Virgin Money Group Annual Report and Accounts 2014

Everyone's better off

There's money and there's Virgin Money

At Virgin Money, our ambition is to build a bank that makes everyone better off.

Customers, colleagues, communities, corporate partners and our company.

With a powerful brand, strong balance sheet, customer-focused culture and experienced Executive team, we are creating the UK's leading challenger bank, delivering our different approach to banking to almost three million customers.

In November 2014, Virgin Money listed on the London Stock Exchange raising additional equity capital of £150 million.

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Cover image: Virgin Money Fireworks Concert 2014. The concert is held each year to celebrate the end of the Edinburgh International Festival.

2014 Highlights

Results 2011-14		2014	2013	2012	2011[1]
Growth					
Gross mortgage lending	£bn	**5.8**	5.6	4.9	3.7
Mortgage balances	£bn	**21.9**	19.6	16.8	13.9
Credit card balances	£bn	**1.1**	0.8	–	–
Deposit balances	£bn	**22.4**	21.1	18.0	16.2
Total assets	£bn	**26.5**	24.6	21.8	19.6
Quality					
Cost of risk[2]	%	**0.11**	0.15	0.02	–
Fully-loaded Common Equity Tier 1 capital ratio	%	**19.0**	15.5	15.5	18.7
Leverage ratio	%	**4.1**	3.8	3.6	4.0
Loan-to-deposit ratio	%	**102.8**	96.4	93.1	85.8
Returns					
Underlying total income	£m	**438.2**	361.5	234.6	161.7
Underlying profit/(loss) before tax	£m	**121.2**	53.4	(2.5)	(59.1)
Statutory profit before tax	£m	**34.0**	185.4	160.2	23.5
Underlying net interest margin	%	**1.50**	1.26	0.54	0.36
Underlying cost:income ratio	%	**68.7**	77.2	100.2	148.1
Underlying return on tangible equity	%	**7.4**	2.3	(1.1)	(5.2)
Underlying basic earnings per share	p	**21.4**	8.1	17.0	(33.9)

1 The 2011 results of Virgin Money Holdings (UK) plc have been presented as if Northern Rock plc had been part of the Group during 2011.

2 Cost of risk excludes benefit of debt sale of £8.9 million.

Total customer loan balances grew by **13%**

Fully-loaded Common Equity Tier 1 capital ratio **19.0%**

Underlying profit before tax increased 127% to **£121.2 million**

Results

These results have been prepared in accordance with International Financial Reporting Standards (IFRS). Where appropriate, certain aspects of the results are presented to reflect the Executive's view of the Group's underlying performance without distortions caused by non-recurring items that are not reflective of the Group's ongoing business activities. The Group's underlying results are presented on page 56 and a reconciliation of the Group's statutory and underlying results is reported on page 57.

In 2014, we delivered strongly to all of our stakeholders, living up to our ambition to make everyone better off.

Highlights include:

Customers

Overall Net Promoter Score increased to

+16

one of the highest scores of any UK bank, demonstrating the strength of our customer satisfaction and advocacy.

Colleagues

Almost

3,000

colleagues now work for Virgin Money, with an industry-leading engagement score of 86%.

Communities

Over

£88 million

was donated to charities in 2014, including Gift Aid, through Virgin Money Giving, our not-for-profit online donation service.

Corporate partners

Over

13,000

Intermediary Partners introduced mortgage business to Virgin Money in 2014, and we were awarded the coveted Five Star Financial Adviser award for intermediary service.

Company

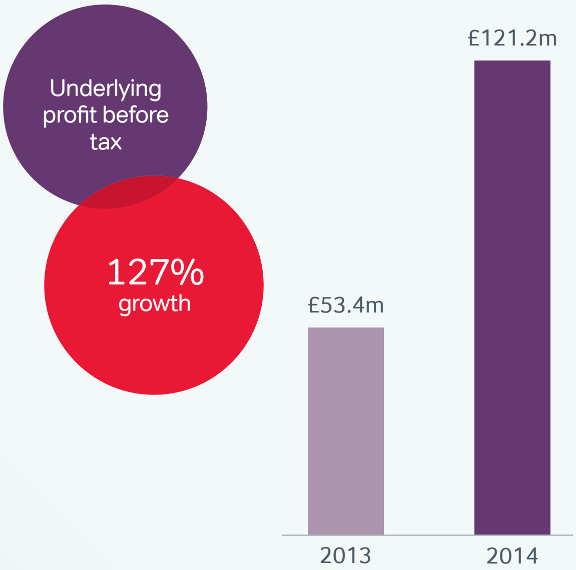
Growth of

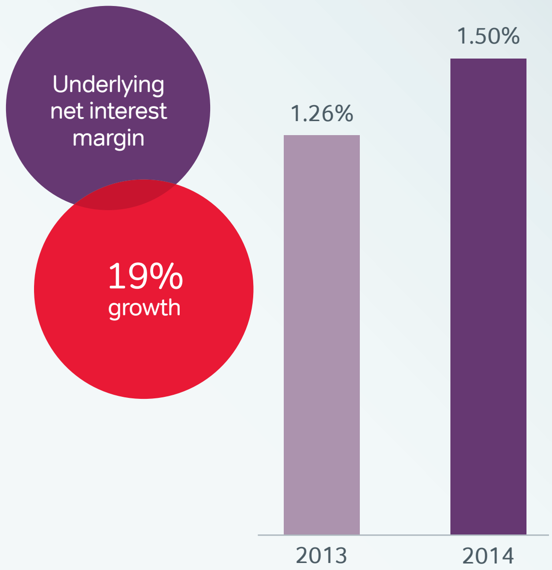
127%

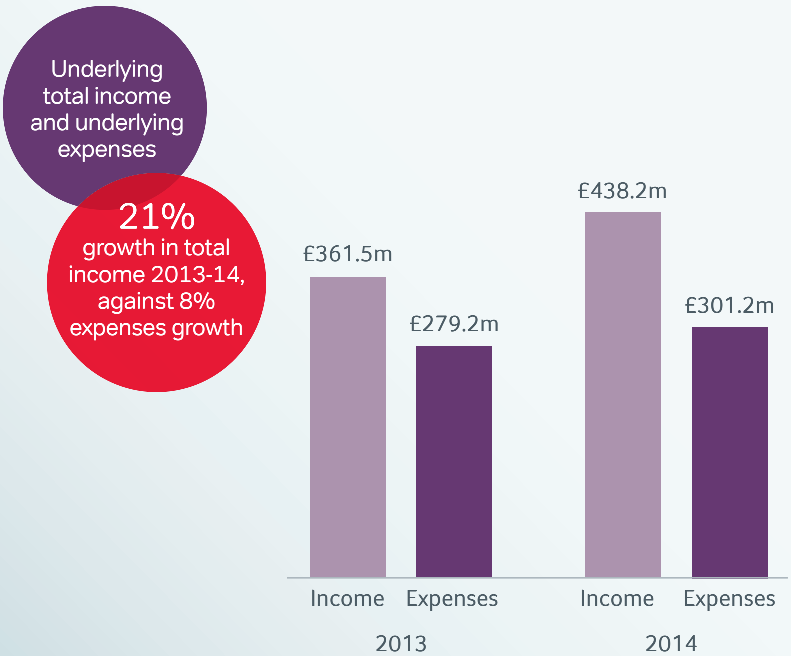
in underlying profit before tax to £121.2 million, with underlying return on tangible equity increasing from 2.3% to 7.4%.

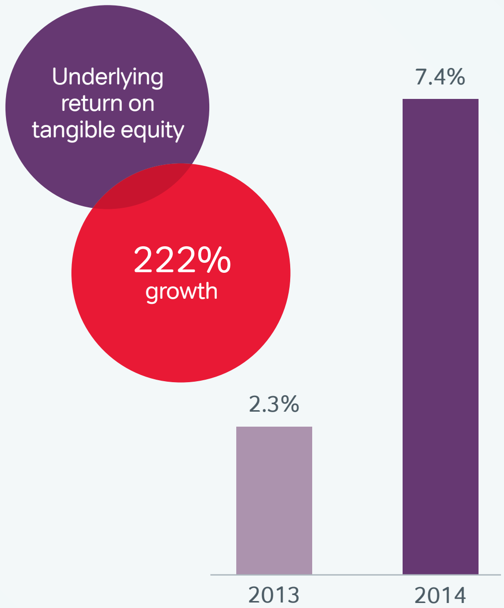
Virgin Money Lounge, Glasgow

2014 Highlights: Returns









Statutory profit before tax

Statutory profit before tax of £34.0 million in 2014, after Initial Public Offering transaction costs and payment of additional consideration for Northern Rock plc to HM Treasury following the Company's successful listing on the London Stock Exchange. This compares with a statutory profit before tax of £185.4 million in 2013.

2014 Highlights: Growth

Strong asset growth

£21.9bn
Mortgage balances up 12% to £21.9bn. Net lending of £2.3bn, a market share of 10.2%

£5.8bn
Gross mortgage lending of £5.8bn, 4% higher than 2013, and a full-year market share of 2.8%

35%
Gross mortgage lending increased by 35% in the second half of the year compared to the first half

£1.1bn
Credit card balances of £1.1bn, an increase of 41% on total balances held at the end of 2013

Strong funding position

£22.4bn
Deposit balances up 6% to £22.4bn, a market share of 1.4%

102.8%
Loan-to-deposit ratio of 102.8% at the end of 2014


Virgin Money Lounge, London

2014 Highlights: Quality

Excellent asset quality

0.31%
Mortgages over three months in arrears of 0.31% compared with latest industry average of 1.33%

1.46%
Credit card balances two or more payments in arrears of 1.46%, compared with latest industry average of 2.64%

Reducing cost of risk

11bps
Cost of risk excluding debt sale reduced by 27% to 11bps in 2014

Strong balance sheet position

19.0%
Fully-loaded Basel III Common Equity Tier 1 ratio at the end of 2014

4.1%
Leverage ratio at the end of 2014

22.1%
Total capital ratio at the end of 2014

Chairman's Statement

Sir David Clementi
Chairman

"This is my last set of annual results as Chairman of Virgin Money. In January 2015, Glen Moreno joined the Board as an Independent Non-Executive Director and Chairman Designate, and he will take over from me as Chairman later this year.

I have been Chairman of Virgin Money since 2011, and as I prepare to leave I am proud to look back at what has been achieved in a short period of time. Highlights include the acquisition of Northern Rock and the subsequent strong growth in mortgages and deposits, the establishment of credit card and current account platforms that will provide additional opportunities for future growth, and our successful Initial Public Offering in November 2014."

Progress in 2014

2014 has been a landmark year for Virgin Money and, in my final year-end statement as Chairman, I would like to reflect not only on this year's performance but also on the strong position the Group has created as it opens a new chapter as a listed business.

When I became Chairman in October 2011, I believed we had a significant opportunity to grow Virgin Money, given our unique position as a strong, uncomplicated retail-only bank with the potential for organic growth at meaningful scale, unburdened by legacy issues. In 2014, we demonstrated just how strong this opportunity is.

During the year, we saw good performance in our core mortgage and deposits business, with both balances and net interest margin growing strongly. We completed the build of our own credit card business, creating the opportunity for future product diversification and profitability growth, and we launched Virgin Money's first current account.

In November, we successfully completed our listing on the London Stock Exchange. I am pleased that our Initial Public Offering (IPO) attracted such a broad range of high-quality institutional investors. This report represents an opportunity for me to welcome all our new shareholders.

Our IPO offers us not only the opportunity to accelerate materially the growth of our business, but also access to capital if necessary, cementing our position as one of the UK's leading challenger banks.

Our IPO crystallised an additional payment of £50.0 million to HM Treasury. As part of the consideration for our acquisition of Northern Rock at the beginning of 2012, it was agreed that this payment would be made in the event of a successful listing of Virgin Money within five years. During the year, we also repaid £150.0 million of Non-core Tier 1 notes held by HM Treasury following our acquisition of Northern Rock, benefiting our cost of capital.

In November, we completed the sale of Church House Trust Limited to Ocean Industries S.A. for a consideration of £13.7 million. Church House Trust is a regional bank based in Somerset which Virgin Money acquired in 2010; but our subsequent acquisition of Northern Rock in 2012 meant that it was appropriate for us to sell the business. I would like to thank the team at Church House Trust for everything they have contributed over the last five years and wish them every success for the future.

Supporting the UK housing market

Virgin Money has an important role to play in supporting the UK housing market and, during 2014, we continued to contribute strongly to growth in the market.

We are pleased that we increased our proportion of loans to First-Time Buyers during the year to 15 per cent of our gross residential mortgage lending, almost double the proportion in the previous year.

We also continued to be one of the key participants in the Government's Help to Buy scheme, completing more than 4,000 Help to Buy guarantee scheme loans during the year.

Regulation

The regulation of the UK banking industry has changed fundamentally since the financial crisis of 2008 and continues to place significant demands upon our business.

We remain very supportive of the measures that have been introduced and believe that they will enhance financial stability as well as encourage competition and the ability of challenger banks to make significant progress.

We have made it a strategic imperative to comply ahead of time with all aspects of Capital Requirements Directive IV (CRD IV) and were pleased in October to receive clarification from the Bank of England's Financial Policy Committee of its minimum leverage ratio requirements, with which we already comply.

We continue to follow the development of regulation with regard to ring-fenced banks with interest and expect to need to comply with that regime in the years ahead. We believe that Virgin Money's current business operations are consistent with those of a ring-fenced bank, although we remain of the view that it is important that ring-fencing requirements should be applied in a proportionate manner and should be less onerous for the smaller challenger banks than the larger incumbents, so as not to stifle innovation and market competitiveness.

We support the Competition and Markets Authority's (CMA) investigation of the Personal Current Account (PCA) market that was announced in November. Indeed we believe the review is critical to ensure that consumers can benefit from a safe, thriving and innovative retail banking sector. We are also pleased that the Financial Conduct Authority will consider the benefits of current account number portability, a development that we believe could improve competition in this market significantly.

During the year the new regime for mortgages, implementing the recommendations of the Mortgage Market Review (MMR), came into effect. We support the MMR wholeheartedly, given the importance of mortgage advice to delivering positive outcomes for consumers.

Dividends

Virgin Money intends to adopt a progressive dividend policy. The first dividend we intend to pay to shareholders will be an interim dividend based on performance in the first half of 2015. Initially we will target a payout ratio of 10 per cent to 20 per cent of statutory profit after tax and after coupons on any Additional Tier 1 securities in issue, with an objective to increase dividend distributions over time as we grow our balance sheet and earnings.

Directors

As announced in September 2014, I will retire from the Group later in 2015. I am delighted Glen Moreno has been chosen to succeed me as Chairman. He brings broad experience in banking and financial services, having previously been a Director of Lloyds Banking Group and Fidelity and a Senior Executive at Citigroup, and I am confident he will continue to take the Group forward successfully in the years ahead.

I was pleased to be able to welcome Olivia Dickson to the Board in September as an Independent Non-Executive Director and as Chair of our Remuneration Committee. Olivia has extensive experience in the financial services industry and in remuneration governance, including at Canada Life and Investec, as well as serving as a Non-Executive Director of the Financial Reporting Council.

As a Board we believe that diversity helps to improve the quality of decision making and I am pleased that we increased our female membership during 2014 to above 25 per cent, ahead of the 2015 deadline recommended in the report by Lord Davies.

As a Board, we remain focused on ensuring our strategy is able to deliver long-term success and to generate sustainable returns for shareholders, allowing for ongoing developments in the economic, competitive and regulatory environment. We also work to ensure that the Board and the broader business operate to the highest standards of corporate governance.

Chairman's Statement

We are confident that we have an excellent management team and a committed, engaged group of colleagues focused on delivering the needs of our customers.

Our clear strategy, strong brand, strong corporate governance framework and committed colleague base give us the opportunity to build a business that will deliver sustainable success in the future.

Community and culture

Making a positive contribution to the communities in which we work is a fundamentally important part of Virgin Money's culture.

In December 2014, we announced the launch of a major new initiative, the Virgin Money Foundation. Along with a donation of £4.0 million announced by the Government for charitable work in the North East of England, Virgin Money will invest an initial £1.0 million in community projects in 2015. Over time, the Virgin Money Foundation will develop to operate nationally.

Virgin Money Giving is Virgin Money's not-for-profit fundraising website, which makes it easy for people to donate money online to charities of their choice. Donations made through Virgin Money Giving grew by 10 per cent in 2014, to £88.3 million including Gift Aid.

Our colleagues continued to embrace our Charities of the Year, Cancer Research and Anthony Nolan, raising a total of more than £200,000.

Our desire to build a strong culture within our business based around our ambition to make 'everyone better off' (EBO) means that we place an emphasis on long-term thinking, which we believe creates sustainable profit growth. Given the lessons learned in the banking sector over the past decade, we believe our EBO approach is critical to our future success.

We believe that our focus on culture is fundamental to the strength of our ongoing business performance and, to that end, our Culture Director is a member of the Virgin Money Executive Team.

To improve standards and culture across the UK banking sector as a whole, we support the enforcement of responsibilities and accountabilities through the Senior Managers Regime, the Certification Regime and the Conduct Rules, all of which were recommended by the Parliamentary Commission on Banking Standards.

We also support the Banking Standards Review Council, a voluntary body supported by all the large UK banks, and appreciate the work done by Sir Richard Lambert to get this new body up and running.

Colleagues

2014 has been a very successful year for Virgin Money, in which we continued to expand in mortgages and deposits, delivered our plan to build a credit card platform, launched currents accounts and completed our IPO despite challenging market conditions. These achievements have placed exceptional demands on our colleagues and, on behalf of the Board, I would like to thank our management team and colleagues for their hard work and commitment throughout the year.

To reflect this, I am pleased that we have been able to pay staff a 'Share in Success' bonus for 2014 based on the strength of our underlying business performance. In addition, all colleagues were offered a share award on our IPO with a market value of £1,000. This award vests on the first anniversary of our IPO.

Virgin Money recognises the value of diversity across our colleagues, who together bring a broad range of skills and experience to our business. The Group is committed to increasing diversity at all levels and that commitment is reflected in our Board Diversity and Inclusion Policy. We strive to ensure that those who work for our business reflect the customers we serve, enabling us to provide a relevant, practical and personal banking service.

Remuneration

Our approach to remuneration is to reward colleagues appropriately, based on both their performance and their behaviours, while ensuring that we meet all regulatory requirements.

Our reward structure is designed on this basis to ensure it is aligned with the long-term success of the business and the interests of our shareholders. Variable pay is designed to motivate and retain valued colleagues, while actively discouraging excessive risk-taking behaviour. All variable pay awards are made following a complete risk assessment and paid with the approval of the Remuneration Committee. Any deferred awards are subject to a further risk assessment before release, with clawback provisions applying thereafter.

The remuneration approach for Senior Executives was reviewed as part of our IPO. From 2015, variable pay will be delivered through a combination of annual bonus and a Long Term Incentive Plan (with appropriate deferral) linked to future corporate performance. Full details of our approach to remuneration for 2014 can be found in our Remuneration Report.

Outlook

Our successful IPO showed that investors value the simplicity and transparency of our UK focused, positively-differentiated retail banking business model. The perception of the Group amongst other influential stakeholders also continued to build as we delivered on the promises we have made in previous years.

While now a much larger and broader business, Virgin Money still has the same philosophy at its heart as the business I joined in 2011. Our desire remains to be positively different from the larger banks, by offering straightforward products with fair and transparent pricing, supported by the delivery of outstanding customer service, and a determination to support the communities we work in. These positive attributes will enable us to stand apart and compete successfully, with both the large incumbent banks and newer players.

In closing, I would like to thank my fellow Board members, the senior leadership team and all colleagues for their contribution to everything we have accomplished together at Virgin Money in my years here. Later in the year I will hand over to Glen Moreno a strong bank that is well-placed competitively and that looks to the future with a good deal of confidence.

I believe that Virgin Money is well positioned to continue to build on what has been achieved so far. I wish the Group another successful year in 2015 and prosperity for many years ahead.

Sir David Clementi
Chairman
4 March 2015

Chief Executive's Review

Jayne-Anne Gadhia CBE
Chief Executive

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 3.15 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-

Chief Executive's Review

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
4 March 2015

Market Overview

Given our UK focus, our financial performance is inextricably linked to the performance of the UK economy and its regulatory and competitive environment.

UK economic trends

The UK economy is getting stronger

Economic conditions in the UK continued to improve in 2014 following a sustained period of economic weakness. The Quarterly National Accounts (QNA) indicated that the UK economy grew by 0.5% in the fourth quarter of 2014.

UK Gross Domestic Product (GDP) is now estimated to have been around 2.7% higher in Q4 2014 than the same period in 2013. By the end of 2014 GDP was estimated to have been 3.4% higher than the pre-economic downturn peak of Q1 2008.

Future growth rates will depend on a number of factors, one of which may be the recent fall in world oil prices. This fall can be seen in the weakening inflationary pressures experienced by businesses and households and while that persists it should provide a net stimulus to the UK economy.

Based on the HM Treasury consensus view, which we use and consider in our strategic planning, we believe the most likely outlook is for continued recovery in 2015, with faster growth than in 2014. The current consensus for 2015 GDP growth is 2.6%, close to the long-term average, and unemployment is expected to continue to fall.

Quantitative Easing measures will be supportive of Eurozone growth and inflation, but we remain cautious as to how great, and how quickly felt, these effects will be within the UK. It remains the case that fragility in European economies and further afield has the potential to derail domestic UK growth and our generally positive view of our UK markets comes with that rider.

Finally, we note the Governor of the Bank of England's (BoE) comments on the potential for deflation in the UK, but are reassured by his view that this is likely to be temporary and that the Monetary Policy Committee would 'look through' such transient effects when considering its responses.

Mortgages and Housing

UK house prices remain strong, although the pace of annual growth softened slightly as 2014 drew to a close. This slowdown in housing market activity has persisted into early 2015.

If the general economic environment continues to improve, activity in the housing market should rise later in 2015. Supply side developments will be important in determining the trajectory for prices and there are signs that construction is starting to pick up.

A number of government initiatives have helped support recovery over the past two years, notably Help to Buy in the mortgage market. The Chancellor also announced changes to Stamp Duty Land Tax in the Autumn Statement which may help stimulate housing market activity in 2015.

We note that the market generally does not now expect any rise in the official Bank Rate, currently at its historical low of 0.5 per cent since March 2009, until at least early 2016. When the Bank Rate does begin to rise, increases are expected to be gradual and limited. To guard against the potential effects on customer affordability in a rising interest rate environment, we will maintain our credit discipline and our conservative and responsible approach to lending. Given the quality of our mortgage assets, we believe that Virgin Money's balance sheet will be resilient when the Bank Rate does start to rise.

Savings

The savings ratio has increased since the financial crisis and this should lead to overall growth in savings balances. This effect will most likely be reinforced by the beginnings of wage growth combined with continuing increases in employment.

The FCA published its cash savings market study report in January 2015 which looks at competition, transparency, and consumer outcomes in the savings market. The FCA now plans to develop remedies to the problems it has identified and this could lead to significant changes in the dynamic of the savings market.

Competition and Personal Current Accounts (PCA)

The UK retail banking market is highly concentrated, with the top five banks holding market shares in aggregate of between 55-85 per cent across the core retail banking product areas. The effects of this are most obvious in PCAs.

This PCA market concentration has limited the overall level of competition and established significant barriers to entry. The dominance of the major high street banks is reflected by the announcement by the CMA on 6 November 2014 that it has decided to commence a market investigation reference in relation to both PCAs and aspects of small and medium-sized enterprises (SME) banking. We welcome this market investigation reference and believe that the CMA investigation of the retail banking market should focus on the following interlocking issues:

- the lack of transparency and complexity of PCA charging structures, combined with the dominant free-if-in-credit model, makes it difficult for new entrants to compete on price or through more innovative product offerings;
- customer inertia related to the lack of diversity in the market and the fact many consumers see little real difference between providers and products;
- the ability of the large incumbent banks to use their dominance of the PCA market to build long-term relationships with consumers and use PCAs as a gateway to cross sell other products;
- lack of fair and open access to payment systems for smaller banks;
- the introduction of the Current Account Switch Service which, whilst welcome, has failed to address many of the concerns and difficulties customers still have with switching their current account; and
- full account number portability would encourage innovation and create a much easier, faster and more reliable switching service as well as reduce barriers to entry and expansion for smaller banks.

Market trends

Key opportunities: The economic outlook for the UK continues to tentatively improve. Improving economic growth and rising consumer confidence are good for our lending activities in mortgages and credit cards. We also expect to see modest growth in the retail savings market. We look forward to the outcomes of the CMA investigations into Retail and SME banking, which have the potential to improve competition in the Personal Current Account and SME markets.

Regulation

Key regulatory developments affecting the Virgin Money business are outlined below.

The Leverage Ratio and CRD IV

We welcomed the announcement by the Financial Policy Committee, in October 2014, which provided clarity on the leverage ratio framework. As a result, and given our current leverage ratio of 4.1 per cent as at 31 December 2014, we believe that we are strongly placed with regard to the new leverage ratio framework.

We are committed to maintaining a robust capital base under existing and emerging regulatory requirements. Our capital position is fully compliant with all finalised regulation. Subject to further announcements such as those in on the calibration of systemic risk buffers, we are also well positioned to meet all expected capital requirements while at the same time supporting our growth plans.

Ring Fencing

We fully support the PRA's resolution and resilience agenda and believe it will enhance competition both through protecting consumers in the event that a bank should fail and also through the creation of ring-fenced banks. Virgin Money will operate as a wholly ring-fenced bank, and both transitioning and managing in accordance with the proposed requirements for such an entity will be less onerous than is the case for many larger and more complex entities.

Deposit Guarantee Schemes Directive

We will implement all requirements of the Deposit Guarantee Schemes Directive. We have, however, noted that the calibration of contributions to the FSCS scheme needs care if it is not to penalise challenger banks and mutual societies.

Payment Systems Regulator

We have been very supportive of the establishment of a new Payment Systems Regulator. We view access to payment systems as a key issue holding back competition in UK retail banking, especially in the PCA market. It is essential that the UK payments system is opened up and that it is made easier for a wide range of parties to access the payments system.

Market Overview

EU Mortgage Credit Directive

We will implement the EU Mortgage Credit Directive requirements by 21 March 2016. We responded to the EU Mortgage Credit Directive consultation and supported HM Treasury's view that the UK already has in place a robust regulatory regime to protect consumers engaged in the residential mortgage market. The UK's implementation of the MMR has rightly tightened the rules on firms to prevent irresponsible lending practices from re-emerging.

Competitive drivers

Virgin Money benefits from being a simple and straightforward retail bank unburdened by legacy issues. As one of the foremost consumer champion brands in the UK we are also focused on ensuring good outcomes for all of our customers as their expectations and demands continue to rise.

There are some clear customer trends emerging, but we recognise that every customer has individual needs and we must engage with them accordingly.

In the current low interest rate environment, many customers are motivated by their desire to achieve better value for money, but security and reputation remain important factors.

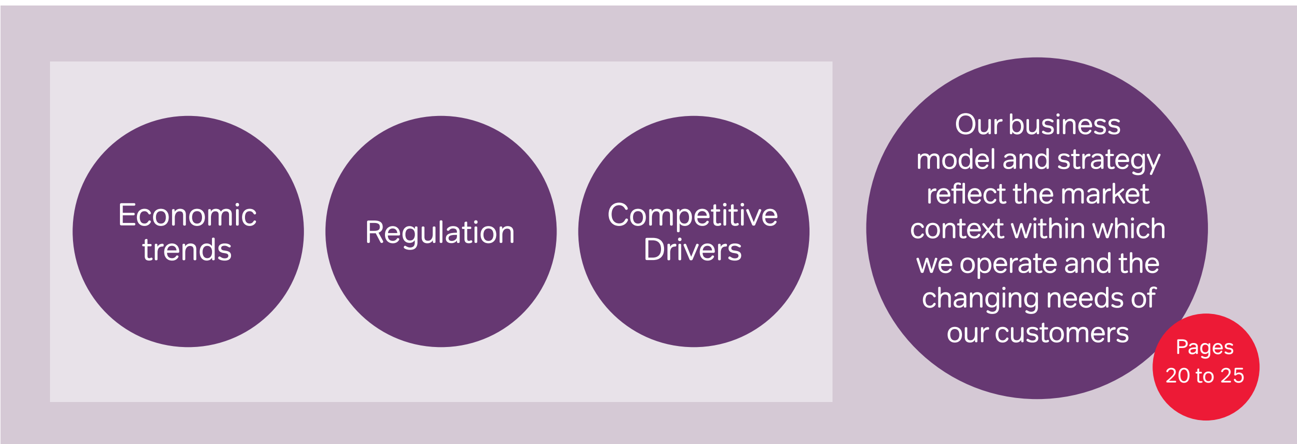
We believe customers want straightforward and transparent products combined with the ability to access their products and services through the channel of their choice.

Demand for multi-channel banking is now more prevalent than ever. More customers expect to be able to manage their finances whenever and wherever is most convenient for them, whether by telephone, online, or by using their mobile device. Service remains one of the key drivers of customer satisfaction and customers are increasingly less forgiving of poor service.

From a regulatory perspective, the FCA has a duty to promote competition giving it an explicit mandate to tackle competition issues, such as hurdles to switching or barriers to entry, swiftly and effectively. As a result we expect to see more new entrants, with business models that offer digital only banking services. Such digital-only banking services are already emerging and starting to slowly reshape the banking industry. This is a trend we expect to accelerate in the coming years.

Market trends

Key challenges: Without intervention, the dominance of the major high street banks and the lack of transparency and complexity of PCA charging structures, combined with the prevailing free-if-in-credit model will continue to make it difficult for new entrants in the PCA market such as Virgin Money to compete on price or through more innovative product offerings in the PCA market. From a customer perspective, keeping pace with increasing customer appetite for digital/mobile banking will be key. Virgin Money's business model is however well placed to take advantage of these trends.



Virgin Money Store, Guildford

Business Model and Strategy

At the heart of everything we do is our ambition to make everyone better off

Our business model

Virgin Money is a strong, uncomplicated retail-only bank which is primarily focused on providing residential mortgages, savings and credit cards. We also offer a range of investment and insurance products and commenced the first phase of the roll-out of the Virgin Essential Current Account in 2014.

We provide award-winning customer service to our 2.8 million customers through a range of channels, including online and mobile, intermediaries, call centres and a national network of 75 Stores and five customer Lounges. We believe this low-cost model positions us well for cost-effective growth in an increasingly digital world.

By leveraging our strategic assets and capabilities we remain focused on creating a business with a demonstrable track record of growth, a balance sheet of the highest quality, and delivering a history of strong shareholder returns.

Our vision

Our aim is to make 'everyone better off' (EBO) by delivering good value to our customers, treating employees well, making a positive contribution to society, building positive relationships with our partners and delivering sustainable profits to our shareholders.

The ambition to make 'everyone better off' underpins Virgin Money's differentiated approach to banking.

Our distinctiveness

The foundations for providing a distinctive customer proposition are: our powerful brand, our customer-focused culture, our financial strength and our legacy-free approach. Our ambition to make everyone better off runs through our culture and decision making, and is key to ensuring we are building a sustainable model for all our stakeholders, and living up to the trust they place in us.

How we create value

A simple, low risk, customer-focused UK banking model, delivering straightforward, transparent products that treat customers fairly.

Growth

Through straightforward, transparent products

- Gross mortgage lending at 3.0% or better.
- Credit card balances to at least £3.0 billion by the end of 2018.
- An expected market share of deposits stock under 2.0%.

Quality

Through our customer focused culture

- Asset quality maintained.
- At a minimum:
  - 12.0% Common Equity Tier 1 ratio
  - 15.0% total capital ratio
  - 3.75% leverage ratio

Returns

Through financial strength

- Return on tangible equity to mid-teens by the end of 2016.
- Grow Net Interest Margin to around 170 basis points in the near-to-medium term.
- Cost:income ratio of around 50% in the near-to-medium term.

Everyone's better off

The Virgin Money business model and strategy is underpinned by our ambition to build a bank that makes everyone better off

Our competitive strengths

We are uniquely placed to provide effective competition to the large incumbent banks in the UK across a number of markets. We have the potential for significant organic growth at meaningful scale across a broad range of products and are unburdened by legacy issues from the past.

Our strategy is underpinned by Virgin Money's core business strengths:

- a high-quality balance sheet, set within a strong risk management framework, unburdened by legacy issues such as PPI mis-selling;
- a differentiated approach to banking and a brand that provides mass consumer appeal;
- a capacity for organic growth at meaningful scale;
- a significant potential to improve returns through operational leverage and positive margin development; and
- a strong management team with a track record of delivering organic and inorganic growth, supported by highly-engaged colleagues.

Our strategy

Our strategy is focused on creating a business that can continue to grow strongly, maintain a high-quality balance sheet, and deliver attractive shareholder returns, whilst serving our other stakeholder groups – Customers, Colleagues, Corporate Partners and the Communities in which we work.

