VM H1 2016 Results Presentation

Agenda

H1 16 Progress
Jayne-Anne Gadhia, Chief Executive

Financial Results
Dave Dyer, Chief Financial Officer

Looking Forward
Jayne-Anne Gadhia, Chief Executive

Continued strong progress

£101.8m
UPBT
+53%

£33.1bn
Total Assets
+19%

RoTE of

12.2%

up from 9.5% in H1 15

15.5p
EPS[1]
+36%

1.6p
Interim divi
+14%

Source: Company information from Virgin Money Holdings (UK) plc 2016 Half-Year Results, unless otherwise stated
Note: (1) Underlying EPS

Growth: we will continue to grow despite uncertainty

Brand, expertise, scale and customer advocacy support a confident outlook in uncertain times

	H1 16 progress	Outlook
Mortgages	3.6% share of gross mortgages	Continued 3-3.5% share
Credit Cards	£2.1bn book	£3bn by end of 2017
Deposits	Balances +8%	Continued strong growth
OOI	Current Account balances +18%	New accounts to double in 2016

+28
NPS

One of UK's
most trusted
banks[2]

+50k
customers per month

Confident of continuing strong growth trajectory

Source: Company information for all data
(1) to May, based on CML data (2) Reputation Institute survey, April 2016, second only to building society Nationwide

Quality: we have laid strong foundations for the future

A broad, high quality, residential lender

	H1 16 progress	Outlook
Mortgages	Book average LTV of 55%	Reduced LTVs and BTL exposure
Credit Cards	Acceptance rate <50%	Increased cut off levels
Deposits	Average CoF 138bps	Room for further reprices

High single digit returns in 8% unemployment scenario

With 20% reduction in new card volumes **£3bn target remains on track**

Plans stressed for **zero base rate** environment

Well protected against the consequences of potential deterioration in UK economy

Source: Company information for all data

Returns: further progress towards mid teens returns in 2017

Continued result of a simple, scalable model, with strong operational leverage and brand

	H1 16 progress	Outlook
Asset Pricing	Asset spreads improving	Expect asset prices at least stable
Funding	Effective deposit repricing	Market deposit pricing likely to decrease further Strong liquidity position
Operational Leverage	Strong jaws of +16%	Improved operational efficiency

FY16 NIM
up to 160bps

C:I of 50%
by end of 2017

Controlled impairment growth protecting returns

Confident of sustaining double digit returns

Source: Company information for all data

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Balance Sheet progress

Strong growth, effective management of funding costs

£m	H1 16	H2 15	Change
Loans & Advances to customers	30,031	27,109	11%
Treasury Assets	2,665	2,801	(5%)
Customer Deposits	27,128	25,145	8%
Debt securities in issue	2,948	2,039	45%

£bn	H1 16	H1 15	Change
Gross Mortgage Lending	4.3	3.6	19%
Net Mortgage Lending	2.2	1.7	29%
Credit Card Balances	2.1	1.1	94%

109.6%
L:D ratio

15.3%
CET1 ratio

17.5%
Total Capital ratio

Source: Company information for all data

P&L – further growth in returns

Record growth in mortgage volumes drove increasing returns despite NIM headwind

£m	H1 16	H1 15	Change
Net Interest Income	252.2	220.3	14%
Other Income	37.4	34.2	9%
Total Underlying Income	**289.6**	**254.5**	**14%**
Total Underlying Operating Costs	(170.4)	(173.8)	(2)%
Impairment Losses	(17.4)	(14.3)	22%
Underlying PBT	**101.8**	**66.4**	**53%**

