VIRGIN MONEY: Q1 2015 TRADING UPDATE

Virgin Money Holdings (UK) plc (the "Group") has delivered a strong trading performance in the first quarter of 2015 as it continues to create Britain's leading challenger bank.

Key Highlights

- 3.6%[1] share of gross mortgage lending in Q1 2015
- Gross mortgage lending up nearly 34% on Q1 2014 to £1.6 billion
- Net mortgage lending up 82% on the same period to £664 million
- 675,000 credit card accounts successfully migrated in March 2015
- Costs moderately better than expectation due to operational leverage
- Full national roll-out of the Virgin Essential Current Account completed in March 2015
- Wholesale funding diversified through successful issuance of £300 million MTN in April 2015

1. Estimate based on Bank of England data for January and February 2015 and the Council of Mortgage Lenders estimate for March 2015

Jayne-Anne Gadhia, Chief Executive Officer said:

"In the first three months of 2015, we have continued on our trajectory of growth while retaining a high-quality balance sheet. We have also maintained strong momentum in the development of the business across multiple business lines, marking significant progress towards our long-term strategic objectives.

"I am particularly pleased that we successfully completed the migration of the credit cards we acquired from MBNA to our own platform and have launched our proposition to customers. We now have the full capability to originate and service our own cards, and this achievement marks the critical next step in the development of a major business line.

"We are confident that we can continue to build on the strong foundations we have laid for the business, and remain focused on delivering growth, quality and returns for the benefit of all of our stakeholders."

Business review

Virgin Money grew its gross mortgage lending by 34% to £1.6 billion in Q1 2015 compared to Q1 2014 while total gross lending in the market is estimated to have fallen by 3%[1] in the same period. This is estimated to represent a 3.6%[1] market share of gross mortgage lending in the first quarter. Net mortgage lending increased by 82% to £664 million from £365 million in Q1 2014. Mortgage balances at 31 March 2015 were £22.6 billion, an increase of 3% from £21.9 billion at year end.

As a consequence of the high number of mortgage applications received in Q1 2015, the Group has started the second quarter with a strong mortgage pipeline. Asset spreads in the first quarter were moderately below the Group's full year target of around 200bps and the Group has taken action to change the business mix within its prudent risk appetite.

During the quarter the Group continued to manage the cost and volume of deposits successfully. Retail volumes were stable following a back book reprice which was successfully executed with customer retention ahead of expectations. Retail deposits increased by 3% from 31 March 2014 to £22.2 billion and were broadly stable from £22.4 billion in Q4 2014 as the Group carefully managed inflows in order to continue optimising its funding mix.

Credit card balances stood at over £1.0 billion at the end of the quarter following the successful migration of accounts from MBNA. The migration of ca. 675,000 credit card accounts was undertaken in March 2015 and the credit card business is now fully operational on Virgin Money's own platform, as the Group grows towards its target of £3 billion of credit card outstandings by the end of 2018. The successful execution of cards migration builds upon an already very strong track record at Virgin Money for delivering significant business change and development.

Our new cards product range is now available on a leading aggregator website. The cards business continues to contribute positively and as planned to Group NIM.

During the period the Group's net interest margin was in line with expectations. The successful repricing of the deposit back book gave the Group capacity to compensate for asset spread compression and to confirm its expectation of an annual NIM of up to 160bps for the year.

Other income grew in line with our expectations during the period compared to Q4 2014. In particular, growth in pension sales, whilst modest, slightly exceeded expectations and the Group continues to make planned progress in developing our insurance and current account businesses.

Asset quality remained strong in the quarter. The cost of risk increased following the acquisition of a second tranche of credit cards balances from MBNA in November 2014, in line with the Group's expectations.

The Group continued to grow its underlying return on tangible equity during the quarter towards its target of a mid-teens return by the end of 2016.

Virgin Money continues to enjoy strong capital ratios which position it both for growth and to be able to meet known changes to regulatory capital requirements.

The Group remains focused on prudent and efficient funding management and the loan to deposit ratio has therefore increased during the quarter. Prudent liquidity management enables the Group to be very confident in meeting all the current and known future regulatory liquidity requirements.

On 16 April 2015, Virgin Money issued Medium Term Notes with a principal amount of £300 million at a coupon of 2.25 per cent. per annum. These were issued as part of the Group's recently launched £3 billion Global Medium Term Note programme, which was established to diversify the Group's wholesale funding base further. The offering saw strong demand and was multiple times oversubscribed, allowing the Group to increase the size of the offering from £250 million to £300 million.

