VIRGIN MONEY HOLDINGS (UK) PLC: Q3 2016 TRADING UPDATE

VIRGIN MONEY MAKES CONTINUED STRONG PROGRESS IN Q3 2016

Key Highlights

- Gross mortgage lending up 19 per cent on the first nine months of 2015 to £6.5 billion resulting in a 3.6 per cent [1] market share of gross mortgage lending to the end of Q3 2016
- Net mortgage lending up 33 per cent on the first nine months of 2015 to £3.5 billion, with £1.3 billion of net mortgage lending in Q3 2016
- Credit card balances increased to £2.2 billion at the end of September 2016, 41 per cent higher than FY 2015
- Virgin Money Lounges welcomed over 50,000 customers per month in Q3
- New partnership with 10x Future Technologies to build Virgin Money's digital bank
- New Additional Tier 1 (AT1) capital issuance announced, subject to market conditions
- Existing guidance reaffirmed, including solid double digit return on tangible equity for 2017

1 Based on Bank of England data

Jayne-Anne Gadhia, Chief Executive Officer said:

"I am delighted with the continued strong performance of the business in the third quarter of 2016.

"We delivered a record start to the year for mortgages and we have maintained that momentum following the outcome of the EU referendum. Our savings franchise is thriving and our credit card business continues to go from strength to strength. We remain on track to meet our target of £3 billion of high-quality card balances by the end of 2017.

"I am delighted to be working with 10x Future Technologies, founded by former Barclays CEO Antony Jenkins, to transform our digital offering over the course of the next few years.

"We are particularly pleased that customers continue to build personal relationships with Virgin Money as over 50,000 visitors per month enjoy our seven Lounges.

"We have been encouraged by the relative strength of the UK economy immediately following the EU referendum result although we continue to look forward with caution. We are well placed to manage potential economic headwinds and remain confident of achieving a solid double-digit return on tangible equity for 2017."

Business review

(£ bn)	9 months to 30 September 2016	9 months to 30 September 2015	Growth
Gross mortgage lending	6.5	5.5	+19%
Net mortgage lending	3.5	2.6	+33%

(£ bn)	As at 30 September 2016	As at 31 December 2015	Growth
Mortgage balances	28.9	25.5	+14%
Credit cards balances	2.2	1.6	+41%
Deposit balances	28.3	25.1	+12%

The Group's mortgage business remains high quality and continues to be focused primarily on providing residential mortgages. The mortgage book comprised 82 per cent residential and 18 per cent buy-to-let mortgages at the end of September 2016.

Virgin Money increased gross mortgage lending by 19 per cent to £6.5 billion in the first nine months of 2016, compared to the same period in 2015. The Group's market share of gross mortgage lending in the first nine months of the year was 3.6 per cent[2].

Net mortgage lending increased by 33 per cent to £3.5 billion in the first nine months of 2016, driven by the strong gross lending performance combined with increased existing customer retention. Net mortgage lending in Q3 2016 reached £1.3 billion. The Group's market share of net mortgage lending in the first nine months of the year was 11.5 per cent[2].

Mortgage balances at 30 September 2016 were £28.9 billion, an increase of 14 per cent from £25.5 billion at the end of 2015. Mortgage spreads for new business improved slightly in the quarter but remained below back book spreads.

Having tightened our credit scores for new card applications following the EU referendum to protect the credit quality of new credit card lending, growth slowed in the last quarter, as planned. Nonetheless, credit card balances stood at over £2.2 billion at the end of the third quarter, a 41 per cent increase from £1.6 billion at 31 December 2015.

During the third quarter, the Group continued to manage the cost and volume of liabilities effectively. Deposit balances increased by 12 per cent from 31 December 2015 to reach £28.3 billion by 30 September. Following the decision by the Bank of England to reduce the Bank Rate in August, Virgin Money notified customers that it would pass on the 25bp rate reduction to Standard Variable Rate mortgages from 1 September 2016 and to variable rate savings products from 1 November 2016.

As previously guided, the reduction in the Bank Rate resulted in a headwind to net interest income of around £5 million, reflecting the delay in the repricing of liabilities compared to the repricing of assets.

Asset quality remained stable and strong in the quarter with a continued low level of impairments.

