



Strategy Update

16 November 2017

Strategy overview

Jayne-Anne Gadhia, Chief Executive

Digital Bank

Michele Greene, Director of Strategic Developments

SME

Hugh Chater, Chief Commercial Officer

Outlook and Guidance for 2018

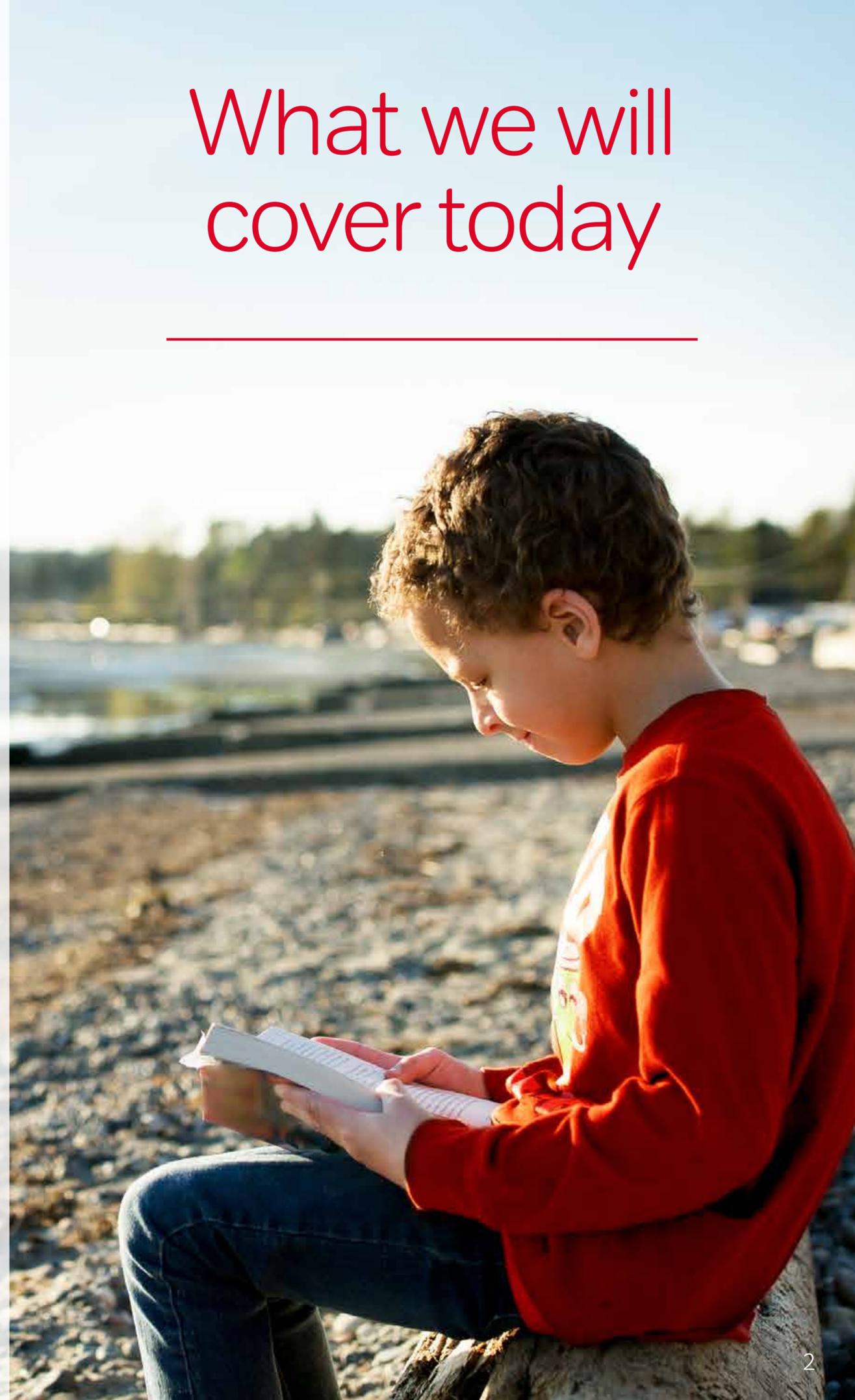
Peter Bole, Chief Financial Officer

Summary

Jayne-Anne Gadhia, Chief Executive



What we will cover today



We always
**deliver on our
promises**



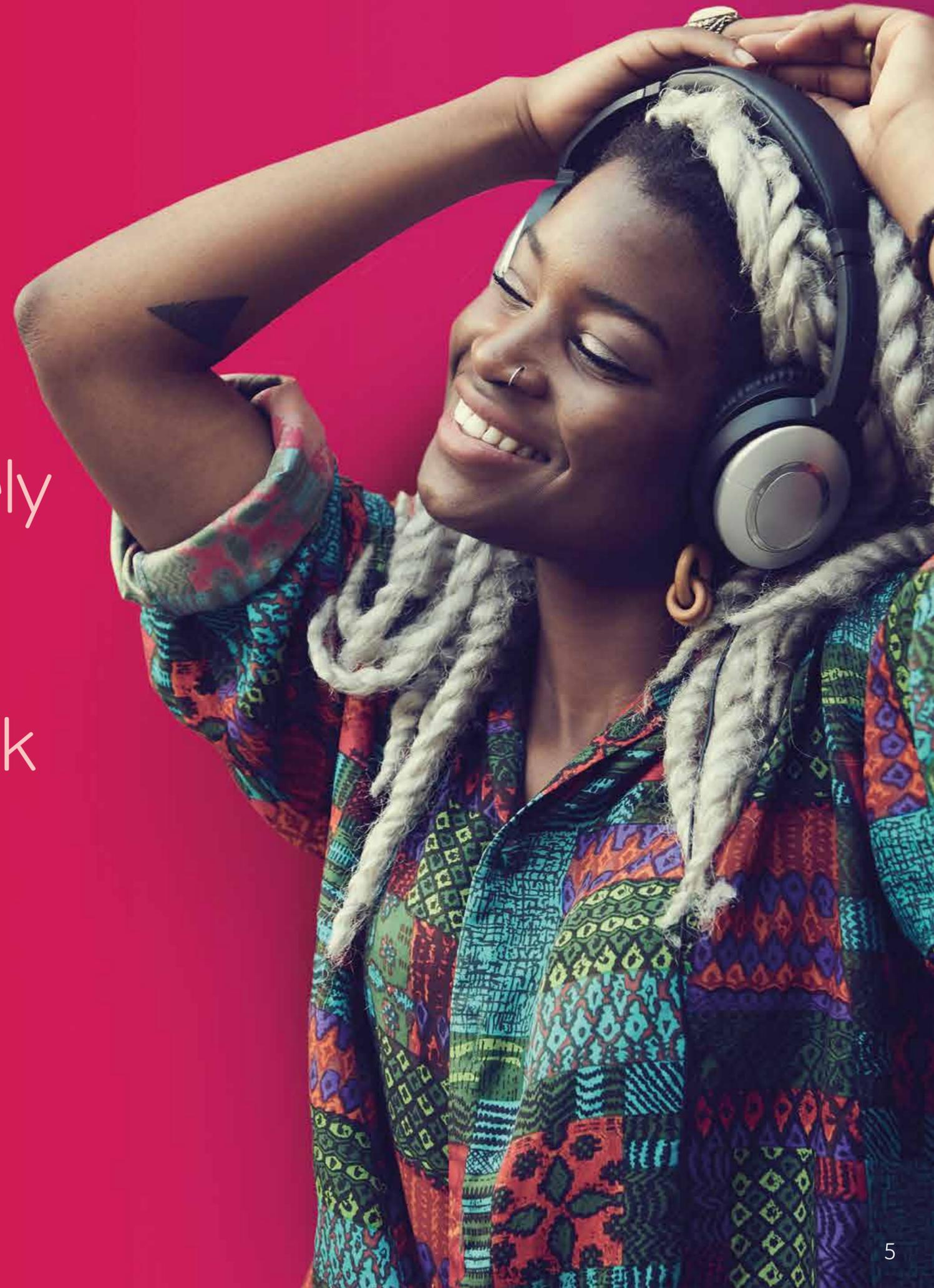
The landscape is
changing fundamentally

Open banking will enable
agile customer-centric
technology companies
to compete

This causes a problem
for the large institutions



Virgin Money is uniquely
placed to create a
**digital, data-driven,
customer-centric bank**



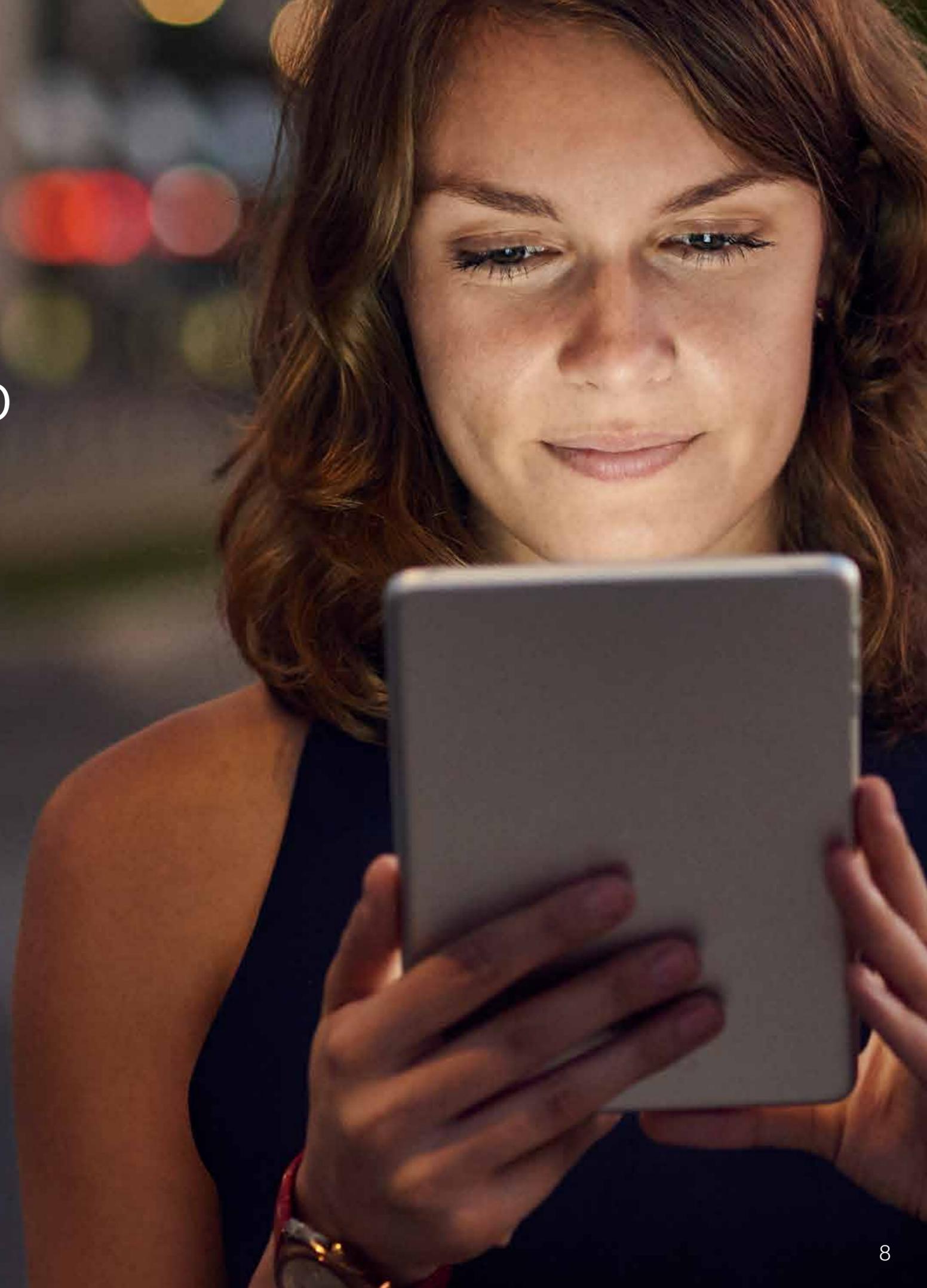
Our plan is to
create a new banking
platform for the future