We plan to continue to deliver strong growth in our mortgages, savings and credit card business and will continue to enhance our activities in investments and insurance, extending our product range over time.

We will maintain our focus on building a high quality balance sheet, underpinned by a conservative risk appetite and rigorous credit decisioning.

We target a mid-teens return on tangible equity by the end of 2016. This will be achieved through a combination of Net Interest Margin enhancement, exploiting our operational leverage, and controlled impairment performance.

We will nurture our EBO culture to ensure we continue to reinforce the values and approach which we believe drive our distinctiveness and the sustainability of our business model.

Our strategy for success

Growth
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Quality
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Returns
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EBO
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Delivering our Strategy: Growth

Building the leading challenger bank

Aim

We plan to continue to deliver strong growth across our mortgages, savings and credit card businesses. We will also enhance our activities in investments and insurance, extending our product range over time.

Progress in 2014

- Our mortgage balances grew 12% to £21.9 billion, compared with market growth of 1.4%.
- We delivered gross mortgage lending of £5.8 billion, 4% higher than in 2013, giving a full year market share of 2.8%.
- Our gross mortgage lending increased by 35% in the second half of the year, to £3.3 billion, compared with £2.5 billion in the first half, a market share of 3.15% in H2 2014, from 2.5% in H1 2014.
- Our net mortgage lending performance of £2.3 billion in 2014 gave us a market share of 10.2%.
- Our retail savings balances grew 6% to £22.2 billion, a market share of 1.4%.
- We grew credit card balances to £1.1 billion at the end of 2014 compared to £0.8 billion at the end of 2013 following the acquisition of Virgin Money credit card assets from MBNA.

Priorities for 2015

- Maintain annual gross mortgage market share of over 3.0%.
- Continue to grow credit card balances to at least £3.0 billion by the end of 2018.

Our approach to 2015

We plan to continue to achieve a market share of annual gross mortgage lending of over 3%. We will build upon our existing high-quality mortgage business without significantly increasing our risk appetite.

We will also continue to build upon our proven deposit gathering capability, attracting funds from both new and existing customers with straightforward and transparent products.

We will expand our credit card business, extending both its product range and its distribution channels, as we seek to grow our cards book from £1.1 billion to at least £3.0 billion by the end of 2018.

In addition, we plan to grow our non-interest income by extending the range of investment and insurance products that we offer to our customers. We believe that we are particularly well-positioned in the investments market given the regulatory changes introduced through the Retail Distribution Review.

Our current account offering will be extended, although we will carefully control volumes ahead of expected future market changes such as those that might be introduced following the decision of the CMA to refer the PCA market for a full market investigation.

Performance – growth

Delivering our Strategy: Quality

Maintaining a fortress balance sheet

Aim

We will maintain our focus on building a high-quality balance sheet, underpinned by robust asset quality and a conservative risk appetite.

Progress in 2014

- Our fully-loaded Common Equity Tier 1 ratio was 19.0% at the end of 2014, up from 15.5% at the end of 2013.
- Our leverage ratio was 4.1% at the end of 2014 and we plan to a ratio above a floor of 3.75%, a level we believe to be safe and conservative.
- Our mortgage arrears remained low, with loans over three months in arrears at 0.31%, compared with the latest CML industry average of 1.33%.
- Our loan-to-deposit ratio increased to 102.8% from 96.4%, in line with our aims of increasing balance sheet efficiency and funding diversification.
- Our credit card arrears remain below industry average, with 1.46% of balances two or more payments in arrears in 2014, compared with 2.05% in 2013.
- Our cost of risk reduced from 0.15% in 2013 to 0.07% in 2014, reflecting our high-quality asset base.

Priorities for 2015

- Maintain strong capital ratios, with a minimum 12.0% fully-loaded Basel III Common Equity Tier 1 ratio.
- Maintain current asset quality and a low cost of risk through a robust risk management approach.

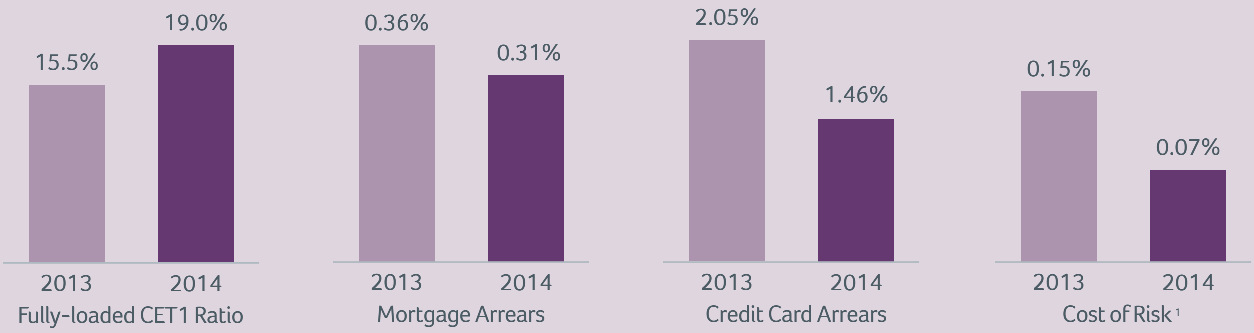
Our approach to 2015

Our focus on maintaining a high-quality balance sheet is supported by our conservative risk appetite and our robust approach to risk management.

Our risk appetite set imposes tight controls on a range of criteria, including, for mortgages, loan-to-value ratios and business mix and, for credit cards, application scores. As a result of the rigorous application of this approach, Virgin Money's credit quality is significantly better than the industry average in mortgages and credit cards.

We will continue to increase our balance sheet efficiency and funding diversification as we continue to fund our targeted scale of asset growth and achieve a loan-to-deposit ratio of above 100% but not significantly greater than 110% over time.

Performance – quality



[1] Calculated as impairments over gross loans and advances to customers. Note that 2014 includes £8.9 million adjustment on a sale of receivables.

Delivering our Strategy: Returns

Delivering a strong financial performance

Aim

We target a mid to high-teens return on tangible equity by the end of 2016.

Progress in 2014

- We delivered significant improvement in returns during the year, in part reflecting asset growth from £24.6 billion at the end of 2013 to £26.5 billion at the end of 2014.
- Our underlying net interest margin was 1.50% during 2014, up from 1.26% during 2013.
- NIM improvements, added to our asset growth, meant that we delivered underlying total income growth of 21% in 2014, compared with underlying expenses growth of 8%. Given our operational leverage we expect to be able to maintain this positive differential between income growth and cost growth in the years to come.
- Our underlying profit before tax increased 127% to £121.2 million in 2014, from £53.4 million in 2013.
- Our underlying return on tangible equity increased to 7.4% in 2014 from 2.3% 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 a result of recording a gain on the sale of a subsidiary of £203.4 million in 2013, as well as one-off costs associated with listing in 2014.
- Our tax charge increased by £18.9 million from £6.4 million to £25.3 million as a result of a one-off payment to HM Treasury, listing costs incurred during the year not being deductible for tax purposes and a prior year tax adjustment.

Priorities for 2015

- Building upon our strong track record of income growth.
- Maintain our focus on cost management which aims for a cost:income ratio of around 50% by 2017.
- Continue to maximise our net interest margin within our prudent risk appetite. This will be supported in the longer term by the growth of our credit card business which we are building in partnership with TSYS.
- Continue to grow our non-interest income by extending our product range through partnership arrangements which are generally less capital intensive and thereby help to drive returns.

Performance – returns

Delivering our Strategy: EBO

Our path to sustainable competitive advantage

Our ambition is to make 'everyone better off'

In 2014, we have delivered strongly to all of our stakeholders, living up to our ambition to make 'everyone better off' (EBO).

The ambition to make 'everyone better off' sits at the heart of our business and underpins the way we go about doing business today, as well as the approach we are taking to creating products and services for the future.

We believe that by building a bank that aims to make 'everyone better off', we can deliver strong, sustainable returns to our shareholders.

EBO is a virtuous circle

EBO helps build **Customer** trust by informing our principles in straightforward and transparent product design. This ensures we provide both new and existing customers with good value products and excellent service that enhances customer retention. This has real economic benefits to the business. Our cost of acquisition is reduced and it encourages personal recommendation from our customers and multi-product holding.

EBO also helps us to recruit and retain fantastic **Colleagues**. It creates the right environment for all colleagues to develop and flourish and, importantly, engages our people beyond financial reward, as our engagement scores indicate.

An important part of Virgin Money's business model and strategy is our contribution to the **Communities** we work in. Virgin Money Giving is Virgin Money's not-for-profit fundraising website, which makes it easy for people to donate money online to charities of their choice. Since its launch, more than £300 million has been raised for charities through Virgin Money Giving. Partnerships with the Virgin Money London Marathon make important contributions to this growth and both perpetuate a virtuous circle based on a commitment to the communities in which we operate and raise awareness of the Virgin Money brand and business as a force for good.

Our EBO philosophy creates real confidence and trust amongst our **Corporate Partners**. Knowing they are working with or investing in a business with EBO at its heart, focused on mutually beneficial outcomes, ensures business goals and plans are fully aligned.

And by delivering to our other stakeholders, we reinforce our ability to deliver to our **Company** and shareholders.

EBO is unique to Virgin Money

The culture that sustains our ambition to make 'everyone better off' cannot be readily, and credibly, replicated in the UK banking sector and it provides the foundation for Virgin Money's strategy and differentiated approach to banking.

The 5 Cs

Company Page 26

Customers Page 36

Colleagues Page 38

Corporate Partners Page 40

Communities Page 44

Delivering to our Stakeholders

Company and shareholders

In November, we welcomed new shareholders to Virgin Money following our successful listing on the London Stock Exchange.

Aims

- We aim to have a broad shareholder register.
- We will deal openly and transparently with all shareholders.
- We will deliver on our Growth, Quality and Returns objectives.

Achievements in 2014

- Virgin Money's shares were admitted to the premium segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange on 18 November 2014.
- The shares were offered at a price of 283 pence per Ordinary Share, implying a market capitalisation at listing of £1.25 billion.
- The offering raised total gross proceeds of approximately £312 million including approximately £150 million of gross proceeds from the issue of new shares. This new capital enhanced our CET1, total capital and leverage ratios and positioned the Group for further growth.
- At the end of 2014, we had 441,933,180 Ordinary Shares in issue.
- Commenced engagement with equity investors and analysts as a result of our listing.

Priorities for 2015

- Continue to broaden our shareholder base.
- Maintain regular and transparent dialogue with shareholders.
- Commence payment of dividends.
- Progressive performance on key Growth, Quality and Returns metrics.

London Stock Exchange

Company and shareholders

Overview by business unit

Virgin Money is an uncomplicated, retail-only bank. It operates exclusively within the UK with the exception of wholesale funding and liquidity management activities which are undertaken both in the UK and limited overseas markets.

To provide a better understanding of our business in this Strategic Report, the Group is broken down into three business units: Mortgages and Savings, Credit Cards, and Current Accounts, Insurance and Investments, all of which are supported by Central Functions which provide support services to each of these businesses.

Where administrative expenses are directly related to the individual business lines, they have been included in the contribution statement for that line. These include marketing, and the cost of our operations and call centres.

It is not the policy of the Group to allocate shared overheads to each of the business lines – these are reported in Central Functions as shown in the table below.

The following items have been excluded from underlying profits: investment in credit card and current account platforms, costs relating to IPO, additional Northern Rock consideration payable to HM Treasury, FSCS levies and other non-recurring items.

2014	**Mortgages and Savings £m**	**Credit Cards £m**	**Current Accounts, Insurance and Investments £m**	**Central functions £m**	**Total £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 losses	**(1.2)**	**(14.6)**	**–**	**–**	**(15.8)**
Underlying profit before tax	**205.6**	**44.9**	**21.2**	**(150.5)**	**121.2**

2013	Mortgages and Savings £m	Credit Cards £m	Current Accounts, Insurance and Investments £m	Central functions £m	Total £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 losses	(2.1)	(26.8)	–	–	(28.9)
Underlying profit before tax	**129.3**	**43.1**	**21.2**	**(140.2)**	**53.4**

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

For a reconciliation of underlying profit before tax to statutory profit before tax, see page 57.

Delivering to our Stakeholders

Company and shareholders

Mortgages and Savings performance

Virgin Money provides mortgages and savings to 1.5 million customers, with mortgages sold primarily through our intermediary partners and savings primarily sold direct to customers through our digital channel.

Our Mortgage and Savings business remains the key profit driver for our business, contributing 67% of total income in 2014.

Mortgage Strategy

In what remains a very competitive market, our approach to mortgages is very straightforward. We offer simple, competitively priced products supported by excellent service, both direct to customers and through our intermediary partners.

Our product development for mortgages is focused on extending our market coverage into stronger yielding sectors, whilst maintaining our risk appetite.

We will continue to strengthen our intermediary proposition to build upon our existing intermediary relationships.

Savings Strategy

We keep our savings products simple and transparent, with no hidden catches. We have avoided 'teaser' products with bonus rates which subsequently fall to sub-market levels and provoke customer churn. Instead we encourage customer retention with enduring, good value offers.

We offer a full range of easy access and fixed term products, with no channel bias, both as ISAs and stand-alone products.

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 9.9% 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

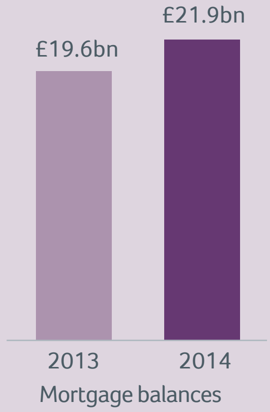
- Our savings book growth was managed across the year and grew by 6% in line with the growth in the retail savings market.
- We took a 1.5% share of inflows across the market and delivered a strong share of ISA new business at 7.6%.
- We grew our balances by £1.2 billion and opened over 220,000 savings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

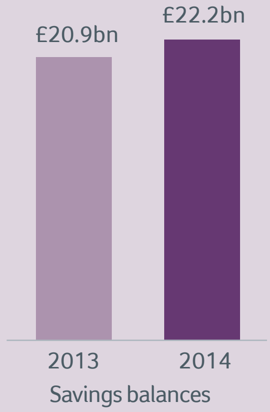
In 2014 we won prestigious awards for service to both customers and our corporate partners

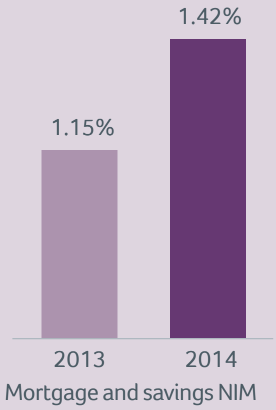
Contribution to total income

£294.1m

Performance in 2014







Performance summary

Mortgages and savings

	2014 £m	2013 £m	Change %
Mortgage balances	**21,887.5**	19,569.5	12%
Savings balances	**22,164.1**	20,932.5	6%
Net interest income	**291.0**	209.0	39%
Other income	**3.1**	1.9	63%
Total income	**294.1**	210.9	39%
Attributable expenses	**(87.3)**	(79.5)	10%
Impairment losses on loans and advances	**(1.2)**	(2.1)	(43)%
Underlying contribution	**205.6**	129.3	59%
NIM	**1.42%**	1.15%	27bps

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

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 from trading improved by 59% reflecting strong asset growth and continued high asset quality, allied with careful pricing, NIM and cost management.

Delivering to our Stakeholders

Company and shareholders

Credit Cards performance

Virgin Money provides credit card products, primarily online, to around 700,000 customers. Our portfolio is a mix of balance transfer and retail credit cards. Our Cards business contributed 23% of total income in 2014.

Strategy

Our credit card business was previously delivered through a successful partnership with MBNA. In 2014 we changed our business model with the transfer of the second and final tranche of credit card balances acquired from MBNA to the Virgin Money balance sheet. Our capability to issue credit cards and manage our portfolio will be fully exploited in 2015.

Building our own credit card capability will allow us to grow the business through simple, transparent products supported by strong risk management and excellent service. We will continue our presence in the balance transfer market and diversify our product range. Our new capability will allow us to respond more quickly and better align our products to our customers' needs. We aim to grow credit card balances to at least £3.0 billion by the end of 2018.

Key developments

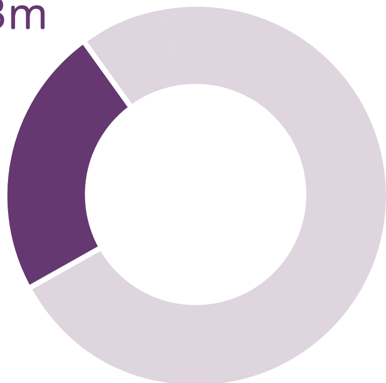
- We were pleased to exceed our expectations of customer retention during 2014. We ended the year with higher total customer balances as a result of completing the acquisition of the second tranche of balances from MBNA and despite being constrained in terms of new business origination due to the terms 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.

Virgin Money Credit Cards

Virgin Money Credit Card Poster

Contribution to total income

£100.3m



Performance summary

Credit cards

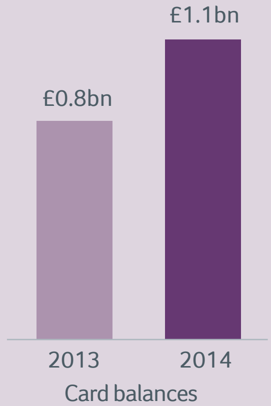
	2014 £m	2013 £m	Change %
Credit Card balances	**1,098.2**	781.6	41%
Net interest income	**75.1**	80.2	(6)%
Other income	**25.2**	28.3	(11)%
Total income	**100.3**	108.5	(8)%
Attributable expenses	**(40.8)**	(38.6)	6%
Impairment on loans and advances	**(14.6)**	(26.8)	(46)%
Underlying contribution	**44.9**	43.1	4%
NIM	**9.60%**	9.14%	46bps

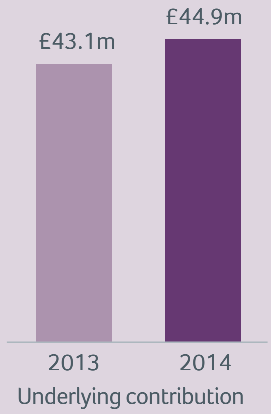
Note: 2013 figures are restated. See note 39 of the financial statements for details.

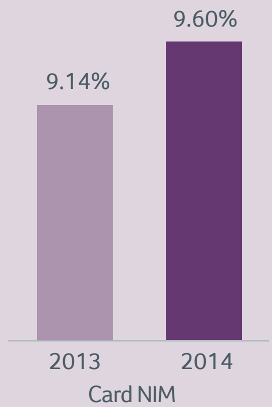
2014 financial highlights

- 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.

Performance in 2014







Delivering to our Stakeholders

Company and shareholders

Current Accounts, Insurance and Investments performance

This division manages and develops our current accounts, insurance, investments and pensions offerings. Virgin Money works with a number of partners to deliver these products.

This part of our business contributed 7% of total income in 2014.

Strategy

We continue to challenge the barriers to entry and anti-competitive nature of the current account market – particularly the free-if-in-credit model and lack of fair access to the payments infrastructure. While these conditions persist, we have limited our participation in the market and continue to build capability in order to be ready to leverage the future opportunity.

Our insurance and investment strategy is based on a partnership model. We seek partners who share our commitment to straightforward and transparent products. We leverage their capabilities with our brand and marketing expertise to access profitable sectors whilst moderating financial risk.

Key developments

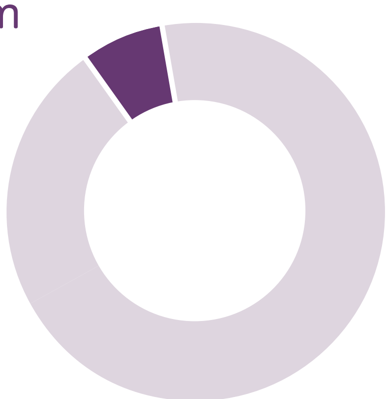
- We launched our Virgin Essential Current Account to customers in Scotland and Northern Ireland in early 2014, following a successful colleague pilot in late 2013. The Virgin Essential Current Account aligns with the Government initiative on Basic Bank Accounts and has been well received by consumers. 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.

Current account card and chequebook

Virgin Money Travel Insurance Advert

Contribution to total income

£32.8m



Performance summary

Current Accounts, Insurance and Investments

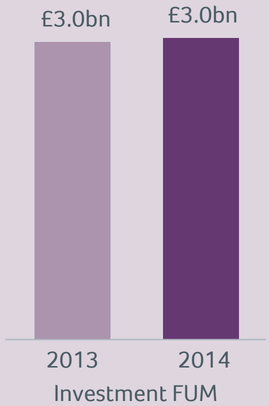
	2014 £m	2013 £m	Change %
Current account balances	**201.6**	188.9	7%
Investments	**29.0**	28.0	4%
Insurance and other	**3.8**	5.4	(30)%
Total income	**32.8**	33.4	(2)%
Attributable expenses	**(11.6)**	(12.2)	(5)%
Impairment losses	**–**	–	–
Underlying contribution	**21.2**	21.2	–

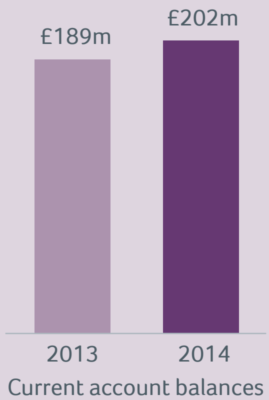
Note: 2013 figures are restated. See note 39 of the financial statements for details.

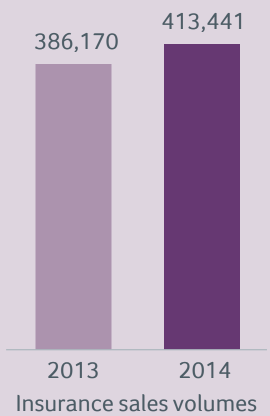
2014 financial highlights

- 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.

Performance in 2014







Delivering to our Stakeholders

Company and shareholders

Central Functions performance

Our central functions provide shared support services to each of Virgin Money's business lines. These services include Information Technology and Property together with central functions such as Risk, Finance, Treasury, Human Resources and the Group's Executive. It is not the policy of the Group to allocate the cost of these shared functions to each business line.

Our divisional view of the business allocates directly attributable costs to the main income lines, with the remainder of overheads in central functions.

This part of our business contributed 3% of total income in 2014.

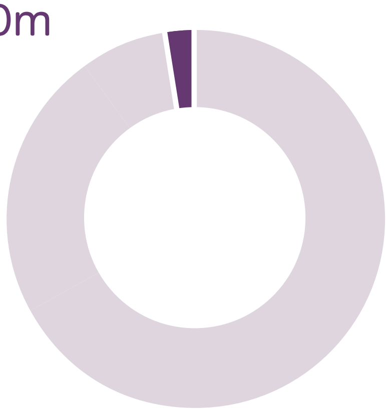
Virgin Money Lounge, Manchester

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.

Contribution to total income

£11.0m



Performance summary

Central function

	2014 £m	2013 £m	Change %
Net interest income	**–**	–	–
Other income	**11.0**	8.7	26%
Total underlying income	**11.0**	8.7	26%
Attributable expenses	**(161.5)**	(148.9)	8%
Impairment	**–**	–	–
Net underlying cost	**(150.5)**	(140.2)	7%

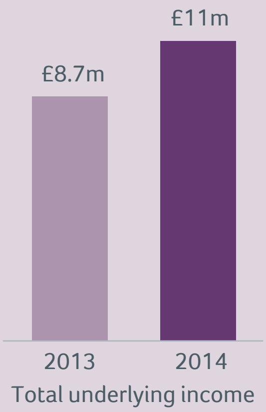
Note: 2013 figures are restated. See note 39 of the financial statements for details.

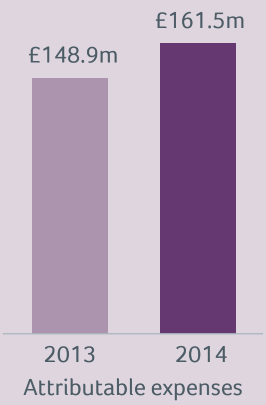
2014 financial highlights

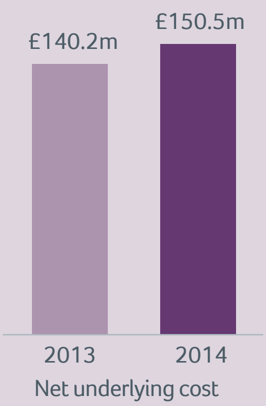
Interest income and expense incurred from Treasury funding and liquidity operations is allocated to the business units.

- 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 costs.
- 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.

Performance in 2014







Delivering to our Stakeholders

Customers

At Virgin Money, we believe in creating a culture where customer service is a priority, and in 2014 our philosophy was rewarded with growth in customer satisfaction and improved customer retention.

Aim

Our aim is to be positively different from the incumbent banks, by offering straightforward products with fair and transparent pricing, supported by the delivery of outstanding customer service, through the channels our customers prefer to use.

Achievements in 2014

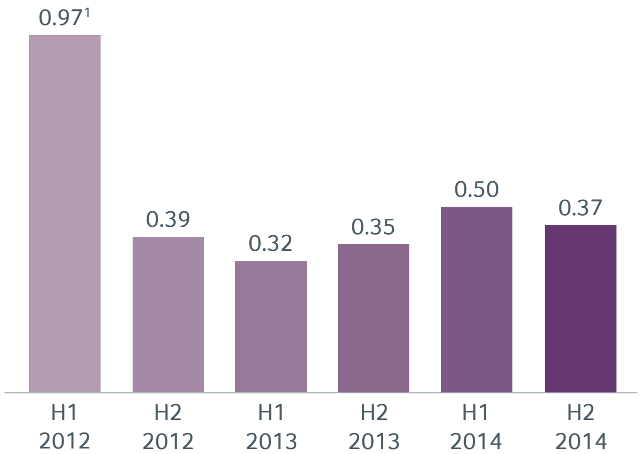
- Improved customer satisfaction and advocacy with an increase to +16 in our overall net promoter score (NPS).
- Opened over 460,000 new customer accounts, demonstrating the ongoing appeal of Virgin Money's proposition.
- Opened new Virgin Money Lounges in the centre of London and in Glasgow.
- Launched a market leading Basic Bank Account, the Virgin Essential Current Account.
- Resolved all complaints within eight weeks, the only major UK bank to do so.

Priorities for 2015

- Continue to invest in building our customer service capability.
- Maintain a culture where customer service is a priority.
- Deliver market-leading customer satisfaction.
- Continue to provide straightforward, transparent products that treat customers fairly.
- Enable customers to access to our products and services wherever they are and through the channel they prefer.

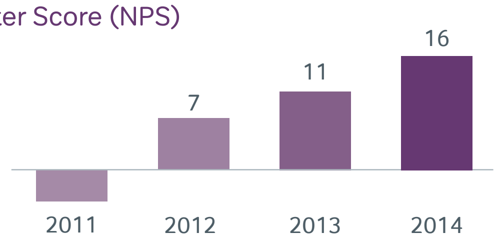
Performance in 2014

Banking complaints per '000 accounts



[1] On 1 January 2012, Virgin Money acquired Northern Rock plc.

Net Promoter Score (NPS)



Customers

In support of delivering high-quality service to customers, Virgin Money operates a digitally-led distribution model supported by Stores, Lounges and Contact Centres. Virgin Money's website is still our most popular channel for customers, with over 16 million website visits during 2014. 73% of Virgin Money's sales and 72% of our service transactions are carried out digitally.

Banking on the go

In 2014 we further improved our digital capability to make it easier for our customers to access Virgin Money services and products using their mobile devices. As a result we now have more than 1.2 million customers using our digital services, including 300,000 customers who accessed services from a mobile device.

We also simplified our telephone banking services during the year, including the introduction of 'web chat' to make it even more convenient for our customers to access help and information quickly.

Investment in the digital channel will continue in 2015 to ensure we continually enhance our customer service and experience.

Lounges

A material symbol of Virgin Money's commitment to delivering differentiated customer service is the network of Virgin Money Stores and Lounges.

Lounges deliver a unique customer experience in UK banking as well as creating valuable opportunities for both customer retention and recommendation.

The Lounges are designed to be places where customers and local communities can come together. They are free to use for customers and offer tea, coffee and snacks as well as newspapers and wi-fi.

New Lounges were opened in London and Glasgow in 2014 and we are planning to open two more in 2015 as a result of the commercial success of our Lounge proposition.

Financial inclusion

Virgin Essential Current Account

As part of our ambition to make 'everyone better off' we commenced the first phase of the rollout of our Virgin Essential Current Account, a market leading basic bank account, which was made available to customers through Virgin Money stores in Scotland and Northern Ireland.

Basic Bank Accounts were designed to give all people access to a current account. As a minimum, they must be free of charge, allow salary or benefits to be paid in and bill payments out, and allow withdrawals at convenient access points, including ATMs and the Post Office.

A new standard

The Virgin Essential Current Account sets a new standard for Basic Bank Accounts with no unpaid item fees and credit interest of 1% A.E.R. It is a free basic bank account designed to help our customers stay in control of their money. It has all the features of a current account but no overdraft facility or chequebook as required by the Basic Bank Account agreement. A full national rollout will complete in 2015.

Delivering to our Stakeholders

Colleagues

Throughout 2014 we have continued to build on the foundations set in 2013 to develop and engage all of our colleagues in building a better kind of bank.

Aim

Our ambition is to create an environment where our colleagues can choose to build lifelong careers with Virgin Money, in the knowledge that lower turnover and higher colleague engagement will improve our operational and financial effectiveness, making 'everyone better off'.

Achievements in 2014

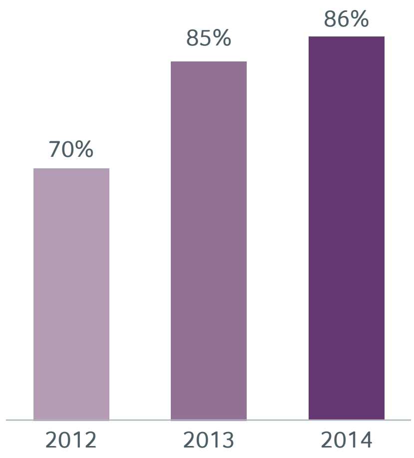
- Created a further 200 jobs to support business growth, with over 140 positions already filled at the end of 2014.
- Increased colleague engagement to 86%, the level of a large high-performing UK company.
- Increased the percentage of women on our Board to 30%.
- Accredited as a 'two tick', 'Positive about Disability' employer.
- Maintained our customer-focused approach to performance and remuneration outcomes.
- Continued investment in our Colleagues' development with 4,662 training days delivered, including our key management programme 'Me as a Manager'.

Priorities for 2015

- Maintain a culture where customer service is a priority.
- Continue to create the right environment for colleagues to flourish.
- Continue to invest in colleagues' training and development to enhance their performance and further improve retention.
- Ensure all colleagues have the support they need to achieve their potential and to deliver effectively to the needs of our customers.
- Nurture the next generation of management and leaders to deliver our strategy of growth, quality and returns.

Performance in 2014

Colleague engagement score



Engaging colleagues with our EBO values

Embedding our values

Our success in building an environment that allows colleagues to flourish is reflected in the results from our independent Colleague Engagement Survey. The survey in 2014 measured engagement at 86%, with 99% of colleagues wanting to do the best job they can. This level of engagement benchmarks strongly against industry standards.

Colleague survey

Our colleagues are feeling increasingly engaged, resulting in a memorable experience for customers. Our internal survey showed that:

- 97% of colleagues believe that Virgin Money always strives to treat customers fairly; and
- 97% of colleagues believe Virgin Money cares about its customers.

Building a diverse, inclusive business with our colleagues

Diversity and inclusion

Diversity and inclusion information is captured as part of the annual colleague survey and we have added an inclusivity index which enables us to measure how inclusive we are as an employer. A Diversity and Inclusion Council, compromising of senior leaders from across the company, has been established to ensure that our approach to diversity and inclusion is aligned to our business goals.

Colleagues

Commitment to gender equality

We have developed and agreed a Board Diversity and Inclusion Policy which sets out a commitment to gender representation on the Board being no less than 25% female, which we have achieved. Gender demographics are set out in the table below:

	Gender	**2014 Number**	**2014 %**	2013 %
Board	Male	**7**	**70%**	78%
	Female	**3**	**30%**	22%
Senior management	Male	**108**	**77%**	75%
	Female	**33**	**23%**	25%
All colleagues	Male	**1,340**	**45%**	44%
	Female	**1,644**	**55%**	56%

Our diversity networks

We are supported with our diversity agenda through the Employer Network for Equality and Inclusion and through our membership of Outstanding, a Lesbian, Gay, Bisexual and Transgender (LGBT) business network, which promotes LGBT interests in business.