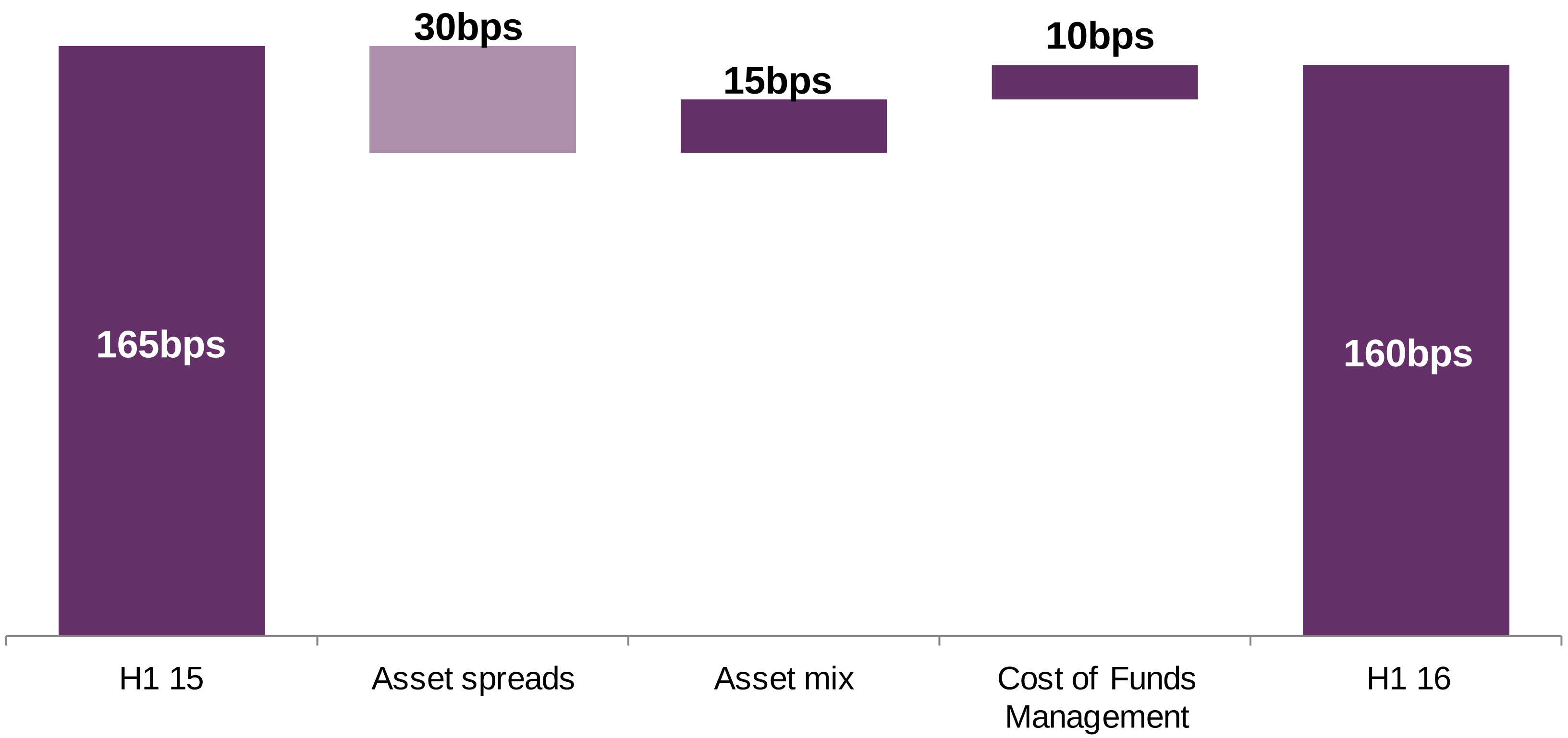
KPIs[1]			
Net Interest Margin	1.60%	1.65%	(5)bps
Cost:Income Ratio	58.8%	68.3%	(9.5)pp
Cost of risk	0.12%	0.12%	0bps
Return on Assets	0.41%	0.31%	10bps

Source: Company information for all data

(1) All on underlying basis except Return on Assets, which is a statutory measure

Net Interest Margin

H1 16 asset margin pressure largely offset by cards growth and reduced cost of retail funding



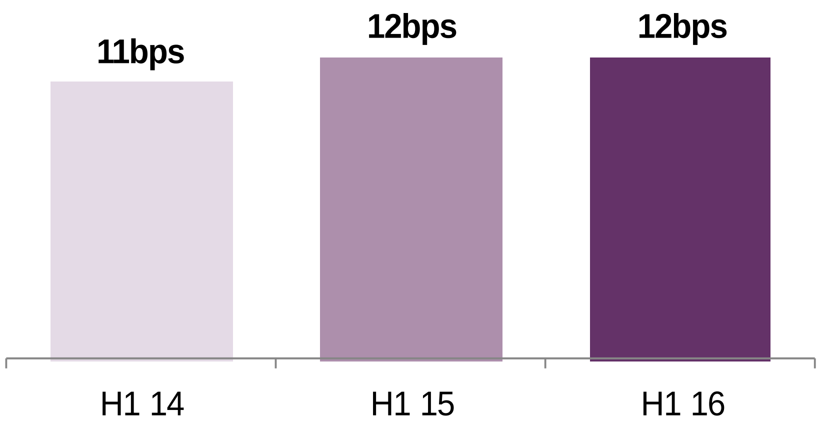
NIM headwinds offset by management actions; outcome as per guidance

Source: Company information for all data

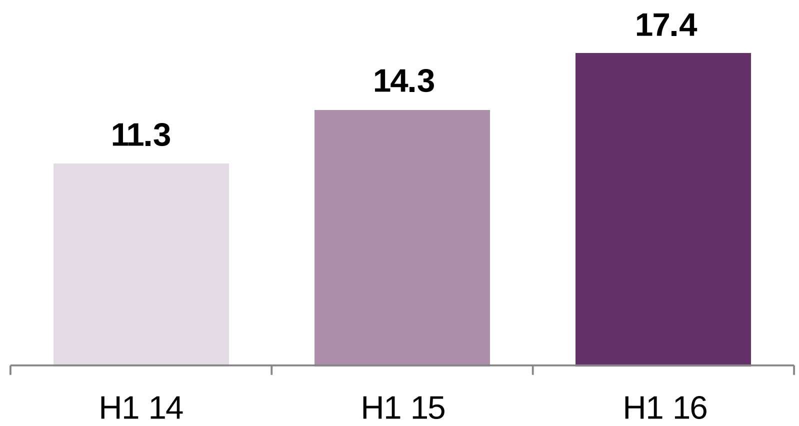
Asset Quality

Portfolio continues to reflect strict underwriting standards; expected volume increase in cost of risk and impairments but no rate deterioration