The
time is right
for us to dive into
the SME market



We will transform
from a challenger to
a digital champion



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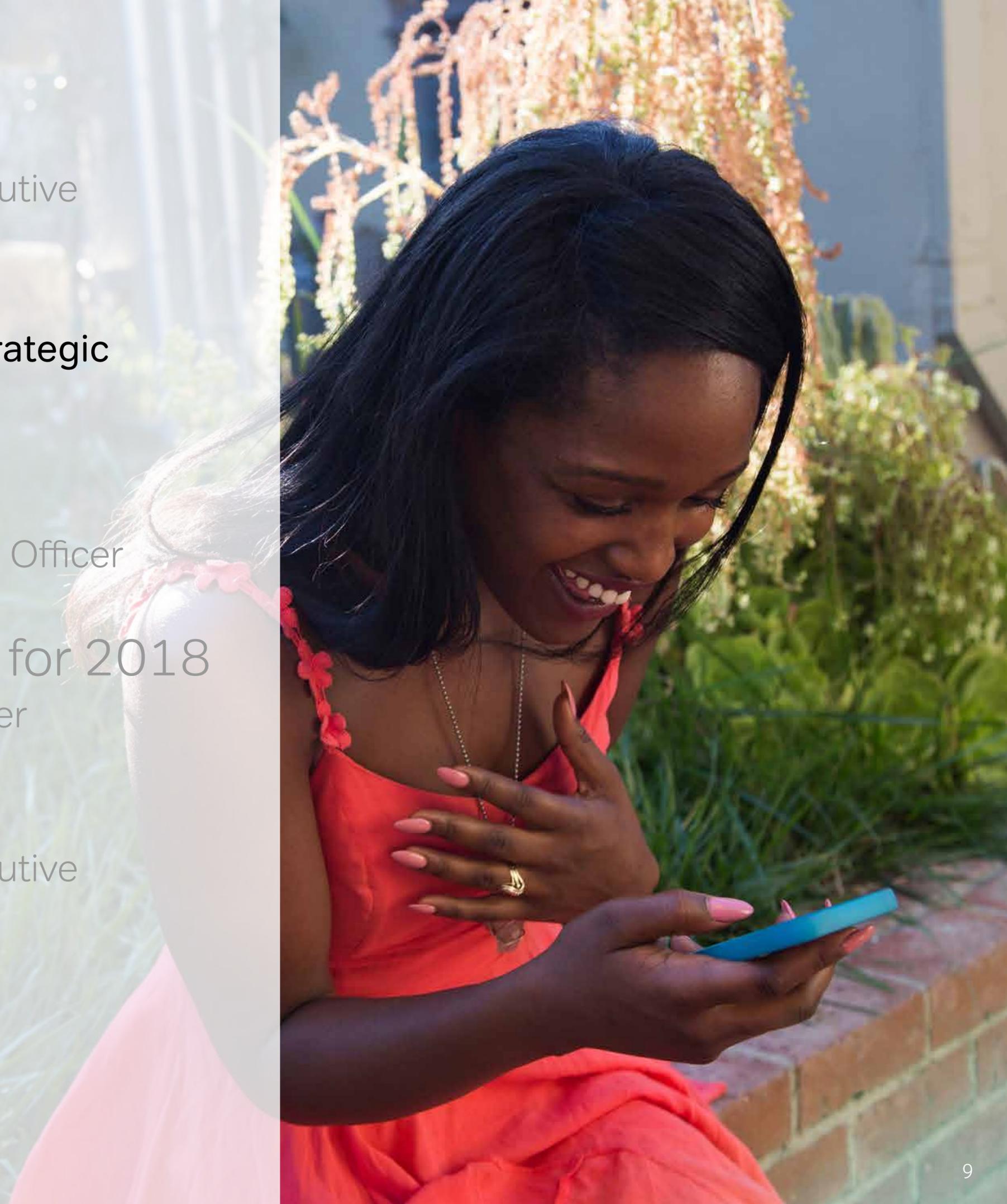
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Building the UK's best Digital Bank



We spent time listening to our customers

We already understand Digital



79% of our sales are done through digital channels
(Including 99% for our credit card)



Distinctive customer service across the whole business that is recognised **by a market leading NPS score of +40**

Over the last 18 months we learnt what customers want from Digital Banking

“
What’s missing is the **combination of your money with the context of your life**”

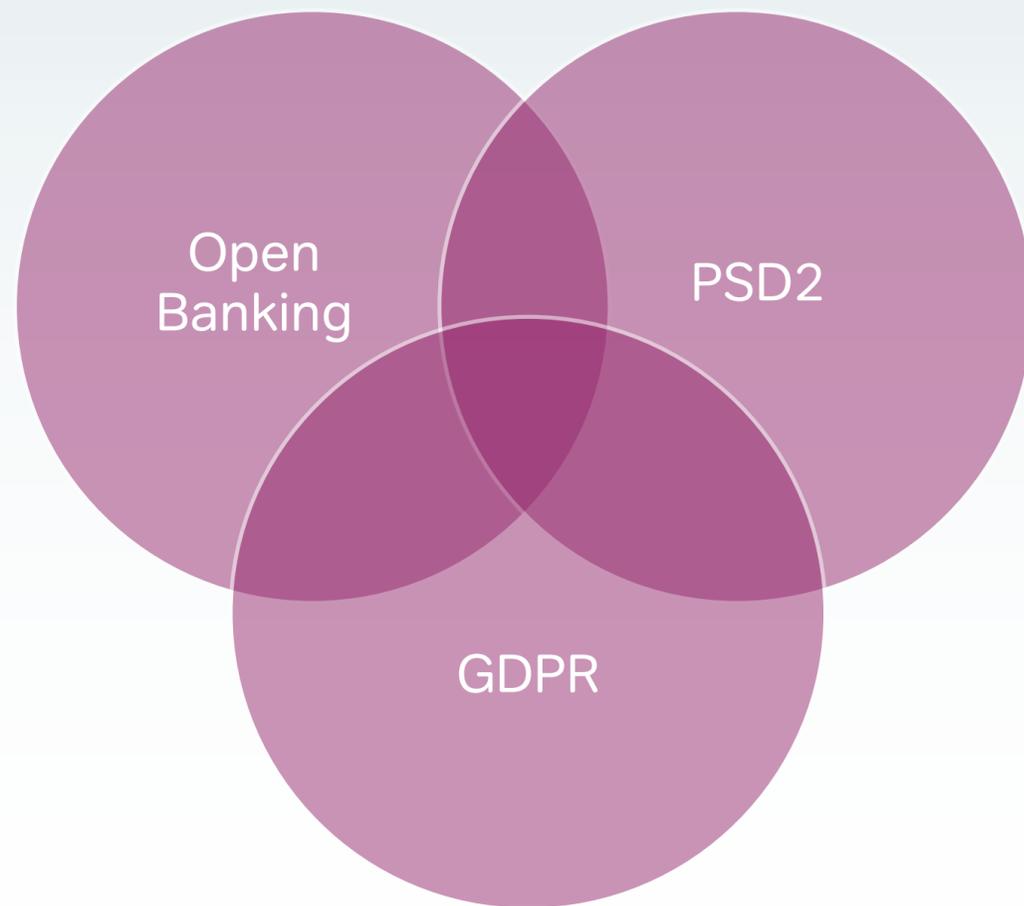
“
Bringing all my finances together in **one easy to manage place...** without having to log in to numerous sites...”

“
Money is about enabling the moments that matter in life big and small”

Customers are ready and open to a disruptive digital banking proposition

Regulatory changes will revolutionise the retail banking landscape

Confluence of regulatory action



Common themes across regulatory reform



Innovation

Customers will be able to bring together all their financial relationships and data in one place



Competition

Seamlessly instruct payments and move funds from a single interface



Consumer protection

Putting a strong authentication and permission framework around this sensitive customer data

Fundamental shift in how customers will manage their money and their data

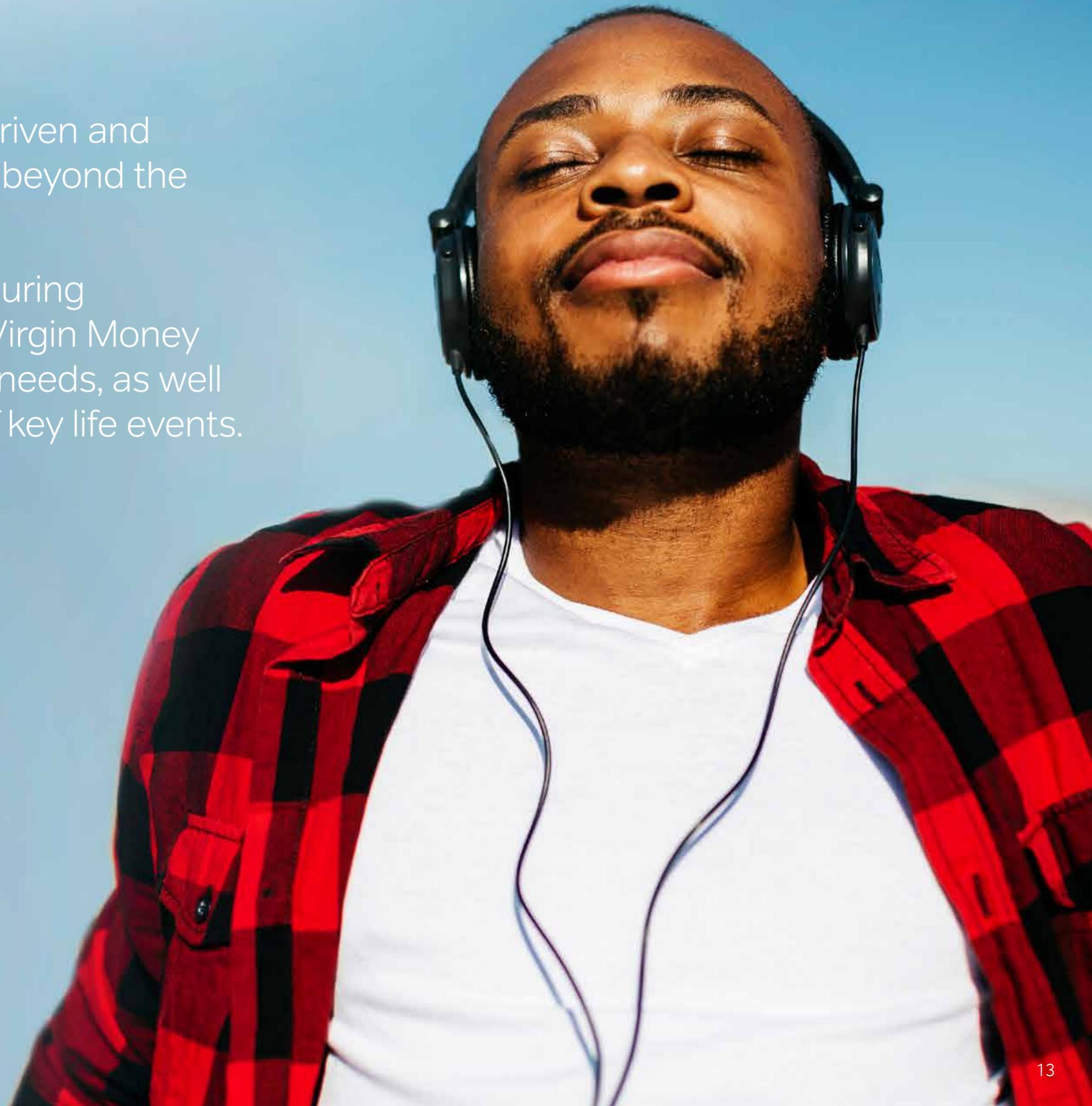
Our purpose: Everyone's Better Off

Our Business vision

To build a customer-centric, data-driven and digitally-enabled service that goes beyond the bounds of traditional banking.

We will create trust-based and enduring relationships with our customers. Virgin Money Digital Bank will support everyday needs, as well as helping to take the stress out of key life events.

