5 March 2015

Pursuant to Listing Rule 9.6.1, copies of the following documents have been submitted to the UK Listing Authority and will shortly be available for inspection at the UK Listing Authority's Document Viewing Facility, via the National Storage Mechanism, which is located at: www.hemscott.com/nsm.do.

- Annual Report and Accounts 2014

A copy of the Annual Report and Accounts 2014, Pillar III Report 2014 and an investor presentation are available within the Investor Relations section of our website www.virginmoney.com.

This announcement also contains additional information for the purposes of compliance with the Disclosure and Transparency Rules, including principal risks and uncertainties, details of related party transactions and a responsibility statement. Reference to pages and numbers refer to page numbers and notes to the annual accounts in the Annual Report and Accounts 2014.

Virgin Money Holdings (UK) plc

Full year results

BASIS OF PRESENTATION

This report covers the results of Virgin Money Holdings (UK) plc together with its subsidiaries ("Virgin Money" or "the Group") for the year ended 31 December 2014.

Statutory basis

Statutory information is set out in the Financial Statements section of this announcement.

Underlying basis

In order to present a more meaningful view of business performance, the results of the Group and business units are presented on an underlying basis of reporting are described below.

The following items have been excluded from underlying profits;
- credit card and current account platform build;
- costs associated with listing;
- additional Northern Rock consideration;
- FSCS levies;
- fair value adjustments;
- gain on sale of subsidiary and trading loss of disposal group; and
- premium on repurchase of Non-core Tier 1 notes.

Note: 2013 figures are restated. See note 39 of the financial statements for details.

The financial statements have been restated as set out in Note 39: the Group has adopted IFRIC 21 which has resulted in a reassessment of the liability recognised in previous periods in relation to the FSCS levy. During the year, the Group undertook a review of the allocation and classification of both costs and income. Following this review, the Group has realigned elements of fee and commission income, fee and commission expense and operating expenses to better reflect the nature of these costs. The Group has restated information for the preceding comparative periods.

Unless otherwise stated, income statement commentaries throughout this document compare the year ended 31 December 2014 to the year ended 31 December 2013, and the balance sheet analysis compares the Group balance sheet as at 31 December 2014 to the Group balance sheet as at 31 December 2013.

Forward looking statements

This document contains certain forward looking statements with respect to the business, strategy and plans of Virgin Money Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Virgin Money Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other G8 central banks; fluctuations in exchange rates, stock markets and currencies; changes to Virgin Money's credit ratings; changing demographic developments, including mortality and changing customer behaviour, including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes; natural and other disasters, adverse weather and similar contingencies outside Virgin Money's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices; regulatory capital or liquidity requirements and similar contingencies outside Virgin Money's control; the policies and actions of governmental or regulatory authorities in the UK, the European Union, the US or elsewhere; the implementation of the EU Bank Recovery and Resolution Directive and banking reform, following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; market relating trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and the success of Virgin Money in managing the risks of the foregoing.

Any forward-looking statements made in this document speak only as of the date they are made and it should not be assumed that they have been revised or updated in the light of new information of future events. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange plc or applicable law, Virgin Money expressly disclaims any obligation or undertaking to release publicly any updates of revisions to any forward-looking statements contained in this document to reflect any change in Virgin Money's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

VIRGIN MONEY GROUP 2014 RESULTS

- **Record performance and profits in a landmark year for the business**
- **Underlying profit before tax increased by 127 per cent to £121.2 million, from £53.4 million in 2013**

GROWTH

Delivered strong growth in mortgage, savings and credit card balances

- Mortgage balances increased to £21.9 billion, up 11.8 per cent against market growth of 1.4 per cent.
- Net lending of £2.3 billion, a market share of 10.2 per cent.
- Credit card balances increased to £1.1 billion, up 41 per cent.
- Retail deposit balances increased to £22.4 billion, up 6 per cent.

QUALITY

Maintained focus on a high-quality balance sheet, underpinned by high asset quality and a conservative risk appetite

- Held mortgage arrears at low levels, with loans over three months in arrears of 0.31 per cent compared with the latest industry average of 1.33 per cent.
- Maintained low credit card arrears, with credit card balances two or more payments in arrears of 1.46 per cent, compared with the latest industry average of 2.64 per cent.
- Strong capital position, with a fully-loaded Common Equity Tier 1 ratio of 19.0 per cent in 2014, compared to 15.5 per cent in 2013.
- Strong leverage ratio, increasing to 4.1 per cent in 2014 from 3.8 per cent in 2013.

RETURNS

Delivered significant improvement in profitability, reflecting balance sheet growth and higher margins

- Underlying profit before tax increased by 127 per cent to £121.2 million, from £53.4 million in 2013.
- Underlying net interest margin grew by 24 basis points to 1.50 per cent, from 1.26 per cent in 2013.
- Underlying cost:income ratio improved to 68.7 per cent, from 77.2 per cent in 2013.
- Underlying return on tangible equity grew by 5.1 percentage points to 7.4 per cent, from 2.3 per cent in 2013.
- Statutory profit before tax of £34.0 million despite costs associated with the Initial Public Offering and payment of additional consideration for Northern Rock plc to HM Treasury following the successful listing on the London Stock Exchange.

CULTURE

As well as delivering a strong corporate performance, Virgin Money also delivered to other stakeholders in 2014

- Customers – increased overall Net Promoter Score, a key measure of customer advocacy, to +16, one of the highest scores of any UK bank.
- Communities – over £88 million was donated to charities in 2014, including Gift Aid, through Virgin Money Giving, Virgin Money's not-for-profit online donation service.
- Corporate partners – over 13,000 Intermediary Partners introduced mortgage business to Virgin Money in 2014, and the Group was awarded the coveted Five Star Financial Adviser award for intermediary service.
- Colleagues – increased colleague engagement to 86 per cent, the level of a large high-performing UK company and an overall share in success bonus and IPO share award, averaging over 11 per cent of base salary, was awarded to eligible employees, on top of their normal bonus awards.

2014 was a landmark year in Virgin Money's history, culminating in our successful listing on the London Stock Exchange in November.

"I am delighted to report a 127 per cent increase in underlying profit for 2014 which ended the year at £121.2 million.

"We have made great progress against our objectives to achieve strong growth, maintain our high-quality balance sheet and deliver returns to shareholders. We set out to be a credible and effective challenger to the large incumbent banks and I believe we have laid an excellent foundation on which to realise our ambition. We now rank in the top six of all UK net mortgage lenders and are among the highest rated retail banks in the UK by Net Promoter Score.

"We aim always to live up to the consumer champion ethos of the Virgin brand and our conservative approach to risk and strong financial performance go hand in hand with our commitment to serve the needs of customers and communities.

"Following the progress made in 2014 I am pleased to report that we expect to be admitted to the FTSE 250 on 20 March 2015.

"Our staff are at the heart of Virgin Money and I would like to thank them for their hard work throughout what has been a landmark year for the business. I am pleased we are able to reward all eligible employees with a share in success bonus on top of their normal bonus awards, to add to the £1,000 of shares that all employees received on listing."

Jayne-Anne Gadhia
Chief Executive

STRATEGIC UPDATE AND OUTLOOK

Continued strong performance in 2014 provides a positive platform for the future

STRATEGIC UPDATE

- Overall our guidance for the mid-term is unchanged from that given prior to listing.
- We continue to target mid-teens return on tangible equity by the end of 2016.
- We will continue to maximise our net interest margin within our prudent risk appetite.
- Our net interest margin will be further enhanced in the longer term by the growth of our credit card business which we are building in partnership with TSYS.
- We will continue to take advantage of our operational leverage to deliver a cost:income ratio of around 50 per cent by 2017.
- 2015 will see us continue to enhance our existing capabilities, and develop our current account, insurance and digital offerings.
- As announced in September 2014, Glen Moreno will assume the Chairmanship of Virgin Money in May 2015, taking over from the current Chairman, Sir David Clementi. Sir David will stand down as Chairman of the Board on 21 May 2015 and will retire as Non-Executive Director of Virgin Money on 30 June 2015.

OUTLOOK

- The UK economy is performing well although there remains uncertainty at home and abroad.
- Despite an increasingly competitive market environment, we plan to continue to achieve a market share of annual gross mortgage lending of over 3 per cent. We will build upon our existing high-quality mortgage business, without significantly increasing our risk appetite.
- We have the core infrastructure needed to grow to our target of £3 billion of credit card balances by the end of 2018. Growth in credit cards will enhance our net interest margin and our return on equity, and will enable us to drive further capital efficiency.
- We are uniquely placed to provide effective competition to the large incumbent banks in the UK and we look forward to the outcome of the Competition and Markets Authority (CMA) investigation into Retail and SME banking.
- According to Bank of England data, in January we took almost 4 per cent market share of mortgages, reinforcing our confidence in our strategy and in delivering our organic plan for growth.

UNDERLYING BASIS CONSOLIDATED INCOME STATEMENT

	2014 £m	2013 £m	Change %
Net interest income	366.1	289.2	27%
Other income	72.1	72.3	0%
Total income	438.2	361.5	21%
Costs	(301.2)	(279.2)	8%
Impairments	(15.8)	(28.9)	(45)%
Underlying profit before tax	121.2	53.4	127%

UNDERLYING BASIS CONSOLIDATED BALANCE SHEET AND KEY RATIOS

ASSETS

	2014 £m	2013 £m	Change %
Cash and balances at Central Banks	851.3	1,423.5	(40)%
Loans and receivables	23,822.2	20,978.8	14%
Available-for-sale financial assets	1,539.6	1,679.2	(8)%
Other assets	323.7	483.5	(33)%
Total assets	26,536.8	24,565.0	8%

LIABILITIES AND EQUITY

Deposits from banks	846.7	389.2	118%
Customer deposits	22,365.7	21,121.4	6%
Debt securities in issue	1,594.1	1,469.8	8%
Other liabilities	477.2	642.2	(26)%
Provisions	9.3	7.5	24%
Total liabilities	25,293.0	23,630.1	7%
Total equity	1,243.8	934.9	33%
Total liabilities and equity	26,536.8	24,565.0	8%

KEY RATIOS

	2014 %	2013 %	Change %
Net interest margin	1.50	1.26	19%
Underlying cost:income ratio	68.7	77.2	(11)%
Cost of risk[1]	0.11	0.15	(27)%
Basic earnings per share – underlying (pence)	21.4	8.1	164%
Loan-to-deposit ratio	102.8	96.4	7%
Common Equity Tier 1 ratio	19.0	15.5	23%
Leverage ratio	4.1	3.8	8%
Underlying return on tangible equity	7.4	2.3	222%

[1] Cost of risk excludes benefit of debt sale of £8.9 million

RECONCILIATION TO STATUTORY PROFIT

	2014 £m	2013 £m	Change %
Underlying profit before tax	121.2	53.4	127%
Additional Northern Rock consideration	(36.0)	(9.0)	300%
One-off costs associated with IPO (2014) and intangible assets (2013)	(23.9)	(34.6)	(31)%
Strategic transaction (costs)/ income	(10.9)	189.0	(106)%
FSCS levy	(16.4)	(13.4)	22%
Statutory profit before tax	34.0	185.4	(82)%

CHIEF EXECUTIVE'S REVIEW

"2014 was a significant year in Virgin Money's history, culminating in our successful listing on the London Stock Exchange in November.

As well as completing our IPO, we delivered excellent business performance, maintaining our strong growth momentum, continuing to build our high-quality balance sheet and delivering improving returns.

As a public company we remain committed to maintaining our straightforward, transparent approach to banking that we believe is better for customers. With our powerful brand, high-quality balance sheet and strong core business franchise, we remain confident that we can continue our growth trajectory, improving our net interest margin while protecting the quality of our balance sheet, and can generate increasing returns and dividends for our shareholders.

Results overview

2014 was an important year in positioning Virgin Money as a leading challenger bank, able to grow on its strong foundations, untainted by legacy issues.

We improved our financial performance substantially in 2014. We increased our underlying profit by 127 per cent to £121.2 million, as a result of our focus on driving growth, quality and returns.

On an underlying basis, our total income grew by 21 per cent to £438.2 million, driven mainly by strong growth in our mortgage business and a 24 basis point increase in our net interest margin to 1.50 per cent, while our total costs increased by 8 per cent to £301.2 million. During the year, the total impairment charge fell by 15 per cent to £24.7 million, excluding a further benefit of £8.9 million arising from the sale of credit card debt.

As a result, the Group's underlying return on risk-weighted assets improved by 103 basis points to 1.41 per cent, and our underlying return on tangible equity improved from 2.3 per cent to 7.4 per cent.

On a statutory basis, Virgin Money delivered a profit before tax of £34.0 million, compared to £185.4 million in 2013. This reduction in our statutory profit is a reflection of an exceptional gain of £203.4 million in 2013 related to the disposal of Virgin Money Cards Limited, which was undertaken in parallel with our acquisition of £1 billion of Virgin Money credit cards from MBNA, as well as one-off costs in 2014 related to our IPO.

Our strong growth performance during the year was achieved whilst maintaining a high-quality balance sheet. At the end of the year, our fully-loaded Basel III Common Equity Tier 1 capital ratio was 19.0 per cent, our leverage ratio was 4.1 per cent and our loan-to-deposit ratio was 102.8 per cent. During the year, we continued to manage our balance sheet carefully with a view to maintaining its quality and efficiency.

Delivering outstanding growth

Growth potential exists across our business as demonstrated by our performance in 2014. Our ability to capture that growth potential has been enhanced through our successful listing on the London Stock Exchange in November 2014.

Mortgages

We delivered gross mortgage lending of £5.8 billion in 2014, and achieved 12 per cent growth in mortgage balances to £21.9 billion. This represents a market share of mortgage stock of 1.7 per cent. Over the year, our growth of 12 per cent in mortgage balances exceeded market growth of 1.4 per cent.

We took steps to accelerate our lending in the second half of the year, in light of renewed capital guidance from the Prudential Regulation Authority and the receipt of £150 million of primary capital from our IPO. We were pleased to achieve a second half market share of gross mortgage lending of 3.1 per cent and continue to anticipate a market share of more than 3.0 per cent in each of the years to come.

Our mortgage business remains high-quality, with an average loan-to-value of new lending of 67 per cent and a buy-to-let exposure of around 15 per cent. Impairments in our mortgage business reduced significantly during the course of the year.

Mortgage distribution performed particularly strongly during 2014 with significant growth in our intermediary channel achieved through a focus on product quality, transparency to customers and superior service. Our success in this channel was recognised towards the end of the year by the intermediary market awarding us the coveted Five Star Financial Adviser award for service.

Our performance was particularly pleasing given the changes in the mortgage market in 2014 following the introduction of the Mortgage Market Review (MMR). We had prepared thoroughly for the implementation of these requirements in April 2014 and were able to continue to build our business with confidence following the introduction of the new rules.

We remain of the view that our intermediary-led distribution model is a competitive advantage given the importance of advice in the post-MMR world.

Credit cards

A further important development in 2014 has been the successful establishment of our own in-house credit card business.

This business will enable us to diversify our asset mix and grow the volume of high-quality credit card lending that we have previously delivered successfully in partnership with MBNA.

We have partnered with TSYS to build our own cards platform and, as a result, we have created scalable, low-cost, flexible operations.

During the course of 2014 we completed our agreement with MBNA to acquire a proportion of the book that we had built with them over previous years and to transfer to our own balance sheet new business written in 2013 and 2014.

As a result, we ended the year with credit card balances of £1.1 billion and with the core infrastructure needed to grow to our target of £3 billion of credit card balances by the end of 2018. Growth in credit cards will enhance our net interest margin and our return on equity, and will enable us to achieve a more efficient use of our capital, taking account of risk-weighted capital requirements and leverage ratio requirements.

Deposits

Our deposits franchise continued to flourish in 2014. We continued to offer customers a range of competitively-priced instant access and fixed term products as well as Cash ISAs, through all our channels: store, online, digital and telephone. Our online-led distribution model, supported by our efficient national store footprint, was a key factor in growing our retail deposit business in a cost-effective way during the year.

During the course of the year our deposit balances grew by 6 per cent to £22.4 billion, a market share of 1.4 per cent. Both the average tenor of our retail deposit base and our customer retention improved during the year. Our performance during 2014 gives us great confidence in our ability to grow our retail deposits on an ongoing basis in the years to come.

Access to funding to support growth

We made further progress in diversifying our funding position during the year. In September 2014 we completed our fourth public issuance under our securitisation programme. Strong investor demand enabled us to raise £1 billion from investors at attractive margins. We also accessed the Funding for Lending scheme to support our mortgage growth.

Building capabilities for future growth

During the year we made significant strides in expanding our product range. The build of our current account – the Virgin Essential Current Account – was completed in December 2013, and a pilot operated in Stores in Scotland and Northern Ireland during 2014. Following the success of this initiative, we will offer this product through all Stores in 2015.

Our potential to grow profitably at scale in current accounts is limited by the structure of the UK current account market, including the low level of switching and the predominance of free-if-in-credit banking. We look forward to the recommendations of the CMA and believe we are well-placed to grow in this important market if, as we hope, their recommendations result in a properly competitive current account marketplace.

We also developed our insurance capabilities during the course of 2014 through the build of our new life insurance proposition with our partner Friends Life and through the establishment of an attractive contractual relationship with Ageas for home and motor insurance. These products, in addition to our successful travel insurance and pet insurance businesses, position us well for the years to come.

During 2014 we agreed a contract with Monitise to provide Virgin Money with enhanced digital capability. We expect the first output from this agreement to be available for consumers in 2015.

Maintaining a high-quality balance sheet

In 2014 we continued to focus on ensuring that our balance sheet is safe, secure and fit for purpose for both the regulatory environment of today and that of the future. Our capital position exceeds the requirements of Basel III well in advance of its full implementation at the start of 2019.

Our fully-loaded Common Equity Tier 1 ratio improved to 19.0 per cent at the end of 2014. During the year we raised £150 million of new equity capital at the time of our IPO. We raised a further £160 million through Additional Tier 1 securities in July, and used these funds to repay Non-core Tier 1 notes held by the Government following our acquisition of Northern Rock plc, benefiting our cost of capital. These developments demonstrate our ability to increase and diversify our capital base.

We were not required to participate in the 2014 UK-wide stress test, which was applied to the eight largest banks and building societies. However, we replicated in full the UK stress test scenario, which included a substantial fall in house prices along with rising interest rates and unemployment, and the results demonstrate we have adequate resources to withstand such a scenario.

Our leverage ratio improved to 4.1 per cent at the end of 2014, well in excess of the 3.0 per cent minimum requirement and above the level, including a leverage ratio buffer that we expect to be required to hold as a ring-fenced bank.

During the course of the year we continued to focus on our liquidity position and remain confident, although always vigilant, that our liquidity policy enables us to achieve an appropriate balance between profitability and liquidity risk.

In January 2014 the rating agency Fitch upgraded Virgin Money plc's long-term rating to BBB+ and its short-term rating to F2. These ratings were further affirmed by Fitch in November 2014.

Delivering improving returns

The improvement in our underlying return on tangible equity from 2.3 per cent to 7.4 per cent reflects the successful delivery of our business plan for the year.

Key contributors to this improvement were strong growth in mortgage balances and a significant improvement in our net interest margin, enabling us to grow income during the year by 21 per cent. We also saw the total impairment charge for the year almost halve, supported by continued low interest rates and a benefit from the sale of credit card debt.

Management of cost remains a key focus for the business and underlying cost growth during the year was limited to 8 per cent, meaning that we further improved our cost:income ratio.

We believe there is still significant scope to improve our cost efficiency and we are confident that our returns will be enhanced by taking further advantage of our operational leverage in the years to come.

Colleagues and communities

Our positive results for 2014 would not have been possible without the hard work of our colleagues at Virgin Money, and their commitment to our vision to create a better bank for the benefit of customers and communities in the UK, and to provide fair, sustainable and growing shareholder returns.

Despite the workload and pressures of 2014, the results of our Staff Engagement Survey continue to be world-class, with an industry-leading staff engagement score of 86 per cent.

I am pleased that, during the year, we were able to continue our work to support our local communities, both through sponsorships such as the London Marathon and our investment in our not-for-profit online donation engine Virgin Money Giving. Virgin Money Giving enhances the Virgin Money brand and around five per cent of Virgin Money Giving users go on to become Virgin Money customers.

In December we announced our intention to create the Virgin Money Foundation, supported by £4 million of Government funding and an initial £1 million from Virgin Money, with a view to investing in good causes in the North East of England. The Foundation will, over time, make a significant impact on communities across the UK.

Customers

Ours is a national customer base with access to Virgin Money through all forms of distribution channels including online, mobile, intermediary, store, telephone and also through our Virgin Money Lounges.

Investment in the digital channel in 2014 has continued to develop both functionality and content to enhance our customer experience. For example, customers are increasingly accessing us online through mobile devices, with almost 30 per cent of website visits in 2014 made in this way, and in recognition of this we made significant progress during the year in building a mobile solution for our customers.

During 2014 we opened new Virgin Money Lounges in the centre of London and in Glasgow, and I am pleased to report that all of our Lounges have enjoyed materially increasing footfall and that the Net Promoter Score (NPS) results that they drive are in excess of those of leading retailers. However, it is not just our Lounges that drive excellent customer service. With an overall NPS score of +16, we believe that we are one of the leading UK retail banks for customer service and we remain the only major UK bank to resolve all complaints within eight weeks.

It is our intention to continue to build on our customer franchise, the positive attributes of our brand and our position as a trusted consumer champion in the UK retail banking market.

Management team

A key driver of our future performance is ensuring we have the right management team in place. To support continued growth in the business and the planned expansion of product lines, we have strengthened the Executive further.

Richard Hemsley has recently joined as Chief Banking Officer, with overall responsibility for the commercial performance of all non-cards products lines, as well as the customer and operations divisions that support them. Darrell Evans has also been appointed as a new Commercial Director to lead growth in current accounts, insurance and investments. I am delighted to welcome Richard and Darrell to Virgin Money.

Outlook

Our vision is to bring a positively-differentiated approach to banking through our ambition to make ‘everyone better off’. We will achieve this by delivering good value to our customers, treating colleagues well, making a positive contribution to society, building positive relationships with partners and delivering growing shareholder returns.

In delivering our vision, we aim to achieve strong and sustainable growth in our business while maintaining our high-quality balance sheet, and in so doing provide increasing returns for our shareholders.

I am delighted that in 2014 we have delivered strongly against this objective. We have delivered strong financial results, we have built a robust platform for the future, and we have listed successfully on the London Stock Exchange.

In closing I wish to thank Sir David Clementi for his stewardship and guidance during the last three years. I look forward to working with Glen Moreno as he takes over during the course of 2015 as Chairman of Virgin Money. I know that together and with the support of all our Virgin Money colleagues we will continue to develop the leading challenger bank that will provide growth, quality and returns for all our stakeholders.

Jayne-Anne Gadhia CBE
Chief Executive

CHIEF FINANCIAL OFFICER'S OVERVIEW OF PERFORMANCE

In 2014, we delivered growth in the balance sheet, maintained high asset quality, significantly improved profitability and strengthened capital ratios to support continued growth. Income grew as mortgage lending increased and funding costs fell, more than offsetting lower yields on mortgage lending. Expenses continued to grow at a lower rate than income which, combined with a reduction in the cost of risk, resulted in an increase in underlying profits from £53.4 million to £121.2 million.

Significantly improved underlying profitability

Group underlying profitability more than doubled compared to 2013, increasing by £67.8 million to £121.2 million. The underlying return on tangible equity improved to 7.4% from 2.3% principally due to increased underlying profitability and after taking into account the £150 million of new capital raised as part of our listing in November 2014. After expenses charged directly to equity relating to the capital raise, the net increase in common equity from the listing was £145.4 million.

Underlying net interest income grew by 27% to £366.1 million as a result of improved net interest margin and growth in mortgage balances, which also drove growth in underlying total income of 21% to £438.2 million. Underlying other income was broadly unchanged at £72.1 million.

We maintained our focus on cost control and efficiency, with total underlying costs growing by 8% to £301.2 million, reflecting mainly the continued build out of capability in and increased headcount to support the launch of our credit card business on our own platform.

The impairment charge fell by 45% to £15.8 million reflecting continued high asset quality and lower customer defaults due to the low interest rate environment. In addition, this reduction included a positive adjustment of £8.9 million following a successful sale of charged-off credit card balances.

Underlying earnings per share was 21.4p in 2014 compared to underlying earnings per share of 8.1p in 2013.

Our statutory profit before tax of £34.0 million for 2014 compared to a statutory profit before tax of £185.4 million in 2013. This was primarily as the result of recording a gain on the sale of a subsidiary of £203.4 million in 2013, as well as one-off Initial Public Offering transaction costs in 2014.

In 2014 the Group was subject to a higher effective tax rate than the UK statutory rate primarily due to a one-off payment to HM Treasury and listing costs incurred during the year not being deductible for tax purposes.

Statutory profit after tax was £8.7 million and earnings per share was (0.4)p including the cost of distributions on Additional Tier 1 securities and Non-core Tier 1 notes, compared to the earnings per share of 42.4p in 2013.

Strong, low risk balance sheet with a capital base to support growth

We have continued to grow the balance sheet while strengthening our capital position. We aim to maximise balance sheet efficiency while remaining within our prudent risk appetite.

During the year the Group grew customer deposit balances by 5.9% or £1.2 billion in line with market growth of 6.3%. Mortgage balances grew by 12% to £21.9 billion significantly ahead of market growth of 1.4%. The loan-to-deposit ratio increased to 102.8% from 96.4% over the course of the year, in line with our aims of increasing balance sheet efficiency and funding diversification, and our plan for a loan-to-deposit ratio above 100% but not exceeding 110%.

The Group's fully loaded CRD IV Common Equity Tier 1 ratio improved to 19.0% from 15.5% at 31 December 2013 primarily driven by the net £145.4 million increase in common equity from new capital raised as part of our IPO. In addition, Virgin Money agreed significantly lower risk weightings for mortgage lending with the PRA in July 2014 which resulted in mortgage risk-weighted assets reducing to £3,489.7 million from £3,860.2 million (excluding operational risks) despite the 12% increase in mortgage balances.

The Group's fully loaded CRD IV leverage ratio increased to 4.1% from 3.8% at the end of 2013, due to the increase in leverage ratio eligible capital more than offsetting the increase in eligible assets.

Underlying income

	2014 £m	2013 £m	Change %
Underlying net interest income	366.1	289.2	27
Underlying other income	72.1	72.3	–
Total underlying income	438.2	361.5	21
Underlying net interest margin	1.50%	1.26%	24bps
Average interest earning assets	24,475	22,840	7
Loan-to-deposit ratio	102.8%	96.4%	6.4pp

Underlying net interest income increased by 27% to £366.1 million in 2014. The growth in underlying net interest income reflected the improved underlying net interest margin as well as the increase in mortgage balances. Other income was 0.3% or £0.2 million lower at £72.1 million.

The improvement in net interest margin to 1.50% in 2014 was principally driven by a reduction in retail cost of funds, against a background of falling interest rates across the market, which more than offset a small decline in mortgage margin. Credit card margin was broadly unchanged.

Total underlying costs

	2014 £m	2013 £m	Change %
Total underlying costs	301.2	279.2	8
Underlying cost:income ratio	68.7%	77.2%	(8.5)pp

Total underlying costs increased by 8% to £301.2 million from £279.2 million in 2013 mainly due to the continued build out of capability and increased head count to support the launch of our credit card business on our own platform.

On an underlying basis, income increased by £76.7 million while the increase in our administrative expenses was limited to £22.0 million. As a result, in 2014 the underlying cost:income ratio improved by 8.5 percentage points to 68.7% from 77.2% in 2013.

Impairment

	2014 £m	2013 £m	Change %
Impairment charge (including debt sale)	15.8	28.9	(45)
Impairment charge (excluding debt sale)	24.7	28.9	(15)
Cost of risk (including debt sale)	0.07%	0.15%	(8)bps
Cost of risk (excluding debt sale)	0.11%	0.15%	(4)bps
Impaired loans as a % of loans and advances	0.5%	0.7%	(0.2)pp
Provisions as a % of impaired loans	29.5%	25.1%	4.4pp
Provisions plus excess expected loss as a % of impaired loans	53.6%	43.5%	10.1pp

The impairment charge reduced by 45% to £15.8 million, reflecting continued high asset quality of the loan portfolio and the low level of defaults resulting from the low interest rate environment. In addition, this reduction included a positive adjustment of £8.9 million following a successful sale of charged-off credit card balances.

The cost of risk or the impairment charge expressed as a percentage of average loans and advances improved by 8 basis points to 7 basis points from 15 basis points in 2013.

Impaired loans as a percentage of loans and advances reduced to 0.5% from 0.7% at 31 December 2013, driven by the increase in property values reducing the loan-to-value below the threshold for impaired status. Provisions as a percentage of impaired loans increased to 29.5% from 25.1% at 31 December 2013. This rise was primarily due to an increase in the provision against buy-to-let mortgages following a small number of operational losses seen in 2014 as well as growth in buy-to-let mortgage balances. This has been partially offset by a reduction in the credit card impairment provision as a percentage of credit card balances following the acquisition of £359.3 million additional Virgin Money branded credit cards from MBNA in November 2014. While provisions plus excess expected loss decreased, impaired loan balances fell by a greater percentage and so the total coverage increased from 43.5% to 53.6%.

Statutory profit

Our statutory profit before tax of £34.0 million for 2014 compared to a statutory profit before tax of £185.4 million in 2013. This was primarily as the result of recording a gain on the sale of a subsidiary of £203.4 million in 2013, as well as one-off Initial Public Offering transaction costs in 2014. The additional costs recognised in the statutory profit before tax are set out below.