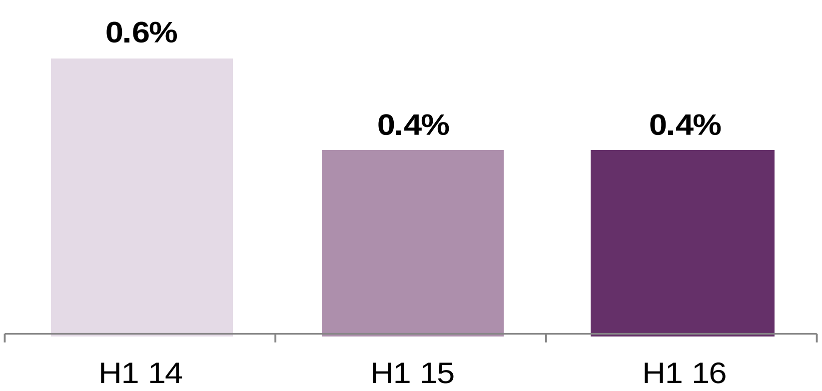
Cost of Risk (Group)



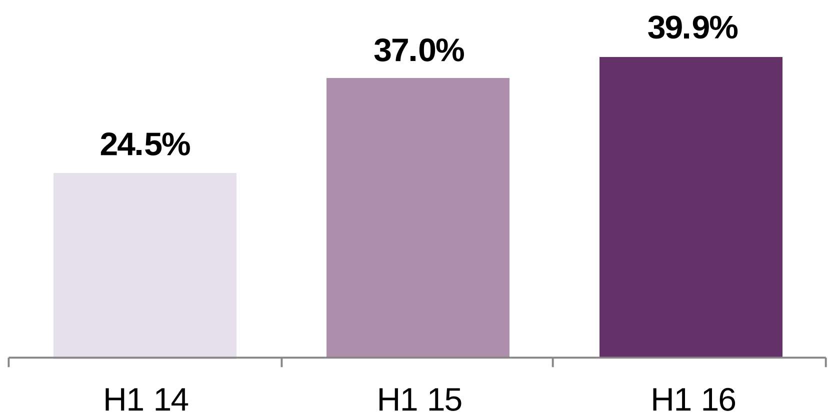
Impairment Charge (£m)



Impaired Loans as a Proportion of Lending



Total Impaired Balance Coverage Ratio



Source: Company information for all data

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Underlying Cost:Income Ratio	58.8%	68.3%	(9.5)pp
Cost of risk	0.12%	0.12%	0bps
Return on Assets	0.41%	0.31%	10bps
Return on Tangible Equity	12.2%	9.5%	2.7pp
Underlying EPS	15.5p	11.4p	4.1p

Source: Company information for all data (1) All on underlying basis except Return on Assets, which is a statutory measure

Statutory Profit and Tax

Continued reduction in non-recurring and strategic items; full effects of tax surcharge

	H1 16	H1 15	Change (%)
Underlying Profit	**101.8**	**66.4**	**53%**
Share based payments related to IPO	(1.4)	(6.5)	
Strategic items	1.7	(4.8)	
Compensation for senior leavers	(3.3)	-	
Sub total exceptionals	**(3.0)**	**(11.3)**	**(73%)**
Fair value gains/(losses)	(5.1)	(0.1)	
Statutory profit before tax	**93.7**	**55.0**	**70%**
Taxation	(26.2)	(12.1)	117%
Statutory profit after tax	**67.5**	**42.9**	**57%**

Source: Company information for all data

Well placed for growth in mortgages and credit cards

Our improving intermediary relationships, a strong mortgage pipeline and exceptional cards performance underpin our confidence for the period ahead

Mortgages start from a strong position

- Mortgage pipeline now £2.4bn
- Application conversion rates rising
- Retention strong and improving
- Intermediary NPS up from +40 to +57

2016 Best Lender for Partnership

Credit cards are ahead of plan today

- Run rate ahead of plan
- Headroom for tightened credit
- Back on track for £3bn plan

uSwitch CREDIT CARD AWARDS 2016

Best Overall Customer Service
Best Application Process
Best for Balance Transfers