We want to create a world where people feel good about their money



We will transform banking in the same way successful platform businesses have changed their sectors



VMDB's 5 distinctive assets

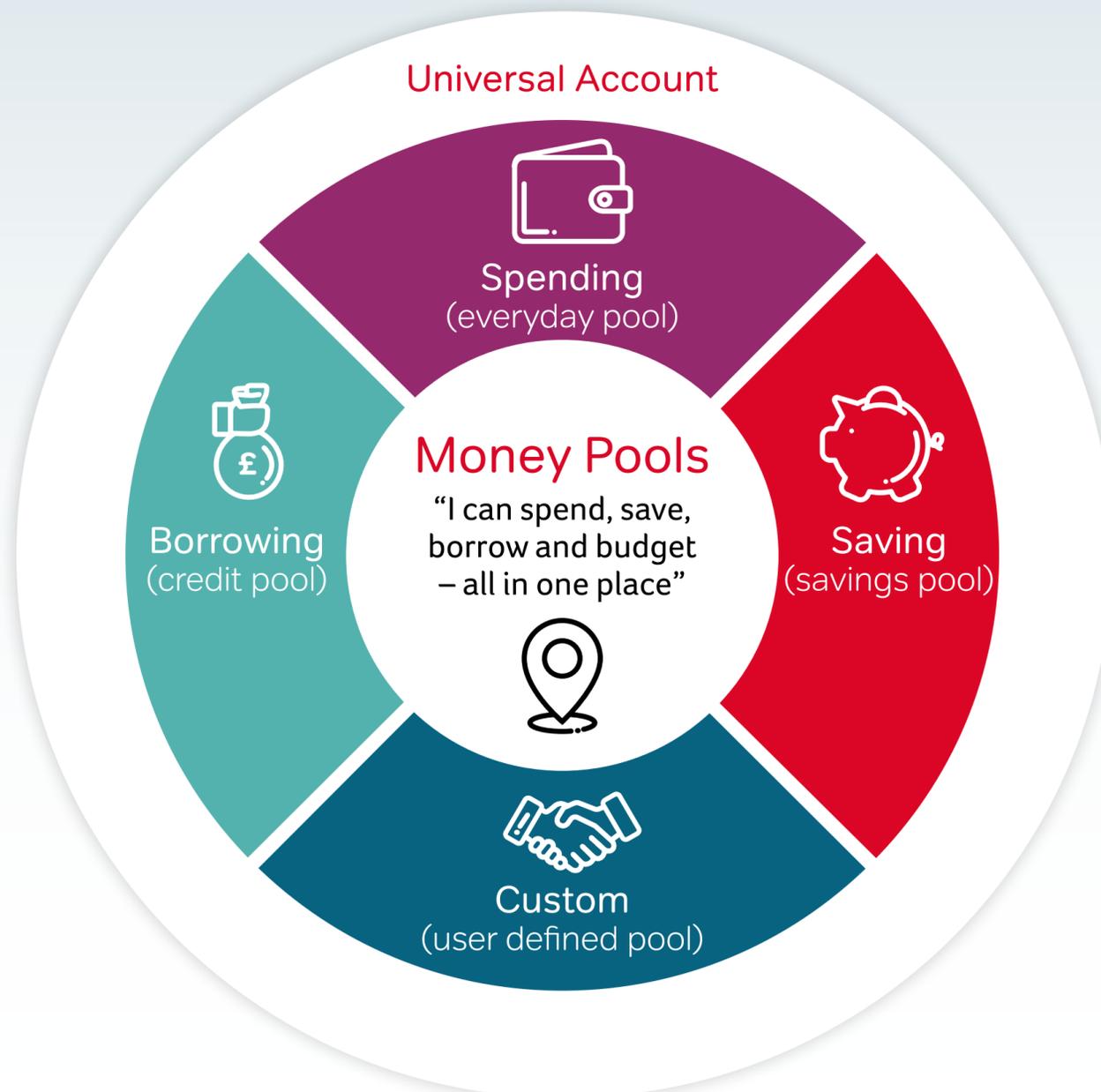
- > Universal Account
- > Digital Assistance
- > Going Beyond Banking
- > Next Generation Architecture
- > Business Intelligence and Analytics

Insights from platform companies

- > Manage everything in one place
- > Simple and convenient
- > Support all financial and non-financial needs
- > Low cost, scalable and easy to change
- > Data at the core

We will apply the best aspects of successful platform businesses to Banking

“Universal Account” – much more than a current account



New type of mobile banking experience

- > Combines ‘everyday’ banking products
- > Helpful and intuitive tools
- > Eliminates need for multiple accounts

Structured around concept of ‘Money Pools’

- > Separate money within a single account
- > Seamless and intuitive
- > Financial clarity

We are building the next generation Universal Account that can be personalised by the customer

Bringing Money Pools to Life

We have designed a way to help customers separate their money ...



Bills Pool

to protect funds for regular commitments



Everyday Pool

for day to day spending



Savings Pool

to build funds towards a specific goal or for a rainy day



Custom Pool

for their own specific purposes

... and they would be very keen to use Money Pools if offered in a digital proposition

“

I'm already doing this with my savings accounts... this [Money Pools] would make it much easier!

”

“

I do this [Money Pools] with a spreadsheet at the moment! Starting with a bills pool makes sense – rent, electricity etc, have to tell myself not to do anything until all these come out.

”

“

It would be much more convenient to have my money in one place rather than several

”

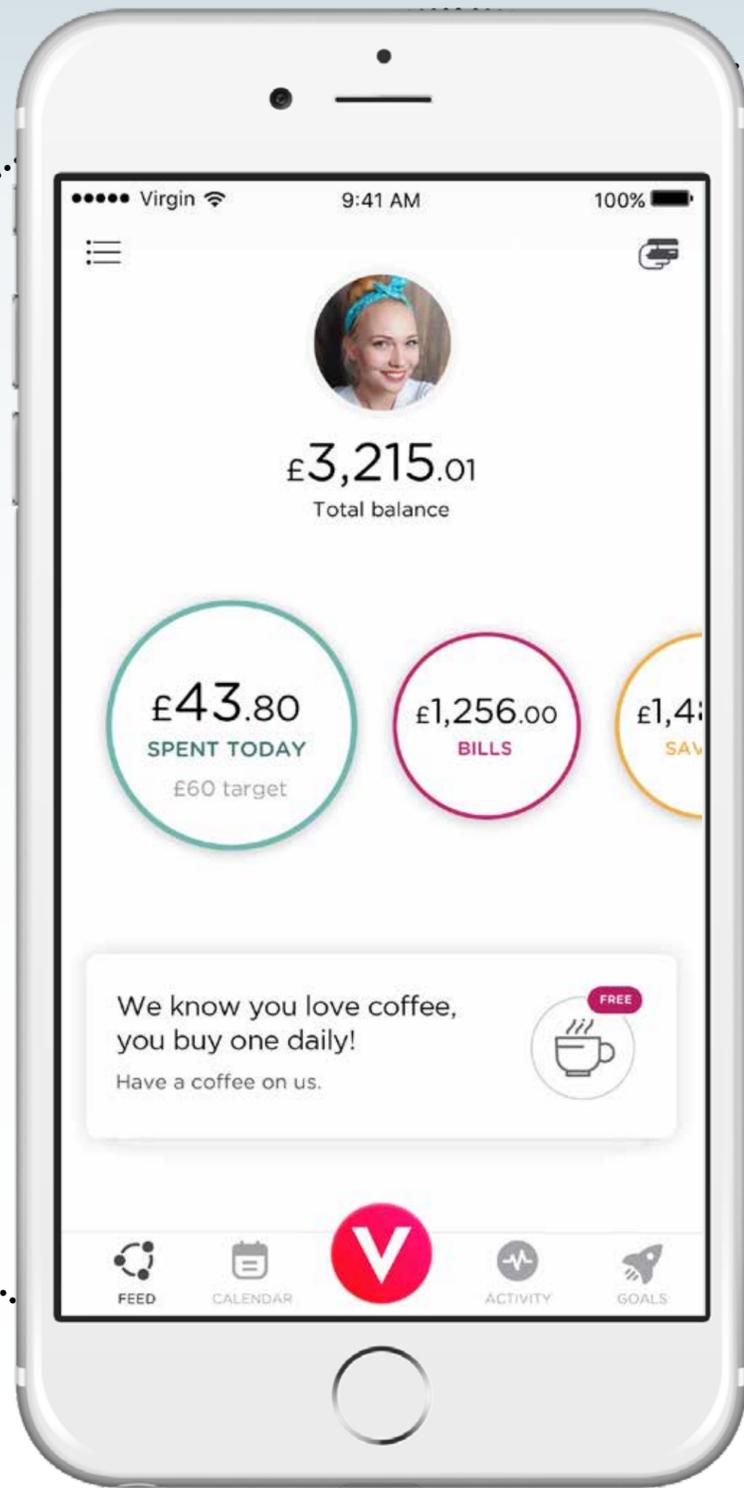
“

[The ease of dividing money up into pools] is what makes it useful; I've got to move my money between accounts to do this...

”

