Virgin Money Holdings (UK) plc

Pillar 3 Disclosures

31 December 2014

Everyone's better off

CONTENTS

FOREWORD 2

SUMMARY ANALYSIS 3

INTRODUCTION AND BACKGROUND 8

DISCLOSURE POLICY 11

SCOPE OF CONSOLIDATION 12

RISK MANAGEMENT 16

CAPITAL RESOURCES 20

- Group capital resources 23
- Leverage ratio 25

CAPITAL REQUIREMENTS 26

CREDIT RISK 30

- Credit risk exposure by exposure class 31
- Past due exposures, impaired exposures and impairment provisions 36
- Exposures subject to the IRB approach 42
- Exposures subject to the standardised approach 47
- Exposure to securitisation positions 48

CREDIT RISK MITIGATION 54

COUNTERPARTY CREDIT RISK 58

MARKET RISK 59

OPERATIONAL RISK 63

FUNDING AND LIQUIDITY RISK 66

APPENDIX 1 — EBA OWN FUNDS DISCLOSURE TEMPLATE 70

APPENDIX 2 — CAPITAL INSTRUMENT KEY FEATURES 77

APPENDIX 3 — ANALYSIS OF ENCUMBERED ASSETS 80

APPENDIX 4 — GROUP REMUNERATION DISCLOSURES 83

APPENDIX 5 — VIRGIN MONEY PLC PILLAR 3 DISCLOSURES 90

GLOSSARY 103

Index of tables

Table 1 — Capital ratios . . . 3
Table 2 — Leverage ratios . . . 3
Table 3 — Capital resources . . . 4
Table 4 — Movement in fully loaded capital . . . 4
Table 5 — Risk-weighted assets . . . 5
Table 6 — Risk-weighted assets — segmental analysis . . . 5
Table 7 — Risk-weighted assets by risk type and by business unit . . . 5
Table 8 — Movement in risk-weighted assets . . . 5
Table 9 — Credit risk exposures . . . 6
Table 10 — IRB exposures . . . 6
Table 11 — Standardised exposures . . . 7
Table 12 — Special purpose vehicles . . . 12
Table 13 — Regulatory Group structure . . . 13
Table 14 — Reconciliation of statutory balance sheet to regulatory balance sheet . . . 14
Table 15 — Reconciliation of regulatory balance sheet to credit risk exposures . . . 15
Table 16 — Fortress balance sheet . . . 16
Table 17 — Split of Group's business activities . . . 18
Table 18 — Analysis of directors . . . 19
Table 19 — Group capital resources . . . 23
Table 20 — Movements in capital resources . . . 24
Table 21 — Leverage ratio . . . 25
Table 22 — Risk-weighted assets and capital requirements . . . 26
Table 23 — Risk-weighted asset movements . . . 27
Table 24 — Segmental risk-weighted assets . . . 28
Table 25 — Group exposures, risk weights and average exposures . . . 32
Table 26 — Group exposures split by business unit . . . 33
Table 27 — Credit risk exposures split by industry . . . 33
Table 28 — Credit risk exposures split by geographical area . . . 34
Table 29 — Credit risk exposures split by residual maturity . . . 35
Table 30 — Categorisation of secured assets by impairment level . . . 36
Table 31 — Analysis of past due and impaired loans and advances to customers . . . 41
Table 32 — Analysis of movements in impairment provisions . . . 41
Table 33 — IRB exposures by exposure class . . . 43
Table 34 — IRB exposures by risk band . . . 43
Table 35 — IRB expected loss and impairment provision . . . 45
Table 36 — IRB model performance . . . 46
Table 37 — Standardised exposures by risk weight . . . 47
Table 38 — Standardised wholesale exposures by credit rating . . . 48
Table 39 — Exposures in equities . . . 48
Table 40 — Retained securitisations . . . 51
Table 41 — Purchased securitisation positions . . . 53
Table 42 — Impaired securitised assets . . . 53
Table 43 — Maximum LTVs . . . 55
Table 44 — Fair value of collateral against secured loans, capped at loan value . . . 56
Table 45 — Derivative exposures . . . 58
Table 46 — Capital at Risk . . . 61
Table 47 — Earnings at Risk . . . 61
Table 48 — Operational risk events . . . 64
Table 49 — Liquidity risk drivers . . . 68
Table 50 — Asset encumbrance . . . 69
Table 51 — Own funds disclosure template . . . 71

Table 52 — Capital instruments' main features template 78
Table 53 — Asset encumbrance template A — assets 81
Table 54 — Asset encumbrance template B — collateral received 81
Table 55 — Asset encumbrance template C — Encumbered assets/collateral received and associated liabilities 81
Table 56 — Remuneration of Code Staff 88
Table 57 — Analysis of high earners 88
Table 58 — Virgin Money plc capital resources 92
Table 59 — Virgin Money plc movements in capital resources 93
Table 60 — Virgin Money plc risk-weighted assets and capital requirements 94
Table 61 — Virgin Money plc risk-weighted asset movements 94
Table 62 — Virgin Money plc leverage ratio 96
Table 63 — Virgin Money plc credit risk exposures, risk weights and average exposures . 97
Table 64 — Virgin Money plc credit risk exposures split by industry 98
Table 65 — Virgin Money plc credit risk exposures split by geographical area 99
Table 66 — Virgin Money plc credit risk exposures split by residual maturity 100
Table 67 — Virgin Money plc analysis of past due and impaired loans and advances to customers 101
Table 68 — Virgin Money plc analysis of movements in impairments provisions 102

FOREWORD

This document presents the consolidated Pillar 3 disclosures of Virgin Money Holdings (UK) plc (the Group) as at 31 December 2014.

This is the first time the disclosures have been prepared in accordance with the requirements of the Capital Requirements Directive and Regulation (CRD IV) which came into force on 1 January 2014. Previous disclosures were prepared under the regulations of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

CRD IV has introduced new disclosure requirements relating to risk management, corporate governance, capital resources, unencumbered assets and leverage.

The disclosure also takes into account the recommendations of the Enhanced Disclosure Task Force by including:

– a reconciliation of accounting balance sheet to regulatory balance sheet; and

– an analysis of movements in risk-weighted assets and own funds.

Some disclosures made within this document have also been made within the 2014 Virgin Money Group Annual Report and Accounts, but are included here to have all the CRD IV requirements disclosed within the same document.

Transitional and fully loaded disclosures

Under CRD IV, there are a number of temporary provisions, which were written to phase the impact of some of the CRD IV changes over an introductory period.

Where these transitional provisions apply, the Group has disclosed the capital resources position on both the transitional basis (which are the rules in place as at 31 December 2014), and on a fully loaded basis (which for the Group is as at 1 January 2015).

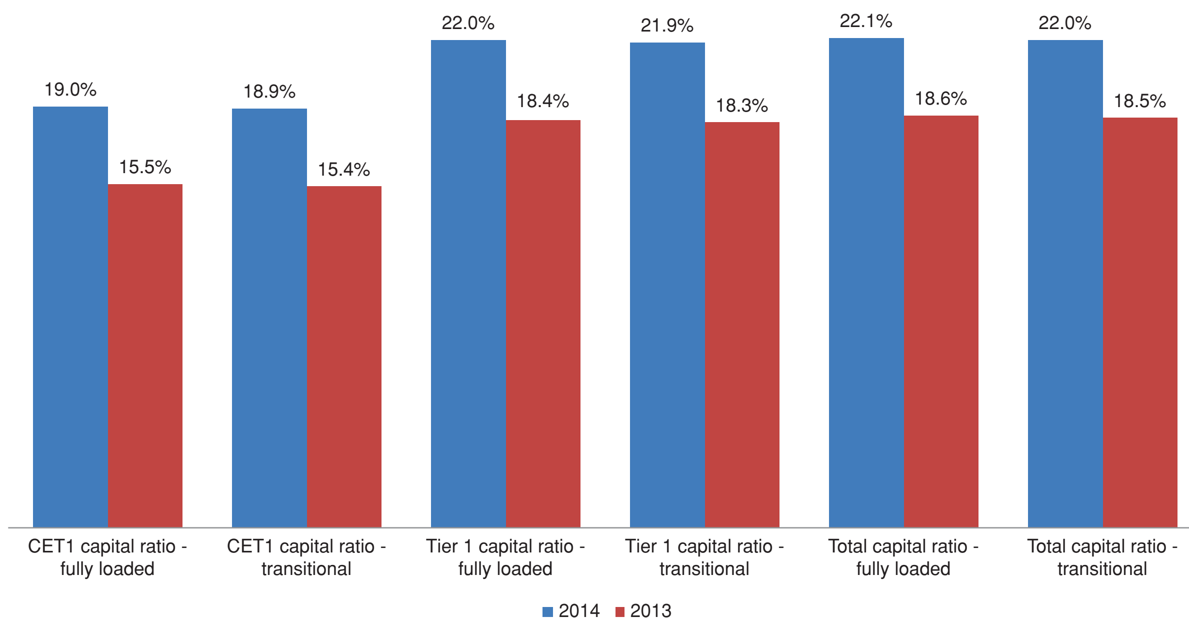
Exposures and risk-weighted assets are shown in this document on the current transitional basis unless stated otherwise.

SUMMARY ANALYSIS

A high level summary analysis of the consolidated capital position, requirements and credit risk exposures of the Group as at 31 December 2014 is provided below.

Capital and leverage ratios

Table 1: Capital ratios

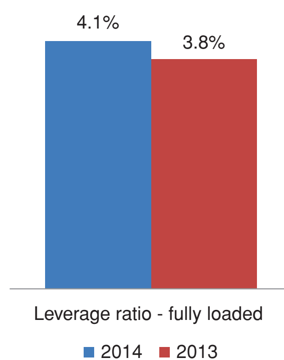


Transitional ratios are calculated in accordance with the CRD IV rules prevailing at 31 December 2014, adjusted for the PRA requirements for the transitional period.

Fully loaded ratios have been calculated in accordance with the CRD IV rules after the transitional period has ended.

The increases in all capital ratios since 2013 arise as a result of increasing capital resources (following the issue of additional share capital during 2014) and decreasing risk-weighted assets, discussed below.

Table 2: Leverage ratios



The leverage ratio has been calculated in accordance with the CRD IV rules as amended by the Delegated Act of October 2014.

The year on year increase since 2013 reflects the increased capital resources following the issue of additional share capital during 2014.

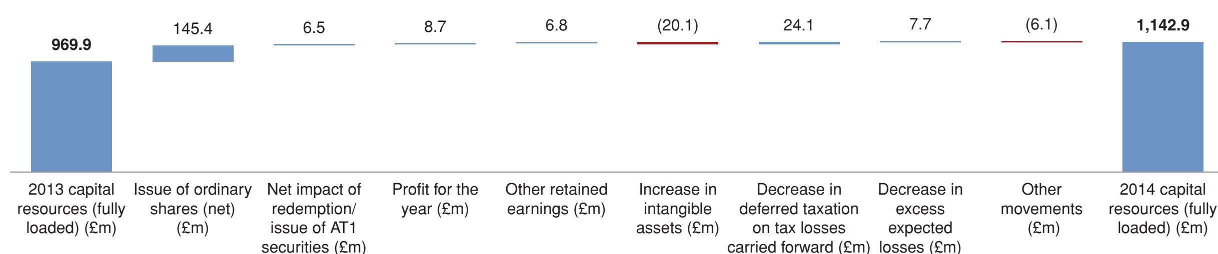
For a more detailed disclosure of the leverage ratio, see page 25.

Capital resources

Table 3: Capital resources

	Fully loaded		PRA transitional rules (current)	
	2014	**2013**	**2014**	**2013**
	£m	**£m**	**£m**	**£m**
Common Equity Tier 1				
Share capital and share premium	**654.6**	509.2	**654.6**	509.2
Other equity instruments	**156.5**	-	**156.5**	-
Other reserves	**(1.8)**	6.7	**(1.8)**	6.7
Retained earnings	**434.5**	419.0	**434.5**	419.0
Total equity per balance sheet	**1,243.8**	934.9	**1,243.8**	934.9
Regulatory capital adjustments				
Net liabilities of companies outside the regulatory Group	**4.1**	3.5	**4.1**	3.5
Expected distribution on Additional Tier 1 securities	**(2.1)**	-	**(2.1)**	-
Other equity instruments	**(156.5)**	-	**(156.5)**	-
Other reserves	**8.8**	(0.2)	**1.8**	(6.7)
Intangible assets	**(46.1)**	(26.0)	**(46.1)**	(26.0)
Deferred tax on tax losses carried forward	**(38.1)**	(62.2)	**(38.1)**	(62.2)
Excess of expected loss over impairment	**(33.4)**	(41.1)	**(33.4)**	(41.1)
Common Equity Tier 1 Capital	**980.5**	808.9	**973.5**	802.4
Additional Tier 1 securities	**156.5**	150.0	**156.5**	150.0
Total Tier 1 Capital	**1,137.0**	958.9	**1,130.0**	952.4
Tier 2 capital				
General credit risk adjustments	**5.9**	11.0	**5.9**	11.0
Total Tier 2 capital	**5.9**	11.0	**5.9**	11.0
Total own funds	**1,142.9**	969.9	**1,135.9**	963.4

Table 4: Movement in fully loaded capital



Other movements consist of the decrease in general credit risk adjustments and expected distributions not accrued at the year end, offset by movements in the available-for-sale reserve and the net liabilities of Virgin Money Giving. Further analysis is provided on page 24.

Risk-weighted assets and Pillar 1 capital requirements

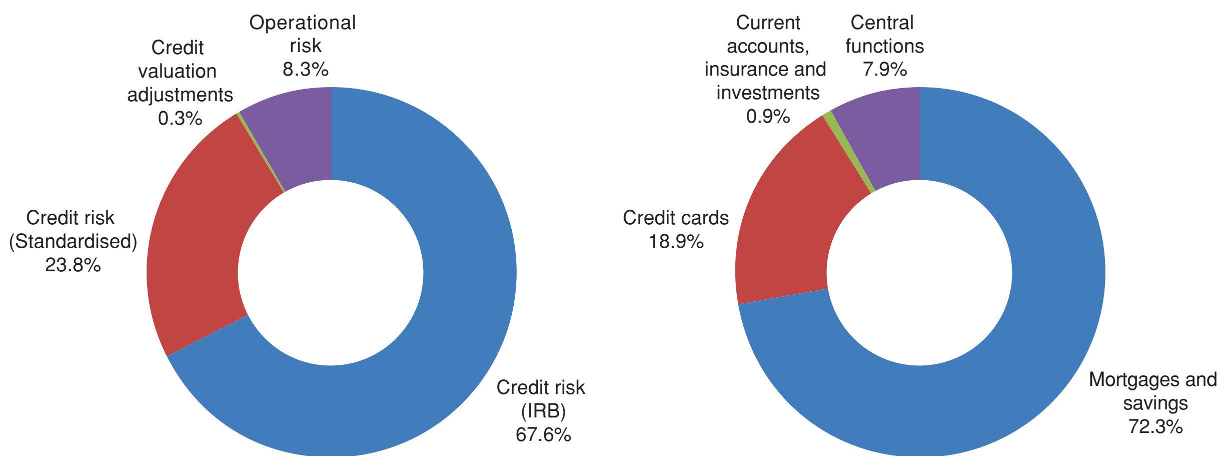
Table 5: Risk-weighted assets

Risk-weighted assets	2014 £m	2013 £m
Credit risk (Individual Ratings Based approach)	**3,489.7**	3,854.6
Credit risk (Standardised approach)	**1,225.5**	1,010.7
Total credit risk	**4,715.2**	4,865.3
Operational risk	**430.5**	326.0
Credit valuation adjustment	**13.7**	15.1
Market risk	**-**	-
	5,159.4	**5,206.4**

Table 6: Risk-weighted assets – segmental analysis

Risk-weighted assets – segmental analysis	2014 £m	2013 £m
Mortgages and savings	**3,729.8**	4,036.2
Credit cards	**973.2**	708.2
Current accounts, insurance & investment	**47.2**	37.1
Central functions	**409.2**	424.9
	5,159.4	**5,206.4**

Table 7: Risk-weighted assets by risk type and by business unit

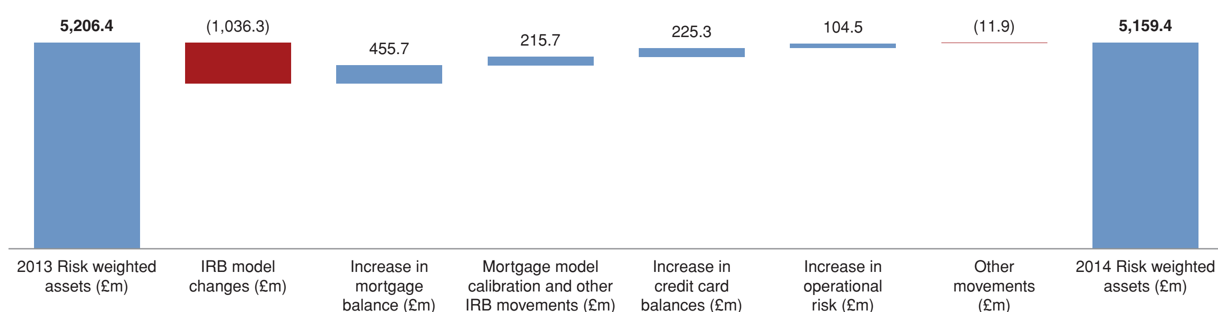


Make up of risk-weighted assets by risk type

Make up of risk-weighted assets by business unit

The movements in risk-weighted assets are analysed below:

Table 8: Movement in risk-weighted assets



The decrease in RWAs is driven by IRB model changes made in July 2014, discussed in more detail on page 27, which has been partly offset by increases in lending exposures (mortgages and credit cards) and operational risk increases arising from year on year increases in total income.

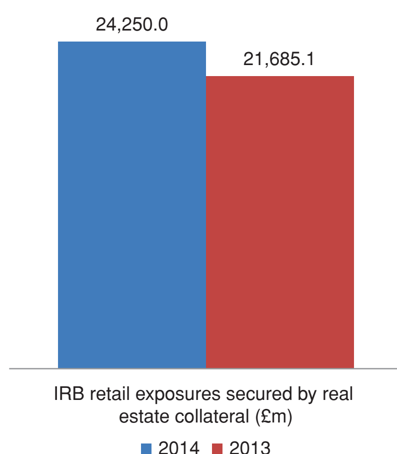
Credit Risk Exposures

Table 9: Credit risk exposures

	Exposure 2014 £m	RWAs 2014 £m	Average RW 2014 %	Exposure 2013 £m	RWAs 2013 £m	Average RW 2013 %
IRB						
Retail exposures secured by real estate collateral	**24,250.0**	**3,489.7**	**14.4**	21,685.1	3,854.6	17.8
Standardised						
Retail exposures secured by real estate collateral	**-**	**-**	**-**	12.2	4.5	36.9
Other retail exposures	**1,097.3**	**822.9**	**75.0**	789.9	592.4	75.0
Past due items	**7.1**	**7.1**	**100.0**	4.0	4.0	100.0
Central Governments and Central Banks	**1,604.1**	**-**	**-**	2,350.5	-	-
Multilateral development banks	**304.3**	**-**	**-**	415.9	-	-
Institutions	**759.9**	**178.3**	**23.5**	951.0	227.8	24.0
Securitisation positions	**75.0**	**16.2**	**21.6**	99.3	19.9	20.0
Covered Bonds	**260.2**	**26.0**	**10.0**	46.8	4.7	10.0
Other	**1,332.0**	**175.0**	**13.1**	473.5	157.4	33.2
Total standardised	**5,439.9**	**1,225.5**	**22.5**	**5,143.1**	**1,010.7**	**19.7**
	29,689.9	**4,715.2**	**15.9**	**26,828.2**	**4,865.3**	**18.1**

Year on year movements in IRB exposures

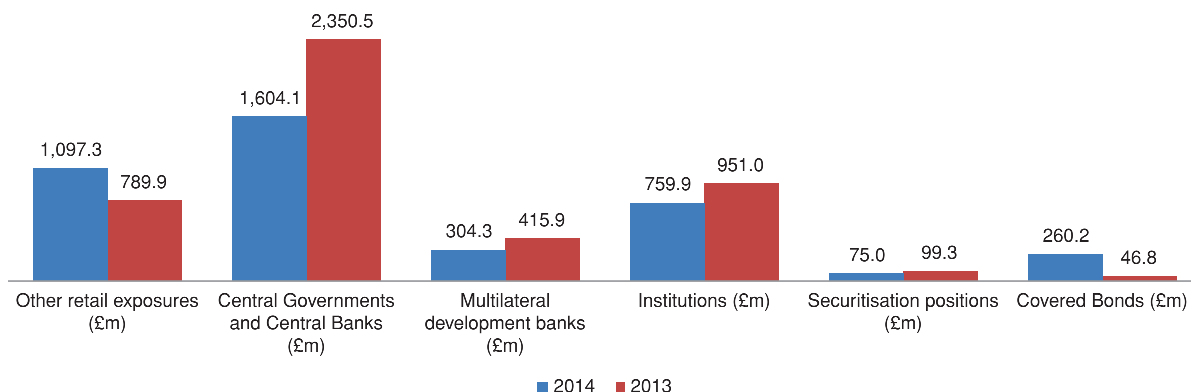
Table 10: IRB exposures



IRB exposures are made up solely of residential mortgages. The year on year increase reflects the Group's organic growth in mortgage lending. During 2014 the Group's gross mortgage lending was £5.8 billion, with a net mortgage lending figure of £2.3 billion.

Year on year movements in standardised exposures

Table 11: Standardised exposures



The major movements in exposures arise from:

– Other retail exposures following the purchase of a further portfolio of £359.3 million of Virgin Money branded credit cards from MBNA in November 2014.

– A reduction in holdings in cash held with Central Banks and institutions, following increases in lending balances.

Other asset exposures (not shown in the graph above) have increased by £858.4 million since last year, arising mainly as a result of the repo activity by the Group. The gross exposures for repos (before collateral) have increased by £843.3 million. However, due to collateral and lower risk weights, the associated risk-weighted assets have fallen by £2.9 million.

A detailed analysis of the key movements in exposures is provided in table 25.

INTRODUCTION AND BACKGROUND

CRD IV came into force in the European Union on 1 January 2014. The Capital Regulations contained therein consist of three Pillars.

Pillar 1

The first Pillar sets out the minimum capital requirements firms are required to meet for credit, market and operational risks and credit valuation adjustments. Capital requirements are also expressed as risk-weighted assets, being 12.5 times the capital required. The approaches used by the Group in calculating its capital requirements and risk-weighted assets are described below.

Credit risk and credit valuation adjustments

Standardised approach

Description

- Low risk sensitivity and complexity.
- Relies on the application of a standardised set of risk weightings to credit risk exposures.
- External credit ratings supplied by External Credit Assessment Institutions (ECAIs, Standard & Poor's, Moody's and Fitch) may be used in determining the appropriate risk weight to apply.
- Recognises the application of certain credit risk mitigation techniques.
- No distinction made between expected and unexpected losses.

Group Application

The Group applies the Standardised Approach to all exposures apart from mortgages as described in the Internal Ratings Based Approach section below.

Internal Ratings Based (IRB) Approach

Description

The Group's IRB approach provides risk sensitive modelling using complex modelling techniques to generate an internal estimate for the credit risk capital requirement.

The requirements specified by the IRB approach prescribe the Group to use an internal assessment of the probability of a customer defaulting (PD). In addition, the IRB approach requires the Group to derive direct estimates of exposure at default (EAD) amounts and internal estimates of loss given default (LGD) in a downturn. These approaches are subject to regulatory floors in addition to the internal model assessments.

The PD, LGD and EAD of credit risk exposures form the base inputs to the regulatory risk weight calculation used to derive the RWA at an account level. From this, the minimum capital requirements are calculated (being 8% of the RWA), reflecting the credit risk capital required to cover any unexpected losses across the portfolio.

An expected loss (EL) is derived by multiplying the PD, LGD and EAD risk components together, aligning to long run average PDs and downturn LGDs. As such the EL calculated represents an estimate of the monetary amount the business expects to lose from a customer defaulting within a 12 month outcome window, irrespective of current economic conditions. Where expected

losses exceed accounting impairment provisions linked to the underlying credit risk exposures the resultant excess expected loss (EEL) is deducted from Common Equity Tier 1 capital.

The Group uses the IRB model outputs to inform both credit risk management and day-to-day credit related decision making within the business (the Use Test). Application of an IRB approach requires PRA approval in the form of a waiver permission.

Group Application

The IRB Approach is applied to the Group's residential mortgage portfolio. The Group's credit card portfolio does not currently utilise the IRB approach but there is a road map in place in order to achieve IRB status.

Operational risk

Standardised approach

Description

- Medium risk sensitivity and complexity.
- The capital requirement is derived from the three year average of the aggregate risk-weighted relevant indicators of the underlying business. This requires a firm's activities to be split into a number of defined business lines with a specific risk weight applied to the relevant indicator of each business line.
- Firms must meet certain qualifying criteria to be able to use the Standardised Approach.

Group Application

The Group calculates its operational risk capital requirements under the Standardised Approach.

Market risk

Standardised approach

Description

- Low risk sensitivity and complexity.

Group Application

The Group's only exposure to market risk is in relation to foreign exposure. As this is below the de minimis limit for CRD IV, the Group has no Pillar 1 Market Risk requirement.

Credit valuation adjustment (CVA)

Standardised approach

Description

- New measure introduced by CRD IV.
- Relates to the counterparty credit risk associated with OTC derivatives.

– Adjustment to the mid market valuation of the portfolio of transactions with a counterparty.

– Reflects the current market value of the credit risk of the counterparty to the Group.

Group Application

The Group calculates its CVA requirement using the Standardised Approach.

Pillar 2

The second Pillar describes the supervisory review process and the assessment of additional capital resources required to cover specific risks faced by Firms that have not been covered by the minimum regulatory requirements as set out in Pillar 1.

The application of Pillar 2 on the Group is described in more detail on page 20 and 28.

Pillar 3

The third Pillar aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information on a Firm's capital, risk exposures and risk assessment processes.

CRD IV sets out the minimum disclosures required under Pillar 3.

Future regulatory developments

From 1 January 2015 CRD IV rules as they apply to the Group have changed from transitional to fully loaded. For the purposes of this document, disclosures have been made using both sets of rules.

The Basel Committee on Banking Supervision (the BCBS) published revised Pillar 3 disclosure standards in January 2015. These new disclosure requirements (which include limited quarterly reporting) are expected to apply from the 31 December 2016 Pillar 3 disclosures.

DISCLOSURE POLICY

The following sets out a summary of the Group's Pillar 3 disclosure policy, including basis of preparation, frequency, media and location, verification and risk profile disclosure.