	2014 £ million	2013 £ million
Underlying profit	121.2	53.4
Capital issuance:		
— IPO costs	(59.9)	(9.0)
— Premium on repurchase of NCT1 notes	(4.5)	–
	(64.4)	(9.0)
Strategic items:		
— Strategic transaction costs	(9.0)	(13.6)
— Impairment of intangible assets	–	(34.6)
— Net gain on sale of subsidiary	4.5	203.4
— Trading loss on disposal group	(1.0)	(0.5)
— Fair Value adjustments	(0.9)	(0.3)
	(6.4)	154.4
— FSCS levy	(16.4)	(13.4)
Profit before tax – statutory	34.0	185.4
Taxation	(25.3)	(6.4)
Profit for the year	8.7	179.0

Basic earnings per share – underlying (pence)	21.4p	8.1p
Basic earnings per share – statutory (pence)	(0.4)p	42.4p

Capital issuance

The terms agreed in respect of the acquisition of Northern Rock on 1 January 2012 included an amount payable to HM Treasury in the event of a successful, profitable IPO or sale of Virgin Money between 2012 and 2016. On completion of the listing in November 2014, the maximum consideration payable of £50.0 million was crystallised and £36.0 million of this amount was recognised in 2014. The Group incurred costs of £12.6 million in relation to its listing including underwriting commissions, professional advisers, other offer-related fees and expenses and VAT. A further £11.3 million of costs were incurred on listing, of which £10.7 million in share based awards and £0.6 million in one-off payments. In addition, the Group paid a £4.5 million premium on the repurchase of NCT1 notes from UKFI.

Strategic items

The Group incurred strategic transaction costs of £9.0 million relating to investment in credit card and digital platforms.

In addition, the Group recognised a gain on the sale of Church House Trust of £4.5 million and a trading loss prior to disposal of £1.0 million. Fair value adjustments arising from the acquisition of Northern Rock amounted to £0.9 million.

FSCS levies

FSCS levies amounted to £16.4 million.

Taxation

In 2014 the Group was subject to a higher effective tax rate than the UK statutory rate primarily due to charges recognised during the year not being deductible for tax purposes. These charges included the additional consideration payable to HM Treasury (£36.0 million) and costs relating to the IPO (£12.6 million). In addition, there was an adjustment to prior year tax charges (£8.3 million).

BALANCE SHEET

		2014	2013	Change %
Fully-loaded risk-weighted assets and CRD IV fully-loaded capital ratios				
Risk-weighted assets	£m	5,160.6	5,206.4	(1)
Common Equity Tier 1 ratio	%	19.0%	15.5%	3.5pp
Total capital ratio	%	22.1%	18.6%	3.5pp
Leverage ratio	%	4.1%	3.8%	0.3pp
Return on assets	%	0.03%	0.73%	(70)bp

We have significantly strengthened the Group’s capital ratios during the year. The Group’s fully loaded Common Equity Tier 1 ratio has increased to 19.0% from 15.5% at 31 December 2013. The improvement was driven by a net increase of £145.4 million in new Common Equity Tier 1 capital raised as part of our listing in November 2014 as well as a significant reduction in risk weights which was agreed with the PRA in July 2014. This reduction in risk weights meant that while mortgage balances grew 12% year on year, mortgage risk-weighted assets (including operational risks) fell by 8% to £3,729.8 million (2013: £4,036.2 million).

The Group’s total capital ratio under prevailing rules improved to 22.1% from 18.6% at 31 December

2013. Leverage ratio eligible capital was maintained by the issuance in July 2014 of £160 million of Additional Tier 1 securities which are listed on the Luxembourg Stock Exchange. £154.5 million of the proceeds of the Additional Tier 1 securities were used on 31 July 2014 to repurchase £150 million of Non-core Tier 1 notes from HM Treasury following a competitive auction process undertaken by UKFI, including a premium of £4.5 million.

	At 31 Dec 2014	At 31 Dec 2013	Change
	£m	£m	%
Funding and liquidity			
Loans and advances to customers	23,093.1	20,342.5	14
Funded assets	24,181.9	21,427.4	13
Customer deposits	22,365.7	21,121.4	6
Wholesale funding	2,429.4	1,773.3	37
Wholesale funding <1 year maturity	835.3	303.5	175
Loan-to-deposit ratio	102.8%	96.4%	6pp
High Quality Liquid Assets[1 4]	4,235.9	3,592.4	18

1. Level 1 + 2a + 2b. See Risk Report page 201 of the Annual Report & Accounts for definition. These include Funding for Lending drawings which are held off balance sheet but are available for repo and hence count towards liquidity resources.

During 2014 loans and advances to customers increased by £2,750.6 million to £23,093.1 million and customer deposits grew by £1,244.3 million to £22,365.7 million, resulting in a loan-to-deposit ratio of 102.8%. Virgin Money has a strong and diversified funding base, with funding provided by retail deposit customers representing 84.3% of total liabilities and equity.

The Group aims to manage its balance sheet so that customer asset growth is broadly matched with sustainable retail deposit growth and monitors this through the loan-to-deposit ratio which is actively managed to ensure compliance with Board approved metrics. The loan-to-deposit ratio was 102.8% at 31 December 2014, compared to 96.4% at 31 December 2013.

Residential Mortgage Backed Security notes in issue increased by £124.3 million to £1,594.1 million during 2014 from £1,469.8 million in 2013 due to the completion of the Gosforth Funding 2014-1 transaction in September more than offsetting the paying down of outstanding funding from prior transactions.

In addition to non-retail funding on the balance sheet, the Group also accessed the Government's Funding for Lending Scheme (FLS), with £1.1 billion drawn during the year to support lending growth and liquidity. Total drawings from the Funding for Lending Scheme at 31 December 2014 were £2.3 billion. If this funding were on balance sheet, total non-retail funds would have represented 17.3% of total funding at the end of 2014. All Funding for Lending Scheme drawings remain off balance sheet and are therefore not included in the table above.

Given the balance sheet consists predominantly of long-term mortgage assets, the Group does not rely on short-term wholesale funding, which can introduce refinancing risk. Virgin Money maintains a portfolio of High Quality Liquid Assets which consists mainly of deposits held at the Bank of England and UK Government bonds, which are available to meet cash and collateral outflows.

The Group's liquidity position remains strong, with High Quality Liquid Assets of £4,235.9 million at 31 December 2014 (31 December 2013: £3,592.4 million). High Quality Liquid Assets represent approximately 5.1 times our wholesale funding with a maturity of less than one year, providing a substantial buffer in the event of an extended market dislocation. In addition there are regular stress tests of the Group's liquidity position against a range of stress scenarios which further ensure that a robust level of High Quality Liquid Assets is maintained at all times.

The Liquidity Coverage Ratio (LCR) will become the Pillar 1 standard for liquidity in the UK from October 2015 and the PRA has the ability to impose firm-specific liquidity requirements. European legislation specifying the definition, calibration, calculation and phase-in of the LCR in 2015 was published in October 2014. We are confident that we will meet our obligations under these revised requirements.

Conclusion

Virgin Money has delivered growth in customer balances, a continued high quality balance sheet and increased returns. The progress in growing our balance sheet while also strengthening the Group's capital ratios positions us well to continue growing our business within our prudent risk appetite.

Lee Rochford
Chief Financial Officer

UNDERLYING SEGMENTAL ANALYSIS

	Mortgages & Savings	Credit Cards	Current account Insurance & Investments	Central Functions	Group
2014	£m	£m	£m	£m	£m
Net interest income	291.0	75.1	–	–	366.1
Other income	3.1	25.2	32.8	11.0	72.1
Total underlying income	294.1	100.3	32.8	11.0	438.2
Total costs	(87.3)	(40.8)	(11.6)	(161.5)	(301.2)
Impairment	(1.2)	(14.6)	–	–	(15.8)
Underlying profit / (loss)	205.6	44.9	21.2	(150.5)	121.2
Net interest margin	1.42%	9.60%	–	–	1.50%
Cost of risk	0.01%	1.51%	–	–	0.07%
Return on risk-weighted assets	4.84%	6.01%	45.34%	–	1.41%
Key balance sheet items at 31 December 2014					
Loans and advances to customers	21,887.5	1,098.2	0.1	–	22,985.8
Customer deposits	22,164.1	–	201.6	–	22,365.7
Total customer balances	44,051.6	1,098.2	201.7	–	45,351.5
Risk-weighted assets (transitional)	3,729.8	973.2	47.2*	409.2	5,159.4

	Mortgages & Savings	Credit Cards	Current account Insurance & Investments	Central Functions	Group
2013	£m	£m	£m	£m	£m
Net interest income	209.0	80.2	–	–	289.2
Other income	1.9	28.3	33.4	8.7	72.3
Total underlying income	210.9	108.5	33.4	8.7	361.5
Total costs	(79.5)	(38.6)	(12.2)	(148.9)	(279.2)
Impairment	(2.1)	(26.8)	–	–	(28.9)
Underlying profit / (loss)	129.3	43.1	21.2	(140.2)	53.4
Net interest margin	1.15%	9.14%	–	–	1.26%
Cost of risk	0.01%	2.89%	–	–	0.15%
Return on risk-weighted assets	3.16%	5.88%	57.14%	–	0.38%
Key balance sheet items at 31 December 2013					
Loans and advances to customers	19,569.5	781.6	0.1	–	20,351.2
Customer deposits	20,932.5	–	188.9	–	21,121.4
Total customer balances	40,502.0	781.6	189.0	–	41,472.6
Risk-weighted assets (transitional)	4,036.2	708.2	37.1*	424.9	5,206.4

* Operational risk-weighted assets only.

Basis of preparation of financial results

In order to present a more meaningful view of business performance, the results of the Group and business units are presented on an underlying basis of reporting are described below.

The following items have been excluded from underlying profits;

- credit card and current account platform build;
- costs associated with listing;
- additional Northern Rock consideration;
- FSCS levies;
- fair value adjustments;
- gain on sale of subsidiary and loss on disposal group; and
- premium on repurchase of non tier 1 notes.

Note: 2013 figures are restated. See note 39 of the financial statements for details.

Our Treasury function is not managed as a profit centre. Interest expense incurred from its funding and liquidity operations is allocated to the business lines respectively.

MORTGAGES AND SAVINGS

Key developments – Mortgages

- Our mortgage book growth of 12% in 2014 exceeded market growth of 1.4%, driven by strong new lending of £5.8 billion (a 2.8% full year gross lending share, trending above 3.15% in H2 2014). Combined with strong customer retention, this meant we delivered a 10.2% share of net lending during the year.
- Our focus on mortgage process effectiveness reduced the time taken to process an application through to offer stage by 17%.
- Our intermediary service was recognised by winning a coveted 'Five Star' service award from Financial Adviser.
- We successfully retained 69% of customers whose fixed rate or tracker products matured in 2014.
- Our buy-to-let offer was extended to 75% loan-to-value (LTV) lending, whilst maintaining our overall portfolio appetite for buy-to-let business.
- Our mortgage impairments of £1.2 million reflect our conservative risk appetite, strong risk management and resulting high-quality mortgage book.
- Our provisions represented 29.5% of impaired loans. In addition to our provisions, which anticipate low losses following default because of the quality of the book and low loss experience, we have a regulatory requirement to make an adjustment to capital (the excess expected loss) which amounts to a capital deduction of £33.4 million.

Key developments – Savings

- Our savings book growth was managed across the year and grew by 6% in line with the growth in the retail savings market.
- We took a 1.5% share of inflows across the market and delivered a strong share of ISA new business at 7.6%.
- We grew our balances by £1.2 billion and opened over 220,000 savings accounts.
- We retained 83% of our maturing fixed rate customers – up from 78% in 2013.

2014 financial highlights

- Increased net interest income, supported by modest growth in other income delivered a 39% improvement in total income.
- Strong cost management produced a positive differential between cost growth at 10% and income growth of 39%.
- Our underlying contribution improved by 59% reflecting strong asset growth and continued high asset quality, allied with careful pricing, NIM and cost management.
- We delivered a full year Net Interest Margin (NIM) of 1.42% in the mortgage and savings business.
- Mortgage balances increased by 12% to £21.9 billion. Gross mortgage lending was 4% higher than in 2013 at £5.8 billion.
- Customer deposits grew by 6% to £22.2 billion.
- Risk-weighted assets at year end decreased by 8% following model changes agreed with the PRA in July 2014. This drove an increase in the return on risk-weighted assets to 4.8% from 3.2% in 2013.

Performance summary

	2014 £m	2013 £m	Change %
Net interest income	291.0	209.0	39.0
Other income	3.1	1.9	63.0
Total underlying income	294.1	210.9	39.0
Total costs	(87.3)	(79.5)	10.0
Impairment	(1.2)	(2.1)	(43.0)
Underlying contribution	205.6	129.3	59.0
Mortgages and savings net interest margin	1.42%	1.15%	27bps
Cost of risk	0.01%	0.01%	–
Return on risk-weighted assets	4.84%	3.16%	168bps

Key balance sheet items at 31 December 2014	2014 £m	2013 £m	Change %
Loans and advances to customers	21,887.5	19,569.5	12
Customer deposits	22,164.1	20,932.5	6
Total customer balances	44,051.6	40,502.0	9
Risk-weighted assets	3,729.8	4,036.2	(8)

Note: 2013 figures are restated. See note 39 of the financial statements for details.

CARDS

Key developments

- We were pleased to exceed our expectations of customer retention during 2014. We ended the year with higher total customer balances as a result of completing the acquisition of the second tranche of balances from MBNA and despite being constrained in terms of new business origination due to the terms of the agreement with MBNA.
- We acquired the remaining customer balances originated by MBNA since January 2013, in November 2014 for £362.7 million. This provides us with the full economic benefit of these customer balances.
- Much of our cards team effort has been dedicated to the delivery of our own credit card capability and we achieved the major milestone of issuing our own cards for the first time in November. This was initially to our own colleagues, and the project was delivered on time and within budget.
- Preparation for the migration of the acquired credit card accounts from MBNA to our own operation, TSYS, is well advanced and planned for H1 2015.
- The full public launch of our credit card business is planned for early 2015.
- We completed the sale of £39.5 million of previously charged-off balances to Arrow Global in October 2014.

2014 financial highlights

- In a year where our focus was on building our new credit card capabilities, and with constraints on new card origination, underlying contribution improved by 4%.
- The reduction in total income of £8.2 million was due largely to expected attrition of the first tranche of customer accounts and balances acquired from MBNA. In addition, there was no new card origination in November and December. Customer retention activities aimed at maintaining accounts and balances resulted in a drop in yield. Lower interest expense however, meant that 2014 credit card NIM was higher than in 2013 at 9.6%.
- Our attributable expenses increased by £2.2 million as we continued to pay MBNA for the servicing of the acquired customer accounts while investing in the build of our own capabilities. Following migration, our unit operating costs will reduce significantly.
- The improvement in impairments of £12.2 million is attributable to continued improvements in customer delinquency rates and an £8.9 million credit from the sale of already charged-off balances.
- Loans and advances to customers increased by 41% to £1,098.2 million, largely due to the transfer of a further £359.3 million of credit card balances to Virgin Money from MBNA in November 2014.
- Risk-weighted assets increased by 37% due to the increase in loans and advances on the balance sheet.
- Return on risk-weighted assets increased by 13bps reflecting the increased underlying contribution compared to average risk weighted assets for the year which included £359.3 million of additional credit card balances for only one month.

Performance summary

	2014	2013	Change
	£m	£m	%
Net interest income	75.1	80.2	(6)
Other income	25.2	28.3	(11)
Total underlying income	100.3	108.5	(8)
Total costs	(40.8)	(38.6)	6
Impairment	(14.6)	(26.8)	(46)
Underlying contribution	44.9	43.1	4
Credit cards net interest margin	9.60%	9.14%	46bps
Cost of risk	1.51%	2.89%	(138)bps
Return on risk-weighted assets	6.01%	5.88%	13bps

	2014	2013	Change
Key balance sheet items at 31 December 2014	£m	£m	%
Loans and advances to customers	1,098.2	781.6	41
Total customer balances	1,098.2	781.6	41
Risk-weighted assets	973.2	708.2	37

Note: 2013 figures are restated. See note 39 of the financial statements for details.

CURRENT ACCOUNTS, INSURANCE AND INVESTMENTS

Key developments

- We launched our Virgin Essential Current Account to customers in Scotland and Northern Ireland in early 2014, following a successful colleague pilot in late 2013. The Virgin Essential Current Account aligns with the Government initiative on Basic Bank Accounts and has been well received by consumers. We will complete the full roll-out during 2015.
- We reaffirmed our commitment to our key fund administration partner, IFDS, through a new ten-year contract. Alongside this we agreed with State Street and IFDS a route to expanding our range of passively managed funds. Three new funds are planned for 2015.
- We developed our life insurance capabilities through a partnership with Friends Life. We launched a simple transparent life insurance product in March 2015.
- We signed a long-term strategic partnership with Ageas to distribute home and motor insurance products. We will launch these products in H2 2015.
- We signed a seven-year contract with Monitise to support the development of our digital offering in current accounts.

2014 financial highlights

- Our funds under management grew to £3.042 billion during 2014 despite a 2.1% fall in the FTSE All-Share index. This growth resulted in a 4% increase in income.
- Our ISA and Pension sales continued to perform well. We attracted new fund inflows whilst maintaining balances from our existing customers.
- Our travel insurance sales increased to 398,000, an 8.8% improvement year-on-year and the start of a recovery from our 2012 position where we withdrew from unprofitable channels.
- Our insurance income in 2013 was positively impacted by a one-off payment. Underlying income was flat year-on-year.

- Our current account balances grew by 7% in the year to £201.6 million.
- Attributable expenses are favourable due to investment stamp duty being abolished in April 2014.
- Risk-weighted assets are held against operational risk in the business unit. Operational risk-weighted assets are measured using income generated by the unit in the preceding three years. These showed a year-on-year increase of 27% due to growth in income of the business unit since 2010.

Performance summary

	2014	2013	Change
	£m	£m	%
Investments	29.0	28.0	4
Insurance and other	3.8	5.4	(30)
Total underlying income	32.8	33.4	(2)
Total costs	(11.6)	(12.2)	(5)
Impairment	–	–	–
Underlying contribution	21.2	21.2	–
Cost of risk	–	–	–
Return on risk-weighted assets	45.34%	57.14%	(11.8)pp

	2014	2013	Change
Key balance sheet items at 31 December 2014	£m	£m	%
Loans and advances to customers	0.1	0.1	–
Current account balances	201.6	188.9	7
Total customer balances	201.7	189.0	7
Risk-weighted assets	47.2	37.1	27

Note: 2013 figures are restated. See note 39 of the financial statements for details.

CENTRAL FUNCTIONS

Key developments

- We invested over £40.0 million in 2014 to improve our business capability, fully aligned with our strategy to grow the business. 98% of these initiatives were delivered on time and to budget. Costs included the opening of our new Lounges in Glasgow and London during the year.
- We successfully implemented MMR, the most significant regulatory change in the mortgage market since MCOB in 2003. All of the changes required were completed with minimal disruption to our business.
- Our programme to make products mobile enabled commenced with a travel insurance application. This mobile capability will be rolled out to other products in 2015.
- To support our strategy we invested in recruiting senior management talent. This included a new Chief Banking Officer, General Counsel, Banking Insurance & Investments Director and an Investor Relations Director.

2014 financial highlights

- Interest income and expense incurred from Treasury funding and liquidity operations is allocated to the business units.
- Other income is primarily due to gains on the sale of investment securities from within the Treasury portfolio.
- Strong business performance led to increased bonus awards in the year contributing to the 8% increase in cost.
- An increase in depreciation of £3.3 million was a further driver of central cost change in the year, as we continued to invest in our future.
- Costs also included the opening of our new lounges in Glasgow and London during the year.

Performance summary

	2014 £m	2013 £m	Change %
Net interest income	–	–	–
Other income	11.0	8.7	26
Total underlying income	11.0	8.7	26
Total costs	(161.5)	(148.9)	8
Impairment	–	–	–
Underlying loss	(150.5)	(140.2)	7

Key balance sheet items at 31 December 2014	2014 £m	2013 £m	Change %
Loans and advances to customers	–	–	–
Total customer balances	–	–	–
Risk-weighted assets	409.2	424.9	(4)%

Note: 2013 figures are restated. See note 39 of the financial statements for details.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL REPORT

The responsibility statement below has been prepared in connection with the Company's full annual report for the year ending 31 December 2014. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- The financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the board of directors on 4 March 2014 and is signed on its behalf by:

Jayne-Anne Gadhia, Chief Executive
Lee Rochford, Chief Financial Officer

PRINCIPAL RISKS AND UNCERTAINTIES

Credit Risk

Principal risks

Virgin Money provides residential and buy-to-let mortgages and credit cards to customers across the UK. There is a risk that any adverse changes in the economic and market environment and/or the credit quality or behaviour of our borrowers results in additional impairment losses thereby reducing our profitability.

Virgin Money maintains a liquid asset portfolio and hedges exposure to interest rate risk through derivative instruments to manage liquidity and market risk. These positions are Virgin Money wholesale exposures which result in credit risk.

Mitigating actions

- Managed through risk appetite and risk limits reflected in approved credit policy. Appetite reflects low tolerance for wholesale credit losses.
- Composition and quality of portfolios monitored and reported through governance committees regularly. Performance monitored to help ensure that both composition and quality remain in line with risk appetite limits.
- Stress and scenario testing.
- Default credit limit structure for counterparties.
- Credit risk arising from derivative and from securities financing transactions mitigated by collateralising exposures on a daily basis.

Market Risk

Principal risks

Market risk is the risk that unfavourable market moves lead to a reduction in earnings or value. Virgin Money does not trade or make markets. Interest rate risk is the only material category of market risk for the Group.

Mitigating actions

- Board approved risk appetite limits and policy.
- Use of natural offsets and derivatives.
- Stress and scenario testing.

Operational Risk

Principal risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. The management of third party relationships, cybercrime and information security remain a key focus for Virgin Money.

Mitigating actions

- Risk appetite focused on maturing the control environment and therefore managing operational risk.
- A programme of investment in security infrastructure to mitigate threats including cyber attack.
- Continued investment in and development of risk management frameworks, systems and processes.
- Monitoring of external events impacting other financial services companies to inform our stress testing.

Conduct Risk and Compliance

Principal risks

Conduct risk is the risk that our operating model, culture or actions result in unfair outcomes for customers. Compliance risk is the risk of regulatory sanction, material financial loss or reputational damage if the organisation fails to design and implement operational processes, systems and controls such that it can maintain compliance with all applicable regulatory requirements.

Mitigating actions

- Effective and timely Board response to changes in the regulatory environment to ensure compliance is maintained.
- Customer is placed at the heart of decision-making by ensuring fair outcomes through comprehensive risk assessment and testing.
- Continued investment in and development of risk management frameworks, systems and processes.

Strategic and Financial Risk

Principal risks

Strategic risk is the risk of significant loss or damage arising from business decisions that impact the long-term interests of our stakeholders or from an inability to adapt to external developments. Financial risk is focused primarily on concentration risk. Credit concentration risk is managed for retail and wholesale credit exposures at portfolio, product and counterparty levels.

Mitigating actions

- Board focus on ensuring alignment of business development and planning with risk appetite.
- Investment in processes, systems, recruitment and training to support new business developments.
- Robust risk and project management disciplines to ensure that implementation is delivered safely.
- Active focus on asset origination and portfolio management to eliminate inappropriate concentration risk.
- Regular validation and review of models.

Liquidity and Funding Risk

Principal risks

Liquidity risk represents the inability to accommodate liability maturities and withdrawals, fund asset growth, and otherwise meet contractual obligations to make payments as they fall due. Funding risk represents the inability to raise and maintain sufficient funding in quality and quantity to support the delivery of the business plan.

Mitigating actions

- Board approved risk appetite and funding and liquidity policy defining a limit structure.
- Liquid resources maintained in adequate quantity and quality to meet estimated outflows.
- A prudent mix of funding sources is maintained with a maturity profile set in risk appetite and policy limits.
- Stress and scenario testing.

CREDIT RISK PORTFOLIO IN 2014

Overview

- Impairment provisions decreased 12% to £30.6 million in the year to 31 December 2014.
- Impairment provisions as a percentage of loans and advances to customers reduced to 0.13% as at 31 December 2014 compared to 0.17% at 31 December 2013.

The table below shows our total credit exposures.

	Secured		Unsecured		Wholesale		
	Residential mortgage loans	Residential buy-to-let mortgage loans	Credit cards	Overdrafts	Treasury assets	Derivative exposures	Total
31 December 2014	£m	£m	£m	£m	£m	£m	£m
Total gross loans and advances to customers	18,759.5	3,135.6	1,121.1	0.2	-	-	23,016.4
Loans and advances to banks excluding Bank of England	-	-	-	-	720.5	-	720.5
Cash and balances at central banks	-	-	-	-	851.3		851.3
Debt securities classified as loans and receivables	-	-	-	-	8.6	-	8.6
Available- for –sale financial assets	-	-	-	-	1,539.6		1,539.6
Gross positive fair value of derivative assets	-	-	-	-	-	101.2	101.2
Total	18,759.5	3,135.6	1,121.1	0.2	3,120.0	101.2	26,237.6

	Secured		Unsecured		Wholesale		
	Residential mortgage loans	Residential buy-to-let mortgage loans	Credit cards	Overdrafts	Treasury assets	Derivative exposures	Total
31 December 2013	£m	£m	£m	£m	£m	£m	£m
Total gross loans and advances to customers	17,205.8	2,371.3	808.6	0.2	-	-	20,385.9
Loans and advances to banks excluding Bank of England	-	-	-	-	626.9	-	626.9
Cash and balances at central banks	-	-	-	-	1,423.5		1,423.5
Debt securities classified as loans and receivables	-	-	-	-	9.4	-	9.4
Available- for –sale financial assets	-	-	-	-	1,679.2		1,679.2
Gross positive fair value of derivative assets	-	-	-	-	-	187.5	187.5
Total	17,205.8	2,371.3	808.6	0.2	3,739.0	187.5	24,312.4

Maximum credit exposure

The maximum credit risk exposure of the Group in the event of other parties failing to perform their obligations is detailed below. No account is taken of any collateral held, other credit enhancements or provisions for impairment.

The maximum credit risk exposure for off-balance sheet items relates to applications that have been approved and have not yet been drawn by the customer and undrawn loan commitments (pipeline). These commitments represent agreements to lend in the future and can be cancelled unconditionally, subject to notice requirements.

31 December 2014	Low risk	Medium risk	Higher risk	Total exposures	Low risk	Medium risk	Higher risk
On-balance sheet	£m	£m	£m	£m	%	%	%
Wholesale							
Cash and balances at central banks	851.3	-	-	851.3	100.0	-	-
Debt securities classified as loans and receivables	8.6	-	-	8.6	100.0	-	-
Available-for-sale financial assets	1,539.6	-	-	1,539.6	100.0	-	-
Loan and advances to banks	720.5	-	-	720.5	100.0	-	-
Derivative financial instruments	101.2	-	-	101.2	100.0	-	-
Retail							
Gross loans and advances to customers – secured[1]	19,636.3	1,574.5	684.3	21,895.1	89.7	7.2	3.1
Gross loans and advances to customers - unsecured	1,091.4	2.5	27.4	1,121.3	97.4	0.2	2.4
Total on-balance sheet	23,948.9	1,577.0	711.7	26,237.6	91.3	6.0	2.7
Off-balance sheet							
Loan commitments (pipeline and undrawn commitments)	3,694.2	-	-	3,694.2	100.0	-	-

1. Virgin Money has amended its definition for high, medium and low categories of gross loans and advances to customers for the second portfolio. Details of the new definitions can be found on page 166. The 2013 numbers have been restated to reflect this change.

31 December 2013	Low risk	Medium risk	Higher risk	Total exposures	Low risk	Medium risk	Higher risk
On-balance sheet	£m	£m	£m	£m	%	%	%
Wholesale							
Cash and balances at central banks	1,423.5	-	-	1,423.5	100.0	-	-
Debt securities classified as loans and receivables	9.4	-	-	9.4	100.0	-	-
Available-for-sale financial assets	1,679.2	-	-	1,679.2	100.0	-	-
Loan and advances to banks	626.9	-	-	626.9	100.0	-	-
Derivative financial instruments	187.5	-	-	187.5	100.0	-	-
Retail							
Gross loans and advances to customers – secured[1]	17,538.4	1,301.9	736.8	19,577.1	89.5	6.7	3.8
Gross loans and advances to customers - unsecured	779.0	3.2	26.6	808.8	96.3	0.4	3.3
Total on-balance sheet	22,243.9	1,305.1	763.4	24,312.4	91.5	5.4	3.1
Off-balance sheet							
Loan commitments (pipeline and undrawn commitments)	3,504.1	-	-	3,504.1	100.0	-	-

1. Virgin Money has amended its definition for high, medium and low categories of gross loans and advances to customers for the second portfolio. Details of the new definitions can be found on page 166. The 2013 numbers have been restated to reflect this change.

Loans and advances to customers comprise of:

	2014 £m	2013 £m
Advances secured on residential property not subject to securitisation	15,631.2	14,317.3
Advances secured on residential property subject to securitisation	3,128.3	2,888.5
Total advances secured on residential property	18,759.5	17,205.8
Residential buy-to-let loans not subject to securitisation	3,135.6	2,371.3
Total loans and advances to customers secured on residential property	21,895.1	19,577.1
Impairment allowance- secured	(7.6)	(7.6)
Loans and advances- secured	21,887.5	19,569.5
Credit cards	1,121.1	808.6
of which relates to the fair value of expected losses on acquired assets	*(5.9)*	-
Overdrafts	0.2	0.2
Unsecured receivables not subject to securitisation	1,121.3	808.8
Impairment allowance - unsecured	(23.0)	(27.1)
Loans and advances- unsecured	1,098.3	781.7
Total loans and advances to customers excluding portfolio lending	22,985.8	**20,351.2**

The mortgage portfolio has grown by 12% during 2014. In particular, buy-to-let balances have increased by £764.3million (32%) over the reporting period, reflecting Virgin Money's appetite and the growth of the buy-to-let market.

Secured impairment allowance has remained stable since 2013. There has been a reduction in the proportion of impairment provisions to gross loans and advances, primarily reflective of positive house price movements, helped by improved arrears performance. The decrease in unsecured loans impairment allowance is primarily a result of impaired arrears performance and reflects the transfer of less well-seasoned assets which hold lower provisions.