WINNER Moneyfacts Award 2016

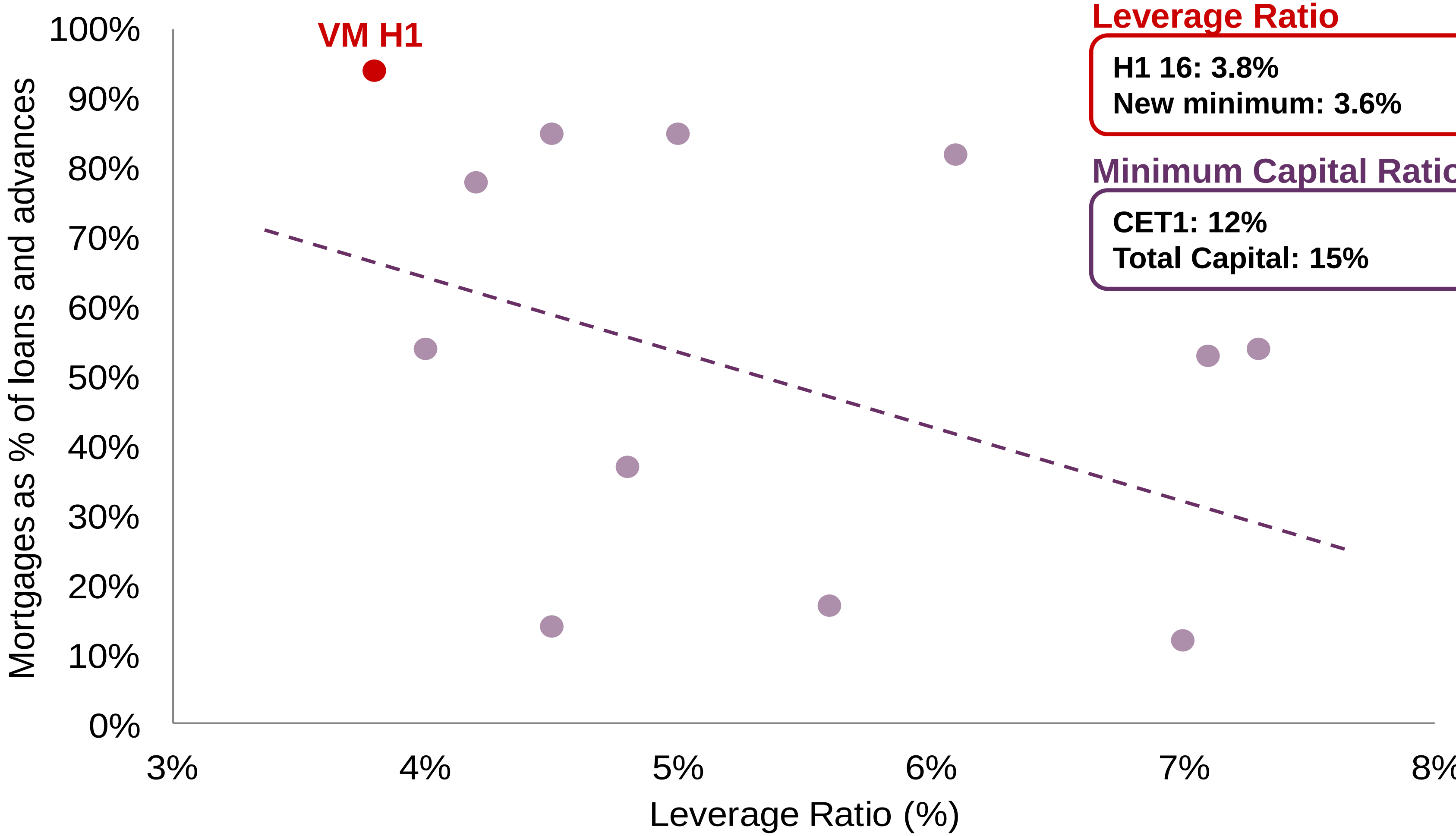
Best Card Provider
(Balance Transfer Rate)