Basis of preparation

This document sets out the disclosures required under Part VIII of EU Regulation 575/2013 (the CRR), which represents the Pillar 3 regulatory disclosure requirements in the UK under CRD IV.

There are a number of differences between the accounting disclosures published within the 2014 Virgin Money Group Annual Report and Accounts and these Pillar 3 disclosures. In particular, there are differences surrounding the make up of the consolidated Group for statutory reporting and regulatory purposes, and the definition of credit risk exposure.

Details on the scope of consolidation are provided within the next section.

Throughout this document, unless otherwise specified, credit risk exposures for IRB exposures are disclosed using the exposure at default (EAD) measure. This is a parameter used in IRB approaches to estimate the amount outstanding at the time of default. The EAD calculation includes amounts where customers have contractual rights to draw down further balances and estimates of interest accruals to the point of default.

For credit risk exposures for standardised approaches, the exposure value is stated net of individual (specific) impairment provisions. General impairment provisions on standardised exposures are included in the exposure balance, but form part of Tier 2 capital.

Frequency, media and location

The Group's policy is to publish the disclosures required on an annual basis. The information is published in conjunction with the 2014 Virgin Money Group Annual Report and Accounts. The Pillar 3 disclosure document is published within the Investor Relations section of the corporate website www.virginmoney.com.

The frequency of disclosure will be reviewed should there be a material change in any approach used for the calculation of capital, business structure or regulatory requirements.

Verification

The Group's Pillar 3 disclosures have been reviewed by the Audit Committee and approved by the Board. In addition, the remuneration disclosures as detailed in Appendix 4 of this document have been reviewed by the Remuneration Committee. The disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements and disclosed in the 2014 Virgin Money Group Annual Report and Accounts for the period to 31 December 2014.

Risk profile disclosure

In accordance with Part VIII of the CRR and the Group's Pillar 3 disclosure policy, the Group is required to assess whether its external disclosures portray its risk profile comprehensively. The disclosures of risk management objectives and procedures within this Pillar 3 document are reproduced within the Risk Management Report of the 2014 Virgin Money Group Annual Report and Accounts.

SCOPE OF CONSOLIDATION

This disclosure report is based on the consolidated corporate Group referred to and described as 'Virgin Money' (Virgin Money Regulated Group) with the exception of Appendices 4 and 5 which disclose the position of Virgin Money plc, the significant subsidiary within the Group. The Group has complied with the Prudential Sourcebooks throughout the year. This disclosure is presented in respect of the year ended 31 December 2014.

There are no current or foreseen material practical impediments to the prompt transfer of own funds or repayment of liabilities among the Group companies. All regulated subsidiaries are included in the regulatory consolidation Group.

Sub Group disclosures

Virgin Money plc (VM plc) is the significant banking subsidiary within the Group. Separate Pillar 3 disclosures for VM plc have been made in Appendix 1 and Appendix 5 of this document.

The following companies are special purpose vehicles (SPVs) established in connection with the Group's securitisation programme. Although Virgin Money plc has no direct or indirect ownership interest in these companies, they are accounted for as subsidiaries of Virgin Money plc. This is because they are principally engaged in providing a source of long term funding to the Group, which in substance means the Group has the rights to all benefits from the activities of the SPVs. They are therefore effectively controlled by the Group.

Table 12: Special purpose vehicles

	Nature of business	Country of incorporation
Gosforth Funding plc[1]	Issue of securitised notes	England & Wales
Gosforth Funding 2011-1 plc	Issue of securitised notes	England & Wales
Gosforth Funding 2012-1 plc	Issue of securitised notes	England & Wales
Gosforth Funding 2012-2 plc	Issue of securitised notes	England & Wales
Gosforth Funding 2014-1 plc	Issue of securitised notes	England & Wales
Gosforth Mortgages Trustee 2011-1 Limited	Trust	England & Wales
Gosforth Mortgages Trustee 2012-1 Limited	Trust	England & Wales
Gosforth Mortgages Trustee 2012-2 Limited	Trust	England & Wales
Gosforth Mortgages Trustee 2014-1 Limited	Trust	England & Wales
Gosforth Holdings Limited[2]	Holding company	England & Wales
Gosforth Holdings 2011-1 Limited	Holding company	England & Wales
Gosforth Holdings 2012-1 Limited	Holding company	England & Wales
Gosforth Holdings 2012-2 Limited	Holding company	England & Wales
Gosforth Holdings 2014-1 Limited	Holding company	England & Wales

There is no significant risk transfer associated with the securitisations, so for the purposes of regulatory capital and Pillar 3, the SPVs are consolidated within the VM plc disclosures.

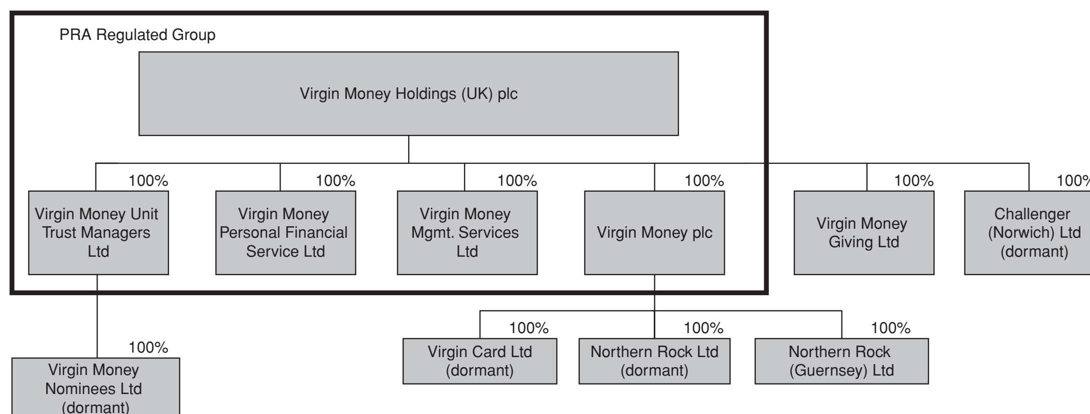
[1] In liquidation.

[2] Company dissolved on 27 January 2015.

Regulatory consolidation Group

The Group structure at 31 December 2014 is set out below.

Table 13: Regulatory Group structure



At 31 December 2014, the Virgin Money Regulated Group was made up of the following companies:

- Virgin Money Holdings (UK) plc (formerly Virgin Money Holdings (UK) Limited)
- Virgin Money plc
- Virgin Money Unit Trust Managers Limited
- Virgin Money Personal Financial Service Limited
- Virgin Money Management Services Limited

During the year, Church House Trust Limited, a wholly owned subsidiary of VMH, was sold to Ocean Industries S.A. and is no longer part of the Group. The 2013 comparatives include Church House Trust.

The regulatory consolidation disclosed within this document therefore differs from the consolidated Group disclosed within the 2014 Virgin Money Group Annual Report and Accounts, by excluding the following companies.

- Virgin Money Giving Limited
- Challenger (Norwich) Limited (dormant)
- Virgin Money Nominees Limited (dormant)
- Virgin Card Limited (dormant)
- Northern Rock Limited (dormant)
- Northern Rock (Guernsey) Limited (dissolved on 2 January 2015)

Consolidated balance sheet under the regulatory scope of consolidation

The table below provides a reconciliation of the Group's consolidated balance sheet on an accounting consolidation basis (which includes all Group companies) to the Group's consolidated balance sheet under the regulatory scope of consolidation (which excludes dormant companies and Virgin Money Giving).

Table 14: Reconciliation of statutory balance sheet to regulatory balance sheet

2014	Accounting balance sheet as in published financial statements	Deconsolidation of other entities	Under regulatory scope of consolidation
	£m	£m	£m
Assets			
Cash and balances at central banks	**851.3**	-	**851.3**
Derivative financial instruments	**101.2**	-	**101.2**
Loans and receivables:			
- Loans and advances to banks	**720.5**	(0.1)	**720.4**
- Loans and advances to customers	**23,093.1**	-	**23,093.1**
- Debt securities	**8.6**	-	**8.6**
Available-for-sale financial assets	**1,539.6**	-	**1,539.6**
Intangible assets	**46.1**	-	**46.1**
Tangible fixed assets	**72.9**	-	**72.9**
Deferred tax assets	**50.2**	-	**50.2**
Other assets	**53.3**	(0.5)	**52.8**
Intercompany assets	-	4.4	**4.4**
Total assets	**26,536.8**	3.8	**26,540.6**
Liabilities			
Deposits from banks	**846.7**	-	**846.7**
Customer deposits	**22,365.7**	-	**22,365.7**
Derivative financial instruments	**228.2**	-	**228.2**
Debt securities in Issue	**1,594.1**	-	**1,594.1**
Other liabilities	**249.0**	(0.1)	**248.9**
Provisions	**9.3**	(0.2)	**9.1**
Total liabilities	**25,293.0**	(0.3)	**25,292.7**
Equity			
Share capital and share premium	**654.6**	-	**654.6**
Other equity instruments	**156.5**	-	**156.5**
Other reserves	**(1.8)**	-	**(1.8)**
Retained earnings	**434.5**	4.1	**438.6**
Total equity	**1,243.8**	4.1	**1,247.9**
Total liabilities and equity	**26,536.8**	3.8	**26,540.6**

Regulatory balance sheet assets to credit risk exposure

A reconciliation of the consolidated regulatory balance sheet to credit risk exposures is presented below

Table 15: Reconciliation of regulatory balance sheet to credit risk exposure

	Under regulatory scope of consolidation	Assets deducted from own funds	Derivative and SFT adjustments	Provisions	Credit risk exposures
	£m	£m	£m	£m	£m
Assets					
Cash and balances at central banks	851.3	-	-	-	851.3
Derivative financial instruments	101.2	-	(51.7)	-	49.5
Loans and receivables:					
- Loans and advances to banks	720.4	-	(111.7)	-	608.7
- Loans and advances to customers	23,093.1	-	-	13.5	23,106.6
- Debt securities	8.6	-	-	-	8.6
Available-for-sale financial assets	1,539.6	-	-	-	1,539.6
Investment in subsidiaries	-	-	-	-	-
Intangible assets	46.1	(46.1)	-	-	-
Tangible fixed assets	72.9		-	-	72.9
Deferred tax assets	50.2	(38.1)	-	-	12.1
Other assets	52.8	-	1,179.0	-	1,231.8
Intercompany assets	4.4	-	-	-	4.4
Total assets	26,540.6	(84.2)	1,015.6	13.5	27,485.5
Add IRB and fair value adjustments					2,204.4
Total regulatory capital exposures					29,689.9

Derivative and SFT adjustments are made to reflect the regulatory exposure values of derivatives and repos held by the Group. Derivatives are measured for regulatory purposes by taking into account the potential future exposures and collateral posted. Balances held as collateral are not treated as exposures. Repos are not included as assets on the statutory balance sheet, and so the adjustment to Other assets above reflects the gross repo exposure before cash collateral has been deducted.

Provisions on IRB balances and general provisions on standardised exposures have been added back.

IRB and fair value adjustments mainly reflect the adjustments to our balance sheet exposures in order to calculate exposures at default. These are explained in more detail on pages 42 to 46.

RISK MANAGEMENT

The Group's approach to risk

The Group's risk management approach and strong controls keep the Group safe, support sustainable business growth and achieve the target risk and reward balance within risk appetite. A strong and independent Risk Function, which maintains a robust risk management framework, identifies and escalates emerging risks to support these business objectives.

Risk culture

The Board ensures that senior management implements risk appetite and policies which limit or, where appropriate, prohibit activities, transactions and situations that could be detrimental to the Group's risk profile.

The Group has a prudent business model embodied by a risk culture founded on a conservative approach to managing risk. Our focus is on building and sustaining long-term relationships with customers whatever the economic climate.

Risk appetite

– The Group defines risk appetite as 'the variability in results or key outcomes that the Board is willing to accept in support of the Group's strategy'.

– Strategy is developed in parallel with risk appetite. Risk appetite is supported by more detailed metrics and limits. A Risk Appetite Statement is approved by the Board with each strategic planning cycle. This incorporates recommendations from Non-Executive Directors and is fully aligned with Group strategy.

– Risk appetite is embedded within principles, policies, authorities and limits.

– Risk appetite evolves and reflects external market developments and the progression of the Group.

Table 16: Fortress balance sheet

Fortress Balance Sheet		
Capital	**Liquidity**	**Profitability**
Virgin Money maintains a high-quality capital base, targeting capital ratios which support business development and the risks inherent in the strategic plan and in excess of regulatory requirements.	Virgin Money operates an investment strategy for treasury assets which prioritises liquidity and ensures that the Group holds a liquid asset buffer in excess of internal analysis and regulatory guidance.	Achieving appropriate profitability across all business lines is essential to the sustainability of Virgin Money.
Depositor Protection	**Minimise Unrewarded Risks**	**Mature Control Environment**
As an authorised deposit taker, Virgin Money ensures that depositors' financial assets and all customers' personal data are protected.	Unrewarded risks only expose Virgin Money to downside risk. The Group avoids unrewarded risks where possible or controls them as far as is economically feasible.	Virgin Money ensures that the control environment is fit for purpose, supporting the business as it grows in terms of people, processes and systems.

Governance and control

- Authority is delegated from the Board to executive management and committees which are designed to promote open challenge. The Group's risk appetite, policies, procedures, controls and reporting are in line with applicable regulations, law, corporate governance and industry good practice.

- Board-level engagement, coupled with the direct involvement of senior management in risk issues at the Executive Committee, ensures the prompt escalation of issues and initiation of remediation plans where required.

- The approach to risk is founded on a robust risk management framework and a strong control culture which assigns accountability for risk and guides the way colleagues approach their work, behave and make decisions.

- The interaction of the executive and non-executive governance structures is founded upon a culture of transparency and openness that is encouraged by both the Board and senior management.

- A strong governance framework remains a priority for the Group. It is the foundation for the delivery of effective risk management.

Risk decision-making and reporting

- Taking well understood risks which are consistent with strategy and have appropriate margin is a key driver of sustainable shareholder value.

- Risk analysis and reporting supports the identification of opportunities as well as risks.

- A view of the Group's overall risk profile, key exposures and management actions, and performance against risk appetite is reported to and discussed monthly at the Risk Management Committee. The Risk Management Committee reports to the Board Risk Committee and the Board.

- Rigorous stress testing exercises are carried out to assess the impact of a range of adverse scenarios (with different probabilities and severities) to inform strategic planning.

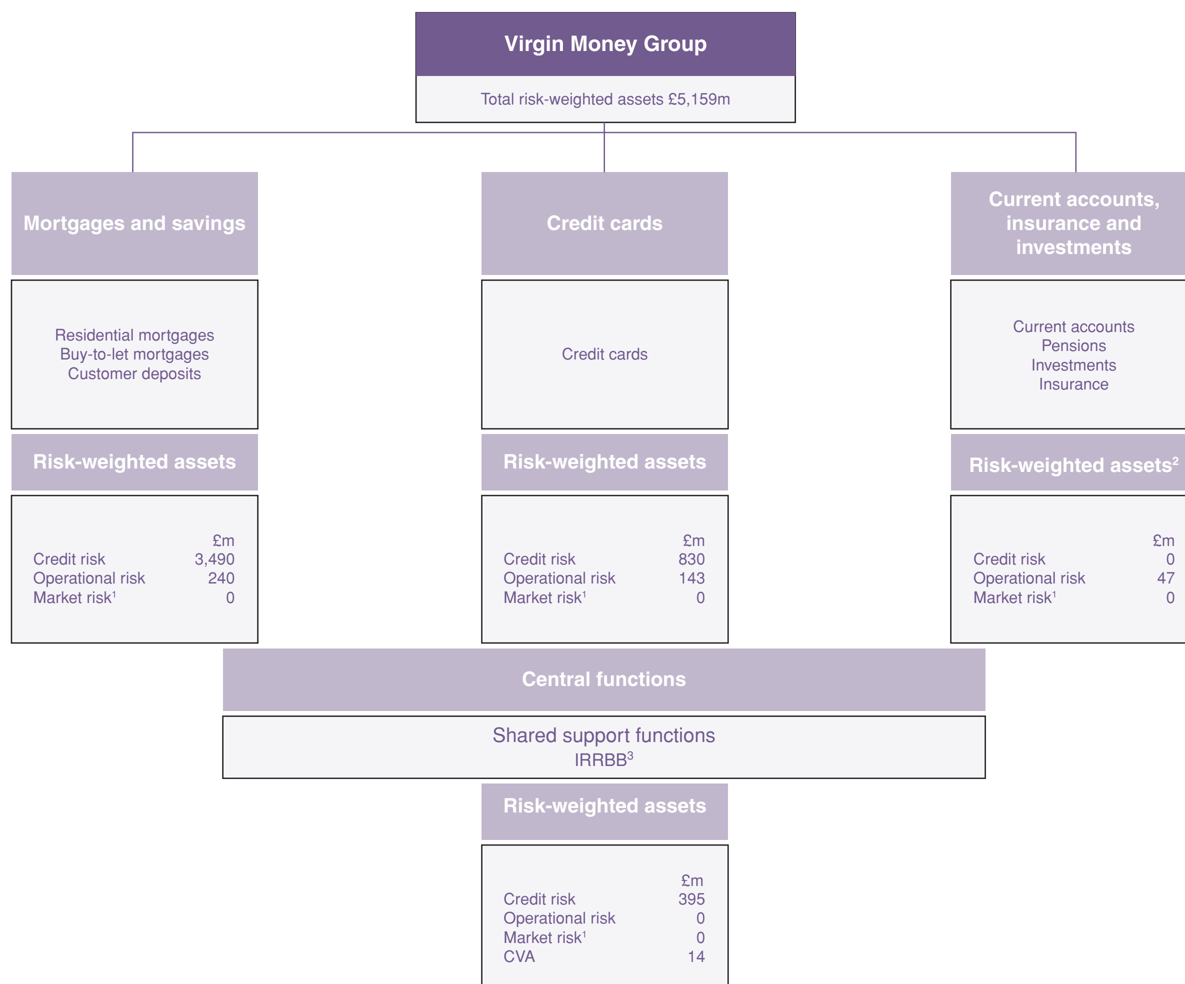
- The Chief Risk Officer regularly informs the Board Risk Committee and the Board of the risk profile and has direct access to the Chairman.

- The Board Risk Committee met 5 times during 2014.

Exposure to risk arising from the business activities of the Group

The table below provides a high-level guide to how the Group's business activities are reflected in our risk measures and balance sheet.

Table 17: Split of Group's business activities



[1] Virgin Money does not have a trading book

[2] The capital requirements for Virgin Money Unit Trust Managers and Virgin Money Personal Financial Services have been met, with a Common Equity Tier 1 ratio of 98% and 86% respectively.

[3] Only Pillar II Capital is held for interest rate in the banking book (IRRBB). There is no associated risk-weighted asset measure.

Risk disclosure statement

The Directors believe that both the risk management arrangements for providing assurance and the risk management systems in place are adequate for Virgin Money's profile and strategy.

The Board focus on ensuring alignment of business development and planning with risk appetite. A clearly defined risk appetite aids Virgin Money in maintaining a high-quality capital base, targeting capital ratios which support business development and are in excess of regulatory minimum. Capital is actively managed with regulatory ratios being a key factor in Virgin Money's planning processes and stress analysis. The Group reviews the capital structure on an on-going basis to ensure it is well placed to react to prevailing economic and regulatory conditions. On a fully loaded basis, the Common Equity Tier 1 ratio for the group was 19% as at 31 December 2014, compared to the fully loaded regulatory minimum of 7%.

Analysis of Directors

The following table shows the number of directorships held by the members of the management body of Virgin Money plc.

Table 18: Analysis of directors

	Number of directorships
Sir David Clementi	4
Jayne-Anne Gadhia	1
Lee Rochford	1
Marian Watson	1
Olivia Dickson	3
Colin Keogh	4
Norman McCluskie	1
Glen Moreno	3
Marilyn Spearing	1

In the table above, in line with the CRD IV rules, multiple directorships within the same Group are treated as a single role and directorships with bodies that don't predominantly pursue commercial objectives are also excluded.

CAPITAL RESOURCES

Capital

Definition

Capital risk is defined as the risk that the Group has a sub-optimal amount or quality of capital or that capital is inefficiently deployed across the Group.

Risk appetite

Board strategic planning is based on clear principles which aim to ensure that an appropriate balance of risk and reward is achieved in growing a sustainable business. This is reflected in a clearly defined risk appetite for capital which aids Virgin Money in maintaining a high-quality capital base, targeting capital ratios which support business development and are in excess of regulatory minimum.

The Board and the Executive Team, assisted by the Asset and Liability Committee and the Risk Management Committee, review business performance against risk appetite.

Capital resources

A capital shortfall arises where the Group has insufficient capital resources to support our strategic objectives and plans. The Group's capital management approach is focused on maintaining sufficient capital resources to prevent such exposures while optimising value for shareholders.

Measurement of capital

Virgin Money calculates capital resources and requirements using the CRD IV CRR regulatory framework as implemented by the PRA. Pillar 1 capital requirements are calculated in respect of credit risk, operational risk, market risk and credit valuation adjustments (CVA). Residential mortgages are measured using an Advanced Internal Ratings Based approach approved by the PRA, and all other requirements are calculated using the Standardised Approach.

The PRA supplements Virgin Money's minimum total capital requirement by setting additional Pillar 2 requirements issued within the Group's Individual Capital Guidance (ICG). This is added to the Pillar 1 requirement for those risks not covered or fully covered under Pillar 1. A key input into the PRA's ICG setting process is a bank's own assessment of the amount of capital it needs, a process known as the Internal Capital Adequacy Assessment. The material Pillar 2 risks identified by Virgin Money are credit concentration risk, operational risk, business risk (including transformation and reputation risk), interest rate risk in the banking book and underestimation of credit risk. Virgin Money has been set a specific ICG by the PRA and maintains capital at a level which exceeds this requirement.

As part of the capital planning process, capital positions are subjected to stress testing and sensitivity analysis to determine the adequacy of capital resources against minimum requirements, including ICG, over the forecast period. The stress testing output is used by the PRA to set the overall capital requirement for the Group.

The PRA requires the regulatory capital requirement to remain confidential between Virgin Money and the PRA.

Mitigation

Virgin Money has capital management procedures that are designed to ensure that we operate within risk appetite, continue to comply with regulatory requirements and are positioned to meet anticipated future changes to capital requirements.

Virgin Money is able to accumulate additional capital through profit retention, by raising equity via, for example, a rights issue or debt exchange and by raising Tier 1 and Tier 2 capital by issuing subordinated liabilities. The cost and availability of additional capital is dependent upon market conditions and perceptions at the time. Virgin Money is also able to manage the demand for capital through management actions including adjusting our lending strategy, risk hedging strategies and through business disposals. If necessary, this can include limiting new lending business.

Monitoring

Capital is actively managed with regulatory ratios being a key factor in the Group's planning processes and stress analyses. A minimum of three year forecasts of Virgin Money's capital position, based upon the strategic plan, are produced at least annually to inform the capital strategy, while shorter term forecasts are more frequently undertaken to understand and respond to variations of Virgin Money's actual performance against the plan.

The capital plans are tested for capital adequacy using a range of stress scenarios covering adverse economic conditions as well as other adverse factors that could impact Virgin Money. The Group maintains recovery plans which set out a range of potential mitigating actions that could be taken in response to a stress.

Capital procedures are subject to independent oversight. Regular reporting of actual and projected ratios is undertaken, including submissions to the Asset and Liability Committee, the Risk Management Committee and the Board.

The regulatory framework within which Virgin Money operates continues to be enhanced as part of the global banking reforms. Over the course of 2014 there have been significant regulatory developments in the area of capital and its related management. The principal changes relate to CRD IV and the subsequent consultation and finalisation of PRA requirements for their implementation in the UK.

Beyond CRD IV, there have been a number of draft technical standards issued for consultation which relate to both capital and leverage, and both Basel and European regulatory bodies continue to develop their thinking on capital resources and capital requirement measures. Within the UK, the PRA have been active in requiring enhanced capital standards and encouraging further disclosure developments, with HM Treasury having been consulted on the practical aspects of the application of a counter cyclical buffer.

Virgin Money monitors these developments closely, participating in the regulatory consultation processes and analysing the potential financial impacts to ensure that the Group has a strong loss absorption capacity that exceeds the regulatory requirements.

Capital developments during 2014

In December 2013, the PRA issued Policy Statement PS7/13 containing the final rules and supervisory statements implementing the Capital Requirements Directive (2013/36/EU) and the Capital Requirements Regulation (575/2013) (together, CRD IV), effective from 1 January 2014.

CRD IV introduced new capital limits and buffers for banks, and includes a requirement to hold Common Equity Tier 1 capital to account for capital conservation, countercyclical and systemic risk buffers. These new buffers will influence the type of capital instruments that best meet the requirements likely to be expected of the Group. Implementation is required from 2016. The

Group reviews the capital structure on an on-going basis to ensure it is well placed to react to prevailing economic and regulatory conditions. From a capital perspective, on a fully loaded basis, the Common Equity Tier 1 capital ratio for the Group was 19.0% as at 31 December 2014, compared with a fully loaded regulatory minimum of 7.0% (comprised of Common Equity Tier 1 capital of 4.5% and a capital conservation buffer of 2.5%).

CRD IV also introduced a new leverage ratio requirement. The leverage ratio is a non-risk based measure that is designed to act as a supplement to risk based capital requirements. It is intended as a back stop measure. The leverage calculation determines a ratio based on the relationship between Tier 1 capital and total consolidated exposure (total exposure is the sum of on-balance sheet exposures, derivative exposures, securities-financing transaction exposures and off-balance sheet items).

On a fully loaded basis, the leverage ratio for the Group (based on the Basel III definition of January 2014, and the revised CRD IV definition of October 2014) is 4.1% compared with a regulatory minimum of 3.0%.

The main impact of CRD IV on the Group capital position was the de-recognition from capital resources of deferred taxation assets arising from unused taxation losses carried forward.

This reduced capital resources by £62.2 million as at 1 January 2014 from the previous Basel II measure. This impact on capital surplus was partially offset by a corresponding reduction in risk-weighted assets. Other changes, such as the introduction of the credit valuation adjustment risk measure, have not had a significant impact on the Group's resources or requirements.

Group developments

The Non-core Tier 1 notes issued on 1 January 2012 were designed to be CRD IV compliant and were repurchased by Virgin Money on 31 July 2014 following a competitive auction process undertaken by UKFI for £154.5 million. The repurchase was funded with the issuance of £160.0 million of Additional Tier 1 securities listed on the Luxembourg Stock Exchange on 31 July 2014.

In November 2014, the Company raised an additional £150.0 million Common Equity Tier 1 capital (net of expenses: £145.4 million) as a result of admission to listing on the London Stock Exchange.

Group capital resources

The following table sets out the capital resources of the Group at 31 December 2014.

