VIRGIN MONEY UK

28 January 2020

Virgin Money UK PLC: First Quarter 2020 Trading Update

Virgin Money UK PLC ("VMUK" or the "Group") confirms that trading in the three months to 31 December 2019 was in line with the Board's expectations.

David Duffy, Chief Executive Officer:

"The Group continues to perform well. In a difficult market, our own performance has remained on track and we continue to make strong progress on our ambition to disrupt the status quo.

"We are attracting relationship deposits and delivering growth in customer balances across business and personal, while maintaining our discipline in a competitive mortgage market.

"We have also now delivered on our commitment to lend £6bn to SMEs over the three years to the end of 2019, with £6.5bn lent in total. This included lending of £1.3bn in Scotland, £0.9bn in Yorkshire, £0.9bn in the North West and £0.5bn in the Midlands, demonstrating our support for SMEs across the regions of the UK.

"We've launched the first Virgin Money digital personal current account and unveiled three new Virgin Money concept stores as planned in December. We are also progressing at pace with our plans to launch new and exciting Virgin Money products for personal and business customers throughout 2020.

"While sentiment improved following December's election result, the UK banking market continues to face competitive pressures and uncertainty over the final Brexit settlement. However, we continue to focus on supporting our customers in their everyday lives, delivering on our strategic priorities and meeting our medium-term financial targets."

Q1 Performance Summary

Balance sheet mix optimisation continues in line with the Group's strategy

- Customer deposit growth in Q1 of 1.6% to £64.8bn with good relationship deposit performance
- Q1 Mortgage book reduction of 0.8% to £59.6bn as we remain disciplined in a competitive market
- Q1 Business lending growth of 2.5% to £8.1bn reflects good organic business lending growth and a strong contribution during the period from customers switching from RBS
- Q1 Personal lending growth of 3.7% to £5.2bn primarily due to high quality credit card growth
- Net cost of risk of 23bps with asset quality remaining resilient

Net Interest Margin (NIM) stabilised

- NIM stabilised in Q1 at 160bps (vs. Q4 2019 NIM of 160bps)
- The Group continues to expect FY20 NIM of c.160-165bps

Further transformation progress; customer proposition enhancements gather pace

- The integration activities continue to progress as planned with c.£70m of annual run-rate net cost savings now realised; our new Digital Disruption Hub in Newcastle is now up and running
- Our customer proposition enhancements are well under way with the launch of the first Virgin Money digital current account in December and the rebrand programme is progressing well

The Group remains strongly capitalised with a CET1 ratio of 13.1%

- CET1 ratio reduced c.20bps to 13.1% due to RWA growth from asset mix and Business lending seasonality
- Very good progress has been made in processing the outstanding PPI Information Requests
- PPI costs are tracking in line with our provision assumptions and the Group assesses its remaining provision as sufficient to complete the outstanding volumes

Virgin Money UK PLC is registered in England and Wales (company number: 09595911) and as a foreign company in Australia (ARBN 609 948 281) and has its registered office at Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

Pioneering growth

(£bn)	30 Sep-19	31 Dec-19	Q1 growth	YTD annualised
Mortgages	*60.1*	*59.6*	*(0.8)%*	*(3.3)%*
Business	*7.9*	*8.1*	*2.5%*	*9.9%*
Personal	*5.0*	*5.2*	*3.7%*	*14.8%*
Customer lending	73.0	72.9	(0.1)%	(0.6)%
Customer deposits	63.8	64.8	1.6%	6.2%
o/w relationship deposits	*21.4*	*21.8*	*1.9%*	*7.6%*

Strong deposit growth of 1.6% in Q1 with further progress in our relationship deposit strategy as we attracted £0.4bn in additional balances driven by particularly strong growth in Personal linked savings.

Mortgages saw a small reduction in balances, as expected, with lower Q1 originations as we chose not to compete aggressively in the seasonally competitive period during which peers typically seek to meet year-end targets. The Group expects to maintain its c.4% market share as we optimise for value.

Strong Business balance growth of 2.5% in Q1 was driven by good organic lending growth across most segments but particularly through our specialist sector teams and a strong contribution from customers joining us through the BCR incentivised switching scheme. However, the overall pace of both asset and liability switching through the scheme remains slower than expected, reflecting weaker switching demand from RBS customers.

Personal lending had another strong quarter (+3.7%) with growth across our credit card propositions targeting the prime segments of the market and by leveraging our popular Virgin Money credit card app. We also saw further personal loan growth as our Salary Finance joint venture continues to perform well.

Delighted customers and colleagues

The Virgin Money rebrand programme has now commenced. In December we successfully launched the first ever Virgin Money digital personal current account, which has been rated ‘outstanding’ by Moneyfacts, to our B customers and all new customers. We also began the rebrand of our store network, with three Virgin Money concept stores launched in Manchester, Birmingham and London, while an extensive programme to rebrand the entire network will accelerate during H2 2020. In tandem with the rebranding process we will be delivering a series of product, proposition and feature enhancements across our Personal, Business and Mortgage channels, benefitting from the introduction of a rewards-based programme leveraging the Virgin brand.

Super straightforward efficiency

The transformation programme is proceeding well with the integration activities being delivered as planned and further progress made towards our target for c.£200m of net cost savings by FY22, with c.£70m of annual run-rate net cost savings realised to date. We are focused on delivering FY20 underlying costs of <£900m. A further £56m of exceptional charges were incurred during Q1 including £27m of restructuring costs and £26m of acquisition accounting unwind charges, in line with guidance.

Discipline and sustainability

Asset quality remains resilient with an annualised net cost of risk of 23bps in Q1 (vs 21bps in FY19).

The Group’s CET1 ratio decreased c.20bps to 13.1% at 31 December 2019. This was driven by RWA increases from growth in Business and Personal lending, as well as Business lending seasonality impacts. The Group continues to target a CET1 ratio operating level of c.13%, providing a significant management buffer relative to our 11.0% CRD IV minimum CET1 capital requirement.

A further c.100k of unprocessed PPI Information Requests (IR) have now been assessed and <50k IRs remain outstanding. IR conversion and complaint uphold rates are trending in line with our assumptions and the Group assesses its remaining provision as sufficient to complete the programme.

The Group is pleased to have signed up to the UN Principles of Responsible Banking and continues to embed its sustainability strategy, including a new target to commit at least 5% of business lending to those businesses advancing the cause of environmental sustainability.

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Announcement authorised for release by Lorna McMillan, Group Company Secretary.

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