After a period of outperformance we now expect to grow in line with targets

Source: Company information for all data

Our leverage ratio is strong for our asset mix

We are well positioned given our low risk book



Leverage Ratio

H1 16: 3.8%
New minimum: 3.6%

Minimum Capital Ratios

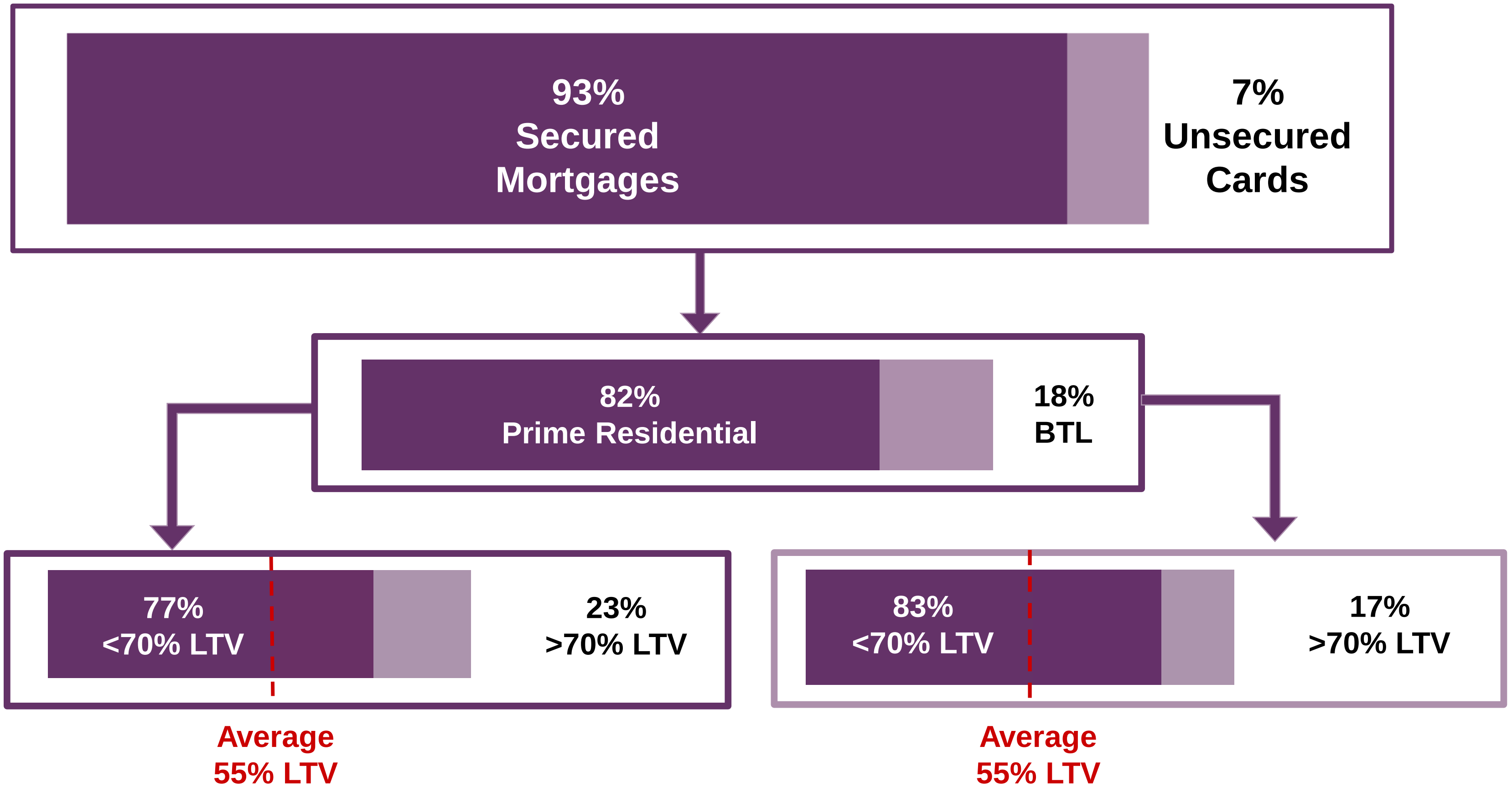
CET1: 12%
Total Capital: 15%

Now operating to a minimum leverage ratio of 3.6%

Source: Company information for all data
Note: data points are representative of a broad set of UK based incumbents and challenger bank peers. Data is as at FY15 except VM

Make up of our lending

Virgin Money has carefully managed its asset class exposure, and asset quality within class



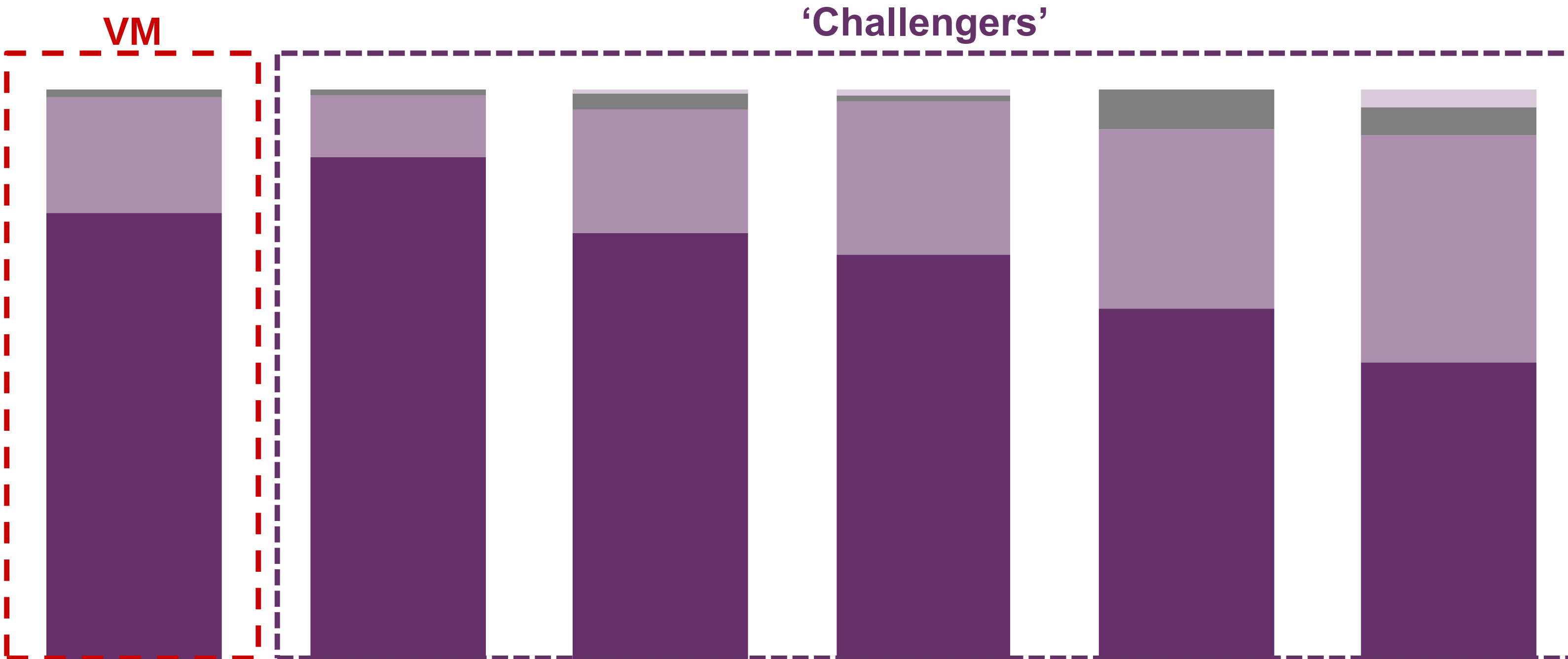
Without CRE or SME exposure, and with very high credit standards maintained throughout our growth in more benign times, we are well positioned for any uncertainty ahead