Strategic progress

The full national roll-out of the Virgin Essential Current Account (ECA) was completed in March 2015 with the account now available to customers in England and Wales, following its roll-out in Scotland and Northern Ireland in early 2014. The ECA provides Virgin Money with a proven current account platform ahead of the conclusion of the CMA review into Current Accounts which is expected in early 2016.

The Group made material progress in its relationships with intermediaries, following the launch of the renewed intermediary proposition in January 2015, with the net promoter score amongst intermediaries increasing by 60% to +40 from +25.

Virgin Money launched a simple, transparent life insurance product through direct channels in March 2015 under its agreement with Friends Life. The Group plans to sell life insurance through stores and contact centres from Q2 2015.

In February 2015, the Group launched three new passively managed funds, increasing customer choice of risk profile. These funds are offered under the Group's longstanding partnership with State Street and IFDS. Sales of the new funds have progressed in line with the Group's expectations.

The Group's website is still the most popular channel for customers, with over 3.9 million website visits during Q1 2015. 73% of Virgin Money's sales and 72% of service transactions in the first quarter were carried out digitally.

The Group launched a brand marketing campaign in April: "There's money, and there's Virgin Money". The adverts have been watched more than 5 million times on social media.

On 3 March 2015, Virgin Money celebrated twenty years since it was founded and on 23 March 2015 was admitted to the FTSE 250 share index, marking the Group's progress as a publicly listed company.

Outlook

Virgin Money continues to expect to achieve a net interest margin for 2015 of up to 160 basis points. Profitability improved during the quarter with an acceleration of operating leverage benefits resulting in an underlying cost:income ratio moderately ahead of the Group's expectations which increases confidence in achieving a 50% cost:income ratio in 2017. Cost flexibility remains an opportunity to offset potential headwinds and continue to drive returns in the medium term. Longer-term guidance given at full year results remains unchanged.

MORE ON OUR STORY

Each quarter we intend to update the market on our progress and achievements during the period.

SUMMARY

2015 has started strongly for Virgin Money, building on the foundations of a successful 2014.

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.

Our successful IPO showed that investors value the simplicity and transparency of our UK focused, positively-differentiated retail banking business model.

Our desire remains to be positively different from the larger banks, by putting customers at the heart of all we do. We offer customers straightforward products with fair and transparent pricing, supported by the delivery of outstanding customer service. We also maintain our determination to support the communities we work in. These positive attributes enable us to continue to stand apart and compete successfully, with both the large incumbent banks and newer players.

We have come a long way since launching the business on 3 March 1995 and celebrated Virgin Money's 20th Anniversary in March. On 23 March we entered the mid-cap FTSE 250 share index, following our IPO in November 2014.

MORTGAGES AND SAVINGS

Mortgage momentum

We achieved 3.15% share of the mortgage market in the second half of 2014 and this momentum has continued into 2015 with the latest estimates based on Bank of England data for January and February and the Council of Mortgage Lenders estimate for March showing a 3.6% market share year-to-date.

Straightforward savings

Our savings strategy remains unchanged - we offer simple and transparent savings products, with no hidden catches. We continue to avoid ‘teaser’ products with bonus rates which subsequently fall to sub-market levels and provoke customer churn. Instead we encourage customer retention with enduring, good value offers.

Our approach has been rewarded with one million savings accounts opened since January 2012.

CREDIT CARDS

Credit Card capability

In March we successfully migrated over 675,000 customer accounts from MBNA to our own credit card platform giving us full control of our credit card business. We have developed our own credit card manufacturing capability in partnership with leading credit card systems provider, TSYS.

This complex programme has been implemented over two years. Building our own credit card capability will allow us to grow the business through simple, transparent products supported by strong risk management and excellent service.

We will continue our presence in the balance transfer market and diversify our product range. Our new capability will allow us to respond to market conditions more quickly and better align our products to our customers’ needs.

CURRENT ACCOUNTS, INSURANCE AND INVESTMENTS

Essential Current Account available across all Stores

The full national roll-out of the Virgin Essential Current Account (ECA) was completed in March 2015 with the account now available through all of our 75 Stores. The ECA gives us a proven current account platform ahead of the conclusion of the CMA review into Current Accounts which is expected in early 2016.

We continue to challenge the barriers to entry and anti-competitive nature of the current account market – particularly the free-if-in-credit model and lack of fair access to the payments infrastructure. While these conditions persist, we have limited our participation in the market and continue to build capability in order to be ready for the future.

Simple Life Insurance launched

We launched our new Life Insurance product in partnership with Friends Life in March. The new product offers a simple way to help our customers protect themselves from life's unexpected twists and turns.

Three new funds

In February 2015 we launched three new funds - increasing the number of passively managed funds in our range to five. The new funds will provide our customers with more choice and give us the opportunity to grow our funds under management.