Costs remained broadly flat during the period compared to prior quarters as the Group continued to benefit from operational leverage.

Virgin Money was pleased to receive new Individual Capital Guidance from the PRA during the quarter. The Pillar 2A add-on represented 3.87% of risk weighted assets. At the moment, given our asset mix, the Basel 1 floor is the higher requirement and exceeds the 3.87%. We expect this to reverse before the end of 2018.

2 Based on Bank of England data

Impact of leaving the European Union

Virgin Money remains a strong, customer-focused, low risk retail bank, unburdened by legacy conduct issues. The Group has a strong capital base and excellent asset quality, leaving it well placed to manage the potential economic implications related to leaving the European Union.

Since the EU referendum, the near-term momentum of the UK economy has been more positive than initial projections. Virgin Money has experienced continued strong customer demand and no evidence of material changes in customer behaviour.

The Board continues to monitor the impact of the referendum and does not believe there will be a material adverse impact on the Group's results or financial position in the current financial year.

Outlook

Virgin Money has delivered a strong performance in the first nine months of the year. Taking into account the reduction in Bank Rate in August, mortgage growth, cards growth, NIM and RoTE are all performing in line with guidance provided at H1 2016.

Virgin Money continues to target a 3 to 3.5 per cent share of gross mortgage lending and is well placed to deliver a market share towards the upper end of this range for 2016.

The Group remains well positioned to serve non-portfolio buy-to-let landlords and expects the share of buy-to-let mortgages in its mortgage book to remain consistent with the share of buy-to-let mortgages in total UK mortgage stock.

Credit card origination moderated, as planned, to protect the credit quality of new credit card lending. Virgin Money continues to be well placed to achieve its target of £3 billion of high-quality credit card balances by the end of 2017.

The 25 basis point cut in Bank Rate impacted net interest income during the third quarter, as guided. As a result, the Group expects a FY16 NIM of just below 160bps.

The Group today announces an issue of further AT1 securities to support value-accretive lending growth and further optimise our capital and leverage position, subject to market conditions.

Enhancing Virgin Money's digital capability remains a key focus. Following the successful build and launch of our credit card business, the Group is pleased to announce that the team which built the cards platform will now focus on our digital capability. As part of this project we have entered into a partnership with 10x Future Technologies, founded by former Barclays CEO Antony Jenkins, to build the Virgin Money digital bank. This investment is planned within current returns guidance.

The outlook for the UK economy remains uncertain. However, the Group believes it is well placed to manage through this uncertainty and remains confident of achieving a solid double-digit RoTE for 2017.

MORE ON OUR STORY

Each quarter we will continue to update the market on selected aspects of our progress and achievements during the period. We remain focused on ensuring our strategy is able to deliver long-term success and to generate sustainable returns for shareholders, allowing for ongoing developments in the economic, competitive and regulatory environment.

Mortgages

Intermediary partnerships remain a key part of our mortgage strategy.

The quality of our intermediary service was recognised by winning the award for Innovation Culture at the 7th annual Market Gravity, Corporate Entrepreneur Awards, in October 2016. The Corporate Entrepreneur Awards recognise ground-breaking ideas and game-changing products and services delivered by large organisations. The Innovation Culture award was in recognition for our 'Mortgage Lab' which focuses on delivering an excellent mortgage proposition and experience for intermediaries.

During the period we were also recognised at the Your Money Awards, winning Best Online Mortgage Provider and Best Overall Direct Provider in July 2016.

Credit Cards

We continue to make strong progress with our credit card business. In July 2016, we entered a new partnership with Manchester United Football Club to become its official UK retail financial services partner. The first credit card under the partnership was issued in August 2016.

Credit cards continue to be the strongest product line for customer satisfaction. Our credit card net promoter score was +42 in Q3 2016.

We fully endorse the final findings of the Financial Conduct Authority's (FCA) Credit Card Market Study and look forward to implementing the limited changes required for us to achieve full compliance with its recommendations.

Savings and Current Accounts

Our savings business continues to thrive. Net inflows to the end of Q3 2016 of £3.0 billion were more than double the net inflows in the first nine months of 2015.

The strength of our ISA proposition continues to be recognised by customers, with total net cash ISA inflows of £2.4 billion during the period, representing 80 per cent of our growth in balances.