Supporting disabled colleagues

In 2014 we were successfully accredited as a 'two tick', 'Positive about Disability' employer which is awarded to employers who have made commitments to develop the skills of disabled employees.

Parents and carers

Following the recent introduction of the Shared Parental Leave legislation, statutory payments will be provided to ensure pay equality for parents.

Empowering colleagues and developing future leaders

Our development agenda in 2014 has supported business growth and the capability of our People Managers, including:

- 4,662 days of training to the business including product training to support the launch of our Virgin Essential Current Account and Credit Card offerings, in addition to meeting MMR regulatory requirements;
- key investment through the delivery of 'Me as a Manager', a six month programme of development for 435 line managers across the business; and
- embedding our new 'Learning Lounge Online', providing colleagues with access to tailored e-learning and role specific offerings.

Supporting colleague wellbeing, health and safety

Colleagues who are healthy, happy and safe at work, with access to support when facing financial, physical or emotional issues, generally perform their best.

Wellbeing

We work closely with AXA PPP healthcare and other partners to promote and enable colleagues' general health and wellbeing.

Health and safety in the workplace

We have policies and standards in place to help colleagues work safely and responsibly at all times. Health and safety training is mandatory for all colleagues and we complete regular audits, inspections and maintenance programmes to help improve safety standards.

Rewarding and motivating colleagues

Our remuneration approach aims to reward colleagues fairly and responsibly, based on both their performance and behaviours.

Listing on the London Stock Exchange in November 2014 was an opportunity to further align the interests of colleagues with those of our shareholders. On listing, colleagues were each granted a share award with a market value of £1,000, due to vest one year post-listing. In addition, a share award issued in 2013 to recognise progress achieved in financial year 2012, vested upon listing. The majority of colleagues chose to retain the vested shares, continuing their engagement in the future of the Company.

The overall approach to remuneration has been revised in light of listing and is set out in the Directors' Remuneration Report (refer to pages 117-144).

Human Rights

Our ambition to make 'everyone better off' embodies our commitment to human rights, ethical business practices and good corporate citizenship. Our company values and commitments are designed to have a positive effect on all of our stakeholders not least colleagues.

Delivering to our Stakeholders

Corporate Partners

We look to partner with businesses that genuinely understand and share our philosophy of making 'everyone better off'.

Aim

We aim to maintain our strong track record in managing mutually beneficial relationships with corporate partners in order to complement our own business and core banking capabilities, with our partners' technical product expertise and infrastructure.

Achievements in 2014

- Worked with over 13,000 Intermediary Partners to grow our mortgage business.
- Won the coveted Five Star Financial Adviser award for intermediary service.
- Implemented changes required by the Mortgage Market Review without any disruption to our service.
- Partnered with TSYS to build our own credit card platform.
- Developed our life insurance capabilities through a partnership with Friends Life.
- Developed our general insurance capabilities through a partnership with Ageas.
- Partnered with Monitise to provide Virgin Money with enhanced digital capability.

Priorities for 2015

- Nurture and grow key relationships with our network of professional mortgage intermediary partners.
- Continually improve the service we provide to our mortgage intermediary partners.
- Develop and grow our credit card business on our own platform with TSYS.
- Develop further our partnership with IFDS in administering a new range of investment funds to grow our non-interest income.
- Launch simple and transparent life insurance and general insurance products through Friends Life and Ageas to grow our non-interest income.
- Continue to develop our digital capability through our partnership with Monitise.

Performance in 2014

- We delivered growth of our 'Primary Intermediary Partners' segment of nearly 75% in 2014. Our 'Primary Intermediary Partners' are defined as brokers who have submitted an application to us for five or more months in the previous 12 months.
- In 2015 we will look to deploy new strategies to ensure we maintain and develop our 'Primary Intermediary Partner' relationships to encourage further growth in this area.

"2014 saw the most significant changes to mortgage regulations for a decade, with the introduction of new rules under the banner of the Mortgage Market Review. This placed enormous pressures on lenders to change a multitude of procedures and processes. Of the 25 lenders Openwork deals with, Virgin Money stood out as one of very few who managed the transition to the new rules smoothly. As a result Virgin Money outperformed our wider lender panel, growing by in excess of 30% during the year. Given the strength of Virgin Money's proposition and the quality of their relationships with Openwork's 1,500 mortgage brokers, I expect 2015 will see our partnership continue to prosper."

Paul Shearman,
Director of Mortgage and Protection Proposition at Openwork

"I am delighted that we are building a long-term strategic relationship with one of the UK's most admired brands. Virgin Money is a progressive and customer-focused business and our combined values and expertise are entirely complementary. We are excited by this new opportunity particularly as it underlines Ageas' ambition to grow our partnerships business. We can't wait to get started."

Ant Middle,
Managing Director,
Partnerships at Ageas

Corporate Partners

Mortgage Intermediary Partners

During 2014, we maintained our strong reputation for customer service and continued to invest in improving the service we provide to our Intermediary Partners.

During the year we worked with our Intermediary Partners to implement the changes required by the Mortgage Market Review and we were delighted to make these changes without any disruption to our service.

In support of our operations teams, we have a network of Business Development Managers (BDMs), operating both over the telephone and in the field. Our BDMs are responsible for growing existing successful relationships and for establishing new ones to support our plans for lending growth.

Our success in supporting our Intermediary Partners during 2014 was recognised by winning Best National Bank at the Mortgage Finance Gazette Awards, the Five Star Service Award from FT Adviser, the Five Star Online Service Award from FT Adviser online and Best Business Development Manager at the British Mortgage Awards 2014.

Strategic Corporate Partners

In addition to relationships with Mortgage Intermediary Partners, we operate strategic partnerships that enable us to combine the Virgin Money philosophy, brand and core banking capabilities with partners' technical product expertise and infrastructure. This is particularly relevant when it is more efficient for us to do so than to build our own infrastructure. Examples of such partners are State Street and IFDS, who support Virgin Money's Investments and Pensions business.

Credit Card partner

An important development in 2014 has been the successful establishment of our own in-house credit card business in conjunction with TSYS, a leading provider of payments platforms. The partnership with TSYS has enabled us to build a scalable, low-cost, and flexible credit card platform.

The combination of the Virgin Money brand and our in-house analytical capabilities, together with the scalability of the TSYS platform, provide both the volume capacity and the product type capability to grow this business significantly.

We plan to grow our credit card business to a book of at least £3.0 billion by the end of 2018 through this important partnership.

Digital Partner

During 2014 we agreed a contract with Monitise to provide Virgin Money with enhanced digital capability. The Monitise Mobile Money network connects many organisations, including those from banking, payments, mobile and other sectors, to consumers via its Bank Anywhere, Pay Anyone and Buy Anything product suite. Mobile is an important banking channel and the partnership with Monitise, and its network of partners, will support Virgin Money's growth ambitions.

Friends Life

Friends Life are one of the most established Life and Protection brands in the UK, with over 200 years of heritage. They currently protect over five million customers and have nearly 4,000 employees around the world.

In 2014, the development of new life and critical illness propositions was completed and these new products will be launched in 2015. Friends Life will support Virgin Money by providing underwriting, sales, service and claims management support, complementing Virgin Money's distribution capabilities.

Ageas

Ageas is a leading provider of award-winning Personal, Commercial and Protection insurance solutions in the UK. Insuring around nine million customers and working with a range of partners, Ageas is recognised for delivering a consistent and high-quality customer experience. They employ around 6,000 people with offices based across the UK.

Ageas will support Virgin Money by providing sales, servicing, administration and claims management support. Home Insurance products will be solely underwritten by Ageas Insurance Limited (AIL) and Motor Insurance will be underwritten by a selected panel of insurers managed by AIL.

Delivering to our Stakeholders

Corporate Partners

We can't succeed without the trust and support of all our external stakeholders who include government, regulators and ratings agencies.

Aim

At Virgin Money we are committed to working responsibly and acting professionally with all of our external stakeholders.

Achievements in 2014

Our engagement with regulatory consultations and investigations included:

- supporting the CMA investigation of PCA and SME;
- supporting the FPC recommendations on leverage;
- supporting the FCA consultation on the regulation of payment systems; and
- reinforcing our viewpoint on matters relating to the Current Account Switching Service and ring-fencing with HM Treasury and regulators.

In addition we were upgraded by Fitch from BBB to BBB+ in January 2014, the first Fitch upgrade of a UK retail bank since 2010.

Priorities for 2015

- Maintain strong, open relationships with all of our regulatory bodies.
- Engage fully with the CMA Retail Banking Market Investigation.
- Continue to work with government agencies, the Banking Standards Review Body and other relevant organisations in the efforts to improve standards in the banking sector.
- Continue to engage with rating agencies to ensure they are well briefed on our strategic and financial performance.

Government and regulators

We engage regularly with UK government agencies and other bodies to assist in the formulation of public policy around consumer issues, competition in banking, financial inclusion and financial education.

Our vision for Virgin Money is to become a full-service retail bank that is able to compete effectively on a level playing field with the large incumbent banks. However, we believe that a level playing field does not currently exist. We strongly supported the CMA's decision to make a Market Investigation Reference, which we believe is necessary if we are to create a more competitive personal current account market that better serves the needs of consumers. We will continue to engage with the CMA's Market Investigation Reference in 2015.

Our continued focus on delivering on our promises and our conservative approach to financial and risk management has resulted in strong and progressive regulatory relationships. We will continue our approach of openness and transparency with our regulators in 2015.

Rating agencies

Rating agency feedback is an important consideration when formulating our ongoing strategy. We manage these relationships through regular interaction with Fitch and Moody's, the rating agencies.

Virgin Money Lounge, London

Delivering to our Stakeholders

Communities

At Virgin Money we believe there is a vital link between our business and the communities we work in.

Aim

As part of our quest to make banking better we are committed to supporting the communities in which we operate, to help them flourish, both socially and economically. We have a wide programme of activity, designed to help the communities we serve, and make everyone better off.

Achievements in 2014

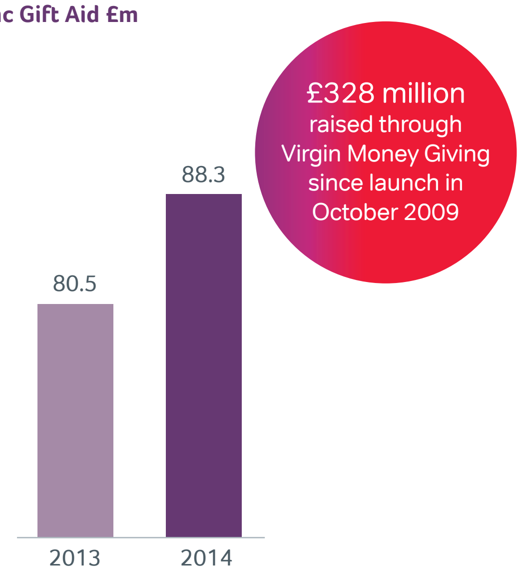
- £88.3 million, including Gift Aid, was donated to charities through Virgin Money Giving, our not-for-profit online donation service.
- The amount raised for charity in the first five years of our sponsorship of the London Marathon reached £261.4 million including Gift Aid.
- The official charity of the 2014 Virgin Money London Marathon, Anthony Nolan, raised more than £1.4 million through its partnership with Virgin Money, £144,000 of which was raised by Virgin Money colleagues.
- £203,000 was raised by Virgin Money colleagues for Cancer Research UK, the official charity of the 2015 Virgin Money London Marathon.
- Over 165 schools and more than 8,000 young people participated in our Make £5 Grow programme.
- We partnered with Young Enterprise to launch the Fiver Challenge and over 31,000 young people aged five to 11 years registered to participate.
- Virgin Money colleagues volunteered 1,200 days to good causes.

Priorities for 2015

- Continue to invest in Virgin Money Giving to increase online giving in the UK.
- Launch the Virgin Money Foundation in the North East of England.
- Meet our fundraising target for our corporate charity and official charity of the 2015 Virgin Money London Marathon, Cancer Research UK.
- Continue to invest in education, employability and enterprise in our local communities.
- Support colleague engagement in their local communities.

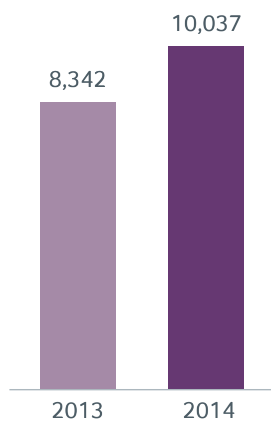
Performance in 2014

Total Virgin Money Giving Donations inc Gift Aid £m



Note: By the end of 2014, £328 million, including Gift Aid, had been donated through Virgin Money Giving since its launch in October 2009. This figure includes Gift Aid claimed on donations, 100% of which was passed on to Virgin Money Giving's charity partners.

Charities registered with Virgin Money Giving



Note: More than 1,600 new charities registered with Virgin Money Giving during 2014, taking the total number of charity partners to over 10,000.

Communities

Our community programme covers four key areas:

- fundraising;
- investing in education, employability and enterprise;
- supporting local communities; and
- supporting colleague engagement in their local communities.

Fundraising

Virgin Money Giving

In 2009, we launched Virgin Money Giving, our not-for-profit online donation service. Its ambition was simple – to help people raise more money for charity. Since its launch, £328 million has been raised for charities through Virgin Money Giving. More than 10,000 charities have registered with Virgin Money Giving and it is estimated that an extra £10.0 million has been raised for charities because of Virgin Money Giving's not-for-profit model.

The Virgin Money London Marathon

The Virgin Money London Marathon is the largest, one-day, annual fundraising event in the world. Over 35,000 runners, 700,000 spectators and a TV audience of millions help raise over £50.0 million for charity each year. In 2014, the event raised a record-breaking £53.2 million for good causes, with over £18.0 million of that raised through Virgin Money Giving.

When Virgin Money was announced as the title sponsor of the London Marathon in 2010, our ambition was to reach a charity fundraising target of £250 million in the first five years. In 2014 this figure was surpassed with the total raised for charity now standing at £261.4 million.

Charity of the year

Chosen by colleagues, our Charity of the Year for 2013/2014 and the official charity of the 2014 Virgin Money London Marathon was Anthony Nolan the blood cancer charity. Our Charity of the Year for 2014/2015 and the official charity of the 2015 Virgin Money London Marathon is Cancer Research UK. Anthony Nolan raised over £1.4 million through its partnership with Virgin Money, enabling it to recruit more than 10,000 new donors to its stem cell register. By the end of 2014, Virgin Money colleagues had raised more than £200,000 for Cancer Research UK.

Investing in education, employability and enterprise

Make £5 grow

Make £5 Grow is Virgin Money's enterprise education programme which aims to give young people aged between nine and 11 years old the experience of starting a small business using a £5 loan from Virgin Money. Now in its third year, Make £5 Grow is a curriculum approved programme, which gives pupils an insight into how business works and helps them to build skills for the future. In 2014, over 165 schools and over 8,000 pupils participated, taking the total number of participants in the programme since its launch to more than 12,000.

Virgin Money colleagues act as Ambassadors, working with each participating school. Since its launch, every single £5 loan has been repaid in full and £33,000 profit has been made by the participating schools.

Fiver Challenge

To complement the Make £5 Grow programme, in 2014 we partnered with Young Enterprise to launch the new government-backed 'Fiver Challenge' – a national competition for primary schools aimed at introducing the world of enterprise to young people. Young people across the UK, aged five to 11, are provided with a pledge of £5 to set up small businesses or create products and services they can sell or deliver at a profit. Almost 450 schools and over 31,000 pupils registered to participate in the programme in 2014.

> "We'd like to say a huge thank you to everyone at Virgin Money who have been so supportive of Anthony Nolan over the last year and more. We're delighted to say that together we have raised over £1.4 million. Over £144,000 of this total was raised by Virgin Money staff which is an increase of almost 60% on the previous year. This phenomenal amount will enable us to recruit more than 10,000 new donors to our register and save the lives of people with blood cancer now and into the future."
>
> **Henny Braund, Chief Executive Officer, Anthony Nolan**

Delivering to our Stakeholders

Communities

Supporting local communities

Virgin Money Foundation

In December 2014, Virgin Money announced the launch of the Virgin Money Foundation – a new charitable foundation that will invest in projects which will benefit the communities in which Virgin Money operates. The Government confirmed that it would make a donation of £4 million to the Virgin Money Foundation to support charitable projects in the North East of England.

This Government funding complements the £1.0 million that Virgin Money will invest in community projects in the North East of England in 2015. This will include an investment of £850,000 to help create the first Youth Zone in the North East, giving young people aged 8 to 19 a place to socialise, be creative and inspire one another in their free time.

Community Foundation

Virgin Money has extended its longstanding relationship with the Community Foundation by creating a new fund which will help young people in Tyne and Wear and Northumberland to achieve more by overcoming barriers such as homelessness, mental health issues and low educational attainment.

The Edinburgh International Festival Fireworks and Fringe

Virgin Money is proud to support the Edinburgh Festival Fringe, the largest arts festival in the world. We sponsor the Fringe street events which take place on the Royal Mile and The Mound, enabling many thousands of visitors from Edinburgh and across the globe to enjoy hundreds of free shows.

Virgin Money is also the principal sponsor of the Fireworks Concert, which is performed by The Scottish Chamber Orchestra and brings the Edinburgh International Festival to a spectacular close. The 2014 Fireworks Concert was watched by 250,000 spectators.

Virgin Money Cyclone

The four-day Virgin Money Cyclone is the North East's premier cycling event and one of the biggest cycling festivals in the UK. Its aim is to encourage as many people as possible to try cycling and, in the process, raise money for charity. As well as there being plenty of rides for inexperienced cyclists to enjoy, some of the best cyclists in the world take part in the festival. In 2014 over 3,700 cyclists took part in the event, and since its inception in 2007, over £1.0 million has been raised for charity.

Supporting colleague engagement in their local communities

Virgin Money actively encourages colleagues to support their local communities, as well as local and national charities. In 2014, 39% of Virgin Money colleagues volunteered their time for the benefit of others with efforts ranging from manning our contact centre for Sport Relief in March and Stand up to Cancer in October, to delivering Christmas presents donated by Virgin Money colleagues. In total, Virgin Money colleagues volunteered 1,200 days to good causes in 2014.

In addition, Virgin Money's nationwide network of Stores and Lounges held more than 80 charity events in 2014.

Business in the Community

Virgin Money is a member and an engaged supporter of Business in the Community and Scottish Business in the Community (SBC).Virgin Money's Chief Executive, Jayne-Anne Gadhia, is Chair of SBC and a Board Director of Business in the Community.

"Enterprise education is about more than teaching children to be entrepreneurs. It is about encouraging them to develop qualities, skills and a positive outlook that will benefit them in life.

The Fiver Challenge shows that primary school children can be introduced to enterprise education and enjoy the challenge of setting up mini-businesses."

The Rt Hon the Lord Young of Graffham CH DL Adviser to the Prime Minister on Enterprise (2011 to March 2015)

Environment

We recognise that sound business management is inextricably linked to sound environmental management. At Virgin Money we are committed to minimising the impact our activities have on the broader environment.

Aim

We will, by measuring, monitoring and controlling consumption aim to protect the environment by conducting our business in a sustainable, ethical and responsible way. We will make a real contribution towards the drive for a low carbon, more resource efficient economy as part of our ambition to make 'everyone better off'.

Achievements in 2014

- Completed a programme to install Automated Meter Reading meters for gas and electricity across all directly managed Virgin Money properties. This drives automated billing and feeds an energy management system which allows us to monitor consumption on a daily basis.
- Recycled 100% of all confidential waste.
- Secured 100% renewable energy for electricity contracts within our direct control.
- Engaged with external bodies including the Major Energy Users Council and Energy Savings Trust to broaden our influence and to help develop our strategic proposals.

Priorities for 2015

- Refresh our Environmental Policy and confirm long-term targets.
- Develop a compliance programme for the new Energy Saving Opportunities Scheme legislation.
- Raise awareness and profile of environmental initiatives across the organisation, including direct colleague involvement in environmental programmes.
- Work with key suppliers to promote sustainability, reduce environmental impact and enhance reporting capability.

Managing our carbon emissions

During 2014 we have continued our journey towards building a better bank and we are reporting comprehensive data on Greenhouse Gas Emissions for the first time. We are working towards establishing comprehensive data for a number of areas of environmental performance and will use data from 2014 as the baseline for ongoing measurement and comparison. Please refer to page 80 in the Director's report for the full disclosure of our Greenhouse Gas Emissions.

Use of resources

2014		
Energy	Stated in Gwh	18.5
Stationery	% from environmentally sustainable sources	45
Travel	Total miles travelled	6.5m
Waste	Tonnes produced % waste produced sent to landfill	400.5 4%
Water	Cubic metres per FTE	16.5

Energy – figure contains all data for suppliers under our control and estimates for service charge consumption (six sites).

Stationery – relates to purchases through approved supplier.

Travel – data from corporate travel provider excluding taxi travel.

Water – water consumption is for metered sites only.

Our supply chain

In 2014 we worked with key suppliers to ensure products and services used in our business are environmentally sound and that any waste is minimised. This has included a review with cleaning and catering suppliers to reduce the number of products containing Palm Oil. We want to ensure that we build lasting relationships with companies who share our passion for protecting the environment. To achieve this we have reviewed the way in which we engage small to medium enterprises within our supply chain to maximise our support for growing enterprises with sound environmental values.

Risk Overview

Strong risk management and governance

Effective risk management is fundamental for any bank and a core part of our strategy. Virgin Money is a strong and uncomplicated retail-only UK bank with a risk culture based on a prudent risk appetite.

Our approach to risk is delivered through an effective risk management framework and strong risk management culture. This drives how our employees approach their work and guides decision-making. The amount and type of risk that we target and tolerate (our 'risk appetite') is fully integrated into our strategy and is approved by the Board.

Risk as an enabler of growth, quality and returns

Our business strategy is focused on creating a business that can continue to grow strongly, maintain a high-quality balance sheet and deliver attractive shareholder returns through our EBO philosophy. This, along with our risk appetite, supports the delivery of a sustainable business model and achieves an appropriate balance of risk and reward.

Risks are identified, managed and mitigated using our Risk Management Framework (see page 153). The principal risks which could impact the delivery of our strategy are discussed on page 154.

Commitment to balance sheet strength

Importance is placed on maintaining a well capitalised business with a strong liquidity position. Our approach supports stable balance sheet growth, our credit rating, and Basel III requirements. The business plan is designed to meet the UK Variant, severe idiosyncratic stresses, liquidity stress tests and internal sensitivities, while exceeding regulatory requirements.

Funding and liquidity management

Loan origination only grows in line with available funding. As such, our focus is on matching consolidated asset and liability positions rigorously and within Board approved limits. The funding plan is retail deposit-led with appropriate diversification into wholesale funding. Virgin Money funds before it lends, and its minimum level of High Quality Liquid Assets is defined by an Internal Liquidity Requirement.

Delivering asset quality

Virgin Money maintains high quality mortgage, cards and wholesale portfolios. We continue to deliver strong asset quality with growth of the mortgage book. We have built our cards infrastructure to replicate the strong asset quality previously achieved through our partnership arrangement with MBNA. 96% of our wholesale asset portfolio is AA+ or above.

Market risk management

A centralised Group Treasury function ensures full measurement, management and control of liquidity and interest rate risks, hedging all key exposures. Virgin Money does not operate a trading book and has very limited appetite for market risk.

Risk decision-making

Risk supports the business in delivering sustainable growth through risk decision-making, aided by a consistent risk culture throughout the business. Virgin Money has an integrated approach to business planning using a prudent macroeconomic forecast. This, combined with achievable market share and growth assumptions, ensures realistic growth targets. There is strong alignment on risk appetite between commercial functions and the Finance, Treasury and Risk teams. Business plans are designed to generate a balanced and stable mix of fee and interest income.

Robust risk management framework

Our framework allows for full engagement with senior management and the Board in developing risk appetite. This ensures that the business operates within approved risk appetite and limits.

Monitoring against risk appetite

Risk analysis, management and reporting allow for opportunities as well as risks to be identified and ensure risks are managed in line with Virgin Money's strategy. Virgin Money's principal risks and performance are monitored and reported against risk appetite regularly and are subject to appropriate stress testing. This allows for the risk at both an individual risk type and aggregate portfolio level to be assessed.

Risk culture

Our approach encourages the business areas to remain accountable for risk. A strong and independent Risk Function also helps ensure adherence to the Group's risk management framework.

Virgin Money is committed to cultivating a consistent risk culture throughout the business to support transparency and trust. Virgin Money's risk culture is founded on a clear articulation of risk appetite, an effective governance structure and risk management framework, committed leadership, rapid escalation of threats or concerns and the sharing of information across the organisation.

Achievements in 2014

IPO and capital position

Our successful listing in November 2014 provides access to the capital markets which improves our ability to raise capital for future growth. We are well positioned for the implementation of the leverage ratio on 1 January 2018 with a 2014 ratio of 4.1%. Our CET1 capital position was 19% on 31 December 2014, including £150 million raised at listing.

Impairments and asset quality

- Controlled growth in our mortgage business has been achieved whilst maintaining strong asset quality (0.3% reduction in impaired assets as a proportion of loans and advances) and improving margin.
- We have successfully completed the credit card infrastructure build and as a result significantly reduced execution risk. We have maintained our card book size and asset quality (0.9% reduction in impaired loans as a proportion of loans and advances).
- Impairment provisions have remained prudent with provisions as a proportion of impaired loans increasing from 25.1% in 2013 to 29.5% in 2014.

Loan-to-deposit ratio

Our funding position remains strong. The loan-to-deposit ratio of 102.8% at 31 December 2014 compared with 96.4% at 31 December 2013. We continue to improve balance sheet efficiency and diversity in wholesale funding through our successful Gosforth Funding Residential Mortgage Backed Securities (RMBS) programme.

Regulatory change

Changes to lending policy as a result of the Mortgage Market Review were adopted in December 2013, in advance of the rules coming into effect in April 2014. Capital Requirements Directive (CRD IV) changes have been fully incorporated into the disclosures as at January 2014. FCA Consumer Credit Sourcebook (CONC) requirements have been assessed with interim permissions being granted by the FCA in April 2014.

Credit ratings

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 re-affirmed in November 2014.

Complaints

Complaints have remained market-leading despite book growth at 1.77 per 1,000 accounts, compared with 1.51 in 2013. We continue to compare favourably in industry complaints data published by the FCA, demonstrating our commitment to customer service.

Priorities for 2015

Stable balance sheet growth

We will continue our focus on asset quality and balance sheet efficiency.

Credit card migration

During 2015 we will complete the migration of almost 700,000 customer records onto our newly built credit card infrastructure, completing our programme to transfer our cards business from MBNA. This introduces material execution risk that our experienced programme team have developed approaches to mitigate.

Customer

We will maintain and strengthen our EBO culture which puts customers at the heart of our business and ensures we always treat customers fairly.

Investment in infrastructure

We recognise the pace of change in the external threat environment and as such will continue to focus on development of capability to protect against cybercrime and invest in risk systems and frameworks to enable the further development of our digital offering.

Regulatory change

2015 will be another year in which delivery of regulatory change programmes will be a core focus, including:

- Basel III: These standards aim to strengthen regulation, supervision and risk management in the banking sector. Virgin Money will continue to respond to new guidance and technical standards as they are published;
- Bank Recovery and Resolution Directive (BRRD): The Prudential Regulation Authority has proposed changes to its rules to implement the EU BRRD with full compliance required by January 2016;
- Ring-fencing: The Financial Services (Banking Reform) Act 2013 aims to separate core banking services critical to individuals and SMEs from wholesale and investment banking services. Virgin Money anticipates being a fully ring-fenced bank by the 2019 implementation date and is preparing for this change; and
- The Mortgage Credit Directive (MCD): The MCD aims to create an EU-wide mortgage credit market with a high level of consumer protection. This includes new requirements for disclosure, foreign currency loans, training and competence, binding offers, APRs and cooling-off periods to be in force from March 2016.

Risk Overview

Risk Governance

Board
Chair: Sir David Clementi

Board Committees[1]

Balance Sheet Committee	Risk Committee	Audit Committee	Remuneration Committee
Chair: Norman McLuskie (Non-Executive Director)	**Chair: Colin Keogh** (Non-Executive Director)	**Chair: Norman McLuskie** (Non-Executive Director)	**Chair: Olivia Dickson** (Non-Executive Director)

Executive Committees

Risk Management Committee	Asset and Liability Committee
Chair: Chief Risk Officer	**Chair: Chief Financial Officer**
Identifies and recommends risk appetite, manages risk within agreed limits, monitors key risk exposures, in relation to risk strategy recommends the approach to managing all types of risk.	Responsible for management and monitoring of liquidity, funding, capital, asset and liability management within agreed risk appetite and policy.

Risk Management Committee Sub-Committees

Prudential Steering Committee	Operational Risk, Conduct Risk and Compliance Committee	Credit Risk Committee	Treasury Risk Committee	Enterprise Risk Framework Committee

Virgin Money manages risk strategy and risk appetite in tandem with overall strategy through the use of a comprehensive risk management framework tailored for each key risk class. The Group builds a detailed map of the risks that could affect the business both today and in the future, allowing a comprehensive and consistent approach across all business areas.

Governance is maintained through delegation of authority from the Board, down through the management hierarchy, with underlying committees designed to ensure that risk appetite, policies, procedures, controls and reporting are fully aligned with regulations and good industry practice.

The Board approved risk appetite incorporates the Board's tolerance for risk in pursuit of achieving strategic objectives. Executive Committees manage the business within the defined risk appetite and limits which measure the most significant risk performance metrics through detailed risk and performance management information.

The Group uses a 'Three Lines of Defence' model which defines clear responsibilities and accountabilities and ensures effective independent assurance activities take place covering key decisions.

- Line management (first line) have primary responsibility for risk decisions, measuring, monitoring and controlling risks within their areas of accountability. They are required to establish effective controls in line with policy statements, to maintain appropriate risk management skills, practices and tools, and to act within risk appetite parameters set and approved by the Board.
- Risk, HR, Finance and Legal (second line) are central functions providing oversight and independent challenge to the effectiveness of risk decisions taken by line management, providing advice and guidance. They review, challenge and report on the risk profile of the Group and ensure that mitigating actions are appropriate.
- Internal Audit (third line) provides independent, objective assurance to add value and improve operations. It helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

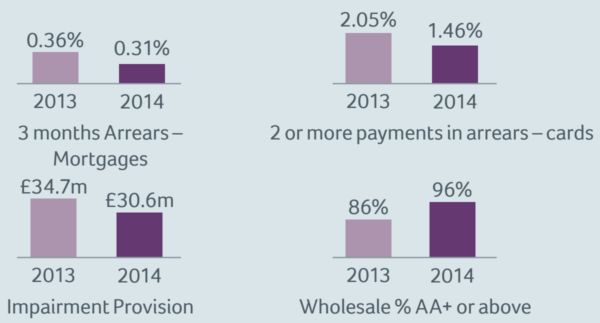
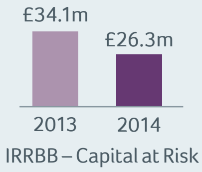
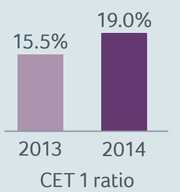
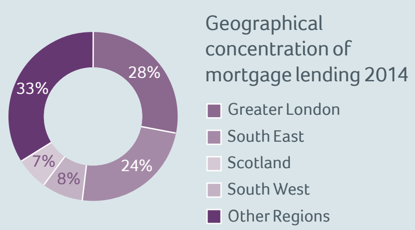
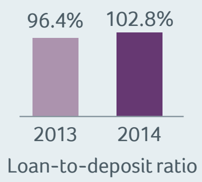
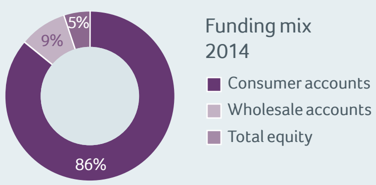
1 Additional Board Committees comprise Nomination Committee and Strategy Committee.

