…with consistent quality…**

- Cost of Risk (bps)
  - 2011: 2bps
  - 2012: 15bps
  - 2013: 7bps
  - 2014: 12bps
  - 2015: 13bps

- CET1 Ratio
  - 2011: 18.7%
  - 2012: 15.5%
  - 2013: 15.5%
  - 2014: 19.0%
  - 2015: 17.5%
  - 2016: 15.2%

**…driving improving returns**

- Total Income (£m)
  - 2011: 161.7
  - 2012: 233.8
  - 2013: 365.1
  - 2014: 438.1
  - 2015: 523.5
  - 2016: 586.9

- Cost:Income Ratio
  - 2011: 148.1%
  - 2012: 103.0%
  - 2013: 80.1%
  - 2014: 72.5%
  - 2015: 63.5%
  - 2016: 57.2%

- RoTE
  - 2011: (5.2%)
  - 2012: 2.6%
  - 2013: 7.4%
  - 2014: 10.9%
  - 2015: 12.4%

Source: Company information for all data
Note: data for 31st Dec 2011 as proxy for Jan 1st 2012, date on which VM purchased Northern Rock plc
Growth through a compelling customer proposition
Strong growth in loyal customer base, predominantly acquired through digital channels

Customer numbers continue to grow strongly
Customer numbers +15% in the year

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>+29</td>
<td>+19</td>
</tr>
<tr>
<td>Intermediary</td>
<td>+55</td>
<td>+40</td>
</tr>
<tr>
<td>Lounges</td>
<td>+86</td>
<td>+86</td>
</tr>
</tbody>
</table>

Net promoter scores improving across the board

Effective multi-channel customer access

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intermediated mortgage sales</td>
<td>36,113</td>
<td>48,428</td>
</tr>
<tr>
<td>Sales through digital channels (monthly average)</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>Lounge footfall (monthly average)</td>
<td>76%</td>
<td>82%</td>
</tr>
</tbody>
</table>

The Virgin brand remains a key asset

Sales to existing customers grew by almost 50%

Source: Company information for all data
Operating leverage
A key driver of our value creation story

Source: Company information for all data
Asset quality
Diligent focus on collateral and customer underwriting

Mortgage arrears markedly below market¹

<table>
<thead>
<tr>
<th>Year</th>
<th>CML</th>
<th>VM</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1.91%</td>
<td>0.37%</td>
</tr>
<tr>
<td>2013</td>
<td>1.68%</td>
<td>0.36%</td>
</tr>
<tr>
<td>2014</td>
<td>1.30%</td>
<td>0.31%</td>
</tr>
<tr>
<td>2015</td>
<td>1.12%</td>
<td>0.22%</td>
</tr>
<tr>
<td>2016</td>
<td>1.00%</td>
<td>0.15%</td>
</tr>
</tbody>
</table>

Credit card arrears better than industry²

<table>
<thead>
<tr>
<th>Year</th>
<th>Industry</th>
<th>VM</th>
</tr>
</thead>
<tbody>
<tr>
<td>pre-2015</td>
<td>1.6%</td>
<td>2.0%</td>
</tr>
<tr>
<td>2015</td>
<td>0.5%</td>
<td>0.2%</td>
</tr>
<tr>
<td>2016</td>
<td>0.2%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

Mortgages (92% of lending)
- High affordability
- Low average LTVs
- Broad geographic distribution

Credit Cards (8% of lending)
- Tight underwriting
- High affordability
- Never downsell

Lending strategies for an uncertain future

Source: (1) Council of Mortgage Lenders (2) Argus
Strong track record of growth
Customer advocacy and growth in market share underpin a confident outlook

FY16 progress

**Mortgages**
- 3.44% share of gross lending
- 10.5% share of net lending

**Deposits**
- 12% growth in savings balances
- ECA sales increased by 126%

**Credit Cards**
- £2.4bn book

**Financial Services**
- 12% growth in FUM to £3.4bn

- Gross lending of £8.4bn
  - +12% vs. 2015
- 33% share of new ISA flows
- Cards new business
  - 70:30
  - BT to retail split
- 450k travel policies sold

VM growth outperformed the market in all key products

Source: Company information for all data
Uncompromising commitment to quality
Focus on quality across the business underpins resilience of the balance sheet