Over 80% of customers would use Money Pools to help manage their money¹

Delivering Digital Assistance



Money Pools

Single account that can be divided up the way a customer wants



Coaching

Real-time support to optimise your finances



Snapshots

Personalised, curated and bite-sized calls to action



Smart Ledger

Ability to search, filter and sort your financial activities



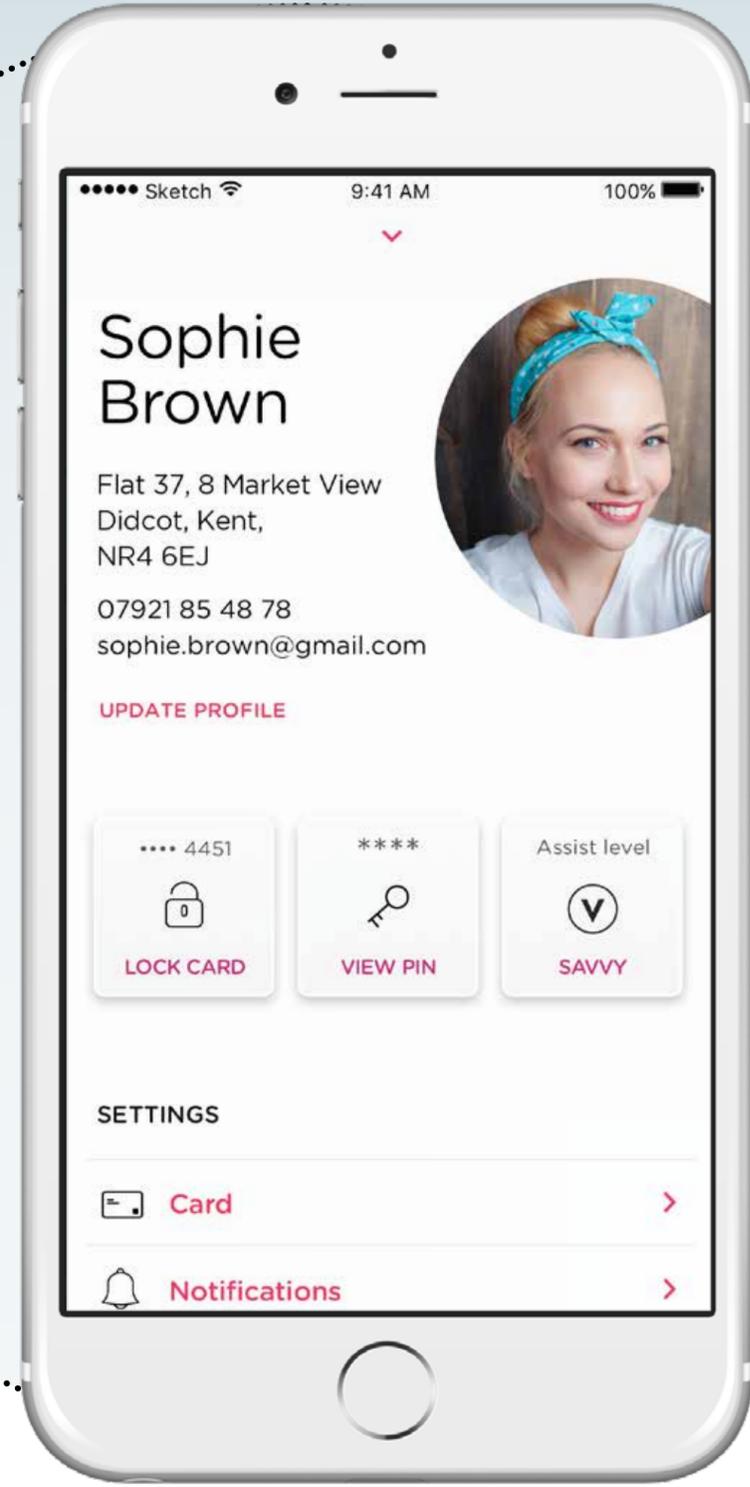
Assistant

Intelligent assistant that learns your behaviours

We are reinventing the foundations of banking

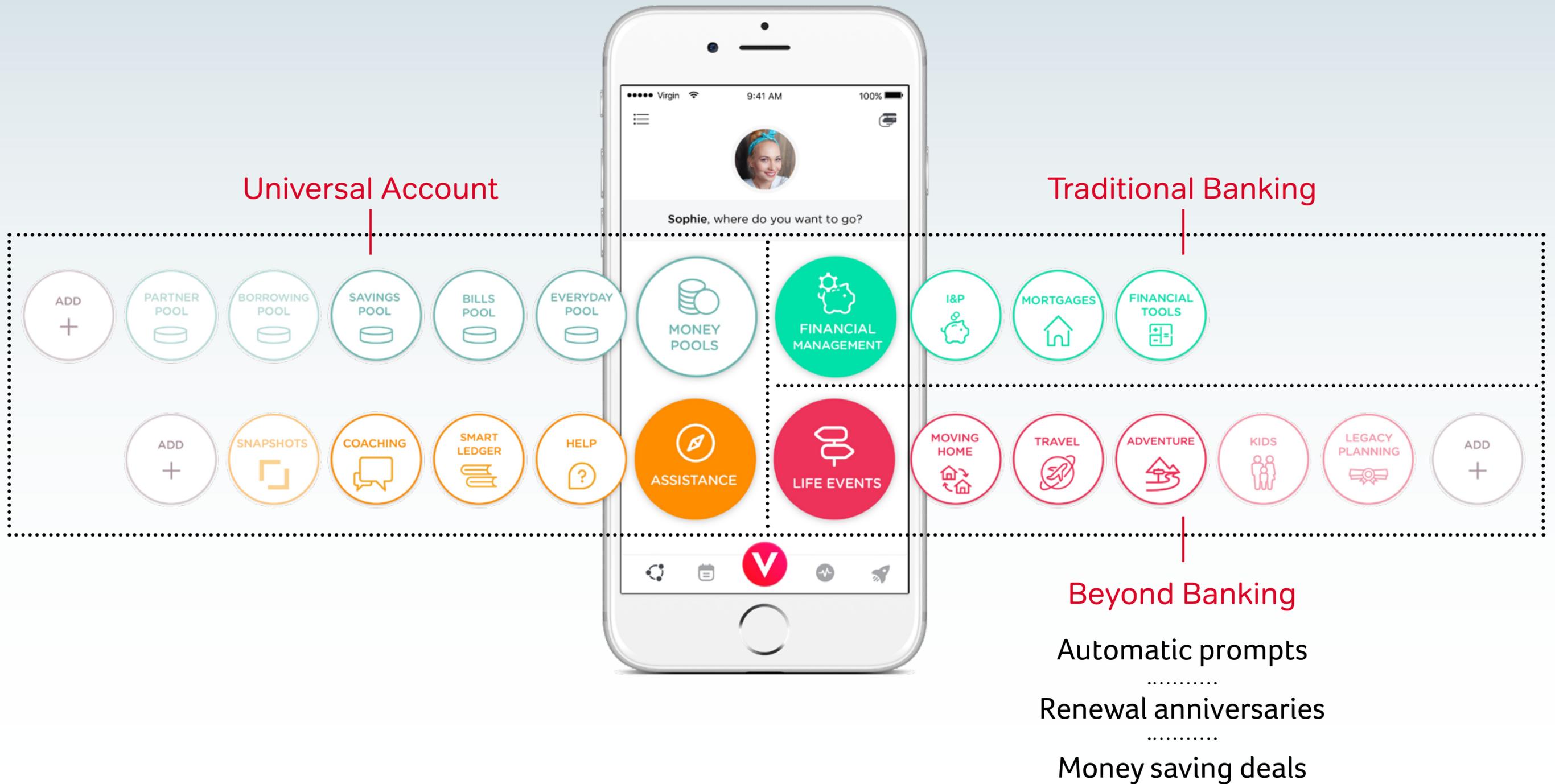
Re-imagining the basics of banking

- Money on the go**
A completely digital way to manage money, on the go, from any smart device
- Simplified language**
Terms and conditions presented in plain English that is relevant and useful
- Seamless onboarding**
An onboarding journey that takes minutes and uses everyday smartphone capabilities
- Simple payments**
List of frequent payees and a single-step to execute payments
- Settings**
Single place on your device to manage time-consuming administrative tasks
- Financial calendar**
Visualise key financial commitments and stay on top of things



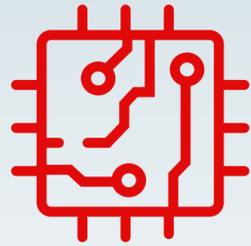
Our relentless focus on the customer positions us to reimagine banking

Going Beyond Banking



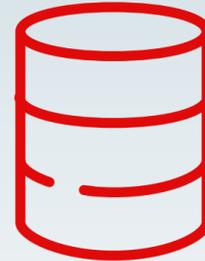
VMDB extends our services to the ~80% share of customer wallet that is outside banking

Next Generation Architecture



End to End Digital Bank

Full digitisation of all components – not just a channel or some aspects of the customer experience



Integrated Digital Bank

Use of data and advanced analytics is fundamental



Scalable and Agile

Using modern and future proof technologies



Cloud Based Platform

Enabling scalability and efficiency – with constant innovation and iteration



Enterprise Grade Security

Three layer security model – Customer, Platform & Operations



10x Platform

Modern digital business with a highly configurable, single and integrated architecture

.....
Architecture gives us a significant competitive advantage

Business Intelligence and Analytics as a Differentiator

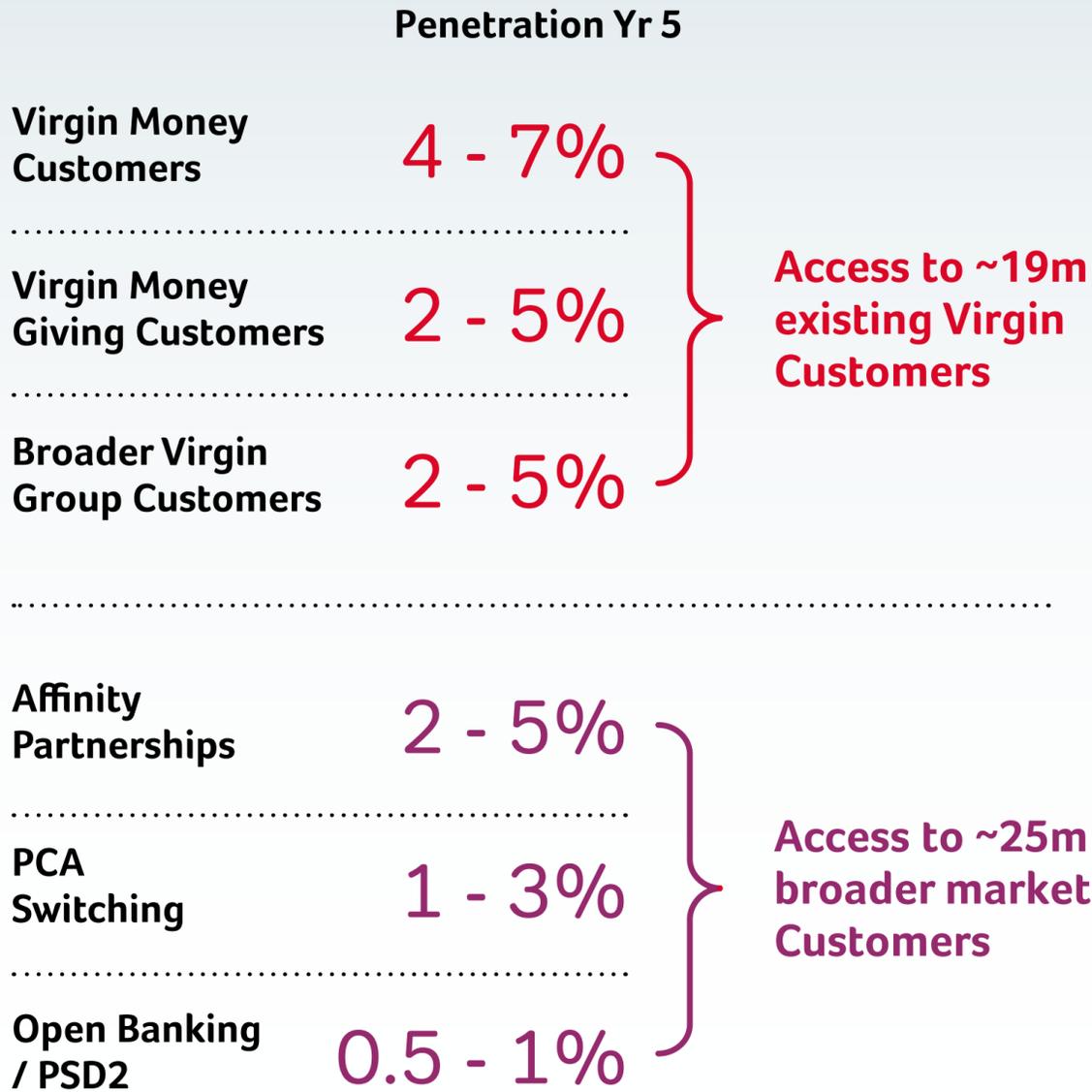


- > Modelled on the data architectures of successful platform businesses
- > Standing up the data environment from scratch
- > Founded on simple data structures and architecture
- > Cloud analytical capabilities allow full automation
- > Can extend across the whole of VM
- > Tangible evidence through proof of concepts

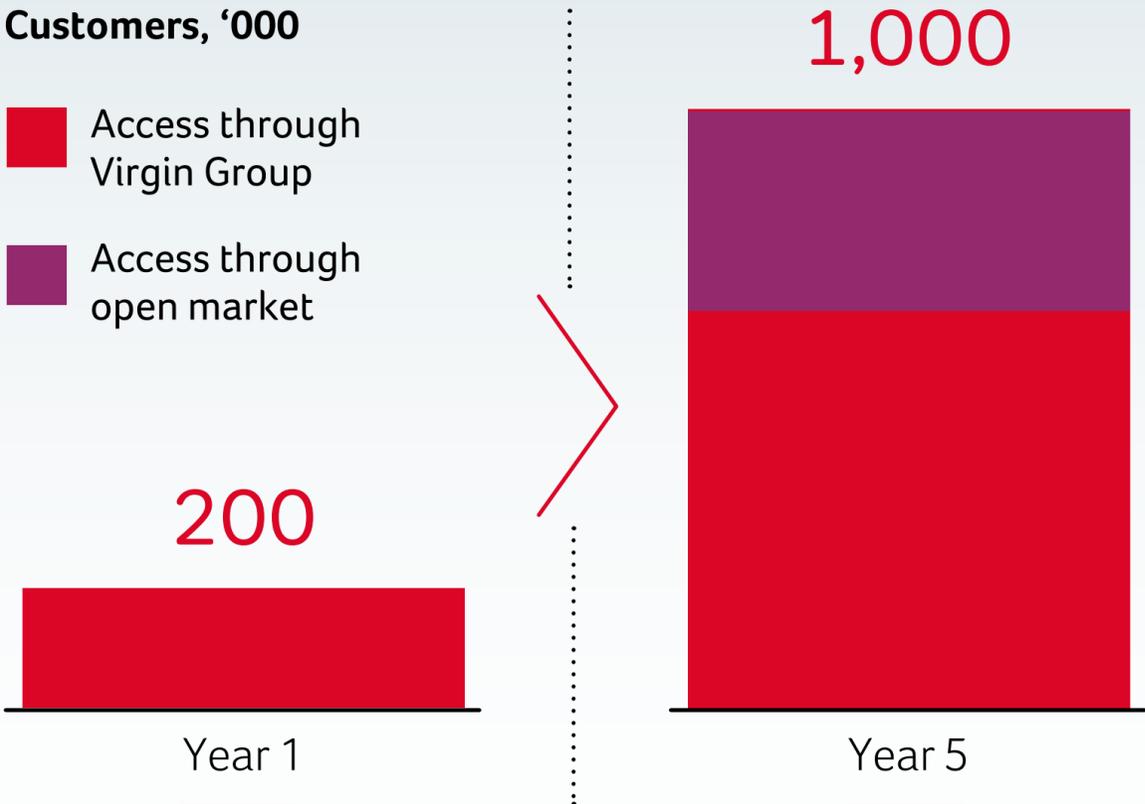
State of the art Business Intelligence will create unique value for Virgin Money

We aspire to capture ~1 million customers by 5 years after launch

Routes to scale



Potential growth in customer base



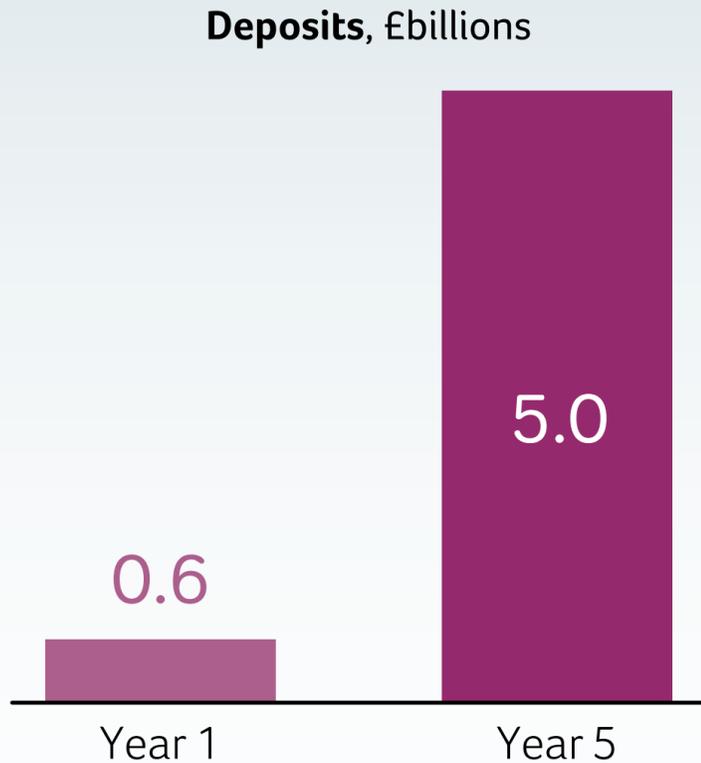
Modest share aspiration relative to Traditional Banks