Table 19: Group capital resources

	Fully loaded		PRA transitional rules	
	2014	**2013**	**2014**	**2013**
	£m	**£m**	**£m**	**£m**
Common Equity Tier 1				
Share capital and share premium	**654.6**	509.2	**654.6**	509.2
Other equity instruments	**156.5**	-	**156.5**	-
Other reserves	**(1.8)**	6.7	**(1.8)**	6.7
Retained earnings	**434.5**	419.0	**434.5**	419.0
Total equity per balance sheet	**1,243.8**	934.9	**1,243.8**	934.9
Regulatory capital adjustments				
Net liabilities of companies outside the regulatory Group	**4.1**	3.5	**4.1**	3.5
Expected distribution on Additional Tier 1 securities	**(2.1)**	-	**(2.1)**	-
Other equity instruments	**(156.5)**	-	**(156.5)**	-
Other reserves	**8.8**	(0.2)	**1.8**	(6.7)
Intangible assets	**(46.1)**	(26.0)	**(46.1)**	(26.0)
Deferred tax on brought forward tax losses	**(38.1)**	(62.2)	**(38.1)**	(62.2)
Excess of expected loss over impairment	**(33.4)**	(41.1)	**(33.4)**	(41.1)
Common Equity Tier 1 Capital	**980.5**	808.9	**973.5**	802.4
Additional Tier 1 securities	**156.5**	150.0	**156.5**	150.0
Total Tier 1 Capital	**1,137.0**	958.9	**1,130.0**	952.4
Tier 2 capital				
General credit risk adjustments	**5.9**	11.0	**5.9**	11.0
Total Tier 2 capital	**5.9**	11.0	**5.9**	11.0
Total own funds	**1,142.9**	**969.9**	**1,135.9**	**963.4**
Pillar 1 Risk-Weighted Assets				
Retail mortgages	**3,489.7**	3,860.2	**3,489.7**	3,860.2
Unsecured lending	**830.0**	595.3	**830.0**	595.3
Wholesale	**221.7**	268.5	**220.5**	268.5
Other assets	**175.0**	141.3	**175.0**	141.3
Credit valuation adjustments	**13.7**	15.1	**13.7**	15.1
Operational risk	**430.5**	326.0	**430.5**	326.0
Total risk-weighted assets	**5,160.6**	**5,206.4**	**5,159.4**	**5,206.4**
Common Equity Tier 1 ratio	**19.0%**	15.5%	**18.9%**	15.4%
Tier 1 ratio	**22.0%**	18.4%	**21.9%**	18.3%
Total capital ratio	**22.1%**	18.6%	**22.0%**	18.5%

Risk-weighted assets under the fully loaded rules in 2014 show a £1.2 million increase over the transitional risk-weighted assets due to the inclusion of available-for-sale adjustments arising from available-for-sale gains recognised in the fully loaded rules. Exposures and risk-weighted assets shown in this document are disclosed on the current transitional basis unless stated otherwise.

Please see Appendix 1 for the full CRD IV disclosure template as published by the EBA in Implementing Technical Standard 2013/01.

Movements in capital

The following table sets out the movements in fully loaded capital resources during 2014.

Table 20: Movements in capital resources

	Common Equity Tier 1	Additional Tier 1 capital	Tier 2 capital
	£m	£m	£m
At 1 January 2014	**808.9**	**150.0**	**11.0**
Net impact of share capital issue	**145.4**	-	-
Profit for the year	**8.7**	-	-
Other movements in retained earnings	**6.8**	-	-
Expected distribution on Additional Tier 1 securities	**(2.1)**	-	-
Movement in reserves of companies outside the regulatory Group	**0.6**	-	-
Movement in intangible assets	**(20.1)**	-	-
Movement in excess of expected loss over impairment	**7.7**	-	-
Decrease in deferred tax on tax losses carried forward	**24.1**	-	-
Movement in available for sale reserve	**0.5**	-	-
Redemption of NCT1 notes	-	**(150.0)**	-
Net impact of AT1 securities issue	-	**156.5**	-
Movement in general provisions	-	-	**(5.1)**
At 31 December 2014	**980.5**	**156.5**	**5.9**

The main increase in capital resources during the year arose from the additional share capital raised when the Group listed on the London Stock Exchange in November. Smaller increases have arisen from the reduction in deferred tax on tax losses carried forward and the reduction in excess expected losses offset by an increase in the intangible assets deduction primarily reflecting the development of the core cards platform.

During the year the Group repaid its Non-core Tier 1 notes and issued £160.0 million Additional Tier 1 securities which is described below.

General provisions on the credit card book showed a decrease during the year following changes to the provisioning model made to reflect recent book performance.

Capital securities

Tier 1

Common Equity Tier 1 capital comprises ordinary share capital, share premium and allowable reserves after deducting prudential filters such as intangible assets, expected losses in excess of provisions in respect of the IRB mortgage portfolio and deferred taxation arising from tax losses carried forward.

Virgin Money Holdings (UK) plc issued Non-core Tier 1 notes of £150.0 million to HM Treasury on 1 January 2012 as part consideration for the acquisition of Northern Rock plc. These qualified as Additional Tier 1 capital under the CRD IV regulations. The notes were repurchased by the Company on 31 July 2014. To finance the repurchase, the Company issued Additional Tier 1 securities of £160.0 million to investors on 31 July 2014, which have a discretionary coupon of 7.875% per annum.

The main features of these securities as set out in Implementing Technical Standard 2013/01 can be found in Appendix 2 of this document and the full terms and conditions can be found on the Investor Relations section of the website at http://uk.virginmoney.com/virgin/investor-relations/additional-tier-1.jsp.

Tier 2

Tier 2 capital comprises general provisions on standardised exposures.

Leverage ratio

The regulations introduced a new balance sheet metric, the leverage ratio, as a requirement from 1 January 2014. The Basel Committee is testing this ratio at a minimum threshold of 3% until 2017. The Group's leverage ratio as at 31 December 2014 was 4.1%.

The PRA has advised banks and building societies that the leverage ratio should be disclosed only using the following methods:

– CRR definition of Tier 1 for the capital amount and the Basel definition of the exposure measure, or

– CRR definition of Tier 1 for the capital amount and the delegated act definition of the exposure measure.

For the Group, there is no difference in the calculation of the leverage ratio when using either of these methods, and the leverage ratio calculated in accordance with the PRA's instructions is disclosed below.

Table 21: Leverage ratio

2014	
	£m
Tier 1 capital	**1,137.0**
Exposures measure	
Total regulatory balance sheet assets	**26,540.6**
Removal of accounting values for derivatives	**(101.2)**
Exposure value for derivatives	**172.3**
Exposure value for securities financing transactions	**353.8**
Off-balance sheet items	**607.8**
Other regulatory adjustments	**(108.8)**
Total exposures	**27,464.5**
Leverage ratio at 31 December 2014	**4.1%**

Exposure values associated with derivatives and securities financing transactions (repos) have been adjusted using the current CRD IV rules. For the purposes of the leverage ratio, the derivative measure is calculated as the replacement cost for the current exposure plus an add on for potential future exposure. The exposure amount is not reduced for any collateral received from the counterparty and has been grossed up for any collateral provided.

Off-balance sheet items are made up of undrawn credit facilities including such facilities that may be cancelled unconditionally at any time. Credit conversion factors, subject to a floor of 10% have been applied to these items in accordance with the CRD IV rules.

Other regulatory adjustments consist of adjustments that have been applied to the Tier 1 capital (such as intangible assets, deferred tax on tax losses carried forward and excess expected losses) which are also applied to the leverage ratio exposure measure. This ensures consistency between the Tier 1 capital and total exposures components of the ratio.

CAPITAL REQUIREMENTS

Group risk-weighted assets and Pillar 1 capital requirements

The capital requirements of the Group are made up of credit risk, operational risk, and credit valuation adjustment elements.

These are calculated as follows:

– Credit risk – risk requirements are taken as 8% of risk-weighted assets, which in turn are calculated by applying risk weightings to balance sheet exposures. This is discussed in more detail from page 30 onwards.

– Operational risk – risk requirements are calculated under the standardised approach, explained more on pages 63 to 65.

– Credit valuation adjustment – a new requirement under CRD IV

– Market risk – the Group's market risk requirement is below the de minimis limit under CRD IV, explained more on pages 59 to 62.

The following table sets out the risk-weighted assets and Pillar 1 capital requirements of the Group.

Table 22: Risk-weighted assets and capital requirements

	2014	**2014**	**2013**	**2013**
	Risk-weighted assets	**Capital Requirement**	**Risk-weighted assets**	**Capital Requirement**
	£m	**£m**	**£m**	**£m**
IRB approach				
Standard mortgages	**3,038.0**	**243.0**	3,440.0	275.2
Buy-to-let mortgages	**451.7**	**36.2**	414.6	33.2
Total IRB exposures – Retail exposures secured by real estate collateral	**3,489.7**	**279.2**	3,854.6	308.4
Standardised approach				
Retail exposures secured by real estate collateral	**-**	**-**	4.5	0.4
Credit cards	**822.9**	**65.8**	592.4	47.4
Items in default	**7.1**	**0.6**	4.0	0.3
Institutions	**178.3**	**14.2**	227.8	18.2
Covered bonds investments	**26.0**	**2.1**	4.7	0.4
Securitisation positions	**16.2**	**1.3**	19.9	1.6
Other assets	**175.0**	**14.0**	157.4	12.6
Total standardised exposures	**1,225.5**	**98.0**	1,010.7	80.9
Credit risk	**4,715.2**	**377.2**	4,865.3	389.3
Operational risk	**430.5**	**34.4**	326.0	26.1
Credit Valuation Adjustments	**13.7**	**1.1**	15.1	1.2
Market risk	**-**	**-**	-	-
Total	**5,159.4**	**412.7**	**5,206.4**	**416.6**

Risk-weighted asset movements

The following table sets out the movements in the Group's risk-weighted assets split between book size, model changes and other movements.

Table 23: Risk-weighted asset movements

	IRB mortgages	Other standardised lending	Other standardised assets	Credit valuation adjustment	Operational risks	Total
	£m	£m	£m	£m	£m	£m
RWAs at 1 January 2014	**3,854.6**	**600.9**	**409.8**	**15.1**	**326.0**	**5,206.4**
Book size	**455.7**	**225.3**	**(0.1)**	**-**	**-**	**680.9**
Model calibration	**167.6**	**-**	**-**	**-**	**-**	**167.6**
Model updates	**(1,036.3)**	**-**	**-**	**-**	**-**	**(1,036.3)**
Other movements	**48.1**	**3.8**	**(14.2)**	**(1.4)**	**104.5**	**140.8**
RWAs at 31 December 2014	**3,489.7**	**830.0**	**395.5**	**13.7**	**430.5**	**5,159.4**

The strong growth in mortgage balance to an EAD of £24,250 million increased RWAs by £455.7 million.

Virgin Money uses a variable scalar methodology to calculate the Probability of Default (PD) parameter used within the Advanced Internal Ratings Based (AIRB) capital models. This approach aids capital management by ensuring the regulatory PD and therefore the resultant regulatory capital requirements fluctuate mainly due to changes in the credit quality mix of the portfolio, rather than changes in the economy. This methodology reduces, but does not eliminate, procyclicality within PD estimates and is sensitive to movements in the distribution of accounts within each segment. During 2014 the improvement in arrears rates caused a reduction in the point-in-time PDs. These lower point-in-time PDs have resulted in the requirement to increase the 'scaling' factor used to transform these to the long-run average estimates. It is these higher scaling factors that have resulted in increased RWAs of £167.6 million, despite lower arrears rates observed through the year. This increase has been categorised as 'model calibration' within the above table.

During 2014, two changes were implemented within the AIRB models. A sales cost model was developed to align to industry good practice and to provide a more appropriate calculation of sales costs. The peak to trough house price assumption was updated to reflect more accurately historic house price movements between the peak property price and the price in a downturn. These changes contributed to a significant reduction in RWAs of £1,036.3 million.

In addition to these movements, further changes in the portfolio have been observed over the last 12 months which can be attributed to movements in two factors. The shift in the portfolio distribution across the long-run PD model segmentation, results in a change in the long-run PDs assigned within the AIRB rating system. Also, variations in observed house prices have caused corresponding movements in the downturn Loss Given Default model. The combined impact of these two elements contributes to an increase in RWAs of £48.1 million within the 'other movements' section.

Following the acquisition of a further portfolio of £359.3 million of Virgin Money branded credit cards in November, overall credit card exposures net of provisions have increased by £312.5 million during 2014. After taking movements in provisions into account, and the impact of the sale of Church House Trust Limited, this has led to increases in standardised lending risk-weighted assets of £225.3 million.

Operational risk is calculated using the Standardised Approach, based on the average Group income over the past three years. The year-on-year increase reflects the increasing Group income from 2010 to 2013.

Segmental risk-weighted assets

Risk-weighted assets split by business unit are shown in the table below.

Table 24: Segmental risk-weighted assets

	2014	2014	2013	2013
	Risk-weighted assets	Capital Requirement	Risk-weighted assets	Capital Requirement
	£m	£m	£m	£m
Mortgages and savings	**3,729.8**	**298.4**	4,036.2	322.9
Credit cards	**973.2**	**77.9**	708.2	56.7
Current accounts, Insurance and Investments	**47.2**	**3.7**	37.1	3.0
Central functions	**409.2**	**32.7**	424.9	34.0
Total	**5,159.4**	**412.7**	**5,206.4**	**416.6**

Group Pillar 2 capital requirement

A minimum total amount of Pillar 1 capital equal to 8% of risk-weighted assets is set by the Basel framework. 4.0% must be covered by Common Equity Tier 1 capital from 1 January 2014, rising to 4.5% from 1 January 2015.

To address the Basel framework Pillar 1 requirements, the PRA currently sets additional minimum requirements through the issuance of bank specific Individual Capital Guidance (ICG). Through the ICG, the PRA provides guidance on the capital to be held against Pillar 2A and Pillar 2B. Pillar 2A contains a variable and fixed component addressing additional risks faced by the Group. Pillar 2B reflects the Capital Planning Buffer determining capital to be held against future periods of stress as described below.

Key to the PRA's ICG setting process is Virgin Money's assessment of the amount of capital needed, a process known as the Internal Capital Adequacy Assessment (ICAA). Virgin Money has been given an ICG by the PRA and maintains capital at a level which exceeds this requirement. From 1 January 2015 at least 56% of Pillar 1 and Pillar 2A must be covered by Common Equity Tier 1 capital. The ICG remains a confidential matter between Virgin Money and the PRA.

The Virgin Money ICAA supplements the Pillar 1 capital requirements for credit risk, counterparty credit risk, operational risk and market risk by assessments of the material risks not covered or not fully captured under Pillar 1. This not only has the advantage of consistency with Pillar 1 but also allows Virgin Money to leverage the investment it has made in developing Pillar 1 models and approaches.

Some of the key risks assessed within the ICAA include:

Concentration Risk – greater loss volatility arising from a higher level of loan default correlation than is assumed by the Pillar 1 assessment. Such correlation can arise from, for example, geographic, industry sector and single name concentrations.

Underestimation Risk – where it is considered that the Pillar 1 capital assessments for credit, market or operational risk underestimate the risk. This assessment excludes the risk arising as a result of loan default correlation which is covered by the concentration risk assessment.

Interest Rate Risk in the Banking Book – the potential losses in the non-trading book resulting from interest rate changes or widening of the spread between Bank Base Rate and LIBOR rates.

Business Risk – the potential issue that both internal and external pressure could result in a failure to deliver the business plan.

As part of the capital planning process, forecast capital positions are subjected to stress testing and sensitivity analyses to determine the adequacy of Virgin Money's capital resources against the minimum requirements including ICG in the event of a severe economic downturn. The PRA uses the stress testing output to set a Capital Planning Buffer for the Group defining the minimum level of capital buffers, over and above the minimum regulatory requirements, that should be maintained as mitigation against potential future periods of stress.

The detailed ICAA document is subject to a robust review process, approved by the Board and submitted to the PRA.

CREDIT RISK

Definition

Credit risk is the risk that a borrower or counterparty fails to pay the interest or the capital due on a loan or other financial instrument (both on and off-balance sheet).

Risk appetite

Credit risk appetite is set by the Board and is described and reported through a suite of metrics derived from accounting and credit portfolio performance measures. These metrics are supported by a comprehensive suite of triggers, limits and policies.

This statement of the Group's overall appetite for credit risk is reviewed and approved annually by the Board.

Exposures

The principal sources of credit risk arise from loans and advances to customers, cash, debt securities and derivatives. The credit risk exposures of the Group are set out in table 25. Credit risk exposures are categorised as retail (secured and unsecured) and wholesale.

In terms of loans and advances, credit risk arises both from amounts lent and commitments to extend credit to a customer. This applies to the secured and unsecured portfolios. The existing overdraft book is a closed portfolio with overdraft balances, anticipated to reduce over time.

Loans and advances, contingent liabilities and commitments also expose the Group to refinance risk. Refinance risk is the possibility that an outstanding exposure cannot be repaid at its contractual maturity date. If the Group does not wish to refinance the exposure then there is refinance risk if the obligor is unable to repay by securing alternative finance. This may be because the borrower is in financial difficulty, or because the terms required to refinance are outside acceptable market appetite at the time. Refinance risk exposures are managed in accordance with the Group's existing credit risk policies, processes and controls, and are not considered to be material given the Group's prudent risk appetite which is designed to be resilient through the cycle. Where refinance risk exists (such as in the interest only retail mortgage portfolio) exposures are minimised through intensive account management and are impaired where appropriate.

Credit risk can also arise from debt securities, derivatives and foreign exchange activities. The Group's wholesale credit risk exposure, is reflected in the Risk Management Report in the 2014 Virgin Money Group Annual Report and Accounts.

Measurement

All retail unsecured and wholesale exposures are measured under the Standardised Approach for regulatory capital.

The Group uses Advanced Internal Ratings Based (AIRB) models in measuring the credit risk of secured loans and advances to customers, reflecting three components: (i) the 'probability of default' by the borrowers on their contractual obligations, (ii) current exposures to the borrowers and their likely future development, from which the Group derives the 'exposure at default', and (iii) the likely loss ratio on the defaulted obligations (the 'loss given default'). These parameters are used in order to derive an expected loss. In contrast, impairment allowances are recognised for financial reporting purposes only for loss events that have occurred at the balance sheet date, based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit loss provisions in the financial statements differs from the amount determined from expected loss models used for internal operational management's capital

requirement and other banking regulation purposes. Pages 36 to 41 provide details of the Group's approach to the impairment of financial assets.

The AIRB models are largely based on the outcomes of credit risk (probability of default – PD) models. The Group's rating model is developed internally using statistical analysis and management judgement. In addition, exposures at default and loss given default models are in use. The models combine internal data supplemented with external data during model development.

The ratings system uses a through the cycle approach. The models are subject to rigorous oversight, governance and validation including, where appropriate, benchmarking to external information.

For retail reporting purposes, borrowers are also segmented into a number of risk bands, each representing a defined range of default probabilities. Exposures migrate between risk bands if the assessment of the borrowers' probability of default changes.

Each rating model is subject to a validation process, undertaken by an independent risk team, which includes benchmarking to externally available data, where possible. All rating models are approved by the Credit Risk Committee.

Monitoring

In conjunction with the Risk Function, the business identifies and defines portfolios of credit and related risk exposures and the key benchmarks, behaviours and characteristics by which those portfolios are managed in terms of credit risk exposures. This entails the production and analysis of regular portfolio monitoring reports for review by senior management. The Risk Function in turn produces a review of credit risk throughout the Group, including reports on significant credit exposures, which are presented to the Risk Management Committee and Board Risk Committee.

The performance of all rating models is monitored on a regular basis, in order to seek to ensure that models provide appropriate risk differentiation capability, the generated ratings remain as accurate and robust as practical, and the models assign appropriate risk estimates to grades/ pools. All models are monitored against a series of agreed key performance indicators. In the event that the monitoring identifies material exceptions or deviations from expected outcomes, these will be escalated in accordance with the governance framework.

Credit risk exposure by exposure class

For the purposes of these disclosures, credit exposure for the IRB portfolios refers to the calculated Exposure at Default (EAD). The EAD calculation includes amounts where customers have contractual rights to draw down further balances and estimates of interest accruals to the point of default.

The following table sets out the exposures for the various types of asset held by the Group at 31 December 2014, and the average exposures during the year.

Table 25: Group exposures, risk weights and average exposures

	Exposure at 31 December 2014	RWAs at 31 December 2014	Average RWA	Average exposure in period
	£m	£m	%	£m
IRB				
Retail exposures secured by real estate collateral	**24,250.0**	**3,489.7**	**14.4**	**22,701.4**
Standardised				
Retail exposures secured by real estate collateral	**-**	**-**	**-**	**-**
Other retail exposures	**1,097.3**	**822.9**	**75.0**	**820.5**
Items in default	**7.1**	**7.1**	**100.0**	**4.1**
Central Governments and Central Banks	**1,604.1**	**-**	**-**	**1,990.5**
Multilateral development banks	**304.3**	**-**	**-**	**354.6**
Institutions	**759.9**	**178.3**	**23.5**	**801.2**
Securitisation positions	**75.0**	**16.2**	**21.6**	**90.3**
Covered bonds	**260.2**	**26.0**	**10.0**	**133.9**
Other	**1,332.0**	**175.0**	**13.1**	**709.2**
Total standardised	**5,439.9**	**1,225.5**	**22.5**	**4,904.3**
	29,689.9	**4,715.2**	**15.9**	**27,605.7**

	Exposure at 31 December 2013	RWAs at 31 December 2013	Average RWA	Average exposure in period
	£m	£m	%	£m
IRB				
Retail exposures secured by real estate collateral	21,685.1	3,854.6	17.8	20,192.0
Standardised				
Retail exposures secured by real estate collateral	12.2	4.5	36.9	13.2
Other retail exposures	789.9	592.4	75.0	694.1
Items in default	4.0	4.0	100.0	5.3
Central Governments and Central Banks	2,350.5	-	-	2,279.0
Multilateral development banks	415.9	-	-	469.7
Institutions	951.0	227.8	24.0	980.6
Securitisation positions	99.3	19.9	20.0	97.7
Covered bonds	46.8	4.7	10.0	38.8
Other	473.5	157.4	33.2	219.1
Total standardised	**5,143.1**	**1,010.7**	**19.7**	**4,797.5**
	26,828.2	**4,865.3**	**18.1**	**24,989.5**

The main increase in exposures during the year arose from the increase in lending to customers. Mortgages showed organic growth of £2.3 billion, giving rise to an increase in mortgage EAD of £2.5 billion. Credit card exposures also increased following the acquisition of a further portfolio of £359.3 million of Virgin Money branded credit card balances in November. This was offset by a net reduction in wholesale assets, mainly in balances with Central Banks following the increase in lending balances at the end of the year. Finally, other exposures increased significantly, mainly as a result of increased repo activity by the Group. The gross exposures for repos (before collateral) increased by £843.3 million during the year. However, due to offsetting of collateral held against these balances and lower risk weights, the associated risk-weighted assets on repos have actually fallen by £2.9 million.

Further analysis of this can be seen in table 37.

Credit risk exposure by division

Credit risk exposures split by business unit are shown in the table below.

Table 26: Group exposures split by business unit

	2014 Exposures IRB £m	2014 Exposures Standardised £m	2013 Exposures IRB £m	2013 Exposures Standardised £m
Mortgages and savings	**24,250.0**	**-**	21,685.1	13.0
Credit cards	**-**	**1,104.4**	-	793.1
Current accounts, insurance and investments	**-**	**-**	-	-
Central functions	**-**	**4,335.5**	-	4,337.0
Total	**24,250.0**	**5,439.9**	**21,685.1**	**5,143.1**

Credit risk exposure by industry

The tables below give details of the distributions of exposures by industry at 31 December 2014 and 31 December 2013.

Table 27: Credit risk exposures by industry

2014	Mortgages – individuals £m	Other lending – individuals £m	Financial £m	Other assets £m	Total £m
IRB					
Retail exposures secured by real estate collateral	**24,250.0**	**-**	**-**	**-**	**24,250.0**
Standardised					
Retail exposures secured by real estate collateral	**-**	**-**	**-**	**-**	**-**
Credit cards and other retail exposures	**-**	**1,097.3**	**-**	**-**	**1,097.3**
Items in default	**-**	**7.1**	**-**	**-**	**7.1**
Central Governments and Central Banks	**-**	**-**	**1,604.1**	**-**	**1,604.1**
Multilateral development banks	**-**	**-**	**304.3**	**-**	**304.3**
Institutions	**-**	**-**	**759.9**	**-**	**759.9**
Securitisation positions	**-**	**-**	**75.0**	**-**	**75.0**
Covered Bonds	**-**	**-**	**260.2**	**-**	**260.2**
Other assets	**-**	**-**	**1,179.0**	**153.0**	**1,332.0**
	24,250.0	**1,104.4**	**4,182.5**	**153.0**	**29,689.9**

2013	Mortgages – individuals £m	Other lending – individuals £m	Financial £m	Other assets £m	Total £m
IRB					
Retail exposures secured by real estate collateral	21,685.1	-	-	-	21,685.1
Standardised					
Retail exposures secured by real estate collateral	12.2	-	-	-	12.2
Credit cards and other retail exposures	-	789.9	-	-	789.9
Items in default	0.8	3.2	-	-	4.0
Central Governments and Central Banks	-	-	2,350.5	-	2,350.5
Multilateral development banks	-	-	415.9	-	415.9
Institutions	-	-	951.0	-	951.0
Securitisation positions	-	-	99.3	-	99.3
Covered Bonds	-	-	46.8	-	46.8
Other assets	-	-	176.1	297.4	473.5
	21,697.3	**793.1**	**4,039.6**	**297.4**	**26,828.2**

Credit risk exposure by geographical area

The tables below give details of the geographical distributions of exposures at 31 December 2014 and 31 December 2013.

Table 28: Credit risk exposures by geographical area

2014

	UK	Europe	Rest of the World	Total
	£m	£m	£m	£m
IRB				
Retail exposures secured by real estate collateral	**24,250.0**	**-**	**-**	**24,250.0**
Standardised				
Retail exposures secured by real estate collateral	**-**	**-**	**-**	**-**
Credit cards and other retail exposures	**1,097.3**	**-**	**-**	**1,097.3**
Items in default	**7.1**	**-**	**-**	**7.1**
Central Governments and Central Banks	**1,604.1**	**-**	**-**	**1,604.1**
Multilateral development banks	**-**	**215.1**	**89.2**	**304.3**
Institutions	**241.6**	**267.2**	**251.1**	**759.9**
Securitisation positions	**72.9**	**-**	**2.1**	**75.0**
Covered Bonds	**260.2**	**-**	**-**	**260.2**
Other	**1,055.8**	**-**	**276.2**	**1,332.0**
	28,589.0	**482.3**	**618.6**	**29,689.9**

2013

	UK	Europe	Rest of the World	Total
	£m	£m	£m	£m
IRB				
Retail exposures secured by real estate collateral	21,685.1	-	-	21,685.1
Standardised				
Retail exposures secured by real estate collateral	12.2	-	-	12.2
Credit cards and other retail exposures	789.9	-	-	789.9
Items in default	4.0	-	-	4.0
Central Governments and Central Banks	2,250.4	100.1	-	2,350.5
Multilateral development banks	-	300.2	115.7	415.9
Institutions	345.4	280.2	325.4	951.0
Securitisation positions	96.2	-	3.1	99.3
Covered Bonds	46.8	-	-	46.8
Other	297.4	-	176.1	473.5
	25,527.4	**680.5**	**620.3**	**26,828.2**

Credit risk exposure by residual maturity

The following tables give details of the contractual residual maturities of exposures at 31 December 2014 and 31 December 2013.