FY16 progress

Asset Quality
92% of total loans secured with average LTV of 55%

Group CoR +1bp to 13bps

Funding
Stable, scalable and diversified

Average Cost of Funds 130bps

Capital
£230m of new AT1 raised

4.4% leverage ratio 15.2% CET1 ratio

EBO culture drives quality decision making throughout the business

Source: Company information for all data
Sustainable returns
Delivery of solid double digit returns against a backdrop of macro uncertainty

FY16 progress

Margin
Deposits repriced
Access to TFS
Stable front book mortgage spreads

Returns
12.4% underlying RoTE

Dividends
Full year dividend of 5.1p

FY16 NIM of 160bps
Increased by 1.5pp despite bank tax surcharge
13% increase year on year

Confident of sustaining solid double digit returns

Source: Company information for all data
## Balance sheet progress

Strong growth in mortgages, cards and customer deposits

### £bn

<table>
<thead>
<tr>
<th></th>
<th>FY16</th>
<th>FY15</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Mortgage Lending</td>
<td>8.4</td>
<td>7.5</td>
<td>12%</td>
</tr>
<tr>
<td>Net Mortgage Lending</td>
<td>4.3</td>
<td>3.6</td>
<td>20%</td>
</tr>
<tr>
<td>Credit Card Balances</td>
<td>2.4</td>
<td>1.6</td>
<td>55%</td>
</tr>
</tbody>
</table>

### £m

<table>
<thead>
<tr>
<th></th>
<th>FY16</th>
<th>FY15</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans &amp; Advances to customers</td>
<td>32,367</td>
<td>27,109</td>
<td>19%</td>
</tr>
<tr>
<td>Customer Deposits</td>
<td>28,106</td>
<td>25,145</td>
<td>12%</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>2,600</td>
<td>2,039</td>
<td>27%</td>
</tr>
<tr>
<td>TFS drawings</td>
<td>1,268</td>
<td>-</td>
<td>n/a</td>
</tr>
</tbody>
</table>

### Headroom in market share

- **Mortgages**
  - Share of stock: 2.2%
  - Share of flow: 3.4%
- **Credit Cards**
  - Share of stock: 3.5%
  - Share of flow: 7.8%
- **Savings**
  - Share of stock: 1.6%
  - Share of flow: 2.8%

### Strong capital ratios at 15.2% CET1 ratio, 20.4% total capital ratio and 4.4% leverage ratio

Source: Company information for all table data. BoE market share data for mortgages, savings and credit cards stock. E-benchmarkers for share of credit cards issued.

(1) Share of flow defined as share of gross lending for mortgages, share of new cards issued for credit cards and share of net inflows for savings.
## P&L – further growth in profitability

Strong income growth, cost control and low impairments drive improved profitability

<table>
<thead>
<tr>
<th>£m</th>
<th>FY16</th>
<th>FY15</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Income</td>
<td>519.0</td>
<td>456.1</td>
<td>14%</td>
</tr>
<tr>
<td>Other Income</td>
<td>67.9</td>
<td>67.4</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total Underlying Income</strong></td>
<td><strong>586.9</strong></td>
<td><strong>523.5</strong></td>
<td><strong>12%</strong></td>
</tr>
<tr>
<td>Total Underlying Operating Costs</td>
<td>(336.0)</td>
<td>(332.5)</td>
<td>1%</td>
</tr>
<tr>
<td>Impairment Losses</td>
<td>(37.6)</td>
<td>(30.3)</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Underlying PBT</strong></td>
<td><strong>213.3</strong></td>
<td><strong>160.7</strong></td>
<td><strong>33%</strong></td>
</tr>
</tbody>
</table>

### KPIs

<table>
<thead>
<tr>
<th></th>
<th>FY16</th>
<th>FY15</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Margin</td>
<td>1.60%</td>
<td>1.65%</td>
<td>(5)bps</td>
</tr>
<tr>
<td>Cost:Income Ratio</td>
<td>57.2%</td>
<td>63.5%</td>
<td>(6.3)pp</td>
</tr>
<tr>
<td>Cost of risk</td>
<td>0.13%</td>
<td>0.12%</td>
<td>1bp</td>
</tr>
</tbody>
</table>

Source: Company information for all data
Net interest margin evolution
Asset pricing pressure largely offset by cost of funds management and cards growth

