Press Release **12 September 2014**

VIRGIN MONEY ANNOUNCES APPOINTMENT OF CHAIRMAN DESIGNATE AND FIRST HALF 2014 TRADING UPDATE

KEY HIGHLIGHTS

- **Glen Moreno appointed as Chairman Designate**
  - Glen Moreno will replace Sir David Clementi as Chairman in mid-2015
  - He will join the Board as an Independent Non-Executive Director and Chairman Designate, from January 2015
  - His appointment remains subject to regulatory approval

- **Strong growth in profits and returns in first half of 2014**
  - Underlying profit before tax increased to £59.7m (1H 2013: £13.1m)*
  - Total income increased 28.3% to £210.0m (1H 2013: £163.7m)
  - Growth in underlying net interest margin (NIM) to 1.43% (1H 2013: 1.10%)
  - Increase in underlying return on tangible equity to 6.2% (1H 2013: (1.5)%)
  - Statutory cost:income ratio improved by 12.5 percentage points to 70.9% (1H 2013: 83.4%)

- **Balance sheet strength and asset quality maintained**
  - Strong Common Equity Tier 1 ratio of 14.4% on a Basel III basis (31 Dec 2013: 15.3%)
  - Leverage ratio increased to 3.8% (31 Dec 2013: 3.7%)
  - Mortgages more than 3 months in arrears reduced to 0.32% (31 December 2013: 0.35%)
  - Underlying cost of risk reduced to 11 basis points (30 June 2013: 13 basis points)
  - Successful debut issue of £160 million Additional Tier 1 capital instrument in July 2014

- **Significant progress made in the development of our business lines**
  - On target to launch a wholly owned credit card business in the second half of 2014, with the ambition to grow the credit card book to £3 billion within five years
  - 3.7% growth in gross mortgages to over £20bn (31 December 2013: £19.6bn)

- **Continued commitment to customers and communities**
  - Creation of 200 jobs in 2014 to support further growth
  - Donations to charity through not-for-profit fundraising website Virgin Money Giving reached £300 million since launch

- **Virgin Money is incorporated in England**
  - Our registered office is in Gosforth, Newcastle upon Tyne

Virgin Money today announces that Glen Moreno is to join the Board of Virgin Money as an Independent Non-Executive Director and Chairman Designate, with effect from January 2015, subject to regulatory approval. He will assume the Chairmanship of Virgin Money in mid-2015, taking over from the current Chairman, Sir David Clementi.

Sir David Clementi, Chairman of Virgin Money said: "The appointment to the Board of Glen Moreno is part of the long-term succession planning at Virgin Money and I am delighted he has agreed to join us. I became Chairman in October 2011 and committed to serving for three years. During that time the company has successfully gone through the biggest transition in its history following the acquisition of Northern Rock. I am proud of what the company has achieved and look forward to working with Glen in the coming months before I hand over the Chairmanship to him. I have agreed to remain in office for a further nine months before handing over to Glen."

Glen Moreno is presently Chairman of Pearson PLC and a Non-Executive Director of Fidelity International Limited. He has more than four decades experience in business and finance. His earlier positions include serving as Deputy Chairman of The Financial Reporting Council, Senior Independent Director at Lloyds Banking Group plc, Senior Independent Director of Man Group plc and Acting Chairman of UK Financial Investments Limited, the company set up by HM Treasury to manage the government's shareholdings in UK banks.

Glen Moreno said: "I have huge admiration for the way in which Virgin Money has continued to act as a voice of competition in the banking sector. The bank's strategy has delivered sustainable, responsible growth and a strong return to profitability. It is now one of the best performing challenger banks and I look forward to joining Virgin Money at such an exciting time."

Jayne-Anne Gadhia, Chief Executive Officer of Virgin Money said: "Glen will bring a wealth of experience to the Board of Virgin Money and add significant value as we continue to grow the business. Sir David Clementi has led the Board with distinction during the past three years and I am grateful he is staying with the company to ensure a smooth transition. He has offered huge support and wise counsel during a period of significant business change and growth."

Virgin Money also announces its trading update for the six months ended 30 June 2014

(See attached: H1 2014 Trading Update)

Commenting on the 1H 2014 results, Jayne-Anne Gadhia said: "I am delighted to report that the strong momentum seen in our 2013 results has continued into the first half of this year, as we continue to make progress against our strategy of delivering profitable growth while maintaining a strong capital position and a high quality asset base. Strong revenues, driven by mortgages and savings, combined with improving net interest margins and controlled cost growth, have resulted in an improved underlying return on tangible equity of 6.2% for the first half of 2014.