Table 29: Credit risk exposures split by residual maturity

2014

	Residual maturity			
	< 1 year	1-5 yrs	> 5 years	Total
	£m	£m	£m	£m
IRB				
Retail exposures secured by real estate collateral	**107.7**	**849.9**	**23,292.4**	**24,250.0**
Standardised				
Retail exposures secured by real estate collateral	-	-	-	-
Credit cards and other retail exposures	**1,097.3**	-	-	**1,097.3**
Items in default	**7.1**	-	-	**7.1**
Central Governments and Central Banks	**841.9**	**99.8**	**662.4**	**1,604.1**
Multilateral development banks	**90.8**	**111.9**	**101.6**	**304.3**
Institutions	**611.1**	**140.4**	**8.4**	**759.9**
Securitisation positions	-	-	**75.0**	**75.0**
Covered Bonds	**20.1**	**113.8**	**126.3**	**260.2**
Other	**1,332.0**	-	-	**1,332.0**
	4,108.0	**1,315.8**	**24,266.1**	**29,689.9**

2013

	Residual maturity			
	< 1 year	1-5 yrs	> 5 years	Total
	£m	£m	£m	£m
IRB				
Retail exposures secured by real estate collateral	100.9	753.4	20,830.8	21,685.1
Standardised				
Retail exposures secured by real estate collateral	0.6	2.6	9.0	12.2
Credit cards and other retail exposures	789.5	0.1	0.3	789.9
Items in default	3.2	0.2	0.6	4.0
Central Governments and Central Banks	1,564.6	100.1	685.8	2,350.5
Multilateral development banks	68.7	293.0	54.2	415.9
Institutions	690.0	226.0	35.0	951.0
Securitisation positions	-	-	99.3	99.3
Covered Bonds	-	46.8	-	46.8
Other	473.5	-	-	473.5
	3,691.0	**1,422.2**	**21,715.0**	**26,828.2**

Past due exposures, impaired exposures and impairment provisions

Retail credit portfolios are reviewed regularly to determine whether there is any objective evidence of impairment. Retail assets are assessed for impairment provisions where:

- there is evidence of the customer experiencing significant financial difficulty;
- there is a breach of contract, such as default or delinquency in interest or principal repayments;
- the borrower enters bankruptcy or other financial reorganisation;
- there are adverse changes in the payment status of borrowers; or
- the customer is granted a concession for reasons of financial difficulty that would otherwise not be considered.

Virgin Money does not currently permit customers to capitalise mortgage arrears by increasing the principal balance of the loan and therefore considers there are no restructured accounts.

The categorisation of credit risk is detailed in the table below:

Table 30: Categorisation of credit risk by impairment level

Credit risk categorisation	Description
Neither past due nor impaired	Loans that are not in arrears and which do not meet the impaired asset definition. This segment can include assets subject to forbearance solutions.
Neither past due nor impaired but in forbearance	Loans that are categorised as neither past due nor impaired, but are currently subject to one of the defined forbearance solutions.
Past due and not impaired	Loans that are in arrears or where there is objective evidence of impairment, and the asset does not meet the definition of an impaired asset as the expected recoverable amount exceeds the carrying amount. This category is not applicable for unsecured lending.
Arrears	For secured lending this is where the customer's payment shortfall exceeds 1% of the current monthly contractual payment amount. For unsecured lending, customers are classified as in arrears at one day past due.
Impaired assets	Loans that are in arrears or where there is objective evidence of impairment, including changes in customer behaviour or circumstances, and where the carrying amount of the loan exceeds the expected recoverable amount. Unsecured lending is treated as impaired at one day past due. All fraud and operational risk loans are categorised as impaired irrespective of the expected recoverable amount.

Managing impaired exposures and impairment provisions

Provisioning Policy

The Retail Credit Provisioning Policy outlines the Group's minimum standards and policy in relation to identification and measurement of credit risk impairments for retail exposures, the setting of impairment provisions and the write-off of defaulted exposures. Provisioning policy is reviewed and approved on an annual basis and changes to this policy require prior approval from the Board.

The policy for the treatment of credit impairments has been developed and is maintained by the Credit Risk Function who formulate and agree the policy in conjunction with Provisioning Working Group and Credit Risk Committee; which includes representation by Finance. The Provisions Working Group reports to the Credit Risk Committee.

Adequacy Reviews

The retail secured and unsecured credit portfolios are reviewed monthly to determine whether there is any objective evidence of impairment. A loan or portfolio of loans is considered to have objective evidence of impairment if there is any observable data indicating there has been a measurable decrease in the estimated future cash flow or its timings. Events that occur after the balance sheet date may be taken into account only where they inform the position at that date.

The process for estimating impairment must consider all credit exposures and not only those in default or low credit quality.

Assets are reviewed to ensure that any evidence of impairment remains valid, that cash flow projections remain appropriate and that the impairment loss recorded in the balance sheet continues to reflect the difference between the net present value of the expected recoverable amount of the collateral and the outstanding balance. In the event that the future expected cash flow has changed from the previous assessment, an adjustment to the level of impairment provision is made as appropriate.

The Provisions Working Group reviews provision model parameters on a quarterly basis to ensure the provisions methodology and parameters remain appropriate. Approval is required from the Credit Risk Committee if the Provisions Working Group recommends deviating from the current methodology.

Reporting

The Credit Risk Committee and Risk Function monitor impairment provisions on a continuous basis throughout the year. All significant changes in impairment provision levels must be reported to the Risk Management Committee and Board as soon as they arise.

On a regular basis, an analysis of significant estimates and judgements in relation to credit impairments and levels of impairment provision are provided to the Provisions Working Group, Credit Risk Committee, Board Risk Committee and the Audit Committee.

Impairment reporting is produced on a monthly basis for the Credit Risk Committee. This includes a comparison of actual performance against budget for the main balance sheet, including impairment charges, balance sheet provisions and write-offs.

In addition, comprehensive monthly reporting packs are produced by the Credit Risk Function, which monitor delinquency as it emerges from new business and the impact this has on stock levels. This analysis includes oversight of the Debt Management Function covering areas such as the use and effectiveness of forbearance activity through to general roll rate performance and the price returned from unsecured debt sales.

Debt management for customers in financial difficulty

The Group operates a number of treatments to assist borrowers who are experiencing financial stress. The material elements of these treatments through which the Group has granted a concession, whether temporarily or permanently, are set out below.

The Group's aim in offering forbearance and other assistance to retail customers in financial distress is to benefit both the customer and the Group by discharging the Group's regulatory and social responsibilities to support our customers and act in their best long-term interests. This allows customer facilities to be brought back into a sustainable position which, for residential mortgages, may also mean keeping customers in their homes. The Group offers a range of tools and assistance to support customers who are encountering financial difficulties. Cases are managed on an individual basis, with the circumstances of each customer considered separately and the action taken judged as being affordable and sustainable for the customer. Operationally, the provision and review of such assistance is controlled by various methods. These include: the application of an appropriate policy framework, controls around the execution of policy, regular review of the different treatments to confirm that they remain appropriate, monitoring of customers' performance including the level of payments received, and management visibility of the nature and extent of assistance provided and the associated risk.

Help is provided through the Debt Management Function where tailored repayment programmes can be agreed. Customers are actively supported and referred to free money advice agencies when they have multiple credit facilities, including those at other lenders, which require restructuring.

One component of the management approach is to contact customers showing signs of financial difficulty to discuss their circumstances and offer solutions to prevent their accounts falling into arrears.

The specific tools available to assist customers vary by product and the customer's status. In defining the treatments offered to customers who have experienced financial distress, the Group distinguishes between the following categories for secured assets:

- Payment arrangements: a temporary arrangement for customers in financial distress where arrears accrue at the contractual payment, for example short-term arrangements to pay less than the contractual payment.

- Transfers to interest only: an account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.

- Term extensions: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment.

- Discretionary payment holidays: a temporary account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.

To assist customers in financial distress, the Group benefits from the following UK Government sponsored programme for households:

- Income Support for Mortgage Interest – This is a Government medium-term initiative that provides a payment for the Group for certain defined categories of customers, (principally those who are unemployed with access to a benefit scheme). Qualifying customers are able to claim for mortgage interest on up to £200,000 of the mortgage. All decisions regarding an individual's eligibility and any amounts payable under the scheme rest solely with the Government. Where this scheme provides borrowers with a state benefit that is used to service

the loan, there is no change in the reported status of the loan which is managed and reported in accordance with its original terms.

The Group assesses whether a loan benefitting from a UK Government sponsored programme is impaired using the same accounting policies and practices as it does for loans not benefitting from such a programme. Loans included within the Income Support for Mortgage Interest scheme may be impaired, in accordance with the normal definition of impairment.

Payment plans are the only form of unsecured forbearance recognised by the Group. Income and expenditure assessments are undertaken for all customers entering into a payment plan to provide a sustainable and affordable solution that provides the customer with a realistic opportunity to repay their debt in the short to medium-term.

Forbearance and provisioning

The Group measures the success of a forbearance scheme based upon the proportion of customers maintaining or improving their arrears position over the 12 months following the exit from a forbearance treatment. For temporary treatments, 56% of customers accepting reduced payment arrangements have remained within contractual terms following the end of their treatment, and are either fully up to date or had redeemed their loan. For permanent treatments 81% of customers who have accepted interest only concessions, 88% of customers who have had a discretionary payment holiday and 94% of customers who have accepted term extensions have remained within contractual terms following the end of their treatment.

Forbearance identification and classification

The Group has applied revised forbearance definitions based upon FCA guidance. As a result of this, forbearance data for 2013 has been restated to reflect the new definitions. The restated data for 2013 shows overall forbearance balances to be lower than reported in previous financial statements as the balances now exclude accounts with expired terms as this is not a solution offered to customers. All expired term balances will be categorised as impaired assets in line with the definitions detailed in table 30.

The Group classifies a retail account as forborne at the time a customer in financial difficulty is granted a concession. Accounts are classified as forborne only for the period of time which the exposure is known to be, or may still be, in financial difficulty. Where temporary forbearance is granted, exit criteria are applied to include accounts until they are known to no longer be in financial difficulty.

Where the treatment involves a permanent change to the contractual basis of the customer's account such as conversion to interest only or term extension, the Group classifies the balance as forborne for a period of 12 months, after which no distinction is made between these accounts and others where no change has been made.

Secured lending

At 31 December 2014, retail secured loans and advances currently or recently subject to forbearance were £267.5 million (2013: £320.6 million) of total retail secured loans and advances.

Collective impairment assessment of retail secured loans subject to forbearance

Loans which are forborne are grouped with other assets with similar risk characteristics and assessed collectively for impairment as described below. The loans are not considered as impaired loans unless they meet the Group's definition of an impaired asset.

The Group's approach is to ensure that provisioning models, supported by management judgement, appropriately reflect the incurred loss risk of exposures. The Group uses sophisticated behavioural scoring to assess customers' credit risk. The underlying behavioural scorecards consider many different characteristics of customer behaviour, both static and dynamic, from internal sources and also from credit bureau data, including characteristics that may identify when a customer has been in arrears on products held with other firms. Hence, these models take a range of potential indicators of customer financial distress into account.

The performance of provision models is monitored and challenged on an ongoing basis, in line with the Retail Credit Provisioning Policy. The models are also regularly recalibrated to reflect up to date customer behaviour and market conditions. Specifically, regular detailed analysis of modelled provision outputs is undertaken to demonstrate that the risk of forbearance or other similar activities is recognised, that the outcome period adequately captures the risk and that the underlying risk is appropriately reflected. Where this is not the case, additional provisions are applied to capture the risk.

Unsecured lending

At 31 December 2014, total retail unsecured loans and advances benefitting from forbearance totalled £3.3 million (2013: £4.3 million).

Collective impairment assessment of retail unsecured loans and advances subject to forbearance

Credit risk provisioning for the retail unsecured portfolio is undertaken on a collective basis, except for fraud cases which are fully provided for. The approach used is based on roll rates for various behavioural and arrears status segments, measuring the likelihood of default and the probability of charge-off given default.

The outputs of the models are monitored and challenged on an ongoing basis. The models are run monthly meaning that current market conditions and customer processes are reflected in the output. Where the risks identified are not captured in the underlying models, appropriate additional provisions are made.

Analysis of past due and impaired loans and advances to customers

The table below indicates the level of impaired and past due exposures by exposure class, and of the levels of provisions against them at 31 December 2014.

Table 31: Analysis of past due and impaired loans and advances to customers

2014

	Impaired exposures	Past due but not impaired	General impairment provisions	Specific impairment provisions
	£m	£m	£m	£m
Retail exposures secured by real estate collateral	**76.5**	**200.2**	**2.6**	**5.0**
Credit cards	**27.4**	**-**	**5.9**	**17.0**
Other retail exposures	**-**	**-**	**0.1**	**-**
	103.9	**200.2**	**8.6**	**22.0**

2013

	Impaired exposures	Past due but not impaired	General impairment provisions	Specific impairment provisions
	£m	£m	£m	£m
Retail exposures secured by real estate collateral	111.7	189.5	5.6	2.0
Credit cards	26.6	-	10.9	16.1
Other retail exposures	-	-	0.1	-
	138.3	**189.5**	**16.6**	**18.1**

The total value of impaired assets for mortgages has fallen by £35.2 million during the reporting period, representing an improvement of 32% driven predominantly by positive movements in the house price index.

Analysis of movements in impairment provisions

Table 32: Analysis of movements in impairment provisions

	Retail mortgages	Credit cards	Other retail exposures	Total
	£m	£m	£m	£m
General impairment provisions				
At 1 January 2014	**5.6**	**10.9**	**0.1**	**16.6**
Increase/(decrease) in provision during year net of recoveries	**(3.0)**	**(5.0)**	**-**	**(8.0)**
Amounts written off during the year	**-**	**-**	**-**	**-**
At 31 December 2014	**2.6**	**5.9**	**0.1**	**8.6**
Specific impairment provisions				
At 1 January 2014	**2.0**	**16.1**	**-**	**18.1**
Increase/(decrease) in provision during year net of recoveries	**4.2**	**19.6**	**-**	**23.8**
Amounts written off during the year	**(1.2)**	**(18.7)**	**-**	**(19.9)**
At 31 December 2014	**5.0**	**17.0**	**-**	**22.0**

Exposures subject to the IRB approach

Scope of the IRB permission

The Group's IRB (Internal Ratings Based) Waiver Application Pack was approved by the FSA on 1 January 2010 for capital adequacy monitoring and reporting from 1 January 2010 onwards. The scope of this permission covers the retail business of retail exposures secured by real estate collateral.

As at 31 December 2014, the scope of the IRB permission was the mortgage portfolio. Asset classes not falling within the scope of the Group's IRB permission are treated under the standardised approach.

Development and monitoring of IRB models

The retail credit risk control function is responsible for the development, validation, implementation, monitoring and use of credit rating models for the Retail IRB approach. In order to ensure the integrity and independence of these models, the credit risk control function has clearly segregated duties from those responsible for originating exposures. The Credit Risk Committee ('CRC') has been established as the principal forum for independently overseeing the Group's credit rating models, to ensure that the systems are producing consistent and accurate results in line with the Group's objectives and PRA minimum requirements. The Group's Independent Model Validation (IMV) team provide review and challenge of the credit rating models and are independent from the credit risk control function.

Internal application of the IRB approach

The Group has extensive data histories, which have enabled it to build in-house credit rating models for the residential mortgage portfolio. Scorecards are used to assess customer performance at application and subsequently via behavioural scores. Bureau data is utilised at application and a combination of bureau and internal performance data is used for ongoing behavioural scoring. Behavioural scores are grouped into score ranges and used assign a point-in-time PD across the portfolio. The point-in-time PDs are transformed through a variable scalar model to derive a long run average (LRA) regulatory PD. The EAD model conservatively calculates outstanding drawings available to the customer up to the point of default. The LGD model accounts for recoveries, addressing house price volatility, distressed sale discount, associated costs and time to recovery.

The models determine long run average PD, downturn LGD and EAD for each segment in order to calculate expected losses and risk-weighted assets. In addition, the models are used to inform risk appetite, influence lending strategy and support determination of the level of impairment provisions.

The rating models group customers into segments differentiated by a number of factors, which include product type, loan-to-value (LTV) and measures of affordability. For each segment a long run average PD, downturn LGD and EAD is estimated from a combination of recent and historic data. Data covering the period back to the early 1990s was utilised in the derivation of the PD, LGD and EAD. All models incorporate an appropriate level of conservatism to account for uncertainty around model estimates over an economic cycle or in downturn conditions. The adequacy of this conservatism is robustly challenged through the Group's internal governance process and ultimately by the PRA. Models used in the calculation of regulatory capital are also subject to parameters and floors as determined by the regulator.

Analysis of IRB exposures by exposure class

Table 33: IRB exposures by exposure class

Retail IRB	2014 £m	2013 £m
Retail exposures secured by real estate collateral		
Standard lending	**20,638.4**	19,029.8
Buy-to-let	**3,611.6**	2,655.3
	24,250.0	21,685.1

The following table details the Group's exposures for its sole IRB exposure class of retail exposures secured by real estate collateral. These relate to exposure at default, and include all on and off-balance sheet exposures.

Table 34: IRB exposures by risk band

2014

Risk Band	LRA PD %	Exposure £m	Downturn LGD %	RWA %	RWA £m	Average time on Book months	Undrawn Commitments £m
BTL 1a	**0.44%**	**1,132.9**	**10.26%**	**5.96%**	**67.5**	**25**	**148.0**
BTL 2a	**1.01%**	**795.1**	**15.39%**	**16.98%**	**135.0**	**21**	**87.6**
BTL 3a	**1.80%**	**34.5**	**13.29%**	**21.39%**	**7.4**	**105**	**4.1**
BTL 4a	**2.60%**	**54.0**	**13.36%**	**24.65%**	**13.3**	**108**	**4.4**
BTL 1b	**0.80%**	**879.7**	**10.25%**	**7.64%**	**67.2**	**31**	**104.6**
BTL 2b	**1.68%**	**616.1**	**15.28%**	**20.12%**	**124.0**	**26**	**61.8**
BTL 3b	**3.79%**	**34.8**	**13.95%**	**32.72%**	**11.4**	**105**	**3.6**
BTL 4b	**5.52%**	**46.8**	**12.94%**	**37.04%**	**17.3**	**106**	**3.9**
Standard 1a	**0.54%**	**3,115.2**	**5.99%**	**4.07%**	**126.7**	**65**	**410.6**
Standard 2a	**0.92%**	**5,104.1**	**10.23%**	**9.71%**	**495.4**	**49**	**369.5**
Standard 3a	**1.46%**	**3,631.0**	**14.10%**	**17.87%**	**648.7**	**52**	**174.4**
Standard 4a	**1.77%**	**1,775.5**	**16.43%**	**23.05%**	**409.3**	**54**	**100.2**
Standard 5a	**2.21%**	**1,361.0**	**19.44%**	**33.32%**	**453.5**	**63**	**119.2**
Standard 1b	**0.75%**	**1,208.2**	**5.90%**	**4.96%**	**59.9**	**76**	**135.0**
Standard 2b	**1.29%**	**1,751.5**	**10.10%**	**11.42%**	**200.0**	**59**	**109.7**
Standard 3b	**1.55%**	**1,328.2**	**13.96%**	**17.01%**	**225.9**	**64**	**66.5**
Standard 4b	**1.84%**	**711.9**	**16.23%**	**19.65%**	**139.9**	**64**	**39.3**
Standard 5b	**2.46%**	**628.9**	**18.17%**	**30.32%**	**190.7**	**88**	**47.5**
Default	**100.00%**	**40.6**	**21.66%**	**237.93%**	**96.6**	**101**	**-**
Total		**24,250.0**			**3,489.7**		**1,989.9**

2013

Risk Band	LRA PD %	Exposure £m	Downturn LGD %	RWA %	RWA £m	Average time on Book months	Undrawn Commitments £m
BTL 1a	0.42%	807.7	12.97%	6.78%	54.8	27	94.8
BTL 2a	0.96%	558.0	18.34%	19.53%	109.0	23	40.9
BTL 3a	1.80%	41.9	18.91%	31.94%	13.4	95	4.4
BTL 4a	2.59%	61.7	18.86%	37.22%	23.0	96	4.4
BTL 1b	0.77%	632.5	12.86%	8.33%	52.7	35	66.3
BTL 2b	1.64%	454.4	18.41%	23.13%	105.1	28	29.3
BTL 3b	3.79%	40.8	18.95%	45.86%	18.7	96	3.5
BTL 4b	5.51%	55.5	18.47%	55.02%	30.5	95	3.7
Standard 1a	0.56%	2,842.5	7.01%	4.75%	135.1	65	342.3
Standard 2a	0.92%	4,659.3	14.31%	12.45%	579.9	48	333.3
Standard 3a	1.46%	3,399.7	18.59%	23.21%	789.0	50	256.8
Standard 4a	1.77%	1,782.9	20.93%	28.53%	508.6	49	109.1
Standard 5a	2.15%	991.9	21.80%	33.31%	330.4	80	71.9
Standard 1b	0.78%	1,139.4	6.95%	5.81%	66.2	76	116.1
Standard 2b	1.29%	1,676.1	14.37%	15.70%	263.2	58	120.3
Standard 3b	1.55%	1,270.9	18.42%	21.58%	274.3	64	90.5
Standard 4b	1.84%	721.1	20.78%	26.72%	192.7	61	47.2
Standard 5b	2.39%	500.6	20.53%	32.86%	164.5	106	31.0
Default	100.00%	48.2	29.67%	297.71%	143.5	98	-
Total		**21,685.1**			**3,854.6**		**1,765.8**

Key Movements

The downturn LGD for IRB residential mortgage exposures has reduced across all risk bands during the year, primarily driven by the implementation of two LGD model changes. These changes combined with improvements in credit quality through effective portfolio management and the high quality of new business result in the reduction of risk weights across the bands. The Group's residential mortgage models are subject to rigorous internal review and external review and approval by the PRA. The Group remains comfortable that the level of capital resources allocated to support its mortgage business remains appropriate.

Several risk bands have observed small increases in LRA PD, this is due to the variable scalar methodology being sensitive to movements in the distribution of accounts within each segment.

Gross undrawn commitments increased during the year reflecting a growth in new business driven by increased mortgage demand from consumers. This is a product of the improving UK housing market giving existing borrowers the flexibility to move home or provider, combined with the increase in first-time buyers stimulated by Government initiatives such as Help to Buy.

IRB model performance – regulatory expected loss versus accounting actual loss

Risk and capital management practices are informed and evaluated by analysis of credit loss experience and the quantitative assessment of portfolio behaviour. This analysis includes a comparison of the expected loss (EL) calculated by the IRB risk rating models with the impairment allowance reported within financial statements.

It is important to consider the difference in definition and scope of regulatory EL with measures of impairment under IFRS when comparing these metrics. Examples of such difference are summarised below:

- EL is based on long run estimates of PD over a one year outcome horizon, determined via statistical analysis of historical default experience. Impairment allowances are recognised for incurred losses at the balance sheet date. Point in time estimates of default are used in the determination of impairment allowances.

- EL uses the economic downturn calibration of the LGD component of the capital models. Impairment allowances are measured using point in time estimates of future cash flows.

- EL is based on estimates of EAD and therefore it incorporates expected future drawings of committed credit lines, while impairment allowances are recognised in respect of financial assets recognised on the balance sheet and in respect of committed credit lines where a loss is probable.

A significant reduction in regulatory EL has been observed over the last 12 months, despite an increase in portfolio EAD. This is largely due to the implementation of two LGD model enhancements within the year; these reduced the downturn LGD component of the EL calculation by c.25%.

Secured allowance has remained stable since 2013. There has been a reduction in the proportion of impairment provision to gross loans and advances primarily reflective of positive house price movements, helped by improved arrears performance.

This table shows the regulatory Expected Loss measure, compared with Impairment Allowance by IRB exposure class.

Table 35: IRB expected loss and impairment provision

2014		
	Regulatory Expected Loss	**Actual Loss**
	£m	**£m**
Retail exposures secured by real estate collateral	**41.0**	**7.6**

2013		
	Regulatory Expected Loss	**Actual Loss**
	£m	**£m**
Retail exposures secured by real estate collateral	48.5	7.6

IRB model performance

Back-testing methodologies are applied to assess model performance. Results from these exercises have shown that models continue to perform satisfactorily. During 2014, modelled outcomes have been higher than actual outcomes and evidence an appropriately prudent calibration. The PD and LGD values are outputs from our point-in-time calibrations. In conducting the PD back-testing process the model estimate is compared to the total defaults observed during the year that have emerged from the population not in default at 1 January 2014. The actual LGD value is calculated from recorded losses following repossession and subsequent sale of the property during the year. In addition, the actual LGD value is augmented with the latest LGD estimate for those defaulted accounts which are still in the workout process at the end of the period. The EAD ratio is calculated by comparing the exposure of new defaults with their EAD estimate 12 months prior to defaulting. Where the estimated EAD is greater than the actual exposure at the point of default, the ratio will be greater than one.

This table shows the forecast and actual probability of default and loss given default as well as the ratio of estimated to actual EAD by IRB exposure class.

Table 36: IRB model performance

2014

	PD of total portfolio		LGD of defaulted assets		EAD of defaulted assets
	Estimated[1]	**Actual[2]**	**Estimated[3]**	**Actual[4]**	**Ratio of Estimated to Actual**
	%	%	%	%	
Retail exposures secured by real estate collateral	**0.53**	**0.16**	**5.89**	**3.76**	**1.01**

2013

	PD of total portfolio		LGD of defaulted assets		EAD of defaulted assets
	Estimated	**Actual**	**Estimated**	**Actual**	**Ratio of Estimated to Actual**
	%	%	%	%	
Retail exposures secured by real estate collateral	0.60	0.24	8.53	7.95	1.01

Prior to its acquisition by Virgin Money Group, Northern Rock plc was formed through the successful legal and capital restructure of the former Northern Rock business, which took effect on 1 January 2010. At this time, the company acquired a high quality seasoned mortgage book from the former Northern Rock. Subsequent growth of the mortgage portfolio has not been at the expense of asset quality. Mortgage asset quality has been maintained – arrears rates have fallen over the year and the indexed loan-to-value of the book has reduced to 55.7%.