Source: Company information for all data

VM's mortgage book profile compares well to the market

Average LTV is 55%, and importantly there is zero exposure to highest risk bands

VM in market context[1]



	VM	Challenger 1	Challenger 2	Challenger 3	Challenger 4	Challlenger 5
>100%	0%	0%	1%	1%	0%	3%
90-100%	2%	1%	3%	1%	7%	5%
70-90%	20%	11%	22%	27%	31%	40%
<70%	78%	88%	75%	71%	61%	52%

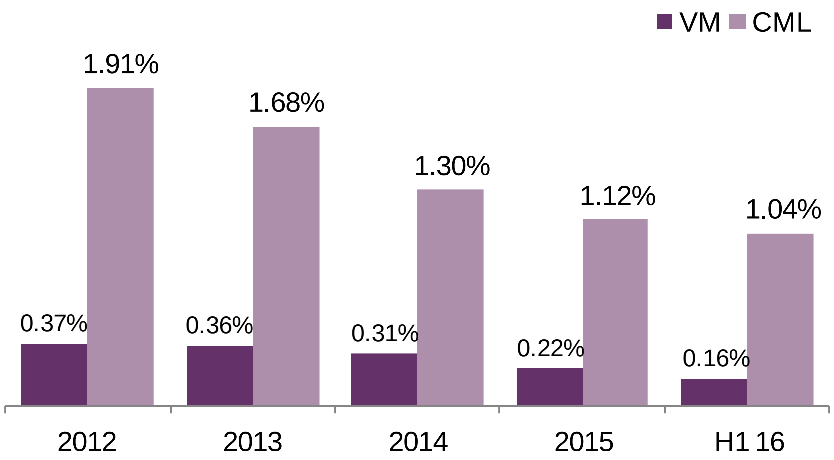
Virgin Money has a lower risk mortgage book than the majority of challenger banks

Source: Company information for all data
Note (1) Deutsche Bank Markets Research report 'London BTL risks & implications for the sector', June 15th 2016, p.19 and company results for FY15

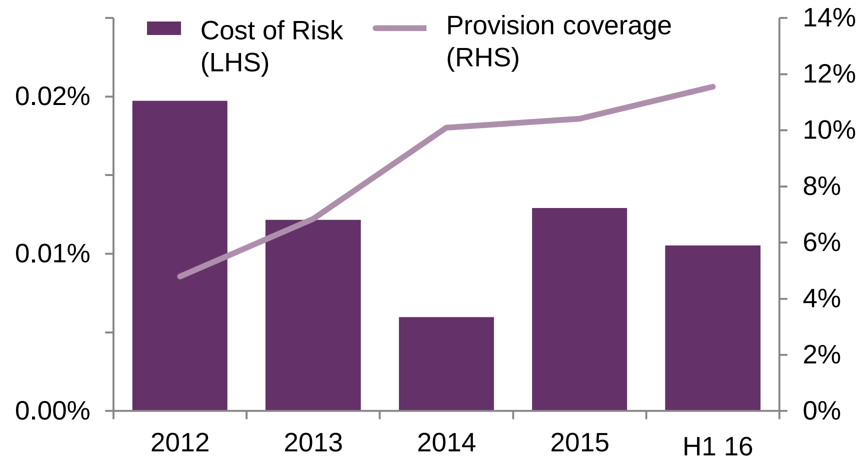
The mortgage book risk KPIs confirm underwriting rigour

Furthermore, improving provisioning cover and EEL provide reassurance

Mortgage arrears markedly below market



CoR and provision coverage of mortgages



Strict underwriting practice

- 87% of mortgages stressed 2-3% above SVR at origination
- 93% of customers have £400 of spare income above stress
- Loan:income cap of 4x for loans >£500k
- 85% of BTL customers have only one BTL mortgage with us

Modelled mortgage provisions remain prudent

- Continued over-prediction of delinquency and possession
- Provisions supplemented by HPI overlay
- £40m excess expected loss (EEL) further protects capital

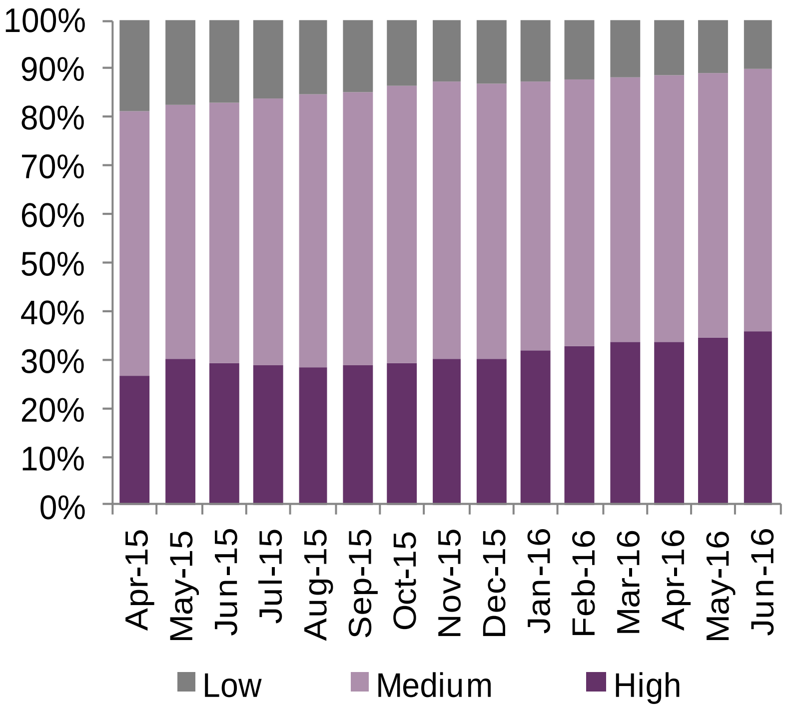
Strong quality book and provisioning/EEL cover protect us against worsening conditions