"We continue to look for opportunities to enhance the service we provide to customers and to build further on the growth we have achieved thus far. Despite the investment in building our capabilities and associated infrastructure our cost income ratio has continued to decrease. Similarly, the growth in our mortgage and credit card businesses has not been at the expense of asset quality, as we maintain our rigorous approach to underwriting and risk management.

"Looking to the future, we are not burdened by the historical conduct and legacy challenges that face many incumbent banks. We have a powerful brand, a strong balance sheet, a strong core business franchise and through our ambition to make 'everyone better off', a clear set of values that live throughout our business. For all these reasons, we remain confident that we can continue to make real progress on our quest to make banking better and can continue to grow our business strongly, profitably and responsibly."

Ends

*Statutory profit before tax was £6.7 million (1H 2013: £199.7 million), reflecting, amongst other items, the charge of £16.6 million in FSCS levies and a £26.0 million change in the provision for contingent consideration payable to HM Treasury in the event of a successful, profitable IPO of the business between 2012 and 2016. This provisioning change reflects the view of the company's Board of the possibility of an IPO. 1H 2013 statutory profit before tax was positively impacted by a £202.0 million gain on sale of the credit cards subsidiary to MBNA

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NOTES TO EDITORS

About Virgin Money

- Virgin Money provides savings, mortgages, credit cards, pensions, investment and protection products
- Virgin Money's business ambition is to make "everyone better off" – this philosophy underpins our approach to business by offering good value to customers, treating employees well, making a positive contribution to society and delivering a profit to shareholders

1H 2014 TRADING UPDATE

Overview of financial performance

The first six months of 2014 have been marked by increased levels of profitability, continuing the momentum seen in our 2013 results. Strong revenues have been maintained while retaining a tight control on costs and risk management. This, combined with a strengthening in our net interest margin, contributed to a 28.3% growth in total income to £210.0 million (1H 2013: £163.7 million) and a 12.5 percentage point reduction in our statutory cost income ratio to 70.9% (1H 2013: 83.4%).

Our underlying profit before tax has increased by 356% to £59.7 million (1H 2013: £13.1 million), surpassing the full year 2013 underlying profit before tax and leading to an improved underlying return on tangible equity of 6.2% (1H 2013: (1.5)%). Statutory profit before tax was £6.7 million reflecting, amongst other items, the charge of £16.6 million in FSCS levies and a £26.0 million change in the provision for contingent consideration payable to HM Treasury in the event of a successful, profitable IPO of the business between 2012 and 2016. This provisioning change reflects the view of the company's Board of the possibility of an IPO. Statutory profit before tax of £199.7 million in 1H 2013 was positively impacted by a £202.0 million gain on the sale of the credit cards subsidiary to MBNA.

Summary Income Statement

		1H 2014	1H 2013	Growth (%)
Net Interest Income	£m	172.7	131.1	32%
Underlying Net Interest Margin	%	1.43%	1.10%	30%
Total Income	£m	210.0	163.7	28%
Total Operating Expenses	£m	(148.9)	(136.6)	9%
Impairment Losses	£m	(11.3)	(16.0)	(29)%
Profit Before Tax	£m	6.7	199.7	(97)%
Underlying Profit Before tax	£m	59.7	13.1	356%

Summary Balance Sheet

		June 2014	December 2013	Growth (%)
Loans and Advances to Customers	£m	21,029.4	20,351.2	3%
Deposits	£m	21,112.8	21,121.4	0%
Total Equity	£m	921.3	934.9	(1)%

Summary Key Performance Indicators

	1H 2014	1H 2013	Absolute Change
Statutory cost / Income ratio	70.9%	83.4%	(12.5)%
Underlying cost of Risk[1]	(0.11)%	(0.13)%	0.02%
Loan-to-Deposit Ratio	99.6%	95.6%	4.0%
Underlying ROTE[2]	6.2%	(1.5)%	7.7%
Underlying Return on Assets[2]	0.2%	(0.1)%	0.3%
Underlying Return on RWA[2]	1.0%	(0.3)%	1.3%
Common Equity Tier 1 - Basel III[3]	14.4%	16.7%	(2.3)%
Leverage ratio	3.8%	4.0%	(0.2)%

Notes:
1: Calculated as underlying impairments over gross loans and advances to customers
2. Calculated from underlying profit after tax net of FSCS levy and capital note distributions
3. Calculated on a Basel III fully loaded basis

Mortgages and Savings

Mortgages and savings continue to form a significant proportion of revenues and we have succeeded in growing this part of the business while maintaining our asset quality and driving strong returns.