Levels of defaults and subsequent repossessions have been low. The AIRB models have been calibrated with an appropriate level of conservatism given the short observation period of the transferred portfolio and the small population of defaulted loans. During 2014 the observed default rates have remained significantly lower than the point in time calibrations. Over time, emergent data can be used to recalibrate the PiT models to improve their alignment with the risk profile within the portfolio. Subsequently, the Group expects levels of actual and estimate to converge as the mortgage book seasons further.

[1] This estimate is the output from our point-in-time model as at 01 January 2014 and is based on the total number of accounts not in default.

[2] Actual default is calculated as the total of emergent defaults during 2014 measured as a proportion of the total number of accounts not in default at 01 January 2014.

[3] This estimate is the exposure weighted output from our point-in-time model as at 01 January 2014 and is based on the total default population at that time.

[4] This value is calculated from accounts in default at 01 January 2014. The observed loss is defined as the loss following repossession and subsequent sale of the property within the year. This value uses the latest LGD estimate to determine the percentage of loss for those defaulted accounts which are still in the workout process at the end of the period.

Exposures subject to the standardised approach

The Group uses the standardised approach to calculate risk-weighted assets on all exposures apart from retail mortgages.

The allocation of capital to credit risk within the Treasury investment book is calculated under the standardised approach as per CRD IV. For these exposures the Group uses credit ratings provided by the recognised credit rating agencies Standard and Poor's, Moody's and Fitch.

The following table shows the risk weights applied to credit risk exposures subject to the standardised approach, by exposure class, together with the risk-weighted asset value.

Table 37: Standardised exposures by risk weight

	2014 Credit Risk Exposure	Credit risk mitigation	2014 Net exposure	2014 Risk Weighted Asset	2013 Credit Risk Exposure	Credit risk mitigation	2013 Net exposure	2013 Risk Weighted Asset
	£m	£m	£m	£m	£m	£m	£m	£m
Central Governments and Central Banks								
0%	**1,604.1**	**-**	**1,604.1**	**-**	2,350.5	-	2,350.5	-
Multilateral Development Banks								
0%	**304.3**	**-**	**304.3**	**-**	415.9	-	415.9	-
Institutions								
20%	**672.1**	**-**	**672.1**	**134.4**	828.5	-	828.5	166.2
50%	**87.8**	**-**	**87.8**	**43.9**	122.2	-	122.2	61.1
150%	**-**	**-**	**-**	**-**	0.3	-	0.3	0.5
Covered bonds								
10%	**260.2**	**-**	**260.2**	**26.0**	46.8	-	46.8	4.7
Securitisation positions								
20%	**71.0**	**-**	**71.0**	**14.2**	99.3	-	99.3	19.9
50%	**4.0**	**-**	**4.0**	**2.0**	-	-	-	-
Retail								
75%	**1,097.3**	**-**	**1,097.3**	**822.9**	789.9	-	789.9	592.4
Secured by Mortgages on Residential Property								
35%	**-**	**-**	**-**	**-**	11.5	-	11.5	4.0
Secured by mortgages on commercial real estate								
76%	**-**	**-**	**-**	**-**	0.7	-	0.7	0.5
Items in default								
100%	**7.1**	**-**	**7.1**	**7.1**	4.0	-	4.0	4.0
Other items								
0%	**750.1**	**(413.2)**	**336.9**	**-**	8.2		8.2	-
20%	**261.5**	**(261.5)**	**-**	**-**	-	-	-	-
50%	**176.8**	**(150.5)**	**26.3**	**13.2**	335.6	(303.5)	32.1	16.1
100%	**131.5**	**-**	**131.5**	**131.5**	121.9	-	121.9	121.9
250%	**12.1**	**-**	**12.1**	**30.3**	7.8	-	7.8	19.4
	5,439.9	**(825.2)**	**4,614.7**	**1,225.5**	**5,143.1**	**(303.5)**	**4,839.5**	**1,010.7**

Wholesale credit risk exposures by credit rating

Exposure by credit grading of the Group's treasury exposures is as follows:

Table 38: Standardised wholesale exposures by credit rating

2014

	Exposure value by external rating				
	Non-wholesale exposures	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Central Governments and Central Banks	**-**	**1,604.1**	**-**	**-**	**1,604.1**
Multilateral development banks	**-**	**304.3**	**-**	**-**	**304.3**
Institutions	**0.3**	**440.0**	**319.6**	**-**	**759.9**
Securitisation positions	**-**	**71.0**	**4.0**	**-**	**75.0**
Covered Bonds	**-**	**260.2**	**-**	**-**	**260.2**
Other assets	**153.0**	**840.1**	**338.9**	**-**	**1,332.0**
	153.3	**3,519.7**	**662.5**	**-**	**4,335.5**

2013

	Exposure value by external rating				
	Non-wholesale exposures	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Central Governments and Central Banks	-	2,350.5	-	-	2,350.5
Multilateral development banks	-	415.9	-	-	415.9
Institutions	-	357.6	591.0	2.4	951.0
Securitisation positions	-	90.3	9.0	-	99.3
Covered Bonds	-	46.8	-	-	46.8
Other assets	129.6	8.2	335.7	-	473.5
	129.6	**3,269.3**	**935.7**	**2.4**	**4,337.0**

Other assets include repos of £1,179.0 million (2013: £343.9 million) with externally rated counterparties.

All other exposures are not rated by credit agencies.

Exposures in equities

The Group holds a small quantity of equity exposures as follows:

Table 39: Exposures in equities

	31 Dec 2014	**31 Dec 2013**
	£m	**£m**
Other equities	**1.3**	1.3

Exposure to securitisation positions

The Group is a participant in the securitisation market, operating as an originator and an investor in third party securitisations.

Securitisation strategy and roles

The Group undertakes securitisation activities principally to provide funding diversification, giving access to a wide range of investors in different geographic areas. Securitisation also serves to generate liquidity from different illiquid asset types, principally residential mortgage loans. During 2014, the Group continued to make use of the Funding for Lending Scheme (FLS), launched by the Bank of England and HM Treasury in July 2012.

As an investor, the Group invests directly in third party asset backed securities.

Summary analysis

All securitisation exposures are held within the non-trading book of the Group.

Originated securitisations

Traditional originated securitisation transactions typically involve the sale of a group or portfolio of ring fenced loans to another entity, referred to as a special purpose vehicle (SPV). An SPV is a purposely created company within a group of other companies where the ultimate holding company of the group is unrelated to the originator and is usually held by a trust, meaning Virgin Money Holdings (UK) plc Group does not legally own the SPV. The Group does, however administer the SPV and the originating Group company receives fees from the SPV for continuing to service the loans. The Group also acts as the cash manager for the transactions and operates as the basis rate swap provider and the start up loan provider. Although services of investment banks and legal advisers were utilised in originating new transactions, the management of existing securitisations is undertaken by the Group.

To raise funds for the purchase (being initially equal to the face value of the assets) floating rate debt securities are issued to investors in the financial market from the issuing company within the SPV group of companies. Interest and principal received from the underlying assets is used to fund the payment of debt security interest and principal. Any residual income after paying the interest and principal and any fees and other operating costs is distributed to the originating entity.

Debt securities issued are divided into separate tranches depending upon their level of subordination. Typically there will be senior, mezzanine and junior notes. In its most basic form, if a shortfall in income were to exist there would be no recourse to the originator. The shortfall would firstly be borne by any reserve funds within the structure and would then be borne as losses by the noteholders in the order of their subordination. In this way, the most senior notes can achieve a higher credit rating.

Investors who subscribe for the notes have the advantage of choosing the tranche that best meets their risk / return needs. In these transactions, the most junior tranches have been retained by the Group so that there is effectively no significant risk transfer of credit risk away from the Group.

As there is not deemed to be any significant transfer of risk from the Group, the Group does not benefit from lower regulatory capital requirements in respect of these securitised assets.

Summary of accounting policies

From an accounting perspective, the treatment of SPV is assessed in accordance with International Financial Reporting Standard 10 which establishes the principles for when the Group is deemed to control another entity and therefore required to consolidate it through the Group's financial statements.

Both the debt securities in issue and the loans and advances to customers remain on the Group balance sheet within the appropriate balance sheet headings unless:

– a fully proportional share of all or of specifically identified cash flows have been transferred to the holders of the debt securities, in which case that proportion of the assets are derecognised;

– substantially all the risks and rewards associated with the assets have been transferred, in which case the assets are fully derecognised; or

– a significant proportion of the risks and rewards have been transferred, in which case the assets are recognised only to the extent of the Group's continuing involvement.

The Group has also entered into self-issuance of securitised debt which may be used as collateral for repurchase or similar transactions. Investments in self-issued debt and the equivalent deemed loan, together with the related income, expense and cash flows, are eliminated on consolidation in the financial statements.

Issued securities are classified as liabilities where the contractual arrangements result in the Group having an obligation to deliver either cash or another financial asset to the security holder, or to exchange financial instruments under conditions that are potentially unfavourable to the Group. Issued securities are classified as equity where they meet the definition of equity and confer a residual interest in the Group's assets on the holder of the securities.

Financial liabilities are carried at amortised cost using the effective interest rate method. Equity instruments are initially recognised at net proceeds, after deducting transaction costs and any related income tax. Appropriations to holders of equity securities are deducted from equity, net of any related income tax, as they become irrevocably due to the holders of the securities.

Securitisation is a means used by the Group to fund an element of its mortgage portfolio. These securitised advances are subject to non-recourse finance arrangements. These advances have been transferred at their principal value to SPVs and have been funded through the issue of amortising mortgage backed securities to investors. The Group consolidates the assets and liabilities of the securitisation SPVs, on a line by line basis.

Mortgages eligible for future securitisations are held in the Group's non-trading book and are at amortised cost using the effective interest method, less any provision for impairment.

Loan note assets (classified as investment securities) and the deemed loan liabilities between Virgin Money plc and the SPVs are disclosed separately in the financial statements.

The SPVs have entered into a basis rate swap with Virgin Money plc. The derivative is recognised at fair value on the balance sheet, with fair value movements being recorded in the income statement. Fair values are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flow models.

Gosforth Funding 2012-1 plc, Gosforth Funding 2012-2 plc and Gosforth Funding 2014-1 plc have been designated from inception to hold the deemed loan at fair value on the balance sheet, with changes in value being recorded in the income statement. The deemed loan in Gosforth 2011-1 plc is not held at fair value.

During 2014 the Group did not sell any of the bonds retained since the closing date of each securitisation transaction. The amounts retained in each transaction have reduced as a result of repayments of principal collected on the underlying assets. During 2013, the Group sold £0.3 billion of the Gosforth Funding 2012-2 plc Class A2 notes. The Class A2 notes were not issued to investors when the original transaction completed in November 2012 but were retained by the Group. The notes were offered publicly in October 2013 and sold at a premium to face value. This premium is being released in the income statement of the Group over the expected life of the notes.

Securitisation programmes and activity

During the year ended 31 December 2014, the Group, under the heading of Gosforth Funding 2014-1 plc, undertook the issuance of listed residential mortgage backed securities to the value of £1,388.9 million. Of the £1,388.9 million securities issued, securities totalling £388.9 million were retained by the Group.

The Group undertook no securitisations during 2013.

As at 31 December 2014 the total outstanding externally issued securitisation debt was £1,597.9 million (2013: £1,472.0 million).

As at 31 December 2014 the total outstanding retained securitisation debt was £1,396.4 million. (2013: £1,590.6 million). All retained securitisation debt is in sterling and is detailed in the table below:

Table 40: Retained securitisations

Issuer	**Notes**	**31 Dec 2014 £m**	**Moody's**	**S&P**	**Fitch**
Gosforth Funding 2011-1 plc	**Class M**	**38.4**	**Aa1(sf)**	**n/a**	**AAsf**
Gosforth Funding 2011-1 plc	**Class Z**	**102.5**	**Unrated**	**n/a**	**Unrated**
Gosforth Funding 2012-1 plc	**Class A**	**46.7**	**Aaa**	**n/a**	**AAAsf**
Gosforth Funding 2012-1 plc	**Class M**	**32.1**	**Aa1(sf)**	**n/a**	**Aasf**
Gosforth Funding 2012-1 plc	**Class Z**	**85.4**	**Unrated**	**n/a**	**Unrated**
Gosforth Funding 2012-2 plc	**Class A1b**	**0**	**Aaa**	**n/a**	**AAAsf**
Gosforth Funding 2012-2 plc	**Class A2**	**467.5**	**Aaa**	**n/a**	**AAAsf**
Gosforth Funding 2012-2 plc	**Class M**	**88.1**	**Aa1(sf)**	**n/a**	**Aasf**
Gosforth Funding 2012-2 plc	**Class Z**	**146.8**	**Unrated**	**n/a**	**Unrated**
Gosforth Funding 2014-1 plc	**Class A2**	**250.0**	**Aaa(sf)**	**n/a**	**AAAsf**
Gosforth Funding 2014-1 plc	**Class M**	**55.6**	**Aa1(sf)**	**n/a**	**AAsf**
Gosforth Funding 2014-1 plc	**Class Z**	**83.3**	**Unrated**	**n/a**	**Unrated**
Total		**1,396.4**			

Issuer	**Notes**	**31 Dec 2013 £m**	**Moody's**	**S&P**	**Fitch**
Gosforth Funding plc	Class A4	-	Aaa	AAA	n/a
Gosforth Funding plc	Class Z	-	Unrated	Unrated	n/a
Gosforth Funding 2011-1 plc	Class M	38.4	Aa2(sf)	n/a	AAsf
Gosforth Funding 2011-1 plc	Class Z	102.5	Unrated	n/a	Unrated
Gosforth Funding 2012-1 plc	Class A	132.7	Aaa	n/a	AAAsf
Gosforth Funding 2012-1 plc	Class M	32.1	Aa2(sf)	n/a	Aasf
Gosforth Funding 2012-1 plc	Class Z	85.4	Unrated	n/a	Unrated
Gosforth Funding 2012-2 plc	Class A1b	243.3	Aaa	n/a	AAAsf
Gosforth Funding 2012-2 plc	Class A2	721.3	Aaa	n/a	AAAsf
Gosforth Funding 2012-2 plc	Class M	88.1	Aa2(sf)	n/a	Aasf
Gosforth Funding 2012-2 plc	Class Z	146.8	Unrated	n/a	Unrated
Total		**1,590.6**			

The ratings assigned to the Gosforth Funding 2011-1 plc Class M notes, the Gosforth Funding 2012-1 plc Class M notes and the Gosforth Funding 2012-2 plc Class M notes were upgraded by Moody's in July 2014 from Aa2(sf) to Aa1(sf). At 31 December 2014 there have been no other changes to the ratings assigned to any of the notes since the date of issue.

During 2013, the Group redeemed all of the remaining outstanding notes in the Gosforth Funding plc transaction. This transaction had been fully retained by the Group since it completed in 2010. Also during 2013, the Group completed the sale of £300.0 million of class A2 notes from the Gosforth Funding 2012-2 plc transaction. The notes had been retained by the Group when the original transaction completed in November 2012.

At 31 December 2014 the Group had FLS drawings of £2,260.0 million (2013: £1,160.0 million).

This has been collateralised through a combination of Aaa rated retained Gosforth notes and mortgage pools pre-positioned with the Bank of England.

Risks inherent in securitised assets

The principal risks that are inherent in securitised mortgage assets are as follows:

– Credit risk

– Market risk

– Liquidity risk.

The Group's securitisation programmes extend around residential mortgages, where credit risk is the primary risk driver to the underlying asset pool.

Both the notes in issue and the underlying asset pool are exposed to market risk (interest rate risk). In order to mitigate market risk to which the securitised assets are exposed, the Group enters into interest rate swap agreements.

Liquidity risk arises where insufficient funds are received by the SPVs to service payments to the noteholders as they fall due. The Group is under no obligation to support any losses that may be incurred by the securitisation transactions or holders of the notes issued and do not intend to provide such further support. The parties holding the notes in issue are entitled to obtain payment of the principal and interest only to the extent that the resources of the Gosforth Funding securitisation transactions are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form.

Regulatory treatment

Risk-weighted exposures reported for purchased securitised assets at 31 December 2014 are calculated in line with CRR under the standardised approach.

The Group utilises the services of several External Credit Assessment Institutions (ECAIs) including Moody's and Fitch to rate the securitisation transactions in issue. The ratings assigned assess the ability of the structure to allow for the timely payment of interest and the ultimate payment of principal of each of the rated notes. As part of the ratings process each of the agencies is committed to ongoing transaction monitoring to ensure that, in their view, the assigned ratings remain an appropriate reflection of the issued notes' credit risk.

Where appropriate, the Group utilises the services of the above ECAIs to rate retained and purchased positions for risk weight allocation purposes.

The following table gives details of the positions in the securitised exposures of other issuers purchased by the Group and held at 31 December.

Table 41: Purchased securitisation positions

Risk weighting	2014	2013
	£m	£m
20% (Credit Rating of AA- or higher)	**71.0**	99.3
50% (Credit Rating of A)	**4.0**	-
	75.0	**99.3**

Gross securitised exposure

The following analysis of past due exposure details loans in arrears for each of the securitisation transactions, losses during the year and the book value of impaired assets included within each of the SPVs.

Table 42: Impaired securitised assets

2014	Balance sheet value	Impaired and past due	Losses
	£m	£m	£m
Retail mortgages	**3,125.8**	**24.6**	**0.07**
Total	**3,125.8**	**24.6**	**0.07**

2013	Balance sheet value	Impaired and past due	Losses
	£m	£m	£m
Retail mortgages	2,885.6	24.7	0.03
Total	**2,885.6**	**24.7**	**0.03**

Monitoring changes in the credit risk of securitised exposures

The processes undertaken by the Group to monitor changes in the credit risk of securitised mortgages are the same as unsecuritised mortgages and are described in pages 42 to 46.

Assets awaiting securitisation

As at 31 December 2014 there are no assets awaiting securitisation (2013: nil).

CREDIT RISK MITIGATION

Mitigation

The Group uses a range of approaches to mitigate credit risk.

Internal control

Credit principles and policy

The Risk Function sets out the credit principles and policy according to which credit risk is managed. Principles and policies are reviewed regularly, and any changes are subject to a review and approval process. Policies, where appropriate, are supported by the lending manual, which defines the responsibilities of underwriters and provides a disciplined and focused benchmark for credit decisions. These policies and the lending manual define chosen target market and risk acceptance criteria. The Risk Function also uses early warning indicators to help anticipate future areas of concern and allow the Group to take early and proactive mitigating actions. Risk oversight teams monitor credit performance trends, review and challenge exceptions to planned outcomes, and test the adequacy of credit risk infrastructure and governance processes throughout the Group. This includes tracking portfolio performance against an agreed set of key risk indicators. Counterparty exposures are regularly reviewed and appropriate interventions are used where necessary. Oversight and reviews are also undertaken by Internal Audit and Risk Assurance.

Controls over rating systems

The Group has established an Independent Model Validation team that sets common minimum standards, designed to ensure risk models and associated rating systems are developed consistently, and are of sufficient quality to support business decisions and meet regulatory requirements. Internal rating systems are developed and owned by the Risk Function which takes responsibility for ensuring the validation of the rating systems, supported and challenged by an independent specialist.

Specialist expertise

Credit quality is managed and controlled by specialist units in Operations providing intensive management and control (see Debt Management for customers in financial difficulty on page 38), maintenance and retention, expertise in documentation for lending and associated products, sector specific expertise, and legal services applicable to the particular market place and product range offered by the business.

Credit decisions may be manually underwritten by appropriately skilled and competent colleagues acting within their agreed delegated authority.

Stress testing and scenario analysis

The Group's credit portfolios are subjected to regular stress testing, with stress scenario assessments run at various levels of the organisation from Group-led exercises to individual portfolio exercises. For further information on the stress testing process, methodology and governance refer to the Risk Management Report in the 2014 Virgin Money Group Annual Report and Accounts.

Credit risk assurance and review

A specialist team within Risk Assurance, comprising experienced credit professionals, is in place to perform credit risk assurance. This team performs independent risk-based reviews providing an assessment of the effectiveness of internal controls and risk management practices. In

addition to these 'standard' risk-based reviews, bespoke assignments are also undertaken in response to emerging risks and regulatory requirements.

Additional mitigation for retail customers

The Group uses a variety of lending criteria when assessing applications for mortgages and unsecured lending. The general approval process uses credit acceptance scorecards and involves a review of an applicant's previous credit history using information held by credit reference agencies. The Group also assesses the affordability of the borrower under stressed scenarios including increased interest rates. In addition, the Group has in place quantitative limits such as product maximum limits, the level of borrowing to income and the ratio of borrowing to collateral. Some of these limits relate to internal approval levels and others are hard limits above which the Group will reject the application. The Group also has certain criteria that are applicable to specific products such as applications for a mortgage on a property that is to be let by the applicant.

The Group's lending practices changed in 2014. The Group reviewed lending policy in light of rapid house price inflation, industry developments and the potential for increased new business levels in London and the South East. As a result of this review, changes to loan income multiple and higher debt to income ratio caps for all residential mortgage loans were implemented in July 2014. While this policy is applied at a national level, it predominantly affects London and lending in the South East. The approach also seeks to restrict lending to customers who may be less resilient to interest rate rises.

For residential mortgages, the Group's policy is to reject all standard applications with a loan-to-value (LTV) greater than 95%. Applications with a LTV up to 95% are permitted for certain schemes, for example, applications between 90% and 95% LTV are only permitted under the Help to Buy loan guarantee scheme. For residential mortgages the Group has maximum % LTV limits which depend upon the loan size. Residential mortgage limits are shown in the table below:

Table 43: Maximum LTVs

Loan size from	To	Maximum LTV
£1	£500,000	95% (purchase)
		90% (remortgage)
£500,001	£1,000,000	80%

Buy-to-let is limited to a maximum of 75% LTV and residential interest only is limited to a maximum of 70% LTV, regardless of loan size.

The Group's approach to underwriting applications for unsecured products takes into account the total unsecured debt held by a customer and their affordability. The Group rejects any application for an unsecured product where a customer is registered as bankrupt or insolvent, or has a County Court Judgement registered at a credit reference agency used by the Group. In addition, the Group rejects any credit card applicant with excessive levels of secured or unsecured debt.

In its retail portfolios, the Group uses statistically based decisioning techniques (primarily credit scoring models). The Risk Function reviews model effectiveness, while new models and model changes are referred by them to the appropriate model governance committee for approval.

Collateral

The sole collateral type for loans and advances to customers (mortgages) is residential real estate.

The Group maintains appetite guidelines on the acceptability of specific classes of collateral.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other bills are generally unsecured, with the exception of asset-backed securities and similar instruments such as covered bonds, which are secured by portfolios of financial assets. Collateral is generally not held against loans and advances to financial institutions, except where a collateral agreement has been entered into under a master netting agreement. Derivative transactions with wholesale counterparties are typically collateralised under a Credit Support Annex in conjunction with the ISDA Master Agreement.

It is the Group's policy that collateral should always be realistically valued by an appropriately qualified source, independent of both the credit decision process and the customer, at the time of borrowing. Collateral is reviewed on a regular basis and will vary according to the type of lending and collateral involved.

In order to minimise credit loss, the Group may seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

The Group considers risk concentrations by collateral providers and collateral type, as appropriate, with a view of ensuring that any potential undue concentrations of risk are identified and suitably managed by changes to strategy, policy and/or business plans. (For further details see Concentration Risk in the Risk Management Report in the 2014 Virgin Money Group Annual Report and Accounts.)

Master netting agreements

Where it is appropriate, the Group seeks to enter into master netting agreements or the netting of exposures to a single wholesale counterparty. Master netting agreements do not generally result in an offset of balance sheet assets and liabilities for accounting purposes, as transactions are usually settled on a gross basis. They do reduce the credit risk to the extent that, if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting agreements can change substantially within a short period, since this is the net position of all trades under the master netting agreement.

Fair value of collateral

Details of the fair value of the property collateral held against the assets held in the retail credit portfolio are provided in the table below.

Table 44: Fair value of collateral against secured loans, capped at loan value

2014	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
	£m	%	£m	%	£m	%
Neither past due nor impaired	**18,506.6**	**100.0**	**3,110.2**	**100.0**	**21,616.8**	**100.0**
- of which in receipt of forbearance	*241.7*	*100.0*	*7.2*	*100.0*	*248.9*	*100.0*
Past due and not impaired	**182.6**	**100.0**	**17.6**	**100.0**	**200.2**	**100.0**
Impaired	**68.4**	**99.3**	**7.6**	**100.0**	**76.0**	**99.3**
- of which in possession	*1.0*	*100.0*	*0.3*	*100.0*	*1.3*	*100.0*
Total	**18,757.6**	**100.0**	**3,135.4**	**100.0**	**21,893.0**	**100.0**

Fair value of collateral against secured loans – capped at loan value	**Residential mortgage loans**		**Residential buy-to-let mortgage loans**		**Total**	
2013[1]						
	£m	**%**	**£m**	**%**	**£m**	**%**
Neither past due nor impaired	16,925.4	100.0	2,344.7	100.0	19,270.1	100.0
- of which in receipt of forbearance	*285.7*	99.9	*7.9*	*100.0*	*293.6*	99.9
Past due and not impaired	171.9	99.9	17.5	100.0	189.4	99.9
Impaired	102.0	98.7	8.4	100.0	110.4	98.8
- of which in possession	*2.7*	*92.9*	-	*100.0*	*2.7*	*92.9*
Total	**17,199.3**	**100.0**	**2,370.6**	**100.0**	**19,569.9**	**100.0**

Collateral held in relation to secured loans is capped to the amount outstanding on an individual loan basis. The percentages in the table above represent the value of collateral, capped at loan amount, divided by the total loan amount in each category.

Wholesale exposures

Credit Support Annexes (CSAs) exist for collateralising derivative transactions with counterparties to which the Group has its derivative exposures in order to mitigate the risk of loss on default. The CSAs allow margin calls to be made on the net mark to market value of derivative exposures with a particular counterparty. All interest rate derivative relationships are subject to margin calls on a daily basis. All collateral held or paid under the CSAs is in the form of cash in GBP. No collateral is paid or received in the form of securities meaning no MtM on collateral balances are required. These CSAs are taken into consideration when setting the internal credit risk limits for derivative counterparties. As permitted under the Standardised Approach, the Group recognises the risk mitigating effect of these CSAs in its Pillar 1 capital calculations. At 31 December 2014 cash collateral of £121.8 million (2013: £72.1 million) had been pledged by the Group and £11.4 million (2013: £85.7 million) has been received as cash collateral by the Group.