CREDIT QUALITY OF ASSETS

Loans and receivables

Virgin Money defines three classifications of credit quality (low risk, medium risk and higher risk) for all credit exposures. These are based on the following criteria for the different credit risk exposure types.

Secured credit exposures are segmented according to the credit quality classification and a point in time PD. The point in time PD is an internal parameter used within our AIRB capital models which aims to estimate the probability of default over the next 12 months based on account characteristics and customer behavioural data. Default occurs where a borrower has missed six months of mortgage repayments or the borrower is deemed to be unlikely to repay their loan. Exposures are categorised as:

- higher risk where assets are past due or have a point in time PD greater than 2%;
- medium risk where assets are not past due and have a PD greater than 0.8% but less than or equal to 2%; and
- low risk where assets are not past due and have a PD of less than or equal to 0.8%.

Unsecured exposures are categorised as:

- higher risk where assets are past due;
- medium risk where assets are currently not past due and benefiting from a forbearance solution; and
- low risk where assets are neither past due nor in forbearance.

Wholesale credit exposures are assessed by reference to credit rating. All of Virgin Money's wholesale exposures are investment grade and therefore classified as low risk.

Further asset quality categorisation is disclosed below, which reflects the impairment status of assets.

No wholesale credit exposures are past due or impaired as at 31 December 2014 or 2013.

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

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 assets are treated as impaired at one day past due. All fraud and operational risk loans are categorised as impaired irrespective of the expected recoverable amount.

The Credit quality of retail assets is detailed in the tables below.

	Secured				Unsecured				Total	
	Residential mortgage loans		Residential buy-to-let mortgage loans		Credit cards		Overdrafts			
31 December 2014	£m	%	£m	%	£m	%	£m	%	£m	%
Neither past due nor impaired	18,508.0	98.6	3,110.4	99.2	1,093.7	97.6	0.2	100.0	22,712.3	98.6
- *of which in receipt of forbearance*[1]	*241.7*	*1.3*	*7.2*	*0.2*	*2.5*	*0.2*	-	-	*251.4*	*1.1*
Past due and not impaired	182.6	1.0	17.6	0.6	-	-	-	-	200.2	0.9
Impaired	68.9	0.4	7.6	0.2	27.4	2.4	-	-	103.9	0.5
Total	18,759.5	100.0	3,135.6	100.0	1,121.1[2]	100.0	0.2	100.0	23,016.4	100.0

1 This category reflects accounts which are neither past due nor impaired and subject to forbearance solutions. Accounts in this category are also included in the neither past due nor impaired categorisation.
2 A fair value adjustment of £5.9million was made to the value of gross loans and advances in order to take account of losses expected on purchased assets.

	Secured				Unsecured				Total	
	Residential mortgage loans		Residential buy-to-let mortgage loans		Credit cards		Overdrafts			
31 December 2013 [1,2]	£m	%	£m	%	£m	%	£m	%	£m	%
Neither past due nor impaired	16,930.6	98.4	2,345.3	98.9	782.0	96.7	0.2	100.0	20,058.1	98.4
- *of which in receipt of forbearance*[3]	*285.8*	*1.7*	*7.9*	*0.3*	*3.2*	*0.4*	-	-	*296.9*	*1.4*
Past due and not impaired	172.0	1.0	17.5	0.7	-	-	-	-	189.5	0.9
Impaired	103.2	0.6	8.5	0.4	26.6	3.3	-	-	138.3	0.7
Total	17,205.8	100.0	2,371.3	100.0	808.6	100.0	0.2	100.0	20,385.9	100.0

1. Impaired assets have been restated to reflect the change in definition as noted on page 161.
2. Virgin Money has amended its approach to forbearance inline with FCA guidance as outlined on page 161. Loans in receipt of forbearance have been restated to reflect the change in definition.
3 This category reflects accounts which are neither past due nor impaired and subject to forbearance solutions. Accounts in this category are also included in the neither past due nor impaired categorisation.

The criteria that the Group use to determine that there is objective evidence of an impairment loss are disclosed on page 167. All loans where specific circumstances indicate that a loss is likely to be incurred, for example mortgage accounts which have entered possession or loans where fraud has been confirmed, are individually assessed for impairment by reviewing expected future cash flows including those that could arise from the realisation of security.

Loans and advances which are neither past due nor impaired

The table below shows the details of the credit quality for neither past due nor impaired loans.

	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
31 December 2014[1]	£m	%	£m	%	£m	%
PD by internal ratings						
Low risk	16,597.7	89.7	3,038.6	97.6	19,636.3	90.8
Medium risk	1,507.5	8.1	67.0	2.2	1,574.5	7.3
Higher risk	402.8	2.2	4.8	0.2	407.6	1.9
Total neither past due nor impaired	18,508.0	100.0	3,110.4	100.0	21,618.4	100.0

1 Virgin Money has amended its definition for high, medium and low categories of gross loans and advances to customers for the second portfolio. Details of the new definition can be found on page 166. The 2013 numbers have been restated to reflect this change

	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
31 December 2013[1]	£m	%	£m	%	£m	%
PD by internal ratings						
Low risk	15,250.3	90.0	2,288.1	97.5	17,538.4	90.9
Medium risk	1,246.6	7.4	55.3	2.4	1,301.9	6.8
Higher risk	433.7	2.6	1.9	0.1	435.6	2.3
Total neither past due nor impaired	16,930.6	100.0	2,345.3	100.0	19,275.9	100.0

1 Virgin Money has amended its definition for high, medium and low risk categories of gross loans and advances to customers for the secured portfolio. Details of the new definitions can be found on page 166. The 2013 numbers have been restated to reflect this change.
2 Impaired assets have been restated to reflect the change in definition as noted on page 161.

Loans and advances which are past due and not impaired

Mortgages past due and not impaired can also be analysed by overdue term as shown below. These assets represent 0.9% of secured balances (2013: 1.0%).

	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
31 December 2014[1]	£m	%	£m	%	£m	%
Up to one month	59.3	32.5	5.2	29.5	64.5	32.2
One to three months	72.1	39.5	8.2	46.6	80.3	40.1
Three to six months	29.6	16.2	2.6	14.8	32.2	16.1
Over six months	21.6	11.8	1.6	9.1	23.2	11.6
Total past due and not impaired	182.6	100.0	17.6	100.0	200.2	100.0

1 Assets categorised as past due and not impaired are those where the expected recoverable amount exceeds the carrying amount.

	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
31 December 2013 [1]	£m	%	£m	%	£m	%
Up to one month	56.1	32.6	3.9	22.3	60.0	31.7
One to three months	69.5	40.4	10.1	57.7	79.6	42.0
Three to six months	25.9	15.1	1.6	9.1	27.5	14.5
Over six months	20.5	11.9	1.9	10.9	22.4	11.8
Total past due and not impaired	172.0	100.0	17.5	100.0	189.5	100.0

1. Impaired assets have been restated to reflect the change in definition as noted on page 161.

The tables below show the movement of impaired loan balances during 2014 and 2013.

	Secured		Unsecured		Wholesale		
	Residential mortgage loans	Residential buy-to-let mortgage loans	Credit cards	Overdrafts	Treasury assets	Derivative exposures	Total
31 December 2014	£m	£m	£m	£m	£m	£m	£m
As at 1 January 2014	103.2	8.5	26.6	-	-	-	138.3
Classified as impaired during the year	121.6	14.5	77.0	-	-	-	213.1
Transferred from impaired to unimpaired	(136.5)	(13.7)	(39.4)	-	-	-	(189.6)
Amounts written off	(1.1)	(0.1)	(32.7)	-	-	-	(33.9)
Repayments	(18.3)	(1.6)	(4.1)	-	-	-	(24.0)
At 31 December 2014	68.9	7.6	27.4	-	-	-	103.9

	Secured		Unsecured		Wholesale		
	Residential mortgage loans	Residential buy-to-let mortgage loans	Credit cards	Overdrafts	Treasury assets	Derivative exposures	Total
31 December 2013 [1]	£m	£m	£m	£m	£m	£m	£m
As at 1 January 2013	150.0	13.0	-	-	-	-	163.0
Classified as impaired during the year	158.0	22.0	93.9	-	-	-	273.9
Transferred from impaired to unimpaired	(186.0)	(25.6)	(36.8)	-	-	-	(248.4)
Amounts written off	(1.7)	(0.5)	(21.6)	-	-	-	(23.8)
Repayments	(17.1)	(0.4)	(8.9)	-	-	-	(26.4)
As at 31 December 2013	103.2	8.5	26.6	-	-	-	138.3

1. Impaired assets have been restated to reflect the change in definition as noted on page 161.

Total impaired assets on secured loans and advances to customers have fallen during the period principally driven by increases in property values, reducing the loan-to-value below the threshold for impaired status. Write offs remain low as a result of the small number of customers whose properties are taken into possession and sold.

An analysis of impaired assets by overdue term and by those assets where the borrower's property is in possession is provided in the table below. These assets represent 0.3% of secured balances as at 31 December 2014 (2013: 0.6%).

	Residential mortgage loans		Residential buy-to-let mortgage loans		Credit cards		Overdrafts		Total	
31 December 2014	£m	%	£m	%	£m	%	£m	%	£m	%
Up to one month	44.1	64.0	4.0	52.7	11.0	40.1	-	-	59.1	56.9
One to three months	10.3	14.9	2.3	30.3	8.0	29.2	-	-	20.6	19.8
Three to six months	4.5	6.5	0.3	3.9	8.4	30.7	-	-	13.2	12.7
Over six months	9.0	13.1	0.7	9.2	-	-	-	-	9.7	9.3
Possession	1.0	1.5	0.3	3.9	-	-	-	-	1.3	1.3
Total impaired assets	68.9	100.0	7.6	100.0	27.4	100.0	-	-	103.9	100.0

	Residential mortgage loans		Residential buy-to-let mortgage loans		Credit cards		Overdrafts		Total	
31 December 2013 [1]	£m	%	£m	%	£m	%	£m	%	£m	%
Up to one month	50.5	48.9	4.9	57.7	10.1	38.0	-	-	65.5	47.4
One to three months	23.4	22.7	2.5	29.4	7.4	27.8	-	-	33.3	24.1
Three to six months	11.0	10.7	0.4	4.7	9.1	34.2	-	-	20.5	14.8
Over six months	15.5	15.0	0.7	8.2	-	-	-	-	16.2	11.7
Possession	2.8	2.7	-	-	-	-	-	-	2.8	2.0
Total impaired assets	103.2	100.0	8.5	100.0	26.6	100.0	-	-	138.3	100.0

1. Impaired assets have been restated to reflect the change in definition as noted on page 161.

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, moving properties below the loan-to-value threshold for impaired status.

The tables below show impaired assets and impairment provisions

31 December 2014	Gross balances £m	Impaired balances £m	Impaired balances as a % of gross balances %	Impairment provisions £m	Impairment provisions as a % of impaired balances[1] %
Residential mortgage loans	18,759.5	68.9	0.4	6.2	9.0
Residential buy-to-let mortgage loans	3,135.6	7.6	0.2	1.4	18.4
Total secured	21,895.1	76.5	0.3	7.6	9.9
Credit cards[2]	1,121.1	27.4	2.4	22.9	83.6
Overdrafts	0.2	-	-	0.1	-
Total unsecured	1,121.3	27.4	2.4	23.0	83.9
Wholesale treasury assets	-	-	-	-	-
Wholesale derivative exposures	-	-	-	-	-
Total	23,016.4	103.9	0.5	30.6	29.5

1. The increase in the buy-to-let impairment provision as a percentage of impaired balances, from 2013 to 2014, has been driven by the reassessment of property values in a small number of cases.
2. A fair value adjustment of £5.9million was made to the purchase price to take account of the losses already incurred on these assets. These losses therefore do not appear as part of the impairment provision total as at December 2014, with only losses incurred after purchase being charged.

31 December 2013	Gross balances £m	Impaired balances £m	Impaired balances as a % of gross balances %	Impairment provisions £m	Impairment provisions as a % of impaired balances %
Residential mortgage loans	17,205.8	103.2	0.6	7.0	6.8
Residential buy-to-let mortgage loans	2,371.3	8.5	0.4	0.6	7.1
Total secured [1]	19,577.1	111.7	0.6	7.6	6.8
Credit cards	808.6	26.6	3.3	27.0	101.5
Overdrafts	0.2	-	-	0.1	-
Total unsecured	808.8	26.6	3.3	27.1	101.9
Wholesale treasury assets	-	-	-	-	-
Wholesale derivative exposures	-	-	-	-	-
Total	20,385.9	138.3	0.7	34.7	25.1

1. Impaired assets have been restated to reflect the change in definition as noted on page 161.

Impairment provisions:

- have remained stable for secured loans at £7.6 million. Impairment provisions for residential buy-to-let mortgages have increased largely due to a small number of operational losses in 2014.
- have decreased by £4.1 million for unsecured loans. This is primarily a result of improved arrears performance and reflective of less well-seasoned transferred assets, with consequentially lower provisions against them.

Impairment provisions as a percentage of impaired loans:

- have increased for secured impaired loans from 6.8% to 9.9% as at 31 December 2014.
- have decreased for unsecured impaired loans from 101.9% to 83.9% as at 31 December 2014. This is a result of increased loans and advances reported at 2014 year end resulting to £360 million migrating to the balance sheet from MBNA, with lower provision levels on these less mature balances.

The table below shows the movement of impairment provisions during the year.

	Secured		Unsecured		Wholesale		
	On advances secured on residential property	On advances secured on residential buy-to-let property	Credit cards	Overdrafts	Treasury assets	Derivative exposures	Total
31 December 2014	£m	£m	£m	£m	£m	£m	£m
As at 1 January 2014	7.0	0.6	27.0	0.1	-	-	34.7
Increase in allowances during the year net of recoveries reflected in the income statement	0.3	0.9	14.6	-	-	-	15.8
Amounts written off during the year	(1.1)	(0.1)	(18.7)	-	-	-	(19.9)
As at 31 December 2014	6.2	1.4	22.9	0.1	-	-	30.6

	Secured		Unsecured		Wholesale		
	On advances secured on residential property	On advances secured on residential buy-to-let property	Credit cards	Overdrafts	Treasury assets	Derivative exposures	Total
31 December 2013	£m	£m	£m	£m	£m	£m	£m
As at 1 January 2013	7.3	0.4	-	0.1	-	-	7.8
Increase in allowances during the year net of recoveries reflected in the income statement	1.4	0.7	48.6	-	-	-	50.7
Amounts written off during the year	(1.7)	(0.5)	(21.6)	-	-	-	(23.8)
As at 31 December 2013	7.0	0.6	27.0	0.1	-	-	34.7

Collateral held as security for financial assets

A general description of collateral held as security in respect of financial instruments is provided on page 159. The Group holds collateral against loans and receivables on the mortgage portfolio; qualitative and, where appropriate, quantitative information is provided in respect of this collateral on page 174 and 176.

Loans and receivables to customers

The Group holds collateral in respect of loans and advances to customers as set out on page 159. The Group does not hold collateral against debt securities, comprising asset-backed securities and corporate and other debt securities, which are classified as loans and receivables.

The table below shows retail secured loan-to-value (LTV) % - indexed value at financial year end.

	2014		2013	
	£m	%	£m	%
<50%	7,161.9	32.7	4,620.1	23.6
50%-<60%	5,628.2	25.7	3,890.5	19.9
60%-<70%	4,974.6	22.7	5,718.0	29.2
70%-<80%	2,860.8	13.1	3,605.8	18.4
80%-<90%	1,069.6	4.9	1,549.5	7.9
90%-<100%	183.3	0.8	141.7	0.7
>100%	16.7	0.1	51.5	0.3
Total	21,895.1	100.0	19,577.1	100.0

	2014	2013
Average loan-to-value of stock – indexed	**55.7%**	59.8%
Average loan-to-value of new business[1]	**66.9%**	65.4%

1. The average loan to value of stock and new business is balance weighted.

Average indexed LTVs on the book have fallen by 4.1% during the reporting period, reflecting recent house price growth.

The average LTV for new business has risen to 66.9% in 2014 (2013: 65.4%). Details of the fair value of the property collateral held against retail secured loans are provided on the table below.

	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
31 December 2014[1]	£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

1. Some segments may look fully collateralised due to immaterial balances in negative equity. Due to rounding these do not change the overall collateralised percentage shown

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.

	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
31 December 2013 [1,2]	£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*	*100.0*	*7.9*	*100.0*	*293.6*	*100.0*
Past due and not impaired	171.9	99.9	17.5	100.0	189.4	99.9
Impaired	102.0	98.8	8.4	98.8	110.4	98.8
- *of which in possession*	*2.7*	*96.4*	-	*100.0*	*2.7*	*96.4*
Total	17,199.3	100.0	2,370.6	100.0	19,569.9	100.0

1. Virgin Money has amended its approach to forbearance in line with FCA guidance as outlined on page 161. Loans in receipt of forbearance have been restated to reflect the change in definition.
2. Impaired assets have been restated to reflect the change in definition as noted on page 161.

The tables below show mortgages in negative equity. The value represents the excess between the mortgage balance and collateral value for mortgages where indexed LTV is greater than 100%.

The proportion of secured balances in negative equity has reduced to 0.1% in 2014 (2013: 0.3%). This relates to £16.7 million of asset balances in the mortgage portfolio that are exposed to negative equity (2013: £51.5 million). The amount of negative equity has decreased from £7.2 million in 2013 to £2.1 million as at 31 December 2014 as a result of positive house price index movements.

	Residential mortgage loans	Residential buy-to-let mortgage loans	Total
31 December 2014	£m	£m	£m
Neither past due nor impaired	1.4	0.2	1.6
- *of which in receipt of forbearance*	-	-	-
Past due and not impaired	-	-	-
Impaired	0.5	-	0.5
- *of which in possession*	-	-	-
Total	1.9	0.2	2.1

	Residential mortgage loans	Residential buy-to-let mortgage loans	Total
31 December 2013 [1]	£m	£m	£m
Neither past due nor impaired	5.2	0.6	5.8
- *of which in receipt of forbearance*	*0.1*	-	*0.1*
Past due and not impaired	0.1	-	0.1
Impaired	1.2	0.1	1.3
- *of which in possession*	*0.1*	-	*0.1*
Total	6.5	0.7	7.2

1. Impaired assets have been restated to reflect the change in definition as noted on page 161.

The basis for preparation for the above four tables is not comparable with balances shown in the gross secured loans and advances to customers by credit quality table on page 167, as negative equity has been calculated excluding the impact of the Group's EIR asset.

Loans and advances to banks

The Group requires collateral posting arrangements to be in place as part of entering into a derivative transaction with another bank, depending on the type of financial product and the counterparty involved, and netting arrangements are obtained.

Other

No collateral is held in respect of retail credit cards or overdrafts.

Collateral repossessed

Virgin Money works with customers who have difficulty paying their mortgages, and will only repossess a property when all other possibilities have been exhausted. Where accounts have been repossessed, the Group will obtain the best price that might reasonably be paid taking into account factors such as property and market conditions. The Group uses external asset management specialists to realise the value as soon as practicable to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

Possessions as a percentage of total book (number of properties)	2014		2013	
	Number	%	Number	%
Properties in possession	18	0.01	17	0.01
CML industry average[1]	6,400	0.06	8,400	0.08

1. CML possession as at Q4 2014. The CML industry average includes banks with portfolios significantly larger than Virgin Money that drive up the industry average, and so the percentage comparisons are more meaningful than the pure number comparisons

Interest only mortgages

The Group provides interest only mortgages to customers, whereby payments made by the customer comprise interest for the term of the mortgage, with the customer responsible for repaying the principal outstanding at the end of the loan term. The Group has reduced our exposure to residential interest only mortgages throughout 2014. New residential interest only mortgages represented 2.4% of new residential mortgages on a six month average basis as at 31 December 2014 (2013: 21.7%).

The table below provides details of balances which are on an interest only basis, analysed by maturity. This includes the interest only balances for loans on a part and part repayment basis.

	2014	2013
	£m	£m
Term expired (still open)	19.9	11.4
Due within 2 years	124.5	116.5
Due after 2 years and before 5 years	486.3	441.0
Due after 5 years and before 10 years	1,442.5	1,475.2
Due after more than 10 years	6,003.4	6,108.7
Total	8,076.6	8,152.8
% of Total	36.9	41.6

Virgin Money concluded a pilot exercise in 2014 to contact a number of customers whose interest only mortgage loan was scheduled to mature before the end of 2020. This was performed to give customers the opportunity to take steps to avoid a mortgage repayment shortfall. The pilot proved successful and is being rolled out to all interest only customers.

Interest only balances due to mature in the next two years represent 1.5% of total interest only balances, totalling £124.5 million at December 2014. Treatment strategies exist to help customers who may not be able to repay the full amount of principal balance at maturity. Of residential interest only mortgages which have missed the payment of principal at the end of term, balances of £19.9 million remain at 31 December 2014 (2013: £11.4 million). All expired term balances are categorised as impaired loans, regardless of loss expectation. The provisioning methodology for expired term mortgage loans reflects the latest performance on these accounts.

Virgin Money offers interest only loans to applicants who have credible means to repay the mortgage loan at maturity. There has been a reduced risk appetite for new interest only residential business, moving from 21.7% to 2.4% of flow over the last 12 months. As a result, there has been a significant reduction in the proportion of residential interest only mortgages in the portfolio, moving from 30.4% to 24.7% during the reporting period.

During 2014, Virgin Money made enhancements to internal monitoring of the interest only portfolio to track closely movements in asset quality and better understand the composition of expired term balances. This management information is regularly reviewed to assess the effectiveness of interest only policy, contact strategies and to ensure the delivery of fair customer outcomes. Less than 0.1% of the secured portfolio relates to expired term loan balances, with the average balance of these loans around £63,000 and an average LTV of 22%.

Forbearance

	Neither past due nor impaired		Past due not impaired		Impaired		Total	
31 December 2014[1]	£m	%	£m	%	£m	%	£m	%
Secured								
Payment arrangement	2.8	1.1	0.4	2.4	0.1	4.8	3.3	1.2
Transfer to interest only	19.7	7.9	8.6	52.2	0.6	28.6	28.9	10.8
Term extension	162.5	65.3	4.0	24.2	0.9	42.8	167.4	62.6
Payment holiday	63.9	25.7	3.5	21.2	0.5	23.8	67.9	25.4
Total secured forbearance	248.9	100.0	16.5	100.0	2.1	100.0	267.5	100.0
Unsecured								
Accounts where the customer has been approved on a repayment plan	2.5	100.0	-	-	0.8	100.0	3.3	100.0
Total forbearance	251.4	100.0	16.5	100.0	2.9	100.0	270.8	100.0

1. The value of forbearance stock has been restated to reflect changes to its definition. It is possible for a customer to benefit from more than one forbearance option. In this event, account balances will be categorised in the forbearance category with the greatest probability of default.

The value of secured forbearance stock has reduced by £53.1 million since the end of 2013, despite considerable growth in the mortgage portfolio.

	Neither past due nor impaired		Past due not impaired		Impaired		Total	
31 December 2013[1]	£m	%	£m	%	£m	%	£m	%
Secured								
Payment arrangement	3.4	1.2	2.0	11.1	1.1	12.4	6.5	2.0
Transfer to interest only	38.0	12.9	7.5	41.7	4.8	53.9	50.3	15.7
Term extension	179.1	61.0	5.9	32.8	1.1	12.4	186.1	58.1
Payment holiday	73.2	24.9	2.6	14.4	1.9	21.3	77.7	24.2
Total secured forbearance	293.7	100.0	18.0	100.0	8.9	100.0	320.6	100.0
Unsecured								
Accounts where the customer has been approved on a repayment plan	3.2	100.0	-	-	1.1	100.0	4.3	100.0
Total forbearance	296.9	100.0	18.0	100.0	10.0	100.0	324.9	100.0

1. The value of forbearance stock has been restated to reflect changes to its definition. It is possible for a customer to benefit from more than one forbearance option. In this event, account balances will be categorised in the forbearance category with the greatest probability of default

Wholesale credit risk

	2014	2013
	£m	£m
Loans and advances to banks excluding Bank of England	720.5	626.9
Bank of England	851.3	1,423.5
Debt securities held as loans and receivables	8.6	9.4
Available-for-sale financial assets	1,539.6	1,679.2
Gross positive fair value of derivative contracts	101.2	187.5
Total	3,221.2	3,926.5

The Group's wholesale credit risk exposures reduced primarily to fund the growth in new loans and advances to customers.

At December 2014 the single largest exposure to any single counterparty which is not a sovereign or a supranational obligor was £110.1 million (2013: £163.4 million). These exposures were to large universal banks. The table below shows the loans and advances to banks excluding the Bank of England.

	2014	2013[1]
	£m	£m
AA+	19.9	-
AA-	144.4	125.4
A+	295.3	171.0
A	178.6	281.9
A-	39.6	48.6
BBB+	42.7	-
Total	720.5	626.9

1. Values in this table as at 31 December 2013 have been re-stated following a review of the approach applied. The re-stated 31 December 2013 classification of credit quality is based on the rating of Virgin Money's counterparties, rather than that of the counterparties' ultimate parent entity.

The Group's exposure to the Bank of England was £851.3 million and £1,423.5 million as at year end 2014 and 2013, respectively. These exposures were rated AA+ at both respective dates.

The table below shows debt securities held as loans and receivables and available-for-sale financial assets.

	2014		2013	
	Debt securities held as loans and receivables	Available-for-sale financial assets	Debt securities held as loans and receivables	Available-for-sale financial assets
	£m	£m	£m	£m
UK sovereign exposures	-	795.0	-	746.2
Non-domestic sovereign exposures	-	-	-	100.1
Supranational	-	310.7	-	420.6
Residential mortgage-backed securities	8.6	62.9	9.4	86.4
Covered bonds	-	265.7	-	46.1
Unsecured debt securities issued by banks	-	105.3	-	279.8
Total	8.6	1,539.6	9.4	1,679.2

The table below shows the credit rating on debt securities held as loans and receivables and available-for-sale financial assets.

	2014 £m	2013 £m
AAA	508.3	573.8
AA+	978.3	885.3
AA-	20.9	138.5
A+	33.8	58.0
A	-	24.0
A-	6.9	9.0
Total	1,548.2	1,688.6

The changes to debt securities reflect the alignment of the Group's liquid asset portfolio to the evolving regulatory definition of high-quality liquid assets. This re-alignment also resulted in an improvement in the credit rating of the investment securities portfolio, with 96% having a rating of AA+ or better compared to 86% at year end 2013.

The Bank Recovery and Resolution Directive may lead rating agencies to downgrade financial institutions as they remove the assumption of taxpayer support from their credit assessment.

Derivative financial instruments

An analysis of derivative assets is given in note 17. The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities. In respect of the Group's maximum credit risk relating to derivative assets of £101.2 million (2013: £187.5 million), cash collateral of £11.1 million (2013: £78.7 million) was held.

Virgin Money measures exposure in over the counter (OTC) derivatives using the gross positive fair value of contracts outstanding with a counterparty, increased by potential future rises in fair value and reduced by gross negative fair value of contracts and collateral received.

While exposures are managed on a net basis, IFRS 7 requires that they are represented on the balance sheet on a gross basis. Contracts with positive fair value are disclosed as assets in the balance sheet under 'derivative financial instruments', those with negative fair value are disclosed as stated on the liabilities side under the same title.

Collateral received is shown as deposits by banks, with collateral posted shown as loans and advances to banks. The notes to the financial statements provide further information on collateral. The table below details OTC derivative exposures.

	2014 £m	2013 £m
Gross positive fair value of derivative contracts	101.2	187.5
Netting with gross negative fair value of derivative contracts[1]	(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

1. The use of netting allows positions on all bilateral transactions with any given counterparty to be offset.

The table below provides a summary of net OTC liabilities

	31 Dec 2014	31 Dec 2013
	£m	£m
Gross negative fair value of derivative contracts	(223.1)	(142.1)
Netting with gross positive fair value of derivative contracts	90.0	103.7
Collateral pledged	111.7	38.4
Net OTC derivative liability	(21.4)	-

The only netting agreements in place are in relation to derivative financial instruments.

The table below provides credit quality analysis of the gross OTC derivative exposures by credit rating of the counterparties. The decrease in exposure across all rating categories reflects the overall reduction of values due to yield curve flattening.

	2014		2013[1]	
	£m	%	£m	%
AA-	34.7	34.3	43.4	23.1
A+	9.6	9.5	22.1	11.8
A	42.2	41.7	103.6	55.3
A-	11.2	11.1	18.4	9.8
BBB+	3.5	3.4	-	-
Total	101.2	100.0	187.5	100.0

1. Values in this table as at 31 December 2013 have been re-stated following a review of the approach applied. The re-stated 31 December 2013 classification of credit quality is based on the rating of Virgin Money's counterparties, rather than that of the counterparties' ultimate parent entity.

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 an accommodative 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 diversify 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 eight months to 29.6 months (2013: 21.6 months) and has reduced wholesale refinancing concentrations.

Group funding sources

The Group's loan-to-deposit ratio has increased to 102.8% compared with 96.4% at 31 December 2013, in accordance with plan and risk appetite, driven by increased retail lending activities supported by growth in customer deposits and secured wholesale funding. The table below shows funding position.

	2014 £m	2013 £m
Loans and advances to customers	23,093.1	20,342.5
Loans and advances to banks	720.5	626.9
Debt securities held as loans and receivables	8.6	9.4
Available-for-sale financial assets (encumbered)	321.7	413.5
Cash and balances at central banks (encumbered)	38.0	35.1
Funded assets	24,181.9	21,427.4
Other assets	323.7	483.5
On balance sheet primary liquidity assets		
Cash and balances at central banks – primary	813.3	1,388.4
Available-for-sale financial assets (unencumbered)	1,217.9	1,265.7
	2,031.2	2,654.1
Less: Other liabilities	(497.9)	(735.4)
Funding requirement	26,038.9	23,829.6
Funded by		
Customer deposits	22,365.7	21,121.4
Wholesale funding	2,429.4	1,773.3
Total equity	1,243.8	934.9
Total funding	26,038.9	23,829.6

Asset origination was funded by an increase in customer deposits and wholesale funding. The table below shows the sources of wholesale funding.