Virgin Money London Marathon 2014

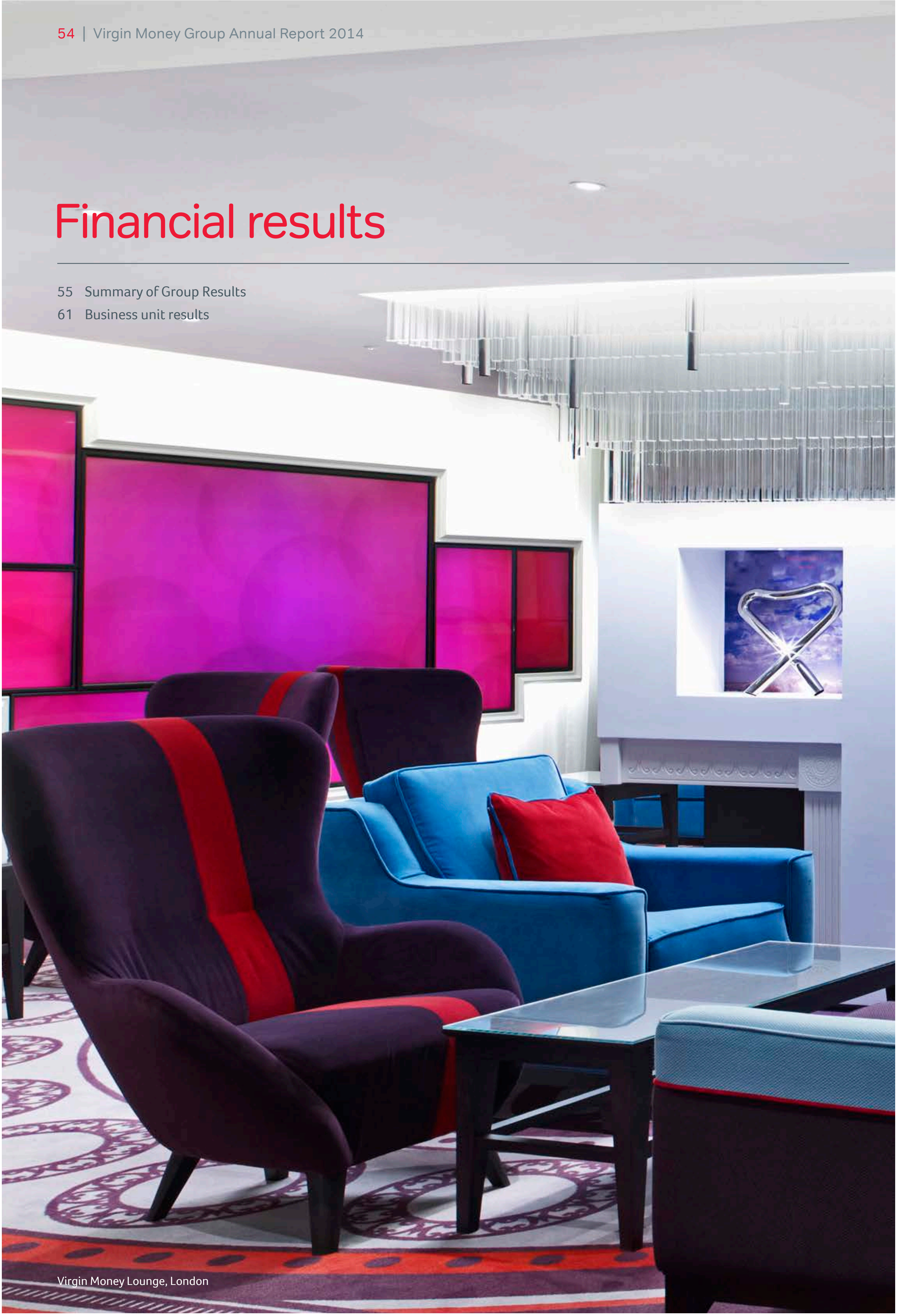
Risk Overview

Risk Governance

Principal risks	Key mitigating actions
Credit Risk 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.	› 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 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.	› Board approved risk appetite limits and policy. › Use of natural offsets and derivatives. › Stress and scenario testing.
Operational Risk 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.	› 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 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.	› 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 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.	› 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 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.	› 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.

Key risk indicators	Commentary	Future focus
	Improved arrears performance and favourable HPI movements have resulted in lower impairment charges. Wholesale credit performance remains strong with an increased use of counterparties rated AA+ or above.	Continued delivery of strong asset quality as growth of the mortgage and cards books continues. Maintain our 'no loss' position for the wholesale credit portfolio.
	Capital at Risk reduced in a positive rate shock scenario primarily due to a decrease in pipeline risk due to enhanced stress methodology.	Further refining our interest rate risk management systems and approaches.
	Virgin Money's operational loss experience is low and remains within risk appetite.	Continued investment in cybercrime defence.
	We continue to have a strong positive position on FCA complaints league tables.	Protect our strong position with limited exposure to conduct risk.
 	The senior team has been significantly strengthened during 2014 with an increase of 51 new senior leaders. Improvements in risk-weighted assets methodologies and robust capital ratios. Credit concentration risk continues to be carefully monitored.	Focus on development of our customer proposition and digital development. Further maintaining a high-quality capital base with ratios in excess of regulatory requirements.
 	Improved balance sheet efficiency and diversity.	Further improving balance sheet efficiency and resilience through measured diversification of wholesale funding.

Financial results



Virgin Money Lounge, London

Summary of Group Results

Overview

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.

Financial results

Summary of Group Results

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.

Summary of Group Results

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:		
– Additional Northern Rock consideration	**(36.0)**	(9.0)
– IPO costs	**(12.6)**	–
– Share based awards and one-off payments on listing	**(11.3)**	–
– Premium on repurchase of Non-core Tier 1 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 of 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

Financial results

Summary of Group Results

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.

Summary of Group Results

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 £m	At 31 Dec 2013 £m	Change %
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]	**4,235.9**	3,592.4	18

1. Level 1 + 2a + 2b. See Risk Management Report page 201 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.

Financial results

Summary of Group Results

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

Business Unit Results

Underlying segmental analysis

	Mortgages & Savings £m	Credit Cards £m	Current Accounts, Insurance & Investments £m	Central Functions £m	Group £m
2014					
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 £m	Credit Cards £m	Current Accounts, Insurance & Investments £m	Central Functions £m	Group £m
2013					
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.

Financial results

Business Unit Results

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.

Business Unit Results

Mortgages and Savings

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 and 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
Other income	**3.1**	1.9	63
Total underlying income	**294.1**	210.9	39
Total costs	**(87.3)**	(79.5)	10
Impairment	**(1.2)**	(2.1)	(43)
Underlying contribution	**205.6**	129.3	59
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

	2014 £m	2013 £m	Change %
Key balance sheet items at 31 December			
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 (transitional)	**3,729.8**	4,036.2	(8)

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

Financial results

Business Unit Results

Credit Cards

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

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

Business Unit Results

Current Accounts, Insurance and Investments

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 £m	2013 £m	Change %
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 £m	2013 £m	Change %
Key balance sheet items at 31 December			
Loans and advances to customers	**0.1**	0.1	–
Customer deposits	**201.6**	188.9	7
Total customer balances	**201.7**	189.0	7
Risk-weighted assets (transitional)	**47.2**	37.1	27

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

Financial results

Business Unit Results

Central functions

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

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

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

Governance

Virgin Money Lounge, Glasgow

Board of Directors

Non-Executive Directors

Sir David Clementi MA, MBA (66)

Chairman
(standing down as Chairman on 21 May 2015 and retiring on 30 June 2015)

Joined the Board in October 2011

Chairman of the Nomination Committee
Member of the Remuneration Committee

Skills and experience: Sir David has substantial experience of leading financial services boards in the UK. His background spans a range of sectors including banking and capital markets, finance, insurance, property regeneration, government regulation and public policy. Sir David is a highly respected leader who has led the Board of Virgin Money during a period of significant change over the past three years. Sir David has a MA in Philosophy, Politics and Economics from the University of Oxford and a MBA from Harvard Business School.

External appointments: Sir David is the Non-Executive Chairman of King's Cross Central (a partnership set up to develop a central London Scheme) and Non-Executive Director of Investment Property Forum UK, Ruffer LLP and World First UK (a London based foreign exchange company).

Former appointments: Sir David was Chairman of Prudential plc from 2002 until his retirement in 2008. Between 1997 and 2002 he was Deputy Governor of the Bank of England with specific responsibility for the Board's work on financial stability. In the same period he was a Non-Executive Director of the Financial Services Authority. He has also held a variety of Non-Executive board roles with listed companies, including at Rio Tinto plc and Thames Water plc. In his executive capacity, Sir David worked at Kleinwort Benson for 22 years, including periods as Chief Executive and as the Vice Chairman. Sir David started his career with Arthur Andersen & Co. where he qualified as a chartered accountant in 1973.

Glen Moreno BA (71)

Chairman (from 21 May 2015) and Independent Non-Executive Director

Joined the Board in January 2015

Will become Chairman of the Nomination Committee on appointment as Chairman

Skills and experience: Glen has over 40 years' experience in business and finance gained from senior positions in a wide range of industries. Glen's deep financial services knowledge and experience, leadership qualities and credibility with key stakeholders made him the unanimous choice of the Board to succeed Sir David Clementi as Chairman of Virgin Money. Glen has a BA degree from Stanford University, was a Rotary Foundation Fellow at Delhi University, and received a JD degree in 1969 from Harvard Law School.

External appointments: Glen is the Chairman of Pearson Plc, where he chairs its Nomination Committee and is a member of the Remuneration Committee. He is also Non-Executive Director of Fidelity International Limited.

Former appointments: Glen is a former Deputy Chairman of the Financial Reporting Council and former acting Chairman of UK Financial Investments Limited, the company set up by HM Treasury to manage the Government's shareholdings in UK banks. He was Senior Independent Director at Lloyds Banking Group plc from 2010 to 2012 and Deputy Chairman late in his tenure, and he was Senior Independent Director at Man Group plc from 2001 to 2009. In his executive capacity, Glen worked at Citigroup in Europe and Asia for 18 years, running the investment banking and trading division as a Group Executive. He was also Chief Executive of Fidelity International from 1987 to 1991.

Norman McLuskie CA, FCIBS (70)

Senior Independent Director

Joined the Board in January 2010

Chairman of the Audit Committee and Balance Sheet Committee
Member of the Nomination Committee, the Board Risk Committee and the Remuneration Committee

Skills and experience: Norman is Senior Independent Director and Chair of the Audit Committee and Balance Sheet Committee. He is a chartered accountant and has significant financial experience in the UK listed environment having served in a number of senior positions at Royal Bank of Scotland Group (RBS). With over 30 years of experience in financial services, he is well placed to carry out these roles for Virgin Money.

External appointments: None.

Former appointments: Norman was the former Deputy Chief Executive at RBS, prior to the takeover of National Westminster Bank. He held various senior positions at RBS including Chief Executive of Retail Direct, which comprised Tesco Personal Finance, Virgin One account, Direct Line Financial Services and the RBS Credit Card business. Norman also served as Chairman of Mastercard Europe and Non-Executive Director of Mastercard International and RBS Insurance. Norman started his career with Touche Ross where he qualified as a chartered accountant in 1971. He is a fellow of the Chartered Institute of Bankers in Scotland.

Colin Keogh MA, MBA (61)

Independent Non-Executive Director

Joined the Board in January 2010

Chairman of the Board Risk Committee
Member of the Audit Committee, the Balance Sheet Committee and the Nomination Committee

Skills and experience: Colin has spent his career in financial services, principally at Close Brothers where he worked for 24 years. During that time he held a number of senior management and board positions. Having been appointed to the Group Board in 1995 he became Group Chief Executive Officer in 2002. As Chair of the Risk Committee, he has a deep understanding of risk management, underpinned by his knowledge of banking operations. Colin is a Barrister of Law. He has a MA in Law from the University of Oxford and a MBA from INSEAD.

External appointments: Colin is a Non-Executive Director of a number of companies in a wide range of sectors, including Brait SE, a specialist investment company listed in Johannesburg and Luxembourg; New World Resources plc, a London listed mining company and Emerald Plantation Holdings Limited.

Former appointments: Colin is the former Group Chief Executive at Close Brothers Group plc (from 2002 to 2009). He held various senior positions at Close Brothers during his executive career, including Chief Executive and Chairman of the Corporate Finance Division and Chief Executive of the Asset Management Division.

Board of Directors

Marilyn H Spearing BA, MBA (60)

Independent Non-Executive Director

Joined the Board in January 2014

Member of the Audit Committee, Board Risk Committee, Balance Sheet Committee and Remuneration Committee

Skills and experience: Marilyn has extensive financial services experience, specialising in payments, cash management and related technology platforms. With her broad experience, particularly in managing organisational, operational and structural change, Marilyn is well placed to review strategic developments and contribute to the debate at Board and Committee meetings. She has a BA, French Major from Montclair State University, New Jersey and a MBA from Pace University, New York.

External appointments: None.

Former appointments: Marilyn was Global Head of Trade Finance and Cash Management at Deutsche Bank AG from 2006 to 2012, building the business to a global scale covering 35 markets. She had previously spent 11 years at HSBC Holdings plc as Global Head of Payments and Cash Management. Prior to this, she held a number of senior roles at Barclays Global Services Division and Barclays de Zoete Wedd in New York. She also served on the Boards of SWIFT and BACS (now Vocalink).

Olivia C Dickson MA, MSc (54)

Independent Non-Executive Director

Joined the Board in September 2014

Chair of the Remuneration Committee

Member of the Nomination Committee, Board Risk Committee and Balance Sheet Committee

Skills and experience: Olivia became Chair of the Remuneration Committee in September 2014. She has extensive experience in financial services and in remuneration and risk governance, and maintains close dialogue with Virgin Money's major shareholders with the aim of aligning executive reward with shareholder interests. Olivia holds an MA in Mathematics from the University of Oxford and an MSc in Management from the University of London. She is a Sloan Fellow of the London Business School.

External appointments: Olivia is a Non-Executive Director and Chair of the Risk Committee of Canada Life Limited and Non-Executive Director and Chair of the Actuarial Council of the Financial Reporting Council.

Former appointments: Olivia was previously Non-Executive Director of Investec plc; a Non-Executive Director and Chair of the Risk and Compliance Committee of Aon Limited; a member of the Regulatory Decisions Committee of the Financial Services Authority; the Senior Independent Director and Chair of the Audit Committee of Invista Real Estate and a Trustee Director of the Mineworkers' Pension Scheme. Olivia's executive career was at Kleinwort Benson and then JP Morgan, where she was a Managing Director and Head of European Derivatives Brokerage.

James B Lockhart III
BA, MBA, FCT (68)

Non-Executive Director

Joined the Board in August 2010

Member of the Nomination Committee

Skills and experience: Jim has extensive financial services, insurance, regulatory and public policy experience, gained internationally from senior positions in a wide range of industries. Jim is Vice Chairman of WL Ross & Co. LLC (WLR) which manages $8 billion in private equity, mortgage and credit funds. Jim heads WLR's investments in financial services firms, and is WLR's nominated director on the Board of Virgin Money. He has a BA from Yale University and a Masters degree from Harvard Graduate School of Business Administration.

External appointments: Jim holds non-executive directorships for a number of companies within the WLR investment portfolio. He is also Co-Chairman of the Bipartisan Policy Centre Commission on Retirement Security (US).

Former appointments: Jim was previously Chief Executive Officer and Chairman of the US Federal Housing Finance Agency (2006 to 2009) and The Deputy Commissioner and Chief Operating Officer of the Social Security Administration (US) (2002 to 2006). He also served as Executive Director of the US Pension Benefit Guaranty Corporation. Jim previously held various senior positions in major investment banking, insurance and oil companies.

Gordon McCallum
MA, MBA (54)

Non-Executive Director

Joined the Board in January 1998

Member of the Nomination Committee

Skills and experience: Gordon has extensive board, financial and general management experience across a range of sectors including media, telecommunications, financial services and renewables. His breadth of experience gained from leading the strategic development of the Virgin Group from 1998 to 2012 makes him an effective Non-Executive Director and one who plays an active part in reviewing the strategy of the Board. Gordon joined the board of Virgin Money in 1998. He has a MA in Literae Humaniores (Classics) from the University of Oxford, and a MBA from the Wharton School at the University of Pennsylvania.

External appointments: Gordon is a Virgin-appointed Director at Atlantic Airways and Virgin Holidays, as well as serving on the boards of a number of non-Virgin companies. These include John Swire & Sons in the UK and the Advisory Board of Aldo Group in Canada.

Former appointments: Gordon held various senior executive positions at the Virgin Group over an 18 year period until the end of 2014, when he became a Non-Executive. Prior to Virgin, he was a management consultant at McKinsey and an investment banker at Baring Brothers in London and Asia.

Board of Directors

Patrick McCall
BSc Econ (50)

Non-Executive Director

Joined the Board in June 2012

Skills and experience: With a background in the finance, capital markets, retail, travel and healthcare sectors, Patrick brings a broad perspective to the Board. He is a strong advocate for customers, the Virgin brand and the application of new products and technology, all of which directly support Virgin Money's strategy. He also has considerable experience in complex project delivery and material outsourcing. Patrick has broad experience of boards at the level of Executive, Non-Executive and Chairman. He has a degree in Economics and Agricultural Economics from Exeter University.

External appointments: Patrick is a Senior Partner of the Virgin Group and currently holds board positions with a number of companies within the Virgin Group including Virgin Active (Non-Executive Director), Virgin Trains (Co-Chair) and Virgin Galactic (Chair).

Former appointments: Prior to joining the Virgin Group, Patrick was an investment banker at SG Warburg. During his ten years there he became a Director and worked in a number of departments including equity, research, equity capital markets, mergers and acquisitions, structured finance and project finance.

Executive Directors

Jayne-Anne Gadhia, CBE, BA, FCA, FCIBS (53)

Executive Director and Chief Executive

Joined the Board in March 2007

Skills and experience: Jayne-Anne has significant finance and banking experience, built up over a period of more than 28 years. Jayne-Anne's enthusiasm, drive and commitment to customers and to building a better bank, along with her proven ability to build businesses and lead strong management teams, brings significant value to all stakeholders of Virgin Money. Jayne-Anne is a chartered accountant and has a BA in History from the Royal Holloway, University of London.

External appointments: Jayne-Anne is Chair of Scottish Business in the Community and a Trustee of Business in the Community.

Former appointments: Jayne-Anne trained as an accountant with Ernst & Young (formerly Ernst & Whinney) in 1982, before moving to Norwich Union in 1987, where she was marketing director of Norwich Union's Unit Trust business. In 1995 she became one of the founders of Virgin Direct before launching the market-leading Virgin One account in 1998. That business was acquired by RBS in 2001, after which Jayne-Anne went on to lead a number of RBS business units, ultimately joining the RBS Retail Executive Board where she was responsible for the RBS Group's mortgage business. Jayne-Anne rejoined Virgin Money in March 2007.

Lee Rochford MA (48)

Executive Director and Chief Financial Officer

Joined the Board in October 2013

Skills and experience: Lee has significant banking, financial services and markets experience having spent over 25 years working in these fields. With his strong background in capital markets and risk solutions for financial institutions, his skills and experience enhance the Board and strengthen further the senior management team. Lee has an MA in Philosophy, Politics and Economics from Pembroke College, the University of Oxford.

External appointments: Director of Migration Museum Project.

Former appointments: Lee joined BNP Paribas in 1991, becoming head of Northern Europe securitisation before moving to Credit Suisse for seven years, where he was head of European Asset Finance. In 2007, Lee joined RBS where he was head of the Financial Institution Group for Europe, Middle East and Africa and responsible for providing advisory, capital markets and risk solutions for financial institutions.

Company Secretary

Katie Marshall, LLB
Company Secretary (37)

Appointed
September 2013

A qualified lawyer, Katie joined Virgin Money plc (formerly Northern Rock) in 2009, following ten years as a corporate lawyer at Eversheds LLP. Katie's experience includes a wide range of corporate transactions, including mergers and acquisitions. Katie was appointed Company Secretary in September 2013. Katie has a degree in Law from the University of Northumbria.

Virgin Money Executive

Board Members

Jayne-Anne Gadhia, CBE, BA, FCA, FCIBS (53)
Chief Executive

Jayne-Anne joined the Board in March 2007 as Group Chief Executive.

Further details can be found on page 73.

Lee Rochford, MA (48)
Chief Financial Officer

Lee joined the Board in October 2013.

Further details can be found on page 73.

Non Board Members

Marian Watson BSc, CA, FCIBS (47)
Chief Risk Officer

Marian is a chartered accountant and qualified with Ernst and Young. She joined the Britannia Building Society where she was internal audit manager, before spending four years at the Britannic Group where she was head of group audit and risk. Marian joined RBS in 2004 and served as risk director of the RBS Group's consumer finance businesses, the mortgage business and then Tesco Personal Finance. Marian joined Virgin Money in 2007. Marian has a degree in Biochemistry from the University of Strathclyde.

Matt Elliott MA, MSc, CIPD (41)
HR Director

Matt's early career was at RBS, where he worked on HR policy and employment issues, before supporting the HR transformation programme following the acquisition of NatWest. Matt held senior HR roles in several RBS operating businesses including the Consumer Finance division and Tesco Personal Finance.
In 2007, Matt moved to BP as senior manager for corporate and functions before becoming HR Vice President for BP in North Africa. He joined Virgin Money in 2011. Matt has a degree in Geography and European Studies from the University of Dundee and an MSc in Human Resource Management from the University of Strathclyde.

Virgin Money Executive

Michele Greene BSc (mgmt), MA, FCA (49)

Director of Cards

Michele is a chartered accountant and qualified with KPMG. She spent three years at Credit Lyonnais as a financial accountant before joining Goldman Sachs as group accountant. Michele spent over 15 years at MBNA Limited, most recently as Chief Financial Officer, where she was a member of the board and closely involved in setting the strategic direction of the business. Michele joined Virgin Money in October 2013. Michele has a degree in BSc (mgmt) and an MA from Trinity College, Dublin.

Richard Hemsley FCIBS (50)

Chief Banking Officer

Richard is a qualified banker and has over 30 years' experience across the industry within the UK. He joined NatWest in 1983 working across retail and corporate banking, fund management and major change programmes. After the acquisition of NatWest by RBS in 2000, he worked in operations becoming the group Chief Operations Officer (COO) in 2008, leading a global team of over 40,000 people, and then COO of transaction and international banking in 2011. Immediately prior to joining Virgin Money in January 2015, Richard was MD of Lombard, the UK's largest asset finance business.

Andrew Emuss BA (45)

General Counsel

Andrew qualified as a solicitor in 1996. He started his career at Clifford Chance, qualifying as a corporate lawyer, and has spent almost 20 years leading corporate and capital markets deals. He spent over ten years at Nomura serving as its head of corporate development for EMEA, executing strategic deals including the acquisition of Lehman EMEA from the administrators. Andrew joined Virgin Money in June 2014. Andrew has a degree in English from Gonville & Caius College, the University of Cambridge.

Caroline Marsh BA (51)

Director of Culture

Caroline has over 27 years' experience in banking. Her early career was at Barclays where she spent 12 years in management roles. In 1999, she joined Virgin One as sales director. Following the acquisition of that business by RBS in 2001, Caroline became sales & operations director for the RBS consumer finance business, before leading the bank's intermediary mortgage business. Caroline returned to Virgin Money in 2007 as Sales Director and has led the cultural agenda for the Virgin Money business since the acquisition of Northern Rock in 2012. Caroline has a degree in European Studies from the University of Bath.

Dave Dyer
BA, MBA, FCMA (58)
Strategy Director

Dave is a management accountant and qualified whilst employed with Citibank. Following his MBA, Dave worked at Touche Ross, before joining Somerfield Supermarkets as commercial director, moving to RBS in 1994. At RBS, Dave played a central role in the creation of the Virgin One account and in 1999 became its finance director. In 2006, Dave became finance director, mortgages within RBS. In 2007 Dave joined Virgin Money as Chief Finance Officer before taking on the role of Strategy Director. Dave has a degree in Natural Sciences from Peterhouse College, the University of Cambridge.

Directors' Report

Results

The consolidated income statement shows a statutory profit before tax for the year ended 31 December 2014 of £34.0 million.

Dividends

The Directors do not propose to recommend a final dividend in respect of the year ended 31 December 2014.

Post balance sheet events

There have been no material post balance sheet events.

Going concern

The going concern of the Company and the Group is dependent on successfully funding the balance sheet and maintaining adequate levels of capital. In order to satisfy themselves that the Company and the Group have adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out in the Risk Management Report sections under Principal Risks on page 148: Funding and Liquidity on pages 196 to 199 and Capital Position on pages 206 to 211 and additionally have considered projections for the Group's capital and funding position.

Having considered these and made appropriate enquiries, the Directors consider that the Company and Group have adequate reserves to continue in business for the foreseeable future. It is appropriate to continue to adopt the going concern basis in preparing the accounts.

Future developments and financial risk management objectives and policies

The Group operates through offices and stores in the United Kingdom (UK). Other key distribution channels include online, mobile, telephone, and the Virgin Money Lounges. Information about future developments, internal control and financial risk management systems in relation to financial reporting and financial risk management objectives and policies in relation to the use of financial instruments can be found in the following sections of the annual report which are incorporated into this report by reference:

	Section	Pages
Future developments	Strategic Report	22 to 26
Internal control and financial risk management systems in relation to financial reporting	Corporate Governance Report	92, 103
Financial risk management objectives and policies in relation to the use of financial instruments.	Risk Management Report	180 to 181

Directors

The names and biographical details of the Directors are shown on pages 68 to 73. Particulars of their emoluments and interests in shares in the Company are given on pages 136, 139 and 141 of the Directors' Remuneration Report.

Changes to the composition of the Board since 1 January 2014, and up to the date of this report, are shown in the table below:

Name	Date of appointment
Marilyn Spearing	29 January 2014
Olivia Dickson	1 September 2014
Glen Moreno	1 January 2015

Sir David Clementi will be succeeded by Glen Moreno as Chairman of the Board on 21 May 2015 (subject to their respective elections to the Board by shareholders at the 2015 AGM) and will retire from the Board on 30 June 2015.

Appointment and retirement of Directors

The appointment and removal of Directors is governed by the Company's articles of association (the articles), the UK Corporate Governance Code (the Code) and the Companies Act 2006 (the Act). The Company's articles may only be amended by a special resolution of the shareholders in general meeting. In the interests of good governance, all of the Directors will retire and those willing to serve again will submit themselves for election or re-election at the 2015 AGM.

Corporate governance report

The Corporate Governance Report can be found on pages 82 to 116 and, together with this report of which it forms part, fulfils the requirements of the corporate governance statement for the purpose of the Financial Conduct Authority's Disclosure and Transparency Rules (DTR).

Directors' indemnities

The Directors of the Company have entered into individual deeds of indemnity with the Company which constituted 'qualifying third party indemnity provisions' for the purposes of the Act. The deeds indemnify the Directors to the maximum extent permitted by law and remain in force for the duration of a Director's period of office and for a six year period thereafter. The deeds were in force during the whole of the financial year or from the date of appointment for those Directors appointed in 2014 and 2015. Deeds for existing Directors are available for inspection at Virgin Money's registered office. In addition, the Group had appropriate Directors' and Officers' insurance cover in place throughout 2014.

Share capital and control

Information about share capital, restrictions on the transfer of shares or voting rights, and special rights with regard to control of the Company is shown in note 29 to the financial statements on pages 272 to 273 and is incorporated into this report by reference.

The powers of the Directors, including in relation to the issue or repurchase of the Company's shares, are set out in the Act and in the articles. The Directors were granted authorities to issue and allot shares and to repurchase shares at a general meeting held in November 2014, just prior to the Company's IPO. Shareholders will be asked to renew these authorities in line with institutional shareholder guidelines at the 2015 AGM.

The Company did not repurchase any of the issued Ordinary Shares during the year or up to the date of this report (2013: none). All Deferred Shares were repurchased from shareholders on IPO. Further details are set out in note 29 to the financial statements on page 273 and are incorporated into this report by reference.

Substantial shareholders

Information provided to the Company by substantial shareholders pursuant to the DTR is published via a Primary Information Provider. As at 31 December 2014 and the date of this report, the Company has been notified under Rule 5 of the DTR of the interests as set out below in the issued share capital with rights to vote in all circumstances at general meetings.

The Company has not been notified of any changes to the below interests in the issued share capital since 31 December 2014.

As at 31 December 2014 Shareholder	Ordinary shares held	% of voting rights	Direct/ indirect interest
Virgin Financial Investments Limited	155,120,454	35.1%	Direct
WLR IV VM II LLC	104,629,561	23.7%	Indirect
WLR IV VM LLC	43,366,659	9.8%	Indirect
Stanhope Investments	19,447,873	4.4%	Indirect

Disclosure of information under Listing Rule (LR) 9.8.4R

The information that fulfils the reporting requirements relating to the following matters can be found on the pages identified.

Subject matter	Page reference	LR requirement
Contracts of significance: – Information about the Virgin Money Trademark Licence Agreement between the Company and Virgin Enterprises Limited – An underwriting agreement dated 13 November 2014 between, inter alia, Goldman Sachs International, BofA Merrill Lynch, the Company and the Directors relating to the Virgin Money IPO.	Page 80 (Directors' Report) and page 87 (Corporate Governance Report)	LR 9.8.4(10)
Arrangements under which the Employee Benefit Trust has waived or agreed to waive dividends/ future dividends on the 'unallocated shares'. No dividends are to be paid in respect of the year ended 31 December 2014.	Page 275, note 32 to the financial statements	LR 9.8.4(12)(13)
Information about the relationship agreements in place between the Company and its controlling shareholders; Virgin Financial Investments Limited (Virgin) and WLR IV VM II LLC and WLR IV VM LLC (together WLR) respectively (the Relationship Agreements)	Pages 87 and 93 (Corporate Governance Report)	LR 9.8.14

Directors' Report

Change of control

Virgin Money is not a party to any significant contracts that are subject to change of control provisions in the event of a takeover bid, other than the Virgin Money Trademark Licence Agreement. This is the agreement under which Virgin Enterprises Limited (VEL) grants a perpetual licence to Virgin Money providing the right to use the "Virgin" and "Virgin Money" trademarks. VEL has the right to terminate the agreement in the event of a change of control, other than a change of control pre-approved by VEL. VEL shall only be entitled to withhold consent in the event of a takeover by a third party who, in VEL's reasonable opinion is a direct competitor of VEL or any Virgin entity in the UK or whose reputation or financial standing is reasonably likely to materially damage the value or reputation of the "Virgin" marks.

There are no agreements between Virgin Money and its Directors or employees providing compensation for loss of office or employment that occurs because of a takeover bid.

Political donations

The Group did not give any money for political purposes nor did it make any political donations to political parties or other political organisations, or to any independent election candidates, or incur any political expenditure during the year.

Significant contracts

Details of related party transactions are set out in note 37 to the financial statements on pages 284 to 286.

Emissions reporting

Virgin Money is required to report on Greenhouse Gas Emissions under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the Regulations). The Group follows the principles of the Greenhouse Gas (GHG) Protocol Corporate Standard as of 31 December 2014 and Department for Environment, Food and Rural Affairs (DEFRA) Voluntary Reporting 2012 Guidelines (the Guidelines) to calculate its emissions in scope 1, 2 and 3.

This is the first year Virgin Money is required to report on CO_2 emissions, as such this year's data will become the baseline for all reporting in future.

Reporting period

The reporting period for emissions corresponds with Virgin Money's financial reporting year, being 1 January to 31 December.

Scope of disclosure

Virgin Money reports emissions based on its property portfolio. Reported scope 1 emissions cover: emissions generated from the gas and oil used in all buildings from which the Group operates; emissions generated from Group-owned vehicles used for business travel; and fugitive emissions arising from the use of air-conditioning and chiller/refrigerant plant to service the Group's property portfolio. Reported scope 2 emissions cover emissions generated from the use of electricity in all buildings from which the Group operates. Reported scope 3 emissions relate to business travel undertaken by all colleagues using rail, private vehicles, hired vehicles and air travel.

Omissions

There are no omissions for either scope 1 or 2 reporting.

Our voluntary reporting for scope 3 includes travel booked through our corporate travel provider and through personal expenses during 2014. In 2015 we will extend our data capture to include travel booked by credit card, taxi travel and public transport.

Compliance with the Regulations

The Group has achieved full compliance with the Regulations for the whole of its property portfolio. The only estimated emissions relate to energy consumed in properties where the landlord controls the supply and recharges Virgin Money via a service charge arrangement. In these instances (restricted to six stores) an average rate per Kwh has been used.

Fugitive emissions for Virgin Money arise from the use of air conditioning and chiller/refrigerant equipment to service the Group's property portfolio. Leakage rates and emissions factors from the Guidelines have been applied to each asset on the register according to the gas type used within the asset. This information is gathered and reported by the Group's maintenance supplier immediately on any gas leakage. This data is included within the scope 1 segments of the GHG (Greenhouse Gas) table listed below.

GHG emissions CO_2e tonnes

Scope	Jan – Dec 2014
Scope 1*	1,781.0
Scope 2*	5,815.2
Scope 3	1,329.4
Total	**8,925.6**

Intensity ratio

For 2014 Virgin Money has chosen to use an intensity ratio of GHG per Full Time Equivalent (FTE). FTE is straightforward to calculate and verify and will provide a clear basis against which Virgin Money can set short, medium and long-term targets.

	Jan – Dec 2014
GHG emissions per average FTE	3.33 tCO_2e

Verification

Although not required by the Regulations, Virgin Money engaged KPMG LLP to undertake a limited assurance exercise using the assurance standards ISAE 3000 and ISAE 3410 over the GHG data highlighted in this report with a (*). KPMG's full statement is available on the Virgin Money website at www.virginmoney.com[1]

Research and development activities

Virgin Money does not undertake formal research and development activities but does invest in the development of platforms and products.