For repo transactions, the exposure value applied to the counterparty is that of the full nominal value of the haircut, increased by collateral posted by the Group and reduced by collateral posted by the counterparty under the relevant Global Master Repurchase Agreement (GMRA).

[1] Virgin Money has amended its approach to forbearance in line with FCA guidance as outlined in the Risk Management Report in the 2014 Virgin Money Group Annual Report and Accounts. Loans in receipt of forbearance have been restated to reflect the change in definition.

COUNTERPARTY CREDIT RISK

The following table sets out the gross positive fair value of derivatives contracts, and the potential credit exposures, at 31 December 2014.

Table 45: Derivative exposures

	2014 £m	2013 £m
Gross positive fair values of contracts	**101.2**	187.5
Netting with gross negative fair value of derivative contracts	**(90.0)**	(103.7)
Potential future incremental exposure	**49.4**	63.2
Collateral received	**(11.1)**	(78.7)
Net OTC derivative exposures	**49.5**	**68.3**

Counterparty credit risk (CCR) is the risk that the counterparty to a derivative transaction could default during the life of the transaction.

The duration of the derivative and the credit quality of the counterparty are both factored into the internal capital and credit limits for counterparty credit exposures.

CCR is monitored daily by the Wholesale Credit Risk team and reported to Treasury Risk Committee (TRC) monthly. TRC is a sub-committee of the Risk Management Committee (RMC) and receives monthly updates on CCR.

Under the Group's Internal Liquidity Requirement a two notch ratings downgrade could result in the Group being required to post additional collateral.

The Group measures exposure value on counterparty credit exposures under the CCR mark to market method. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contracts potential credit exposure, which is derived by applying a multiple based on the contracts residual maturity to the notional value of the contract.

Wrong way risk occurs where exposure to a counterparty is adversely correlated with the credit quality of that counterparty. The Group has no such exposure, as it has no appetite for credit derivative positions which are the key drivers of such a risk.

The Group does not have any exposures to credit derivatives.

MARKET RISK

Definition

Market risk is defined as the risk that the value of, or net income arising from, Virgin Money's assets and liabilities changes as a result of interest rate or exchange rate movements. Market risk for Virgin Money arises only as a natural consequence of carrying out and supporting core business activities. The Group does not trade or make markets. Interest rate risk is the only material market risk for the Group.

Market risk is assessed across the following classifications: interest rate mismatch risk, basis risk, pipeline risk, optionality risk and asset swap risk.

Risk appetite

The Group's overall appetite for market risk is reviewed and approved annually by the Board.

Exposures

The Group's banking activities expose it to the risk of adverse movements in interest rates and exchange rates.

Interest rate risk in the Group's portfolio and in the Group's capital and funding activities arises from the different repricing characteristics of the Group's assets, liabilities (see the 2014 Virgin Money Group Annual Report and Accounts) and off-balance sheet positions of the Group. Interest rate risk arises predominantly from the mismatch between interest rate sensitive assets and liabilities, the variation of volume of business written in response to changes in interest rate, optionality in customers' ability to complete or redeem their products, and also from the investment term of capital and reserves, and the need to minimise income volatility.

- Liabilities are either insensitive to interest rate movements, for example interest free or very low interest customer deposits, or are sensitive to interest rate changes and bear rates which may be varied at the Group's discretion. There is a significant proportion of deposits with contractually fixed rates for their term to maturity.
- Many assets are sensitive to interest rate movements. Some managed rate assets such as variable rate mortgages which may be considered as a partial offset to the interest rate risk arising from the managed rate liabilities. A significant proportion of the Group's lending assets (mortgages) bear interest rates which are contractually fixed for periods of up to five years or longer.
- The Group establishes two types of hedge accounting relationships for interest rate risk, fair value hedges and cash flow hedges. The Group is exposed to fair value interest rate risk on fixed rate customer loans, fixed rate customer deposits and to cash flow interest rate risk on variable rate loans and deposits.
- At 31 December 2014 the aggregate notional principal of interest rate swaps designated as fair value hedges was £22,182.3 million (2013: £21,213.4 million) with a net fair value liability of £128.4 million (2013: asset of £43.5 million). The losses on the hedging instruments were £156.3 million (2013: gains of £156.9 million). The gains on the hedged items attributable to the hedged risk were £155.1 million (2013: losses of £167.5 million).
- In addition the Group has cash flow hedges which are primarily used to hedge retail pipeline lending. Note 17 in the 2014 Virgin Money Group Annual Report and Accounts shows when the hedged cash flows are expected to occur and when they will affect income for designated cash flow hedges. The notional principal of the interest rate swaps designated as cash flow hedges at 31 December 2014 was £811.8 million (2013: £732.5 million) with a net fair value liability of £2.5 million (2013: asset of £2.4 million). In 2014, ineffectiveness recognised in

the income statement that arises from cash flow hedges was a loss of £2.7 million (2013: loss of £5.1 million).

Basis risk arises from possible changes in spreads for example, where assets and liabilities reprice at the same time and the scale of rate movements differ.

Pipeline risk arises where new business volumes are higher or lower than forecast, requiring the business to unwind or execute additional hedging at rates which may differ to what was expected.

Optionality risk arises, predominantly in retail activities, as customer balances amortise more quickly or slowly than anticipated due to economic conditions or customers' response to changes in economic conditions.

Margin compression risk arises from the current low rate environment, which may restrict the ability to change interest rates applied to customers when interbank and central bank rates change.

Foreign currency risk arises as a result of having assets, liabilities and derivative items denominated in currencies other than sterling as a result of banking activities. This includes maintaining liquid assets and wholesale funding. Virgin Money has minimal appetite for foreign exchange risk. The Group does allow the purchase of liquid assets denominated in both US dollars and Euros within a well controlled limit framework.

Measurement

Market risk is managed within a Board approved framework and risk appetite. The Group uses scenario/stress based risk measures for example single factor stresses which are augmented by sensitivities run by the First Line of Defence. This includes interest rate repricing gaps, earnings sensitivity analysis and open foreign exchange positions.

Interest rate risk exposure is monitored as follows:

– Capital at Risk (CaR) is considered for assets and liabilities in all interest rate risk re-pricing periods. This is expressed as the present value of the negative impact of a sensitivity test on the Group's capital position. Risk is measured considering both positive and negative shocks to interest rates. CaR quantifies the change in market value arising from an instantaneous parallel rise or fall in the yield curve, subject to a floor at 0% and relevant non-parallel yield curve stresses. CaR is controlled by a risk appetite limit and supporting metrics.

– Earnings at Risk (EaR) is considered for assets and liabilities on the forecast balance sheet over a 12 month period. This measure is expressed as the adverse change to net interest income. EaR quantifies the impact to earnings over a rolling 12 month period of an instantaneous parallel rise or fall in the yield curve, subject to a floor at 0%. This measurement is enhanced with non-parallel stress scenarios (basis risk) and behavioural volume stresses (pipeline and optionality). EaR is controlled by a risk appetite limit and supporting metrics.

The Group has an integrated Asset and Liability Management system which allows Virgin Money to measure and manage interest rate repricing profiles (including behavioural assumptions), perform stress testing and produce forecasts.

Tables 46 and 47 show the Group's sensitivities to an instantaneous parallel upward and downward shock to interest rates. The measure is simplified in that it assumes all interest rates, for all maturities, move at the same time and by the same amount.

Mitigation

As defined within the scope of the Group IRRBB Policy, all hedgeable interest rate risk in the banking book is transferred to Treasury via the Interest Rate Risk Transfer Pricing framework. Treasury is responsible for managing risk and does this through natural offsets of matching assets and liabilities where possible. Appropriate hedging activity of residual exposures is undertaken, subject to the authorisation and mandate of the Asset and Liability Committee within the Board risk appetite. Certain residual interest rate risks may remain due to differences in basis and profile mismatches, arising from customer behaviour. The impact of this is detailed in the tables below.

Monitoring

The Asset and Liability Committee regularly reviews market risk exposure as part of the wider risk management framework. Levels of exposures, compared to approved limits and triggers, are monitored by the Treasury Function, with oversight from the Risk Function and where appropriate, escalation procedures are in place.

Table 46: Capital at Risk

	2014		2013
	Positive rate shock	**Negative rate shock[1]**	**Positive rate shock**
	£m	**£m**	**£m**
Interest rate mismatch risk	**(5.7)**	**4.1**	(5.7)
Basis risk	**0.4**	**0.4**	1.5
Pipeline risk	**8.1**	**6.0**	20.8
Optionality risk	**23.5**	**10.7**	17.4
Asset swap risk	**-**	**-**	0.1
Total interest rate risk – Capital at Risk	**26.3**	**21.2**	**34.1**

Capital at Risk as at 31 December 2014 reduced from £34.1 million at 31 December 2013 to £26.3 million in a positive rate shock scenario. The reduction is primarily due to a decrease in pipeline risk. Pipeline risk reduced due to an improved control environment for pipeline hedging. Optionality risk has increased in line with growth in fixed rate mortgages and savings.

Table 47: Earnings at Risk

	2014		2013
	Positive rate shock	**Negative rate shock[1]**	**Positive rate shock**
	£m	**£m**	**£m**
Interest rate mismatch risk	**(1.8)**	**10.9**	(0.1)
Basis risk	**(0.4)**	**1.1**	1.5
Pipeline risk	**3.7**	**2.1**	8.8
Optionality risk	**6.5**	**0.6**	5.0
Total interest rate risk – Earnings at Risk	**8.0**	**14.7**	**15.2**

Earnings at Risk as at 31 December 2014 reduced from £15.2 million at 31 December 2013 to £8.0 million in a positive rate shock scenario. The reduction is primarily due to a decrease in pipeline risk. The primary driver of interest rate mismatch risk is the structural imbalance between short term administered rate assets and liabilities.

[1] Market rate (BBR, LIBOR and swaps) stresses are subject to a floor of 0%.

The Capital and Earnings at Risk measures are based on a parallel stress to interest rates, across all tenors for interest rate mismatch risk with complementary stress scenarios in other risk categories. The Group recognises that a parallel interest rate stress has inherent limitations and supplements this methodology with additional stress tests and balance sheet limits.

Market risk capital requirement

The Group's market risk is limited to its foreign exchange exposure which is immaterial and falls below the de minimis limit within CRD IV. As such it has no Pillar 1 market risk capital requirement.

OPERATIONAL RISK

Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

The aim of operational risk management is to manage operational risks in line with defined appetite and to protect both customers and the Group while delivering sustainable growth. The Group's Operational Risk framework is the method by which operational risks are managed in terms of setting risk appetite, evaluating key exposures, measuring, mitigating and monitoring risks on an ongoing basis, as set out below.

Risk appetite

The Group's operational risk appetite is designed to safeguard the interests of customers, internal and external stakeholders, and shareholders.

Exposures

The principal operational risks to the Group are:

– IT systems and resilience risk arising from failure to develop, deliver and maintain effective IT solutions;

– information security risk arising from information leakage, loss or theft;

– external fraud arising from an act of deception or omission;

– cyber risk arising from malicious attacks on the Group via technology, networks and systems;

– service disruption caused by the failure of a third party corporate partner or strategic supplier; and

– normal business operational risk, including transaction processing, information capture, and the establishment of the new credit card business.

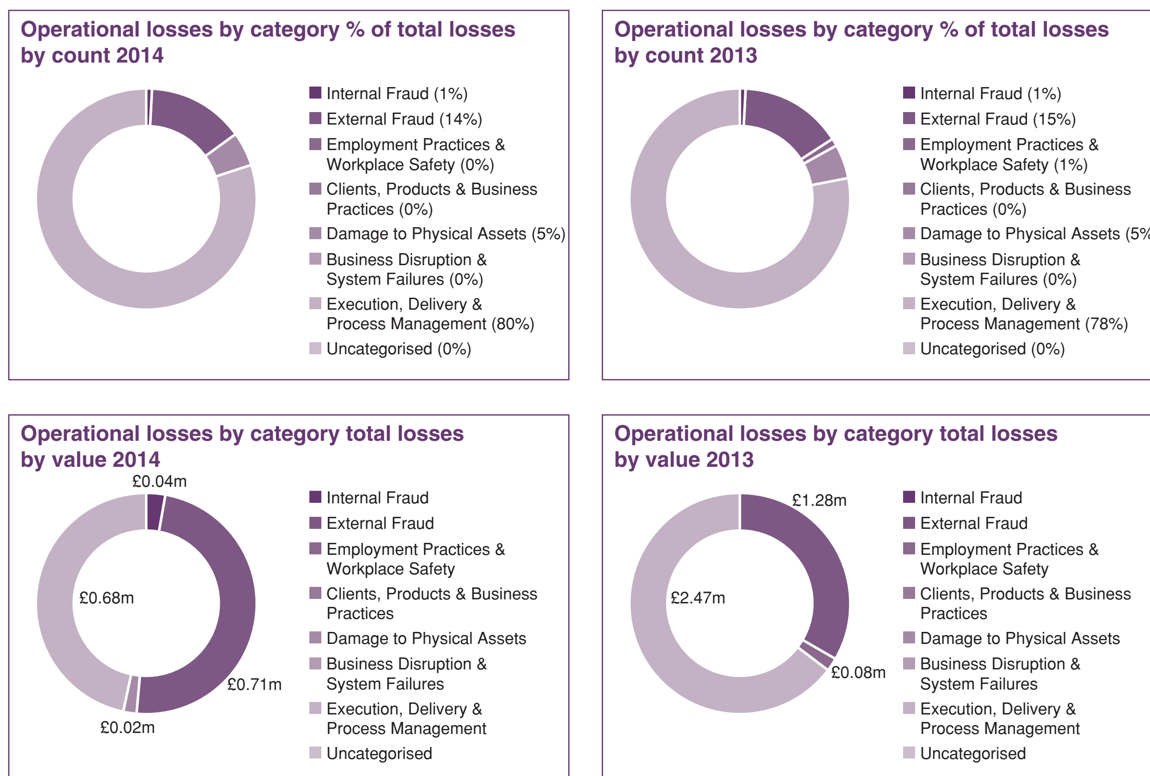
Measurement

Operational risk is managed within a Board approved framework and risk appetite. A variety of measures are used such as scoring of potential risks, considering impact and likelihood; assessing the effectiveness of control, monitoring of events and losses by size, functional area and internal risk categories.

The total value of operational risk losses is £1.5 million as at 31 December 2014 (2013: £3.8 million). External fraud accounted for 49% of losses by value, £0.7 million (2013: £1.3 million). The highest frequency of events occurred in execution, delivery and process management (80%) and

external fraud (14%). External fraud accounted for 49% of losses by value. The charts below show high level loss and event trends using CRD IV categories.

Table 48: Operational risk events



Operational risk exposure and actual losses are used by the Group to calculate the appropriate holding of operational risk capital. The Group calculates our operational risk capital requirements using The Standardised Approach, in line with the Basel Committee guidance.

Mitigation

The Group's control environment is regularly reviewed. Reporting on material risks is discussed monthly by senior management. Risks are managed via a range of strategies – avoidance, mitigation and transfer (including insurance), and acceptance. Contingency plans are maintained for a range of potential scenarios with regular disaster recovery exercises.

Mitigating actions for the principal risks include:

– investing in protection of customer information, including access to key systems and the security, durability and accessibility of critical records;

– a risk-based approach to mitigate the external financial crime risks the Group faces, reflecting the current and emerging external financial crime risks within the market. Through Group-wide policies and operational control frameworks, the Group has developed a comprehensive financial crime operating model. The Group's fraud awareness programme is a key component of our financial crime control environment;

– investment in IT security capability to protect customers and the Group; and

– operational resilience measures and recovery planning to ensure an appropriate and consistent approach to the management of continuity risks, including potential interruptions from a range of internal and external incidents or threats.

Monitoring

Monitoring and reporting of operational risk is undertaken at Board and Executive committees, in accordance with delegated authorities which are regularly reviewed and refreshed. Risk exposure is discussed at the monthly Operational Risk, Conduct Risk and Compliance Committee, and matters are escalated to the Chief Risk Officer, the Risk Management Committee and the Board Risk Committee, if appropriate. A combination of systems, monthly reports, oversight and challenge from the Risk Function, Internal Audit and assurance teams ensures that key risks are regularly presented and debated by an executive audience.

The Group maintains a formal approach to operational risk event escalation. Material events are identified, captured and escalated. Root causes of events are determined and action plans put in place to ensure an optimum level of control. This ensures we keep customers and the business safe, reduces costs, and improves efficiency.

Key operational risks are appropriately insured and this insurance programme is monitored and reviewed regularly, with recommendations being made to Executive management annually prior to each renewal. Insurers are monitored on an ongoing basis to ensure counterparty risk is minimised. A process is in place to manage any insurer rating changes.

Operational risk capital requirement

At December 2014, the Group capital requirement of operational risk was £34.4 million (2013: £26.1 million), calculated under the Standardised Approach.

FUNDING AND LIQUIDITY RISK

Definition

Funding risk is defined as the inability to raise and maintain sufficient funding in quality and quantity to support the delivery of the business plan. Sound funding risk management reduces the likelihood of liquidity risks occurring through minimising refinancing concentration.

Liquidity risk is defined as the inability to accommodate liability maturities and withdrawals, fund asset growth and otherwise meet contractual obligations to make payments as they fall due.

Risk appetite

Funding and liquidity risk appetite is set, reviewed and approved annually by the Board with the support of the Board Risk Committee. Risk is reported against appetite through various metrics that enable the Group to manage liquidity and funding constraints. The Chief Executive assisted by the Risk Management Committee, regularly reviews performance against risk appetite.

Exposures

Liquidity exposure represents the amount of potential stressed outflows in any future period less expected inflows. Liquidity is considered from both an internal and a regulatory perspective.

Measurement

A series of measures is used across the Group to monitor both short and long-term liquidity including ratios, cash outflow triggers, wholesale and retail funding maturity profile, early warning indicators and stress test survival period triggers. The Board-approved liquidity risk appetite covers a range of metrics considered key to maintaining a strong liquidity and funding position and are regularly reported to the Board Risk Committee and the Board. Strict criteria and limits are in place to ensure highly liquid marketable securities are available as part of the portfolio of liquid assets.

Details of contractual maturities for assets and liabilities form an important source of information for the management of liquidity risk. In order to reflect more accurately the expected behaviour of the Group's assets and liabilities, measurement and modelling of the behavioural aspects of each is calculated.

Mitigation

The Group mitigates the risk of a liquidity mismatch in excess of risk appetite by managing the liquidity profile of the balance sheet through short-term liquidity management and over the life of the funding plan. Short-term liquidity management is considered from two perspectives: business as usual and liquidity under stressed conditions, both of which relate to funding within one year. The Group measures risk appetite and liquidity position as the quantum of liquid assets available in excess of the minimum requirements set by total stress outflows. Longer term funding is used to manage the Group's strategic liquidity profile which is determined by the Group's balance sheet structure. Longer term is defined as having an original maturity of more than one year.

The Group's funding and liquidity position is underpinned by our customer deposit base, and is supplemented by wholesale funding providing a source of stable funding for balance sheet growth. A substantial proportion of the retail deposit base is made up of customers' savings accounts which, although mostly repayable on demand, have traditionally provided a stable source of funding. Funding concentration by counterparty is not considered significant for the Group. Where concentrations do exist for example, maturity profile, these are managed by the appropriate internal risk appetite.

To assist in managing the balance sheet the Group operates a Funds Transfer Pricing (FTP) practice which:

– drives customer pricing and supports the overall Group balance sheet strategy; and

– is consistent with regulatory requirements.

FTP makes use of behavioural maturity profiles, taking account of expected customer loan prepayments and the stability of customer deposits. Such behavioural maturity assumptions are subject to formal governance, and are reviewed periodically.

The ability to deploy assets quickly, either through the repo market or through outright sale, is also an important source of liquidity for the Group. In addition to central bank reserves, the Group holds sizeable balances of high-quality marketable debt securities which can be sold to provide, or used to secure, additional cash inflows should the need arise from either market counterparties or central bank facilities (Bank of England).

Monitoring

Liquidity is actively monitored by the Treasury and Risk Functions. Reporting is conducted through the Group's committee structure, in particular the Asset and Liability Committee and the Balance Sheet Committee. In a stress situation the level of monitoring and reporting is increased commensurate with the nature of the stress event. Liquidity policies and procedures are subject to independent internal oversight.

Daily monitoring and control processes are in place to address internal and regulatory liquidity requirements. The Group monitors a range of market and internal early warning indicators on a daily basis for early signs of liquidity risk in the market or specific to the Group. These are a mixture of quantitative and qualitative measures including daily variation of customer balances, cash outflows, changes in primary liquidity portfolio, credit default swap spreads and changing funding costs.

In addition, the monitoring framework has two other important components:

– Firstly, the volume and quality of Virgin Money's liquid asset portfolio is defined through a series of stress tests across a range of time horizons and stress conditions. Virgin Money ensures a liquidity surplus is held during normal market conditions above liquidity stress outflow requirements. Stress cash outflow assumptions have been established for individual liquidity risk drivers across idiosyncratic and market wide stresses.

  Internal and regulatory liquidity requirements are quantified on a daily basis, with holdings assessed against a full suite of liquidity stresses weekly.

  As at 31 December 2014, the results of stress testing of liquidity outflows were £2.8 billion (December 2013: £2.7 billion). Risk drivers of this liquidity stress outflow are detailed in table 49. Virgin Money is predominantly retail funded. As a result the largest potential source of liquidity stress is the outflow of retail customer deposits.

The key risk driver assumptions applied to the scenarios are:

Table 49: Liquidity risk drivers

Liquidity Risk Driver	Modelling Assumption
Retail funding	Severe unexpected withdrawals of retail deposits, the scale of which is based on the experience during the financial crisis with adjustments taking into account changes in depositor protection, the Group's liability profile and customer behaviour. No additional deposit inflows are assumed.
Wholesale funding	Limited opportunity to refinance wholesale contractual maturities with the exception of repo funding by the Bank of England or market participants using central bank eligible collateral.
Off-balance sheet	Cash outflows continue as a result of off-balance sheet commitments such as mortgage pipeline, undrawn credit card facilities and collateral commitments.
Marketable asset risk	Assets held for liquidity purposes experience deterioration in market availability and resulting value.

The scenarios and the assumptions are reviewed at least annually to gain assurance that they continue to be relevant to the nature of the business. The Group's liquidity risk appetite is calibrated against a number of stressed metrics. The funding plan is also stressed against a range of macroeconomic scenarios.

– Secondly, the Group maintains a Contingency Funding Plan which is designed to identify emerging liquidity concerns at an early stage. As a result, mitigating actions can be taken to avoid a more serious situation developing. Contingency Funding Plan invocation and escalation processes are based on analysis of five major quantitative and qualitative components. They comprise an assessment of early warning indicators, prudential and regulatory liquidity risk limits and triggers, stress testing results, event and systemic indicators and market intelligence.

  The introduction of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as part of CRD IV are intended to raise the resilience of banks to potential liquidity shocks and provide the basis for a harmonised approach to liquidity risk management. The Group has invested considerable resource to ensure that it satisfies the governance, reporting and stress testing requirements of the PRA's Individual Liquidity Adequacy Standards liquidity regime and satisfies the LCR and NSFR requirements. The Group's LCR and NSFR position is monitored on an ongoing basis.

  During the year, the Group complied with all external regulatory liquidity and funding requirements to which they are subject.

Funding and liquidity management in 2014

The Group funded asset growth with a mixture of retail and wholesale funding. The focus of retail funding was fixed rate ISAs and fixed rate bonds, growing 47.8% and 5.0%, respectively and helped by the deposit pricing environment during most of the year. The behavioural stability of Virgin Money's easy access back book deposits improved through customer repricing activities.

Virgin Money is predominantly funded through customer deposits. Wholesale funding is used to support balance sheet growth and diversity sources of funding. FLS drawings increased by £1.1 billion during the reporting period. The increase in mortgage-backed debt in issue over 2014 reflects the new RMBS issuance, which raised £1 billion in new funding in September, partially offset by a reduction in outstanding funding from prior transactions as those paid down. Funding through term repos has increased to manage funding requirements.

The increased usage of FLS and the new RMBS issuance have increased the weighted average life of wholesale funding at December 2014 by 8 months to 29.6 months (2013: 21.6 months) and has reduced wholesale refinancing concentrations.

Encumbered assets

Virgin Money's assets can be used to support funding collateral requirements for central bank operations or third-party re-purchase transactions. Assets that have been set aside for such purposes are classified as 'encumbered and pledged assets' and cannot be used for other purposes. The below tables show asset encumbrance.

Table 50: Asset encumbrance

2014	**Encumbered assets**		**Unencumbered assets**		**Total**
Asset encumbrance	**Pledged as collateral**	**Other[1]**	**Available as collateral**	**Other[2]**	
	£m	**£m**	**£m**	**£m**	**£m**
Cash balances at central banks	**38.0**	**-**	**-**	**813.3**	**851.3**
Debt securities held as loans and receivables	**-**	**-**	**8.6**	**-**	**8.6**
Available-for-sale financial assets	**321.7**	**-**	**1,217.9**	**-**	**1,539.6**
Derivative financial assets	**-**	**-**	**-**	**101.2**	**101.2**
Loans and advances to banks	**-**	**569.8**	**-**	**150.7**	**720.5**
Loans and advances to customers[3,4]	**6,609.4**	**-**	**2,075.0**	**14,408.7**	**23,093.1**
Other assets	**-**	**-**	**-**	**222.5**	**222.5**
Total Assets	**6,969.1**	**569.8**	**3,301.5**	**15,696.4**	**26,536.8**

2013	**Encumbered assets**		**Unencumbered assets**		
Asset encumbrance	**Pledged as collateral**	**Other[1]**	**Available as collateral**	**Other[2]**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Cash balances at central banks	35.1	-	-	1,388.4	1,423.5
Debt securities held as loans and receivables	-	-	9.4	-	9.4
Available-for-sale financial assets	313.5	100.0	1,265.7	-	1,679.2
Derivative financial assets	-	-	-	187.5	187.5
Loans and advances to banks	-	626.9	-	-	626.9
Loans and advances to customers[3,4]	4,291.9	-	2,355.7	13,694.9	20,342.5
Other assets	-	-	-	296.0	296.0
Total Assets	**4,640.5**	**726.9**	**3,630.8**	**15,566.8**	**24,565.0**

Please see Appendix 3 for the full CRD IV disclosure template on asset encumbrance as published by the EBA in Guidelines EBA/GL/2014/03.

[1] Other encumbered assets are assets that cannot be used for secured funding due to legal or other reasons. These include cash reserves supporting secured funding structures.
[2] All other assets are defined as 'unencumbered assets'. These comprise assets that are readily available to secure funding or to meet collateral requirements, and assets that are not subject to any restrictions and are not readily available for use.
[3] Loans and advances to customers are classified as available collateral only if they are already in such a form that they can be used immediately to raise funding.
[4] Loans and advances to customers consists of collateral pledged to the Bank of England and securitised mortgage pools. See notes 18 and 19 of the 2014 Virgin Money Group Annual Report and Accounts.