	2014	2013
	£m	£m
Mortgage-backed debt issue	1,594.1	1,469.8
Term repo	835.3	303.5
Total on-balance sheet sources of funds	2,429.4	1,773.3
FLS drawings	2,260.0	1,160.0
Total	4,689.4	2,933.3

The tables below show residual maturity of the wholesale funding book.

	Within 3 months	3-12 months	1-5 years	After 5 years	Total
31 December 2014	£m	£m	£m	£m	£m
Mortgage-backed debt issue[1]	-	-	-	1,594.1	1,594.1
Term repo	272.3	563.0	-	-	835.3
Total on-balance sheet sources of funds	272.3	563.0	-	1,594.1	2,429.4
FLS drawings	-	-	2,260.0	-	2,260.0
Total	272.3	563.0	2,260.0	1,594.1	4,689.4

	Within 3 months	3-12 months	1-5 years	After 5 years	Total
31 December 2013	£m	£m	£m	£m	£m
Mortgage-backed debt issue	-	-	-	1,469.8	1,469.8
Term repo	153.5	150.0	-	-	303.5
Total on-balance sheet sources of funds	153.5	150.0	-	1,469.8	1,773.3
FLS drawings	-	-	1,160.0	-	1,160.0
Total	153.5	150.0	1,160.0	1,469.8	2,933.3

1. Mortgage-backed securities are shown in the maturity bucket according to final legal maturity date of the notes, consistent with disclosure guidelines. The Group manages liquidity and funding risk on the basis of expected maturity, which is shorter term, reflecting the passing through of mortgage repayments by customers to note holders as they arise.

The increase in FLS drawings and RMBS has contributed to the increased tenor of wholesale funding by eight months (based on the forecast behavioural pay down of the Gosforth RMBS programme).

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 tables below show asset encumbrance.

	Encumbered assets		Unencumbered assets		
	Pledged as collateral	Other[1]	Available as collateral	Other[2]	Total
31 December 2014	£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

	Encumbered assets		Unencumbered assets		
	Pledged as collateral	Other[1]	Available as collateral	Other[2]	Total
31 December 2013	£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

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

The Group maintains a portfolio of liquid assets in accordance with risk appetite. Liquid assets are held predominantly in high-quality unencumbered securities issued by the UK government or supranationals and deposits with central banks. The portfolio mix is aligned to the liquidity coverage requirement defined in European liquidity regulatory standards. Other liquidity resources represent additional unencumbered liquid assets held over and above high-quality liquid assets intended to cover more extreme stress events and provide flexibility in terms of liquidity management.

The table below shows composition of the liquidity portfolio.

	2014	2014 Average	2013	2013 Average
Level 1	£m	£m	£m	£m
Bank of England reserve	813.3	1,120.9	1,388.4	1,455.4
UK Government securities	586.2	637.8	451.7	399.0
Other buffer eligible	-	33.9	100.1	98.3
Supranational securities	310.7	350.1	420.6	486.7
Treasury bills raised through FLS	2,260.0	1,598.5	1,160.0	833.1
Total level 1	3,970.2	3,741.2	3,520.8	3,272.5
Level 2a				
Covered bonds (ECAI 2)	225.7	127.9	46.1	41.3
Total level 2a	225.7	127.9	46.1	41.3
Level 2b				
Eligible RMBS	40.0	42.1	25.5	55.1
Total level 2b	40.0	42.1	25.5	55.1
High quality liquid assets (Level 1 + 2a + 2b)	4,235.9	3,911.2	3,592.4	3,368.9
Other liquidity resources				
Non-eligible RMBS	8.6	8.8	9.3	12.3
Certificates of deposit	-	43.8	82.1	26.0
Floating rate notes	-	11.1	24.1	34.8
Fixed rate bonds	55.3	120.3	115.6	137.5
Total other liquidity resources	63.9	184.0	231.1	210.6
Self-issued RMBS	92.8	433.4	650.4	1,401.8
Total liquidity	4,392.6	4,528.6	4,473.9	4,981.3

CAPITAL

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% 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 (i.e. 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 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.

Transitional and fully loaded disclosures under CRD IV

There are a number of temporary provisions which were written to spread the impact of some of the CRD IV changes over an introductory period. Where these transitional provisions apply, the Group has disclosed the capital 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).

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 million Common Equity Tier 1 capital (net of expenses: £145.4 million) as a result of admission to listing on the London Stock Exchange.

The table below shows the Group's capital resources.

	Fully loaded		PRA transitional rules	
	2014	2013	2014	2013
Common Equity Tier 1	£m	£m	£m	£m
Share capital and share premium account	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				
Deconsolidation of non regulated companies	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)
Excess of expected loss over impairment	(33.4)	(41.1)	(33.4)	(41.1)
Deferred tax on brought forward tax losses	(38.1)	(62.2)	(38.1)	(62.2)
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
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%

The table below shows movements in Common Equity Tier 1 capital.

	Fully loaded		Transitional rules	
	2014	2013	2014	2013
	£m	£m	£m	£m
At 1 January	808.9	645.6	802.4	634.0
Net impact of share capital raise	145.4	-	145.4	-
Movement in retained earnings	15.5	163.9	15.5	163.9
Movement in other reserves	(8.5)	6.4	(8.5)	6.4
Expected distribution on Additional Tier 1 securities	(2.1)	-	(2.1)	-
Movement in available- for-sale reserve	-	-	(0.5)	5.1
Movement in cash flow hedge reserve	9.0	(11.5)	9.0	(11.5)
Exclude losses from non-regulated companies	0.6	0.5	0.6	0.5
Intangible assets	(20.1)	8.8	(20.1)	8.8
Excess of expected loss over impairment	7.7	(3.7)	7.7	(3.7)
Movement in deferred tax	24.1	(1.1)	24.1	(1.1)
At 31 December	980.5	808.9	973.5	802.4

The main factor for the increase in capital resources during the year is the issue of new shares associated with the Group stock market listing in November. Smaller increases have arisen due to the reduced deduction for deferred tax as trading profits utilise the deferred tax asset, and due to the reduction in excess expected losses. These are offset by an increase in the intangible assets deduction.

The table below shows risk-weighted assets.

	Fully loaded		PRA Transitional rules	
	2014	2013	2014	2013
	£m	£m	£m	£m
Retail mortgages	3,489.7	3,860.2	3,489.7	3,860.2
Retail unsecured lending	830.0	595.3	830.0	595.3
Treasury	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
Market risk	-	-	-	-
Total risk-weighted assets	5,160.6	5,206.4	5,159.4	5,206.4

The table below shows Pillar 1 risk-weighted assets and capital requirements by business line.

	2014 Risk weighted assets	2014 Capital requirement	2013 Risk weighted assets	2013 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

The Group calculates our capital requirement for mortgages on an Advanced Internal Ratings Based (AIRB) approach, and on the Standardised Approach for credit cards and other assets.

Movement in risk-weighted assets

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

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 £167.6m, despite lower arrears rates observed through the year. This increase has been categorised as model calibration within the table on page 211.

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 credit cards in November, overall credit card balances have increased by £316.6 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.

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

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 measures; or
- CRR definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measures.

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.

Exposure values associated with derivatives and securities financing transactions (repos) have been adjusted using the current CRD IV rules.

Off-balance sheet items are made 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 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. The table below shows the derivation of the leverage ratio.

	Fully loaded
	£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%

2014 Accounting reconciliation

	Accounting balance sheet as in published financial statements	Deconsolidation of other entities	Under regulatory scope of consolidation
Assets	£m	£m	£m
Cash and balances with 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	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

FINANCIAL STATEMENTS

Condensed Consolidated income statement

For the year ended 31 December

	Note	2014 £ million	2013 [1] £ million
Interest and similar income		771.6	788.8
Interest and similar expense		(404.3)	(477.6)
Net interest income	3	367.3	311.2
Fee and commission income		35.1	38.0
Fee and commission expense		(1.1)	(1.2)
Net fee and commission income	4	34.0	36.8
Fair value gains/(losses) on financial instruments	17	0.1	(3.6)
Other operating income	5	36.9	38.6
Other income		71.0	71.8
Total income		438.3	383.0
Other operating expenses	6	(338.9)	(340.8)
Fees associated with listing	6	(12.6)	–
Total operating expenses	6	(351.5)	(340.8)
Profit before tax from operating activities		86.8	42.2
Impairment	8	(15.8)	(50.7)
Gain on sale of subsidiary	20	4.5	203.4
Contingent consideration	6	(36.0)	(9.0)
Premium on repurchase of Non-core Tier 1 notes in issue	28	(4.5)	–
Loss for the year of disposal group	12	(1.0)	(0.5)
Profit before tax		34.0	185.4
Taxation	9	(25.3)	(6.4)
Profit for the year		8.7	179.0
Profit attributable to equity shareholders		8.7	179.0
Profit for the year		8.7	179.0
Basic earnings per share (pence)	10	(0.4)	42.4
Diluted earnings per share (pence)	10	(0.4)	42.4

1 Restated – refer notes 1 and 39

The accompanying notes are an integral part of these consolidated financial statements.

Condensed Consolidated statement of comprehensive income

For the year ended 31 December

	2014	2013 [1]
	£ million	£ million
Profit for the year	8.7	179.0
Other comprehensive income		
Items that may subsequently be reclassified to profit or loss:		
Movements in revaluation reserve in respect of available-for-sale financial assets:		
Change in fair value	12.1	5.6
Income statement transfers in respect of disposals	(10.3)	(10.2)
Taxation	(1.3)	(0.5)
	0.5	(5.1)
Movements in cash flow hedging reserve:		
Effective portion of changes in fair value taken to other comprehensive income	(14.1)	7.0
Net income statement transfers	2.6	4.8
Taxation	2.5	(0.3)
	(9.0)	11.5
Other comprehensive (expense)/income for the year, net of tax	(8.5)	6.4
Total comprehensive income for the year	0.2	185.4
Total comprehensive income attributable to equity shareholders	0.2	185.4

1 Restated – refer notes 1 and 39

The accompanying notes are an integral part of these consolidated financial statements.

Condensed Consolidated balance sheet

As at 31 December

	Note	2014 £ million	2013 [1] £ million
Assets			
Cash and balances at central banks		851.3	1,423.5
Disposal group assets held for sale	12	–	85.9
Derivative financial instruments	17	101.2	187.5
Loans and receivables:			
— Loans and advances to banks	13	720.5	626.9
— Loans and advances to customers	14	23,093.1	20,342.5
— Debt securities	15	8.6	9.4
		23,822.2	20,978.8
Available-for-sale financial assets	16	1,539.6	1,679.2
Intangible assets	21	46.1	26.0
Tangible fixed assets	22	72.9	71.2
Deferred tax assets	23	50.2	70.0
Other assets	24	53.3	42.9
Total assets	26	26,536.8	24,565.0
Liabilities			
Deposits from banks	25	846.7	389.2
Customer deposits	26	22,365.7	21,121.4
Disposal group liabilities held for sale	12	–	78.9
Derivative financial instruments	17	228.2	147.1
Debt securities in issue	19	1,594.1	1,469.8
Other liabilities	28	249.0	416.2
Provisions	27	9.3	7.5
Total liabilities		25,293.0	23,630.1
Equity			
Share capital and share premium	29	654.6	509.2
Other equity instruments	30	156.5	–
Other reserves	31	(1.8)	6.7
Retained earnings	32	434.5	419.0
Total equity		1,243.8	934.9
Total liabilities and equity		26,536.8	24,565.0

1 Restated – refer notes 1 and 39

The accompanying notes are an integral part of these consolidated financial statements.

Condensed Consolidated statement of changes in equity

For the year ended 31 December

Attributable to equity holders

	Share capital and share premium	Other equity instruments	Other reserves	Retained earnings[1]	Total equity
	£ million	£ million	£ million	£ million	£ million
Balance at 1 January 2014	509.2	–	6.7	419.0	934.9
Comprehensive income					
Profit for the year	–	–	–	8.7	8.7
Other comprehensive income					
Net movement in available-for-sale reserve	–	–	0.5	–	0.5
Net movement in cash flow hedge reserve	–	–	(9.0)	–	(9.0)
Total other comprehensive expense	–	–	(8.5)	–	(8.5)
Total other comprehensive (expense)/income for the year	–	–	(8.5)	8.7	0.2
Transactions with equity holders					
Share based payments – charge for the year	–	–	–	12.9	12.9
Share based payments – reclassifications from liabilities	–	–	–	4.2	4.2
Issue of ordinary shares (net)	145.4	–	–	–	145.4
Issue of Additional Tier 1 securities (net)	–	156.5	–	–	156.5
Distribution to Additional Tier 1 securities	–	–	–	(3.2)	(3.2)
Distribution to Non-core Tier 1 noteholders	–	–	–	(9.2)	(9.2)
Group relief attributable to security holders	–	–	–	2.1	2.1
Total transactions with equity holders	145.4	156.5	–	6.8	308.7
Balance at 31 December 2014	654.6	156.5	(1.8)	434.5	1,243.8

	Share capital and share premium	Other equity instruments	Other reserves	Retained earnings[1]	Total equity
	£ million	£ million	£ million	£ million	£ million
Balance at 1 January 2013 As previously reported	509.2	–	0.3	245.3	754.8
Restatement	–	–	–	9.8	9.8
Restated	509.2	–	0.3	255.1	764.6
Comprehensive income					
Profit for the year	–	–	–	179.0	179.0
Other comprehensive income					
Net movement in available-for-sale reserve	–	–	(5.1)	–	(5.1)
Net movement in cash flow hedge reserve	–	–	11.5	–	11.5
Total other comprehensive income	–	–	6.4	–	6.4
Total comprehensive income for the year	–	–	6.4	179.0	185.4
Transactions with equity holders					
Share based payments	–	–	–	0.6	0.6
Distribution to Non-core Tier 1 noteholders	–	–	–	(15.7)	(15.7)
Total transactions with equity holders	–	–	–	(15.1)	(15.1)
Balance at 31 December 2013	509.2	–	6.7	419.0	934.9

1 Restated – refer notes 1 and 39

Further details of movements in the Group's share capital and reserves are provided in notes 29, 30, 31 and 32.

Condensed Consolidated cash flow statement

For the year ended 31 December

	Note	2014 £ million	2013[1] £ million
Profit before taxation		34.0	185.4
Adjustments for:			
Changes in operating assets	35(a)	(2,330.6)	(2,605.5)
Changes in operating liabilities	35(b)	1,805.6	3,327.7
Non-cash and other items	35(c)	(132.8)	0.9
Net cash (used in)/provided by operating activities		(623.8)	908.5
Cash flows from investing activities			
Net investment in intangible assets		(26.9)	(29.7)
Purchase of fixed assets		(10.6)	(1.5)
Disposal of fixed assets		(0.2)	–
Net investment in securities		(956.5)	(760.4)
Proceeds from sale and redemption of investment securities		1,278.5	615.4
Movement in disposal of group assets and liabilities		7.7	18.3
Proceeds from sale of Virgin Money Cards Limited		–	192.5
Net investment in credit card portfolio		(362.7)	(1,019.6)
Net cash flow from disposal of Church House Trust Limited	35(e)	11.5	–
Net cash (used in)/provided by investing activities		(59.2)	(985.0)
Cash flows from financing activities			
Distribution to Non-core Tier 1 noteholders		(20.2)	(7.8)
Repayment of Non-core Tier 1 notes		(154.5)	–
Net increase/(decrease) in debt securities in issue		124.3	(796.8)
Proceeds from issue of Additional Tier 1 securities (net)		156.5	–
Proceeds from issue of ordinary shares (net)		145.4	–
Payment of contingent consideration	6	(50.0)	–
Net cash provided by/(used in) financing activities		201.5	(804.6)
Change in cash and cash equivalents		(481.5)	(881.1)
Cash and cash equivalents at beginning of year		2,015.3	2,896.4
Cash and cash equivalents at end of year	35(d)	1,533.8	2,015.3

1 Restated – refer notes 1 and 39

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of preparation

1.1 Reporting entity

Virgin Money Holdings (UK) plc (the Company) is a public limited company incorporated and registered in England and Wales. The registered office is Jubilee House, Gosforth, Newcastle-Upon-Tyne, NE3 4PL.

The Company was incorporated on 4 August 1995 as a private limited Company with registered number 03087587. On 24 July 2014 the company was re-registered as a public limited company.

The Company is the parent entity and the ultimate controlling party of the Virgin Money Group (the Group).

1.2 Basis of preparation

The financial information set out in these financial statements does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 2013. Statutory accounts for 2013 have been delivered to the Registrar of Companies, and those for 2014 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The results have been prepared on a basis consistent with the accounting policies set out in the statutory financial statements for the year ended 31 December 2013 except as explained below. The condensed financial information as set out in this report is unaudited and does not comprise statutory accounts for the purposes of the Companies Act 2006.

The comparative figures for the year ended 31 December 2013 have been taken from, but do not constitute, the Group's statutory financial statements for that financial year. Those financial statements have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report was unqualified.

The Directors have reviewed the strategic plan which shows the financial position, cash flow, liquidity and capital forecasts for the Group and all of its subsidiaries. The Directors are confident that they show that the Group will have sufficient resources to meet its liabilities as they fall due. Accordingly the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

1.3 Group's admission to the London Stock Exchange

On 18 November 2014 the Company listed on the London Stock Exchange (the listing), issuing 53 million Ordinary Shares and raising £150.0 million. The listing also triggered the settlement of the contingent consideration payable to HM Treasury and resulted in awards under the Group's share based payment schemes. The listing transaction is disclosed within the notes to the financial statements as follows:

	Note reference
Total operating expenses	6
Share based payments	7
Share capital and share premium	29

The group has adopted two accounting standards, which are applicable to listed entities, and details of these standards are set out below in section 1.4.

1.4 Changes in accounting policy

New standards, amendments to standards and interpretations adopted.
The following standards were adopted as a result of the Group's listing:

Pronouncement	Impact of change
IFRS 8 'Operating Segments'	This standard is mandatory for entities with publicly traded securities and requires disclosure of information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. Information is based on internal Management reports, both in the identification of operating segments and measurement of disclosed segment information. Refer Note 2.
IAS 33 'Earnings per share'	This standard is mandatory for entities with publicly traded securities and prescribes principles for determining and presenting basic and diluted earnings per share amounts in respect of ordinary share capital. Refer to Note 10.

The following interpretation was endorsed by the EU and is mandatory for annual reporting periods on or after 17 July 2014. The Group has voluntarily adopted this during the year ended 31 December 2014:

Pronouncement	Impact of change
IFRIC 21 'Levies'	IFRIC 21 'Levies' clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. This has resulted in a change in the timing of recognition of the Financial Services Compensation Scheme (FSCS) levy which impacts the Group. Therefore, the full FSCS levy provision should be recognised on the trigger date, 1 April of each year. The Group participates in the FSCS to enable the Scheme to meet interest, capital and administrative costs of safeguarding protected deposits in failed financial institutions. The scheme year is from 1 April to 31 March. Historically, the Group accounted for the FSCS levy provision at 31 December for the following Scheme year, however as a result of adopting IFRIC 21, the provision is recognised in the same period as the scheme year. The Group assessed that the liability for the FSCS levy recognised at 31 December 2013 of £6.0 million for the Scheme year 2014/2015 should be reversed as the trigger event date has now moved from 31 December 2013 to 1 April 2014. Refer note 39 for details of the impact of this change on the prior year comparatives.

The following new standards and amendments to standards are mandatory for annual reporting periods on or after 1 January 2014, have been endorsed for adoption by the EU and have been adopted by the Group during the year ended 31 December 2014:

Pronouncement	Impact of change
IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 Disclosure of interests in Other Entities'	IFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. 'The Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees through the adoption of IFRS 10. These new requirements in IFRS 10 have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore change the scope of consolidation. Management has reviewed its control assessments in accordance with IFRS 10 and has concluded that there is no impact on the classification (as subsidiaries or otherwise) of any of the Group's investees held during the period or comparative periods covered by these financial statements. IFRS 11 introduces a revised model for accounting for joint arrangements. The Group is not currently involved in any joint arrangements and IFRS 11 does not have any impact on the Group.

	IFRS 12 does not affect the amounts recognised in the financial statements, but requires new disclosures about the judgements made by Management to determine whether control exists and to require summarised information on the Group's subsidiaries. These disclosures are provided in notes 1.6 and 37(b). These standards are required to be applied retrospectively.
Amendments to IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28, consolidation	These amendments introduce the concept of an 'investment entity'. Where a subsidiary qualifies as an investment entity it is not required to be consolidated by the Group, but should be recorded at fair value through profit or loss. This amendment does not have a significant impact on the Group when adopted.
Amendment to IAS 36 'Impairment of Assets', Recoverable Amount Disclosures for Non-Financial Assets	The circumstances in which the recoverable amount of assets or cash-generating units are required to be disclosed is reduced by these amendments. Disclosure requirements are also clarified and an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique is introduced. This amendment does not have a significant impact on the Group when adopted.
Amendment to IAS 32 , 'Financial Instruments: Presentation' on offsetting financial assets and financial liabilities'	The amendments to IAS 32 clarify the criteria when an entity currently has a legal right to set off and when gross settlement is equivalent to net settlement. This amendment does not have a significant impact on the Group when adopted.
Amendment to IAS 39, 'Financial Instruments: Recognition and Measurement'	IAS 39 has been amended to provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument. This amendment does not have a significant impact on the Group when adopted.

There are no other standards, amendments to standards or interpretations that are applicable in the year which have a material impact on the financial statements.

New accounting standards issued by the IASB which are effective in future periods are presented in note 40.

1.5 Presentation of information

Presentation of risk disclosures

Disclosures under IFRS 7 'Financial Instruments: Disclosure' concerning the nature and extent of risks relating to financial instruments have been included within the audited sections of the Risk Management Report on page 145 of the Annual Report & Accounts. Where marked as 'audited' these are covered by the Independent Auditor's Report on page 216 of the Annual Report & Accounts.

Presentational reclassifications

During the year, the Group undertook a review of the allocation and classification of both costs and income. Following this review, the Group has realigned elements of net fee and commission income and operating expenses to reflect better the nature of these costs. The impact of this on the prior year comparatives is detailed in note 39. This exercise had no impact on the overall profit reported by the Group.

Please note that the adoption of IFRIC 21 'Levies' required a prior period restatement of balances which had an impact on the prior year overall profit reported by the Group. Refer to note 39 for details.

1.6 Basis of consolidation

The Group consists of the Company and all its subsidiaries. The subsidiaries are listed in note 37. The consolidated financial statements comprise the financial statements of the Group.

Entities are regarded as subsidiaries where the Group has the power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to affect those returns. Inter-company transactions and balances are eliminated upon consolidation. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that power over an investee, exposure or rights to variable returns and the ability to affect these returns ceases. Accounting policies are applied consistently across the Group.

Special Purpose Vehicles (SPV) are entities created to accomplish a narrow and well defined objective. For the Group this is the securitisation of mortgage assets. An SPV is consolidated if the Group has control over the SPV, is exposed to rights of variable returns from its involvement in the SPV and has the ability to affect those returns through its power over the entity.

1.7 Basis of measurement

The financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments, available-for-sale and other assets held at fair value through profit or loss. A summary of the material accounting policies of the Group are included within note 1.10. Polices which are relevant to the financial statements as a whole are set out below.

The accounting policies set out in note 1.10 have been applied consistently to all periods presented in these financial statements.

1.8 Client money

The Group’s unit trust management and investment intermediary subsidiaries administer money on behalf of some clients in accordance with the Client Money Rules of the Financial Conduct Authority. Client money is not recognised in the balance sheet or in the notes to the financial statements as the Group is not the beneficial owner.

1.9 Foreign currency translation

The Group’s financial statements are presented in sterling, which is the functional currency of the Group.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in profit or loss. Non-monetary items (which are assets or liabilities which do not attach to a right to receive or an obligation to pay currency) measured at amortised cost and denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are translated at the exchange rate at the date of valuation. Where these are held at fair value through the income statement, exchange differences are reported as part of the fair value gain or loss.

1.10 Accounting policies

The accounting policies of the Group are set out below.

(a) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors. The Group Executive Committee (the Executive) has been determined to be the chief operating decision maker for the Group.

The Group determines operating segments according to similar economic characteristics and the nature of its products and services in accordance with IFRS 8 ‘Operating Segments’. The Executive reviews the Group’s internal reporting based around these segments in order to assess performance and allocate resources.

Segment performance is evaluated based on underlying profit or loss and is measured consistently with underlying profit or loss in the consolidated financial statements (income tax is unallocated). Segment results are regularly reviewed and reported to the Board of Directors to allocate resources to segments and to assess their performance.

(b) Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method.

The effective interest rate method calculates the amortised cost of a financial asset or liability, and allocates the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate the Group estimates cash flows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses. The calculation includes all amounts received or paid by the Group that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest receivable or payable on derivatives, whether in economic or accounting hedges, is recorded on an accrual basis in interest receivable. Interest on available-for-sale (AFS) securities is recorded in interest receivable on an amortised cost basis.

(c) Fees and commissions

Where they are not included in the effective interest rate calculation, fees and commissions are recognised on an accruals basis when the service has been received or provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related incremental direct costs) and recognised as an adjustment to the effective interest rate on the loan. Insurance commissions are recognised in the period in which they are earned.

Fee income from general insurance and life insurance policies is recognised in full on the effective date of commencement or renewal of the related policies to reflect underlying contracts with product providers.

(d) Other operating income

Other operating income comprises the fair value for services, net of value added tax, rebates and discounts. Other operating income is attributable to the sale and management of stocks and shares ISAs, pensions, authorised unit trusts, the marketing of credit cards, general insurance and other financial services products.

Credit card income

The Group was party to an arrangement in relation to Virgin Atlantic Airways branded credit cards and income on this contract which was recognised in accordance with the contract terms. With effect from 1 December 2013 the existing contract was terminated, and replaced with a new arrangement for these cards. The Group will continue to recognise income in relation to the new arrangement under the terms of the revised contract.

Other

Other operating income from sales of units in managed funds is recognised daily based on the average volume of funds under management.

Revenue from the sale of general insurance and life insurance policies is recognised in full on the effective date of commencement or renewal of the related policies to reflect underlying contracts with product providers.

Fees charged to charities for registering with Virgin Money Giving Limited are recognised from the date on which there is no significant uncertainty as to their collectability. The 2% commission charged on donations and event fees is recognised from the date donations and event fees are transacted on the website. Both of these income streams contribute towards costs incurred by Virgin Money Giving, a not-for-profit subsidiary within the Group.

Other income includes commission on donations, interest received from related parties and other sundry income.

The Group recognises ongoing credit card income from other strategic partners as other income.

(e) Total operating expense

Operating expenses are recognised on an accruals basis as services are provided. Included within the employee benefits expense are employee share based payments. The accounting policy in relation to share based payments is set out in policy (f).

Staff costs

The Group applies IAS 19 'Employee Benefits' in its accounting for the following components of employee costs:

Short-term employee benefits

Short-term employee benefits include salaries and social security costs and are recognised over the period in which the employees provide the services to which the payments relate.

Cash bonus awards are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably and are recognised over the period of service that employees are required to work to qualify for the payment.

Other long-term employee benefits

Other long term employee benefits include deferred cash bonus awards. Deferred cash bonus awards are recognised at the present value of the obligation at the reporting date. These costs are recognised over the period of service that employees are required to work to qualify for the payment.

Retirement benefit obligations

A defined contribution plan is a post-employment benefit plan into which the Group pays fixed contributions and has no legal or constructive obligation to pay further amounts. Contributions are recognised as staff expenses in profit or loss in the periods during which related employee services are fulfilled.

The Group operates defined contribution pension schemes for its Directors and employees. The assets of the schemes are held separately from those of the Group in independently administered funds.

The accounting policies for employee share based payments are set out in policy (f).

Leases

If the lease agreement in which the Group is a lessee transfers the risks and rewards of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and is depreciated over the estimated useful life. The lease obligations are recorded as borrowings.

If the lease does not transfer the risks and rewards of the asset, the lease is recorded as an operating lease.

Operating lease payments are charged to the income statement on a straight line basis over the lease term unless a different systematic basis is more appropriate. Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor in compensation is charged to profit or loss in the period in which termination is made.

(f) Share based payments

The Group puts in place share schemes for employees to reward strong long term business performance and to incentivise growth for the future.

The Group engages in equity settled or cash settled share based payment transactions in respect of services received from certain of its employees.

For equity settled share based payment transactions the grant date fair value is recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards.

The fair value of the award granted is determined using valuation models which take into account the terms and conditions attached to the awards. Inputs into valuation models, may include the exercise price, the risk free interest rate, the expected volatility of the Company's share price and other various factors which relate to performance conditions attached to the awards. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

For share based payment awards with market performance conditions or non-vesting conditions the grant date fair value of the share based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

For cash settled share based payment transactions the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on a valuation model taking into account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account.

(g) Impairment losses

The Group assesses its financial assets or groups of financial assets for objective evidence of impairment at each balance sheet date. An impairment loss is recognised if and only if there is a loss event (or events) that has occurred after initial recognition, and on or before the balance sheet date, that has a reliably measurable impact on the estimated future cash flows of the financial assets or groups of financial assets. Losses that are incurred as a result of events occurring after the balance sheet date are not recognised in these financial statements.

Assets held at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Group about the following loss events:

- there is evidence of the customer or issuer experiencing financial difficulty
- there is a breach of contract, such as a default or delinquency in repayments
- the customer is granted a concession that would otherwise not be considered
- the borrower will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
- there are adverse changes in the payment status of borrowers in the portfolio
- economic conditions that correlate with defaults on the assets in the portfolio.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. In assessing collective impairment the Group uses statistical modelling of historic trends to assess the probability of a group of financial assets going into default and the subsequent loss incurred. Regular model monitoring is performed to ensure model assumptions remain appropriate.

Assets that are individually assessed and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment allowance and the amount of the loss is recognised in the profit or loss.