Employees

Virgin Money is committed to providing employment practices and policies that recognise the diversity of its workforce. The Group will not discriminate unfairly in the recruitment or employment practices on the basis of any factor which is not relevant to individuals' performance including sex, race, disability, age, sexual orientation or religious belief.

Further information on employees' involvement, engagement and development and the Group's approach to diversity and disabled colleagues can be found on pages 38 to 39 of the Strategic Report. Details of the Board Diversity Policy and gender demographics for the Board and the Group are also set out on page 39.

Independent auditor and audit information

Each person who is a Director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which Virgin Money's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that Virgin Money's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Act. Resolutions concerning the re-appointment of KPMG LLP as auditor and authorising the Audit Committee to set the auditor's remuneration will be proposed at the 2015 AGM.

Annual General Meeting

Virgin Money's first AGM will be held at the offices of fti consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD on 1 May 2015 at 14:00. Further details about the meeting, including the proposed resolutions, will be posted to shareholders and made available on the Virgin Money website (www.virginmoney.com) in due course.

On behalf of the Board:

Katie Marshall
4 March 2015

Company Secretary

Virgin Money Holdings (UK) plc

Registered No. 0308758

1 The level of assurance provided for a limited assurance engagement is substantially lower than a reasonable assurance agreement. In order to reach their opinion KPMG performed a range of procedures over the GHG data including: interviewing those individuals that prepare the data; agreeing a selection of the data to the corresponding source documentation; and reviewing the data collation and validation processes at the head office level, including formulae used and manual calculations performed. A summary of the work they performed is included within their assurance opinion.

Non-financial performance information, GHG quantification in particular, is subject to more inherent limitations than financial information. It is important to read the GHG data in the context of the full limited assurance statement and the reporting criteria as set out in the Virgin Money reporting guidelines available www.virginmoney.com

Corporate Governance Report

"The Board is committed to ensuring Virgin Money achieves long term success for the Group through delivery of its strategy. The strategy is underpinned by our high standards of corporate governance, which have been enhanced during 2014 to ensure they remain appropriate for a publicly listed company."

Dear Shareholders,

I am pleased to present our corporate governance report for 2014. This report explains how the Group applies the principles of corporate governance, in particular those laid down in the 2012 edition of the Financial Reporting Council (FRC)'s UK Corporate Governance Code (the Code). The Code can be accessed at www.frc.org.uk.

2014 has been a significant year for Virgin Money, moving from being a privately owned Group to being publicly listed with an IPO in November which saw our admission to the premium segment of the FCA Official List and to trading on the main market of the London Stock Exchange (our listing).

I am pleased to report that during the year the Board and its Committees met their key objectives and carried out their key responsibilities effectively. Further detail on the objectives and responsibilities can be found on pages 84 to 85 and in the Board Committee Reports on pages 95 to 116.

Set out below are some of the key corporate governance matters considered in 2014.

Chairman succession

My agreed three-year term of office as Chairman came to an end in October 2014. In view of Virgin Money's intention to proceed with an IPO during the second half of the year, the Board requested that I remain as a Non-Executive Director and as Chairman until mid-2015 in order to allow for a suitable candidate to be identified and to provide a smooth transition.

The process of identifying and securing the services of an experienced Non-Executive Director and Chairman Designate was led by the Nomination Committee. I am delighted that Glen Moreno has been chosen to succeed me as Chairman of Virgin Money. Glen's significant financial and retail experience in the listed environment, together with his previous public sector roles with the FRC and with UK Financial Investments Limited, will be invaluable to Virgin Money as it continues its journey as a publicly listed entity and I warmly welcome him to the business. His appointment as Chairman Designate received unanimous Board approval. Full details of the selection process are outlined on page 87.

It has been agreed that I will be succeeded by Glen Moreno as Chairman of the Board on 21 May 2015 (the first Board meeting after the 2015 AGM) and I will retire as a Non-Executive Director of Virgin Money on 30 June 2015.

Board composition

Last year, I stated that Virgin Money was committed to increasing the number of independent Non-Executive Directors on the Board to ensure that the appropriate level of constructive challenge and support was available to the Executive.

It was therefore with great pleasure that Virgin Money announced that Marilyn Spearing joined both the holding company board (the Board) and that of the main operating bank, Virgin Money plc (the Bank Board), as an independent Non-Executive Director in January 2014. Olivia Dickson also joined both Boards in September 2014. Marilyn and Olivia bring with them a wealth of financial services industry knowledge. In particular, Marilyn's experience in financial services, payments and information technology, and Olivia's experience in banking, finance and listed company remuneration matters, will be of great benefit to the Board.

In addition, the appointment of Glen Moreno as an independent Non-Executive Director in January 2015 has meant that, excluding me, half of the Board consists of independent Non-Executive Directors. We are currently conducting a search for an additional independent Non-Executive Director with relevant banking experience to join the Board on my retirement.

We continue to strive for a balanced Board and are committed to embracing diversity. While we now have three women on the Board, gender is only one element of diversity and so further work is required.

Virgin Money IPO

A Committee of the Board (the Strategy Committee) was established in mid-2014 to specifically discuss matters relating to the IPO and make appropriate recommendations to the Board on key decisions. In addition to myself, members of the Committee were Non-Executive Directors representing our major shareholders, one independent Non-Executive Director and the Executive Directors.

During the year, in preparation for listing, the Board reviewed the Group's corporate governance framework in detail to ensure that it is aligned with the Code. Changes were made in November to enhance the independence of the Board Committees and to formalise the reporting on Committee activities to the Board. Specifically, membership of each of the Audit, Board Risk and Balance Sheet Committees is now restricted to independent Non-Executive Directors with the relevant members of the Executive being invited to attend. This is the same for the Remuneration Committee except that I am also a member, with Patrick McCall invited to attend as an observer.

The Corporate Governance Report which follows, together with the Directors' Report on pages 78 to 81 and the Directors' Remuneration Report on pages 117 to 144 sets out how we ensure that the highest standards of business conduct, ethics and integrity are upheld through Virgin Money's governance, policies, process and structures.

Remuneration

The Remuneration Committee dedicated significant time in 2014 to overseeing and implementing remuneration arrangements that are appropriate for a publicly listed company. The Committee also spent considerable time assessing and understanding the remuneration reporting regime for public limited companies to ensure Virgin Money is compliant with all requirements in its first year post listing. The Committee has endeavoured to ensure that the remuneration policy and practices detailed in the Directors' Remuneration Policy, on pages 120 to 130, and in the Directors' Remuneration Implementation Report, on pages 131 to 144, are appropriate to supporting the delivery of Virgin Money's current and future strategy.

Board effectiveness

The Board carried out an externally facilitated evaluation of its effectiveness in 2013. We have made significant progress on the resulting recommendations during 2014 and to date, leading to improvements in a number of areas. Such improvements include the increased diversity and experience of the Board, with three additional directors joining, and the implementation of an enhanced governance structure pre-IPO, with a clearer role for each of our main Committees reporting to the Board. In view of the timing of the IPO, the chairmanship succession and the changes to Board Committee composition, the Board decided that there would be no formal Board evaluation during 2014, but that it would undertake a thorough evaluation of the Board, its committees and the individual directors in the latter part of 2015.

In closing, I would like to thank each of the Directors for their commitment during 2014 and their support throughout the period of my Chairmanship. I am confident that Virgin Money is well governed and well positioned to build on the success and growth achieved so far.

Sir David Clementi
Chairman

Corporate Governance Report

The Board and its members

Purpose and responsibilities

The Group is led by a Board comprising a Non-Executive Chairman, Non-Executive Directors (the majority of whom are independent) and Executive Directors. The Board is collectively responsible for the long-term success of Virgin Money. It achieves this by setting the strategy and overseeing delivery against it, establishing the culture, values and standards of the Group, effectively managing risk, monitoring financial performance and reporting, and ensuring that appropriate and effective succession planning arrangements and remuneration policies are in place.

Overview of the roles of the Directors

The roles of the Chairman and other Board members are set out below. There is a clear division of responsibility. The Chairman is responsible for the leadership of the Board and the Chief Executive manages and leads the business.

Chairman
• Overall responsibility for the leadership and operation of the Board and promotion of the highest standards of corporate governance. • Sets the Board's agenda with the aim of ensuring open and frank debate. • Facilitates and encourages active engagement and challenge by the Directors. • Ensures the Directors receive timely and relevant information and are kept advised of developments. • Ensures that the Board understands any concerns of the Group's major shareholders.
Senior Independent Director
• Acts as a sounding board for the Chairman and supports the Chairman in the delivery of his objectives. • Ensures that the views of all other Directors are communicated to, and given due consideration by, the Chairman. • Available to shareholders should they wish to convey concerns other than through the usual channels of Chairman or Chief Executive. • Leads the appraisal of the Chairman's performance.
Non-Executive Director
• Challenges constructively. Monitors the success of the Executive in delivering the agreed strategy. • Scrutinises the performance of management in meeting agreed goals and objectives. • Satisfies him/herself as to the integrity of financial information and systems of risk management. • Brings independent judgement to Board discussions. • Participates actively in the decision-making process of the Board.
Chief Executive
• Responsible for creating and articulating the vision of the future of the Group. • Provides clear business and cultural leadership. • Leads the Executive team in the delivery of the Group's strategy. • Ensures that the business operates ethically. • Ensures that the Group's balance sheet, regulatory capital and liquidity plans are robust. • Represents the Group externally with key stakeholders, including government bodies and industry experts.
Chief Financial Officer
• Responsible for the financial management of the Group and day-to-day management of the balance sheet. • Ensures that the Group meets statutory reporting obligations. • Ensures the delivery of regulatory capital and liquidity requirements and identifies opportunities to improve the profit and loss performance of the business within the agreed risk appetite. • Maintains appropriate cash resources and projections and ensures compliance with the terms of external debt facilities.

The role of the Company Secretary

The Company Secretary is accountable to the Board and provides comprehensive practical support to the Directors, both as individuals and as a collective, with particular emphasis on supporting the Non-Executive Directors in maintaining appropriate standards of probity and corporate governance. The Company Secretary is also responsible for facilitating communications with shareholders as appropriate and ensuring due regard is paid to their interests. All Directors, including Non-Executive Directors, have access to the advice and services of the Company Secretary in relation to the discharge of their duties.

Access to advice

The Group also provides access, at its own expense, to the services of independent professional advisers in order to assist the Directors, especially Non-Executive Directors, in their roles whenever this is deemed necessary. Board Committees are also provided with sufficient resources to undertake their duties.

Authority and delegation

Corporate governance framework

The Group's corporate governance framework comprises the Board authority and the delegated executive authority.

Board authority

The Board authority sets out the matters reserved to the Board which include decisions concerning the strategy and long-term objectives of the Group, capital and financial budgets, significant contracts and transactions and various statutory and regulatory approvals. The approval of the remuneration policy, risk appetite and risk management framework are also reserved to the Board. The Board authority delegates responsibility for day-to-day management of the business to the Chief Executive and sets out the basis for delegation of authorities from the Board to Board Committees.

The following table provides an overview of the matters reserved to the Board of the Company:

Strategy and budget
• Approves the Group's strategy and long term objectives and the annual budget and reviews delivery against plan. • Approves strategic proposals and major operational issues.
Structure, capital and transactions
• Approves material changes to the Group's corporate and organisational structure and changes to capital structure. • Approves material transactions, equity investments, acquisitions and disposals.
Finance, statutory and regulatory requirements
• Approves financial statements, dividends and significant accounting changes. • Authorises Directors' conflicts or potential conflicts of interest. • Approves all shareholder notices, circulars, prospectuses and listing particulars.
Remuneration
• Approves the overall remuneration policy and philosophy of the Group. • Approves the remuneration of the Non-Executive Directors. • Approves material changes in employee share schemes and policy relating to Group pensions.
Risk management
• Approves the Group's risk appetite and risk management framework. • Approves the Group's aggregate risk exposures, risk/return and emerging risks. • Monitors and reviews annually the effectiveness of the Group's risk management and internal control systems.
Governance
• Determines Board and Board Committee structure, size and composition. • Determines the independence of Non-Executive Directors. • Approves the governance principles, corporate governance framework, Board Committee terms of reference and key Group policies.

Corporate Governance Report

Delegated executive authority

The Chief Executive, through the delegated executive authority, delegates aspects of her own authority, as permitted, to members of the Executive.

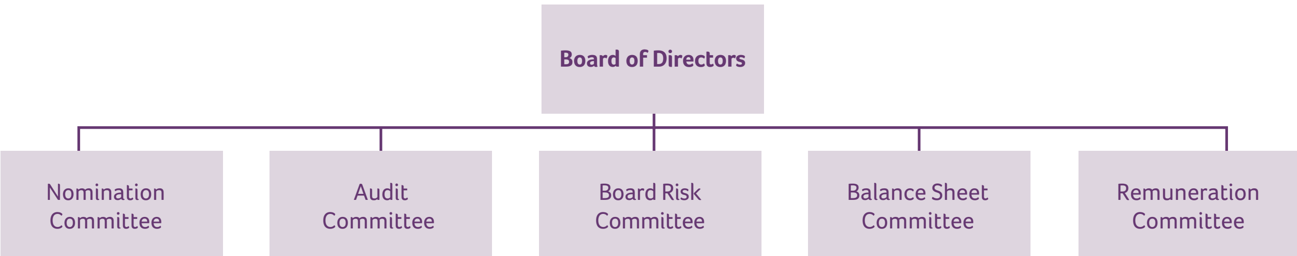
On a daily basis, the Executive discuss any items of concern within the business. The majority of the Executive Committees meet to scrutinise key business matters on a monthly basis. Certain Executive Committees, such as the Pricing Committee, meet more regularly and as required.

The Head of Internal Audit and the Company Secretary attend all Executive Committee meetings to ensure that there is appropriate Internal Audit oversight and that the highest standards of corporate governance are maintained in such meetings. Other representatives from the business attend as necessary and appropriate.

The Role of the Board Committees

The Board is supported by its committees which make recommendations to the Board on matters delegated to them, in particular in relation to internal control, risk management, financial reporting, and governance and remuneration matters. This enables the Board to spend a greater proportion of its time on strategic, forward looking agenda items.

Each Board Committee, other than the Remuneration and Nomination Committee comprise solely independent Non-Executive Directors. The Remuneration Committee and Nomination Committee comprise Non-Executive Directors only. Each Board Committee is chaired by an experienced chairman who reports to the Board on the activities of the Board Committee at each Board meeting. The terms of reference for each of the Committees are available on the Virgin Money website (www.virginmoney.com). Information on the membership, role and activities of each of the Board Committees can be found on pages 95 to 116 and on pages 131 to 132.



Subsidiary governance

During 2014, the Group's business was primarily conducted through its operating bank subsidiary, Virgin Money plc (the Bank). The Group's investments, pensions and insurance business is conducted via the Company's subsidiaries, Virgin Money Unit Trust Managers Limited (VMUTM) and Virgin Money Personal Financial Service Limited (VMPFS). VMUTM and VMPFS are regulated by the FCA. Virgin Money Giving Limited (VMG), a not-for-profit company within the Group is the vehicle for Virgin Money's charity fund raising and donations website.

The Bank Board largely replicates that of the Virgin Money Board save that James Lockhart III, Gordon McCallum and Patrick McCall are not members and the Chief Risk Officer is an additional Executive Director of the Bank.

The main Board Committees are replicated at the Bank level with the exception of the Nomination and Remuneration Committees that operate at the Board level only and consider appointments, succession and remuneration matters on a Group wide basis.

The Boards of VMUTM and VMPFS consist of certain of the Executive and VMG, in addition, has two independent Non-Executive Directors.

To help manage the legal, regulatory and reputational risks associated with the Group's subsidiary entities, the Group requires that subsidiary Boards operate in accordance with the governance standards set out in the Virgin Money High Level Controls Manual, approved by the Board.

Board composition

Board size

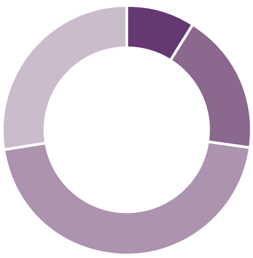
The Board comprises two Executive Directors, eight Non-Executive Directors, five of whom are considered to be independent (including the Chairman Designate) and the Chairman, who was independent on appointment.

Virgin Money has entered into relationship agreements with Virgin Financial Investments Limited (Virgin) and with WLR IV VM LLC and WLR IV VM II LLC (together WLR) (the Relationship Agreements). The Relationship Agreements provide for the appointment of a nominee director by each of Virgin and WLR. During the year, and as at the date of this report, the Virgin Nominee Director was Gordon McCallum and the WLR Nominee Director was James Lockhart III (together the Nominee Directors).

In addition, Patrick McCall was appointed to the Board pursuant to the Virgin Money Trade Mark Licence Agreement. Patrick McCall, Gordon McCallum and James Lockhart III are not considered to be independent due to their relationship with Virgin Money's major shareholders.

Further details on independence are set out in the Nomination Committee Report.

Board composition as 4 March 2015



"I have huge admiration for the way in which Virgin Money has continued to act as a voice of competition in the banking sector. The bank's strategy has delivered sustainable, responsible growth and a strong return to profitability. It is now one of the best performing challenger banks and I am delighted to join Virgin Money at such an exciting time."

Glen Moreno
Chairman Designate

Chairman succession

In anticipation of Sir David Clementi's retirement from the Board in mid-2015, the Nomination Committee was requested to oversee the search and selection of his successor. Sir David did not participate in any discussions relating to the process for the appointment of his successor.

Egon Zehnder, an external search consultant with no other connection to Virgin Money, was appointed to assist in the process. A job specification was prepared and a long-list of potential candidates drawn up. Based on the attributes required for the role of Chairman, and the skills and experience of the candidates, the original long list was reduced to a short list of suitable candidates.

Each of the short-listed candidates was interviewed and assessed by the Committee and candidates advancing in the process also met with the Executive Directors. The Committee assessed the views of its members and others involved in the process and, having identified that Glen Moreno was the most suitable candidate to succeed Sir David, the Committee recommended his appointment to the Board of Directors. The appointment received unanimous Board approval.

Glen Moreno's roles as chairman of Pearson PLC and as a Non-Executive Director of Fidelity International Limited and his extensive experience in business and finance makes him ideally placed to succeed Sir David as Chairman of Virgin Money as the Company enters a new phase as a listed entity. Glen Moreno met the independence criteria set out in the Code on appointment. His full biography can be found on page 68.

Corporate Governance Report

Appointments

In 2013 the Board identified the need for a number of new Directors to supplement the banking, finance, risk and remuneration experience on the Board. The following Board appointments were made:

- on 29 January 2014, Marilyn Spearing was appointed as independent Non-Executive Director;
- on 1 September 2014, Olivia Dickson was appointed as an independent Non-Executive Director and replaced Colin Keogh as Chairman of the Remuneration Committee on 5 September 2014; and
- on 1 January 2015, Glen Moreno was appointed as an independent Non-Executive Director and Chairman Designate.

The Nomination Committee is currently conducting a search for an additional independent Non-Executive Director with relevant banking experience to join the Board on the retirement of Sir David Clementi.

More information on the Board and Committee composition and the appointment process is set out in the Nomination Committee Report on pages 95-98. Biographies for each of the Directors are set out on pages 68-73.

Executive Director service agreements and Non-Executive Director terms of appointment

The Chairman and Non-Executive Directors are appointed for a specified term subject to annual re-election by shareholders. Non-Executive Directors may have their appointment terminated, in accordance with the articles of association, their letters of appointment or statute at any time without compensation.

Details of the Executive Directors service agreements are set out on page 126.

The Chief Executive and Chief Financial Officer are each able to terminate their appointments by giving 12 months' notice. The Chairman has a maximum six months notice period (reducing from six months to two months on a daily basis from 31 December 2014 to 30 April 2015) and the Chairman Designate is obliged to give six months' notice. The Non-Executive Directors' letters of appointment, and the service agreements of Executive Directors, are available for inspection by shareholders at Virgin Money's registered office.

Election and re-election

All Directors appointed to the Board during 2014 and up to the date of this report will stand for election at the 2015 AGM. All other Directors will retire and those willing to serve again will stand for re-election by shareholders at the 2015 AGM.

As "controlling shareholders" of Virgin Money (for the purposes of the FCA's Listing Rules) (Listing Rules)) Virgin and WLR will be entitled to vote on the ordinary resolutions at the AGM for the re-election of the independent Non-Executive Directors. However, each resolution relating to the re-election of the independent Non-Executive Directors will also require, for the purposes of the Listing Rules, approval by a majority of the votes cast by Virgin Money's independent shareholders (being the shareholders excluding Virgin and WLR) in order to be valid. The outcome of both of these votes will be announced at the 2015 AGM.

Directors' and Officers' Liability insurance

Information on the Group's insurance cover and indemnity arrangements for liabilities that may arise against them personally in connection with the performance of their role is provided on page 79 of the Directors' Report.

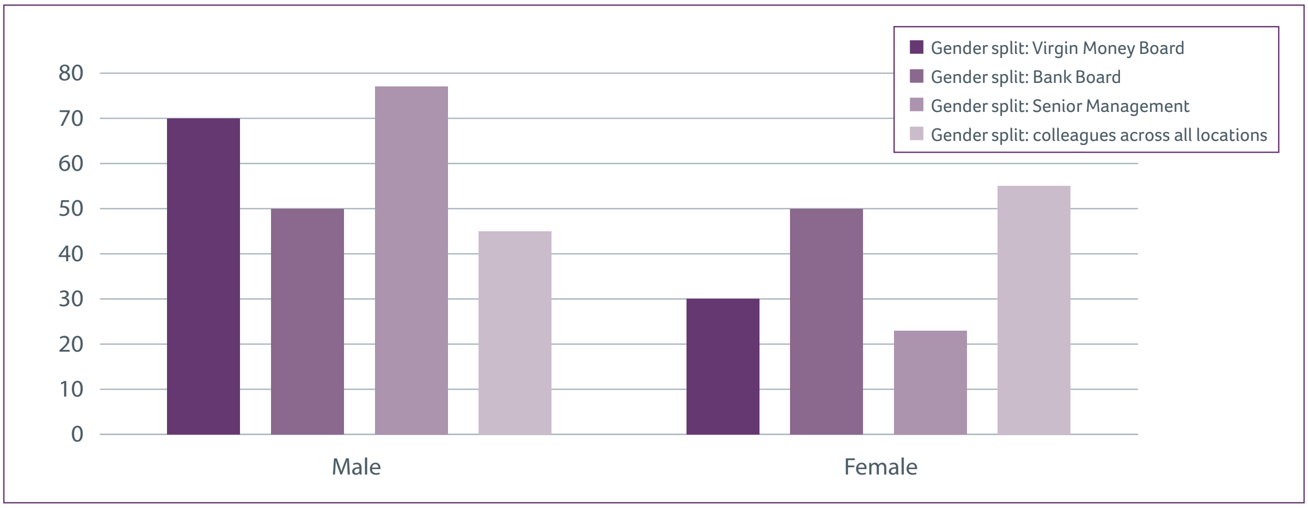
Diversity policy

The Board is committed to improving diversity in its membership in the broadest sense. While any new appointments continue to be based on merit, careful consideration is given to the business benefits of improving and complementing the diversity, skills, experience and knowledge of the Board.

During the year, the Board approved the Virgin Money Diversity Policy (which is described in the Nomination Committee Report on page 98) and the percentage of female representation on the Board met the stated objective of 25%, during 2014.

The following chart details the percentage of women employed at various levels of the Group as at 31 December 2014.

Position as at 31 December 2014



Following the appointment of Glen Moreno on 1 January 2015 the Virgin Money Board percentages are 27.3% female and 72.7% male, continuing to meet the objective of 25% as detailed in the Virgin Money Diversity Policy.

Information on the Group's approach to diversity and diversity programmes is set out on pages 38-39 of the Strategic Report.

Conflicts of interest

All Directors of the Group and its subsidiaries have a statutory duty to avoid any situation which might give rise to a conflict between their personal interests and those of Virgin Money. Prior to appointment, potential conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent the incoming Director from taking the appointment.

Directors are responsible for notifying the Chairman and the Company Secretary as soon as they become aware of any actual or potential conflict situations.

In addition, conflicts are monitored as follows:

- the Directors are required to declare any conflicts on appointment;
- changes to the commitments of all Directors are reported to the Board; and
- a register of potential conflicts is regularly reviewed by the Chairman to ensure the authorisation remains appropriate.

If any potential conflict arises, the relevant Director will excuse themselves from any meeting or discussions where the potential conflicts are considered and all relevant material will be restricted, including Board papers and minutes.

All potential conflicts authorised by the Board are recorded in a register of Directors' Conflicts of Interests. This sets out the duration of the conflict, any circumstances in which the Director must revert to the Board and any conditions relating to the authorisation.

Patrick McCall and Gordon McCallum are Non-Executive Directors of Virgin Money and Directors of certain companies within the Virgin Group of companies. During the year, Virgin Money agreed a new trademark licence agreement with Virgin Enterprises Limited and separately the Relationship Agreements with Virgin and WLR. Gordon McCallum, Patrick McCall and James Lockhart III excused themselves from all discussions concerning these arrangements. On this basis, the Board approved the potential conflicts of interest.

Corporate Governance Report

Time commitments

Each Non-Executive Director is required to devote such time as is necessary for the effective discharge of their duties to a minimum of 36 days per year, including attendance at Board Committees. Non-Executive Directors may be expected to relinquish other appointments to ensure that they can meet the time commitments of their role and the requirements of CRD IV.

Fees paid to Non-Executive Directors reflect the time commitment and responsibilities of the role. The Non-Executive Directors, other than the current Chairman, do not receive share options or other performance-related pay. Details of the share options granted to the current Chairman are set out in the Directors' Remuneration Report on page 143.

The Chairman is required to commit to Virgin Money being his primary role, limiting his other commitments to ensure he can spend as much time as the role requires on Virgin Money business.

Executive Directors must seek authorisation from the Board before accepting any additional responsibilities or external appointments and restricted to holding no more than two non-executive director roles. At 31 December 2014, both Executive Directors were compliant with this requirement and continue to be at the date of this report.

Training

Board induction

All Directors are expected to make an informed contribution based on an understanding of the Group's business model and the key challenges facing the Group and its business. The Chairman ensures that all Directors receive a full, formal and tailored induction on joining the Board comprising:

- a corporate induction, including an introduction to the Board and a detailed overview of the Group, its strategy, operational and governance structures and main business activities; Non-Executive Directors are also afforded opportunities to meet with major shareholders;
- training on the roles and responsibilities of a Director, including statutory duties and responsibilities as an FCA approved person; and
- a bespoke induction designed by the Company Secretary with the HR Director and Chief Risk Officer and agreed with the Chairman, tailored to the individual needs of the Director with regard to their specific role and their skills and experience to date. This takes the form of reading materials and meetings with members of the Board and Executive and sessions on the Group's main business divisions.

In preparation for his role as Chairman of Virgin Money Glen Moreno is participating in an induction and familiarisation programme.

Professional development

The Board receives regular training and information sessions throughout the year to address current business or emerging issues. This training is undertaken under the leadership of the Chairman and delivered through presentations and written updates, including in 2014, training and information sessions on:

- interest rate risk in the banking book;
- funds transfer pricing;
- asset and liability management;
- capital and liquidity;
- the roles and responsibilities of directors in a listed entity; and
- in January 2015 the new Senior Managers regime.

In addition, the Audit Committee hosted a series of updates in 2014 on latest accounting standards and the enhanced disclosure requirements of a listed company and the Board Risk Committee received in depth training and guidance on matters including capital and cybercrime.

Directors are also invited to attend courses and briefings delivered by professional advisers and industry bodies and one-to-one meetings with key Executives.

Board agenda and attendance

Setting the Board agenda

The Chairman is responsible for setting the Board agenda and is assisted in this by the Chief Executive and Company Secretary. Board agendas are structured to allow adequate and sufficient time for discussion of agenda items, particularly strategic matters.

Prior to each Board meeting, the Chairman reviews the agenda and time allocation with the Company Secretary and discusses key items of business with the Chief Executive. The Chief Executive also has a separate Board paper review meeting with the Company Secretary. The Chairman engages with each of the independent Non-Executive Directors and the Chief Executive before each scheduled meeting to discuss any matters they wish to raise. This is in addition to the ongoing dialogue the Chairman and Chief Executive have with the Nominee Directors and other major shareholders. To ensure that there is sufficient time for the Board to discuss matters of a material nature, Board dinners are held prior to each scheduled Board meeting. This allows the Directors greater time for debate ahead of the meeting. These pre-meetings are normally attended by all members of the Board and certain members of the Executive. Occasionally the pre-meetings are held without the Executive Directors present.

Attendance at meetings

During 2014, in addition to the 11 scheduled Board meetings, nine further meetings were held at short notice principally to discuss the IPO. In total, therefore, the Board met 20 times during the year. Where a Director was unable to attend a meeting, the Chairman discussed the matter to be considered with the Director following his/her review of the Board papers prior to the meeting and represented their views at the meeting.

The attendance of Directors at Board and Committee meetings during the year is set out below. The number of meetings held during the period that the Director held office is shown in brackets. While Directors may be invited to, and regularly attend other Committee meetings, only attendance at Board Committees of which Directors are members is recorded.

	Virgin Money Holdings						
Director	Scheduled meetings	Additional Meetings	Remuneration Committee	Nomination Committee	Board Risk Committee	Audit Committee	Balance Sheet Committee
Sir David Clementi	11 (11)	9 (9)	16 (17)[1]	7 (8)[1]	4 (4)	8 (8)	4 (4)
Norman McLuskie	11 (11)	9 (9)	17 (17)	8 (8)	5 (5)	12 (12)	5 (5)
Olivia Dickson (appointed 01.09.14)	4 (4)	5 (5)	8 (8)	3 (3)	2 (2)	–	1 (1)
Colin Keogh[2]	11 (11)	8 (9)	9 (9)	7 (8)	5 (5)	12 (12)	5 (5)
Marilyn Spearing (appointed 29.01.14)[3]	10 (11)	9 (9)	14 (17)	7 (7)	4 (5)	10 (12)	5 (5)
Gordon McCallum	11 (11)	9 (9)	–	8 (8)[5]	–	–	–
Patrick McCall	11 (11)	8 (9)[4]	–	–	–	–	–
James Lockhart III	11 (11)	9 (9)	–	7 (8)[6]	–	–	–
Jayne-Anne Gadhia CBE	11 (11)	9 (9)	–	–	–	–	–
Lee Rochford	11 (11)	9 (9)	–	–	–	–	–

1 One meeting was a combined Remuneration and Nomination Committee meeting relating to the Chairman's succession at which the Chairman absented himself.

2 Colin Keogh was unable to attend one additional Board meeting which was convened at short notice and one committee meeting due to prior commitments but discussed his respective views on the matters to be considered with the Chairman in advance.

3 Marilyn Spearing was unable to attend one Board meeting and six committee meetings, the majority of which were called on short notice, due to prior commitments but discussed her views on the matters to be considered with the Chairman or Committee Chairs in advance.

4 Patrick McCall was unable to attend one additional Board meeting which was convened on short notice due to a prior commitment but discussed his views on the subject matter with the Chairman in advance.

5 Gordon McCallum was unable to attend one Nomination Committee meeting due to prior commitments, but Patrick McCall attended as his alternate and represented his views.

6 James Lockhart III was unable to attend one Nomination Committee meeting due to prior commitments but discussed his views on the matters to be considered with the Chairman in advance.

Corporate Governance Report

In addition to the Board Committees set out above, during 2014 the Board established a Strategy Committee specifically to discuss matters relating to the IPO. The members of the Strategy Committee, which met twenty five times during the year, were representatives of the major shareholders (James Lockhart III and Patrick McCall), who acted as co-chairs, an independent Non-Executive Director (Colin Keogh), the Executive Directors (Jayne-Anne Gadhia and Lee Rochford) and the Chairman. All other Board members had a standing invitation to attend.

Effectiveness

Board effectiveness

An externally-facilitated, formal evaluation of the Board's performance was carried out in 2013 which highlighted specific areas for action. These issues were largely addressed during 2013 and fully implemented in 2014.

- The Nomination Committee continued to review Board composition, giving particular consideration to the Board's stated objective of enhancing its diversity and experience. Marilyn Spearing joined the Board on 29 January 2014 and during 2014 the Nomination Committee also recommended the appointment of Olivia Dickson and Glen Moreno as independent Non-Executive Directors (and, in the case of, Mr Moreno as Chairman Designate).
- The Board also continues to improve the quality and timeliness of Board and Board Committee papers circulated prior to meetings.

In 2014, prior to the IPO, the governance arrangements and framework, including specifically Board and Board Committee composition, were enhanced to ensure they were fully appropriate for a listed company. The timing of these changes and the Chairmanship succession, has led the Board to conclude that a meaningful evaluation process could only take place following the implementation of its new governance structure in the listed environment. Accordingly, no formal performance evaluation of the Board or its Committees was undertaken in 2014. The Board has resolved that a full evaluation will take place during 2015 in accordance with the Code.