APPENDIX 1

EBA OWN FUNDS DISCLOSURE TEMPLATE

Table 51: Own funds disclosure template

		VIRGIN MONEY HOLDINGS (UK) PLC REGULATED GROUP		VIRGIN MONEY PLC	
		Fully Loaded	Transitional Rules	Fully Loaded	Transitional Rules
		£m	£m	£m	£m
	Common Equity Tier 1 (CET1) Capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	654.6	654.6	1,400.0	1,400.0
	of which: Instrument type 1 of which: Instrument type 2 of which: Instrument type 3				
2	Retained earnings	436.5	436.5	(175.5)	(175.5)
3	Accumulated other comprehensive income (and other reserves)	(1.8)	(1.8)	(3.2)	(3.2)
3a	Funds for general banking risk				
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1				
5	Minority interests (amount allowed in consolidated CET1)				
5a	Independently reviewed interim profits net of any foreseeable charge or dividend				
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,089.3	1,089.3	1,221.3	1,221.3
	Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)				
8	Intangible assets (net of related tax liability) (negative amount)	(46.1)	(46.1)	(45.0)	(45.0)
9	Empty set in the EU				
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount	(38.1)	(38.1)	(38.1)	(38.1)
11	Fair value reserves related to gains or losses on cash flow hedges	8.8	8.8	8.8	8.8
12	Negative amounts resulting from the calculation of expected loss amounts	(33.4)	(33.4)	(33.4)	(33.4)
13	Any increase in equity that results from securitised assets (negative amount)				
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing				
15	Defined-benefit pension fund assets (negative amount)				
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)				
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)				
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)				

		VIRGIN MONEY HOLDINGS (UK) PLC REGULATED GROUP		VIRGIN MONEY PLC	
		Fully Loaded	Transitional Rules	Fully Loaded	Transitional Rules
		£m	£m	£m	£m
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)				
20	Empty set in the EU				
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative				
20b	of which: qualifying holdings outside the financial sector (negative amount)				
20c	of which: securitisation positions (negative amount)				
20d	of which: free deliveries (negative amount)				
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)				
22	Amount exceeding the 15% threshold (negative amount)				
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities				
24	Empty set in the EU				
25	of which: deferred tax assets arising from temporary differences				
25a	Losses for the current financial year (negative amount)				
25b	Foreseeable tax charges relating to CET1 items (negative amount)				
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment				
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468		(7.0)		(5.6)
	Of which: … filter to unrealised loss 1 Of which: … filter to unrealised loss 2 Of which: … filter to unrealised gain 1 Of which: … filter to unrealised gain 2				
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR				
	Of which: …				
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)				
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(108.8)	(115.8)	(107.7)	(113.3)
29	Common Equity Tier 1 (CET1) capital	980.5	973.5	1,113.6	1,108.0
	Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	156.5	156.5		
31	of which: classified as equity under applicable accounting standards	156.5	156.5		
32	of which: classified as liabilities under applicable accounting standards				

		VIRGIN MONEY HOLDINGS (UK) PLC REGULATED GROUP		VIRGIN MONEY PLC	
		Fully Loaded	**Transitional Rules**	**Fully Loaded**	**Transitional Rules**
		£m	**£m**	**£m**	**£m**
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1				
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties				
35	of which: instruments issued by subsidiaries subject to phase out				
36	Additional Tier 1 (AT1) capital before regulatory adjustments	156.5	156.5		
	Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)				
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)				
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)				
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)				
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)				
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) no 575/2013				
	Of which items to be details line by line e.g. Material net interim losses, intangibles, shortfall or provisions to expected losses etc				
41b	Residual amounts deducted from Addition Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 or Regulation (EU) No 575/2013				
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc				
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR				
	Of which: ... possible filter fro unrealised losses Of which: ... possible filter for unrealised gains				
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)				

		VIRGIN MONEY HOLDINGS (UK) PLC REGULATED GROUP		VIRGIN MONEY PLC	
		Fully Loaded	Transitional Rules	Fully Loaded	Transitional Rules
		£m	£m	£m	£m
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital				
44	Additional Tier 1 (AT1) capital	156.5	156.5		
45	Tier 1 capital (T1 = CET1 + AT1)	1,137.0	1,130.0	1,113.6	1,108.0
	Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts				
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2				
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties				
49	of which: instruments issued by subsidiaries subject to phase out				
50	Credit risk adjustments	5.9	5.9	5.9	5.9
51	Tier 2 (T2) capital before regulatory adjustments	5.9	5.9	5.9	5.9
	Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)				
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)				
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)				
54a	Of which new holdings not subject to transitional arrangements				
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements				
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)				
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)				
56a	Residual amounts deducted from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) 575/2013				
	Of which items to be detailed line by line e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc				

		VIRGIN MONEY HOLDINGS (UK) PLC REGULATED GROUP		VIRGIN MONEY PLC	
		Fully Loaded	Transitional Rules	Fully Loaded	Transitional Rules
		£m	£m	£m	£m
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) no 575/2013				
	Of which items to be detailed line by line e.g. reciprocal cross holdings in at1 instruments, direct holdings of non significant investments in the capital of other financial sector entities, etc				
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR				
	Of which: ... possible filter for unrealised losses Of which: ... possible filter for unrealised gains Of which: ...				
57	Total regulatory adjustments to Tier 2 (T2) capital				
58	Tier 2 (T2) capital	5.9	5.9	5.9	5.9
59	Total capital (TC = T1 + T2)	1,142.9	1,135.9	1,119.5	1,113.9
59a	Risk-weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e CRR residual amounts)				
	Of which: ... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)				
	Of which: ... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities etc)				
	Of which: ... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line e.g. indirect holdings own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)				
60	Total risk-weighted assets	5,160.6	5,159.4	5,082.7	5,081.5
	Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	19.0%	18.9%	21.9%	21.8%
62	Tier 1 (as a percentage of total risk exposure amount)	22.0%	21.9%	21.9%	21.8%
63	Total capital (as a percentage of total risk exposure amount)	22.1%	22.0%	22.0%	21.9%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)				
65	of which: capital conservation buffer requirement				
66	of which: countercyclical buffer requirement				
67	of which: systemic risk buffer requirement				

		VIRGIN MONEY HOLDINGS (UK) PLC REGULATED GROUP		VIRGIN MONEY PLC	
		Fully Loaded	Transitional Rules	Fully Loaded	Transitional Rules
		£m	£m	£m	£m
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer				
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	19.0%	18.9%	21.9%	21.8%
69	[non relevant in EU regulation]				
70	[non relevant in EU regulation]				
71	[non relevant in EU regulation]				
	Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)				
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)				
74	Empty set in the EU				
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)				
	Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	5.9	5.9	5.9	5.9
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	15.6	15.6	16.5	16.5
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)				
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach				
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements				
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)				
82	Current cap on AT1 instruments subject to phase out arrangements				
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)				
84	Current cap on T2 instruments subject to phase out arrangements				
85	Amount excluded from T2 due to cap (excess over cap alter redemptions and maturities)				

APPENDIX 2

CAPITAL INSTRUMENT KEY FEATURES

Table 52: Capital instruments' main features template

1	Issuer	Virgin Money Holdings (UK) plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS1090191864
3	Governing law(s) of the instrument	English
	Regulatory treatment	
4	Transitional CRR rules	AT1
5	Post-transitional CRR rules	AT1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	AT1
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£156.5m
9	Nominal amount of instrument	£160,000,000
9a	Issue price	100.00
9b	Redemption price	100.00
10	Accounting classification	Shareholders' equity
11	Original date of issuance	31 July 2014
12	Perpetual or dated	Perpetual
13	Original maturity date	n/a
14	Issuer call subject to prior suprevisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	31 July 2019 at par or at any time upon a Tax Event or a Capital Disqualification Event (full exclusion) at par
16	Subsequent call dates, if applicable	Following the First Call date any Interest Payment Date thereafter: 31 January, 30 April, 31 July and 31 October
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7.875%
19	Existence of a dividend stopper	No
20 a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20 b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Convertible

24	If convertible, conversion trigger(s)	Group's CET1 ratio falls below 7%, on a fully loaded basis
25	If convertible, fully or partially	Always Fully
26	If convertible, conversion rate	£3.50
27	If convertible, mandatory or optional conversion	Mandatory
28	If convertible, specify instrument type convertible into	Common Equity Tier 1
29	If convertible, specify issuer of instrument it converts into	Virgin Money Holdings (UK) plc
30	Write-down features	No
31 - 34	If write-down, write-down trigger(s), full/partial, PWD/TWD	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

APPENDIX 3

ANALYSIS OF ENCUMBERED ASSETS

The following tables show the Group analysis of encumbered assets in accordance with the EBA Guidelines on disclosure of encumbered and unencumbered assets (EBA/GL/2014/03)

Template A – Assets

Table 53: Asset encumbrance Template A – assets

		Carrying amount of encumbered assets 010	Fair value of encumbered assets 040	Carrying amount of unencumbered assets 060	Fair value of unencumbered assets 090
		£m	£m	£m	£m
010	**Assets of the reporting institution**	**4,541.0**		**20,155.0**	
030	Equity instruments	-	-	1.3	1.3
040	Debt securities	82.2	82.2	1,419.1	1,420.1
120	Other assets	-		369.7	

Template B – Collateral received

Table 54: Asset encumbrance Template B – collateral received

		Fair value of encumbered collateral received or own debt securities issued 010	Fair value of collateral received or own debt securities issued available for encumbrance 040
		£m	£m
130	**Collateral received by the reporting institution**	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	**Own debt securities issued other than own covered bonds or ABSs**	-	-

Template C – Encumbered assets/collateral received and associated liabilities

Table 55: Asset encumbrance Template C – Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent 010	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered 030
		£m	£m
010	**Carrying amount of selected financial liabilities**	**1,969.2**	**1,942.0**

D Information on importance of encumbrance

Asset values reported in the tables above are median values based on twelve months of data. Virgin Money's assets are used to support collateral requirements for central bank operations, third-party repurchase agreements, swap transactions and securitisation. Assets that have been

set aside for such purposes are classified as encumbered and cannot be used for other purposes.

Under the terms and conditions of collateralisation agreements entered into for securing liabilities, assets are deemed encumbered if they cannot be freely withdrawn. Any excess collateral provided above the minimum collateral required is deemed unencumbered unless it cannot be freely withdrawn. No assets are encumbered through transactions between entities of the Group. All assets included in the ''Other Assets'' category are deemed not available for encumbrance in the normal course of business. Cash reserves supporting secured funding structures are also not available for encumbrance due to legal reasons. All remaining assets are deemed available for encumbrance.

During 2014, the value and proportion of encumbered assets has increased. This is due to an additional securitisation programme, a higher value and quantity of assets loaned out in repurchase agreements at the year end and movements in the fair value of swaps requiring additional collateral to be pledged to counterparties.

APPENDIX 4

VIRGIN MONEY HOLDINGS (UK) PLC GROUP REMUNERATION DISCLOSURES

Approach to remuneration

Virgin Money's Group Remuneration Policy is designed to comply with the Prudential Regulation Authority's Remuneration Code (the **Code**). The Group ensures its approach to remuneration and in particular variable pay is aligned with clear risk principles which aim to drive sustainable growth.

Colleagues are awarded in line with best practice in the UK listed financial services sector, with absolutely no reward for inappropriate risk taking, in order to protect customers, corporate partners, shareholders and wider society. The Group believes in creating a culture where customer service is priority.

Through this Remuneration Policy, colleagues are provided with remuneration packages which encourage them to contribute to the success and profitability of the business in a meaningful and well balanced way, which discourages colleagues from inappropriate risk-taking. This supports Virgin Money's aim of treating customers fairly while protecting the Group's long term financial stability.

The Remuneration Code and European regulatory technical standards require the Group to identify Code Staff, also known as 'Material Risk Takers'. Code Staff are deemed to have, or potentially have, a material impact on the risk profile of the Group or a significant entity within the Group. The Code Staff population in 2014 totalled 39 which includes all Directors. Virgin Money operates a proportional approach to the identification of Code Staff as required by the Code. The remuneration for these colleagues is governed under the Group remuneration policy.

The Remuneration Committee

The Remuneration Committee of the board of directors of the Group (the **Committee**) is responsible for determining and recommending to the Board for approval a Group remuneration policy. The Committee undertakes periodic reviews, at least annually of the Remuneration Policy to ensure continued compliance and alignment with the Remuneration Code.

The Committee determines the remuneration of the Chairman and members of the Executive Team, including payments and awards under annual bonus plans, share incentive schemes, pension schemes and any other compensation arrangements.

During 2014, the Committee consisted of the Chairman and other independent non-Executive Directors. The Committee members during the year were:

- Olivia Dickson (member from 1 September 2014, Chair from 5 September 2014)
- Norman McLuskie
- Sir David Clementi
- Marilyn Spearing (from 29 January 2014)
- Colin Keogh (Chair and member until 4 September 2014)

Only members of the Committee have the right to attend and vote at Committee meetings. However, other individuals (such as the CEO and the People Director) are invited to attend meetings when appropriate or necessary but are excluded from discussions relating to their own remuneration arrangements. The Committee may take external professional advice. During 2014, the Committee obtained external remuneration advice from PricewaterhouseCoopers.

The Committee meets at least four times a year and at such other times as the Committee Chair or any member of the Committee may request. 2014 was an exceptionally busy year for the Remuneration Committee as a result of listing; the Committee met on seventeen occasions during 2014.

During 2014 the Committee considered the following remuneration matters:

- 2013 incentive funding based on audited accounts
- FY13 Directors' Remuneration Report
- Regulatory change and the impact on remuneration policy
- Approving terms of appointment including remuneration for a number of senior new hires
- Design of Executive remuneration post-IPO
- Preparing FY14 Directors' remuneration report
- Development of Group remuneration policy
- Deciding on the performance conditions for the 2015 Long Term Incentive Plan
- Approval of the conversion of awards under the historic phantom incentive plan on listing
- Design of bonus/LTIP transition arrangements
- Reviewing market benchmarks and determining new Executive base salaries structure
- Reviewing amendments to IPO incentive scheme
- Approval of the appointment of external advisors to the Remuneration Committee
- Review of the remuneration section of the Listing Prospectus
- Consideration and awarding IPO Colleague share awards

Design characteristics of the remuneration system

The Group regularly reviews its approach to senior remuneration to ensure the overall package is fair, competitive and supportive of the Group's strategy. The Group ensures it remains competitive in the financial services market through regular market reviews. The Group's remuneration strategy aims to motivate individual out performance against objectives. The structure of the Group's remuneration and annual individual performance assessments ensures that the highest performing colleagues receive top quartile market outcomes for comparable companies. Risk considerations are a material factor in the determination of pay.

The variable incentive arrangements have appropriate limits (capped at 2:1 variable to fixed ratio) as approved by Shareholders in early 2014 and, for senior colleagues and Code Staff, are subject to deferral in line with the Code to promote longer term risk awareness.

For variable pay deferral levels are set at the time of award and in line with regulatory requirements. At present this means that at least 40% of total variable pay is deferred (at least 60% for Executive Directors), at least 50% of variable pay is paid in shares, and vested shares are subject to a six month retention period. The ultimate release of deferred amounts is governed by a robust risk assessment framework.

Both clawback and malus provisions can be applied by the Committee both during and after any relevant performance period to adjust (including to nil) any variable pay awarded, paid or deferred. A performance adjustment may include, but is not limited to:

- reducing an employee's bonus outcome for the current year
- reducing the amount of any unvested deferred variable remuneration (including LTIP awards) to which an employee is entitled
- requiring the repayment on demand any cash and share awards received at any time during the seven year period after the date of the awards; and
- requiring the recipient of any bonus awarded but not yet paid to be forfeit.

In the case of firm wide adjustment, measures may also include:

- reducing the overall annual bonus pool; and/or
- reducing overall unvested/unpaid awards

The following non-exhaustive list outlines the circumstances in which malus and/or clawback measures will be triggered:

- where an employee has participated in or was responsible for conduct which resulted in significant losses to the firm, as determined by the Remuneration Committee
- where an employee has significantly failed to meet appropriate standards of fitness and propriety, taking into account their seniority, experience, remuneration and level of responsibility
- where the firm or the relevant business unit has suffered a material failure of risk management
- where the firm has reasonable evidence of fraud or material dishonesty by the employee
- where the firm becomes aware of any material wrongdoing on the part of the employee that would have resulted in the relevant award not being made had it known about such material wrongdoing at the time the relevant award was made
- where the firm becomes aware of a material error in assessing the employee's performance against the relevant performance conditions at the time that the award was made; and
- the employee has acted in any manner which in the opinion of the Remuneration Committee has brought or is likely to bring the firm into material disrepute or is materially adverse to the interests of the firm.

The above principles apply to all variable pay for all Code Staff.

The Committee has discretion, in exceptional circumstances, to amend targets, measures, or number of shares under award if an event happens (for example, a major transaction or capital raising) that, in the opinion of the Committee, causes the original targets or measures to be no longer appropriate or such adjustment to be reasonable. The Committee also has the discretion to reduce the vesting level of any award if it deems that the outcome is not consistent with performance delivered.

Link between pay and performance and the performance criteria used

Colleagues are appraised annually for their entire role, the behaviours they exhibit, the achievement of the objectives they are set and their competencies. This holistic appraisal drives variable pay awards and any future pay increases.

For variable pay, performance is measured against financial and non-financial targets (functional where appropriate). The financial scorecard is the same for everyone thus ensuring a Group orientated view on performance and risk. Non-financial performance metrics include effective risk management.

The following metrics and criteria were used by the Committee to determine the size of the overall variable remuneration pool:

- The Committee considered the PBT performance for the financial year (and any other relevant financial/ non-financial measures)

- The Committee reviewed underlying business performance against the corporate scorecard to ensure that the outcomes are appropriate

- The Chief Risk Officer provided the Committee with an independent risk assessment report to consider whether and to what extent the variable remuneration pool should be subject to risk adjustment.

- The Chief Financial Officer and the People Director also provided the Committee with an assessment of financial and individual performance to identify any significant any instances when the operation of the malus provisions might be appropriate.

Remuneration for Code Staff

The following tables display the 2014 remuneration for Virgin Money's Executive, Non-Executive and Senior Management and colleagues whose professional activities may have a material impact on the risk profile of the Group.

Fixed and variable remuneration

The table below shows total fixed and variable remuneration awarded to Code Staff in respect of the performance year 2014 broken down between Senior Management and Other Code Staff.

Table 56: Remuneration of Code Staff

Remuneration of Code Staff[1]	Total	Senior Management	Other Code Staff
Number of Code Staff	**39**	**10**	**29**
	£m	**£m**	**£m**
Total fixed	**9.4**	**2.7**	**6.7**
Total variable	**13.1**	**3.9**	**9.2**
Total remuneration	**22.5**	**6.6**	**15.8**
Variable remuneration awarded in:			
- Cash	**2.4**	**0.5**	**1.9**
- Shares	**10.7**	**3.5**	**7.2**
- Share linked instruments	**-**	**-**	**-**
Deferred remuneration outstanding	**12.1**	**4.4**	**7.7**
Deferred remuneration awarded for 2014	**5.8**	**2.0**	**3.7**
Sign on payments	**-**	**-**	**-**
Severance payments	**-**	**-**	**-**

[1] Numbers within this table have been rounded to the nearest £0.1m

Code Staff are required to hold the net number of shares from any share-based bonus for a period of six months. Other than these shares subject to holding periods, there was no deferred vested remuneration outstanding at the end of 2014.

Analysis of high earners by band

During 2014 10 Code Staff received total remuneration in excess of €1 million. The table below shows the breakdown by band.

Table 57: Analysis of high earners

Number of Code Staff paid €1 million[2] or more for 2014	Dec 14 Code Staff
€1.0m - €1.5m	7
€1.5m - €2.0m	1
€2.0m - €2.5m	-
€2.5m - €3.0m	1
€3.0m - €3.5m	-
€3.5m - €4.0m	-
€4.0m - €4.5m	1

[2] converted to Euros using the exchange rate of €1=£0.792

The Virgin Money Holdings (UK) plc Annual Report 2014

Further details on the remuneration policies and practices of the Group, including the key components of the Group's remuneration structure for directors' remuneration can be found in the Directors' Remuneration Report contained in the 2014 Virgin Money Group Annual Report and Accounts.

Recruitment policy for the selection of members of the management body

The Remuneration Committee will take into account all relevant factors, including the calibre and experience of the individual and the market from which they are recruited, while being mindful of the best interests of the Group and its shareholders and seeking not to pay more than is necessary. This would normally be determined in line with the following principles:

- The Remuneration Committee will look to align the remuneration package for any new appointments with the Group remuneration policy as much as is practical.
- To facilitate a recruitment the remuneration committee may need to ''buy-out'' remuneration arrangements forfeited or forgone on leaving a previous employer, including long-term awards, deferred awards, in year and prior year annual bonuses and other contractual entitlements
- The value of the buy-out awards will broadly be the equivalent of or less than the value of the award being bought-out in accordance with regulatory requirements, these buy-out awards will take into consideration relevant factors including, but not limited to:
    - the form of the award
    - any performance conditions to those awards
    - the vesting profile of the awards and the likelihood of vesting

Board diversity policy

The Group has developed and agreed a Board Diversity and Inclusion Policy which sets out a commitment to gender representation on the Board being no less than 25% female, which the Group has achieved.

APPENDIX 5

VIRGIN MONEY PLC
PILLAR 3 DISCLOSURE OF SIGNIFICANT SUBSIDIARY

INTRODUCTION

In accordance with Article 13 of the CRR, this Appendix sets out the reduced Pillar 3 disclosures of Virgin Money plc (the Company), the significant subsidiary of the Virgin Money Group.

CAPITAL RESOURCES

The Company's capital is managed in the same way as the Group. For a discussion of capital management, the ICAA process and Pillar 2 capital for the Company, see pages 20 to 22 in the main body of this report.

The following table sets out the capital resources of the Company at 31 December.

Table 58: Virgin Money plc capital resources

	Fully loaded		PRA transitional rules	
	2014	**2013**	**2014**	**2013**
	£m	**£m**	**£m**	**£m**
Common Equity Tier 1				
Ordinary share capital	**1,400.0**	1,400.0	**1,400.0**	1,400.0
Retained reserves	**(180.0)**	(232.8)	**(180.0)**	(232.8)
Other reserves	**5.6**	1.5	**5.6**	1.5
Total equity per balance sheet	**1,225.6**	1,168.7	**1,225.6**	1,168.7
Regulatory capital adjustments				
Net assets/(liabilities) of SPVs	**4.5**	(10.8)	**4.5**	(10.8)
Other reserves	**-**	(1.3)	**(5.6)**	(1.5)
Intangible assets	**(45.0)**	(23.1)	**(45.0)**	(23.1)
Deferred tax on brought forward tax losses (after consolidation of SPVs)	**(38.1)**	(62.0)	**(38.1)**	(62.0)
Excess of expected loss over impairment	**(33.4)**	(41.1)	**(33.4)**	(41.1)
Common Equity Tier 1 Capital	**1,113.6**	1,030.4	**1,108.0**	1,030.2
Total Tier 1 Capital	**1,113.6**	1,030.4	**1,108.0**	1,030.2
Tier 2 capital				
General credit risk adjustments	**5.9**	10.9	**5.9**	10.9
Total Tier 2 capital	**5.9**	10.9	**5.9**	10.9
Total available capital resource	**1,119.5**	1,041.3	**1,113.9**	1,041.1
Pillar 1 risk-weighted assets				
Retail mortgages	**3,489.7**	3,854.6	**3,489.7**	3,854.6
Unsecured lending	**830.0**	595.3	**830.0**	595.3
Wholesale	**182.6**	232.6	**181.4**	232.6
Other assets	**282.2**	235.5	**282.2**	235.5
Credit valuation adjustments	**13.4**	15.1	**13.4**	15.1
Operational risk	**284.8**	152.9	**284.8**	152.9
Total risk-weighted assets	**5,082.7**	5,086.0	**5,081.5**	5,086.0
Common Equity Tier 1 ratio	**21.9%**	20.3%	**21.8%**	20.3%
Tier 1 ratio	**21.9%**	20.3%	**21.8%**	20.3%
Total capital ratio	**22.0%**	20.5%	**21.9%**	20.5%

Please see Appendix 1 for the full CRD IV disclosure template as published by the EBA in Implementing Technical Standard 2013/01.

The share capital of Virgin Money plc comprises 1.4bn shares with nominal value of £1, giving rise to ordinary share capital of £1.4 billion. There is no associated share premium.

Prior to acquisition by Virgin Money Holdings (UK) Limited, Northern Rock plc (now Virgin Money plc) was a loss making entity.

The following table sets out the movements in fully loaded capital resources during 2014.

Table 59: Virgin Money plc movements in capital resources

	Common Equity Tier 1 and Tier 1	Tier 2 capital
	£m	£m
At 1 January 2014	**1,030.4**	**10.9**
Profit for the year	**35.7**	**-**
Other movements in retained earnings	**17.1**	**-**
Movement in net liabilities of SPVs	**15.3**	**-**
Movement in intangible assets	**(21.9)**	**-**
Movement in deferred tax on tax losses carried forward	**23.9**	**-**
Movement in excess of expected loss over impairment	**7.7**	**-**
Movement in Available-For-Sale reserve	**5.4**	**-**
Movement in general provisions	**-**	**(5.0)**
At 31 December 2014	**1,113.6**	**5.9**

The increase in capital resources during the year is mainly as a result of movements in retained earnings. Smaller increases have arisen from the reduction in deferred tax on tax losses carried forward and the reduction in excess expected losses offset by an increase in the intangible assets deduction primarily reflecting the development of the core cards platform.

General provisions on the credit card book showed a decrease during the year following changes to the provisioning model made to reflect recent book performance.

Capital securities

Tier 1 capital

Common Equity Tier 1 capital comprises ordinary share capital, share premium and allowable reserves after deducting prudential filters such as intangible assets and expected losses in excess of provisions in respect of the Group's IRB mortgage portfolio.

The Company has no Additional Tier 1 capital.

Tier 2 capital

Tier 2 capital comprises general provisions on standardised exposures.

CAPITAL REQUIREMENTS

The following table sets out the risk-weighted assets and Pillar 1 capital requirements of the Company.