Modest share aspiration with the potential for significant upside

We see a clear route to compelling and successful economics for VMDB

Achieving scale in deposits

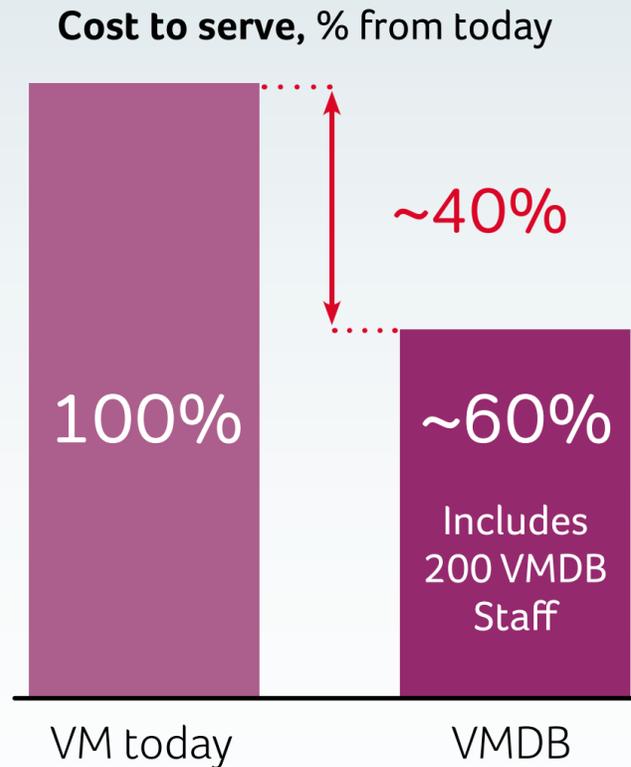


Prudent assumptions

Average PCA balances grow to ~£2,500 by 5 years after launch vs market average of £5,000

Average savings deposits of ~£2,500 across the five year period, vs market average of £6,000

Low cost operating model

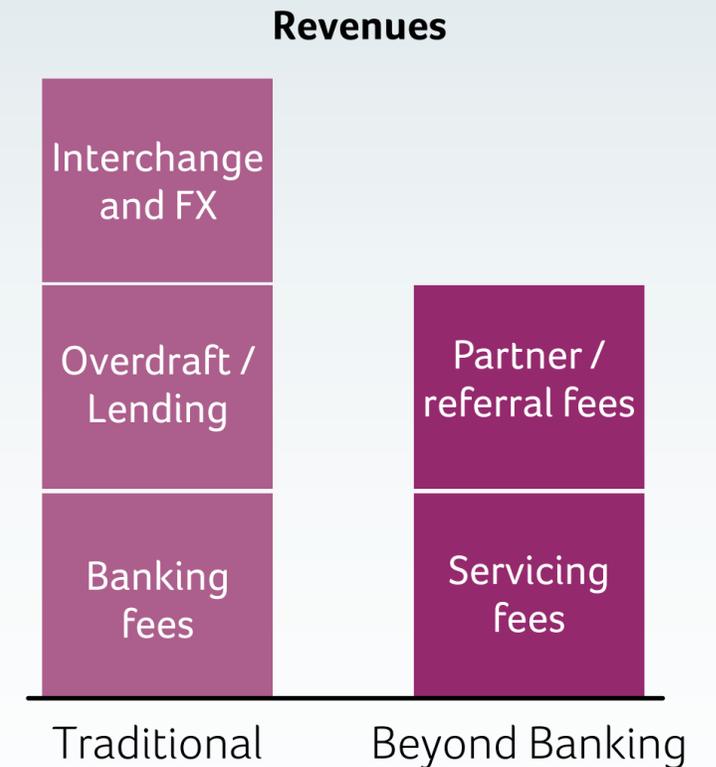


Materially lower all-in costs

Structurally cheaper operating platform

CTA efficiency driven by strength of brand and ability to leverage existing base

Access to new revenue streams



Expanded Revenue Sources

Traditional banking revenue

 Capital light Beyond Banking income

 Low cost funding

Demonstrates the full potential franchise value of a Digital Bank

Our assets and approach give us a unique opportunity to win

Building Afresh

- > Designing and building a Platform business with **no constraints**
- > **Flexibility not easily replicated** by traditional banks



Strength of Brand

- > The **most admired brand in the UK** with 99% brand awareness
- > Virgin Money seen as **most trusted bank in Britain**¹
- > Marketing invested **in scale rather than building brand**



Existing Customer Relationships

- > **Immediate scale** through 3.3m existing Virgin Money customers
- > **Loyal customer base** and **strong brand affinity**



Proven Analytical Capability

- > Ability to **leverage current analytical capability**
- > We will use **next generation cloud tools, as well as network and graph technology**



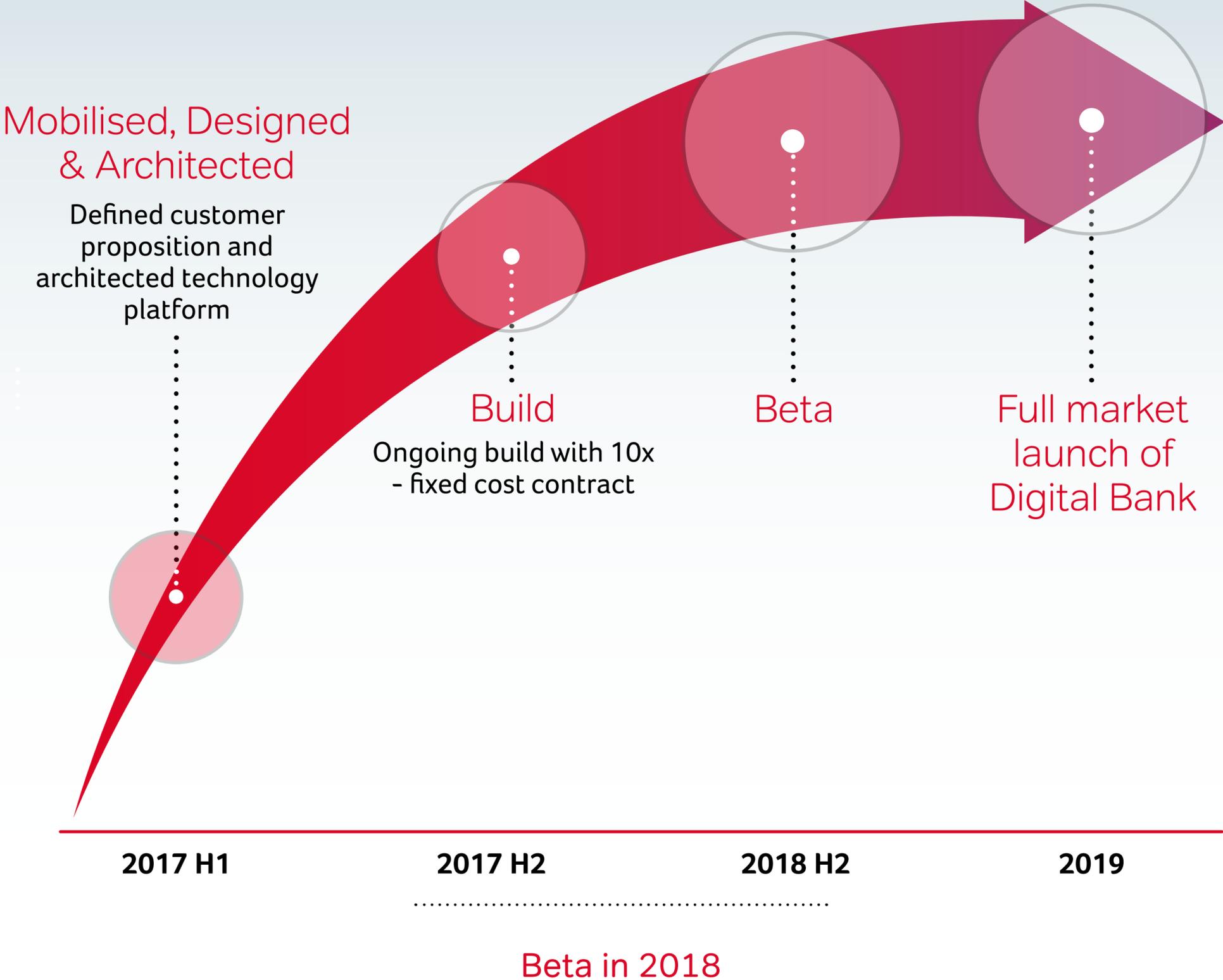
As we are designing and building afresh, we are well placed to transform banking

VMDB is strongly competitively positioned

	Proposition					Assets				
	Money Pools	Coaching	Snapshots	Smart Ledger	In-app Help	Brand recognition	Low operating cost	Existing customer base	Agile operating model	
	✓	✓	✓	✓	✓	✓	✓	✓	✓	VMDB competitively well positioned
Traditional Banks	✗	✗	○	○	○	✓	✗	✓	✗	Traditional Banks investing in digital front end but held back by legacy systems and traditional organisational structure / culture
Neo Banks	○	✗	✗	○	○	✗	✓	✗	✓	Neo Banks lack an existing customer base and Brand recognition

Best of the Traditional Banks and best of the Neo Banks – PLUS a truly unique brand

We are progressing well and plan a phased delivery



To sum up... Everyone's Better Off

Customers Better Off

Context

The Universal Account will enable us to **link money with everyday situations**



Coaching & Trust

Customers will receive **real-time support** on managing their money, from a bank they trust



Beyond Banking Access

Customers will benefit from **tailored offers** based on the use of **data & analytics**