Despite having made a deliberate decision to moderate lending volume in the first half of the year and to use capital resources more efficiently, we increased our mortgage balances by 3.7% in the first half of 2014, which resulted in mortgage balances rising to £20.3 billion (31 December 2013: £19.6 billion). Our gross mortgage lending was £2.5 billion and our net mortgage lending was £0.7 billion in the half year. Reflecting lower rates across the market, the mortgages yield reduced slightly to 3.29% (1H 2013: 3.58%)

In April, we successfully implemented the new regime for mortgages, the Mortgage Market Review (MMR). We completed all necessary changes on or before 26 April 2014 to comply with the new regulations in full. We are supportive of the aims of MMR, to improve consumer protection and we have not seen an adverse effect on our mortgage business. A high proportion of Virgin Money's mortgage business comes through intermediaries and we believe this acts as a competitive advantage both in terms of the strong relationships we have built, and in enhancing our mortgage distribution capability in a post MMR world.

Savings balances of £21.1 billion at 1H 2014 were flat to the prior year end (December 2013: £21.1 billion) as falling rates across the market enabled us to reduce the underlying cost of funding to (1.77)% (December 2013: (2.16)%).

Underlying net interest income from mortgages and savings increased to £135.8 million (1H 2013: £85.8 million) and the underlying net interest margin increased to 1.35% (1H 2013: 0.95%).

Underlying total income rose to £135.1 million (1H 2013: £86.3 million) and, after attributable administrative expenses of £37.5 million (1H 2013: £36.6 million) and an impairment credit of £0.8 million (1H 2013: charge of £0.5 million), resulted in an underlying contribution by the mortgages and savings business of £98.4 million (1H 2013: £49.2 million).

Risk weighted assets in the segment increased to £4,367 million (1H 2013: £3,645 million) and the underlying return on average risk weighted assets improved to 3.6% (1H 2013: 2.2%).

Credit cards

Our credit card business is another area in which we believe there is considerable scope for further growth while maintaining a firm hold on costs and asset quality. The acquisition of £1 billion of the book of Virgin Money branded credit cards from MBNA in 2013 has been transformational for the business, enabling us to create and grow our own credit card business and further enhance the efficiency of our balance sheet. We have embarked on the exciting process of building the infrastructure to support our own credit card business, and we are on target to launch our new cards business in the second half of 2014.

New business is currently being written through MBNA and the decline in balances of the portfolio purchased from MBNA in 2013 and held on balance sheet was better than expected at the end of June 2014 with gross balances of £749.1 million (31 December 2013: £808.6 million). Had the cards written through MBNA since the purchase of the portfolio also been held on balance sheet, the gross balance would have been £1,048.2 million (31 December 2013: £1,014.8 million).

Underlying net interest income declined slightly to £37.1 million (1H 2013: £37.7 million) as a result of this decline in balances, while the maturing of the book led to an improvement in underlying net interest margin of 9.95% (1H 2013: 8.01%).

Total underlying credit card income rose to £49.4 million (1H 2013: £45.8 million) and after attributable administrative expenses of £18.1 million (1H 2013: £15.9 million) and impairment losses of £12.1 million (1H 2013: £11.1 million), the credit card business made an underlying contribution of £19.2 million (1H 2013: £18.8 million).

Risk weighted assets in the segment fell to £710 million (1H 2013: £791 million). The underlying return on average risk weighted assets improved to 4.3% (1H 2013: 3.7%) while the risk adjusted margin increased to 6.6% (1H 2013: 5.6%) and the underlying asset yield grew to 11.6% (1H 2013: 10.2%).

Non-interest income

Underlying income from other product lines – investments, pensions and insurance - was £17.5 million during the first half of the year (1H 2013: £17.1 million) principally split between investments at £14.2 million (1H 2013: £13.4 million) and protection & other at £3.3 million (1H 2013: £3.7 million). The headline increase was driven by increased funds under management and travel insurance sales. After attributable administrative expenses of £6.0 million (1H 2013: £5.0 million) the segment recorded an underlying contribution of £11.5 million (1H 2013: £12.1 million).

Costs and capex

Although this is undoubtedly a period of growth and development for the business, managing the cost base prudently has been a key focus for management. Effective cost management combined with income growth has resulted in a continued improvement in the Group's total statutory cost:income ratio which reduced from 83.4% in 1H 2013 to 70.9% in 1H 2014.