Table 60 – Virgin Money plc risk-weighted assets and capital requirements

	2014	2014	2013	2013
	Risk-weighted assets	Capital Requirement	Risk-weighted assets	Capital Requirement
	£m	£m	£m	£m
IRB approach				
Standard mortgages	**3,038.0**	**243.0**	3,439.8	275.2
Buy to let mortgages	**451.7**	**36.2**	414.8	33.2
Retail exposures secured by real estate collateral	**3,489.7**	**279.2**	3,854.6	308.4
Standardised approach				
Credit cards	**822.9**	**65.8**	591.8	47.4
Institutions	**139.2**	**11.1**	208.0	16.6
Items in default	**7.1**	**0.6**	3.5	0.3
Covered bonds	**26.0**	**2.1**	4.7	0.4
Securitisation positions	**16.2**	**1.3**	19.9	1.6
Other assets	**282.2**	**22.6**	235.5	18.8
Total standardised exposures	**1,293.6**	**103.5**	1,063.4	85.1
Operational risk	**284.8**	**22.8**	152.9	12.2
Credit valuation adjustment	**13.4**	**1.1**	15.1	1.2
Market risk	**-**	**-**	-	-
Total	**5,081.5**	**406.6**	**5,086.0**	**406.9**

The following table sets out the movements in the Company's credit risk-weighted assets split between book size, model changes and other movements.

Table 61 – Virgin Money plc risk-weighted asset movements

	IRB mortgages	Other standardised lending	Other standardised assets	Credit valuation adjustment	Operational risks	Total
	£m	£m	£m	£m	£m	£m
RWAs at 1 January 2014	**3,854.6**	**595.3**	**468.1**	**15.1**	**152.9**	**5,086.0**
Book size	**455.7**	**230.9**	**(0.2)**	**-**	**-**	**686.4**
Model calibration	**167.6**	**-**	**-**	**-**	**-**	**167.6**
Model updates	**(1,036.3)**	**-**	**-**	**-**	**-**	**(1,036.3)**
Other movements	**48.1**	**3.8**	**(4.3)**	**(1.7)**	**131.9**	**177.8**
RWAs at 31 December 2014	**3,489.7**	**830.0**	**463.6**	**13.4**	**284.8**	**5,081.5**

The strong growth in mortgage balance to an EAD of £24,250.0 million increased RWAs by £455.7 million.

Virgin Money uses a variable scalar methodology to calculate the Probability of Default (PD) parameter used within the Advanced Internal Ratings Based (AIRB) capital models. This approach aids capital management by ensuring the regulatory PD and therefore the resultant regulatory capital requirements, fluctuates mainly due to changes in the credit quality mix of the portfolio, rather than changes in the economy. This methodology reduces, but does not eliminate procyclicality within PD estimates and is sensitive to movements in the distribution of accounts within each segment. During 2014 the improvement in arrears rates caused a reduction in the point-in-time PDs. These lower point-in-time PDs have resulted in the requirement to increase the ''scaling'' factor used to transform these PiT PDs to the long-run-average estimates. It is these higher scaling factors that have resulted in increased RWAs of £167.6 million, despite lower arrears rates observed through the year. This increase has been categorised as ''model calibration'' within the above table.

During 2014, two changes were implemented within the AIRB models. A sales cost model was developed to align to industry good practice and to provide a more appropriate calculation of sales costs. The peak to trough house price assumption was updated to more accurately reflect historic house price movements between the peak property price and the price in a downturn. These changes contributed to a significant reduction in RWAs of £1,036.3 million.

In addition to the movements due to model calibration, further changes in the portfolio have been observed over the last 12 months which can be attributed to movements in two factors. The shift in the portfolio distribution across the long run PD model segmentation, results in a change in the long run PDs assigned within the IRB rating system. In addition, variations in observed house prices have caused corresponding movements in the downturn LGD model. The combined impact of these two elements contributes to an increase in RWAs of £48.1 million within the ''other movements'' section.

Following the acquisition of a further portfolio of £359.3 million of Virgin Money branded credit cards in November, overall credit card exposures net of provisions have increased by £312.5 million during 2014. After taking movements in provisions into account, and the impact of the sale of Church House Trust Limited, this has led to increases in standardised lending risk-weighted assets of £225.3 million.

Operational risk is calculated using the Standardised Approach, based on the average Company income over the past three years. The year on year increase reflects the increasing Company income from 2010 to 2013.

LEVERAGE RATIO

The regulations introduce a new balance sheet metric, the leverage ratio, as a requirement from 1 January 2014. The Basel Committee is testing this ratio at a minimum threshold of 3% until 2017. The Company's leverage ratio as at 31 December 2014 was 4.1%.

The PRA has advised banks and building societies that the leverage ratio should only be disclosed using the following methods:

CRR definition of Tier 1 for the capital amount and the Basel definition of the exposure measure

CRR definition of Tier 1 for the capital amount and the delegated act definition of the exposure measure.

For the Company, there is no difference in the calculation of the leverage ratio when using either of these methods, and the leverage ratio calculated in accordance with the PRA's instructions is disclosed below.

Table 62: Virgin Money plc leverage ratio

	Fully loaded
	£m
Tier 1 capital	**1,113.6**
Exposures measure	
Total regulatory balance sheet assets	**26,522.8**
Removal of accounting values for derivatives	**(100.1)**
Exposure value for derivatives	**169.9**
Exposure value for securities financing transactions	**353.8**
Off-balance sheet items	**607.8**
Other regulatory adjustments	**(107.7)**
Total exposures	**27,446.5**
Leverage ratio at 31 December 2014	**4.1%**

Exposure values associated with derivatives and securities financing transactions (repos) have been adjusted using the current CRD IV rules. For the purposes of the leverage ratio, the derivative measure is calculated as the replacement cost for the current exposure plus an add on for potential future exposure. The exposure amount is not reduced for any collateral received from the counterparty and has been grossed up for any collateral provided.

Off-balance sheet items are made up of undrawn credit facilities including such facilities that may be cancelled unconditionally at any time without notice. Credit conversion factors, subject to a floor of 10% have been applied to these items in accordance with the CRD IV rules.

Other regulatory adjustments consist of adjustments that have been applied to the Tier 1 capital (such as intangible assets, deferred tax on tax losses carried forward and excess expected losses) which are also applied to the leverage ratio exposure measure. This ensures consistency between the Tier 1 capital and Total exposures components of the ratio.

CREDIT RISK

For the purposes of these disclosures, credit exposure for the IRB portfolios refers to the calculated Exposure at Default (EAD). The EAD calculation includes amounts where customers have contractual rights to draw down further balances and estimates of interest accruals to the point of default.

The following table sets out the exposures for the various types of asset held by the Company at 31 December, and the average exposures during the year.

Table 63: Virgin Money plc credit risk exposures, risk weights and average exposures

	Exposure at 31 December 2014	RWAs at 31 December 2014	Average RWA	Average exposure in period
	£m	£m	%	£m
IRB				
Retail exposures secured by real estate collateral	**24,250.0**	**3,489.7**	**14.4**	**22,701.4**
Standardised				
Other retail exposures	**1,097.3**	**822.9**	**75.0**	**820.3**
Items in default	**7.1**	**7.1**	**100.0**	**3.4**
Central Governments and Central Banks	**1,604.1**	**-**	**-**	**1,965.7**
Multilateral development banks	**304.3**	**-**	**-**	**353.0**
Institutions	**622.5**	**139.2**	**22.4**	**717.3**
Securitisation positions	**75.0**	**16.2**	**21.6**	**90.3**
Covered Bonds	**260.2**	**26.0**	**10.0**	**133.9**
Other	**1,443.9**	**282.2**	**19.5**	**801.8**
Total standardised	**5,414.4**	**1,293.6**	**23.9**	**4,885.7**
	29,664.4	**4,783.3**	**16.1**	**27,587.1**

	Exposure at 31 December 2013	RWAs at 31 December 2013	Average RWA	Average exposure in period
	£m	£m	%	£m
IRB				
Retail exposures secured by real estate collateral	21,685.1	3,854.6	17.8	20,192.0
Standardised				
Other retail exposures	789.5	592.1	75.0	693.8
Items in default	3.2	3.2	100.0	4.8
Central Governments and Central Banks	2,301.6	-	-	2,228.6
Multilateral development banks	413.9	-	-	467.3
Institutions	893.2	208.0	23.3	919.4
Securitisation positions	99.3	19.9	20.0	97.7
Covered Bonds	46.8	4.7	10.0	38.8
Other	557.8	235.5	42.2	283.2
Total standardised	**5,105.3**	**1,063.4**	**20.8**	**4,733.6**
	26,790.4	**4,918.0**	**18.4**	**24,925.6**

The main increase in exposures during the year arose from the increase in lending to customers. Mortgages showed organic growth of £2.3 billion, giving rise to an increase in mortgage EAD of £2.5 billion. Credit card exposures also increased following the acquisition of a further portfolio of £359.3 million of Virgin Money branded credit card balances in November. This was offset by a net reduction in wholesale assets, mainly in balances with Central Banks following the increases

in lending balances at the end of the year. Finally, other exposures increased significantly, mainly as a result of increased repo activity by the Company. The gross exposures for repos (before collateral) increased by £843.3 million during the year. However, due to offsetting of collateral held against these balances and lower risk weights, the associated risk-weighted assets on repos have actually fallen by £2.9 million.

Credit risk exposure by industry

The tables below give details of the distributions of exposures by industry at 31 December 2014 and 31 December 2013.

Table 64: Virgin Money plc credit risk exposures split by industry

2014

	Mortgages – individuals	Other lending – individuals	Financial	Other assets	Total
	£m	%	£m	£m	£m
IRB					
Retail exposures secured by real estate collateral	**24,250.0**	**-**	**-**	**-**	**24,250.0**
Standardised					
Retail exposures secured by real estate collateral	**-**	**-**	**-**	**-**	**-**
Credit cards and other retail exposures	**-**	**1,097.3**	**-**	**-**	**1,097.3**
Items in default	**-**	**7.1**	**-**	**-**	**7.1**
Central Governments and Central Banks	**-**	**-**	**1,604.1**	**-**	**1,604.1**
Multilateral development banks	**-**	**-**	**304.3**	**-**	**304.3**
Institutions	**-**	**-**	**622.5**	**-**	**622.5**
Securitisation positions	**-**	**-**	**75.0**	**-**	**75.0**
Covered Bonds	**-**	**-**	**260.2**	**-**	**260.2**
Other assets	**-**	**-**	**1,179.0**	**264.9**	**1,443.9**
	24,250.0	**1,104.4**	**4,045.1**	**264.9**	**29,664.4**

2013

	Mortgages – individuals	Other lending – individuals	Financial	Other assets	Total
	£m	%	£m	£m	£m
IRB					
Retail exposures secured by real estate collateral	21,685.1	-	-	-	21,685.1
Standardised					
Retail exposures secured by real estate collateral	-	-	-	-	-
Credit cards and other retail exposures	-	789.5	-	-	789.5
Items in default	-	3.2	-	-	3.2
Central Governments and Central Banks	-	-	2,301.6	-	2,301.6
Multilateral development banks	-	-	413.9	-	413.9
Institutions	-	-	893.2	-	893.2
Securitisation positions	-	-	99.3	-	99.3
Covered Bonds	-	-	46.8	-	46.8
Other assets	-	-	176.1	381.7	557.8
	21,685.1	**792.7**	**3,930.9**	**381.7**	**26,790.4**

Geographical distribution of exposures

The tables below give details of the geographical distributions of exposures at 31 December 2014 and 31 December 2013.

Table 65: Virgin Money plc credit risk exposures by geographical area

2014	UK	Europe	Rest of the World	Total
	£m	£m	£m	£m
IRB				
Retail exposures secured by real estate collateral	**24,250.0**	**-**	**-**	**24,250.0**
Standardised				
Credit cards and other retail exposures	**1,097.3**	**-**	**-**	**1,097.3**
Items in default	**7.1**	**-**	**-**	**7.1**
Central Governments and Central Banks	**1,604.1**	**-**	**-**	**1,604.1**
Multilateral development banks	**-**	**215.1**	**89.2**	**304.3**
Institutions	**149.1**	**222.3**	**251.1**	**622.5**
Securitisation positions	**72.9**	**-**	**2.1**	**75.0**
Covered Bonds	**260.2**	**-**	**-**	**260.2**
Other	**1,167.7**	**-**	**276.2**	**1,443.9**
	28,608.4	**437.4**	**618.6**	**29,664.4**

2013	UK	Europe	Rest of the World	Total
	£m	£m	£m	£m
IRB				
Retail exposures secured by real estate collateral	21,685.1	-	-	21,685.1
Standardised				
Credit cards and other retail exposures	789.5	-	-	789.5
Items in default	3.2	-	-	3.2
Central Governments and Central Banks	2,201.5	100.1	-	2,301.6
Multilateral development banks	-	300.3	113.6	413.9
Institutions	307.2	260.7	325.3	893.2
Securitisation positions	96.2	-	3.1	99.3
Covered Bonds	46.8	-	-	46.8
Other	381.7	-	176.1	557.8
	25,511.2	**661.1**	**618.1**	**26,790.4**

Exposures by residual maturity

The following tables give details of the contractual residual maturities of exposures at 31 December 2014 and 31 December 2013.

Table 66: Virgin Money plc credit risk exposures split by residual maturity

2014

	Residual maturity			
	< 1 year	1-5 yrs	> 5 years	Total
	£m	£m	£m	£m
IRB				
Retail exposures secured by real estate collateral	**107.7**	**849.9**	**23,292.4**	**24,250.0**
Standardised				
Retail exposures secured by real estate collateral				
Credit cards and other retail exposures	**1,097.3**	**-**	**-**	**1,097.3**
Items in default	**7.1**	**-**	**-**	**7.1**
Central Governments and Central Banks	**841.9**	**99.8**	**662.4**	**1,604.1**
Multilateral development banks	**90.8**	**111.9**	**101.6**	**304.3**
Institutions	**475.0**	**139.1**	**8.4**	**622.5**
Securitisation positions	**-**	**-**	**75.0**	**75.0**
Covered Bonds	**20.1**	**113.8**	**126.3**	**260.2**
Other	**1,443.9**	**-**	**-**	**1,443.9**
	4,083.8	**1,314.5**	**24,266.1**	**29,664.4**

2013

	Residual maturity			
	< 1 year	1-5 yrs	> 5 years	Total
	£m	£m	£m	£m
IRB				
Retail exposures secured by real estate collateral	100.9	753.4	20,830.8	21,685.1
Standardised				
Retail exposures secured by real estate collateral				
Other retail exposures	789.5	-	-	789.5
Items in default	3.2	-	-	3.2
Central Governments and Central Banks	1,515.6	100.1	685.9	2,301.6
Multilateral development banks	68.7	291.0	54.2	413.9
Institutions	632.2	226.0	35.0	893.2
Securitisation positions	-	-	99.3	99.3
Covered Bonds	-	46.8	-	46.8
Other	557.8	-	-	557.8
	3,667.9	**1,417.3**	**21,705.2**	**26,790.4**

Credit risk impairments

For a discussion of credit impairment for the Company see pages 36 to 40 in the main body of the narrative.

Analysis of past due and impaired loans and advances to customers

The table below indicates the level of impaired and past due exposures by exposure class, and of the levels of provisions against them at 31 December 2014.

Table 67: Virgin Money plc analysis of past due and impaired loans and advances to customers

2014

	Impaired exposures	Past due but not impaired	General impairment provisions	Specific impairment provisions
	£m	£m	£m	£m
Retail exposures secured by real estate collateral	**76.5**	**200.2**	**2.6**	**5.0**
Credit cards	**27.4**	**-**	**5.9**	**17.0**
Other retail exposures	**-**	**-**	**0.1**	**-**
	103.9	**200.2**	**8.6**	**22.0**

2013

	Impaired exposures	Past due but not impaired	General impairment provisions	Specific impairment provisions
	£m	£m	£m	£m
Retail exposures secured by real estate collateral	111.7	189.5	5.5	2.0
Credit cards	26.6	-	10.9	16.1
Other retail exposures	-	-	0.1	-
	138.3	**189.5**	**16.5**	**18.1**

Total mortgage provisions as a percentage of secured impaired loans have increased from 6.8% in 2013 to 9.9% as at 31 December 2014. The increase in impairment provisions for residential buy-to-let mortgages is partly attributed to a small number of operational losses seen in 2014, as well as growth in buy-to-let balances.

Unsecured (credit cards and overdrafts) provisions as a percentage of unsecured impaired loans have decreased from 101.9% in 2013 to 83.9% as at 31 December 2014. This is a result of increased loans and advances reported at 2014 year end relating to £359.3 million migrating to the balance sheet from MBNA.

Analysis of movements in impairment provisions

Table 68: Virgin Money plc analysis of movements in impairment provisions

	Retail mortgages £m	Credit cards £m	Other retail exposures £m	Total £m
General impairment provisions				
At 1 January 2014	**5.5**	**10.9**	**0.1**	**16.5**
Increase/(decrease) in provision during year net of recoveries	**(2.9)**	**(5.0)**	**-**	**(7.9)**
Amounts written off during the year	**-**	**-**	**-**	**-**
At 31 December 2014	**2.6**	**5.9**	**0.1**	**8.6**
Specific impairment provisions				
At 1 January 2014	**2.0**	**16.1**	**-**	**18.1**
Increase/(decrease) in provision during year net of recoveries	**4.2**	**19.6**	**-**	**23.8**
Amounts written off during the year	**(1.2)**	**(18.7)**	**-**	**(19.9)**
At 31 December 2014	**5.0**	**17.0**	**-**	**22.0**

Virgin Money plc remuneration disclosures

Virgin Money plc has the same remuneration policy as the rest of the Group, and so for the individual Company disclosures please see Appendix 4.

GLOSSARY

Arrears	For secured, this is where the customer has failed to make contractual due date and the payment shortfall exceeds 1% of the current monthly contractual payment amount. For unsecured, this is where the customer has failed to meet the scheduled minimum monthly payment; i.e. the customer is at least one month past due.
Available-for-sale Reserve	This reserve represents the unrealised change in the fair value of available for sale investments since initial recognition.
Asset Backed Securities (ABS)	Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows, including credit card assets, but are commonly pools of residential or commercial mortgages. Investors in these securities have the right to cash received from future payments (interest and/or principal) on the underlying asset pool. See also **RMBS**.
Basel III	Global regulatory standard on Bank Capital Adequacy, Stress Testing and Market and Liquidity proposed by the Basel Committee on Banking Supervision in 2010. It aims to strengthen regulation, supervision and risk management in the banking sector. See also **CRD IV**.
Board	The Company Board.
Capital at Risk (CaR)	Approach set out for the quantification of interest rate risk expressed as present value of the impact of the sensitivity analysis on the Group's capital.
Charge off	Charge off occurs on outstanding credit card balances which are deemed irrecoverable. This involves the removal of the balance and associated provision from the balance sheet with any remaining outstanding balance recognised as a loss.
Collective impairment allowances	Assets may be assessed for impairment allowance on a collective basis for loans of similar attributes; e.g. payment status; given the homogeneous nature of assets in the portfolio.
Company	Virgin Money Holdings (UK) plc. In Appendix 5, Virgin Money plc.
Conduct risk	The risk that our operating model, culture or actions result in unfair outcomes for customers.
Common Equity Tier 1 capital ('CET1')	The highest form of regulatory capital under Basel III that comprises common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.
CET 1 ratio	CET 1 capital expressed as a percentage of total risk-weighted assets.
CRD IV	In June 2013, the European Commission published legislation for a Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) which form the CRD IV package. The package implements the Basel III proposals in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. The rules are implemented in the UK via the PRA policy statement PS7/13 and came into force from 1 January 2014, with certain sections subject to transitional phase in.
Credit risk	Credit risk is the risk that a borrower or counterparty fails to pay the interest or the capital on a loan or other financial instrument on time.
CSA	Credit Support Annexes.
Default	Default occurs where a borrower has missed 6 months of mortgage repayments or 3 months of credit card repayments, or, the borrower is deemed to be unlikely to repay their loan. The definition of unlikely to repay includes those loans where: the property has been taken into possession; loans that have been modified in the form of a ''Rescue Solution'' debt management plan; loans where the customer is at least one month in arrears and they have active public information at the credit bureau.
Earnings at Risk (EaR)	Approach set out for the quantification of interest rate risk expressed as the impact of the sensitivity analysis on the change to net interest income.
Excess expected loss	Where expected losses exceed accounting impairment provisions linked to the underlying credit risk exposures the resultant excess expected loss is deducted from Common Equity Tier 1 capital.
Expected Loss (EL)	Expected Loss (EL) represents the anticipated loss, in the event of a default, on a credit risk exposure modeled under the internal ratings based approach. EL is determined by multiplying the associated PD, LGD and EAD
Exposure	An asset, off-balance sheet item or position which carries a risk of financial loss.
Exposure at default (EAD)	A parameter used in IRB approaches to estimate the amount outstanding at the time of default. The EAD calculation includes amounts where customers have contractual rights to draw down further balances and estimates of interest accruals to the point of default.
Foreign exchange risk	The risk of changes to asset/liability values due to movements in exchange rates.

Funding for Lending Scheme (FLS)	The Bank of England launched the Funding for Lending scheme in 2012 to allow banks and building societies to borrow from the Bank of England at cheaper than market rates for up to four years. This was designed to increase lending to businesses by lowering interest rates and increasing access to credit.
FCA	Financial Conduct Authority.
Funding risk	The inability to raise and maintain sufficient funding in quality and quantity to support the delivery of the business plan.
Group	The Company and its subsidiaries.
Haircut	Where an asset's market value is reduced for the purpose of calculating collateral levels.
Help to Buy	'Help to Buy' was formed as part of the 2013 budget announcement by the government and is part of a package of measures designed to increase the availability of low-deposit mortgages for credit worthy households and to boost the supply of new housing.
IFRS	International Financial Reporting Standards.
Impaired assets	Loans that are in arrears, or where there is objective evidence of impairment, and where the carrying amount of the loan exceeds the expected recoverable amount.
Interest rate risk	The risk of a reduction in the value of earnings or assets resulting from an adverse movement in interest rates.
Interest rate swap	An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount.
ISDA	International Swaps and Derivatives Association.
LGD	Loss Given Default. A parameter used to estimate the difference between exposure at default (EAD) and the net amount of the expected recovery expressed as a percentage of EAD.
Legal risk	The risk of Virgin Money activities being unlawful and not aligned to with best legal practice.
Liquidity risk	The inability to accommodate liability maturities and withdrawals, fund asset growth, and otherwise meet our contractual obligations to make payments as they fall due.
Long run average probability of default	An estimate of the likelihood of a borrower defaulting on their credit obligations over a forward looking 12 month period, with the estimates based on default experience across a full economic cycle rather than current economic conditions.
Market risk	The risk that the value of, or net income arising from, assets and liabilities changes as a result of movements in interest or exchange rates.
Model risk	The risk arising through deficiencies in the development of a model or its control environment including quality and control of model inputs and outputs, leading to sub-standard decision-making and/or financial loss.
Neither past due nor impaired	Loans that are not in arrears and which do not meet the impaired asset definition. This segment can include assets subject to forbearance solutions.
Neither past due nor impaired but in forbearance	Loans that are categorised as neither past due nor impaired, but are currently subject to one of the defined forbearance solutions.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.
OTC	Over the Counter.
Other encumbered assets	Assets that cannot be used for secured funding due to legal or other reasons. These include cash reserves supporting secured funding structures.
Own funds	Total capital. The sum of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital.
Past due	Past due items is an exposure class under the standardised approach to credit risk. An asset falls into this exposure class when it is more than 90 days past due and fails to meet payments when they are contractually due.
Past due but not impaired	Loans that are in arrears or where there is objective evidence of impairment, but the asset does not meet the definition of an impaired asset as the expected recoverable amount exceeds the carrying amount.
Pillar 1	The part of CRD IV that sets out the process by which regulatory capital requirements should be calculated for credit, market and operational risk.
Pillar 2	The part of CRD IV that sets out the process by which a bank should review its overall capital adequacy and the processes under which the supervisors evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments.

Pillar 3	The part of CRD IV that sets out the information banks must disclose in relation to their risks, the amount of capital required to absorb them, and their approach to risk management. The aim is to strengthen market discipline.
PD	Probability of Default measures the probability of a customer reaching default over a defined outcome period. The definition of default varies across products and varies for assessment of capital requirements and for assessment of provisions.
PRA	Prudential Regulation Authority.
Repurchase Agreements or 'Repos'	An agreement where one party, the seller, sells a financial asset to another party, the buyer, at the same time the seller agrees to reacquire and the buyer to resell the asset at a later date. From the seller's perspective such agreements are repurchase agreements (repos) and from the buyer's reverse repurchase agreements (reverse repos).
Retail IRB approach	A CRD IV approach for measuring exposure to retail credit risks. The method of calculating credit risk capital requirements uses internal PD, LGD and EAD models. IRB approaches may only be used with PRA permission.
RMBS	Residential Mortgage Backed Securities.
Risk-weighted assets (RWAs)	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with PRA rules.
Secured lending	Lending on which the borrower uses collateral such as equity in their home.
Securitisation	A process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities. A company transfers assets to a special purpose vehicle (SPV) which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities. These securitisation structures use retail mortgages as the asset pool. In addition, the Group invests in various securitisation structures in its Treasury portfolio.
Senior management	An individual other than a director: (a) who is employed by: (i) a firm; or (ii) a body corporate within a group of which the firm is a member; (b) to whom the governing body of the firm, or a member of the governing body of the firm, has given responsibility, either alone or jointly with others, for management and supervision; (c) who, if the individual is employed by the firm, reports directly to: (i) the governing body; or (ii) a member of the governing body; or (iii) the chief executive; or (iv) the head of a significant business unit; and (d) who, if the individual is employed by a body corporate within the Group, reports directly to a person who is the equivalent of a body or person referred to in (c).
SPV	Special Purpose Vehicle.
Standardised approach	The basic method used to calculate credit risk capital requirements under CRD IV. In this approach the risk weights used in the capital calculation are determined by PRA supervisory parameters. The Standardised approach is less risk-sensitive than IRB.
Tier 1 capital	A measure of a bank's financial strength defined by the PRA. It comprises Common Equity Tier 1 capital plus other Tier 1 securities in issue.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 capital	A further component of regulatory capital defined by the PRA. For the Group, it comprises eligible general impairment allowances under CRD IV.
Unencumbered assets	Assets that are readily available to secure funding or to meet collateral requirements, and assets that are not subject to any restrictions but are not readily available for use.
Unsecured lending	Lending with no collateral held such as credit cards and current account overdrafts.
Write off	Mortgages may be written off where the outstanding balance, or shortfall from sale of property is deemed irrecoverable. Assets written off will be deducted from the balance sheet. For credit cards a write off occurs following charge off when all attempts to recover the outstanding balance is exhausted and the account is closed.

Issued by Virgin Money Holdings (UK) plc.
Registered office: Jubilee House, Gosforth,
Newcastle upon Tyne NE3 4PL
Registered in England and Wales no. 03087587

virginmoney.com