2015 Mortgage spread 165bps 2016 160bps
Cost of funds management 10bps
Cards asset spread (10bps)
Cards asset mix 12bps

Mortgage completion spread 187bps
Cards EIR around 7%

Source: Company information for all data
Further demonstration of operating leverage
Continuing our track record of effective cost management, leveraging scalable platforms

Operating leverage in every area of the business leading to 57.2% cost:income ratio

<table>
<thead>
<tr>
<th>Area</th>
<th>C:I 2015</th>
<th>C:I ratio 2016</th>
<th>change in costs (£m)</th>
<th>change in income (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages &amp; Savings</td>
<td>25.7%</td>
<td>25.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Cards</td>
<td>32.1%</td>
<td>24.6%</td>
<td>1</td>
<td>38</td>
</tr>
<tr>
<td>Financial Services</td>
<td>45.6%</td>
<td>41.6%</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Central (vs. total income)</td>
<td>35.5%</td>
<td>31.6%</td>
<td>(1)</td>
<td>63</td>
</tr>
</tbody>
</table>

Volume increases absorbed
First full year on own efficient platform
Reduced operating costs
Absolute decrease in central costs

Total Investment growth
Total Income growth

Momentum of 11% JAWS in 2016 gives confidence in 50% C:I exit rate for 2017

Source: Company information for all data
Strong asset quality
Virgin Money has carefully managed its conservative portfolio development

Source: Company information for all data
Strong and improving credit metrics for mortgages
Mortgage key performance indicators demonstrate a low risk and resilient book

Vintage arrears data shows improving trends

Low LTV in London and South East

Strong customer affordability

Three tests, lowest metric limits maximum loan amount

Net free income under stress (SVR +3%)

Debt to income limit

Loan to income limit

Reducing arrears trend and book growth

Source: Company information for all data
(1) 1.6% of portfolio is at over 90% LTV
Cards book metrics also trending positively
Strict underwriting criteria and affordability stresses ensure resilient portfolio

Increasing proportion in high or very high score...

...helps drive improving impairments

Strong customer affordability

Stressed repayment assumptions

Never downsell

Average customer 42, income £39k, £700 monthly income surplus and homeowner

Source: Company information for all data
Credit performance reflects high quality assets
Low impairments and cost of risk, with improving coverage ratio

Impairment charge (£m)

Group cost of risk of 13bps

Impaired loans as a proportion of lending

Total impaired balance coverage ratio

Source: Company information for all data
## P&L – sustainable and improving returns

Record growth in mortgage volumes delivered increasing profits despite asset pricing pressures

<table>
<thead>
<tr>
<th>£m</th>
<th>FY16</th>
<th>FY15</th>
<th>Change</th>
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<td>67.4</td>
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</tr>
<tr>
<td><strong>Underlying PBT</strong></td>
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<td><strong>33%</strong></td>
</tr>
</tbody>
</table>

### KPIs

<table>
<thead>
<tr>
<th>KPI</th>
<th>FY16</th>
<th>FY15</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Margin</td>
<td>1.60%</td>
<td>1.65%</td>
<td>(5)bps</td>
</tr>
<tr>
<td>Cost:Income Ratio</td>
<td>57.2%</td>
<td>63.5%</td>
<td>(6.3)pp</td>
</tr>
<tr>
<td>Cost of risk</td>
<td>0.13%</td>
<td>0.12%</td>
<td>1bp</td>
</tr>
<tr>
<td>Return on Assets(^1)</td>
<td>0.44%</td>
<td>0.42%</td>
<td>2bps</td>
</tr>
<tr>
<td>Return on Tangible Equity</td>
<td>12.4%</td>
<td>10.9%</td>
<td>1.5pp</td>
</tr>
<tr>
<td>Underlying EPS</td>
<td>32.7p</td>
<td>26.8p</td>
<td>5.9p</td>
</tr>
</tbody>
</table>

Source: Company information for all data
Note 1: Underlying profit after tax adjusted for distributions to AT1 security holders, divided by average total assets
## Statutory profit and tax