Internal control

The Board is responsible for the Group's system of internal control. The system is designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. In establishing and reviewing the system of internal control, the Directors consider the nature and extent of the risks facing the Group, the likelihood of a risk event occurring and financial impact of failure. A system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. It can therefore provide only reasonable but not absolute assurance against the risk of material mis-statement or loss.

The Directors and senior management are committed to maintaining a robust control framework as the foundation for the delivery of effective risk management. They acknowledge their responsibilities in relation to the Group's system of internal control and for reviewing effectiveness.

The policies supporting the Group's risk management framework define minimum standards for controls for all material risk classes.

Business areas and support functions assess quarterly the internal controls in place to address all material risk exposures across all risk classes. This review considers the effectiveness of these material controls, including financial, operational and compliance controls.

During 2014 the effectiveness of the internal control system was reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by Risk and Internal Audit. The Audit Committee receives reports from the Company's auditor, KPMG LLP, (which includes details of significant internal control matters that they have identified), and has a discussion with the auditor at least once a year without any member of the Executive team present, to ensure that there are no unresolved issues of concern.

In 2014, the Audit Committee, in conjunction with the Board Risk Committee, concluded that the Group's systems of internal control and risk management were effective, and recommended that the Board approve them accordingly.

Further information on the risk control and management is set out in the Risk Management Report on pages 146 to 152.

Shareholder engagement and relationships

The Board recognises the importance of promoting mutual understanding between the Company and its shareholders through strong engagement. In the period prior to listing, the Chief Executive and Chief Financial Officer attended various investor meetings speaking with institutional investors.

During 2014 the Group's major shareholders were Virgin and WLR. The Chairman and Non-Executive Directors kept up to date with the views of such shareholders through both the Nominee Directors attendance at Board and meeting separately with shareholder representatives. The Board looks forward to engaging with its new shareholders during 2015.

Via their Nominee Directors appointed pursuant to the Relationship Agreements, the views of Virgin and WLR are, and will be, expressed and considered at all Board meetings.

The principal purpose of the Relationship Agreements is to ensure that Virgin Money is capable of carrying on its business independently of its controlling shareholders. Under the Relationship Agreements, each of Virgin and WLR has undertaken that it shall not:

- take any action that would preclude or inhibit any member of the Group from operating independently of Virgin or WLR;
- take any action that would prevent Virgin Money from complying with its obligations under the Listing Rules;
- propose any shareholder resolution which is intended to circumvent the Listing Rules;
- conduct any transactions and arrangements with the Group other than on an arms' length basis and on normal commercial terms;
- exercise any voting or other rights and powers to procure or propose, or vote in favour of, any resolution for an amendment to the articles which would breach the provisions of the relevant Relationship Agreement or the Listing Rules or the DTR, or would prevent the Group from carrying on business independently of Virgin or WLR;
- act in any way which it knows will render Virgin Money unsuitable for continued listing on the London Stock Exchange; and
- vote on any resolution to approve a 'related party transaction' where Virgin or WLR is the related party.

So far as the Company is aware, the independence provisions outlined above have been complied with by each of Virgin and WLR and the Company has complied with the terms of the Relationship Agreements.

The Investor Relations Director has primary responsibility for day-to-day communications with major and institutional investors. Supported by the Chief Executive and Chief Financial Officer they achieve such communications through a combination of briefings to analysts and institutional investors, individual discussions with institutional investors, regulatory announcements, press releases and updates on the Virgin Money corporate website.

The Company Secretary oversees communication with individual retail investors (the vast majority of whom are currently colleagues). All shareholders will be encouraged to attend the AGM. All members of the Board will be in attendance and shareholders will be provided with an opportunity to ask questions on the formal business of the AGM.

Details of the date and venue of the 2015 AGM are set out in the Directors' Report on page 81. Information on the business to be considered at the AGM will be set out in the Notice of Meeting which will be sent to shareholders, together with any related documentation, in due course.

Corporate Governance Report

Statement of compliance

UK Corporate Governance Code

Prior to the IPO in November 2014, Virgin Money was not required to follow the Code although it did take account of a number of its principles. Following listing on 18 November 2014, the Board has sought to move towards full compliance with the Code. As explained on pages 83 and 92, the Board did not undertake a formal performance evaluation during 2014, but will do so in 2015, in accordance with the Code. The Directors have considered the contents and requirements of the Code and confirm that throughout the period from 18 November 2014 to 31 December 2014 Virgin Money has applied the main principles and complied with the provisions of the Code.

The British Bankers' Association Code for Financial Reporting Disclosure

In September 2010, the British Bankers' Association (BBA) published a Code for Financial Reporting Disclosure (the Disclosure Code). The Disclosure Code sets out five disclosure principles together with supporting guidance. The principles are that UK banks: (i) commit to providing high quality, meaningful and decision-useful disclosures; (ii) commit to the ongoing review of, and enhancement to, their financial instrument disclosures for key areas of interest; (iii) will assess the applicability and relevance of good practice recommendations to their disclosures acknowledging the importance of such guidance; and (iv) will seek to enhance the comparability of financial statement disclosures across the UK banking sector; and (v) will clearly differentiate in their annual reports between information that is audited and information that is unaudited.

Although Virgin Money is not a full member of the BBA, it has voluntarily adopted the Disclosure Code and its 2014 financial statements have been prepared in compliance with the Disclosure Code's principles.

Committee reports

The following pages contain reports from each of the Board's Committees.

Nomination Committee Report

"We worked hard during 2014 to ensure the strength and diversity of the Board is appropriate for a listed company."

Sir David Clementi
Chairman,
Nomination Committee

Membership and meetings

	Independent	Meetings attended/ held in 2014[1]
Committee Chairman		
Sir David Clementi[2]	No	7/8
Committee members[3]		
Colin Keogh	Yes	7/8
Norman McLuskie	Yes	8/8
James Lockhart III	No	7/8
Gordon McCallum[4]	No	8/8
Olivia Dickson[5]	Yes	3/3
Former Committee members		
Marilyn Spearing[6]	Yes	7/7

1 Number of meetings held during the period the member held office.

2 One meeting related to the Chairman's succession at which the Chairman absented himself.

3 The views of the members who are unable to attend meetings are provided to the Committee Chair for representation to the meeting, following receipt and review of the Committee papers.

4 Gordon McCallum was unable to attend one Nomination Committee meeting, but Patrick McCall attended as his alternate and represented his views.

5 Mrs Dickson was appointed as a member of the Committee on 1 September 2014.

6 Ms Spearing was appointed as a member of the Committee on 29 January 2014 and remained a member until 30 September 2014.

Chairman's overview

During 2014, the Nomination Committee continued to keep under review the Group's governance arrangements, Board composition, succession planning (both at Board and Executive level) and the effectiveness of the Board and Bank Board and Committees. In particular, considerable time was spent addressing the following matters:

Board appointments

The Committee focused on developing the balance of independence, skills and experience on the Board to ensure Virgin Money's readiness for listing. This led to the Committee recommending that the Board appoint a number of new Directors. Marilyn Spearing and Olivia Dickson were appointed as independent Non-Executive Directors as a reflection of the Board's desire to increase the number of directors with significant banking and financial services experience. Together with Marilyn Spearing's specialism in payments and information technology and Olivia Dickson's remuneration experience, these appointments have strengthened the Board's knowledge and skills and have also brought fresh perspective to Board debate.

New Chairman

Following the Committee's review of succession arrangements, prior to completion of my agreed three-year term of office, the Committee oversaw a comprehensive search for the appointment of a new Chairman to replace me when I retire from the Board in the middle of 2015. This search culminated in the appointment of Glen Moreno as an independent Non-Executive Director and as Chairman Designate on 1 January 2015. Glen brings a wealth of expertise to the role with more than 40 years' experience in business and finance, including serving as deputy chairman of the Financial Reporting Council and senior independent director at Lloyds Banking Group plc. Glen is currently Chairman of Pearson PLC (a FTSE 100 company) and a Non-Executive Director of Fidelity International Limited. His immense experience will be important in continuing to grow the Virgin Money business as a significant challenger to the large incumbent high street banks.

Corporate Governance Report

Nomination Committee Report

Succession planning and management

The Committee considered management's succession planning and oversaw the strengthening of the Executive. Details can be found on pages 75 to 77. Together, the Directors and the Executive bring a wealth of experience and expertise to the management and operations of Virgin Money. The Executive have considerable experience in the financial services industry.

Board effectiveness review

In preparation for the IPO, the Committee considered progress against the 2013 action plan arising from the 2013 Board Effectiveness Review. The Chairman engaged with the Directors on matters including Committee composition and the frequency of Board meetings. This culminated in a move to enhance the independence of the Board Committees (other than the Nomination Committee) and improve the form of reporting to the Board on Committee activities. While a formal Board evaluation was not carried out, in view of Glen Moreno's recent arrival, the changes to Committee composition and chairmanship and the IPO taking place late in 2014, the Board agreed that an evaluation would be undertaken in late 2015.

Corporate governance

The Committee monitored proposed changes in regulations and, in response to CRD IV requirements, approved a formal diversity policy for each of the main Boards of the Group which was adopted by the Board during the year.

While I am pleased to report a more balanced gender representation on the Board and in the business generally, there is some way to go before the Board matches the demographics of UK society and our customer base. More details are set out on pages 88 to 89 of this report.

Committee purpose and responsibilities

The purpose of the Committee is to keep the Board's composition, skills, experience, knowledge, independence and succession arrangements under review and to make appropriate recommendations to the Board to ensure that the Group's arrangements are consistent with the highest corporate governance standards. The Committee's role also extends to appointments to the board of Virgin Money's material subsidiaries including the Bank. The key responsibilities of the Committee are set out in the table below and examples of how it discharged its responsibilities in 2014 follows. A full list of responsibilities is detailed in the Committee's terms of reference, which were updated in 2014 to align to the requirements of a listed entity. These can be found on our website at www.virginmoney.com.

Nomination Committee Terms of Reference	
Board composition	• Keeps under review the leadership needs of the Group. • At least annually, reviews the structure, size and composition of the Board and assesses the knowledge, skills, experience and reputation of the Directors. • Prepares a diversity policy and decides the target for representation of any under-represented gender on the Board.
Board appointments	• Identifies, and recommends for approval by the Board, candidates to fill Board vacancies. • Prepares descriptions of the role and capabilities required for a particular appointment and assesses the time commitment expected. • Reviews the time commitment required from Non-Executive Directors annually.
Succession planning	• Regularly reviews succession planning for Directors and senior executives. • Formulates plans for recommendation to the Board on succession for both Executive and Non-Executive Directors.
Board evaluation	• Oversees the annual evaluation of the performance of the Board and its Committees and makes recommendations to the Board regarding remedial actions to address any weaknesses or failures identified.

Nomination Committee Report

Committee composition, skills and experience

To ensure a broad representation of independent views, including perspectives from each of the Committees, membership of the Nomination Committee comprises the Chairman, the Senior Independent Director, the Chairpersons of the Board Risk and Remuneration Committees and the Nominee Directors. Olivia Dickson joined the Committee in September 2014. Her perspective and experience gained from being a Non-Executive Director on other boards as well as her prior executive career further complements the composition of the Committee. The Chief Executive and, if required, the HR Director attend meetings as appropriate.

Board succession

The Committee oversees the Board's arrangements for the longer-term succession of Board and Committee members. Non-Executive Director succession planning is addressed as part of the ongoing review of Board composition. The approach takes into account the need to refresh regularly the intake of Non-Executive Directors to bring new and diverse perspectives to the Board and its deliberations. It also ensures appropriate representation on each of the Board's Committees and planning for longer term succession. The Chairman, with the support of the Senior Independent Director, is responsible for developing and maintaining the succession plan in relation to the Chief Executive who is, in turn, primarily responsible for developing and maintaining a succession plan for key leadership positions in the Executive.

The Committee led the search for a new Chairman to replace Sir David Clementi who had indicated that he would step down from the Board at the conclusion of his original three-year term, which expired on 7 October 2014. In order to ensure that Virgin Money achieved a smooth and successful transition from private company to publicly listed company, the Board, led by the Nominee Directors, secured an extension of Sir David's appointment.

The Chairman excluded himself from all discussions relating to the process for the appointment of his successor.

On 12 September 2014 Virgin Money announced that, subject to regulatory approval, Glen Moreno would join the Board in January 2015 as an independent Non-Executive Director and Chairman Designate. The appointment received unanimous Committee and Board approval. Details of Glen Moreno's experience are set out in the section headed "New Chairman" on page 95.

It has been agreed that Sir David Clementi will be succeeded by Glen Moreno as Chairman of the Board on 21 May 2015 (the first Board meeting after the 2015 AGM) and will retire as Non-Executive Director of Virgin Money on 30 June 2015.

Executive succession

The Committee also reviewed the structure and succession planning of the Virgin Money Executive during the year, resulting in a number of changes and appointments. The changes ensure the Executive has appropriately skilled and experienced individuals to take Virgin Money forward in a listed environment. The review led to the appointments of Andrew Emuss as General Counsel (replacing Stephen Pearson who stepped down from the role due to illness) and as well as some structural changes to reporting lines within the Executive. The Committee also recommended the appointment of Richard Hemsley as Chief Banking Officer with effect from 5 January 2015. The Committee and the Board are satisfied that the Executive is staffed appropriately and the Committee will continue to ensure robust succession planning remains under review.

Board and committee composition

The Committee assists the Chairman in his assessment of the skills, experience, knowledge, composition and diversity of the Board and its Committees. Following such a review in 2013, and in line with recommendations arising from the 2013 Board Effectiveness Review, the Committee began a process of strengthening the composition, diversity and experience of the Board through the appointment of additional independent Non-Executive Directors during 2014. This process led to the appointment of Marilyn Spearing as a Non-Executive Director on 29 January 2014 and of Olivia Dickson as a Non-Executive Director on 1 September 2014 (in addition to the appointment of Glen Moreno described on page 95).

In the case of each of the new Chairman and the new independent Non-Executive Directors, Egon Zehnder, an external search consultant with no other connection to Virgin Money, was appointed to assist in the identification of appropriate candidates.

Corporate Governance Report

Nomination Committee Report

Independence

The Committee is responsible for the ongoing assessment of the independence of Non-Executive Directors. In carrying out its review, the Committee considered both the Code requirements on independence and factors such as length of tenure and the ability of the Non-Executive Director to provide an objective challenge to the Executive. It also took account of any relationships that had been disclosed and authorised by the Board. Based on the assessment for 2014, the Committee is satisfied that, throughout the year (or the period of their appointment), Colin Keogh, Norman McLuskie, Marilyn Spearing and Olivia Dickson remained independent as to both character and judgement and Glen Moreno is considered independent on his appointment. The Nominee Directors are not considered to be independent due to their relationship with the Company's major shareholders. Patrick McCall is not considered to be independent since he was appointed to the Board as the Representative Director of Virgin Enterprises Limited pursuant to the Virgin Money Trade Mark Licence Agreement.

Diversity

During the course of 2014, the Board, on the Committee's recommendation, adopted the Board Diversity Policy. The policy sets out the approach to diversity for each of the main Boards within the Virgin Money Group. Under the Board Diversity Policy, the Committee is responsible for reviewing the composition of the Group's Boards to ensure that their membership reflects diversity in the broadest sense. The combination of personalities on the Board provides a good range of perspectives and challenge and improves the quality of decision marking. A separate policy, the Virgin Money Diversity & Inclusion Standard & Procedure, applies to all colleagues across the Group.

In 2014 the Board continued to focus on improving diversity. The percentage of female representation on the Board meets the objective of 25% set out in the Board Diversity Policy. Achieving full compliance with the Board Diversity Policy is a continual focus and one which the Committee will monitor during 2015, as the search for an additional independent Non-Executive Director gets underway. Details of the new search are set out in the 'Appointments' section on page 88.

Effectiveness

Details of the progress made on Board effectiveness are set out in the section headed "Board Effectiveness Review" above on page 96. The Committee will focus on establishing and agreeing an appropriate approach to the 2015 evaluation during 2015 with a formal evaluation being undertaken during the second half of the year.

David Clementi

Sir David Clementi
Chairman, Nomination Committee

Audit Committee Report

"The Audit Committee spent considerable time during 2014 considering the Group's external financial reporting, including reviewing accounting policies, estimates and judgements and levels of disclosure."

Norman McLuskie
Chair, Audit Committee

Membership and meetings

	Independent	Meetings attended/ held in 2014[1]
Committee Chairman		
Norman McLuskie	Yes	12/12
Committee members[2]		
Colin Keogh	Yes	12/12
Marilyn Spearing[3]	Yes	10/12
Former Committee members		
Sir David Clementi[4]	No	8/8

1 Number of meetings held during the period the member held office.

2 The views of the members who are unable to attend meetings are provided to the Committee Chair for representation to the meeting, following receipt and review of the Committee papers.

3 Ms Spearing was appointed as a member of the Committee on 29 January 2014.

4 Sir David Clementi was a member of the Committee from 29 January 2014 until 30 September 2014.

Chairman's Overview

2014 was a very busy year for the Audit Committee as a result of a full business as usual agenda and additional requirements in respect of the IPO prospectus, necessary to achieve our listing. I thank all my colleagues for the additional time commitment and am pleased to report that, in my view, the Committee fulfilled its responsibilities and met its key objectives in 2014.

The Committee considered the Group's external financial reporting, including the historical financial information required within the IPO prospectus and the 2013 Annual Report and Accounts. In addition, the Committee considered internal control requirements, numerous reports from Internal Audit and managed a full and active relationship with the external auditor.

In relation to financial reporting, the Committee reviewed the 2014 Annual Report and Accounts as well as the Group's results for the six months to 30 June 2014 and the Group's three–year historical financial information prior to approval by the Board. The Committee agreed a number of key accounting judgements maintaining a focus on calculation of effective interest rate, loan and impairments, share-based payments, cost capitalisation and contingent liabilities.

Also, as part of the listing process, the Committee received and reviewed reports from the external auditor in relation to their audit of the financial reporting disclosures within the IPO prospectus. The external auditor also presented to the Committee on the working capital position of the Group to support the listing and the financial procedures and prospects of the Group.

A new revised charter for Internal Audit was adopted with the Committee undertaking a detailed review of the audit plan. Internal Audit provided strong support to the Committee's work during the year, specifically in relation to internal control and risk management.

The Committee continues to be satisfied with the effectiveness of external audit, having undertaken an auditor effectiveness review in the second half of 2014. This review was very positive and identified only a small number of areas where improvement could be made. The Committee intends to undertake a tender in 2015 in respect of the 2016 external audit, in line with the developments in relation to reform of the external audit regulations. Further detail can be found on page 104.

In 2015, a key matter for the Committee is to ensure that Virgin Money's existing systems and processes continue to be appropriate for a listed company.

Committee purpose and responsibilities

The purpose of the Committee is to monitor and review the Group's financial reporting arrangements, the effectiveness of its internal controls and its risk management framework, the internal and external audit processes and the Group's whistleblowing procedures. The Committee reports to the Board on its activities and makes recommendations to the Board, all of which have been accepted during the year.

The key responsibilities of the Committee are set out in the table below. A full list of responsibilities is detailed in the Committee's terms of reference, last updated in 2014 to align to the requirements as a listed entity. Details can be found on our website at www.virginmoney.com.

Corporate Governance Report

Audit Committee Report

Audit Committee Terms of Reference	
Financial reporting	• Monitors the integrity of the Group's financial statements and reviews the critical accounting policies. • Reviews and monitors any significant adjustments arising from the external audit. • Assesses, and challenges where necessary, the estimates and judgements by management in relation to all financial statements. • Reviews the annual report and accounts and other financial reporting and advises the Board on whether, taken as a whole, it is fair, balanced and understandable. • Assesses and challenges the going concern assessment undertaken by management.
External Audit	• Oversees the relationship with the external auditor, including remuneration, terms of engagement and considers their effectiveness, independence and objectivity. • Makes recommendations to the Board concerning the appointment, reappointment and removal of the external auditor. • Agrees the policy for the provision of non-audit services and the policy for employment of former employees of the auditor. • Approves the annual external audit plan. • Reviews the findings of audits with the external auditor, considering management's responsiveness to any findings or recommendations.
Internal controls and risk management	• Reviews the adequacy and effectiveness of internal controls, financial reporting and risk management and management's responsiveness to addressing control weaknesses. • Reviews and approve internal control and risk management statements in the Annual Report.
Whistleblowing	• Reviews the adequacy and security of the Group's whistleblowing arrangements and reports from the Head of Internal Audit on whistleblowing instances.
Internal Audit	• Monitors the effectiveness of the Group's Internal Audit function. • Approves the appointment and removal of the Head of Internal Audit. • Approves the annual Internal Audit plan and receives reports from the Head of Internal Audit. • Monitors management's responsiveness to the findings and recommendations of Internal Audit.

Committee composition, skills and experience

The Committee acts independently of the Executive to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control.

Sir David Clementi stood down from the Committee in September 2014, as Virgin Money moved towards IPO.

All of the current members of the Committee are independent Non-Executive Directors with recent and relevant experience in finance and/or banking. The Chair of the Committee is a Chartered Accountant with significant financial and banking experience in the UK listed environment, which enables him to fulfil the role of Audit Committee Chair.

Financial reporting

During 2014, the Committee considered the following financial issues and judgements in relation to the Group's financial statements and disclosures, with input from management and the external auditor:

Audit Committee Report

Key issues/judgements in financial reporting	Audit Committee review and conclusions
Effective Interest Rate ("EIR") The application of the EIR method of accounting is judgemental and requires management to make a number of assumptions. The Group Balance Sheet as at 31 December 2014 includes the recognition of a deferred EIR asset in respect of mortgage lending of £51.6 million and a deferred EIR asset of £3.5 million in respect of credit card lending.	Interest earned on loans and receivables is recognised using the EIR method. EIR is calculated on the initial recognition of mortgage and credit card lending through a discounted cash flow model that incorporates fees, costs and other premiums or discounts. The Committee spent time understanding and challenging the judgements taken and the EIR methodology applied by management in determining the EIR including expected future customer behaviours for each tranche of lending. The Committee agreed that management's judgement was appropriate as at 31 December 2014. The disclosures relating to EIR are set out in note 1.11(a) to the financial statements on page 240.
Allowance for impairment losses on loans and receivables Determining the appropriateness of impairment losses is judgemental and requires the Group to make a number of assumptions. The loan loss impairment provisions recorded by the Group as at 31 December 2014 were £7.6 million for secured lending and £23.0 million in relation to the unsecured portfolio.	The Committee received regular reports from management in 2014 in relation to impairment provisioning for the secured and the unsecured credit portfolio. The Committee considered and challenged the provisioning methodology applied by management, including the results of statistical loan loss models to support the impairment provisions. The Committee considered the calibration of model parameters in the light of economic indicator including house price movements, and underlying book performance. The Committee was satisfied that the impairment provisions were appropriate. The disclosures relating to impairment provisions are set out in note 1.11(c) to the financial statements on page 240.
Fair value of share-based payments Determining the fair value of share-based payments awarded to employees and Directors requires management to make a number of judgements. In the 2014 full year results, a total charge of £13.5 million to the income statement was reflected for share based payments.	The Committee considered the share based payment amounts recorded in the financial statements that are calculated using valuation models that require management judgement to be exercised with respect to inputs and assumptions. During the course of 2014, there were a number of modifications to existing schemes and a number of awards vested, including schemes triggered by IPO. The Committee was satisfied with the judgements applied in measuring the fair value of modifications and awards made during the year. The disclosures relating to share based payments are set out in note 1.11(b) to the financial statements on page 240.
Cost Capitalisation Determining the appropriateness of costs that qualify for recognition as intangible assets requires management judgement. Management are also required to make ongoing assessments of whether any assets are impaired. In 2014 the Group capitalised a further £26.9 million as intangible assets. No assets were identified as impaired through reviews for indicators of impairment.	Over the course of 2014 there has been significant investment spend, in particular in relation to the build of the Group's in-house credit card platform and the development of the Group's digital capability. The Committee has considered and is satisfied with the appropriateness of the accounting recognition of these investment costs, including those costs that qualify for recognition as intangible assets in line with the criteria prescribed by accounting standards. The Committee has also considered management's impairment review and is satisfied with the conclusion that no assets require impairment adjustment. The disclosures relating to the movement in intangible asset balances during the year are set out in note 1.11(f) to the financial statements on page 241.

Corporate Governance Report

Audit Committee Report

Key issues/judgements in financial reporting	Audit Committee review and conclusions
Recoverability of the deferred tax asset The recoverability of the deferred tax asset requires consideration of the future levels of taxable profit in the Group. The Group's total deferred tax asset as at 31 December 2014 is £50.2 million. Based on the Group's forecast taxable profit, the losses are expected to be fully utilised in the near to medium term.	The Committee considered the recognition of deferred tax assets, in particular the forecast taxable profits based on the Group's three-year strategic plan. The Committee agreed with management's judgement that the deferred tax assets were appropriately supported by forecast taxable profits, taking into account the Group's long-term financial and strategic plans. This assessment incorporated the anticipated impacts of the tax measures announced by the Chancellor of the Exchequer in the 2014 Autumn Budget Statement. The disclosures relating to deferred tax assets are set out in note 23 to the financial statements on page 269.
Contingent liabilities and provisions Determining the nature of any provisions and/or disclosures requires the Group to make a number of assumptions. In the 2014 full year results, total provisions of £9.3 million (including the FSCS levy provision) were recognised. As at 31 December 2014 the Committee is not aware of any contingent liabilities.	The Committee spent time understanding and assessing any provisions or disclosures required for known or contingent liabilities. No material conduct related matters exist. Provisions also include £8.7 million in relation to the FSCS levy. During 2014 the Committee considered the impact of adopting IFRIC 21, which has amended the timing of the accounting recognition of the FSCS levy and required a prior period restatement. Over the course of 2014, management was required to assess the fair value of the potential additional Northern Rock consideration payable to HM Treasury on the IPO in accordance with the terms of the acquisition of Northern Rock. This was a key judgement during the course of 2014 (and 2013) financial reporting, but was extinguished when the payment was made in November 2014. The Committee was satisfied that the provisions for liabilities and charges were appropriate. The disclosures relating to provisions and contingent liabilities are set out in notes 27 and 33 to the financial statements on pages 271 and 275 respectively.

The Committee examined the Group's accounting practices to ensure that their presentation in the financial statements is clear, understandable and consistent with accounting standards.

The Committee reviewed changes to accounting standards and the potential impact these may have on the Group's financial statements. This included IFRIC 21, and the prior year comparatives have been restated for its impact. IFRS 9 has also been considered in terms of its future impact. The Committee also received regular updates from the external auditor on both the 2013 and 2014 audit process with focused discussion on the key audit areas.

In February 2015, the Committee recommended the approval of the final 2014 Annual Report to the Board. Other matters considered by the Committee during the year, and which are not covered elsewhere in this report, included ensuring that Virgin Money's Pillar 3 disclosures satisfied the prescribed requirements.

IPO

In connection with the IPO, the Committee convened additional meetings during the year and considered and approved matters including a review of the Financial Procedures and Prospects of the Group; and review of the Working Capital and Long Form reports required as part of the pre-listing procedures.

Fair, balanced and understandable

A key requirement of the 2014 Annual Report is that it should be fair, balanced and understandable. At the request of the Board, the Committee considered whether the 2014 Annual Report, when taken as a whole, is fair, balanced and understandable and whether it provides the necessary information for shareholders to assess the Group's performance, business model and strategy. The Committee is satisfied that the 2014 Annual Report meets this requirement, and in particular, that appropriate disclosure has been included for both positive and negative developments in the year.

Audit Committee Report

In justifying this statement the Committee has considered the robust processes which operate in creating the 2014 Annual Report, including:

- clear guidance and instruction is given to all contributors;
- at an early stage, key themes are identified together with the sections in which those themes should be reflected;
- the 2014 Annual Report is drafted by the Executive with overall governance and co-ordination provided by a steering group comprised of a team of cross-functional senior management to ensure consistency across sections;
- input is provided by senior management and corporate functions;
- a thorough process of review, evaluation and verification of the inputs is undertaken to ensure accuracy and consistency;
- further reviews are conducted by senior management;
- the processes and disclosures are benchmarked against the Code requirements, peers and best practice during the planning process;
- assurances are sought from the Executive on each section of the 2014 Annual Report;
- the Committee undertakes a formal review and consideration of the draft 2014 Annual Report in advance of the final sign-off; and
- final sign-off is provided by the Board of Directors.

Internal Audit

During 2014, the Committee monitored the effectiveness of Internal Audit and the Internal Audit programme, approving the audit plan and budget, and confirming that appropriate resources were in place to execute the plan effectively.

Internal Audit carried out a significant number of audits in 2014 of varying size and complexity. Certain thematic audits focused on liquidity and capital management, customer outcomes, business processes, elements of the risk management framework, business applications strategic risks and the implementation of regulatory change. In addition, specific Internal Audit reviews have been carried out on behalf of the regulator in relation to lending policy, and HM Treasury in relation to Help to Buy.

The overall findings from Internal Audit are presented to the Audit Committee with specific review of the findings from the most significant activity.

The Head of Internal Audit presented the 2015 Audit Plan to the Committee in February 2015. The 2015 Audit Plan covers high risk areas which have been assessed in detail within the Internal Audit universe. The 2015 Audit Plan will continue to be reviewed to ensure that it remains aligned to the risk profile of Virgin Money.

It has been agreed that a new Head of Internal Audit will join the business in May 2015. During 2014, the role was covered by a permanent Head of Internal Audit from January to June and an interim head, on secondment from Deloitte, for the remainder of the year and to April 2015.

Internal control and risk management

Details of the risk management systems in place are provided within the Risk Management Report on pages 153 to 154 and details of the reviews undertaken on the effectiveness of internal controls on page 92.

The Committee was satisfied that internal controls over financial reporting were appropriately designed and operating effectively.

Whistleblowing

The Committee reviewed a report by the Head of Internal Audit on the Group's whistleblowing arrangements and activity during the year. Under the policy, employees are encouraged to raise issues internally with line management. Where this is not possible, a dedicated whistleblowing phone line and email address has been set up which is monitored by the Head of Internal Audit. The Head of Internal Audit is responsible for assessing the concern raised and for determining whether a formal investigation should be launched.

The Head of Internal Audit presented a paper including a benchmarking assessment of the arrangements against the approach of other companies and recommended several improvements to the Group's Whistleblowing Policy. The Committee supported and approved the proposed improvements to the policy and recommended its approval by the Board.

Corporate Governance Report

Audit Committee Report

External Audit

Auditor independence and remuneration

Both the Board and the external auditor have safeguards in place to protect the independence and objectivity of the external auditor. The Committee has a comprehensive policy which was refreshed in 2014 to regulate the use of the auditor for non-audit services. The policy sets out the nature of work the external auditor may undertake. Any allowable non-audit services with a value above a defined limit require prior approval from the Audit Committee Chair. The total amount paid to the external auditor in 2014 is shown in note 6 to the Financial Statements on page 249. £1.9 million of the £2.0 million non-audit services fee relates to services provided by the external auditor in relation to Virgin Money's IPO.

During 2014, the Committee also approved a policy on the employment of former employees of the external auditor, designed to further preserve the independence of the external auditor.

How the Audit Committee assessed the effectiveness of the external audit process

In March 2014, the Committee approved a proposal to conduct a review of the effectiveness of the external audit process.

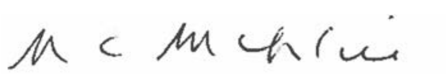
The review included seeking views of Audit Committee members, senior executives across the business and the Head of Internal Audit, through a questionnaire, together with consideration of the reports provided by KPMG LLP to the Audit Committee. The review was very positive concluding that the external audit process was effective with only a small number of areas identified where further enhancements could be made.

Tenure of the external auditor

The current KPMG LLP audit partner, Michael Peck, will be replaced on the Virgin Money audit team at the conclusion of the 2014 audit in accordance with the rotation requirements of the ethical standards of the Accounting Practices Board. Following discussions with KPMG LLP, and consideration by the Committee Chair and the Chief Financial Officer of possible candidates, the Board approved, on the Committee's recommendation, the appointment of John Ellacott as Virgin Money's new audit partner from 2015.

Having reviewed the results of the effectiveness evaluation, the Committee has recommended to the Board that KPMG LLP be re-appointed as Virgin Money's external auditor for the financial year ending 31 December 2015.

Virgin Money appointed KPMG LLP as the external auditor in 2004. Following the acquisition of the Bank (formerly Northern Rock) in 2012, which had been audited by PricewaterhouseCoopers LLP (PwC), KPMG LLP were approved as auditor of the Bank following a review of the audit arrangements. However, no formal audit tender was undertaken then. The Committee has kept under review regulatory and legislative developments around the tenure of auditors. After consideration of the developments in relation to reform of the external audit market, including EU legislation, the Committee will undertake a formal competitive tender in 2015 with a view to appointing a new audit firm, or re-appointing KPMG LLP, for the 2016 external audit, subject to shareholder approval at the AGM in 2016.