Underlying overall costs rose only slightly to £139.7 million (1H 2013: £131.0 million) and are split between in-segment costs and central costs. In-segment costs in the first half of 2014 rose to £61.6 million (1H 2013: £57.5 million) while after allocating directly attributable administrative expenses to the business lines central costs grew by only 6.3% to £78.1 million (1H 2013: £73.5 million).

Our main areas of investment have been in the development of core infrastructure, notably in the IT platform development following the credit card acquisition, as well as the lounge roll-out. Of the £20 million of project expenditure in the period (1H 2013: £19 million), £11 million was capitalised (1H 2013: £9 million), largely due to continuing to develop the cards and personal current account (PCA) infrastructure and £9 million was charged to the P&L (1H 2013: £10 million).

Taxation

The historical deferred tax position, acquired through the purchase of Northern Rock, is being utilised through sustained growth in performance. The total tax charge for the period was £15.1 million (1H 2013: credit of £2.1 million). The charge on profit before tax at the UK corporate tax rate amounted to £1.4 million (1H 2013: £46.4 million), to which was added an adjustment in respect of prior period of £8.8 million (1H 2013: nil), a credit due to change in tax rate of £0.3 million (1H 2013: nil) and other charges totalling £5.2 million (1H 2013: credit of £48.5 million, of which £47.3 million related to the sale during 2013 of 100% of the ordinary share capital of Virgin Money Cards Limited for an overall gain of £203.4 million. This gain was not subject to tax, clearance having been obtained from HM Revenue and Customs that it qualified as an exempt sale of a substantial holding).

Asset quality

We continue to take a prudent approach to risk management and as such, the growth we have seen in 2014 has not been at the expense of overall asset quality. We have a strong underwriting capability, and all lending is supported by a robust affordability and credit assessment to ensure that asset quality remains high.

In our mortgage business the indexed loan-to-value ratio of our portfolio improved from 59.8% in December 2013 to 58.7% in June 2014 and the average loan-to-value ratio of new business written during the first half of the year rose from 65.3% in June 2013 to 67.9% in June 2014. The LTV split of the mortgage book at 30 June 2014 was as follows:

LTV band	<50%	50% - <60%	60% - <70%	70% - <80%	80% - <90%	90% - <100%	100%+
% book	25.6%	22.4%	27.3%	17.0%	6.8%	0.8%	0.1%

The quality of our mortgage business is also reflected in the fact that mortgages over 3 months in arrears represent just 0.32% of the book (31 December 2013: 0.35%) against the industry average (Council for Mortgage Lenders) comparison of 1.51% (31 December 2013: 1.68%) and impaired loans represent just 0.4% of gross loans (December 2013: 0.5%). The statutory cost of risk in mortgages in the first half of 2014 was a credit of 1 basis point (1H 2013: charge of 1 basis point) due to an increase in house prices and a reduction in the emergence of arrears.

In our credit card business, the statutory cost of risk remains low and fell to 3.13% (1H 2013: 3.23%), while impaired loans fell to 3.1% of gross loans (1H 2013: 3.3%).

Liquidity and funding

Virgin Money has a strong funding platform which underpins the business, and we continue to enhance and manage the cost and composition of our funding and liquidity positions.

The level of liquid assets on the Group balance sheet remains robust at 14.7% while the total liquidity ratio (including permitted investments and contingent capacity) was 22.4%. The liquidity coverage ratio (LCR) was significantly in excess of Basel III requirements.

Virgin Money has a strong retail funding base, with retail deposits representing 93% of total wholesale and retail liabilities at the end of June 2014. Wholesale funding represents the balance of 7% of total wholesale and retail liabilities. At 30 June 2014, retail deposits were split between term deposits (25%), Instant access (43%), ISA & Others 31(%) and current accounts (1%). Within wholesale, RMBS accounted for 61% of funding with term repurchase agreements (repos) (37%) and short term funding (2%) accounting for the balance.

Virgin Money maintains a portfolio of high-quality liquid assets which consists mainly of deposits held at the Bank of England and UK Government bonds. The split of the assets in the liquidity portfolio by credit rating at 30 June 2014 was AAA (12%), AA+ (87%) and AA- (1%) while by type it was UK sovereign (84%), Supranationals (9%), medium term notes (3%) and covered bonds & mortgage backed securities (4%).

Treasury does not run any proprietary positions or hold any exposure to peripheral European economies. Exposures are predominantly to UK sovereign and supranational debt securities with 99% of the liquidity portfolio rated AA or higher.