Virgin Money Better Off

Funding

Access to a **diversified cheaper source of funding**



Operating leverage

Lower operating costs model based on the use of cloud technologies



Customer & Product proposition

Opens up the entire banking and beyond banking wallet of the UK customer



Most exciting and possibly the most ground-breaking initiative in banking today

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SME

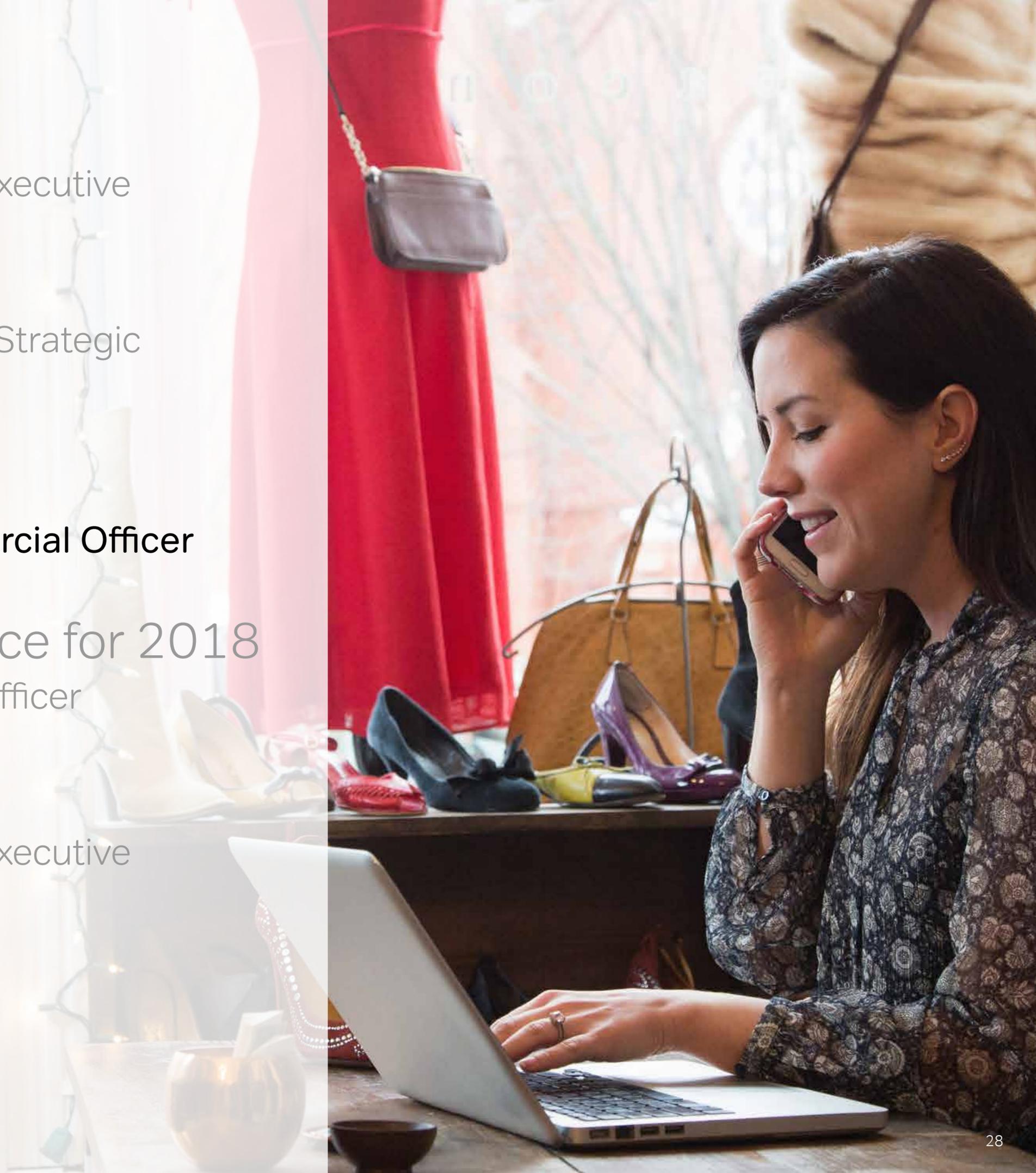
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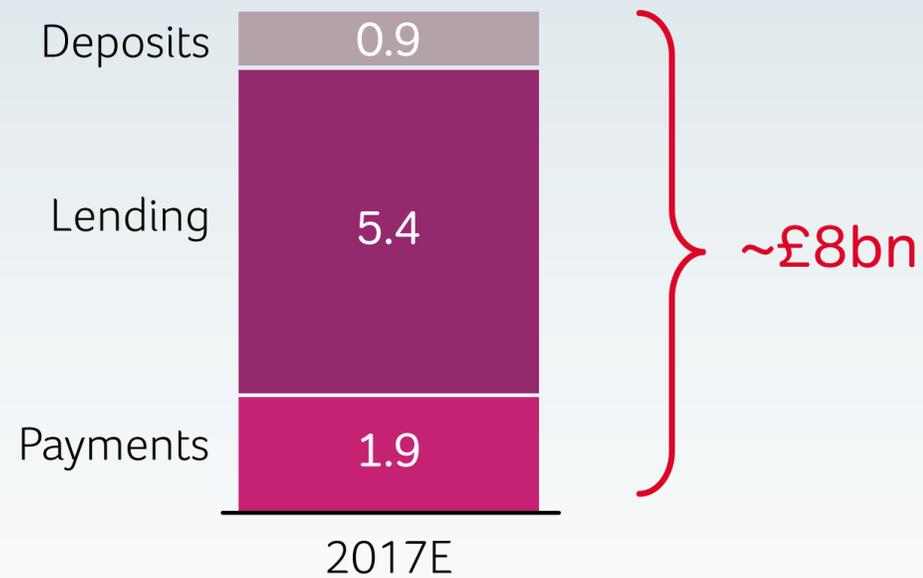
Don't just play the game,
change it for good

”