When a loan or receivable is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised directly in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the customer's credit rating), the previously recognised impairment loss is reversed by adjusting the impairment allowance. The amount of the reversal is recognised in profit or loss.

A provision is also made in the case of accounts, which may not currently be in arrears, where losses may have been incurred but not yet recognised. An increased level of provision is held for accounts where an impairment trigger event has occurred which includes accounts benefiting from forbearance and those in arrears. Refer to page 161 of the Risk Management Report for details of the forbearance policy.

(h) Taxation

Taxation comprises current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or other comprehensive income. Current tax is based on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The Group has adopted the Code of Practice on Taxation for Banks issued by HM Revenue and Customs.

Further disclosures relating to deferred tax are included in policy (u).

(i) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding during the period excluding treasury shares held in employee benefit trusts or held for trading.

The diluted earnings per share is calculated by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

For the calculation of diluted earnings per share the weight- average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, if any, that arise in respect of share options and rewards granted to employees. The number of shares that could have been acquired at the average annual share price of the Company's shares based on the monetary value of the subscription rights attached to outstanding share options and awards is determined. This is deducted from the number of shares issuable under such options and awards to leave a residual bonus amount of shares which are added to the weighted- average number of ordinary shares in issue, but no adjustment is made to the profit attributable to equity shareholders.

(j) Financial instruments

Financial assets

Financial assets can be classified in the following categories:

- loans and receivables
- available-for-sale
- held to maturity or
- financial assets at fair value through profit or loss.

Management determines the classification of its financial instruments at initial recognition. The Group measures all of its financial liabilities at amortised cost, other than derivatives and those instruments which have been designated as part of a hedging relationship (refer to note 1.10 (p)). Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available-for-sale are recognised on the trade date, the date on which the Group commits to purchase or sell the asset.

Loans and receivables at amortised cost

The Group's loans and advances to banks and customers and some investment securities are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, whose recoverability is based solely on the credit risk of the customer and where the Group has no intention of trading the loan or receivable. Both loans and receivables and financial liabilities are initially recognised at fair value including direct and incremental transaction costs. Subsequent recognition is at amortised cost using the effective interest rate method, less any provision for impairment.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets that are either designated as available-for-sale or are assets that do not meet the definition of loans and receivables and are not derivatives or assets held at fair value through profit or loss. These are principally but not exclusively investment securities intended to be held for an indefinite period of time which may be sold in response to a need for liquidity or changes in interest rates, exchange rates or equity prices. They are initially measured at fair value including direct and incremental transaction costs. 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 (refer to note 1.10 (o)). Subsequent measurement is at fair value, with changes in fair value being recognised in other comprehensive income except for impairment losses and translation differences, which are recognised in profit or loss. Upon derecognition of the asset, or where there is objective evidence that the investment security is impaired, the cumulative gains and losses recognised in other comprehensive income are removed from other comprehensive income and recycled to profit or loss.

Held to maturity financial assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments that the Group has the ability and intention to hold to maturity. They are initially measured at fair value including direct and incremental transaction costs. Subsequent measurement is at amortised cost using the effective interest rate method. No financial assets were classified as held to maturity during either the current or prior year.

Financial assets at fair value through profit or loss

This category consists of derivative financial assets. Assets in this category are carried at fair value. The fair values of derivative instruments are calculated by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties. Gains and losses arising from the changes in the fair values are recognised in profit or loss.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Financial liabilities

Borrowings, including shares, deposits and debt securities in issue are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred. All borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is adjusted for the amortisation of any premiums, discounts and transaction costs. The amortisation is recognised in interest expense and similar charges using the effective interest rate method. The Group does not hold any financial liabilities classified as held for trading.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) are reclassified in the financial statements as assets pledged when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are also retained in the financial statements.

Derecognition of financial assets and liabilities

Derecognition is the point at which the Group removes an asset or liability from its balance sheet. The Group's policy is to derecognise financial assets only when the contractual right to the cash flows from the financial asset expires or when the Group transfers the financial assets to another party provided the transfer of the asset also transfers the right to receive the cash flows of the financial asset or where the Group has transferred substantially all the risks and rewards of ownership. Where the transfer does not result in the Group transferring the right to receive the cash flows of the financial assets, but it does result in the Group assuming a corresponding obligation to pay the cash flows to another recipient, the financial assets are also accordingly derecognised. The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, converted to shares, cancelled or has expired or is transferred to a third party. There were no transactions in the year where the Group transferred financial assets that should have been derecognised in their entirety.

(k) Disposal group

Assets and liabilities of a disposal group are classified as held for sale where the carrying amount will be recovered principally through a sale transaction as opposed to continuing use and they are available-for-sale in the present condition. This is subject only to the terms that are usual and customary for the sale of such assets and liabilities and the sale being highly probable and expected to complete within one year of being classified as a disposal group. The disposal group is measured at the lower of carrying amount and fair value less costs to sell.

(l) Loans and advances to banks

The Group's loans and advances to banks are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, whose recoverability is based solely on the credit risk of the customer and where the Group has no intention of trading the loan. Both loans and receivables and financial liabilities are initially recognised at fair value including direct and incremental transaction costs. Subsequent recognition is at amortised cost using the effective interest rate method, less any provision for impairment.

(m) Loans and advances to customers

The Group's loans and advances to customers are classified as loans and receivables in accordance with IAS 39 Financial Instruments: Recognition and Measurement. They are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, whose recoverability is based solely on the credit risk of the customer and where the Group has no intention of trading the loan or receivable.

Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. Subsequent recognition is at amortised cost using the effective interest rate method, less any provision for impairment. Further details of the application of the effective interest rate method are included in policy (b) and provision for impairment in policy (g).

(n) Debt securities classified as loans and receivables

Debt securities are designated as either available-for-sale or loans and receivables. Debt securities are principally available-for-sale as they are intended to be held for an indefinite period of time but may be sold in response to a need for liquidity or changes in interest rates, exchange rates or equity prices. Debt securities classified as loans and receivables are asset backed securities for which there is no active market, refer to policy (m) for accounting treatment.

Debt securities classified as loans and receivables are initially recognised at fair value including direct and incremental transaction costs. Subsequent recognition is at amortised cost using the effective interest rate method, less any provision for impairment.

Impairment of debt securities classified as loans and receivables

Refer to policy (g) for the accounting policy for impairment on investment securities designated as loans and receivables.

(o) Available-for-sale financial assets

Debt securities are designated as either available-for-sale or loans and receivables. Debt securities are principally available-for-sale as they are intended to be held for an indefinite period of time but may be sold in response to a need for liquidity or changes in interest rates, exchange rates or equity prices. Debt securities classified as loans and receivables are asset backed securities for which there is no active market, refer to policy (n) for accounting treatment.

Debt securities classified as available-for-sale are initially measured at fair value including direct and incremental transaction costs. Fair values are obtained from quoted prices in active markets and, where these are not available, from valuation techniques including discounted cash flow models. Subsequent measurement is at fair value, with changes in fair value being recognised in other comprehensive income except for impairment losses and translation differences, which are recognised in the income statement. Upon derecognition of the asset, or where there is objective evidence that the debt security is impaired, the cumulative gains and losses recognised in other comprehensive income are removed from other comprehensive income and recycled to profit or loss.

The Group's debt securities and treasury bills are held as available-for-sale assets. For available-for-sale financial assets, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset, or group of financial assets are impaired. The amount of the loss is measured as the difference between the asset's acquisition cost less principal repayments and amortisation and the current fair value. The amount of the impairment loss is recognised in profit or loss. This includes cumulative gains and losses previously recognised in other comprehensive income which are recycled from other comprehensive income to the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(p) Derivative financial instruments and hedge accounting

The Group is authorised to undertake the following types of derivative financial instrument transactions for non-trading purposes: cross currency swaps, interest rate swaps, equity swaps, interest rate caps, forward rate agreements, options, foreign exchange contracts and similar instruments.

The Group's derivative activities are entered into for the purpose of matching or eliminating risk from potential movements in interest rates, foreign exchange rates and equity exposures inherent in the Group's assets, liabilities and positions. All derivative transactions are for economic hedging purposes and so it is therefore decided at the outset which position the derivative will be hedging. Derivatives are reviewed regularly for their effectiveness as hedges and corrective action taken, if appropriate. Derivatives are measured initially at fair value and subsequently remeasured to fair value. 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 and option pricing models. Where derivatives are not designated as part of a hedging relationship, changes in fair value are recorded in the income statement. Where derivatives are designated within hedging relationships, the treatment of the changes in fair value depends on the nature of the hedging relationship as explained below.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group documents at the inception of the hedge relationship the link between the hedging instrument and the hedged item as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment both at hedge inception and on an ongoing basis of whether the derivatives used in hedging transactions are highly effective in offsetting changes in the fair values or cash flows of hedged items. The Group designates certain derivatives as either:

Cash flow hedges

A cash flow hedge is used to hedge exposures to variability in cash flows, such as variable rate financial assets and liabilities. The effective portion of changes in the derivative fair value is recognised in other comprehensive income, and recycled to the income statement in the periods when the hedged item will affect profit and loss. Interest rate derivatives designated as cash flow hedges primarily hedge the exposure to cash flow vulnerability from forecast loans and advances to customers. The fair value gain or loss relating to the ineffective portion is recognised immediately in profit or loss; or

Fair value hedges

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans. Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is amortised to the income statement over the period to maturity. If derivatives are not designated as hedges then changes in fair values are recognised immediately in the income statement.

The most frequently used fair value hedges are:

- hedging the interest rate risk of a portfolio of prepayable fixed rate assets with interest rate derivatives. This solution is used to establish a macro fair value hedge for derivatives hedging fixed rate mortgages.
- hedging the interest rate risk of a portfolio of fixed rate liabilities with interest rate derivatives. This solution is used to establish a macro fair value hedge for derivatives hedging fixed rate savings.
- hedging the interest rate risk of a portfolio of non-prepayable fixed rate assets with interest rate derivatives. This solution is used to establish a macro fair value hedge for fixed rate investments.
- hedging the interest rate and foreign currency exchange risk of non-prepayable, foreign currency denominated fixed rate assets or liabilities on a one-for-one basis with fixed/floating or floating/fixed cross currency interest rate swaps.

Embedded derivatives

Certain derivatives are embedded within other non-derivative host instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risk of the host instrument, and where the hybrid instrument is not measured at fair value, the Group separates the embedded derivative from the host instrument and measures it at fair value with the changes in fair value recognised in profit or loss. There are no embedded derivatives held by the Group.

(q) Securitisation transactions

Certain Group companies have issued debt securities in order to finance specific loans and advances to customers. 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.
- 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.

Debt securities in issue

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 (see policy (j)). 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 Special Purpose Vehicles (SPV) and have been funded through the issue of amortising mortgage backed securities to investors.

As discussed in note 1.6, the Group consolidates the assets and liabilities of the securitisation SPVs, on a line by line basis, as the Group controls the securitisation SPVs.

(r) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, being when control is transferred to the Group. Control is having the power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred less the fair value of the net identifiable assets acquired and liabilities assumed.

When the excess is negative, the negative goodwill is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(s) Intangible assets and amortisation

Intangible assets purchased separately from a business combination are capitalised at their cost and amortised from the date from which they become available for use over their useful economic life which is generally 3-10 years. Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be measured reliably in accordance with IFRS 13 “Fair Value Measurement”.

Computer software

Costs incurred in acquiring and developing computer software for internal use are capitalised as intangible assets where the software leads to the creation of an identifiable non-monetary asset and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group from its use for a period of over one year. The software is classified as an intangible asset where it is not an integral part of the related hardware and amortised over its estimated useful life on a straight line basis which is generally 3 to 10 years.

Costs associated with maintaining software are expensed as they are incurred.

Core deposit intangible

The core deposit intangible was recognised on acquisition of Northern Rock plc (now renamed Virgin Money plc). It was recognised in respect of the intrinsic value of the retail savings book acquired. This will be amortised over its remaining useful life of one year.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised.

Positive goodwill is held on the balance sheet and tested for impairment annually.

Core banking platforms

Core banking platforms primarily represent the construction of core operating platforms, which are internally generated. Core banking platforms are amortised on a straight line basis over 3-10 years.

Impairment of intangible assets

Intangible assets are assessed for indications of impairment at each balance sheet date, or more frequently where required by events or changes in circumstances. If indications of impairment are found, these assets are subject to an impairment review. The impairment review compares the carrying value of the assets with their recoverable amounts, which are defined as the higher of the fair value less costs to sell and their value in use. Fair value less costs to sell is the amount at which the asset could be sold in a binding agreement in an arm’s length transaction. Value in use is calculated as the discounted cash flows generated as a result of the asset’s continued use including those generated by its ultimate disposal, discounted at a market rate of interest on a pre-tax basis

Where impairments are indicated, the carrying values of intangible assets are written down by the amount of the impairment and the charge is recognised in the income statement in the period in which it occurs. A previously recognised impairment charge on a fixed asset may be reversed in full or in part where a change in circumstances leads to a change in the estimates used to determine its recoverable amount. The carrying value of the intangible asset will only be increased to the carrying value at which it would have been held had the impairment not been recognised.

(t) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment, as appropriate. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Additions and subsequent expenditure are included in the asset’s carrying value or are recognised as a separate asset only when they improve the expected future economic benefits to be derived from the asset. All other repairs and maintenance are charged to the income statement in the period in which they are incurred.

Depreciation is provided using the straight line method to allocate costs less residual values over estimated useful lives, as follows:

Freehold property	50-100 years
Leasehold property	Unexpired period of the lease
Plant and leasehold improvements	5-30 years
Computer equipment	3-5 years
Office equipment	3-10 years
Motor vehicles	4 years

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Where the cost of freehold land can be identified separately from buildings, the land is not depreciated. Tangible fixed assets are subject to impairment testing, if deemed appropriate.

Impairment of tangible fixed assets

Tangible fixed assets are assessed for indications of impairment at each balance sheet date, or more frequently where required by events or changes in circumstances. If indications of impairment are found, these assets are subject to an impairment review. The impairment review compares the carrying value of the assets with their recoverable amount, which are defined as the higher of the fair value less costs to sell and their value in use. Fair value less costs to sell is the amount at which the asset could be sold in a binding agreement in an arm's length transaction. Value in use is calculated as the discounted cash flows generated as a result of the asset's continued use including those generated by its ultimate disposal, discounted at a market rate of interest on a pre-tax basis.

Where impairments are indicated, the carrying values of fixed assets are written down by the amount of the impairment and the charge is recognised in the income statement in the period in which it occurs. A previously recognised impairment charge on a fixed asset may be reversed in full or in part where a change in circumstances leads to a change in the estimates used to determine its recoverable amount. The carrying value of the fixed asset will only be increased to the carrying value at which it would have been held had the impairment not been recognised.

(u) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(v) Other assets

Other assets include prepayments and other amounts the Group is due to receive from third parties in the normal course of business.

(w) Deposits from banks

Deposits by banks are initially measured at fair value, which is normally the proceeds received net of any directly attributable transaction costs incurred. Subsequent measurement is at amortised cost, using the effective interest rate method.

(x) Customer deposits

Customer deposits are initially measured at fair value, which is normally the proceeds received. Subsequent measurement is at amortised cost, using the effective interest rate method.

(y) Provisions

Provisions are recognised for present obligations arising from past events where it is more likely than not that an outflow of resources will be required to settle the obligations and they can be estimated reliably.

(z) Other liabilities

Non-core Tier 1 notes

The Non-core Tier 1 notes were carried at amortised cost using the effective interest rate method.

Deferred income

Deferred income represents amounts received in advance of the Group providing services, and will be recognised as income in profit or loss when the services have been provided.

Other creditors and accruals

Other creditors represent amounts the Group is due to pay to third parties in the normal course of business. These include expense accruals, which have been incurred, but not yet billed.

Accrued expenses are amounts that the Group is due to pay to third parties in the normal course of business.

(aa) Share capital and share premium

Share capital

The financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group.
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends and appropriations

Dividends are recognised in equity in the period in which they are approved by the Company's shareholders or paid.

Share premium

Share premium substantially represents the aggregate of all amounts that have ever been paid above par value to the Company when it has issued ordinary and non-voting Ordinary Shares. Certain expenses in relation to the issue of share capital can be offset against the share premium account. These expenses must be the incremental expenses arising on issue of the shares.

(bb) Other equity instruments

The Group applies IAS 32 'Financial Instruments: Presentation' to determine whether an issued instrument is either a financial liability (debt) or equity.

Issued financial instruments are recognised as equity where there is no contractual obligation to deliver either cash or another financial asset.

The proceeds are included in equity, net of transaction costs. Dividends and other returns to equity holders are treated as a deduction from equity.

(cc) Other reserves

Available-for-sale reserve

The available-for-sale reserve represents the unrealised change in the fair value of available-for-sale investments since initial recognition.

Cash flow hedge reserve

For derivatives designated in a cash flow hedge, the effective portion of changes in fair value is recognised in the cash flow hedge reserve and recycled to profit or loss in the periods when the hedged item will affect profit or loss.

(dd) Contingent liabilities

Contingent liabilities are possible obligations whose existence depends upon the outcome of uncertain future events or are present obligations where the outflows of resources are uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

(ee) Fair value of financial assets and liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

For the majority of instruments, fair value is determined with reference to quoted prices in an active market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Refer to note 34 for a description of different levels within the fair value hierarchy. Levels are reviewed at each balance sheet date and this determines where transfers between levels are required.

Where quoted prices are not available, fair value is based upon cash flow models, which use wherever possible independently sourced observable market parameters such as interest rate yield curves, currency rates and option volatilities. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction and is discounted at a risk free rate.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of consideration given or received. The Group does not apply a credit valuation adjustment (CVA) or debit valuation adjustment (DVA) to reflect the credit risk of its derivative exposures as the Group's portfolio is fully collateralised.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or transferred to sell a net short position) for a particular risk exposure. Those portfolio risk adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

1.11 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on Management's best knowledge of the amount, actual results ultimately may differ from those estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements as follows:

(a) Effective interest rates

IAS 39 requires interest earned from mortgages and credit cards to be measured under the effective interest rate method. Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The accuracy of the effective interest rate would therefore be affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used compared to actual outcomes and incorrect assumptions.

For the mortgage book Management has reviewed expected lives in the year and the catch-up adjustment resulted in a gain in the income statement of £1.6 million (2013: £11.9 million) driven by an expectation that, on an overall basis, loan lives have lengthened during 2014 as a consequence of continuing low interest rates.

If the estimated life of secured loans were increased or reduced by one month, the value of such loans on the balance sheet would be increased or decreased by £2.5 million (2013: £1.6 million) and £2.6 million (2013: £1.5 million) respectively.

For the credit card book Management has reviewed the expected lives of the credit card balances in the year and the catch up adjustment resulted in a loss in the income statement of £0.2 million (2013: £nil).

If the estimated life of credit cards were increased or reduced by one month, the value of such assets on the balance sheet would be increased or decreased by £0.6 million (2013: £0.1 million) and £0.5 million (2013: £0.1 million) respectively.

(b) Fair value of share based payments

The fair value of the share awards is calculated using statistical models. The inputs to these models require Management judgement to estimate the probability and timings of events taking place in the future. The significant inputs used in the models include the exercise price, share price, expected volatility, expected dividend yield, expected life and the risk free rate. The share based payment recognised can be materially affected by these assumptions and the key drivers of changes in value are timing, probability and company value on listing.

(c) Impairment of loans and receivables

Individual impairment losses on secured loans and advances are calculated based on an individual valuation of the underlying asset. Collective impairment losses on loans and advances are calculated using a statistical model.

The key assumptions used in the model are the probability of default; the probability of this default resulting in possession and/or write off; and the subsequent loss incurred. These key assumptions are monitored regularly to ensure the impairment allowance is entirely reflective of the current portfolio.

The accuracy of the impairment calculation would therefore be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. For mortgage loan receivables to the extent that:

- the loss given default differs by +/- 10%, for example if the loss given default is 10% then it is increased to 11%, the impairment allowance would be an estimated £0.2 million (2013: £0.7 million) higher or £0.2 million (2013: £0.7 million) lower respectively
- the level of house prices differs by +/- 10%, for example a property value of £100,000 is increased to £110,000, the impairment allowance would be an estimated £0.7 million (2013: £2.9 million) lower or £3.4 million (2013: £6.0 million) higher respectively
- the emergence period of 6 months differs by +/- 3 months, the impairment allowance would be an estimated £0.1 million (2013: £0.2 million) higher or £0.1 million (2013: £0.2 million) lower respectively.

For credit card receivables, to the extent that the loss given default differs by +/- 10%, the impairment allowance would be an estimated £2.7 million (2013: £4.4 million) higher or £2.7 million (2013: £4.4 million) lower respectively, and to the extent the emergence period of 6 months differs by +/-3 months, the impairment allowance would be an estimated £2.0 million (2013: £2.9 million) higher or £2.0 million (2013: £2.9 million) lower respectively.

(d) Tax uncertainty

The determination of the Group's provision for income taxation, deferred taxation assets and liabilities and potential taxation liabilities involves significant estimates and judgements on certain matters, for which the ultimate outcome may be uncertain. The current and deferred income taxation assets and liabilities are adjusted for any difference between the final outcome and the amount provided for in the period when the matter is resolved. The Group recognises potential taxation liabilities based on all available evidence and, where appropriate, in the light of external advice.

(e) Disposal group classification and measurement (2013)

At 31 December 2013, the assets and liabilities of Church House Trust Limited (CHT) were classified as held for sale within a disposal group. Management judgement was required in assessing whether the sale of CHT was highly probable and expected to complete within one year of being classified as a disposal group. The Directors considered a sale to be highly probable and that this disposal would occur within twelve months of classification as a disposal group. In accordance with IFRS 5 'Non-current assets held for sale and discontinued assets', the assets and liabilities were classified as a disposal group.

(f) Capitalisation and impairment of intangibles

Intangibles are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. A review of capitalisation of intangibles has been undertaken to ensure these conditions have been met.

A review of intangible assets which are not yet in use for indications of impairment is undertaken at each reporting date. If there are indicators of impairment, an estimate of the recoverable amount is made. The recoverable amount of the asset is the higher of its fair value less costs to sell and its value in use. Value in use is calculated by discounting the future cash flows (both costs to complete and benefits post completion) generated from the continuing use of the asset. If the carrying value of the asset is less than the greater of the value in use and the fair value less costs to sell, an impairment charge is recognised.

Through their assessment of intangible assets and review for impairment indicators Management have not identified any assets that have an impairment therefore a nil impairment charge has been recognised (2013: £33.9 million).

(g) Deferred tax

Taxation involves estimation techniques to assess the liability in terms of possible outcomes. The assessment of the recoverability or otherwise of deferred tax assets is based mainly on a determination of whether the relevant entity will generate sufficient profits within 5 years to realise the deferred tax assets.

This is reviewed at each reporting date by the Directors with a detailed exercise conducted to establish the validity of profit forecasts and other relevant information including timescales over which the profits are expected to arise and the deferred tax assets will reverse. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and which are expected to apply when the related deferred tax assets are realised or the deferred tax liabilities are settled.

The judgement required in the assessment of whether to recognise a deferred tax is set out in policy (u). A deferred taxation asset in respect of the subsidiary Virgin Money plc was not recognised at acquisition on 1 January 2012 but subsequently recognised because in the period since acquisition, Management have taken certain actions to have greater certainty about the profitability going forward.

Based on their interpretation of the timing and level of reversal of existing taxable temporary differences, in line with relevant accounting standards, the Directors conclude that a net deferred tax asset of £50.2 million (2013: £70.0 million) should be recognised at the balance sheet date.

(h) Provisions

Due to the nature of provisions, their determination is based upon estimates and judgements concerning the future. Provisions are based on the best information available at the reporting date, including independent expert advice.

(i) Additional Northern Rock consideration and contingent liabilities

Contingent liabilities

In the normal course of its business, the Group may be subject to matters of litigation or dispute. While there can be no assurances, at this time the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Group.

Additional Northern Rock consideration

As a result of the acquisition of Northern Rock plc (now renamed Virgin Money plc) on 1 January 2012, contingent consideration of up to £80.0 million was payable to HM Treasury upon a future profitable listing or sale of the business between 2012 and 2016. The amount payable varied on a sliding scale depending on the date of completion of any listing or sale within the time window.

(j) Fair value of financial assets and liabilities

Management must use judgement and estimates calculating fair value where not all necessary inputs are observable or where factors specific to the Group's holdings need to be considered. The accuracy of the fair value calculations would therefore be affected by unexpected market movements, inaccuracies within the models used compared to actual outcomes and incorrect assumptions. For example, if Management were to use a tightening in the credit spread of 10 basis points, the fair values of liabilities (including derivatives) would increase from the reported fair values by £23.3 million (2013: £20.7 million).

The following estimates and judgements were removed from those judgements which are significant to the Group as they are no longer applicable or no longer significant to the financial statements for the year ended 31 December 2014: contractual revenue recognition, carrying value of investments in subsidiaries, acquisitions and disposals, impairment of tangible fixed assets and classification of debt and equity.

Note 2: Operating segments

Segmental reporting

For Management reporting purposes, the Group is organised into the following business groupings:

- Mortgages and savings
- Credit cards
- Current accounts, insurance and investments
- Central functions

These business groupings reflect how the Executive assesses performance and makes decisions regarding the allocation of resources to the business on the basis of product and customers. Internal and external sources of revenue are allocated to the appropriate business segment.

Mortgages and savings

Mortgage products include Residential and Buy-to-let mortgages. The Group also participates in the Help to Buy Scheme and the Help to Buy Equity Loan Scheme. The savings products currently include ISAs, easy access and fixed term accounts.

Credit cards

In January 2013 the Group acquired £1.0 billion of Virgin Money branded credit card balances from MBNA. The Group received commission from MBNA for any new Virgin Money branded credit cards written until November 2014 when the Group acquired these balances and launched its own credit card platform. This allows the Group to broaden the product set offered to customers. All new business is now written directly to the Group's balance sheet. Historically the portfolio has primarily comprised of balance transfer credit cards.

Current accounts, insurance and investments

Current accounts, insurance and investments include current accounts and other financial products. Other financial products are those offered beyond our core products of savings, mortgages and credit cards and include investments, pensions, pensions annuity services, travel insurance, home insurance, motor insurance and pet insurance.

Central functions

Central functions provide shared support services to each of the Group's business lines and Virgin Money Giving (VMG). These services include information technology and property along with central services such as risk, finance, human resources and the Executive. It is not the current policy of the Group to allocate the cost of these shared services to each business line. All depreciation and amortisation is allocated to the central functions business line.

The Group does not manage treasury as a profit centre, and so the interest expense incurred from its Group funding and liquidity operations has been allocated to the other business lines. Treasury is not engaged in trading activities.

Due to the nature of the Group's operations there are no inter-segmental transactions.

	Mortgages and savings	Credit cards	Current accounts, insurance and investments	Central functions	Underlying basis total
Year ended 31 December 2014	£m	£m	£m	£m	£m
Net interest income	291	75.1	–	–	366.1
Other income	3.1	25.2	32.8	11	72.1
Total underlying income	294.1	100.3	32.8	11	438.2
Total costs	(87.3)	(40.8)	(11.6)	(161.5)	(301.2)
Impairment	(1.2)	(14.6)	–	–	(15.8)
Underlying profit/(loss)	205.6	44.9	21.2	(150.5)	121.2
Segment assets	22,005.6	1,112.8	3.6	3,414.8	26,536.8
Segment liabilities	22,322.6	4.8	202.5	2,763.1	25,293.0

	Mortgages and savings	Credit cards	Current accounts, Insurance and Investments	Central functions	Underlying basis total
Year ended 31 December 2013[1]	£m	£m	£m	£m	£m
Net interest income	209	80.2	–	–	289.2
Other income	1.9	28.3	33.4	8.7	72.3
Total underlying income	210.9	108.5	33.4	8.7	361.5
Total costs	(79.5)	(38.6)	(12.2)	(148.9)	(279.2)
Impairment	(2.1)	(26.8)	–	–	(28.9)
Underlying profit/(loss)	129.3	43.1	21.2	(140. 2)	53.4
Segment assets	19,652.6	792.8	3.7	4,115.9	24,565.0
Segment liabilities	21,190.1	6.7	189.9	2,243.4	23,630.1

1 Restated – see note 1 and 39

The underlying basis is the basis on which financial information is presented to the chief operating decision maker which excludes certain items included in the statutory results. The table below reconciles the statutory results to the underlying basis.

		Adjusted for					
	Virgin Money Group statutory	Credit card transaction	Acquisition and other related items	Fair value adjustments	FSCS provisions	Listing costs[1]	Underlying basis total
	£m	£m	£m	£m	£m	£m	£m
Year ended 31 December 2014							
Net interest income	367.3	–	–	(1.2)	–	–	366.1
Other income	71.0	–	–	1.1	–	–	72.1
Total income	438.3	–	–	(0.1)	–	–	438.2
Other operating expenses	(338.9)	7.2	1.8	1.0	16.4	11.3	(301.2)
Fees associated with listing	(12.6)	–	–	–	–	12.6	–
Total operating expenses	(351.5)	7.2	1.8	1.0	16.4	23.9	(301.2)
Profit before tax from operating activities	86.8	7.2	1.8	0.9	16.4	23.9	137.0
Impairment losses on loans and advances	(15.8)	–	–	–	–	–	(15.8)
Gain on sale of subsidiary	4.5	–	(4.5)	–	–	–	–
Contingent consideration	(36.0)	–	36.0	–	–	–	–
Loss for the year on disposal group	(1.0)	–	1.0	–	–	–	–
Premium on repurchase of Non-core Tier 1 notes	(4.5)	–	4.5	–	–	–	–
Profit/(loss)	34.0	7.2	38.8	0.9	16.4	23.9	121.2

1 Listing costs include £12.6 million listing costs and £11. 3 million share based payment (SBP) and one-off bonus payments.