Certain Group assets can be used to support funding activities, including collateral requirements for secured funding, central bank operations or third party sales and repurchase agreements. Assets that have been utilised for such purposes are classified as encumbered. At 30 June 2014, 23% of total assets were encumbered, 10% of total assets consisted of contingent funding and retained notes and 67% of total assets were unencumbered.

Capital position

Virgin Money maintains a strong balance sheet and aims to maximise balance sheet efficiency while remaining within our conservative risk parameters.

We have been able to maintain a strong capital base under both existing and future regulatory requirements, while still leaving room for the continued growth of the business. Under Basel III rules the Group's Common Equity Tier 1 ratio was 14.4% (31 December 2013: 15.3%), Non-Core Tier 1 ratio 2.7% (31 December 2013: 2.8%) and Tier 1 Capital ratio was 17.1% (31 December 2013: 18.1%). The leverage ratio was 3.8% (31 December 2013: 3.7%). This compares to regulatory minima of 7.0%[4] for the CET1 ratio and 3.0% for the leverage ratio respectively.

The disclosed leverage ratio complies with current requirements set by the PRA, although these are subject to change when the PRA finalises the appropriate basis for disclosure.

Issue of Additional Tier One capital instrument

On 25 July 2014, Virgin Money priced its debut offering of Additional Tier One capital instruments (AT1). Strong investor demand allowed the company to raise £160 million at a coupon of 7.875%. Out of the total proceeds, £154.5 million was used to repurchase Tier 1 Capital Notes which had been issued to HM Treasury in January 2012 at a par value of £150 million as part of the sale of Northern Rock plc.

Note: 4. Calculated as the 4.5% minimum CET1 ratio plus the 2.5% capital conservation buffer

Recent RMBS issuance

On 5 September 2014, Virgin Money priced an offering of residential mortgage backed securities (RMBS), the fourth publicly offered issue as part of its Gosforth funding programme. Strong investor demand allowed the company to raise £1 billion from institutional investors in two tranches. Following on from the successful issuance of an AT1 security in July 2014, the successful RMBS issuance underlines continued strong appetite in the market for the company's securities.

Forward looking statements:

This document contains certain forward-looking statements with respect to certain of Virgin Money's strategy, plans and its current goals and expectations relating to its future financial condition and operating performance. Virgin Money cautions readers that no forward-looking statement is a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'may', 'will', 'seek', 'continue', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'achieve', 'predict', 'should' or in each case, their negative or other variations or comparable terminology, or by discussion of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. Examples of forward-looking statements include, among others, statements regarding Virgin Money's future financial position, income growth, assets, impairment charges, business strategy, capital ratios, leverage, payment of dividends, the industry in which Virgin Money operates, projected costs, estimates of capital expenditures and plans and objectives for future operations and other statements that are not historical fact.

By their nature, forward-looking statements are based upon a number of estimates and assumptions that, while considered reasonable by Virgin Money, involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future, for example, general economic and business conditions in the UK and internationally , the effects of continued volatility in credit markets, market related risks such as changes in interest rates and foreign exchange rates, inflation, deflation, effects of changes in valuation of credit market exposures, changes in values of issued notes, the policies and actions of governmental and regulatory authorities (including requirements regarding capital and group structures and the potential for one or more countries exiting the Eurozone), the further development of standards and of standards under IFRS, the outcome of current and future legal competition, changes in laws, regulations, taxation, accounting standards or practices and similar contingencies outside Virgin Money's control. As a result, Virgin Money's actual future results may differ materially from the plans, goals and expectations set forth in Virgin Money's forward-looking statements. Forward-looking statements are not guarantees of future performance. In addition, even if Virgin Money's results of operations, financial condition, and the development of the financial services industry are consistent with the forward-looking statements in this document, those results or developments may not be indicative of results or developments in subsequent periods.

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Basis of preparation

The terms "Virgin Money" or "Group" refers to Virgin Money Holdings (UK) plc and its subsidiaries. The financial information contained in this trading update for the six months ended 30 June 2014 was approved by the Board of Directors on 4 September 2014, does not constitute statutory accounts as defined by section 434 of the Companies Act 2006. The financial statements for the year ended 31 December 2013 were reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified under the Companies Act 2006. This trading update includes unaudited comparative figures for the half year ended 30 June 2013. In addition, this trading update includes comparatives for the year ended 31 December 2013 that have been extracted from the audited financial statements for that year. The abbreviations "£m" and "£bn" represent millions and thousands of millions of Pounds Sterling respectively. Underlying measures have been presented to provide a more consistent basis for comparing business performance between periods.

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