Source: Company information for all data

Credit card risk profile improving

Low risk and improving risk profile, underpinned by strict underwriting standards

Distribution of balances by internal risk score[1]



Impairment performance

Impairments (£m)	H1 16	2015	2014
Gross	18.8	34.2	23.5
Net	16.1	27.3	14.6
Debt Sales	2.7	6.9	8.9

Cost risk (%)			
Inc. debt sale	1.73%	2.00%	1.51%
Ex. debt sale	2.02%	2.50%	2.43%

Risk profile of credit card book improving as we write cards on our own platform

Source: Company information for all data

Note: (1) BHS banding: Low <280, Medium 280 – 349, High 350+, all accounts with a valid score > 4 months on book

Credit card book profile improving on own platform

Our total cost of risk is increasingly a function of our better quality, newer business

Book vintage vs. impairments profile

Older book

Remaining balances purchased from MBNA

2013-2014 book

Written under bounty arrangement with MBNA

New book

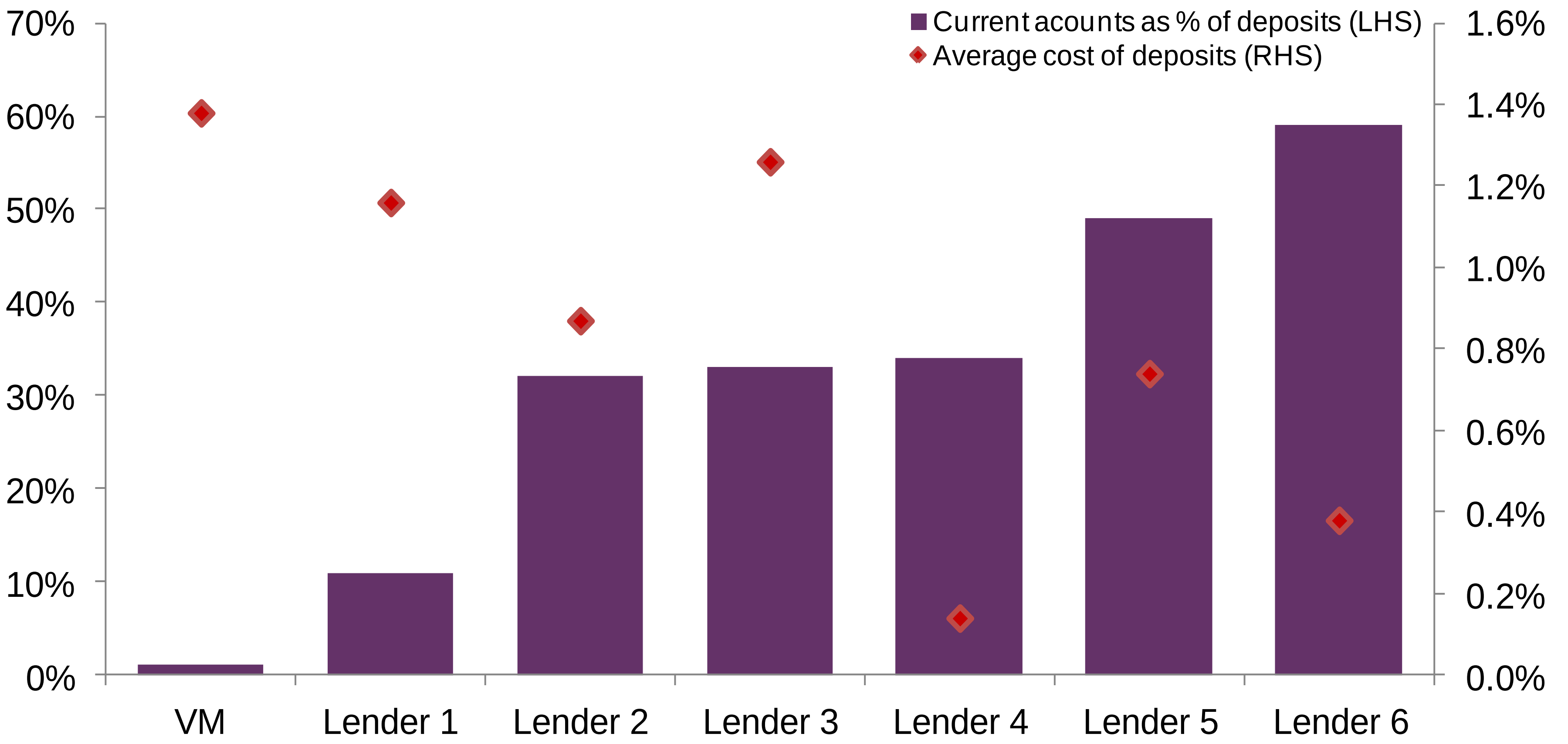
Written post migration, before recent tightening