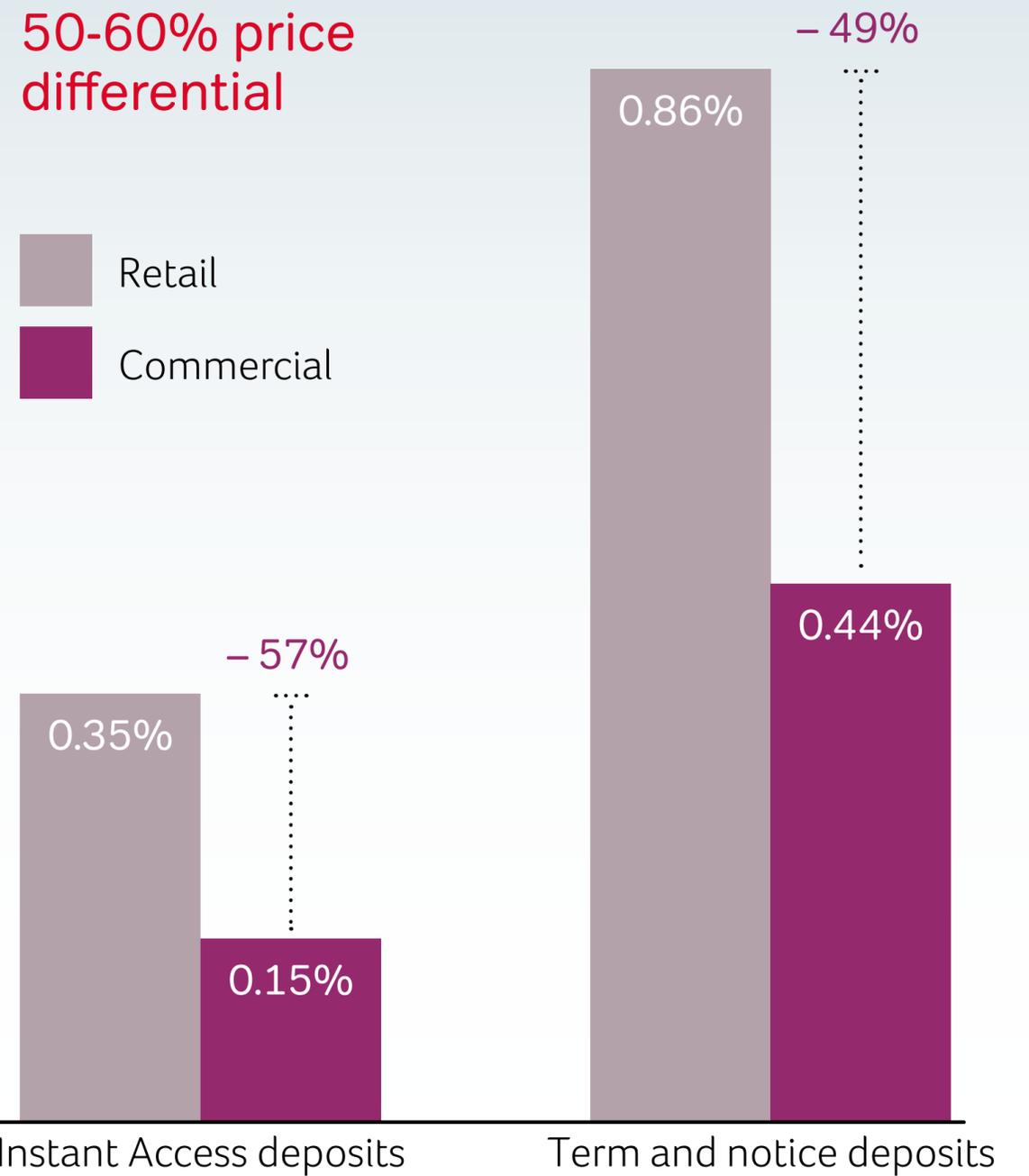


The SME market is fundamentally attractive

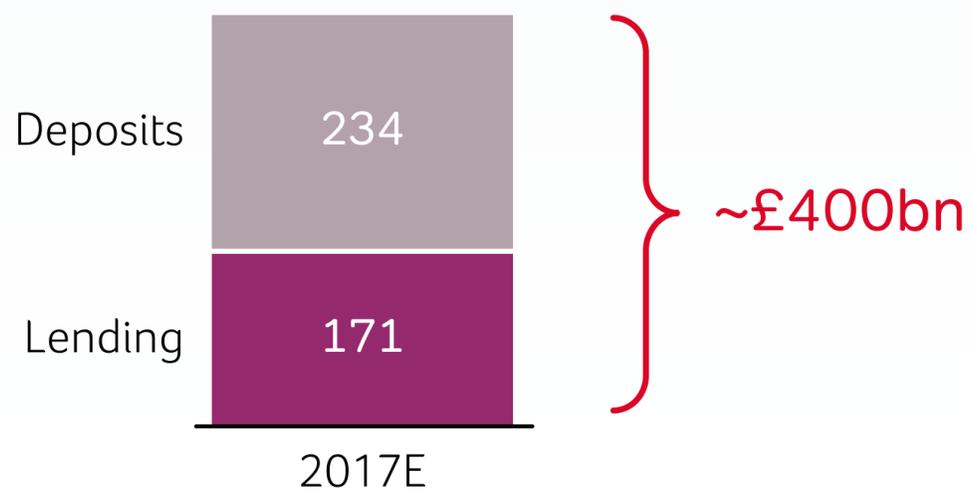
Large market revenues¹, £bn



...with lower client deposit rates than Retail



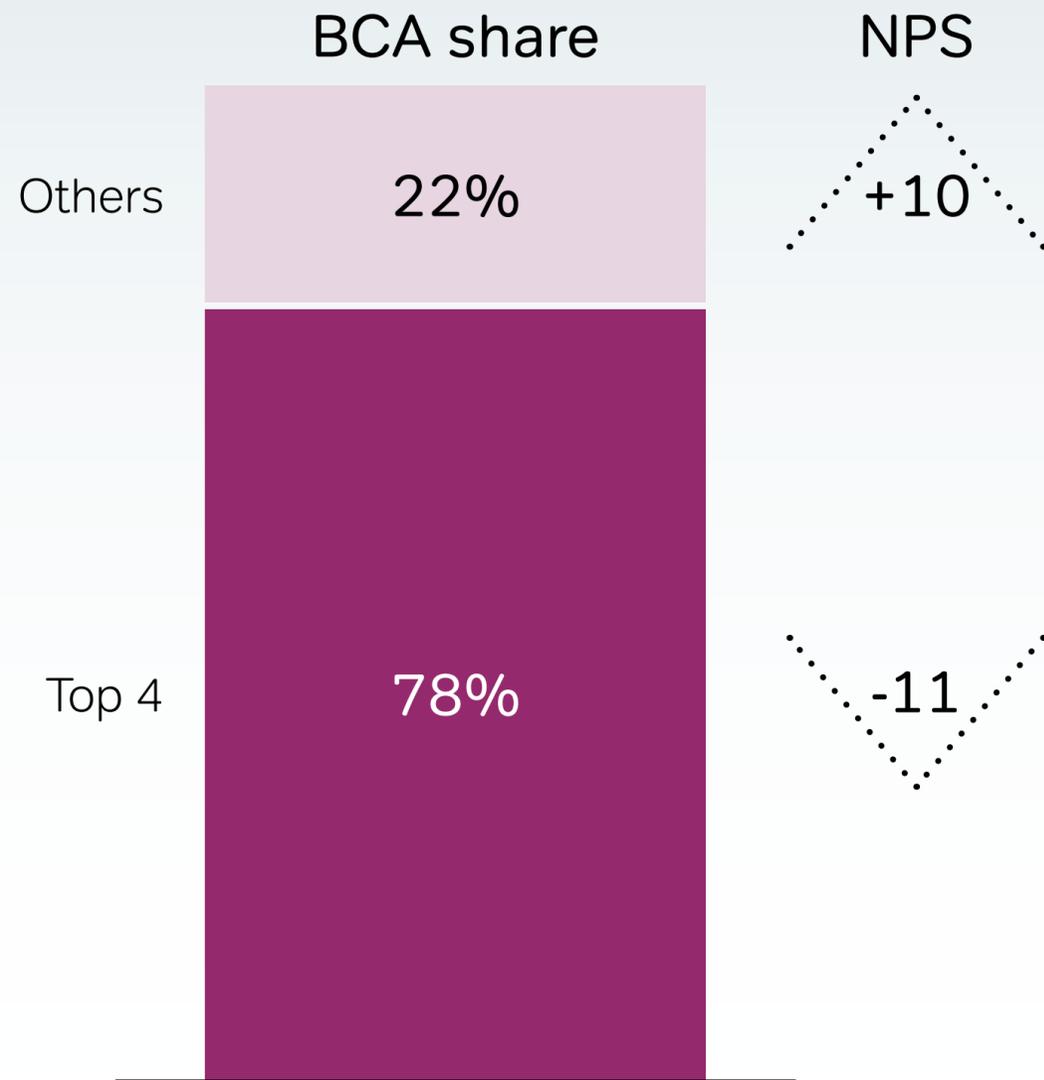
... and balances, £bn



SME deposits alone are a significant opportunity for Virgin Money

This is a concentrated and underserved market

Highly concentrated BCA shares, SMEs not happy with incumbents



Whole landscape is changing, catalysing greater willingness to switch

Regulators increasingly focused on improving competition in SME banking

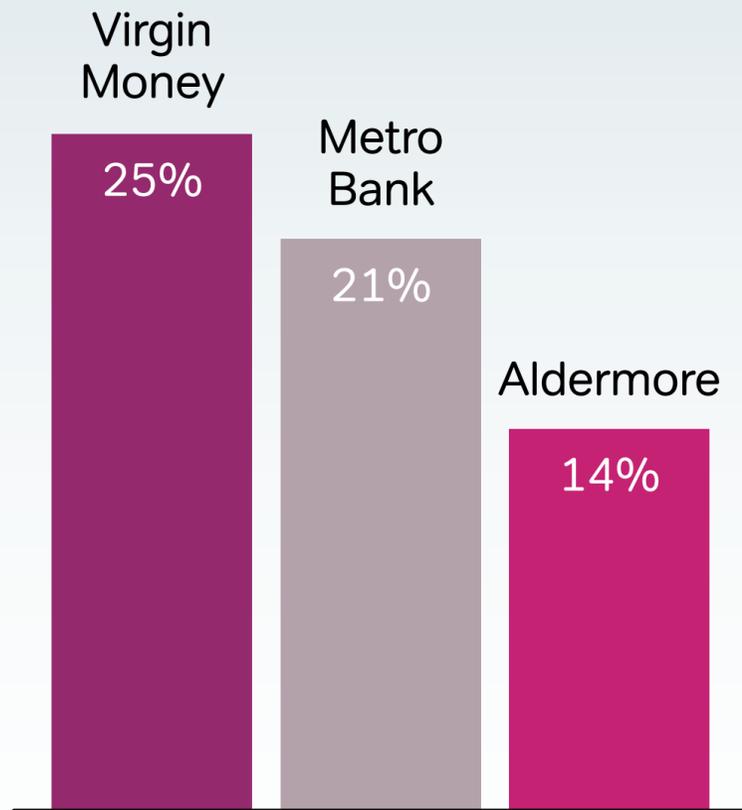
Increasing participation by **FinTechs**

RBS incentivised switching scheme will stimulate innovation and could double annual switching

The time is right for a customer champion to disrupt and improve this market

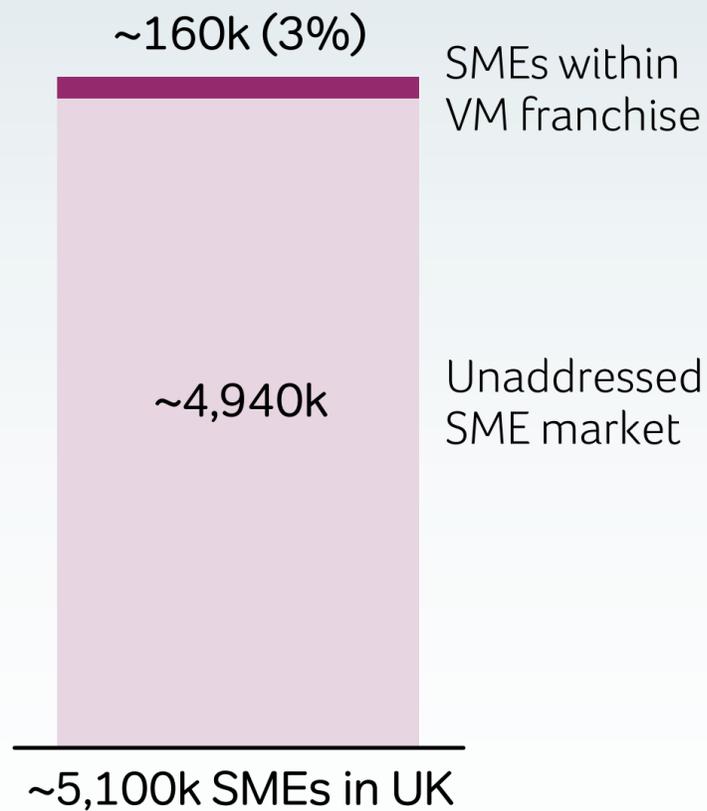
Our existing assets support a compelling entry strategy

Strong brand resonance with SMEs¹



“ I think a lot of people see Richard Branson as an inspirational figure ”
 Business customer

160k SMEs already within VM franchise²



12k Charities in Virgin Money Giving
 150k SMEs owners / directors with personal products

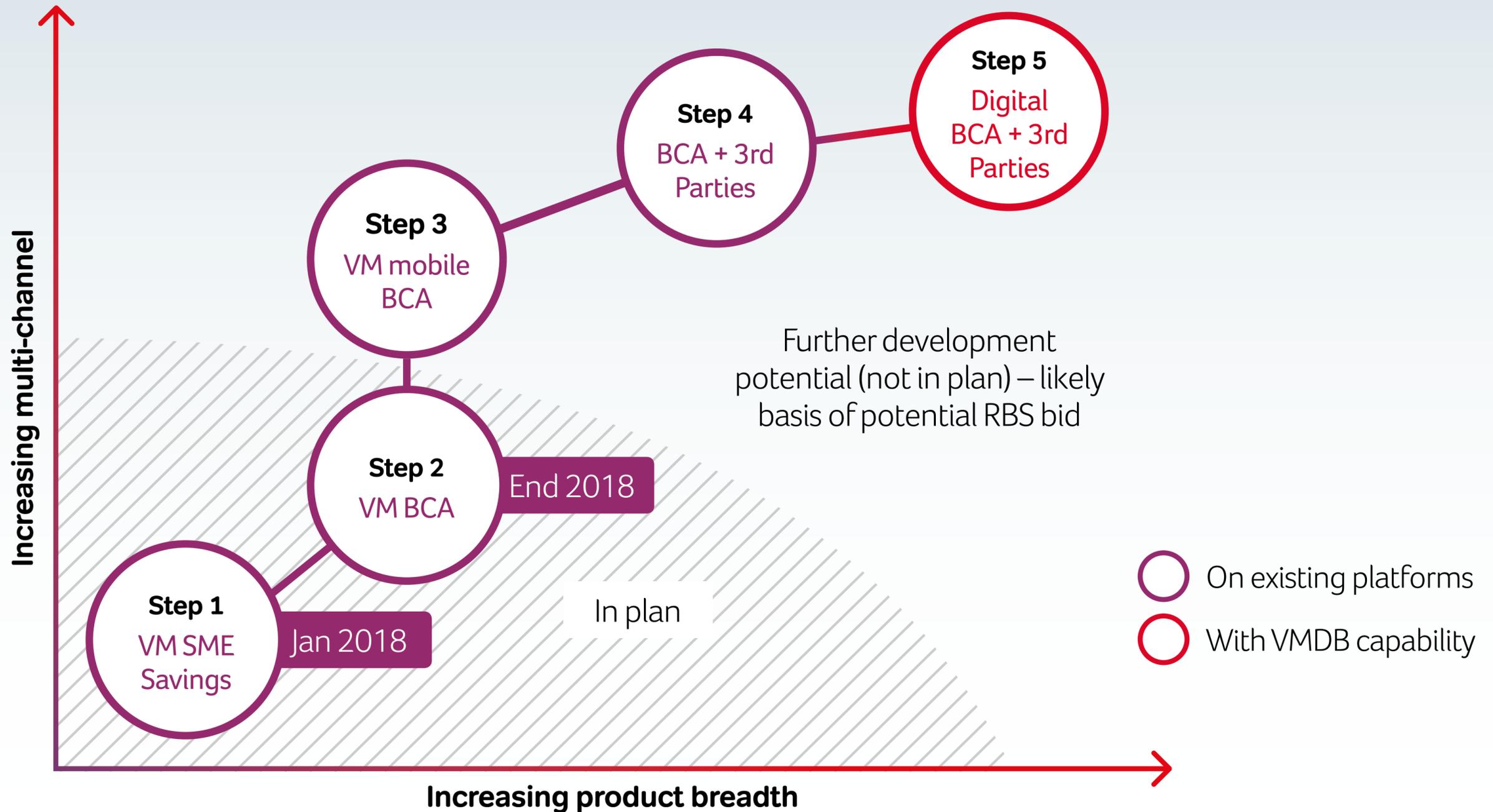
National coverage of store network



74 stores and 7 lounges

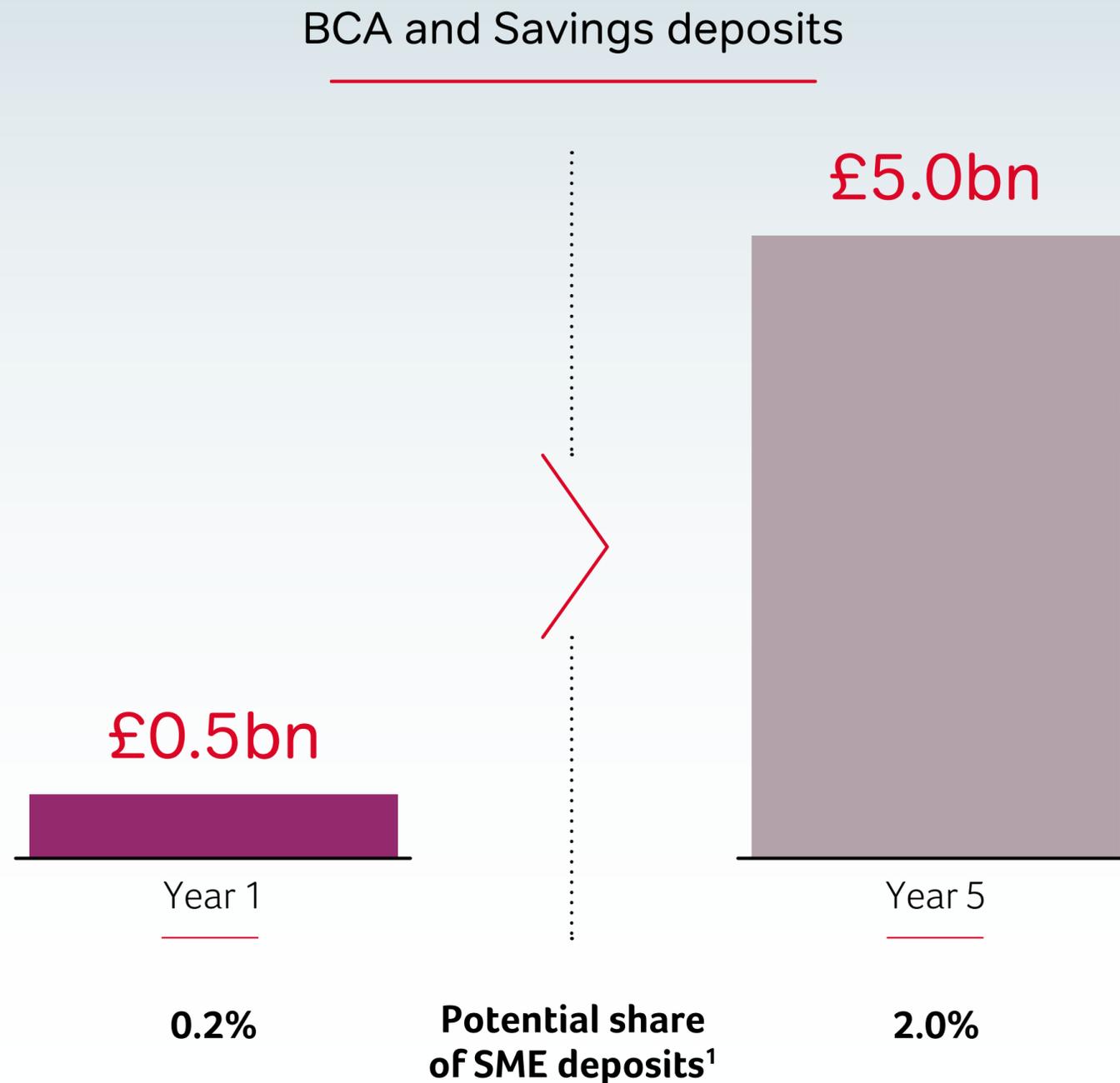
Brand, relationships and national coverage create a strong launchpad for our move into the SME market

We have a strong business case for savings and BCA



We have a clear vision for an innovative and competitive full suite SME proposition

