Virgin Money profits jump and should go higher as interest rates rise

V
IRGIN Money gave an early hint today of what rising interest rates will do to bank profits – send them sharply up.

While that will be contentious while inflation soars and a cost of living crisis hits millions, it should be good for long-suffering bank shareholders.

VM is under fire over plans to shut 31 branches this year as it focuses on a digital shake-up.

Today it said in the half-year its net interest margin (NIM) – the gap between what it pays savers and charges borrowers – rose from 1.56% to 1.83%. It is likely to go higher once the Bank of England puts rates up, starting today.

For the biggest banks such as Lloyds and Barclays, the NIM will go higher still.

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Profit jumped 58% to £388 million. Chief executive David Duffy said: “”We’ve made good progress against our strategy, while delivering a significant increase in profit. We have positive momentum in attracting new customers to Virgin Money through record credit card sales, good growth in personal current account openings and a strong uptake of our new digital fee-free business current account."

At just £21 million, so far bad debts are not undermining the bottom line. That could change as the economy worsens.

City analysts think a combination of rising profit margins and cost cutting makes the shares a buy.

Ian Gordon at Investec said: "We see the building blocks of VM's recovery as increasingly transparent."

The stock slipped today however, down 7p at 170p.