The higher risk parts of the portfolio are being rapidly diluted

Source: Company information for all data

BBR reductions and ‘even lower for even longer’

Our book provides the flexibility to absorb the impact of BBR reductions



We are well placed to manage NIM through BBR reductions

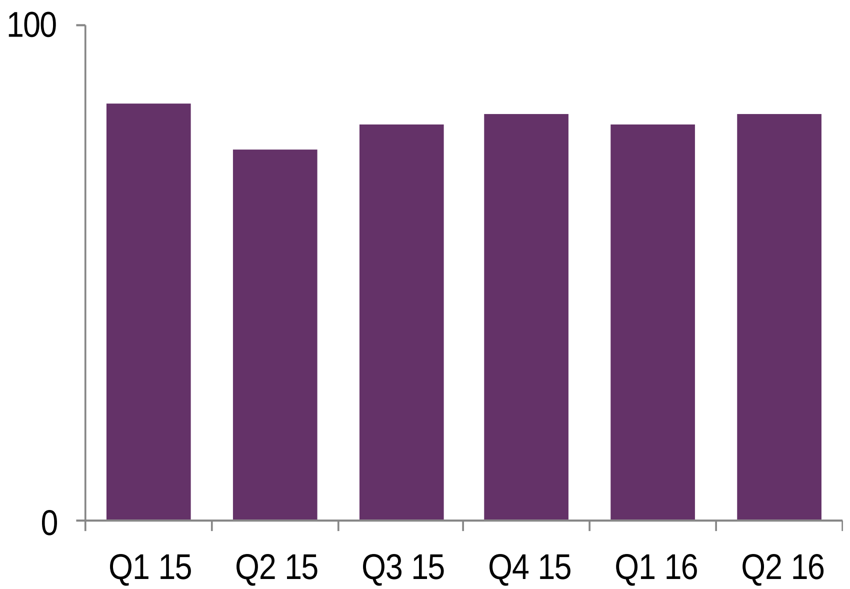
Source: Company information for all data

Note: Peer group assignment is not equivalent to that listed on prior slides. Data is based on last reported as at 26 July 2016

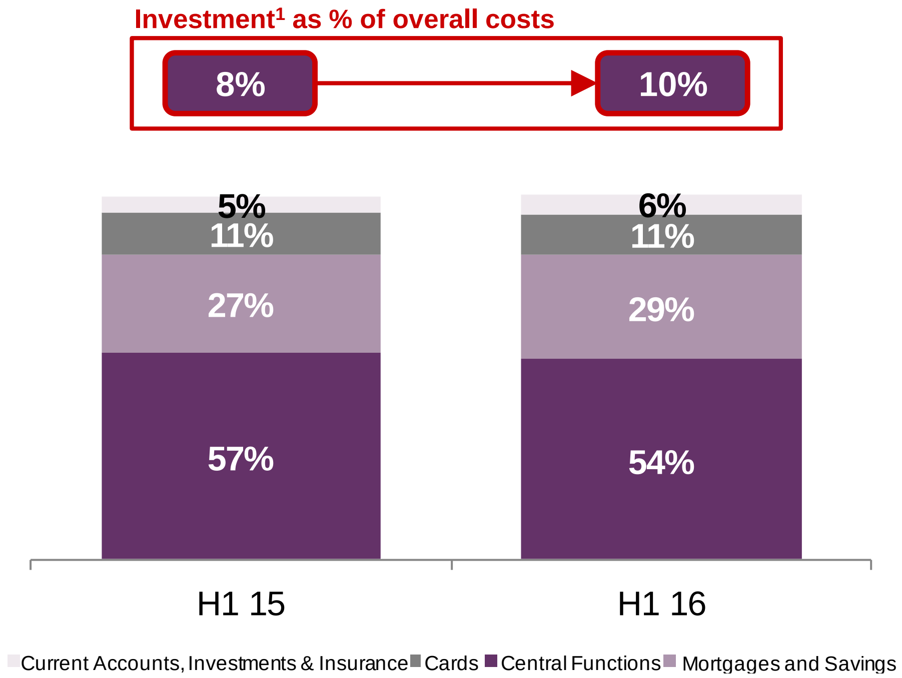
Costs remain a lever available to Virgin Money

We have a track record of prudent cost management and further scope for improvement

Costs excluding FSCS (£m)



Division of costs



Operational leverage: flat costs during period of 25% balance sheet growth

Room to improve in central functions without prejudicing our investment in the future

Continue to target 50% C:I ratio in 2017

Source: Company information for all data

(1) Investment is expenditure on investment projects plus depreciation

Doing what we said we would do

Measure	H1 16
Mortgages	3.6% share
Credit Cards	£2.1bn balances
Deposits	8% growth
L:D ratio	109.6%
NIM	160bps
C:I Ratio	58.8%
Cost of risk	12bps
CET1 ratio	15.3%
Leverage ratio	3.8%
RoTE	12.2%

1.6p
Interim dividend

Source: Company information for all data

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Outlook

		Guidance
Growth	Mortgages	3-3.5% of gross lending
	Credit Cards	£3bn by end of 2017
Quality	Cost of Risk	Around 20bps in 2017
	CET1 Ratio	12% minimum
	Leverage Ratio	3.6% minimum
Returns	C:I Ratio	50% in 2017
	RoTE	Solid double digit returns

Q&A

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