The performance of our Essential Current Account (ECA) has been particularly strong in the first nine months of the year and we have more than doubled the number of ECA accounts opened compared to the same period in 2015. The ECA aligns with the Government initiative on Basic Bank Accounts.

Insurance, Investments and Financial Services

We continue to make progress in repositioning our Insurance, Investments and Financial Services business and we were delighted to win several awards at the Your Money Awards in July, including Best Direct Travel Insurance Provider and Best Direct Stocks & Shares ISA Provider.

We are pleased with the increasing momentum in our insurance business and in particular the 46% year-on-year growth in travel insurance sales to the end of September 2016. We look forward to enriching our overall insurance proposition to broaden the range of protection products we can offer customers.

Customers and Lounges

We are proud of a culture that sustains our ambition to make 'everyone better off' (EBO). It serves as the foundation for our differentiated approach to banking as we continue to provide award-winning service to over 3.2 million customers' across the UK.

We opened a new customer Lounge in Sheffield in July 2016 and note that the Sheffield Store, which is co-located with the new Lounge, has become the top performer in the overall Virgin Money network in August and September 2016.

With a total footfall of over 50,000 per month across all seven Virgin Money Lounges, they continue to deliver excellent customer satisfaction ratings, and are a strong commercial success.

Colleagues

Peter Bole joined the business on 1 November 2016 and will become Chief Financial Officer (CFO) in January 2017. Dave Dyer, our current CFO, will continue to support the business on a part-time basis.

Tim Arthur joined the business in September 2016 as Creative Director. Tim was previously Global CEO of Time Out where he transformed an iconic brand into a global digital business. These appointments will support the continued growth and development of Virgin Money.

Community

Virgin Money Giving, our not-for-profit online donation service, has raised almost £80 million, including Gift Aid, for charities in the first nine months of the year. More than 12,500 charities have registered with Virgin Money Giving and by the end of September 2016 almost £500 million had been raised for charity through the service since its launch in 2009.

The Virgin Money Foundation has distributed almost £1 million in the North East of England to organisations working in social enterprise, youth employment and housing programmes in its first round of grants. A second round of grants totalling almost £500,000 was agreed in Q3 2016. The Virgin Money Foundation aims to distribute £8 million over a 4 year period. The Government has committed £4 million of that total funding which Virgin Money will match.

Our education and enterprise initiative, 'Make £5 Grow', is now available as an online tool to schools across the UK. The roll-out of Lifesavers, a financial education and savings club programme in primary schools, commenced in Q3 2016. The scheme is aimed at teaching children good financial habits from an early age.

Analyst and investor call

An analyst and investor call will be held as follows:

Date: 1 November 2016

Time: 8.45 am

Dial: +44 20 3059 8125

An operator will assist you in joining the call.

Note: all figures contained in this trading update are unaudited

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NOTES TO EDITORS

About Virgin Money

- Virgin Money offers savings, mortgages, credit cards, current accounts, currency services, pensions, investments and protection products to over 3.2 million customers across the UK.
- Virgin Money's business ambition is to make "everyone better off" – this philosophy underpins our approach to business by offering good value to customers, treating employees well, making a positive contribution to society and delivering a profit to shareholders.
- More than 12,500 charities have registered with Virgin Money Giving and, by the end of September 2016, almost £500 million had been raised for charity through the service since its launch in 2009, resulting in an estimated £15.7 million more raised for charity because of its not-for-profit model.

About 10x Future Technologies

- 10x Future Technologies, founded by former Barclays CEO Antony Jenkins, will transform the way financial services providers operate with its new core digital banking platform. At the heart of the platform will be a full suite of enterprise-grade capabilities covering; banking process automation, compliance reporting, security and analytics, all enabled by leading technology.
- 10x Future Technologies will offer banks a secure, cloud-based operating system with advanced database design and data modelling services with a modular construction and open APIs. Its technology will enable a single point of entry for other financial technology providers to engage with banks through a secure connection.
- With its ambition to help transform the way banks operate, 10x Future Technologies is also committed to doing business the right way, helping build a banking sector that is more secure, fair and transparent, providing services that benefit customers and society and skilling the next generation.

Forward looking statements

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

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

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