Pensions

Pension sales increased in Q1 2015 compared with the same period last year. This improved performance in 2015 is the result of auto enrolment, our efficient marketing activity and a general increase in awareness of pensions as a result of pension reform.

Our insurance and investment strategy is based on a partnership model. We seek partners who share our commitment to straightforward and transparent products. We leverage their capabilities with our brand and marketing expertise to access profitable sectors whilst moderating financial risk.

DIGITALLY LED DISTRIBUTION

We have a national customer base and provide award-winning customer service to our 2.8 million customers through a range of channels, including online and mobile, intermediaries, call centres and a national network of 75 Stores and five customer Lounges.

We believe this low cost model positions us well for cost-effective growth in an increasingly digital world. We continue to invest in the digital channel, developing both functionality and content to enhance our customer experience.

Digital Business

In support of delivering high-quality service to customers we operate a digitally-led distribution model supported by Stores, Lounges and Contact Centres.

We continue to improve our digital capability to make it easier for our customers to access Virgin Money services and products using their mobile devices. As a result we now have more than 1.2 million customers using our digital services, including 300,000 customers who access services from a mobile device.

Investment in the digital channel will continue in 2015 to ensure we continually enhance our customer service and experience. Mobile is an increasingly important banking channel and our partnership with Monitise, and its network of partners, will support our growth ambitions through enhanced digital capability.

The intermediary effect

We have had a very positive reaction to the launch of our new intermediary proposition and the commitments we made to our intermediary partners reflect the value we place on this channel.

Intermediaries have become increasingly important to both mortgage customers and providers since the introduction of the Mortgage Market Review and our key focus and competence in this channel underlines our confidence in continued growth.

Visits to our intermediary website are at the highest levels we have seen since August 2012. And our commitment to give customers £100 if we don't get a mortgage offer out within 10 working days of receiving a fully-packaged application was very well received by our intermediaries.

As a result of our focus on delivering great service we have seen a 15 point improvement in our intermediary Net Promoter Score from +25 to +40, a 60% year-on-year increase. We also won the "Best Buy to Let Lender for Service" award at the Business Moneyfacts Awards.

The Lounge effect

A material symbol of Virgin Money’s commitment to delivering differentiated customer service is the network of Virgin Money Stores and Lounges.

The Lounges are designed to be places where customers and local communities can come together. They are free to use for customers and offer tea, coffee and snacks as well as newspapers and wi-fi.

Lounges deliver a unique customer experience in UK banking, our customers tell us they love them, and they create valuable opportunities for both customer retention and recommendation.

Over 100,000 customers enjoyed the Lounge facilities in Q1 2015. The Net Promoter Score for our Lounges increased to +85 in the period.

OUR NEW MARKETING CAMPAIGN

At Virgin Money we are proud that we are building a different kind of bank. A bank that's full of small changes that are making a really big difference to our customers. Our marketing strategy is based on reinforcing that differentiation: "There's money and there's Virgin Money".

Our investment in marketing is a core part of our strategy to continue to differentiate ourselves, and on 6 April we launched a new advertising campaign designed to continue to build consumer awareness and consideration of our proposition.

Campaign Highlights

- Designed to bring the Virgin Money difference to life for consumers in a fun and entertaining way, the campaign runs across TV, newspapers, digital, mobile and social media, as well as in our Stores, for the rest of this year.

- The TV advertising leads on our "no introductory bonus rate" savings proposition and simple pension.

- On the night of the advertising campaign launch, we saw an almost immediate effect when the first ad aired with website homepage traffic up by 23% and savings traffic up by 65%. During the first week of the campaign, savings website traffic was up by over 50% compared to the previous week, and over 5 million consumers engaged with the campaign online, watching some or all of the ads.

- We plan to extend further the product propositions marketed through the campaign during the year to include credit cards, mortgages and investments.

Analyst and investor call

An analyst and investor call will be held as follows:

Date: Friday 1 May 2015
Time: 11.00am
Dial: +44 20 3059 8125
An operator will assist you in joining the call.

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NOTES TO EDITORS

About Virgin Money

- Virgin Money provides savings, mortgages, credit cards, current accounts, pensions, investment and insurance 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
- Virgin Money is the official sponsor of the London Marathon, the biggest annual one-day fundraising event in the world. Virgin Money has helped London Marathon runners raise over £¼ billion, including funds raised through Virgin Money Giving the not-for-profit online fundraising service, since 2010.

Note: all figures contained in this trading update are unaudited

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; changes to Virgin Money's credit ratings; 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 and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes; 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 European Union, the US or elsewhere; the implementation of the EU Bank Recovery and Resolution Directive and banking reform, following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by 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.

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