		Adjusted for:					
	Virgin Money Group statutory	Credit card transaction	Acquisition and other related items	Fair value adjustments	FSCS provisions	Listing costs[1]	Underlying basis total
Year ended 31 December 2013[1]	£m	£m	£m	£m	£m	£m	£m
Net interest income	311.2	(21.8)	–	(0.2)	–	–	289.2
Other income	71.8	–	–	0.5	–	–	72.3
Total income	383.0	(21.8)	–	0.3	–	–	361.5
Total operating expenses	(340.8)	10.4	37.8	–	13.4	–	(279.2)
Profit before tax from operating activities	42.2	(11.4)	37.8	0.3	13.4	–	82.3
Impairment	(50.7)	21.8	–	–	–	–	(28.9)
Gain on sale of subsidiary	203.4	(203.4)	–	–	–	–	
Additional Northern Rock consideration	(9.0)	–	9.0	–	–	–	
Loss for the year of disposal group	(0.5)	–	0.5	–	–	–	
Profit/(loss) before tax	185.4	(193.0)	47.3	0.3	13.4	–	53.4

1 Listing costs include £12.6 million listing costs and £11. 3 million share based payment (SBP) and one-off bonus payments.

Geographical areas

As the Group's operating activities are primarily in the UK, an analysis between UK and non-UK activities is not provided.

Note 3: Net interest income

Net interest income comprises:

	2014	2013
Interest and similar income:	£m	£m
Loans and advances to customers – secured	662.0	643.1
Loans and advances to customers – unsecured	89.8	122.6
Loans and advances to banks	0.7	0.9
Debt securities held as loans and receivables	0.1	0.1
Interest receivable on loans and receivables	752.6	766.7
Available-for-sale financial assets	11.5	12.3
Cash and balances with central banks	5.9	7.4
Other interest	1.6	2.4
Total interest and similar income	771.6	788.8
Interest and similar expense:		
Deposits from banks including liabilities under sale and repurchase agreements	(3.3)	(0.2)
Customer deposits	(373.1)	(437.5)
Debt securities in issue	(21.4)	(33.4)
Other	(6.5)	(6.5)
Total interest and similar expense	(404.3)	(477.6)
Net interest income	367.3	311.2

Interest accrued on individually impaired assets was £6.8 million (2013: £8.1 million).

Included within interest income in 2013 is an amount of £21.8 million which related to the acceleration of the discount on the acquisition of the credit card book. This discount represented the difference between the price paid over the fair value at acquisition, which unwinds over the life of the fair value to their recoverable amount. The full discount was unwound in 2013 based on the repayment profiles.

Note 4: Net fee and commission income

Net fee and commission income comprises:

	2014	2013[1]
Fee and commission income:	£m	£m
On loans and advances to customers – secured	4.3	3.5
On loans and advances to customers – unsecured	24.6	27.8
Other fee and commission income	6.2	6.7*
Total fee and commission income	35.1	38.0*
Fee and commission expense:		
Other fee and commission expense	(1.1)	(1.2)*
Net fee and commission income	34.0	36.8*

1. Restated (refer notes 1 and 39)

Other fee and commission expense includes bank servicing costs and bank charges.

Note 5: Other operating income

Other operating income comprises:

	2014	2013 [1]
	£m	£m
Co-branded credit cards	0.1	(2.4)
Other credit card partnerships	0.5	3.0
Other operating income from credit cards	0.6	0.6
Investment and protection income	28.7	28.4
Gain on sale of available-for-sale assets (refer note 16)	7.5	9.3
Other	0.1	0.3
Total other operating income	36.9	38.6

1. Restated (refer notes 1 and 39)

Total operating income is derived in the United Kingdom and relates to trade with third parties and continuing operations.

Included within co-branded credit cards in 2013, was an expense of £8.3 million. This related to future overhead contributions that were due from MBNA and were written off when the contract ended in 2013.

* The Group undertook a cost and income reclassification exercise during the year; see note 39 for further details. As a result of this exercise, the 2013 comparative for 'Other credit card partnerships' decreased by £14.9 million to £3.0 million, the 2013 comparative for 'Investment and protection income' decreased by £2.5 million to £28.4 million and 2013 comparative for 'Other' decreased by £1.3 million to £0.3 million.

Note 6: Total operating expenses

Total operating expenses comprises:

Other operating expenses	2014 £m	2013 £m
Staff costs:		
Salaries	125.6	108.1
Social security costs	14.3	12.2
Other pension costs	9.6	8.5
Employee share option schemes	13.5	0.6
	163.0	129.4
Premises and equipment:		
Hire of equipment	4.8	5.4
Rent and rates	8.5	6.7
	13.3	12.1
Other expenses:		
Marketing costs	16.5	20.1
FSCS levy	16.4	13.4
Professional fees	8.5	15.1
Other	106.4	104.6
	147.8	153.2
Depreciation and amortisation:		
Depreciation of tangible fixed assets	8.0	6.8
Amortisation of intangible assets	6.8	4.7
	14.8	11.5
Impairment:		
Tangible fixed assets	–	0.7
Intangible assets	–	33.9
	–	34.6
Total other operating expenses	338.9	340.8*
Fees associated with listing	12.6	–
Total operating expenses	351.5	340.8

* The Group undertook a cost and income reclassification exercise during the year; see note 39 for further details. As a result of this exercise, the 2013 comparative for 'Other operating expenses' decreased by £1.5 million to £340.8 million.

Costs associated with listing:

Included within total expenses for the year ended 31 December 2014 are costs relating to the listing of the Company in November 2014. These costs include expenses incurred in connection with the listing, share based awards that vested on listing and contingent consideration payments made on listing; these costs are summarised below:

	£m
Costs within other operating expenses:	
Share based awards that vested on listing	10.7
One-off payments to staff made on listing	0.6
	11.3
Fees associated with listing	12.6
Total costs included within total operating expenses	23.9
Additional Northern Rock consideration	36.0
Total non-recurring costs	59.9

Qualifying costs attributable to the issuance of share capital are debited directly to equity. They include incremental costs that are directly attributable to issuing the primary shares such as advisory and underwriting fees. Other costs associated with both the primary issuance and secondary sale of shares were allocated between operating expenses and equity based on the number of primary and secondary shares sold during the issue. A summary is detailed below:

	£m
Charged to income statement	12.6
Charged to reserves(refer note 29)	4.6
Total	17.2

Share based awards of £10.7 million that vested on listing are detailed within the shared based payments, note 7. Included within staff costs is £0.6 million (2013: nil) of one-off payments that were made on listing.

On 18 November 2014 the Group paid £50.0 million (of which £36.0 million is included in the current year income statement) to HM Treasury for contingent consideration which became payable on the successful listing of the Company.

Deferred bonus amounts included within staff costs

In 2013 the Phantom Incentive Plan (the Plan) was accounted for as a long term employee benefit. Deferred bonus amounts of £4.9 million relating to the Plan, and other legacy long term incentive plans which are now closed, were included within wages and salaries.

On 23 September 2014 the Remuneration Committee agreed that existing awards under the Phantom Incentive Plan for around 36 senior employees would be converted to awards over Ordinary Shares on listing, with no acceleration of vesting. This has resulted in a change in accounting treatment of the Phantom Incentive Plan such that it is now accounted for as an equity settled share based payment rather than as a long term employee benefit (refer to note 7).

Average headcount

The monthly average number of persons (including Directors) employed by the Group was as follows:

	2014	2013
Full time	2,244	2,121
Part time	660	597
Total	2,904	2,718

Retirement benefit obligations

A defined contribution plan is a post-employment benefit plan into which the Group pays fixed contributions to a third party pension provider and has no legal or constructive obligation to pay further amounts. Contributions are recognised as staff expenses in profit or loss in the periods during which related employee services are fulfilled. The Group operates defined contribution pension schemes, for its Directors and employees. The assets of the schemes are held separately from those of the Group in independently administered funds.

The Group made contributions of £9.6 million (2013: £8.5 million) during the year. There were no unpaid contributions outstanding at the year end (2013: £nil).

Fees payable to the auditor

During the year the Group obtained the following services from the Group's auditor as detailed below:

	2014 £m	2013 £m
Fees payable for the audit of the current year annual report and accounts	0.2	0.1
Fees payable for other services:		
Audit of the subsidiaries pursuant to legislation	0.7	0.7
Total audit fees	0.9	0.8
Audit related assurance services	0.2	0.4
Total audit and audit-related fees	1.1	1.2
Services relating to taxation:		
Taxation services	0.2	0.1
Total taxation related fees	0.2	0.1
Other non-audit fees:		
Services relating to corporate finance transactions	1.3	–
Other services	0.7	0.1
Total other non-audit fees	2.0	0.1
Total fees payable to the auditor by the Group	3.3	1.4

All amounts are shown exclusive of VAT.

The following types of services are included in the categories listed above:

Audit and audit-related fees

This category includes fees in respect of the audit of the Group's annual financial statements and other services in connection with regulatory filings and services for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements.

Other non-audit fees

This category includes advisory services in addition to non-audit services in relation to the listing of the Group.

Other non-audit fees of £2.0 million includes £1.9 million in relation to the listing, exclusive of VAT.

Note 7: Share based payments

	2014 £m	2013 £m
Equity setted[1]	12.9	0.6
Cash settled	0.6	–
Total share based payment charge	13.5	0.6

1 Bonuses in respect of the performances in 2014 of employees within certain of the Group's bonus plans have been recognised in these financial statements in full. The amounts to be settled in shares are included within the equity settled share based payment charge.

The listing of the Company crystallised the vesting of a number of share schemes. Of the £13.5 million charge in 2014 (2013: £0.6 million), £10.7 million of this was attributable to equity and cash settled awards which vested on listing.

A breakdown of this is below.

Awards	£m
IPO incentive plan (including modifications)	6.8
Employee share awards plan	1.8
Growth shares	0.7
Modification of Phantom Share award	0.7
Other equity and cash settled awards	0.7
Total of awards made on listing	10.7

The scheme details are summarised below:

Equity settled schemes:

During the year ended 31 December 2014 the Group operated the following share based payment schemes.

Equity settled schemes:

	Award plan	Eligible employees	Nature of award	Vesting conditions[1]	Issue dates[2]
(A)	IPO incentive plan	Selected senior employees	Conditional share Award	Continuing employment or leavers in certain circumstances and achievement of performance conditions	2013
(B)	Employee share award plan	Staff below executive level	Conditional share Award	Continuing employment or leavers in certain circumstances and achievement of performance conditions	2013
©	Phantom share award	Selected senior employees	Deferred bonus – conditional share Award	Continuing employment or leavers in certain circumstances	2012 & 2013
(D)	Growth shares	Selected senior employees	Offer to subscribe for a restricted class of shares	Continuing employment or leavers in certain circumstances and achievement of performance conditions	2012 & 2014
(E)	Share award plan	Two senior employees	Conditional share Award	Continuing employment or leavers in certain circumstances	2013
(F)	Chairman's interest in share options	Chairman	Award of share options	Continuing employment or leavers in certain circumstances	2011
(G)	Long term incentive plan	Selected senior employees	Conditional share award	Continuing employment or leavers in certain circumstances and achievement of performance conditions	2014
(H)	IPO share award 2014	All employees excluding the Group's Executive Committee	Conditional share award	Continuing employment or leavers in certain circumstances	2014
(I)	Deferred bonus share plan[3]	Selected senior employees	Deferred bonus – conditional share award	Continuing employment or leavers in certain circumstances	2014

Notes:
1 All awards have vesting conditions and therefore some may not vest.
2 Issue dates show the year in which issues have been made under the relevant scheme. There could be further issuances in future years under the scheme.
3 The deferred bonus share plan is the scheme in operation in 2014 for bonuses which are to be settled in shares, in respect of employee performances in 2014.

The terms of the equity settled schemes the Group operated during the year are as follows:

(A) IPO incentive plan 2013

The IPO incentive plan was introduced in December 2013 for selected senior employees. Participants were entitled to receive shares in the event of a listing. The award was a predetermined percentage of the listing value, which was then converted to a number of Ordinary Shares based on the listing price. The fair value of the IPO incentive plan of £8.0 million (2013: £nil) was determined at grant date using a binomial valuation model. During 2014 £5.3 million (2013: £nil) was charged to the income statement.

During 2014 modifications were made to the scheme including removal of the minimum listing market value. The combined impact of the modifications was an increase in the fair value of the awards granted of £3.0 million, which will be recorded in profit or loss over the vesting period through to 2017. At 31 December 2014 £1.5 million (2013: £nil) has been charged to the income statement.

The significant inputs used to estimate the fair value of the scheme and subsequent modifications included the probability, value and expected timing of the listing of the Company. The valuation model included other estimates such as volatility, risk-free rate and discount factors. The risk-free rate was based on the UK Government bond yield and expected volatility was determined using observed market benchmarks.

(B) Employee share award plan

The employee share award plan was established for staff below executive level. The purpose was to allow employees to share in the future success and growth of the Company by granting an award to acquire a pre-determined number of shares to each relevant employee. Under the scheme rules the vesting date was the earlier of (i) the Company undertaking a listing or Share Sale (as defined in the Company's Articles of Association at the time) or (ii) at such other time as determined at the discretion of the Remuneration Committee.

The award vested on listing on 18 November 2014.

(C) Phantom share award

In late 2012, a notional (phantom) share award for senior individuals was established. The award is designed to comply with PRA requirements for deferral and clawback on treatment of variable remuneration. In 2012 this was accounted for as a cash settled share based payment. This scheme was amended by the Remuneration Committee on 18 July 2013 so that the award was based on TNAV rather than share price over the vesting period. This amendment resulted in a change in accounting treatment of the phantom share award such that in 2013 it was accounted for as a long term employee benefit rather than a cash settled share based payment (refer note 6).

During 2014 the Remuneration Committee approved that existing awards under the phantom share scheme would be converted into Ordinary Shares awards on listing, with no acceleration of vesting.

This has resulted in a change in accounting treatment of the Phantom share award to an equity settled share based payment therefore the Group has reclassified the liability of £4.2 million to equity. The fair value of the converted award was recalculated and will be recognised over the remaining vesting period within the income statement through to 2018. The financial impact for the period to 31 December 2014 was £0.4 million, which has been recognised within the equity settled share based payment charge.

As part of the modification, the Remuneration Committee approved that an additional cash payment would be made to participants in respect of the 2013 deferred bonus. This was paid in December 2014. The financial impact for the year 31 December 2014 was £0.3 million which is included within cash settled share based payments summarised above.

The fair value of the modifications was calculated using a Black Scholes model as at the modification date. The significant inputs used to estimate the fair value included share price, expected volatility, dividend yield and the risk free rate. The risk free rate was based on the UK Government bond yield. Expected volatility was determined using observed market benchmarks. No options were granted in 2014 or 2013 under this scheme.

(D) Growth shares

Offers to acquire Growth shares (a restricted class of shares) were extended to selected senior executive positions in January 2012 (A Ordinary Shares) and December 2013 (B Ordinary Shares). Growth shares were designed to enable participants to share in the continued growth of the Company above an initial valuation plus an annual increase in the value of the business. Participants did this by subscribing for A or B Ordinary Shares in the Company.

On 18 November 2014 the A and B Ordinary Shares were converted into a combination of Ordinary Shares and Deferred Shares (refer note 29). The conversion was based on the calculation and hurdle rate specified in the Articles of Association of the Company. Following conversion of A and B Ordinary Shares this scheme is now closed.

(E) Share award plan

The share award plan was set up for two senior employees. Under the scheme the participants received shares in March 2014 and will receive shares on vesting dates in March 2015 and March 2016. No awards were granted in 2014 under this scheme.

(F) Chairman's interest in share options

During 2011 an equity based option scheme was set up or the Chairman. Under the scheme the participant had an option over 65,824 shares (converted to 658,240 on 18 November 2014). The option vested in three tranches during 2012, 2013 and 2014.

During 2014, 32,912 share options were exercised for a weighted-average exercise price of £2.15. No options were exercised in 2013.

At 31 December 2014 the weighted-average exercise price for options outstanding was £2.15 (2013: £21.49 prior to share reorganisation). The options outstanding will expire in ten years from the date of listing if not exercised.

(G) Long term incentive plan (LTIP)

The long term incentive plan was approved by the Remuneration Committee during 2014. Awards are made within limits set by the rules of the Plan which determine the maximum number of shares that can be awarded which equate to 120% of total annual remuneration under normal circumstances.

A one-off award was granted in 2014 to a senior employee on recruitment. The award contained no service or performance conditions therefore vested immediately on grant date. The number of shares granted was 105,448 shares with a fair value at grant of £0.3 million. The fair value of this one-off LTIP award was calculated at grant date in 2014 based on the number of shares awarded and the Company's share price at grant date of 284.75p.

(H) IPO share award

On 18 November the Group granted all employees with the exception of the Group's Executive Committee a one-off share award. A small number of senior employees received an award over Ordinary Shares of either 10% or 20% of salary. All other employees received an award over Ordinary Shares with a value of £1,000. The awards will vest in full on the first anniversary of the listing, provided that the participant is still employed within the Group at that time. Certain awards granted to senior employees will be subject to a different vesting schedule, and holding periods, to comply with the PRA Remuneration Code. The number of shares originally granted was 1,773,880 shares with an estimated fair value at grant date of £5.0 million. At 31 December 2014, £0.4 million (2013: £nil) had been charged to the income statement.

The fair value of the awards granted under the IPO share award was determined at grant date using a Black Scholes valuation model. The table below summarises the inputs into the model.

	2014
Share price	283p
Exercise price	0p

Expected volatility of Company share price	20%[1]
Expected dividend yield	1.28%/1.14%[2]
Expected life	1 year/1.8 years[2]
Risk-free interest rate	0.6%[3]

Notes:
1 As historic data is not available for the Group, expected volatility was determined using observed market benchmarks.
2 For awards granted to senior employees that are subject to a different vesting schedule, and holding periods, an average expected dividend yield and expected life has been calculated for the full vesting period.
3 The risk free rate is based on the UK Government Bond Yield.

(l) Deferred bonus share plan

The deferred bonus share plan was approved by the Remuneration Committee during 2014 and is operated in conjunction with the Group's short term incentive plan for Executive Directors and other senior managers of the Group. The deferred bonus share plan will be used to grant awards over a number of shares, the value of which will be equivalent to the deferred element of a participant's bonus.

Bonuses in respect of the performances in 2014 of employees within the Group's bonus plans have been recognised in these financial statements in full. The deferred element of 2014 bonuses to be settled in shares is included within the 2014 equity settled share based payment charge reflected within the income statement. Share awards under the scheme for the deferred element of 2014 bonuses will be granted in 2015.

A one-off award was granted under the scheme in 2014 to a senior employee on recruitment. The award has service conditions and the participant will receive shares on vesting dates in March 2016, March 2017 and March 2018. The number of shares originally granted was 14,918 shares with an estimated fair value at grant of £0.1 million.

The fair value of this one-off award granted in 2014 was determined at grant date using a Black Scholes valuation model. The table below details the inputs into the model.

	2014
Share price	285p
Exercise price	0p
Expected volatility of Company share price	20%[1]
Expected dividend yield	0.96%[2]
Expected life	1.3 years[2]
Risk-free interest rate	0.6%[3]

Notes:
1 As historic data is not available for the Group, expected volatility was determined using observed market benchmarks.
2 An average expected dividend yield and expected life has been calculated for the full vesting period.
3 The risk free rate is based on the UK Government Bond Yield.

Cash settled schemes

A cash payment of £1.4 million was made on listing in respect of a cash settled share based payment scheme which vested in 2011.

The terms of the phantom scheme were modified and as a result, a cash payment of £0.3 million was made in December 2014. Refer to (C) within the Equity settled schemes section for details.

	Ordinary Shares				
	Chairman's interest in share options[1]	Employee share award plan[1]	Share award plan[1]	Phantom incentive plan[1]	IPO share award[1]
31 December 2014					
Shares in existence at 1 January	65,824	104,232	39,014	–	–
Modification to Phantom Incentive Plan	–	–	–	312,090	–
Impact of share reorganisation	592,416	871,911	294,984	2,808,810	–
Granted in year	–	–	–	–	1,773,800
Exercised or vested in year	(32,912)	(968,790)	(6,238)	–	–
Less: forfeited in year	–	(7,353)	–	–	–
Outstanding at end of year	625,328		327,760	3,120,900	1,773,880
Of which exercisable	625,328	–	–	–	–

	Ordinary Shares			A and B Ordinary Shares	
	Long term incentive plan	Deferred bonus plan[1]		IPO incentive scheme[3]	Growth shares[1,2]
31 December 2014					
Shares in existence at 1 January	–	–	–		1,123,407
Conversion of A and B Ordinary Shares	–	–	–		(1,123,407)
IPO incentive scheme	–	–	1,661,631		–
Granted in year	105,448	14,918	–		–
Exercised or vested in year	(105,448)	–	(996,973)		–
Less: forfeited in year	–	–	–		–
Outstanding at end of year	–	14,918	664,658		–
Of which exercisable	–	–	–		–

1 All awards have vesting conditions and therefore some may not vest.
2 Growth shares were A and B Ordinary Shares. The return on these shares on listing was calculated as set out in the Company's Articles of Association. A Ordinary Shares were converted into 38,055 Ordinary Shares and 1,064,927 Deferred Shares. B Ordinary Shares were converted into 9,192 Ordinary Shares and 92,936 Deferred Shares. The Deferred Share created on the conversion of the A and B Ordinary Shares were then cancelled.
3 The IPO incentive scheme (granted in December 2013) is awarded as a percentage of the listing value, which is then converted to a number of shares based on the listing price. On listing 1,661,631 Ordinary Shares were awarded

	Ordinary Shares			A and B Ordinary Shares	
	Deferred bonus plan[1]	IPO incentive scheme[1]		Share award plan[1]	Growth shares[1,2]
31 December 2013					
Shares in existence at 1 January	65,824	–	–		1,062,130
Granted in year3	–	106,898	39,014		102,128
Less: forfeited in year	–	(2,666)	–		(40,851)
Outstanding at end of year	65,824	104,232	39,014		1,123,407
Of which exercisable	43,833	–	–		–

1 All awards have vesting conditions and therefore do not automatically vest
2 Growth shares are A and B Ordinary Shares. The return on these shares in the event of an exit event is calculated as set out in the Company's Articles of Association.
3 The IPO incentive scheme (granted in December 2013) is awarded as a percentage of the listing value, which is then converted to a number of shares based on the admission price. It is not an award over a set number of shares; as such no shares are shown in the table above for this.

Note 8: Allowance for impairment losses on loans and receivables

	On advances secured on residential property	On advances secured on residential buy-to-let property	On unsecured loans[1]	Total
	£m	£m	£m	£m
At 1 January 2013	7.3	0.4	0.1	7.8
Advances written off	(1.7)	(0.5)	(21.6)	(23.8)
Charge to the income statement net of recoveries	1.4	0.7	48.6	50.7
At 31 December 2013	7.0	0.6	27.1	34.7
Advances written off	(1.1)	(0.1)	(9.8)	(11.0)
Debt sale recovery	–	–	(8.9)	(8.9)
Charge to the income statement net of recoveries	0.3	0.9	14.6	15.8
As at 31 December 2014	6.2	1.4	23.0	30.6

1 Impairment on unsecured loans relates to impairment on the Group's credit card portfolio.

Of the total allowance in respect of loans and advances to customers, £27.6 million (2013: £32.9 million) was assessed on a collective basis.

On 30 September 2014 the Group entered into an agreement for the sale of credit card receivables which had previously been written-off subsequently completed on 31 October 2014 with proceeds of £8.9 million. The full amount of the proceeds has been recognised as a gain and included as recoveries in the table above.

Note 9: Taxation

(A) Analysis of the tax charge for the year

	2014	2013[1]
UK corporation tax	£m	£m
Current tax on profit for the year	(0.7)	–
Adjustments in respect of prior years	(2.3)	–
Current tax charge	(3.0)	–
Deferred tax (refer note 23)		
Origination and reversal of temporary differences	(16.5)	3.1
Adjustments in respect of prior years	(6.0)	1.3
Reduction in UK corporation tax rate	0.2	(9.5)
FSCS levy adjustment	–	(1.3)
	(22.3)	(6.4)
Tax charge	(25.3)	(6.4)

Analysis of tax credit/(charge) recognised in Other Comprehensive Income:

	2014	2013[1]
	£m	£m
Current tax		
Available-for-sale financial assets	(1.3)	(0.5)
Deferred tax		
Cash flow hedge	2.5	(0.3)
Total	1.2	(0.8)

(B) Factors affecting the tax charge for the year

A reconciliation of the (charge) credit that would result from applying the standard UK corporation tax rate to the profit (loss) before tax to the actual tax (charge) credit for the year is given below:

	2014	2013 [1]
	£m	£m
Profit before tax	34.0	185.4
Tax (charge) at effective corporation tax rate of 21.5% (2013: 23.25%)	(7.3)	(43.1)
Factors affecting charge:		
Disallowed items	(11.6)	(4.3)
Non-taxable income	1.1	1.8
UK corporation tax rate change	0.2	(9.5)
Adjustments in respect of previous years	(8.3)	1.3
Gains covered by the substantial shareholding exemption	1.0	47.3
Other items	(0.4)	0.1
Total tax charge	(25.3)	(6.4)

1 Restated – refer notes 1 and 39.

The Group has been engaged in discussion with HM Revenue and Customs (HMRC) regarding the tax treatment of certain commercial funding transactions entered into by Virgin Money Cards Limited (VMCL), now renamed Sapphire Cards Limited, during 2009. VMCL was a subsidiary within the Group up until its sale on 18 January 2013. It is no longer part of the Group.

A Sapphire Cards Limited corporation tax liability of £2.3 million, a reduction in the Group deferred tax asset of £5.9 million and a charge of £0.6 million associated with group relief have been recognised in relation to the settlement of the HMRC enquiry for periods when VMCL was part of the Group. These amounts are reflected within the 2014 adjustment in respect of prior years.

In determining the value of the tax liability at 31 December 2014 resulting from the settlement of the HMRC enquiry, it is anticipated that Sapphire Cards Limited will benefit from the surrender of additional tax losses of up to £62.9 million from the Virgin Group in the years 2009 to 2011. Sapphire Cards Limited will make an expected payment in the region of £15.3 million for the losses surrendered by the Virgin Group with payment being funded through anticipated refunds of corporation tax previously paid by Sapphire Cards Limited.

The Finance Act 2013 (the Act) was substantively enacted on 2 July 2013. The Act further reduced the main rate of corporation tax to 21 per cent with effect from 1 April 2014 and 20 per cent with effect from 1 April 2015.

Note 10: Earnings per share

The Group presents basic and diluted earnings per share (EPS) data in relation to the ordinary shares of the Company.

Earnings per share

	2014	2013 [1]
	£m	£m
Profit attributable to equity shareholders – basic and diluted of parent for continuing operations	8.7	179.0
Distributions to Non-core Tier 1 noteholders and Additional Tier 1 security holders	(10.3)	(15.7)
(Loss)/profit attributable to equity holders of parent for the purposes of basic and diluted EPS	(1.6)	163.3

	2014	2013 [1]
	Number of shares (million)	Number of shares (million)
Weighted-average number of ordinary shares in issue – basic	399.6	384.7
Adjustment for share options and awards	0.3	0.1
Weighted-average number of ordinary shares in issue – diluted	399.9	384.8
Basic earnings per share (pence)	(0.4)	42.4
Diluted earnings per share (pence)	(0.4)	42.4

1 Restated – refer notes 1 and 39.

Basic earnings per share has been calculated after deducting 1.6 million (2013: 2.7 million) ordinary shares representing the Group's holdings of own shares in respect of employee share schemes.

The number of ordinary shares used in the calculation of basic and diluted earnings per share in 2013 has been restated to reflect the 10:1 subdivision of ordinary shares which took place in 2014.

Of the total number of employee share options and share awards at 31 December 2014, 4.6 million were anti-dilutive (2013: nil).

Note 11: Analysis of financial assets and financial liabilities by measurement basis

	Held at amortised cost	Other financial liabilities	Loans and Receivables	Available-for-sale securities	Derivatives not designated as hedging instruments	Derivatives designated as hedging instruments: Fair value hedges	Derivatives designated as hedging instruments: Cash flow hedges	Total
	£m	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2014								
Financial assets								
Cash and balances at central banks	–	–	851.3	–	–	–	–	851.3
Derivative financial Instruments	–	–	–	–	25.9	75.3	–	101.2
Loans and receivables:								
Loans and advances to banks	–	–	720.5	–	–	–	–	720.5
Loans and advances to customers	–	–	23,093.1	–	–	–	–	23,093.1
Debt securities	–	–	8.6	–	–	–	–	8.6
Debt securities classified as available-for-sale	–	–	–	1,539.6	–	–	–	1,539.6
Other assets – accrued income	–	–	4.9	–	–	–	–	4.9
Total financial assets	–	–	24,678.4	1,539.6	25.9	75.3	–	26,319.2
Non financial assets								217.6
Total assets								26,536.8
Financial liabilities								
Deposits from banks	846.7	–	–	–	–	–	–	846.7
Customer deposits	22,365.7	–	–	–	–	–	–	22,365.7
Derivative financial instruments	–	–	–	–	22.0	203.7	2.5	228.2
Debt securities in issue	1,594.1	–	–	–	–	–	–	1,594.1
Other liabilities	138.9	–	–	–	–	–	–	138.9
Total financial liabilities	24,945.4	–	–	–	22.0	203.7	2.5	25,173.6
Non financial liabilities								119.4
Total liabilities								25,293.0
Equity								1,243.8
Total liabilities and equity								26,536.8

						Derivatives designated as hedging instruments		
	Held at amortised cost	Other financial liabilities	Loans and receivables	Available -for-sale securities	Derivatives not designated as hedging instruments	Fair value hedges	Cash flow hedges	Total
	£m	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2013								
Financial assets								
Cash and balances at central banks	–	–	1,423.5	–	–	–	–	1,423.5
Derivative financial Instruments	–	–	–	–	12.5	170.2	4.8	187.5
Loans and receivables:								
Loans and advances to banks	–	–	626.9	–	–	–	–	626.9
Loans and advances to customers	–	–	20,342.5	–	–	–		20,342.5
Debt securities	–	–	9.4	–	–	–	–	9.4
Debt securities classified as available-for-sale	–	–	–	1,679.2	–	–	–	1,679.2
Other assets – accrued income	–	–	5.3	–	–	–	–	5.3
Total financial assets	–	–	22,407.6	1,679.2	12.5	170.2	4.8	24,274.3
Non financial assets								290.7
Total assets								24,565.0
Financial liabilities								
Deposits from banks	389.2	–	–	–	–	–	–	389.2
Customer deposits	21,121.4	–	–	–	–	–	–	21,121.4
Derivative financial instruments	–	–	–	–	18.0	126.7	2.4	147.1
Debt securities in issue	1,469.8	–	–	–	–	–	–	1,469.8
Other liabilities	310.9	14.0	–	–	–	–	–	324.9
Total financial liabilities	23,291.3	14.0	–	–	18.0	126.7	2.4	23,452.4
Non financial liabilities								177.7
Total liabilities								23,630.1
Equity								934.9
Total liabilities and equity								24,565.0

Note 12: Disposal group

On 13 September 2013 the Group entered into a share purchase agreement (SPA) for the sale of Church House Trust (CHT). At this date, the Management and Directors considered a sale of CHT highly probable within 12 months and therefore classified CHT as a disposal group at 31 December 2013 in accordance with IFRS 5.