Norman McLuskie
Chair, Audit Committee

Board Risk Committee Report

"The Board Risk Committee has ensured Virgin Money has continued to operate within the approved risk appetite, risk management framework and risk culture during 2014, against the background of ongoing regulatory changes."

Colin Keogh
Chair, Board Risk Committee

Membership and meetings

	Independent	Meetings attended/ held in 2014[1]
Committee Chairman		
Colin Keogh	Yes	5/5
Committee members		
Norman McLuskie	Yes	5/5
Marilyn Spearing[2]	Yes	4/5
Olivia Dickson[3]	Yes	2/2
Former Committee members		
Sir David Clementi[4]	No	4/4

1 Number of meetings held during the period the member held office.

2 The views of the members who are unable to attend meetings are provided to the Committee Chair for representation to the meeting. Ms Spearing was appointed as a member of the Committee on 29 January 2014.

3 Mrs Dickson was appointed as a member of the Committee on 1 September 2014.

4 Sir David Clementi was a member of the Committee until 30 September 2014.

Chairman's Overview

I am pleased to report the Board Risk Committee fulfilled its responsibilities and met its key objectives in 2014.

As part of the business preparation for IPO, the Board commissioned an external review of Virgin Money's risk management framework. The results reviewed by the Committee confirmed that the risk management framework is robust and appropriate for a listed company. It was deemed a well developed process for managing risk, supporting strategy and risk appetite and includes metrics that assist effective oversight.

Virgin Money operates in a mature and increasingly competitive UK financial services market. In 2014, while the UK economy continued to recover, this was against historically low bank base rates which impact current earnings and lead to uncertain trading conditions. When interest rates do start to rise there may be strain on customers' ability to meet loan repayments. The stress and scenario testing undertaken by management has given the Committee confidence in Virgin Money's capital position and its ability to mitigate these risks, including operational preparedness for changes in customer behaviour.

Significant changes continue in the regulatory environment exerting considerable external pressure on the business. Virgin Money continues to monitor and manage new regulatory requirements to ensure compliance with the evolving regulatory regime. These include the Banking Reform Bill, the Deposit Guarantee Scheme, requirements of CRD IV/CRR (liquidity and capital), the Banking Recovery and Resolution Directive and the Mortgage Credit Directive. We anticipate that the significant level of regulatory change will continue for several years.

In 2014 the Group invested in the strength and capability of the Risk Function by recruiting additional subject matter experts and increasing the number of experienced Risk Directors to lead the department.

Committee purpose and responsibilities

The purpose of the Board Risk Committee is to monitor the Group's compliance with the Board's approved risk appetite, risk management framework and risk culture. The key responsibilities of the Committee are set out in the table below. Examples of how it discharged its responsibilities follow. A full list of responsibilities is detailed in the Committee's terms of reference, which were updated in 2014 to align to the requirements of a listed entity. These can be found on our website at www.virginmoney.com.

Corporate Governance Report

Board Risk Committee Report

Board Risk Committee Terms of Reference	
Setting risk appetite	• Considers and recommends for approval by the Board the Group's risk appetite framework and limits. • Recommends the credit, market, operational and other key Pillar II risk appetite and related authorities annually. • Advises the Board on current risk exposures of the Group and future risk strategy.
Monitoring business operation	• Decides on rigorous stress and scenario testing. • Reviews the Group's capability to identify and manage new risk types. • Reviews the adequacy of the risk management framework. • Monitors the Group's risk profile. • Reviews reports on any material breaches of risk limits.
Adjustment to reward for risk	• Determines the information on risk required to establish sound remuneration policies and practices. • Provides advice annually to the Remuneration Committee on considerations to be applied to performance conditions. • Reviews the appropriateness of claw back recommendations and long-term incentive plan performance targets.
Chief Risk Officer	• Makes recommendations to the Board on the appointment of the Chief Risk Officer. • Promptly reviews all reports from the Chief Risk Officer and responsiveness to the Chief Risk Officer.
Risk Management	• Considers and approves the remit of the risk management function and ensures it is independent and adequately resourced. • Oversees the work and reports of the Risk Management Committee. • Reviews, and challenges where necessary, the day-to-day risk management process.
Compliance and fraud	• Reviews the Group's procedures for detecting fraud. • Reviews the Group's systems, controls and procedures for the prevention of bribery. • Receives regular reports from the Money Laundering Reporting Officer.
Other matters	• Advises the Board on risk aspects and the implications of proposed strategic transactions. • Reviews whether prices of products offered to customers take fully into account the Group's business model and strategy. • Reviews and recommends to the Board approval of the Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA). • Reviews and approves as required the Risk Assurance plans.

Committee composition, skills and experience

The Chair of the Committee, Colin Keogh, has a strong understanding of risk management. Colin is supported on the Committee by independent Non-Executive Director members who have a variety of industry backgrounds, including banking and financial services. They bring scrutiny and fresh perspective to the Group's risk management framework. The Chair continues to be a member of the Audit Committee and Balance Sheet Committee but stood down as member and Chair of the Remuneration Committee in September 2014.

Until the IPO, the Nominee Directors attended the majority of Committee meetings as observers. Since listing, to enhance the independence of the Committee, with the exception of Sir David Clementi attendance has been limited to Committee members and management representation.

Sir David Clementi attends the Committee meetings together with the Chief Executive, Chief Financial Officer and Chief Risk Officer. The external auditor also attends Committee meetings.

Board Risk Committee Report

Key matters considered by the Committee

Set out below are some of the key matters considered in 2014.

Issue	Approach
Board risk appetite	The Committee reviewed each of the Board risk appetite statements and metrics at each meeting and recommended the risk appetite to the Board as part of its annual strategic planning process.
Strategic and emerging risks	At each meeting, the Committee considered and challenged management's assessment and forecast position of all of the strategic and emerging risks and tracked the risks against appetite.
Conduct risk and compliance	The Committee received an update on conduct risk at each of its meetings. The Committee also received updates on changes to Virgin Money's regulatory environment to ensure the Board responds effectively and in a timely manner to changing regulation.
Subsidiary company risks	The Committee received regular updates of the risk profile and emerging issues from each of its material subsidiaries, including the Bank, VMUTM and VMG.
Stress testing and capital	The Committee reviewed the results of the application of stress test scenarios against the three year strategic plan and approved risk appetite limits.
Funding and liquidity	Whilst the Balance Sheet Committee received regular reports on the funding and liquidity position of the Group as part of the Group's ILAA, the Committee reviewed and approved a revised Funding and Liquidity Policy which included the addition of the Liquid Asset Ratio as a Risk Appetite metric/measure.
Remuneration	The Committee, via the Group Chief Risk Officer, provided qualitative and quantitative advice to the Remuneration Committee on the considerations to be applied to performance objectives incorporated in Executive remuneration. Further detail on how risk is taken into account in remuneration decisions can be found in the Directors' Remuneration Report on page 128.
Recovery and Resolution Planning	The Committee considered and approved the Recovery and Resolution Plan submission required for its main subsidiary, the Bank, which had been reviewed against new regulations published in the Bank Recovery and Resolution Directive.
Operational Risk	The Committee received regular updates across the spectrum of operational risk matters relating to business areas, including information security, financial crime, incident management and cybercrime.
Retail Credit Risks	The Committee received regular updates on the macro economic conditions as they relate to strategy and risk appetite.

Examples of how the Board Risk Committee discharged its responsibilities in 2014 are set out below.

Risk appetite

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

The risk appetite evolves in tandem with the Group's strategy and is approved at least annually to reflect the Group's latest commercial, economic and regulatory thinking. Further details on the Group's risk appetite can be found in the Risk Management Report on page 146.

Delivery of the business strategy within risk appetite is managed through a comprehensive risk management framework tailored for each key risk class. Further details on the Risk Framework can be found in the Risk Management Report on pages 151 to 154.

In September 2014, as part of a pre-listing review, the Committee revisited the review of the Group's risk appetite (carried out in December 2013) for recommendation to the Board.

The review considered the statements and risk appetite metrics under each class of identified risk. These included: credit risk; market risk; operational risk; conduct risk and compliance; strategic risk; financial risk; funding risk and liquidity risk. In September 2014, the Committee also reviewed and recommended to the Board for approval the Risk Appetite Policy developed in line with Financial Stability Board guidance.

Corporate Governance Report

Board Risk Committee Report

Current and forecast performance against each of the Group's risk appetite metrics was considered monthly, at meetings of either the Committee, or on alternate months, the Board.

Strategic and emerging risks

Virgin Money has a strategic transformation programme required to deliver its business plan which includes:

- building the infrastructure to facilitate the management, servicing and strategic growth of the credit card business and migration of credit card receivables acquired from MBNA in 2013; and
- the continued roll out in store of the Virgin Essential Current Account.

Both initiatives carry a level of risk in relation to the successful and timely delivery of the Group's business plan.

The Committee received regular detailed updates on the status and delivery of these important initiatives with risks being carefully mitigated through robust risk and project management disciplines to ensure safe implementation. The Committee received a presentation in December on the launch of the credit card business.

Further details of the mitigating actions taken by management in respect of strategic risks and on the emerging risks considered by the Committee can be found in the Risk Management Report on pages 149 to 150.

Compliance risk

The Committee received regular updates from management on regulatory developments and assessed the impact of those developments on the Group's operational processes, systems and controls. As noted in the 'Chairman's Overview', there has been a significant level of regulatory change during 2014 which Virgin Money anticipates will continue for several years.

Stress testing and Capital

The Committee received updates on the development of the ICAAP. This was based on the business plan's base case as well as under stress using scenarios and sensitivities approved by the Committee. The 2014 ICAAP was approved by the Board in April, with the Committee receiving a summary of the PRA's conclusions on the ICAAP in June. The Committee was pleased that improvements to both business planning and the use of stress modelling were recognised. A detailed action plan was approved by the Committee to address development areas.

Stress testing was conducted on the basis of a severe economic downturn in the UK economy to assess the Group's risk profile against approved risk appetite. This was used as the starting point for agreeing with the regulator the setting of the capital planning buffer. The Committee reviewed the results of the stress test scenarios published by the Bank of England (BoE) in the first and second halves of the year. In addition, the Committee focused on specific sensitivities designed by management which included the break up of the eurozone, the end of quantitative easing, the impact of unemployment shocks on the unsecured loan portfolio and a decrease in the BoE base rate, together with management's mitigating actions.

Increases in risk-weighted assets arising from mortgage and credit card acquisition and year-on-year increases in income were offset by a reduction in mortgage risk-weights caused by changes made to the advanced internal ratings-based models. The Committee was satisfied with the results of this work.

Operational risks

Information security, the risk of cyber attacks and financial crime were key operational risks discussed by the Committee. In particular, the Committee reviewed the action taken to improve the control environment in the area of financial crime and approved a revised Financial Crime Policy.

The Committee oversaw the delivery of the Group information security programme which ensures that key focus is given to and investment is made in security infrastructure to mitigate the threat of cyber attack. The Board received a detailed briefing on cyber crime outlining emerging threats in the cyber risk landscape with an update on detailed training and guidance on Virgin Money's strategy and planned investment in this area.

In addition, the Committee monitors risks inherent with major outsource providers and received regular updates on their performance and resilience. This includes reports on the design and operation of their internal controls which are performed as part of the annual Virgin Money Risk Assurance Plan.

Board Risk Committee Report

The Committee also received the annual report from the Money Laundering Reporting Officer with responsibility for reviewing the Group's arrangements for detecting fraud and preventing bribery. The report concluded that all core elements of Virgin Money's anti-money laundering framework are in place and operating effectively.

Retail credit risk

The Committee monitored retail credit risk performance against the Group's risk appetite metrics.

In response to improving macro-economic developments during the early part of 2014, the Committee oversaw a review of the Group's exposure to the London and South-East housing market. This review led to the Committee approving changes to Group policy to reduce exposure in these regions.

Risk management framework

In conjunction with the Audit Committee, the Committee concluded its annual review of the Group's risk management framework to ensure it remains fit for purpose and concluded that it remains so.

As referred to in the Chair's overview, the review considered the framework's suitability for operating within a listed company and concluded that the approach is a well developed process for managing risk, supporting strategy and risk appetite, including metrics that assist effective oversight.

Further details can be found in the Risk Management Report on pages 152 to 154 and the Audit Committee Chairman's Report.

Risk management

The Committee is supported by the Risk function and a number of Executive committees looking at different risk areas in the business. The principal committee is the Risk Management Committee. The Board Risk Committee oversees the work of the Risk Management Committee, which is responsible for identifying and recommending risk appetite, managing risk within agreed limits, monitoring key exposures in relation to risk strategy and recommending the approach to managing all types of risk. More information on the Group's approach to risk management can be found in the Risk Management Report on pages 152 to 154.

Colin Keogh
Chair, Board Risk Committee

Corporate Governance Report

Balance Sheet Committee Report

"The Balance Sheet Committee has ensured that Virgin Money continues to maintain a high quality balance sheet during 2014, which is a key element of the Group's strategy."

Norman McLuskie
Chair, Balance Sheet Committee

Membership and meetings

	Independent	Meetings attended/ held in 2014[1]
Committee Chairman		
Norman McLuskie	Yes	5/5
Committee members		
Colin Keogh	Yes	5/5
Marilyn Spearing	Yes	5/5
Olivia Dickson[2]	Yes	1/1
Former Committee members		
Sir David Clementi[3]	No	4/4

1 Number of meetings held during the period the member held office.
2 Mrs Dickson was appointed to the Committee on 1 September 2014.
3 Sir David Clementi was a member of the Committee until 30 September 2014.

Chairman's overview

During 2014, Virgin Money continued to operate a Balance Sheet Committee to ensure that the Group maintains focus on balance sheet matters.

The Committee's remit is to review and challenge management on the key balance sheet matters including funding, liquidity, capital and interest rate risk. In 2014, the Committee's time has focused primarily on the funding and liquidity developments. In addition, the Committee has reviewed a number of developments in the business, including enhancement of Funds Transfer Pricing (FTP) and the Asset and Liability Management (ALM) system. This will further improve our risk management capabilities and enable us to deepen our understanding of the risks associated with interest rate changes as well as considering the wider economic outlook for the Group and the industry as a whole. This was particularly important as we approached the Financial Policy Committee's (FPC)'s publication of leverage ratio requirements at the end of October 2014.

The Committee was updated at each meeting by the Group Treasurer on the changing economic environment. Key highlights during 2014 included the UK economy performing well, although in quarter four of 2014 the housing market eased back from previous levels. Global issues weighed heavily on outlook towards the end of 2014. There was further uncertainty in relation to the Euro driven largely by increased fear of a Greek exit from the Euro. In addition the conflict in Ukraine and the fall in global oil prices influenced markets in quarter four of 2014, with the International Monetary Fund downgrading their expectations for global growth in 2015.

The appointment of Marilyn Spearing at the beginning of the year enhanced the Committee's collective experience in financial matters and financial risk management. The Committee was further strengthened with Olivia Dickson's appointment in September 2014.

Sir David Clementi stepped down from the Committee at the end of September. I would like to thank him for his diligence and commitment to the Committee during his tenure. His counsel will be missed, although he will continue to attend the Committee as an observer until his retirement from the Board.

Committee purpose and responsibilities

The purpose of the Balance Sheet Committee is to monitor the Group's key balance sheet financial exposures and their impact on earnings, all matters relating to the proper management of the balance sheet and agreed balance sheet management strategies. The Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board, all of which have been accepted during the year.

The key responsibilities of the Committee are set out in the table below and examples of how it discharged its responsibilities follow. A full list of responsibilities is detailed in the Committee's terms of reference. The terms of reference were updated in 2014 to clarify the Committee's role and responsibilities as the balance sheet continues to grow. These can be found on our website at www.virginmoney.com.

Balance Sheet Committee Report

Balance Sheet Committee Terms of Reference	
Balance Sheet Management	• Reviews performance against key balance sheet and profitability metrics. • Recommends any changes to the current or proposed Treasury investment strategy to the Board. • Recommends any changes to the current or proposed approach to satisfying requirements of the Capital Plan to the Board. • Reviews acquisition strategies to assess market/liquidity, funding and capital implications.
Market Risk Management	• Considers the Earnings at Risk and Capital at Risk positions. • Monitors and controls interest rate re-pricing and maturity risks. • Reviews structure of interest rate mismatch positions. • Monitors risks arising from changes in customer behaviour. • Reviews the outcome of regular interest rate stress testing scenarios. • Monitors the level of hedge accounting volatility flowing through the Balance Sheet. • Together with the Board Risk Committee, approves the internal interest rate forecast assumptions.
Liquidity and Funding Risk Management	• Monitors current and forecast liquidity and funding positions to ensure they are adequate and within internal and regulatory limits. • Reviews and recommends the Group ILAA to the Board. • Reviews the outcome of liquidity stress testing scenarios. • Recommends approval of any changes to the current or proposed funding plan. • Reviews strategies for optimising the Group's liquidity position.
Capital Management	• Monitors the Group's current and forecast wholesale credit risk exposures. • Together with the Board Risk Committee, ensures relevant credit risk assessments are undertaken on proposed new counterparties/investments. • Regularly assesses any changes in credit risk profiles for the Group's approved counterparties.
Other	• Reviews and monitors resourcing within the Treasury function. • Oversees the work of the Asset and Liability Committee.

Committee composition, skills and experience

The Chair, Norman McLuskie, has a deep understanding of balance sheet matters, underpinned by in-depth knowledge of all finance matters as a chartered accountant with an executive career in banking. Norman is supported on the Committee by Non-Executive Director members who have a variety of industry backgrounds including banking and financial services. The Committee's composition includes core banking and finance knowledge.

Until the IPO, the Nominee Directors attended the majority of Committee meetings as observers. Since listing, to enhance the independence of the Committee, with the exception of the Sir David Clementi, attendance has been limited to Committee members and management representation.

Sir David Clementi attends the Committee meetings together with the Chief Executive, Chief Financial Officer, Chief Risk Officer and Group Treasurer. The external auditor is also invited to attend Committee meetings.

Corporate Governance Report

Balance Sheet Committee Report

Key matters considered by the Committee

Set out below are some of the key matters considered in 2014:

Issue	Approach
Balance Sheet Management	The Committee oversaw the management of the balance sheet, reviewing and monitoring the key balance sheet metrics; namely, funding and liquidity, capital base, market and wholesale credit risk.
Capital	The Committee monitored, reviewed and made recommendations concerning the quality of the capital base and the forecast capital position considering the projected capital resources; supporting, in conjunction with the Board Risk Committee, the development of the ICAAP, approved by the Board in April.
Liquidity and funding	At each meeting the Committee reviewed and challenged the current and forecast liquidity and funding positions to ensure that these remained within Board approved metrics; and appropriate recommendations were submitted to the Board for approval in relation to execution of funding and capital transactions in accordance with agreed plans.
Interest rate risk	The Committee received regular updates on the current and forecast interest rate environment, monitoring the Group's exposure to interest rate risk, and the Earnings at Risk and Capital at Risk positions, to ensure that the business operated within its risk appetite including the use of natural offsets and derivatives to mitigate exposure.
Credit	The Committee reviewed and monitored the Group's current and forecast wholesale credit risk exposures making recommendations to the Board Risk Committee on the credit risk assessment and appropriate limits for new counterparties/investments.
Operational matters	The Committee oversaw development in the Group's balance sheet management systems including the design, development and implementation of FTP and an improved ALM System. The Committee also reviewed the findings of the Contingency Funding Plan test undertaken in December 2014.
Resource and capability	The Committee received an independent report commissioned to review and assess the Treasury function. Over the course of the year Virgin Money has taken steps to develop the organisational design for the Treasury function. This was in response to the overall development of the scope of Treasury activities and the increasing scale of the balance sheet over the term of the strategic plan.
Macro economic environment	At each meeting the Committee received a detailed update on the macro economic conditions from the Group Treasurer, to enable the Committee, in conjunction with the Board Risk Committee, to challenge effectively strategy and risk appetite.
Regulatory developments	The Committee received regular updates from management on regulatory developments to enable the Committee, in conjunction with the Board Risk Committee, to assess their impact on both the balance sheet and the Group's risk profile.

Examples of how the Balance Sheet Committee discharged its responsibilities in 2014 are set out below:

Balance sheet management

The Committee has overseen the continuing good progress made by the Group in strengthening and growing its balance sheet both safely and cost effectively and within the current capabilities. At all times the Committee ensured adherence to all relevant risk metrics.

This balance sheet growth has been supported by further activity in wholesale funding in 2014 through both a Residential Mortgage Backed Securities (RMBS) issuance and further drawings under the Bank of England Funding for Lending Scheme (FLS). Maintaining a strong liquidity position will at all times remain a key focus of the Committee.

Capital

The Committee has continued to monitor closely capital ratios to ensure that we comply with current regulatory capital requirements and are well positioned to meet future requirements.

CRD IV introduced a new leverage ratio requirement effective from 2018, which is a ratio of Tier 1 capital and total consolidated exposure (the Leverage Ratio). The FPC announced final details on the introduction of the Leverage Ratio in October 2014, confirming the minimum Leverage

Balance Sheet Committee Report

Ratio as 3%, with additional add-ons of up to 1.05% for ring-fenced banks. Virgin Money expects to become a ring-fenced bank by 2019 and awaits the requirements for a bank of our size. There is a requirement for public reporting by banks of their Leverage Ratio from 2015; with the final calibration and adjustments to the definition to be completed by 2017. Virgin Money currently exceeds the minimum requirement.

Individual liquidity adequacy assessment

The Committee reviewed the ILAA with particular focus on ensuring that the Bank's liquidity position was prudent. The 2014 ILAA confirmed that the Bank's liquidity position remained within agreed risk appetite. The ILAA was also refreshed in anticipation of changes to the regulatory environment, including the Liquidity Coverage Ratio (LCR).

The level of liquidity held by Virgin Money is sufficient for the risks observed over the strategic plan horizon. The plan balance sheet has been subject to Board approved stress scenarios and, in each case, the level of liquidity held is deemed sufficient to eclipse all liquidity stress derived requirements and comfortably exceeds all PRA regulatory requirements.

Liquidity and funding

Virgin Money's conservative balance sheet approach drives its liquidity and funding strategy. The extension of wholesale funding capability is intended to support the refinancing of the FLS and increase overall diversification of funding sources. The combination of these strategies will provide a sound basis to develop and grow Virgin Money lending balances and provide adequate liquidity to comply with all internal and external liquidity requirements as described in detail in the ILAA.

The Committee monitored the liquidity and funding outlook prepared by the Group Treasurer for each meeting; keeping under review liquidity and funding ratios in light of regulatory requirements, risk appetite and savings inflows. The Committee also reviewed Virgin Money's Funding and Liquidity Policy to ensure that the risk appetite remained appropriate, reflecting both current market conditions and changes in the wholesale funding environment. Finally, the Committee reviewed the Gosforth Funding RMBS 2014-1 transaction which was approved by the Board in September 2014.

Interest rate risk

Movements in interest rates lead to changes in contractual interest flows and balance sheet volumes which in turn impact both Capital and Earnings at Risk. The Committee received regular updates and guidance on the interest rate risk position with reference to Board agreed metrics.

Operational matters

The Committee considered Virgin Money's need for an improved approach to FTP and an enhanced ALM system to enable more efficient balance sheet management. Detailed presentations were provided to the Committee and separately to Board members setting out Virgin Money's approach to, and governance of, the project, progress achieved and implementation into the Executive Committees' reporting (specifically Pricing Committee and Asset and Liability Committee (ALCO).)

An enhanced approach to FTP will benefit further Virgin Money in the future by informing better existing product pricing and new product approvals.

The ALM model is fully adopted, with regular monthly reports being provided to ALCO regarding the sensitivity of Virgin Money's balance sheet to changes in interest rates.

Regulatory developments

The Committee has overseen changes to the regulatory environment which continues to evolve for all banks. Many of these developments form part of a consultation process between UK or European regulators and their banking members. During 2014 consultations have extensively, but not exclusively, covered the Leverage Ratio, the introduction of further loss absorbing capacity for global banks and liquidity and funding measures (Liquidity Coverage Ratio and Net Stable Funding Ratio respectively) and the Deposit Guarantee Scheme. Virgin Money's strategic plans take account of these potential developments and they are included in the plans presented to, and discussed by the Committee. Further detail on Leverage Ratio can be found in the 'Capital' section above.

Norman McLuskie
Chair, Balance Sheet Committee

Corporate Governance Report

Remuneration Committee Report

"In 2014 the Remuneration Committee was responsive to, and dealt effectively with, ongoing regulatory change and preparations for a new listed environment."

Olivia C Dickson
Chair, Remuneration Committee

Membership and meetings

	Independent	Meetings attended/ held in 2014[1]
Committee Chair		
Olivia Dickson[2]	Yes	8/8
Committee members		
Norman McLuskie	Yes	17/17
Sir David Clementi[3]	No	16/17
Marilyn Spearing[3]	Yes	14/17
Former Committee members		
Colin Keogh[4]	Yes	9/9

1 Number of meetings held during the period the member held office.

2 Mrs Dickson was appointed as the Chair of the Committee on 5 September 2014, having become a member on 1 September 2014.

3 The views of the members who are unable to attend meetings are provided to the Committee Chair for representation to the meeting.

4 Colin Keogh was a member and Chair of the Committee until 4 September 2014.

Chairman's Overview

2014 was an extremely active year for the Remuneration Committee, as a result of a full business as usual remuneration agenda and additional requirements necessary to ensure we continue to operate both effectively and in full compliance with the legislative and the regulatory requirements as a listed company.

Good progress has been made on remuneration matters and their governance over the past year. I thank all my colleagues and particularly Colin Keogh, who chaired the Committee until September, for the additional time commitment they have given to attend to this important aspect of the Company's activities. In my view, the Committee met its key objectives and carried out its responsibilities effectively.

The Committee considered remuneration governance and the design of Directors' remuneration in the context of a new listed environment. This has led to the development of a robust reward framework in the form of the Directors' Remuneration Policy for 2015 and the Company-wide internal remuneration policy for all colleagues. Both policies are designed to mitigate key regulatory and people risks associated with reward decisions and support sustainable growth, consistent with the risk appetite framework agreed by the Board.

Committee purpose and responsibilities

The purpose of the Committee is to consider, agree and recommend to the Board an overall remuneration policy and philosophy for the Group that is aligned with its long-term business strategy, its business objectives, its risk appetite, values and the long-term interests of the Group that recognises the interests of relevant stakeholders. The key responsibilities of the Committee are set out in the table below. Examples of how it discharged its responsibilities follow. A full list of responsibilities is detailed in the Committee's Terms of Reference which were updated in 2014 to align to the requirements of a listed entity. These can be found on our website at www.virginmoney.com.

Remuneration Committee Report

Remuneration Committee Terms of Reference	
Executive remuneration	• Determines and approves the contract of employment (including remuneration), the terms of any performance-related pay schemes and subsequently, individuals' performance against targets, in respect of the Chief Executive, members of the Executive and other senior management. • Determines on appointment the terms and conditions of engagement (including remuneration) of the Chairman. • Applies the Group Remuneration Policy and principles in implementing and overseeing performance related pay schemes, including those for individuals who are considered to be in a significant influence function or have material impact on the risk profile of the Group, including all Code Staff.
Remuneration reporting	• Reports annually to the Board on the substance of the Group's Remuneration Policy and proposes any substantive changes. • Recommends to the Board the content of the Directors' Remuneration Policy and implementation reports.
Remuneration policy	• Reviews annually the governance and effectiveness of the Group-wide remuneration policy and the Directors' Remuneration Policy. • Liaises as required with the Board Risk Committee and Risk Division in relation to risk-adjusted performance measures. • Recommends the approval by shareholders of the design of any longer term performance-related pay schemes, and any significant changes to existing schemes. • Determines the eligibility and targets for any longer term performance-related pay schemes.

Committee composition, skills and experience

The Committee is comprised of Non-Executive Directors from a wide variety of backgrounds to provide a balanced and independent view on remuneration matters. The Chair, Olivia Dickson, has considerable experience in the financial service sector and on remuneration and risk governance and is well placed to lead the Committee. Committee meetings are occasionally attended by Deloitte LLP who act as the Group's remuneration consultant and PwC, as the Committee's remuneration consultant. Deloitte LLP and PwC are not connected with the Group.

Key matters considered by the Committee

Set out below are some of the key matters covered in 2014.

Remuneration

Equal pay

Virgin Money is committed to the principle of equal pay and intends that all colleagues should be paid fairly regardless of their age, gender, race, disability or other personal characteristics.

Remuneration reporting

Changes to the remuneration reporting regime

The Committee dedicated significant time in 2014 to assessing the impact of ongoing changes to the remuneration reporting regime on the Group's approach to executive remuneration.

The Directors' Remuneration Policy on pages 120 to 130 sets out the parameters of the Directors' remuneration package. The Directors' Remuneration Policy was developed by the Committee having considered the ways in which the Group can strengthen and simplify the alignment of remuneration with its business performance and relative to shareholder returns. The Directors' Remuneration Policy will be subject to a binding shareholder vote at the 2015 AGM and requires that a majority of shareholders vote in favour of the policy before it can be implemented. The Company cannot make a remuneration payment to a current or prospective Director or a payment for loss of office to a current or past Director, unless that payment is consistent with the policy or has been approved by a resolution of the Company's shareholders. The implementation section of the Directors' Remuneration Report on pages 131 to 144 summarises the amounts awarded to Executive management and to be awarded in accordance with the policy, together with various other information supporting the policy and its implementation for 2015.

Corporate Governance Report

Remuneration Committee Report

The Implementation Report is subject to an advisory vote at the 2015 annual general meeting, along with the statement by the Chair of the Remuneration Committee. While the outcome of this resolution is not binding on the Company, it is of key importance to the Committee that its decisions are supported by the Company's shareholders. It is intended that the one-year policy will be the subject of consultation with our shareholders in the second half of 2015 and reviewed at the end of 2015 in light of feedback, at which point any changes to the policy will again be presented to shareholders for approval.

The Committee has striven to ensure that the remuneration policies and practices detailed in the Directors' Remuneration Policy and Directors' Remuneration Implementation Report are appropriate to supporting the delivery of the Company's current and future strategy.

Further detail as to the activities of the Committee in 2014 can be found in my Statement on page 117.

Olivia C. Dickson

Olivia C Dickson
Chair, Remuneration Committee

Directors' Remuneration Report

Statement by the Chair of the Remuneration Committee

On behalf of the Board and as Chair of the Group's Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2014 which, in accordance with the reporting regulations, is split into two parts:

- the Directors' forward looking Remuneration Policy for 2015, setting out the framework within which the Company operates, which will be subject to a binding vote; and
- the Directors' Remuneration Implementation Report, which summarises how the remuneration policy was implemented in 2014 and how the Directors' Remuneration Policy is intended to apply in 2015, which, along with this statement, will be subject to an advisory vote.

I took up my role as Chair of the Remuneration Committee on 5 September 2014. I am grateful to my colleague, Colin Keogh, who chaired the Committee throughout the earlier part of the year and led much of the Committee's work, both in relation to the annual review of pay and bonus outcomes in respect of Company performance in 2013 and significant aspects of the preparation required for becoming a publicly listed company in November 2014. The year was one of intense Remuneration Committee activity, reflecting the significant amount of restructuring of remuneration arrangements which needed to be done in order to support the Initial Public Offer and the transition to new remuneration arrangements appropriate to a publicly listed company. Some of this work continued into 2015 and I refer to it in this statement to provide the background to the Directors' Remuneration Policy which follows on pages 120 to 130.

One year policy and shareholder consultation

The Directors' Remuneration Policy, which I recommend, is proposed for one year only. Due to the timing of the Initial Public Offer and the work which followed to develop the performance measures for the annual bonus and long term incentive plans, there has been limited opportunity to consult with new shareholders on the proposed remuneration arrangements. In making the decision not to consult prior to issuing the first Directors' Remuneration Report we took comfort from the fact that the arrangements had been set out in large part in the Listing Prospectus for the Initial Public Offer issued in November 2014. It is also recognised that the expected changes to the Prudential Regulation Authority's Remuneration Code are likely to require changes to the executive remuneration arrangements for 2016. It is important that the first consultation on all of these matters is conducted in an orderly and thoughtful manner. We wish to have the time both to be able to hear and respond to any concerns which investors have, and also to use this opportunity not only to talk about remuneration but to explain these arrangements within the context of the Company's strategic plans. I intend to be in touch with shareholders later in the year when we will have had the opportunity to digest the initial feedback to the proposed Directors' Remuneration Policy and also to consider the implications of any changes in the regulatory landscape.