We plan to raise £5bn of cheaper funding over 5 years



Comparison

Aldermore

Raised £500m in first full year, and £1bn in second with no BCA and no branches

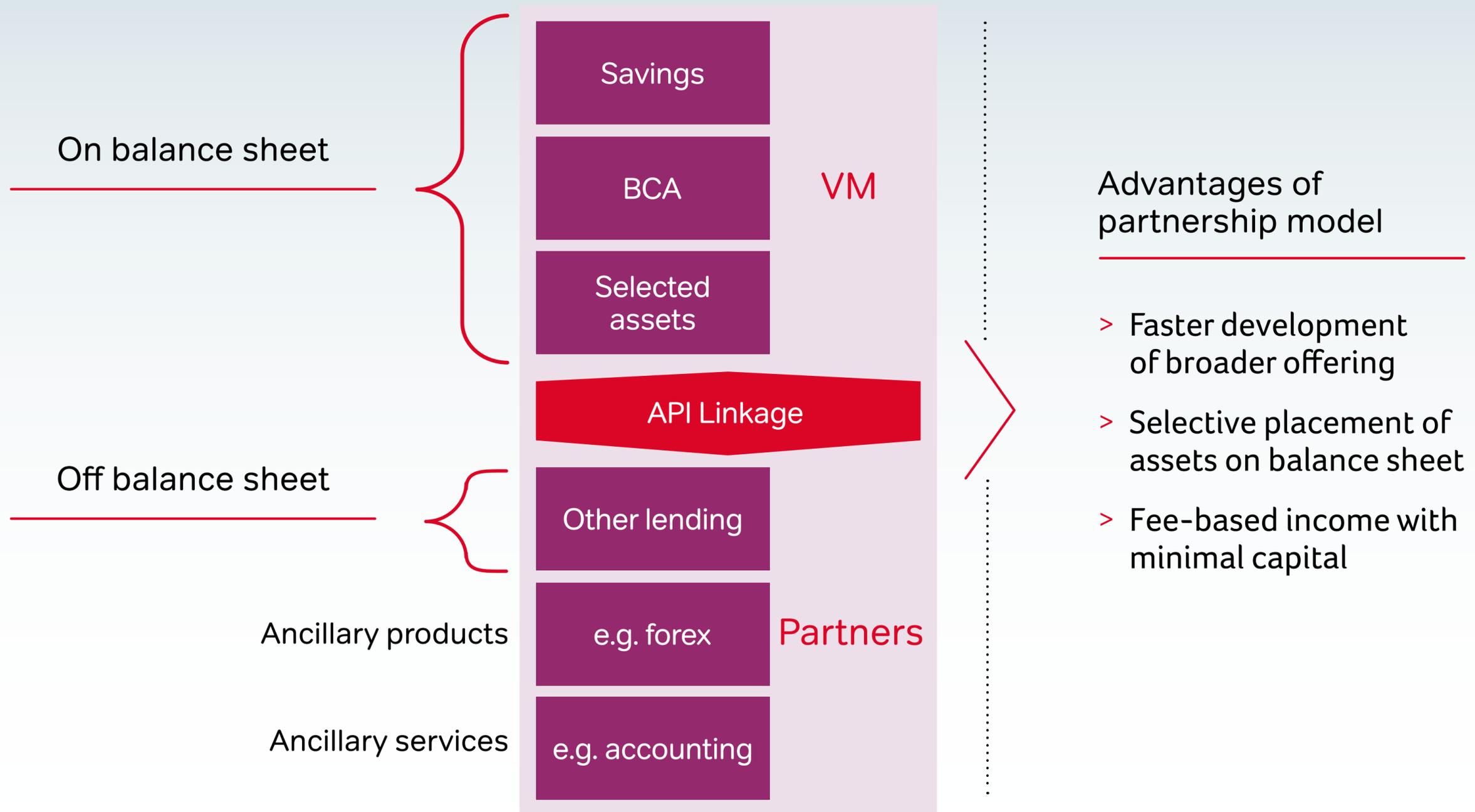
METRO BANK

Raised SME deposits of £5bn in less than 5 years with a BCA offering and a footprint focused on South of England

In addition to funding benefits the BCA will be at the heart of our future SME relationships

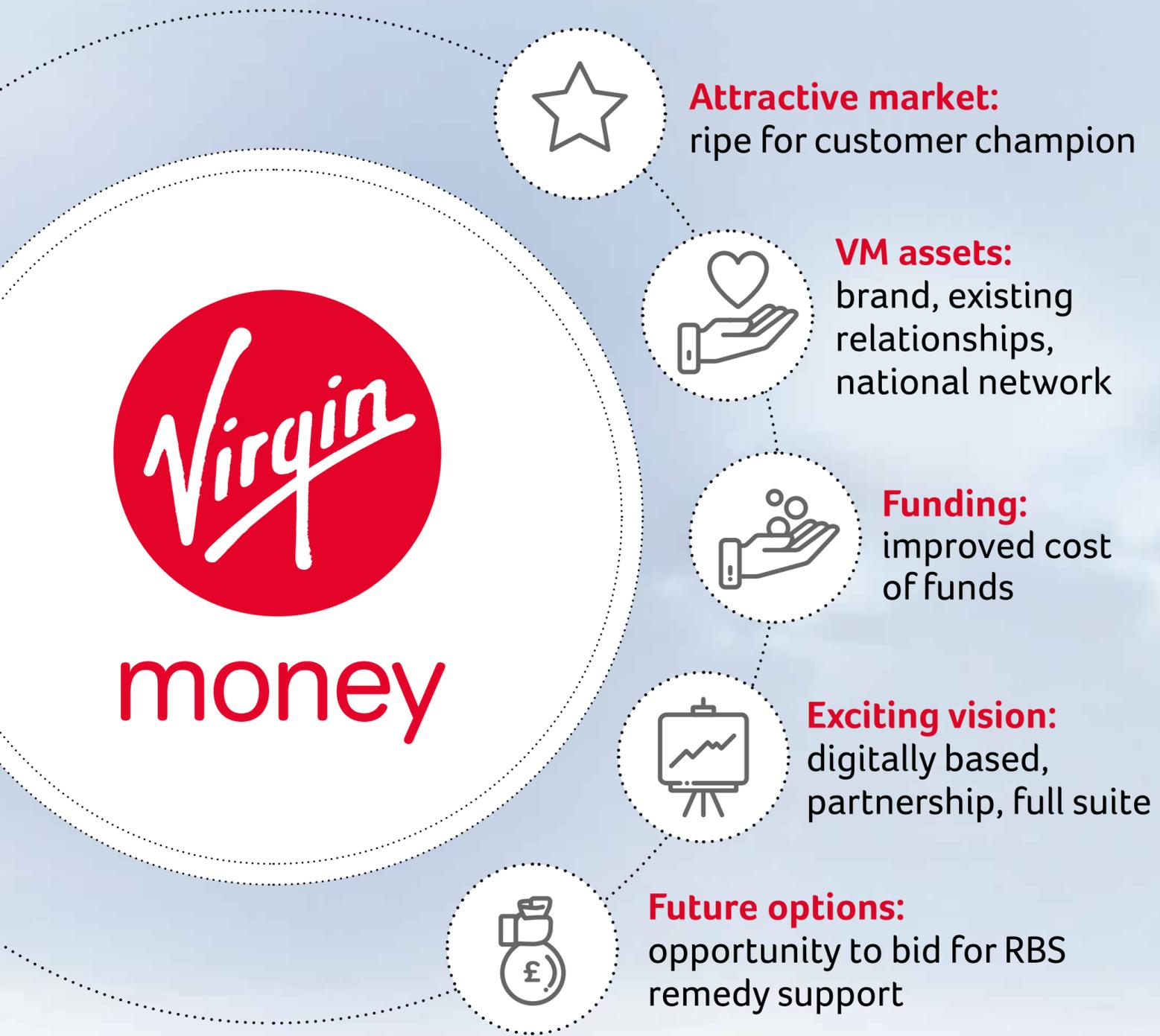
¹ Including BCA and savings deposits. | Source: Aldermore and Metro Bank annual/ quarterly reports; BBA; McKinsey Global Banking Pools

An innovative, digitally based, SME proposition



This is a funding led, non-interest income generating and capital light model

To sum up...



“Banking with Branson...”



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Delivering 2017 Performance

		FY 2017 Guidance
	Growth	<ul style="list-style-type: none"> > Mortgages
		<ul style="list-style-type: none"> > Credit Cards
	Performance	<ul style="list-style-type: none"> > NIM
		<ul style="list-style-type: none"> > Banking NIM
		<ul style="list-style-type: none"> > C:I Ratio
		<ul style="list-style-type: none"> > Cost of Risk
		<ul style="list-style-type: none"> > RoTE
	Capital	<ul style="list-style-type: none"> > CET1 ratio

.....
2017 Guidance unchanged

2018 Outlook

FY 2018 Guidance

	Growth	<ul style="list-style-type: none"> > Mortgages > Credit Cards 	<p>Lower end of 3-3.5% range</p> <p>Mid single digit % growth</p>
	Performance	<ul style="list-style-type: none"> > Banking NIM > Operating Costs > Cost of Risk¹ > RoTE > Dividend 	<p>165 – 170bps</p> <p>Broadly stable to 2017</p> <p>No higher than 20bps</p> <p>Solid double digits</p> <p>Continued progressive dividend</p>
	Investment and capital	<ul style="list-style-type: none"> > Total investment spend > CET1 ratio¹ 	<p>£100m (including Core, VMDB, SME & VAA)</p> <p>Towards upper end of 12-13% range</p>

.....

Solid double digit returns and strong capital ratios

Milestones in our Strategic Development

	H1 2018	H2 2018	2019
SME	 Launch SME deposits	 Potential RBS bid	 Launch BCA
VAA	 Launch VAA financial services products		
Digital		 Launch Beta	 Full market launch of VMDB

Greater product diversification, customer reach and access to wider profit and funding pools

Transforming the Investment Case

Proposition Breadth > Retail banking – increase market access from 30% to 60%
SME banking – access 80% of the market

Customer > 50% increase in customer numbers
Product holdings increase to 2-3

Funding > £10 billion of deposits from new sources

Cost to serve > Digital Bank servicing cost ~40% lower than today

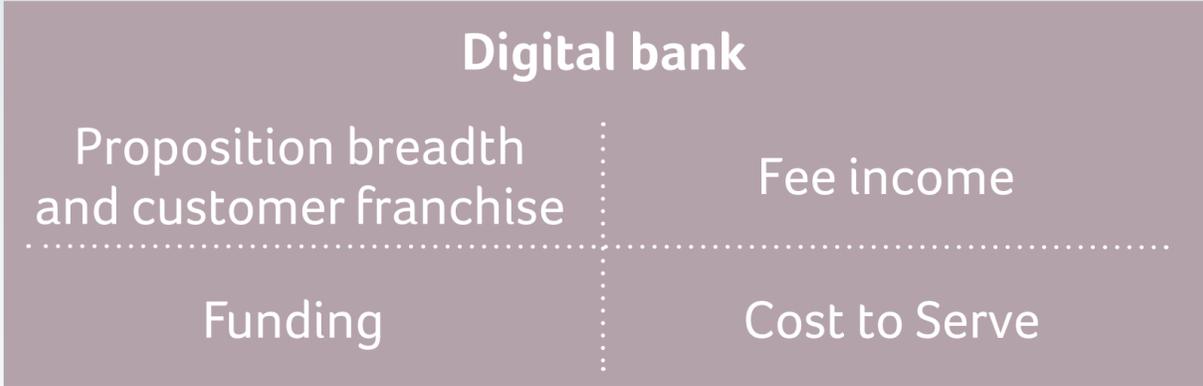
Material improvement in returns and profitability delivered from existing capital resources

Long term value creation

Investment – 2018 and beyond

2018
 £40m Capital Investment
Trading year 1
 P&L impact equivalent to
 ~10% uplift in operating costs

Returns



Driving Superior Returns

2018
 £60m investment reflected in guidance¹



Solid Double Digit Returns

Investing in Digital to drive superior returns

¹ £50 million in Core and £10 million in VAA financial services products

Financial recap

2017 - Guidance unchanged

2018 - Solid double digit returns
- Launch SME

2018
and
beyond - Investment in
digital bank to drive
long-term value



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A digital champion

We occupy a unique place in
the future of UK banking

We are a trusted bank
and an innovative Fintech

We have a famous brand
and are a market disruptor

We have a future vision that will
drive additional and superior returns

We always deliver on our promises



Everyone's better off





Strategy update

Disclaimer

This document has been prepared by Virgin Money Holdings (UK) plc (“Virgin Money”) for the purpose of, and comprises the written materials used in and/or discussed at the presentation given to stakeholders at the Capital Markets Day on 16th November 2017. This document is a marketing communication and should not be regarded as a research recommendation. Stakeholders are referred to the announcement published today via the Regulatory Information Service for further detail.

This document contains certain forward looking statements with respect to the business, strategy and plans of the 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 exit by the UK from the European Union (EU) and the potential for one or more other countries to exit the Eurozone or EU, 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, including as a result of the exit by the UK from the EU, 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.

In light of these risks and uncertainties, the events in forward looking statements may not occur and projections, expectations or estimates may not be realised.

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.