Under the conditions of the SPA the sale of CHT would be completed for a consideration of £13.7 million. The following transactions occurred prior to the sale:

- On 24 June 2013 deposits of £43.2 million were transferred to Virgin Money plc (a subsidiary of the Group)
- On 1 September 2014 customer loans of £4.3 million were transferred to Virgin Money plc (a subsidiary of the Group)
- On 29 November 2014 a distribution of £16.0 million was declared and paid to the Company

(notification of this was provided to the PRA and a special resolution was passed by the Directors of CHT to effect a capital reduction)

The disposal of CHT was completed on 30 November 2014 and the Group recognised a gain on disposal of £4.5 million on that date (refer to note 20). The gain on disposal was arrived at after deducting the carrying value from the consideration less costs of sale. The Company made a loss on disposal of £0.4 million due to the carrying value being higher than the proceeds less costs to sell.

The Group incurred a loss for the 11 months ended 30 November 2014 on the disposal group and the Group had no assets or liabilities in a disposal group at 1 December 2014. The assets and liabilities of the disposal group at 31 December 2013, 30 November 2014 (date of disposal) are presented below:

	30 November 2014	31 December 2013
Assets	£m	£m
Loans and advances to banks	12.5	25.9
Loans and advances to customers	7.9	8.7
Debt securities	61.9	51.0
Tangible fixed assets	0.3	0.3
Total assets	82.6	85.9
Liabilities		
Customer deposits	74.1	78.1
Accruals and deferred income	0.7	0.7
Trade and other payables	0.1	0.1
Total liabilities	74.9	78.9

Note 13: Loans and advances to banks

Loans and advances to banks comprise:

	2014	2013
	£m	£m
Fixed rate deposits	355.1	208.8
Variable rate deposits	365.4	418.1
Total	720.5	626.9

At 31 December 2014 £234.3 million (2013: £195.8 million) loans and advances to banks represented fixed rate balances within securitisation vehicles. The cash held with banks in respect of the securitisation vehicles represents cash collected relating to mortgage redemptions, but not yet due for repayment to noteholders (a maximum of three months).

Note 14: Loans and advances to customers

Loans and advances comprise:

	2014	2013
	£m	£m
Advances secured on residential property not subject to securitisation	15,631.2	14,317.3
Advances secured on residential property subject to securitisation	3,128.3	2,888.5
	18,759.5	17,205.8
Residential buy-to-let loans not subject to securitisation	3,135.6	2,371.3
Total loans and advances to customers secured on residential property	21,895.1	19,577.1
Unsecured receivables not subject to securitisation	1,121.3	808.8
Total loans and advances to customers before allowance for impairment losses	23,016.4	20,385.9
Impairment allowance (refer note 8)	(30.6)	(34.7)
Total loans and advances to customers excluding portfolio hedging	22,985.8	20,351.2
Fair value of portfolio hedging	107.3	(8.7)
Total loans and advances to customers	23,093.1	20,342.5
Loans to customers by rate		
Fixed rate	17,135.4	14,241.8
Variable rate	5,957.7	6,100.7
Total	23,093.1	20,342.5

Included within loans and advances to customers are credit card receivables. The Group acquired £1.0 billion of Virgin Money credit cards from MBNA on 18 January 2013. Subsequently on 30 November 2014, the Group purchased a further portfolio of £359.3 million of Virgin Money branded customer balances from MBNA. At 31 December 2014 £22.9 million (31 December 2013: £27.0 million) of the impairment allowance relates to impairment on amounts outstanding on credit cards. Details of the credit card portfolio acquisitions can be found in note 20.

The fair value of portfolio hedging represents an accounting adjustment which offsets the fair value movement on the related derivatives. Such relationships are established to protect the Group from interest rate risk on fixed rate products (see Risk Management Report on page 182).

For collateral held in respect of the values included in the table above, please refer to the Risk Management Report, page 174.

Note 15: Debt securities classified as loans and receivables

Debt securities classified as loans and receivables comprise:

	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Listed	8.6	10.0	9.4	9.8
Total	8.6	10.0	9.4	9.8
Variable rate securities	8.6	10.0	9.4	9.8
Total	8.6	10.0	9.4	9.8

For amounts included above which are subject to repurchase agreements see note 18.

All assets have been individually assessed for impairment and following this assessment no write down of assets was required.

These securities were reclassified to loans and receivables from available-for-sale securities in October 2008 following an amendment to IAS 39 'Financial Instruments: Recognition and Measurement'. The reclassification was performed under the terms of IAS 39.

Note 16: Available-for-sale financial assets

Impairment of available-for-sale financial assets

	2014	2013
At fair value	£m	£m
Listed	1,539.6	1,597.1
Unlisted	–	82.1
Total	1,539.6	1,679.2
Fixed rate	1,307.4	1,388.6
Variable rate	232.2	290.6
Total	1,539.6	1,679.2

Gains on sale of available-for-sale securities amounted to £7.5 million (2013: £9.3 million).

Further analysis of the composition of available-for-sale investment securities is set out in the Risk Management report on pages 179-180.

For amounts included above which are subject to repurchase agreements refer to note 18.

All assets have been individually assessed for impairment and following this assessment no write down of assets was required.

	2014	2013
	£m	£m
At 1 January	1,679.2	1,497.0
Additions	567.6	846.3
Disposals (sales and redemptions)	(789.1)	(606.1)
Exchange differences	(1.3)	0.3
Net gains on changes in fair value	83.2	(58.3)
At 31 December	1,539.6	1,679.2

Note 17: Derivative financial instruments

	2014			2013		
	Contract/ notional amount	Fair values assets	Fair values liabilities	Contract/ notional amount	Fair values assets	Fair values liabilities
Derivatives in accounting hedge relationships	£m	£m	£m	£m	£m	£m
Derivatives designated as fair value hedges:						
Interest rate swaps	22,160.5	74.4	(203.7)	21,191.6	170.2	(126.6)
Cross currency interest rate swaps	21.8	0.9	–	21.8	–	(0.1)
Derivatives designated as cashflow hedges:	22,182.3	75.3	(203.7)	21,213.4	170.2	(126.7)
Interest rate swaps						
Total derivative assets/liabilities – in accounting hedge relationships	811.8	–	(2.5)	732.5	4.8	(2.4)
	22,994.1	75.3	(206.2)	21,945.9	175.0	(129.1)
Derivatives in economic hedging relationships but not in accounting hedge relationships						
Interest rate contracts:						
Interest rate swaps	3,345.9	24.8	(21.8)	8,720.1	12.3	(16.0)
Options:						
Equity FTSE 100 options	–	1.1	(0.2)	–	0.2	(2.0)
Total derivative assets/liabilities – not in accounting hedge relationships but economic hedging relationships	3,345.9	25.9	(22.0)	8,720.1	12.5	(18.0)
Total recognised derivative assets/ (liabilities)	26,340.0	101.2	(228.2)	30,666.0	187.5	(147.1)

The principal amount of the contract does not represent the Group's real exposure to credit risk which is limited to the current cost of replacing contracts with a positive value to the Group should the counterparty default. To reduce credit risk the Group uses a variety of credit enhancement techniques such as netting and collateralisation, where security is provided against the exposure. Further details are provided in the Risk Management Report on page 159.

Hedged cash flows

For designated cash flow hedges the following table shows when the Group's hedged cash flows are expected to occur and when they will affect income.

	2014	2013
	£m	£m
Within one year	(2.9)	(0.7)
In one to five years	(5.9)	0.9
Total	(8.8)	0.2

Gains/(losses) from derivatives and hedge accounting

	2014	2013
Gain/(loss) from fair value hedge accounting[1]:	£m	£m
Derivatives designated as fair value hedges	(156.3)	156.9
Fair value movement attributable to hedged risk	155.1	(167.5)
	(1.2)	(10.6)
Loss from cash flow hedges	(2.7)	(5.1)
Fair value gains and losses from other derivatives[2]	4.0	12.1
Gain/(loss) from derivatives and hedge accounting	0.1	(3.6)

1. Gains or losses from fair value hedges can arise where there is an IFRS hedge accounting relationship in place and either:
– the fair value of the derivative was not exactly offset by the change in fair value attributable to the hedged risk.
– the derivative was dedesignated from the IFRS hedge accounting relationship and in the following months leads to amortisation of existing balance sheet positions.
2 Other derivatives are those used for economic hedging but which are not in an IA S 39 hedge accounting relationship.

Note 18: Collateral pledged and received

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- Derivatives
- Sales and repurchase, and reverse sale and repurchase agreements
- Securities lending and borrowing

Such collateral is subject to the standard industry terms of ISDA Credit Support Annex. This means that securities received or given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

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 in respect of derivatives.

At 31 December 2014 financial assets of £291.4 million (2013: £151.3 million) and a mortgage loan pool of £723.9 million (2013: nil) are pledged as collateral in respect of sales and repurchase transactions under terms that are usual and customary for such activities.

The value of collateral pledged in respect of repurchase transactions that was transferred, accounted for as secured borrowings, where the transfer is permitted by contract or custom to re-pledge collateral was £274.3 million (2013: £151.3 million).

Note 19: Securitisation

The assets and liabilities of the SPVs are as follows:

	2014	2013
Assets	£m	£m
Cash and cash equivalents	213.6	307.2
Loans and advances to customers	3,128.3	2,888.5
Loans and advances to banks	234.3	195.8
Investments	–	100.0
Other assets	0.2	0.1
Total assets	3,576.4	3,491.6
Liabilities		
Debt securities in issue	1,594.1	1,469.8
Deposits by banks	0.1	7.0
Derivative financial instruments	0.1	–
Other liabilities	4.9	3.0
Total liabilities	1,599.2	1,479.8

The following table sets out the carrying amount of financial assets that did not qualify for derecognition and their associated liabilities. Where relevant, the table also sets out the net position of the fair value of financial assets where the counterparty to the associated liabilities has recourse only to the financial assets.

	2014	2013
	£m	£m
Carrying amount of transferred assets	3,128.3	2,888.5
Carrying amount of associated liabilities	1,594.1	1,469.8
Fair value of transferred assets	3,197.4	2,944.7
Fair value of associated liabilities	1,599.6	1,482.2

There were no transactions in the year where the Group transferred financial assets that should have been derecognised in their entirety.

Note 20: Acquisitions and disposals

Disposal of CHT (2014)

The disposal of CHT was completed on 30 November 2014. A gain on disposal of £4.5 million was recognised on that date by the Group.

Following the disposal there were no assets or liabilities in a disposal group from 1 December 2014. A breakdown of the assets and liabilities of the disposal group as at 31 December 2013 and at the date of disposal, 30 November 2014 are provided in note 12.

Credit card purchase and disposal of Virgin Money Cards Limited (2013)

The acquisition of £1.0 billion of the Virgin Money branded credit cards from MBNA Europe Bank Limited (MBNA) has been accounted for as a business combination in accordance with the applicable accounting standards which require the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values.

Material features of the transaction are as follows:

On 18 January 2013 the Group sold 100% of the ordinary share capital of Virgin Money Cards Limited (name changed to Sapphire Cards Limited on 18 January 2013 immediately prior to disposal) to MBNA for an overall gain of £203.4 million. The principal activities of Virgin Money Cards Limited were the marketing and direct distribution of Virgin Money branded personal credit cards issued by and under a partnership agreement with MBNA. Prior to the sale, all assets, liabilities and contracts not connected with the MBNA partnership agreement were transferred to Virgin Money Cards Limited's immediate parent, Virgin Money plc a wholly owned subsidiary undertaking. This terminated all pre-existing relationships in relation to the Virgin Money branded cards.

On the same day Virgin Money plc entered into a transaction to acquire approximately one third of the Virgin Money branded personal credit card book issued by MBNA, for a purchase consideration of £1,019.6 million which was paid in cash. The assets were previously managed jointly by MBNA and Virgin Money Cards Limited under a partnership agreement. The initial fair value of the assets acquired is estimated to be £1,019.6 million with the credit card book being the only assets acquired. The gross contractual amounts due for the credit card book acquired are £1,042.7 million and the initial estimate of contractual cash flows that are not expected to be collected equate to the difference in this value to the fair value. The associated acquisition costs of £6.3 million were charged to the income statement in 2012. The remaining two thirds of the portfolio managed under the partnership agreement are now wholly owned by MBNA. These assets have been rebranded during 2013. £5.0 million of the gain on sale of Virgin Money Cards Limited was deferred and has been recognised in income over the rebranding period.

This transaction allows the Virgin Money Group to broaden the product set offered to consumers and provides further opportunities for growth.

It has not been practical to estimate the profit or loss for this acquisition for the period since acquisition, or for the whole year, as the operations have been incorporated into the operating structure of the Group as a whole.

In the period from 18 January 2013 to 31 December 2013 the acquired credit card portfolio contributed net interest income of £122.6 million. If the acquisition had occurred on 1 January 2013 Management estimates that consolidated net interest income would not have been materially different to that recorded for the period 18 January 2013 to 31 December 2013. In determining these amounts, Management have used weighted-average cost of funding to determine interest expense and assumed that all fair value adjustments would have been the same if the acquisition had occurred on 1 January 2013.

Purchase of credit card portfolio (2014)

From the point of acquisition of the credit card book from MBNA on 18 January 2013, until 30 November 2014, MBNA agreed to underwrite and administer new Virgin Money branded credit cards for a bounty fee. On 30 November 2014 the Group completed an agreement to purchase the assets originated in the period noted above. The portfolio was purchased for a consideration of £362.7 million. The fair value of the assets purchased was £354.5 million (a premium of £8.2 million). This included credit cards that had gone into charge-off. The premium will be unwound over the life of the portfolio purchased.

Management has determined the acquisition is an asset purchase as the assets were purchased without staff contracts or processes or other aspects of the business being transferred to them.

Note 21: Intangible assets

Intangible assets comprise:

	Core deposit intangible	Goodwill	Software	Core banking platform	Total
Cost	£m	£m	£m	£m	£m
Balance at 1 January 2013	4.8	4.6	45.2	–	54.6
Additions	–	–	23.7	6.9	30.6
Disposals	–	–	(0.8)	–	(0.8)
At 31 December 2013	4.8	4.6	68.1	6.9	84.4
Additions	–	–	13.9	13.0	26.9
At 31 December 2014	4.8	4.6	82.0	19.9	111.3
Accumulated amortisation:					
At 1 January 2013	1.7	4.6	13.5	–	19.8
Charge for the year	1.0	–	3.7	–	4.7
Impairment	–	–	33.9	–	33.9
At 31 December 2013	2.7	4.6	51.1	–	58.4
Charge for the year	1.0	–	5.8	–	6.8
At 31 December 2014	3.7	4.6	56.9	–	65.2
Balance sheet amount at 31 December 2014	1.1	–	25.1	19.9	46.1
Balance sheet amount at 31 December 2013	2.1	–	17.0	6.9	26.0

Note 22: Tangible fixed assets

Tangible fixed assets comprise:

	Land and buildings	Plant, equipment fixtures, fittings and vehicles	Total
Cost	£m	£m	£m
At 1 January 2013	58.6	34.9	93.5
Additions	1.2	1.1	2.3
Disposals	(0.4)	(0.5)	(0.9)
Assets within disposal group	(0.3)	–	(0.3)
At 31 December 2013	59.1	35.5	94.6
Additions	4.2	6.4	10.6
Disposals	(2.1)	(0.3)	(2.4)
At 31 December 2014	61.2	41.6	102.8
Accumulated depreciation and impairment:			
At 1 January 2013	4.4	11.9	16.3
Depreciation charge for the year	2.0	4.8	6.8
Disposals	(0.2)	(0.2)	(0.4)
Impairment	(1.3)	0.4	0.7
At 31 December 2013	6.5	16.9	23.4
Depreciation charge for the year	2.1	5.9	8.0
Disposals	0.3	(0.2)	(1.5)
At 31 December 2014	7.3	22.6	29.9
Balance sheet amount at 31 December 2014	53.9	19.0	72.9
Balance sheet amount at 31 December 2013	52.6	18.6	71.2

Note 23: Deferred tax asset

The judgement required in the assessment of whether to recognise a deferred tax is set out in policy 1.10 (u). A deferred taxation asset in respect of the subsidiary Virgin Money plc was not recognised at acquisition on 1 January 2012 but subsequently recognised because in the period since acquisition, Management have taken certain actions to have greater certainty about the profitability going forward.

Based on their interpretation of the timing and level of reversal of existing taxable temporary differences, in line with relevant accounting standards, the Directors conclude that a net deferred tax asset of £50.2 million (2013: £70.0 million) should be recognised at the balance sheet date.

The movement in the net deferred tax balance is as follows:

	2014	2013 [1]
	£m	£m
Asset at 1 January	70.0	77.2
Income statement (charge) credit (refer note 9)		
Accelerated capital allowances	(1.5)	(1.2)
Tax losses carried forward	(24.1)	1.6
Other temporary differences	3.3	(6.8)
	(22.3)	(6.4)
Amounts credited (charged) to equity:		
Available-for-sale financial assets	–	(0.5)
Cash flow hedges	2.5	(0.3)
	2.5	(0.8)
Asset at 31 December	50.2	70.0

1 Restated – refer notes 1 and 39.

The deferred tax charge in the income statement comprises the following temporary differences:

	2014	2013 [1]
	£m	£m
Accelerated capital allowances	(1.5)	(1.2)
Tax losses carried forward	(24.1)	1.6
Other temporary differences	3.3	(6.8)
Deferred tax charge in the income statement	(22.3)	(6.4)

1 Restated – refer notes 1 and 39.

Deferred tax asset and liabilities are comprised as follows:

	2014	2013 [1]
	£m	£m
Deferred tax assets/(liabilities):		
Accelerated capital allowances	7.1	8.6
Cash flow reserve	2.2	(0.3)
Change in accounting basis on adoption of IFRIC 21	(3.0)	(2.5)
FSCS adjustment	–	(3.9)
Tax losses carried forward	38.1	62.2
Other temporary differences	4.4	4.1
Fair value adjustments on acquisition of Northern Rock	1.4	1.8
Total deferred tax assets	50.2	70.0

1 Restated – refer notes 1 and 39.

The Group has not recognised deferred tax assets in respect of gross unused tax losses of £28.8 million (2013: £26.9 million).

Note 24: Other assets

Other assets comprise:

	2014 £m	2013 £m
Trade debtors	12.6	11.7
Prepayments and accrued income	16.8	18.9
Other	23.9	12.3
Total other assets	53.3	42.9

Note 25: Deposits from banks

Deposits from banks comprise:

	2014 £m	2013 £m
Fixed rate deposits	285.3	153.6
Variable rate deposits	561.4	235.6
Total deposits from banks	846.7	389.2

Fixed and variable rate deposits include repo funding; a form of secured borrowing for a fixed period, where investment securities are sold to a third party with an agreement to buy them back on a set date for a set price. As there is a set price, none of the risks and rewards of ownership ever pass to the buyer, such that from an accounting perspective the transactions are treated as a secured borrowing. Fixed and variable rate deposits include repo funding and collateral deposits. At 31 December 2014 the amount of repo funding was £835.3 million (2013: £303.5 million), see note 11.

Note 26: Customer deposits

Customer deposits comprise:

	2014 £m	2013 £m
Fixed rate deposits	9,721.8	8,025.4
Variable rate deposits	12,643.9	13,096.0
Total customer deposits	22,365.7	21,121.4

Note 27: Provisions

The movement in the provision was as follows:

	FSCS £m	Other £m	Total £m
At 1 January 2014	7.2	0.3	7.5
Provisions applied	(15.1)	(0.2)	(15.3)
Charge for the year	16.6	0.5	17.1
At 31 December 2014	8.7	0.6	9.3

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the UK's statutory fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS has borrowed from HM Treasury to fund the compensation costs associated with institutions that failed in 2008 and will receive the receipts from asset sales, surplus cash flows and other recoveries from these institutions in the future. The FSCS meets its obligations by raising management expense and compensation levies. These include amounts to cover the interest on its borrowings and on-going management expenses. Each deposit taking institution contributes in proportion to its share of total protected deposits.

IFRIC 21 'Levies' was adopted during 2014 and addresses the accounting for a liability to pay a levy as described in note 1. The adoption of this interpretation required a prior period restatement; as a result of this, the opening provision for 2014 decreased by £18.3 million to £7.5 million. Refer to note 39 for details.

Other

Other provisions include amounts provided in relation to the European Working Time Directive ruling in respect of the calculation of statutory holiday pay of £0.2 million (2013: £nil) and National Insurance Contributions due in relation to preferential interest rates provided on loans to staff of £0.2 million (2013: £nil).

Note 28: Other liabilities

Other liabilities comprise:

	2014 £m	2013 £m
Non-core Tier 1 notes	–	150.0
Trade creditors	26.3	23.8
Deferred income	4.8	6.8
Other creditors and accruals	217.9	235.6
Total other liabilities	249.0	416.2

The Non-core Tier 1 notes of £150.0 million were issued to HM Treasury on 1 January 2012 as part consideration in the acquisition of Northern Rock plc. The notes had a discretionary coupon of 10.5% per annum, which was recognised as an equity distribution, as it attached to the equity component of the instrument. On 31 July 2014, the Non-core Tier 1 notes were repaid to HM Treasury at a premium of £4.5 million.

Deferred income represents income advanced from partners that will be recognised in future periods.

Accrued interest primarily represents interest which has accrued on retail funds and deposits.

The Group's exposure to liquidity risk related to trade and other payables is disclosed on page 202 of the Risk Management Report.

Note 29: Share capital and share premium

(a) Share capital and share premium

	2014 £m	2013 £m
Share capital	0.1	–
Share premium	654.5	509.2
At 31 December	654.6	509.2

(b) Issued and fully paid share capital

	2014 Number of shares	2013 Number of shares
Ordinary Shares of £0.0001 (formerly £0.001) each		
At 1 January	38,742,729	38,742,729
Share conversion	47,247	–
Subdivision of shares	349,109,784	–
Issued during year	53,003,534	–
Issued under employee share schemes	1,029,886	–
At 31 December	441,933,180	38,742,729
A Ordinary Shares of £0.001 each		
At 1 January	1,102,982	1,102,982
Share conversion	(1,102,982)	–
At 31 December	–	1,102,982
B Ordinary Shares of £0.001 each		
At 1 January	–	–
Issued during year	102,128	–
Share conversion	(102,128)	–
At 31 December	–	–
Deferred Shares of £0.001 each		
At 1 January	731,113	731,113
Issued during year	9,321,048	–
Share conversion	1,157,863	–
Shares cancellation	(1,157,863)	–
At 31 December	10,052,161	731,113

Total Ordinary Shares by number 441,933,180 with a nominal value of £0.0001, amounting to £44,193 (2013: 38,742,729 Ordinary Shares with a nominal value of £0.001, amounting to £38,743). Total Deferred Shares by number 10,052,161, with a nominal value of £0.001, amounting to £10,052 (2013: 731,113 Deferred Shares with a nominal value of £0.001, amounting to £731). In 2013 there were also 1,102,982 A Ordinary Shares of £0.001, amounting to £1,103.

The following describes the rights attaching to each share class at 31 December 2014 and the movements during the year:

Ordinary Shares

The holders of Ordinary Shares are entitled to one vote per share at meetings of the Group. All Ordinary Shares in issue in the Company rank equally and carry the same voting rights and the same rights to receive dividends and other distributions declared or paid by the Company.

On 18 November 2014 each of the Ordinary Shares were subdivided into 10 shares of the same class (having a nominal value of £0.0001), such shares having the same rights and being subject to the same restrictions as the existing Ordinary Shares of £0.001 each. In addition, the Company issued 53,003,534 new Ordinary Shares as a result of the listing, with a nominal value of £5,300 for a consideration of £150m.

During the year 1,029,886 Ordinary Shares were issued in relation to employee share schemes.

A Ordinary Shares

A Ordinary Shares did not have any voting rights. Each of the A Ordinary Shares of £0.001 in the Company converted into a combination of 0.03 Ordinary Shares of £0.001 and 0.97 Deferred Shares, in accordance with the Company's articles of association existing immediately prior to the listing of which this resulted in the creation of 38,055 Ordinary Shares and 1,064,927 Deferred Shares.

B Ordinary Shares

B Ordinary Shares did not have any voting rights. On 6 January 2014 the Company issued 102,128 £0.001 B Ordinary Shares for a consideration of £102. Each of the B Ordinary Shares of £0.001 in the Company converted into a combination of 0.09 Ordinary Shares of £0.001 and 0.91 Deferred Shares, in accordance with the Company's articles of association existing immediately prior to the listing. Of the 102,128 B Ordinary shares, this resulted in the creation of 9,192 Ordinary Shares and 92,936 Deferred Shares.

Deferred Shares

As set out in the articles of association adopted on listing becoming effective (and pursuant to the provisions of the Companies Act relating in respect of shares held in treasury), the Deferred Shares have no voting or dividend rights and, on a return of capital on a winding up, have no valuable economic rights. No application has been made or is currently intended to be made for the Deferred Shares to be admitted to the Official List or to trade on the London Stock Exchange or any other investment exchange.

During 2014, the Company allotted 9,321,048 Deferred Shares each with a nominal value of £0.001. The amount was fully paid on allotment and there was no premium recorded.

The Deferred shares created on the conversion of the A Ordinary and B Ordinary Shares were then cancelled.

The 10,052,161 Deferred Shares which were not cancelled were repurchased and are held in treasury. This is to ensure that the aggregate nominal value of the Company's share capital will be not less than £50,000. £50,000 is the minimum level of nominal share capital required by the Companies Act for a company to be established as a public limited company.

(c) Share premium account

	2014 £m	2013 £m
At 1 January	509.2	509.2
Premium on shares issued in the year	149.9	–
Ordinary Share issue costs charged directly to equity	(4.6)	–
As at 31 December	654.5	509.2

During the year the Group issued new Ordinary Shares for a consideration of £150 million. Incremental costs arising from the issue of new Ordinary Shares have been charged to the share premium account, further details of these expenses are shown in note 6.

Note 30: Other equity instruments

The Company issued Fixed Rate Resettable Additional Tier 1 (AT1) securities of £160.0 million on the Luxembourg Stock Exchange on 31 July 2014. This issue is treated as an equity instrument in accordance with IAS 32 'Financial Instruments: Presentation' with the proceeds included in equity, net of transaction costs of £3.5 million. Dividends and other returns to equity holders are treated as a deduction from equity. The principal terms of the securities are described below:

- the securities constitute direct, unsecured and subordinated obligations of the Company and rank pari passu with holders of Other Tier 1 instruments and the holders of that class or classes of preference shares but rank junior to the claims of senior creditors;
- the securities bear a fixed rate of interest from the issue date of 7.875% until the first reset

date on the 5th anniversary;

- interest on the securities will be due and payable only at the sole discretion of the Company, and the Company has sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any interest payment that would otherwise be payable on any interest payment date;
- the securities are undated and are redeemable, at the option of the Company, all (but not part) on the first reset date or any reset date thereafter. In addition, the AT1 securities are redeemable, at the option of the Company, in whole for certain regulatory or tax reasons. Any optional redemption requires the prior consent of the PRA; and
- all AT1 securities will be converted into Ordinary Shares of the Company, at a pre-determined price, should the fully loaded Common Equity Tier 1 ratio of the Group fall below 7.0% as specified in the terms.

Note 31: Other reserves

Other reserves comprise:

	2014 £m	2013 £m
Available-for-sale reserve		
At 1 January	6.5	11.6
Net gains from changes in fair value	86.9	(51.6)
Net gains on disposal transferred to net income	(10.3)	(10.2)
Amounts transferred to net income due to hedge accounting	(74.8)	57.0
Amortisation of fair value differences in respect of securities transferred to loans and receivables	–	0.2
Deferred tax	(1.3)	(0.5)
At 31 December	7.0	6.5

	2014 £m	2013 £m
Cash flow hedge reserve		
At 1 January	0.2	(11.3)
Amounts recognised in equity	(14.1)	7.0
Amounts transferred to interest payable	2.6	4.8
Deferred tax	2.5	(0.3)
At 31 December	(8.8)	0.2

Note 32: Retained earnings

	2014 £m	2013 £m
At 1 January	419.0 [1]	255.1
Profit for the year	8.7	179.0
Dividends and appropriations	(10.3)	(15.7)
Value of employee services – share option scheme	17.1	0.6
As at 31 December	434.5	419.0

1 Restated – refer notes 1 and 39.

Employee Benefit Trust (EBT)

Retained profits are stated after deducting £2.1 million (2013: £6.2 million) representing 1,561,013 (2013: 944,589) own shares held in an EBT.