Underlying profit flows through to strong statutory profit growth

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>FY16</th>
<th>FY15</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underlying Profit</strong></td>
<td></td>
<td>213.3</td>
<td>160.7</td>
<td>33%</td>
</tr>
<tr>
<td>Costs associated with IPO</td>
<td>(2.0)</td>
<td>(10.5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic items</td>
<td></td>
<td>(6.7)</td>
<td>(7.4)</td>
<td></td>
</tr>
<tr>
<td>Simplification costs</td>
<td></td>
<td>(5.6)</td>
<td>(3.7)</td>
<td></td>
</tr>
<tr>
<td>Fair value gains/losses</td>
<td>4.3</td>
<td>(0.7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non trading items</strong></td>
<td></td>
<td>(10.0)</td>
<td>(22.3)</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td>203.3</td>
<td>138.4</td>
<td>47%</td>
</tr>
<tr>
<td>Hedge volatility</td>
<td></td>
<td>(8.9)</td>
<td>(0.4)</td>
<td></td>
</tr>
<tr>
<td><strong>Statutory profit before tax</strong></td>
<td>194.4</td>
<td>138.0</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td>(54.3)</td>
<td>(26.8)</td>
<td>103%</td>
</tr>
<tr>
<td><strong>Statutory profit after tax</strong></td>
<td>140.1</td>
<td>111.2</td>
<td>26%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company information for all data
Robust capital position supports strong growth trajectory
Retained earnings create capacity for growth in Risk Weighted Assets

CET1 (£m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Retained earnings</th>
<th>Dividends¹</th>
<th>AT1 coupons¹</th>
<th>Regulatory adjustments</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,070</td>
<td>(23)</td>
<td>(13)</td>
<td>(1)</td>
<td>1,173</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

RWAs (£m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Mortgages</th>
<th>Credit Cards</th>
<th>Operational risk &amp; Other</th>
<th>Mortgage asset quality</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>6,110</td>
<td>1,168</td>
<td>656</td>
<td>117</td>
<td>7,695</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Planning for regulatory developments; IFRS 9, AIRB for cards and risk weight floors

Source: Company information for all data
(¹) The dividends and AT1 distributions movements above include dividends and AT1 distributions paid during the year and the net movement in foreseeable dividend and AT1 distributions.
## Doing what we said we would do

<table>
<thead>
<tr>
<th>Measure</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>3.4% gross lending share</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>£2.4bn balances</td>
</tr>
<tr>
<td>Deposits</td>
<td>12% growth</td>
</tr>
<tr>
<td>L:D ratio</td>
<td>114.5%</td>
</tr>
<tr>
<td>NIM</td>
<td>160bps</td>
</tr>
<tr>
<td>C:I Ratio</td>
<td>57.2%</td>
</tr>
<tr>
<td>Cost of risk</td>
<td>13bps</td>
</tr>
<tr>
<td>CET1 ratio</td>
<td>15.2%</td>
</tr>
<tr>
<td>Leverage ratio</td>
<td>4.4%</td>
</tr>
<tr>
<td>RoTE</td>
<td>12.4%</td>
</tr>
</tbody>
</table>

Source: Company information for all data

- **UPBT** £213.3m +33%
- **5.1p** Total dividend +13%
Outlook

Growth
- Mortgages
- Credit Cards
- OOI
- L:D ratio

Quality
- Cost of Risk
- CET1 Ratio
- Leverage Ratio

Returns
- NIM
- C:I Ratio
- RoTE

Guidance
- 3-3.5% of gross lending
- £3bn by end of 2017
- Around 10% of total income
- Towards 120% due to TFS
- Up to 20bps in 2017
- 12% minimum
- 3.6% minimum
- Up to 160bps
- 50% by end of 2017
- Solid double digit returns
Strategic opportunities in the future

- Organic growth
- Digital development
- Other Opportunities
Disclaimer

Forward looking statements
This document contains certain forward looking statements with respect to the business, strategy and plans of Virgin Money 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’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 (including but not limited to the payment of dividends) to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by Virgin Money 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 G7 central banks; fluctuations in interest rates (including low or negative rates), exchange rates, stock markets and currencies; the ability to access sufficient sources of capital; liquidity and funding when required; changes to Virgin Money’s credit ratings; the ability to derive cost savings; changing demographic developments, including mortality, and changing customer behaviour, including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for one or more countries to exit the European Union (EU) (including the UK following its EU referendum vote to leave the EU) or the Eurozone, 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 or a further possible referendum on Scottish independence; 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; actions or omissions by Virgin Money’s directors, management or 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, lending companies and digital innovators and disruptive technologies; and the success of Virgin Money in managing the risks of the foregoing.
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The results of the Group and its business are set out in this presentation on an underlying basis. The principles adopted in the preparation of the underlying basis of reporting are set out in the opening section of the 2016 Results News Release