As part of an arrangement to allow holders of certain shares in the Company an opportunity to access some of the value increase in the Group since the original grant date, the Company established an EBT in 2011. The Company funded the EBT by means of a cash loan and is therefore considered to be the sponsoring entity. The EBT purchased shares in the Company using the cash loan which is accounted for as a purchase of own shares by the Company. The investment in own shares at 31 December 2014 is

£2.1 million (2013: £6.2 million). The market value of the shares held in the EBT at 31 December 2014 was £4.5 million. The net impact of the above transactions on retained earnings is £nil.

Note 33: Contingent liabilities, contingent consideration and commitments

Contingent liabilities

The Board was not aware of any significant contingent liabilities as at 31 December 2014. Included within the contingent liabilities of at 31 December 2013 is an amount of £9.0 million in relation to taxation which was settled in 2014. (Refer note 9).

The Company is, from time to time and in the normal course of business, subject to a variety of legal or regulatory claims, actions or proceedings. When such circumstances arise, the Board considers the likelihood of a material outflow of economic resources and provides for its best estimate of costs where an outflow of economic resources is considered probable. While there can be no assurances, the Directors believe, based on information currently available to them, that the likelihood of material outflows from such matters is remote.

The Group does not expect the ultimate resolution of any other threatened or actual legal proceedings to have a significant adverse effect on the financial position of the Group.

Loan commitments

Contractual amounts to which the Group is committed for extension of credit to customers.

	2014 £m	2013 £m
Not later than 1 year	3,100.2	2,784.0
Later than one year and not later than 5 years	–	–
Later than 5 years	594.0	720.1
Total loan commitments	3,694.2	3,504.1

Operating lease commitments – land and buildings

Minimum future lease payments under non-cancellable operating leases.

	2014 £m	2013 £m
Not later than 1 year	7.1	7.2
Later than one year and not later than 5 years	24.3	22.1
Later than 5 years	23.3	22.9
Total operating lease commitments – land and buildings	54.7	52.2

Operating lease commitments – other operating leases

Minimum future lease payments under non-cancellable operating leases.

	2014 £m	2013 £m
Not later than 1 year	4.6	4.8
Later than one year and not later than 5 years	13.8	18.4
Later than 5 years	–	–
Total operating lease commitments – other operating leases	18.4	23.2

Capital commitments

Capital commitments for the acquisition of buildings and equipment.

	2014 £m	2013 £m
Not later than 1 year	5.7	4.3
Later than one year and not later than 5 years	–	–
Later than 5 years	–	–
Total capital commitments	5.7	4.3

Note 34: Fair value of financial assets and liabilities

Fair value of financial assets and liabilities recognised at cost

The following table summarises the fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised. The accounting policy in note 1.10 (j) sets out the key principles for estimating the fair values of financial instruments.

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
At 31 December 2014					
Cash and balances with central banks	–	851.3	–	851.3	851.3
Loans and advances to banks	–	720.5	–	720.5	720.5
Loans and advances to customers[1]	–	–	23,197.2	23,197.2	23,093.1
Debt securities held as loans and receivables	10.0	–	–	10.0	8.6
Other assets – accrued income	–	4.9	–	4.9	4.9
Total financial assets at fair value	10.0	1,576.7	23,197.2	24,783.9	24,678.4
Deposits from banks	–	846.7	–	846.7	846.7
Customer deposits	–	22,424.3	–	22,424.3	22,365.7
Debt securities in issue	1,599.6	–	–	1,599.6	1,594.1
Other liabilities:					
Non-core Tier 1 notes	–	–	–	–	–
Accruals		138.9	–	138.9	138.9
	–	138.9	–	138.9	138.9
Total financial liabilities at fair value	1,599.6	23,409.9	–	25,009.5	24,945.4

1 Amount shown in respect of loans and advances to customers includes fair value adjustments of portfolio hedging.

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
At 31 December 2013					
Cash and balances with central banks	–	1,423.5	–	1,423.5	1,423.5
Loans and advances to banks	–	626.9	–	626.9	626.9
Loans and advances to customers	–	–	20,591.5	20,591.5	20,342.5
Debt securities held as loans and receivables	9.8	–	–	9.8	9.4
Other assets – accrued income	–	5.3	–	5.3	5.3
Total financial assets at fair value	9.8	2,055.7	20,591.5	22,657.0	22,407.6
Deposits from banks	–	389.2	–	389.2	389.2
Customer deposits	–	21,211.8	–	21,211.8	21,121.4
Debt securities in issue	1,482.2	–	–	1,482.2	1,469.8
Other liabilities:					
Non core tier 1 notes	–	–	150.0	150.0	150.0
Accruals	–	160.9	–	160.9	160.9
	–	160.9	150.0	310.9	310.9
Total financial liabilities at fair value	1,482.2	21,761.9	150.0	23,394.1	23,291.3

Fair value hierarchy

The table on page 277 summarises the carrying value and fair value of assets and liabilities held on the balance sheet. There are three levels to the hierarchy as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, whether directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Valuation methods for calculations of fair values in the table above are set out below:

Cash and balances with central banks

Fair value approximates to carrying value because cash and balances at central banks have minimal credit losses and are either short term in nature or reprice frequently.

Loans and advances to banks

Fair value was estimated by using discounted cash flows applying either market rates where practicable or rates offered by other financial institutions for loans with similar characteristics. The fair value of floating rate placements, fixed rate placements with less than six months to maturity and overnight deposits is considered to approximate to their carrying amount.

Loans and advances to customers

The Group provides loans of varying rates and maturities to customers. The fair value of loans with variable interest rates is considered to approximate to carrying value as the interest rate can be moved in line with market conditions. For loans with fixed interest rates, fair value was estimated by discounting cash flows using market rates or rates normally offered by the Group. The change in interest rates since the majority of these loans were originated means that their fair value can vary significantly from their carrying value.

However, as the Group's policy is to hedge fixed rate loans in respect of interest rate risk, this does not indicate that the Group has an exposure to this difference in value. However, were the Group to dispose of a portfolio of mortgages, it would be likely the fair value would be lower than disclosed, as there is currently no active market for the sale of mortgage books. The fair value of a loan takes into account credit risk at the balance sheet date.

Loans and advances to customers are categorised as level 3 as unobservable pre-payment rates are applied.

Debt securities held as loans and receivables

Fair values are based on quoted prices where available or by discounting cash flows using market rates.

Other asset/accrued income and accruals

Fair value is deemed to approximate the carrying value.

Deposits from banks and customer deposits

Fair values of deposit liabilities repayable on demand or with variable interest rates are considered to approximate to carrying value. The fair value of fixed interest deposits with less than six months to maturity is their carrying amount. The fair value of all other deposit liabilities was estimated by discounted cash flows, using market rates or rates currently offered by the Group for deposits of similar remaining maturities. Customer deposits have been reclassified as level 2 from level 3 as the material inputs are observable. The 2013 table has been amended to reflect this change.

Debt securities in issue

Fair values are based on quoted prices where available or by discounting cash flows using market rates.

Other liabilities/Non-core Tier 1 notes

There is no active market for these instruments and therefore they were classified as level 3 instruments in the fair value hierarchy as at 31 December 2013. These instruments were subsequently repaid in full to HM Treasury on 31 July 2014 for £154.5 million and were consequently reclassified as level 2 instruments at 30 June 2014 until the date these instruments were repaid and removed from the fair value hierarchy. A premium of £4.5 million for the early repayment of these notes was recognised in the profit or loss.

There were no other movements between levels of the fair value hierarchy during the year.

Fair value of financial assets and liabilities recognised at fair value

The following table summarises the fair values of those financial assets and liabilities at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised. The accounting policy in note 1.11 sets out the key principles for estimating the fair values of financial instruments.

2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Derivative financial instruments	–	101.2	–	101.2
Available-for-sale financial assets	1,539.6	–	–	1,539.6
Financial liabilities				
Derivative financial instruments	–	228.2	–	228.2

2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Derivative financial instruments	–	187.5	–	187.5
Available-for-sale financial assets	1,597.1	82.1	–	1,679.2
Financial liabilities				
Derivative financial instruments	–	147.1	–	147.1
Additional Northern Rock consideration	–	–	14.0	14.0

Level 1 Valuations

The fair value of available-for-sale financial assets is derived from unadjusted quoted prices in an active market.

Level 2 Valuations

The fair values of derivative instruments are calculated by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties.

The fair value of level 2 available-for-sale financial assets are calculated using valuation techniques including discounted cash flow models.

Level 3 Valuations

The additional Northern Rock consideration of £14.0 million at 31 December 2013 was valued based on Management's assessment of the macro economic conditions and the likelihood of a listing in each relevant year (refer note 33). This was based on the Board's best estimate of timing and probability of listing at 31 December 2013. Following the listing in November 2014, this additional consideration has now been paid and no items that are carried at fair value remain in the Level 3 category.

The table below analyses movements in level 3 financial assets and liabilities:

	2014 £m	2013 £m
At 1 January:	14.0	5.0
Increase in value of additional Northern Rock consideration	36.0	9.0
Settlement of additional Northern Rock consideration	(50.0)	–
Total additional Northern Rock consideration liability	–	14.0

Note 35: Cash flow statements

(a) Change in operating assets

	2014 £m	2013 £m
Changes in loans and advances to customers	(2,403.6)	(2,575.3)
Change in derivative financial assets	86.3	(26.5)
Change in other operating assets	(13.3)	(3.7)
Change in operating assets	(2,330.6)	(2,605.5)

(b) Change in operating liabilities

	2014 £m	2013 £m
Change in customer deposits	1,244.3	3,114.7
Change in derivative financial liabilities	81.1	(138.5)
Change in other operating liabilities	480.2	351.5
Change in operating liabilities	1,805.6	3,327.7

(c) Non-cash and other items

	2014 £m	2013 £m
Depreciation and amortisation	14.8	11.5
Gain on sale of subsidiary	(4.5)	(203.4)
Other non-cash items	(143.1)	192.8
Total non-cash and other items	(132.8)	0.9

(d) Analysis of cash and cash equivalents as shown in the balance sheet

	2014 £m	2013 £m
Cash and balances at central banks	851.3	1,423.5
Less: mandatory reserve deposits[1]	(38.0)	(35.1)
	813.3	1,388.4
Loans and advances to banks	720.5	626.9
Less: amounts with a maturity of three months or more	–	–
	720.5	626.9
Total cash and cash equivalents	1,533.8	2,015.3

1 Mandatory reserves with central banks are not available for use in day to day operations

(e) Disposal of Church House Trust Limited

	30 November 2014 £m	31 December 2013 £m
Loans and advances to banks	12.5	–
Loans and advances to customers	7.9	–
Debt securities	61.9	–
Tangible fixed assets	0.3	–
Total assets	82.6	–
Customer deposits	(74.1)	–
Accruals and deferred income	(0.7)	–
Trade and other payables	(0.1)	–
Total liabilities	(74.9)	–
Net assets	7.7	–
Deferred consideration	(0.7)	
Gain on sale	4.5	–
Net cash inflow	11.5	–

Note 36: Capital resources

Capital is a regulatory measure held by the Group to protect its depositors, to cover inherent risks in a normal and stressed operating environment and to support its business strategy against losses, inherent risks and stress events. In assessing the adequacy of its capital resources, the Group considers its risk appetite, the material risks to which it is exposed and the appropriate strategies required to manage those risks.

The Group manages capital in accordance with prudential rules issued by the PRA and FCA, in line with the EU Capital Requirements Directive (referred to as CRD IV) which implements Basel III in Europe. CRD IV legislation became effective from 1 January 2014.

Own funds

	Fully loaded		Transitional Rules	
	2014 £m	2013 £m	2014 £m	2013 £m
Common Equity Tier 1				
Share capital and share premium account	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	1,243.8	934.9	1,243.8	934.9
Regulatory capital adjustments				
Deconsolidation of non regulated companies	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)
Excess of expected loss over impairment	(33.4)	(41.1)	(33.4)	(41.1)
Deferred tax on tax losses carried forward	(38.1)	(62.2)	(38.1)	(62.2)
Common Equity Tier 1 capital	980.5	808.9	973.5	802.4
Additional Tier 1 (AT1) capital				
AT1 securities	156.5	–	156.5	–
Non-core Tier 1 notes	–	150.0	–	150.0
AT1 capital	156.5	150.0	156.5	150.0
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
Tier 2 capital	5.9	11.0	5.9	11.0
Total own funds	1,142.9	969.9	1,135.9	963.4

Movements in fully loaded common equity tier 1 capital are summarised below.

	Fully loaded		Transitional Rules	
	2014	2013	2014	2013
	£m	£m	£m	£m
Common Equity Tier 1 capital at 1 January	808.9	645.6	802.4	634.0
Movement in retained earnings	15.5	163.9	15.5	163.9
Net impact of share capital issue	145.4	–	145.4	–
Movement in other reserves	(8.5)	6.4	(8.5)	6.4
Movement in available-for-sale reserve	–	–	(0.5)	5.1
Movement in cash flow hedge reserve	9.0	(11.5)	9.0	(11.5)
Expected distribution on Additional Tier 1 securities	(2.1)	–	(2.1)	–
Exclude losses from non regulated companies	0.6	0.5	0.6	0.5
Movement in intangible assets	(20.1)	8.8	(20.1)	8.8
Movement in excess of expected loss over impairment	7.7	(3.7)	7.7	(3.7)
Movement in deferred tax on tax losses carried forward	24.1	(1.1)	24.1	(1.1)
Common Equity Tier 1 capital at 31 December	980.5	808.9	973.5	802.4

Risk weighted assets – Pillar 1

	Fully loaded		Transitional Rules	
	2014	2013	2014	2013
	£m	£m	£m	£m
Retail mortgages	3,489.7	3,860.2	3,489.7	3,860.2
Retail unsecured lending	830.0	595.3	830.0	595.3
Treasury	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
Market risk	–	–	–	–
Total risk-weighted assets	5,160.6	5,206.4	5,159.4	5,206.4

The Group calculates its capital requirement for mortgages on an Internal Ratings Based (IRB) approach, and on the Standardised Basis for credit cards and other assets.

Capital ratios

Capital ratios are calculated as the capital measure shown divided by the total Risk-weighted assets of the Group.

	Fully loaded		Transitional Rules	
	2014	2013	2014	2013
	%	%	%	%
Common Equity Tier 1	19.0%	15.5%	18.9%	15.4%
Tier 1	22.0%	18.4%	21.9%	18.3%
Total capital	22.1%	18.6%	22.0%	18.5%

Note 37: Related party transactions

(a) Key Management personnel

Key Management personnel refer to the Executive Committee of the Virgin Money Group and Non-Executive Directors.

	2014 £m	2013 £m
Compensation		
Salaries and other short term benefits	6.3	4.9
Amounts received under long term incentive plans	1.2	2.7
Share based payments (Refer note 7)	10.2	0.5
Post-employment benefits	0.6	0.5
Total compensation	18.3	8.6

Aggregate contributions in respect of Key Management personnel to defined contribution pension schemes £0.6 million (2013: £0.5 million).

	2014 £m	2013 £m
Deposits		
At 1 January	0.9	0.3
Placed	0.4	0.9
Withdrawn	(0.2)	(0.3)
Deposits outstanding at 31 December	1.1	0.9

Deposits placed by Key Management Personnel attracted interest rates of up to 2.8% (2013: 2.8 %). At 31 December 2014, the Group did not provide any guarantees in respect of Key Management Personnel (2013: £nil).

At 31 December 2014, transactions, arrangements and agreements entered into by the Group's banking subsidiaries with Key Management Personnel included amounts outstanding in respect of loans and credit card transactions of £nil with 4 Key Management Personnel (2013: £nil with 4 Key Management Personnel.

b) Subsidiaries

In accordance with IFRS 10 Consolidated financial statements, transactions and balances with subsidiaries have been eliminated on consolidation.

The following were subsidiaries of the Company at 31 December 2014:

Name	**Class of Share**	**Holding**
Direct holdings		
Virgin Money plc (formerly Northern Rock plc)	Ordinary	100%
Virgin Money Personal Financial Service Limited	Ordinary	100%
Virgin Money Unit Trust Managers Limited	Ordinary	100%
Virgin Money Management Services Limited	Ordinary	100%
Virgin Money Giving Limited	Ordinary	100%
Challenger (Norwich) Limited*	Ordinary	100%
Indirect holdings		
Virgin Card Limited*	Ordinary	100%
Virgin Money Nominees Limited*	Ordinary	100%
Northern Rock Limited *	Ordinary	100%

Northern Rock Guernsey Limited #	Ordinary	100%

Name	Nature of business
Special purpose vehicles	
Gosforth Funding plc **	Issue of securitised notes
Gosforth Funding 2011-1 plc	Issue of securitised notes
Gosforth Funding 2012-1 plc	Issue of securitised notes
Gosforth Funding 2012-2 plc	Issue of securitised notes
Gosforth Funding 2014-1 plc	Issue of securitised notes
Gosforth Mortgages Trustee 2011-1 Limited	Trust
Gosforth Mortgages Trustee 2012-1 Limited	Trust
Gosforth Mortgages Trustee 2012-2 Limited	Trust
Gosforth Mortgages Trustee 2014-1 Limited	Trust
Gosforth Holdings Limited ***	Holding company
Gosforth Holdings 2011-1 Limited	Holding company
Gosforth Holdings 2012-1 Limited	Holding company
Gosforth Holdings 2012-2 Limited	Holding company
Gosforth Holdings 2014-1 Limited	Holding company

During the year, the wholly owned subsidiary Church House Trust Limited, which was classified as a disposal group in the prior year and up to the point of sale, was sold. (Refer to notes 12 and 20).

* Indicates dormant company
\# Company dissolved on 2 January 2015
** In liquidation
*** Company dissolved on 27 January 2015

(c) Other transactions

Transaction value at year end:	2014 £m	2013 £m
Trademark licence fees to Virgin Enterprises Ltd	4.3	2.4
Virgin Atlantic Airways	2.8	4.3
Virgin Money Overseas Limited	–	0.3
Other costs to Virgin Management Group Companies	0.2	1.2
Balance outstanding at year end:		
Trademark licence fees to Virgin Enterprises Ltd	(0.4)	(0.3)
Virgin Atlantic Airways	–	4.2
Other costs to Virgin Management Group Companies	(0.1)	–

Trademark licence fees to Virgin Enterprises Limited

Licence fees are payable to Virgin Enterprises Limited for the use of the Virgin brand trademark.

Virgin Atlantic Airways

The Group incurs credit card commissions and air mile charges to Virgin Atlantic Airways Limited (VAA) in respect of an agreement between the two parties. Prior to 2014, there was a tripartite agreement between the Group, VAA and MBNA for the credit card commission and air mile charges to VAA.

Virgin Money Overseas Limited

On 25 February 2010, Virgin Money Cards Limited entered into a Sterling denominated loan agreement with Virgin Money Overseas Limited. Interest is charged at a rate equivalent to Australian Dollar 12 month LIBOR plus 2 per cent per annum. This loan was repaid in full during 2013.

Other costs to Virgin Management Group Companies

These costs include transactions with other companies in the Virgin Group.

It is anticipated that Sapphire Cards Limited (formerly Virgin Money Cards Limited), which is no longer part of the Group, will benefit from the surrender of tax losses by the Virgin Group in the years 2009 to 2011. This anticipated transaction is considered to meet the definition of a related party transaction. (Refer note 9).

The Group incurs credit card point of sale discount fees to Virgin Holidays Limited.

A number of banking transactions are entered into with related parties as part of normal banking business. These include deposits.

Note 38: Events after balance sheet date

There have been no significant events between 31 December 2014 and the date of approval of the financial statements which would require a change to or additional disclosure in the financial statements.

Note 39: Restatement of prior period information

As set out in Note 1, the Group has adopted IFRIC 21 which has a resulted in a reassessment of the liability recognised in previous periods in relation the FSCS levy. During the year, the Group undertook a review of the allocation and classification of both costs and income. Following this review, the Group has realigned elements of fee and commission income, fee and commission expense and operating expenses to better reflect the nature of these costs.

The Group has restated information for the preceding comparative periods.

The following tables summarise the adjustments arising on the adoption of IFRIC 21 and the reclassification of income and expenses to the Group's:

- Income statement, statement of comprehensive income and cash flows statement for the year ended 31 December 2013; and
- Balance sheets at 31 December 2013 and 1 January 2013.

Consolidated income statement – year ended 31 December 2013

	As previously stated £ million	IFRIC 21 £ million	Presentation reclassification £ million	Restated £ million
Interest and similar income	788.8	–	–	788.8
Interest and similar expense	(477.6)	–	–	(477.6)
Net interest income	311.2	–	–	311.2
Fee and commission income	32.8	–	5.2	38.0
Fee and commission expense	(13.2)	–	12.0	(1.2)
Net fee and commission income	19.6	–	17.2	36.8
Fair value gains/(losses) on financial instruments	(3.6)	–	–	(3.6)
Other operating income	57.3	–	(18.7)	38.6
Other income	73.3	–	(1.5)	71.8
Total income	384.5	–	(1.5)	383.0
Total operating expenses	(348.3)	6.0	1.5	(340.8)
Profit before tax from operating activities	36.2	6.0	–	42.2
Impairment	(50.7)	–	–	(50.7)
Gain on sale of subsidiary	203.4	–	–	203.4
Contingent consideration	(9.0)	–	–	(9.0)
Loss for the year on disposal group	(0.5)	–	–	(0.5)
Profit before tax	179.4	6.0	–	185.4
Taxation	(5.1)	(1.3)	–	(6.4)
Profit for the year	174.3	4.7	–	179.0
Profit attributable to equity shareholders	174.3	4.7	–	179.0
Profit for the year	174.3	4.7	–	179.0
Basic earnings per share (pence)	41.2	1.2	–	42.4
Diluted earnings per share (pence)	41.2	1.2	–	42.4

Consolidated statement of comprehensive income – year ended 31 December 2013

	As previously stated £ million	IFRIC 21 £ million	Presentation reclassification £ million	Restated £ million
Profit for the year	174.3	4.7	–	179.0
Other comprehensive income				
Movements in revaluation reserve in respect of available-for-sale financial assets:				
Change in fair value	5.6	–	–	5.6
Income statement transfers in respect of disposals	(10.2)	–	–	(10.2)
Taxation	(0.5)	–	–	(0.5)
	(5.1)	–	–	(5.1)
Movements in cash flow hedging reserve:				
Effective portion of changes in fair value taken to other comprehensive income	7.0	–	–	7.0
Net income statement transfers	4.8	–	–	4.8
Taxation	(0.3)	–	–	(0.3)
	11.5	–	–	11.5
Other comprehensive income for the year, net of tax	6.4	–	–	6.4
Total comprehensive income for the year	180.7	4.7	–	185.4
Total comprehensive income attributable to equity shareholders	180.7	4.7	–	185.4

In accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors' the adoption of IFRIC 21 'Levies' required a prior period restatement which was adjusted through opening reserves.

Consolidated cash flow statement – year ended 31 December 2013

	As previously stated £ million	IFRIC 21 £ million	Presentation reclassification £ million	Restated £ million
Profit before taxation	179.4	6.0	–	185.4
Adjustments for:				
Changes in operating assets	(2,605.5)	–	–	(2,605.5)
Changes in operating liabilities	3,333.7	(6.0)	–	3,327.7
Non-cash and other items	0.9	–	–	0.9
Net cash (used in)/provided by operating activities	908.5	–	–	908.5
Cash flows from investing activities				
Net investment in intangible assets	(29.7)	–	–	(29.7)
Purchase of fixed assets	(1.5)	–	–	(1.5)
Net investment in securities	(760.4)	–	–	(760.4)
Proceeds from sale and redemption of investment securities	615.4	–	–	615.4
Movement in disposal of group assets and liabilities	18.3	–	–	18.3
Proceeds from sale of Virgin Money Cards Limited	192.5	–	–	192.5
Net investment in credit card portfolio	(1,019.6)	–	–	(1,019.6)
Net cash (used in)/provided by investing activities	(985.0)	–	–	(985.0)
Cash flows from financing activities				
Distribution to Non-core Tier 1 loan noteholders	(7.8)	–	–	(7.8)
Repayment of Non-core Tier 1 notes	–	–	–	–
Net (decrease)/increase in debt securities in issue	(796.8)	–	–	(796.8)
Net cash (used in)/provided by financing activities	(804.6)	–	–	(804.6)
Change in cash and cash equivalents	(881.1)	–	–	(881.1)
Cash and cash equivalents at beginning of year	2,896.4	–	–	2,896.4
Cash and cash equivalents at end of year	2,015.3	–	–	2,015.3

Consolidated balance sheet – 31 December 2013

	As previously stated £ million	IFRIC 21 £ million	Restated £ million
Assets			
Cash and balances at central banks	1,423.5	–	1,423.5
Disposal group assets held for sale	85.9	–	85.9
Derivative financial instruments	187.5	–	187.5
Loans and receivables:			
Loans and advances to banks	626.9	–	626.9
Loans and advances to customers	20,342.5	–	20,342.5
Debt securities	9.4	–	9.4
	20,978.8	–	20,978.8
Available-for-sale financial assets	1,679.2	–	1,679.2
Intangible assets	26.0	–	26.0
Tangible fixed assets	71.2	–	71.2
Deferred tax assets	73.9	(3.9)	70.0
Other assets	42.8	0.1	42.9
Total assets	24,568.8	(3.8)	24,565.0
Equity and liabilities			
Liabilities			
Deposits from banks	389.2	–	389.2
Customer deposits	21,121.4	–	21,121.4
Disposal group liabilities held for sale	78.9	–	78.9
Derivative financial instruments	147.1	–	147.1
Debt securities in issue	1,469.8	–	1,469.8
Other liabilities	416.2	–	416.2
Provisions	25.8	(18.3)	7.5
Total liabilities	23,648.4	(18.3)	23,630.1
Equity			
Share capital and share premium	509.2	–	509.2
Other reserves	6.7	–	6.7
Retained earnings	404.5	14.5	419.0
Total equity	920.4	14.5	934.9
Total liabilities and equity	24,568.8	(3.8)	24,565.0

Consolidated Balance Sheet – 1 January 2013

	As previously stated £ million	IFRIC 21 £ million	Restated £ million
Assets			
Cash and balances at central banks	1,604.5	–	1,604.5
Disposal group assets held for sale	79.6	–	79.6
Derivative financial instruments	161.0	–	161.0
Loans and receivables:			
Loans and advances to banks:	1,310.2	–	1,310.2
Loans and advances to customers	16,894.1	–	16,894.1
Debt securities	37.3	–	37.3
	18,241.6	–	18,241.6
Available-for-sale financial assets	1,497.0	–	1,497.0
Intangible assets	34.8	–	34.8
Tangible fixed assets	77.2	–	77.2
Deferred tax assets	79.8	(2.5)	77.3
Other assets	55.9	–	55.9
Total assets	21,831.4	(2.5)	21,828.9
Equity and Liabilities			
Liabilities			
Deposits from banks	3.4	–	3.4
Customer deposits	18,006.7	–	18,006.7
Disposal group liabilities held for sale	54.3	–	54.3
Derivative financial instruments	285.6	–	285.6
Debt securities in issue	2,266.6	–	2,266.6
Other liabilities	434.6	–	434.6
Provisions	25.4	(12.3)	13.1
Total liabilities	21,076.6	(12.3)	21,064.3
Equity			
Share capital and share premium	509.2	–	509.2
Other reserves	0.3	–	0.3
Retained earnings	245.3	9.8	255.1
Total equity	754.8	9.8	764.6
Total liabilities and equity	21,831.4	(2.5)	21,828.9

Note 40: Future accounting developments

A number of new accounting standards and amendments to accounting standards have been issued by the IASB, however have not been endorsed by the European Union. Those which may be relevant to the Group are set out below.

Pronouncement	Nature of change	IASB effective date
IFRS 15 'Revenue from Contracts with Customers'	Current revenue recognition accounting standards have led to inconsistencies in accounting for similar transactions and inadequate disclosures. IFRS 15 specifies comprehensive principles on whether, how much and when an entity should recognise revenue arising from customer contracts. In addition, extensive disclosure requirements have been introduced to provide more informative and relevant disclosures, particularly around estimates and judgements. The Group is reviewing the requirements of the new standard to determine its effect on its financial reporting.	1 January 2017 (has not been EU endorsed)
IFRS 9 'Financial Instruments'	This new accounting standard has been split into three phases: Phase 1 of the IFRS 9 project addresses the recognition and measurement of financial assets and liabilities. Financial assets are classified and measured on the business model in which they are held and the characteristics of their contractual cash flows. Financial liabilities designated under the fair value option will be required to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Phase 2 of the IFRS 9 project addresses the impairment of financial assets and will replace the current incurred loss model in IAS 39 with an expected loss model. In addition, extensive new disclosure requirements in relation to impairment losses are introduced. Phase 3 of the IFRS 9 project introduces a principles based approach to hedge accounting and requirements which will align hedge accounting more closely with risk management. This new accounting standard is expected to have a significant impact on the Group when adopted.	1 January 2018 (has not been EU endorsed)

Note 41: Country by country reporting

The Capital Requirements (Country by Country Reporting) Regulations came into effect on 1 January 2014 and place certain reporting obligations on financial institutions within CRD IV.

The initial disclosure requirements in 2014 were limited to disclose the name, nature of activities and geographical location of the Group, total operating income and number of employees within the Group split by country of operation. For 2015 the disclosure requirements have increased to include pre tax profit, corporation tax paid and public subsidies received.

All companies consolidated within the Group's financial statements are UK registered entities, with the exception of Northern Rock (Guernsey) Limited, a company registered in Guernsey and which was in the process of being wound up during 2014, and was dissolved in early January 2015.

The activities of the Group are described on page 20 of the Annual Report & Accounts.

The remaining country by country reporting disclosures are set out below:

	UK
Number of employees (average FTE)	2,681
Turnover (total income)	£438.3m
Pre tax profit	£34.0m
Corporation tax paid	£0.0m
Public subsidies received	£0.0m

Corporation tax paid is the cash amount of corporation tax paid during the year ended 31 December 2014. During the year, because of tax losses brought forward, the Group paid corporation tax of less than £10,000, and received a tax credit of £31,000 in respect of land remediation relief. The Group received no public subsidies during the year.

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