Annual bonus and long term incentive plan measures

In readiness for life as a publicly listed company, the Remuneration Committee approved new annual bonus and long term incentive plans for Executive Directors and members of the Virgin Money Executive Team. The Deferred Bonus Share Plan and the Long Term Incentive Plan were approved during the year and details of these, along with the Committee's overall approach to remuneration and other aspects of the Executive Directors' remuneration arrangements, including details of base salary and benefits, were fully set out in the Listing Prospectus issued to investors in the run up to the Initial Public Offer.

There is one area where it is appropriate to provide an update on remuneration arrangements supported by further explanation. The Listing Prospectus advised that while the Long Term Incentive Plan had been approved, the performance conditions, based on strategic objectives including measures of growth, quality and returns, were still to be developed and would be set out in the forthcoming Directors' Remuneration Policy. Since the Initial Public Offer the Remuneration Committee has worked on developing weightings, measures and targets to support both the annual bonus and the long term incentive plan. These are reported on pages 134 and 135.

The annual bonus and long term incentive plans are designed to incentivise management to deliver the performance set out in the medium term strategic plan, which supports and is consistent with statements made in the Listing Prospectus and conversations which the management team had with

Directors' Remuneration Report

potential investors in the run up to the Initial Public Offer. The Remuneration Committee has a low tolerance for under performance versus the strategic plan, and the positioning of incentive targets reflects this.

Both the annual bonus and long term incentive plan measures have a high weighting of financial metrics (60% for the bonus and 80% for the long term incentive plan). For the annual bonus the remaining 40% is based on the achievement of non financial measures split between personal strategic objectives and a scorecard based on brand, culture and control measures. 20% of the measures within the long term incentive plan are based on the achievement of the Company's ambition to make 'everyone better off'.

The incentive measures target an Underlying Return on Tangible Equity of 15% and an Underlying Cost:Income ratio of 50% in 2017. The stretch embedded in the medium term strategic plan has been reflected in a payout level of 60% under the annual bonus and a vesting level of 80% under the long term incentive plan for delivering performance in line with that envisaged at the time of the Initial Public Offer. This is at variance with the Listing Prospectus which indicated the intention to allow a vesting level of 50% of maximum for target performance for the annual bonus and long term incentive plan. In all other respects the Directors' Remuneration Policy proposed in this report is consistent with arrangements set out in the Listing Prospectus.

Other committee activity including variable pay outcomes

Other important work during the year included benchmarking all Executive Team members to market, and adjustments where appropriate, to ensure retention beyond the Initial Public Offer (with its associated vesting of the IPO incentive awards) and well into the period of operation as a public company; amending the phantom incentive plan and IPO incentive scheme to support delivery of the Initial Public Offer; agreeing an additional fee for the Chairman on the extension of his contract through the period of the Initial Public Offer and beyond; and, finalising the transition from a structure which was entirely based on in year performance to a structure with 120% of variable pay offered in the form of awards under a long term incentive plan.

In the Implementation Report that follows, you will see the bonus outcomes for the Chief Executive and Chief Financial Officer. The framework put in place for these awards was established some time before the Company could be confident that it would be reporting the outcomes in the context of a Directors' Remuneration Report for a public company. Nevertheless, I believe the outcomes are robust, reflecting high weightings for financial metrics at 50% (Chief Executive) and 60% (Chief Financial Officer), with non-financial metrics including a combination of strategic and personal objectives including those associated with preparing for a successful Initial Public Offer.

The financial outturn for the year of £121.2m Underlying Profit Before Tax and an Underlying Return on Tangible Equity of 7.4% was significantly stronger than anticipated at the time the framework was set and therefore, with the exception of the Underlying Cost:Income ratio at 68.7%, maximum performance on all underlying financial metrics was achieved. On non-financial metrics, the development of the platform in terms of both products (credit cards and current accounts) and the management capability to support further growth in a listed company environment exceeded the expectations set at the beginning of the period. Finally, continued attention to the strength of the culture and delivery of performance indicators related to the 'everyone's better off' ambition, combined with the delivery of a successful Initial Public Offer supported bonus outcomes of 95% of maximum (Chief Executive) and 94% of maximum (Chief Financial Officer).

Looking ahead to yet more regulatory change

Looking forward to 2015, the political and regulatory environment remains highly uncertain. In particular clarification from the European Banking Authority on the treatment of role based allowances under the bonus cap is awaited. Another area of change is in relation to variable pay deferral arrangements, with the Prudential Regulation Authority preparing to mandate longer deferral periods in response to the recommendations of the Parliamentary Commission on Banking Standards. Whilst the Company does not operate role based allowances, many competitors do and it may be that regulatory changes cause significant developments to competitors' practices to which the Company may need to respond. Overall, remuneration arrangements will be developed as needed to remain competitive, and to ensure the growth of the Company can be sustained in line with the plans set out in the Listing Prospectus and supported by the strategic plan.

It is important to us to operate the remuneration arrangements, not only in compliance with all relevant legislation and regulation, but in line with best practice, unless there is a good reason not to do so: in which case we would expect to explain the reasons for any variance with best practice in this report.

This is the first Directors' Remuneration Report as a public company and we have concentrated on building an entirely compliant foundation from which to build in future years. In my view, the Directors' Remuneration Regulations can result in an undue emphasis in this report on Directors' remuneration, and a loss of perspective on compensation practices across the entire Company. In future years I expect to report on the quantum and make up of the variable pay pool as well as other important aspects of the remuneration policies. As a guiding principle we seek always to treat all colleagues, irrespective of their seniority, with honesty, transparency and fairness.

Olivia C. Dickson

Olivia C Dickson
Chair Remuneration Committee

Directors' Remuneration Report

Directors' Remuneration Policy

Directors' Remuneration Policy and Principles

Virgin Money's ambition is to build a better kind of bank. This means that the Company seeks to reward colleagues fairly for their contribution, whilst ensuring they are motivated always to deliver the best outcomes for stakeholders. To achieve this colleagues are rewarded in line with best practice in the UK listed financial services sector, with no reward for inappropriate risk taking, in order to protect customers, corporate partners, shareholders and wider society.

The Group's approach to remuneration for all colleagues, including Executive Directors, reflects the culture and supports the delivery of the business strategy:

- to maintain capacity for growth, the Company ensures it remains competitive in the financial services market through regular market reviews. The Group's remuneration strategy aims to motivate individual out-performance against objectives. The structure of the Group's remuneration and annual individual performance assessments ensures that the highest performing colleagues receive top quartile market outcomes consistent with comparable companies;
- the Company ensures its approach to remuneration, and in particular variable pay, is aligned with clear risk principles which aim to drive sustainable growth. Risk considerations are a material factor in the determination of pay. Malus adjustments and clawback apply to all variable pay;
- the Company believes in creating a culture where customer service is the priority. To achieve this, all colleagues receive an annual bonus opportunity, with no product-focused sales incentives in place. Balanced objectives are used to assess annual performance;
- the Company undertakes periodic reviews, at least annually, of its approach to senior remuneration to ensure the overall package is fair, competitive and supportive of the Group's strategy; and
- the Company aims to treat its colleagues in the same way that it services customers – with honesty, transparency and fairness.

Through the benefits package the Company aims to support colleagues and their families whilst enabling them to plan for the future, helping ensure low staff turnover and higher engagement and improving the Company's overall operational and financial efficiency.

The Company's approach to remuneration outcomes supports a culture where customers are the priority whilst protecting shareholder interests, increasing the Company's sustained profitability and ensuring colleagues are rewarded fairly.

Consideration of shareholders' and colleagues' views

The policy set out below will formally apply, for one year, subject to shareholder approval, from the date of the 2015 AGM.

As a newly listed company, there has been limited opportunity to discuss and seek feedback on the Directors' Remuneration Policy for 2015 with new shareholders. It is intended that this should take place during 2015 and shareholder approval on the Directors' Remuneration Policy for 2016 onwards will be sought at the 2016 AGM. After that date it is the Remuneration Committee's intention that approval of the Directors' Remuneration Policy will be sought at three-year intervals, although it will be reviewed each year.

Formal consultation on the remuneration of Executive Directors is not undertaken with colleagues. However, a survey on colleague engagement is undertaken annually and discussion on parts of the Group's remuneration approach and relevant colleague reward matters takes place with union representatives during the annual pay review cycle.

Remuneration Policy for Executive Directors

Base salary

Purpose and link to strategy	Base salary reflects the role of the individual taking account of responsibilities and experience.
Operation	Base salaries are normally reviewed annually, with any increase typically taking effect from April. When determining and reviewing base salaries, the Committee considers: – corporate and individual performance; – the skills, experience and responsibilities of the Executive Director and their market value; – the scope and size of the role; – base salary increases for colleagues throughout the Group; and – external market factors. Base salaries as at 1 January 2015 and from 1 April 2015 are detailed in the Implementation Report on page 134.
Maximum potential	Whilst there is no maximum base salary, any salary increases in percentage terms will normally be in line with increases awarded to other colleagues, but may be higher in certain circumstances. The circumstances may include but are not limited to: – where a new Executive Director has been appointed at a lower salary, higher increases may be awarded over an initial period as the Executive Director gains experience in the role; – where there has been an increase in the scope or responsibility of an Executive Director's role; or – a salary has fallen significantly below market positioning given current size and scale of the Group. Base salary levels may be amended to take into account any regulatory changes.
Performance measures	N/A

Pension

Purpose and link to strategy	To support the Executive Directors in building long-term retirement savings in a manner which does not expose the Group to any unacceptable financial risk.
Operation	Executive Directors are entitled to participate in the Group's defined contribution pension scheme. Alternatively, the Company may make contributions to an Executive Director's personal pension arrangement. Only base salary is pensionable. An individual may elect, with the Company's consent, to receive some or all of their pension contribution as a cash allowance.
Maximum potential	The maximum allowance for Executive Directors is 30% of base salary; presently the Chief Executive is paid 30% and the Chief Financial Officer is paid 15% of base salary.
Performance measures	N/A

Directors' Remuneration Report

Benefits

Purpose and link to strategy	To provide a competitive and cost effective flexible package delivered in a way which does not expose the Group to any unacceptable financial risk.
Operation	Virgin Money provides a range of benefits which include private medical insurance, permanent health insurance, life assurance and a car allowance for the Chief Executive. The Committee retains the discretion to provide additional benefits as may be reasonably required. These may include national and international relocation benefits such as (but not limited to) accommodation, family relocation support and travel. The Executive Directors are entitled to a maximum of 30 days' holiday and any unused holiday may be bought back at the standard daily salary rate. The value of the benefits currently provided are determined by the relevant purchase costs.
Maximum potential	The maximum value of benefits is determined by the nature of the underlying benefits themselves, consistent with the operation of the policy noted above.
Performance measures	N/A

Annual Bonus and Deferred Bonus Share Plan

Purpose and link to strategy	The annual bonus is designed to reward performance, scored against annual weighted financial and non-financial measures.
Operation	Annual bonuses are discretionary and are based on Group and individual performance within the year. The determination of measures and their weighting are set annually and awards are determined by the Remuneration Committee at the end of the financial year. The Committee has discretion, in exceptional circumstances, to amend targets, measures, or number of shares under award if an event happens (for example a major transaction or capital raising) that in the opinion of the Committee, causes the annual targets or measures to be no longer appropriate or such adjustment to be reasonable. The Committee also has the discretion to reduce the vesting level of any award if it deems that the outcome is not consistent with performance delivered. The annual bonus may be delivered partly in cash and partly deferred into cash, shares or other instruments. The mechanism for making the bonus deferral is the Deferred Bonus Share Plan (DBSP). Deferral levels are set at the time of award and in line with regulatory requirements. At present this means that 60% of total variable pay is deferred, at least 50% of variable pay is paid in shares or other instruments, and vested shares (post taxation) are subject to a six-month retention period. The deferral and holding periods may be amended to take into account any regulatory changes over the life of the policy. The Remuneration Committee may adjust awards or amend the terms of the awards in accordance with the DBSP rules. At the time of the shares being released, Executive Directors may receive an amount (in cash or shares) equal to the dividends paid or payable between the date of grant and the vesting of the award on the number of shares which have vested. All awards will be subject to malus and clawback provisions (see page 128).
Maximum potential	The normal maximum bonus for Executive Directors is 80% of fixed pay. Presently, the Chief Executive has a bonus maximum of 80% of fixed pay and the Chief Financial Officer's maximum bonus is 80% of salary. Under the DBSP rules, this policy can be increased up to 300% of total remuneration (excluding bonus) in exceptional circumstances, including those outlined under the Group's recruitment policy, although this is subject to the overall regulatory rules that limit variable to fixed pay at a ratio of 2:1.
Performance measures	Performance measures are set by the Remuneration Committee each year and are set out in the Implementation Report on page 134. 60% of the annual bonus opportunity is based on performance against key financial measures determined at the beginning of each financial year. The remainder of the annual bonus is based on performance against non-financial measures, which include a scorecard of brand, culture, control measures and personal strategic objectives.

Long Term Incentive Plan (LTIP)

Purpose and link to strategy	The plan is designed to reward delivery of the Group's strategy and growth in shareholder value over a multi-year period and aligns senior colleagues' interests with those of shareholders.
Operation	Awards are granted in the form of nil cost options or conditional shares, subject to performance conditions aligned to long term strategy. The Committee has discretion, in exceptional circumstances, to amend targets, measures, or number of shares under award if an event happens (for example a major transaction or capital raising) that in the opinion of the Committee, causes the targets or measures to be no longer appropriate or such adjustment to be reasonable. The Committee also has the discretion to reduce the vesting level of any award if it deems that the outcome is not consistent with performance delivered. Performance conditions will normally be tested over a period of three financial years and, subject to the achievement of any performance conditions, one-third of the award will vest after three years, one-third after four years and the final one-third after five years. Vested shares (post taxation) will be subject to a six month holding period. The performance, vesting and holding periods may be amended to take into account any regulatory changes over the life of the policy. At the time of the shares being released, Executive Directors may receive an amount (in cash or shares) equal to the dividends paid or payable between the date of grant and the vesting of the award on the number of shares which have vested. All awards will be subject to malus and clawback provisions (see page 128).
Maximum potential	The normal maximum award for Executive Directors is 120% of fixed pay. Presently, the Chief Executive will normally be granted an award over shares worth up to 120% of fixed pay at the time of grant; and the Chief Financial Officer will normally be granted an award over shares worth up to 120% of salary at the time of grant. This policy can be increased up to 300% of total remuneration (excluding bonuses) in exceptional circumstances including those outlined under the Group's recruitment policy, although this is subject to the overall regulatory rules that limit variable to fixed pay at a ratio of 2:1.
Performance measures	Performance measures are determined by the Remuneration Committee each year and are set out in the Implementation Report on page 135. The performance conditions will be based on the Company's strategic aims of growth, quality, returns and enhancing the EBO culture over the performance period. These currently include: Growth: Growth of the mortgage book, increase in credit card assets and enhancing current account, insurance and investment income; Quality: Capital ratios and cost of risk; Returns: Underlying Cost:Income ratio and Underlying Return on Tangible Equity; and EBO: Outcomes with regard to customers, colleagues, community and corporate partners.

Shareholding guidelines

The Chief Executive and Chief Financial Officer are expected to hold a set percentage of salary in shares of the Company, built up over five years from listing on 18 November 2014, or recruitment, whichever is the later.

	Requirement (% of salary)
Chief Executive	200%
Chief Financial Officer	150%

The Directors' standing against these guidelines is disclosed on page 141 of the Implementation Report.

Directors' Remuneration Report

Legacy awards and restrictions on payments

The Remuneration Committee reserves the right to honour any remuneration payments or awards and any payments or awards for loss of office, notwithstanding that they are not in line with the policy set out above where the terms of the payment or award were agreed before the policy came into effect (as set out in the Listing Prospectus where relevant).

Such payments or awards are set out in the Implementation Report for the relevant year. This includes payments in relation to legacy deferred bonus awards and long term incentive awards and share options (including exceptional awards vesting on the listing of the Company) granted prior to listing of the Company.

Illustration of application of Remuneration Policy

The charts below illustrate the potential remuneration outcomes for the Chief Executive and Chief Financial Officer in 2015 in the following three scenarios:

- the minimum remuneration receivable, where only the fixed element is paid (salary, pension and benefits);
- the target outcome, representing the value of remuneration that would be payable for achieving the performance outcomes envisaged at the time of the Listing Prospectus. This is based on 60% of maximum annual bonus and 80% of maximum vesting under the 2015 LTIP award; and
- the maximum that may be paid, assuming maximum annual bonus opportunity is realised and full vesting of the 2015 LTIP award.

The amounts do not allow for share price appreciation and do not include dividends or payments in lieu of dividends. Salary figures are as at 1 January 2015 and assume the implementation of 2015 annual bonus (with a maximum award of 80% of fixed pay for the Chief Executive and 80% of salary for the Chief Financial Officer) and LTIP award (with a maximum award of 120% of fixed pay for the Chief Executive and 120% of salary for the Chief Financial Officer).

Potential Remuneration Outcomes – 2015

Recruitment and appointment to the Board

In the event the Group appoints a new Executive Director, remuneration will be determined in line with the following principles:

- the Remuneration Committee will take into account all relevant factors, including the calibre and experience of the individual and the market from which they are recruited, whilst being mindful of the best interests of the Group and its shareholders and seeking not to pay more than is necessary;
- salary may be higher or lower than the previous incumbent but will be set taking into account the review principles set out in the policy table on page 121. Where appropriate, the salary may be set at an initially lower level with the intention of increasing salary at a higher than usual rate as the Executive Director gains experience in the role. For interim positions a cash supplement may be paid rather than salary (for example a Non-Executive Director taking on an Executive function on a short-term basis);
- so far as practical the Remuneration Committee will look to align the remuneration package for any new appointment with the Remuneration Policy set out in the table on pages 121 to 123. The maximum variable pay opportunity would be within the 2:1 ratio to fixed remuneration. This limit excludes any buy-out awards, which are governed as set out in the paragraph below;
- to facilitate recruitment the Remuneration Committee may need to 'buy-out' remuneration arrangements forfeited or forgone on leaving a previous employer, including long-term awards, deferred awards, in year and prior year annual bonuses and other contractual entitlements; and
- the value of the buy-out awards will broadly be the equivalent of, or less than, the value of the award being bought out. In accordance with regulatory requirements, these 'buy-out awards' will take into consideration relevant factors including, but not limited to:
  - the form of the award;
  - any performance conditions attached to those awards;
  - the vesting profile of the awards and the likelihood of vesting; and
  - relevant regulatory guidance in place in relation to buy-out awards.

The Chief Financial Officer has previously been granted a buy-out award on his recruitment, this is described on page 142.

Where a new Executive Director has to relocate to take up the appointment, either locally in the UK or from overseas, practical and/or financial support may be given in relation to relocation and mobility.

Where an Executive Director is appointed from within the Group or following corporate activity or reorganisation (e.g. merger with another company), the normal policy would be to honour any legacy arrangements in line with the original terms and conditions.

Directors' Remuneration Report

Service Agreements

The notice periods and dates of the current Executive Directors' service agreements are shown below:

	Notice period	Date of service agreement
Jayne-Anne Gadhia	12 months	18 November 2014
Lee Rochford	12 months	18 November 2014

Company policy is that Executive Directors are and will be employed on service agreements which include the following contractual provisions:

- the individual will be required to give 12 months' notice if they wish to leave the Group;
- the Company will give the individual 12 months' notice except where there is evidence of material misconduct or neglect or other circumstances where the individual may be summarily dismissed by written notice;
- the Company may require the Executive Director to take a period of garden leave for part or all of the notice period; and
- the Company has the discretion to terminate the individual's employment by paying the Executive Director in lieu of the notice period. The Company has the ability to make payments in equal monthly instalments and may stop or reduce such payments as appropriate if the Executive Director commences new employment.

For the Chairman and Non-Executive Directors, the policy is:

- the Chairman will normally have a six month notice period to be served by the Company or the Chairman;
- the current Chairman has a maximum six month notice period (reducing proportionately from six months to two months from 31 December 2014 to 30 April 2015) to be served by the Company or the Chairman;
- the Chairman Designate has a six month notice period to be served by the Company or the Chairman Designate;
- other Non-Executive Directors have agreements that can be terminated by one month's notice by either party; and
- Non-Executive Directors are not entitled to any compensation for loss of office other than fees paid for their notice period.

Termination payments

The impact of an Executive Director leaving the Group under various scenarios is summarised below. This reflects the service agreements and the relevant plan rules, and is the Remuneration Committee's policy in this area.

Remuneration element	Default position	Remuneration Committee discretion
Salary	Normally payable throughout notice period, subject to the duty to mitigate.	The Remuneration Committee could choose to use the payment in lieu of notice clause described on page 126 under 'Service Agreements'.
Pension and other benefits	Pension allowance will normally be paid during notice period. Non-cash benefits will continue to be provided during the notice period.	The Remuneration Committee may choose to pay cash compensation rather than continuing to provide a contractual non-cash benefit. This can include paying for accrued but unused holiday allowance.
Annual bonus	If the Executive Director is a good leaver then the Executive Director could be paid a cash bonus. Annual bonuses are discretionary and would not usually be paid to a leaver mid-year.	The Remuneration Committee will determine whether the Executive Director is a good leaver and the extent to which any bonus would be payable.
Deferred Bonus Share Plan	If the Executive Director is a good leaver then the entitlement to any deferred bonuses will remain, but vesting will remain on the same terms consistent with ongoing employment. For leavers other than good leavers deferred bonuses will lapse.	The Remuneration Committee will determine whether the Executive Director is a good leaver. In the event of death, the Committee may allow the award to vest early in order for the estate to be wound up. The Remuneration Committee may determine the extent to which the application of the pro-rating principle applies.
LTIP	If the Executive Director is a good leaver then the entitlement to outstanding LTIP awards will remain, but vesting will remain on the same terms (both in respect of timing and performance conditions) and time pro-rating shall apply. For leavers other than good leavers the LTIP awards will lapse.	The Remuneration Committee will determine whether the Executive Director is a good leaver, the extent to which the performance condition is met at the end of the normal performance period and the application of the time pro-rating principle. In the event of death, the Committee may allow the award to vest early in order for the estate to be wound up.
Legacy awards	These consist of the IPO Incentive Plan, the FY12 and FY13 deferred bonuses, the Chief Financial Officer's buy-out award. If the Executive Director is a good leaver then the entitlement to any awards will remain, but vesting will remain on the same terms consistent with ongoing employment. For leavers other than good leavers, awards will lapse.	The Remuneration Committee will determine whether the Executive Director is a good leaver. In the event of death, the Committee may allow the award to vest early in order for the estate to be wound up.
Chairman and Non-Executive Directors' fees	No compensation is payable in the event of early termination apart from the notice period.	None.

The Remuneration Committee will determine, at its absolute discretion, whether an Executive Director is a good leaver by virtue of their employment ending due to injury, ill-health, disability, redundancy, retirement, death, or any other reason (except for dishonesty, fraud, misconduct or any other circumstances justifying summary dismissal) as determined by the Remuneration Committee. The Remuneration Committee reserves the right to make additional termination payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation), or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Directors' office or employment.

Directors' Remuneration Report

Takeover

In the event of a takeover or other major corporate event (but not an internal reorganisation of the Group) all outstanding awards granted under the Group's share plans would vest on the date of that event. For the LTIP the Remuneration Committee will determine the extent to which the performance conditions have been met and the extent to which the time pro-rating principle should be applied.

None of the Executive Directors have any special contractual employment terms related to a takeover which would enhance their position or trigger additional payments.

Malus and clawback

In the interests of ensuring sound risk management for the benefit of the Company as a whole, and to ensure compliance with regulatory obligations, all variable remuneration is subject to malus and clawback provisions. These conditions are set out in the service agreements for Executive Directors, as well as the DBSP and LTIP rules.

A performance adjustment may include, but is not limited to:

- reducing a colleague's bonus outcome for the current year;
- reducing the amount of any unvested deferred variable remuneration (including LTIP awards) to which a colleague is entitled (malus);
- requiring repayment (clawback) on demand (on a net basis) of any cash and share awards received at any time during the seven year period after the date of award ('the Clawback Period'); and
- requiring a bonus which has been awarded (but not yet paid) to be forfeited.

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

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

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

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

Colleague remuneration and engagement

When reviewing and setting Executive Director remuneration, the Remuneration Committee takes into account the pay and employment conditions of all the colleagues of the Group. Specifically, the level of any Group-wide pay review is a key determinant when setting the level of any increase to Executive Directors' salaries. The measurement of colleague engagement is a performance measure for both the annual bonus and the LTIP.

There is no colleague representative on the Remuneration Committee. Instead, time is taken to meet and listen to the views of many colleagues. One of the duties of the HR Director is to brief the Board on colleague views and, as a regular invitee to Remuneration Committee meetings, he ensures that decisions are made with appropriate insight to colleagues' views.

The structure of the Executive Directors' remuneration packages cascades down to other colleagues. Particular points to note are:

- LTIP awards are granted to the wider Virgin Money Executive Team, with the same variable pay structure and performance conditions; and
- all colleagues are eligible to participate in an annual bonus arrangement, with no product-focused sales incentives. Instead, all bonuses are subject to a balanced scorecard of measures with particular emphasis on customer experience.

The listing of the Company was an important corporate event that colleagues followed closely. In 2012 an all-colleague award over 430 shares was made to each eligible colleague at that time. These shares vested on listing with no further restrictions. 2,253 colleagues received these shares. As at 31 December 2014 1,631 colleagues (55% of total colleagues) are shareholders in the Company.

Finally, on listing, the Company granted all eligible colleagues an award over £1,000 of Virgin Money shares (an award over 353 shares each). These shares will vest on 18 November 2015, the first anniversary of listing provided that the colleague remains employed. This means that the majority of colleagues are financially aligned with shareholders.

Chairman and Non-Executive Directors

The table below sets out the Remuneration Policy which will apply, subject to shareholder approval, to the Chairman, Chairman Designate and Non-Executive Directors, from the date of the 2015 AGM.

Chairman and Non-Executive Director Fees

Purpose and link to strategy	To ensure the Group is able to engage and retain highly skilled and experienced individuals who can provide a valuable contribution, having a significant range and depth of expertise.
Operation	Fees payable to the Chairman are determined by the Remuneration Committee, whilst the fees paid to the Non-Executive Directors are set by the Board. The Board undertakes periodic reviews, at least annually, of Non-Executive Director fees. The fees are set at a rate that reflects the individuals' experience, value to the Group and the expected time commitment of them. The regulatory regime and the practical aspects of running a complex financial services company are important inputs to remuneration decisions. For the Non-Executive Directors, there is a base fee which is then supplemented by additional fees in respect of chairing and being a member of Board committees. In exceptional circumstances, incremental fees may be paid for additional duties and time commitment, such as the increased workload in the run up to the listing of the Company. The current fees are described on page 136. From time to time, new Board Committees may be established and/or responsibilities distributed between Committees, at which point fees for Committee membership and Chairmanship may be reviewed. The Chairman and Non-Executive Directors are reimbursed for expenses (taxable and non-taxable) incurred in performing their duties. For individuals based outside of the UK this will include travel to and from the UK. The Chairman Designate has access to a vehicle for personal use, which is a taxable benefit.
Maximum potential	The maximum aggregate value of fees payable to the Chairman and the Non-Executive Directors is capped at £2 million under the Articles of Association.
Performance metrics	No remuneration payable to the Chairman and the Non-Executive Directors has performance conditions. The share options granted in 2011 to Sir David Clementi are referred to at page 143.

Directors' Remuneration Report

Letters of appointment

The Group's policy is to appoint Non-Executive Directors by letter of appointment rather than service agreements. The dates of these letters are:

	Date of letter of appointment
Norman McLuskie (independent)	September 2009
Colin Keogh (independent)	March 2010
James Lockhart III	January 2011
Sir David Clementi (independent at time of appointment)	October 2011
Patrick McCall	February 2013
Gordon McCallum	April 2013
Marilyn Spearing (independent)	January 2014
Olivia Dickson (independent)	October 2014
Glen Moreno (independent)	October 2014

The letters of appointment are available for inspection at the Company's registered office.

Implementation Report

Purpose and membership of the Remuneration Committee

The role of the Remuneration Committee is to determine and recommend to the Board a fair and responsive remuneration framework to ensure that the Group's most senior Executives are appropriately rewarded and incentivised for their contribution to the Group's performance. The Remuneration Committee's primary purpose is to formulate policies that ensure a clear link between reward and performance and which are compliant with regulatory requirements.

Remuneration Committee membership in 2014

Olivia Dickson	Member since 1 September 2014 and Chair since 5 September 2014
Norman McLuskie	Member since 27 January 2010
Sir David Clementi	Member since 7 October 2011
Marilyn Spearing	Member since 29 January 2014
Colin Keogh	Member since 27 January 2010 and Chairman from 23 February 2010 to 4 September 2014, on which date he stepped down from the Committee.

Other attendees (by invitation from time to time) included: James Lockhart III, Gordon McCallum, Patrick McCall, Jayne-Anne Gadhia, Matt Elliott (HR Director), Marian Watson (Chief Risk Officer), Simon Leeming (HR Director – Reward) and Graeme Hudson (Reward Manager). The latter five did not attend at times when their own remuneration outcome was discussed and approved. The Company Secretary attended meetings to record minutes.

Directors' Remuneration Report

Remuneration Committee activity in 2014

There were 17 meetings of the Remuneration Committee, largely driven by preparation for the Initial Public Offer.

Date	Regular items	Exceptional items	
		Pre-IPO	Post-IPO
Q1	FY13 Incentive outcomes based on audited accounts FY13 Directors' Remuneration Report		
Q2	Regulatory change and the impact on Remuneration Policy for the terms of appointment including remuneration for a number of senior new hires		
Q3		Consideration of Executive remuneration design post-IPO Review market benchmarks and determine new Executive base salary, pension and variable pay structure	
Q4	Consideration of FY14 Directors' Remuneration Report Development of Group Remuneration Policy Performance conditions for the FY15 annual bonus and Long Term Incentive Plan (LTIP)	Consideration and approval of conversion of awards under the historic Phantom Incentive Plan on listing Review amendments to the IPO Incentive Scheme Consideration and approval of awards under the IPO Incentive Scheme Review of the remuneration section of the Listing Prospectus Consideration and approval of the Deferred Bonus Share Plan and LTIP	Approval of the appointment of external advisers to the Committee Consideration and amendment of variable pay deferral arrangements to ease transition to new post-IPO variable pay structure

Advisers to the Remuneration Committee

During 2014, the Remuneration Committee took external advice from the following independent consultants in relation to Directors' remuneration:

- PricewaterhouseCoopers (PwC) were appointed to advise on the impact of listing and recommended remuneration structures for the listed environment. PwC's fees for 2014 amounted to £113,656. PwC have been retained as the Remuneration Committee's advisers in 2015;
- Allen & Overy advised on share incentive schemes and the reorganisation and listing and the subsequent operation of these schemes in the listed environment. Allen & Overy's fees for 2014 in relation to Executive Remuneration were incorporated into the overall fee for advice for the listing of the Company in November 2014.

PwC is a member of the Remuneration Consultants Group and comply with the professional body's code of conduct.

This supports the Remuneration Committee's view that the advice received was objective and independent.

Approval of Remuneration Policy in 2014 and shareholder engagement

The remuneration policy proposed for Executive Directors for 2014, as detailed in the Directors' Remuneration Report for 2013, was approved by all members of the Remuneration Committee on 26 February 2014. Meetings of the Remuneration Committee were attended by representatives of the Company's main shareholders by invitation. The Board, including representatives of the Company's main shareholders approved the Directors' Remuneration Policy for 2014.

There will be two resolutions proposed to shareholders on remuneration at the 2015 AGM: one will be a binding vote on the Directors' Remuneration Policy as stated in the first section of this Directors' Remuneration Report; and the second will be an advisory vote on the implementation of that policy (as described in this section of the Directors' Remuneration Report).

Shareholders will be invited to approve the Directors' Remuneration Policy for a single year, rather than the more common three years. The reason for this is to facilitate dialogue with key shareholders during 2015 on the Remuneration Policies. The listing of the Company in November 2014 has resulted in many new shareholders and although the Listing Prospectus detailed the different elements of the Group's remuneration structure (including that for Executive Directors), to date there has been limited opportunity to explain the new Directors' Remuneration Policy and how this is linked to the corporate strategy. The Remuneration Committee is committed to having these conversations during 2015 and will review the Directors' Remuneration Policy in light of the feedback received. Following this, the Committee Chair will revert to all shareholders at the 2016 AGM to approve the Directors' Remuneration Policy for a three year term.

Directors' Remuneration Report

Implementation of the policy in 2015

In light of the newly-listed environment and regulatory changes, the Directors' Remuneration Policy has been revised for 2015. This includes the adoption of a long term incentive plan which is designed to encourage Executives to take a long term view of the success of the Group and align Executive interests with those of shareholders.

The following table sets out how the Directors' Remuneration Policy will be applied in 2015:

Base salaries	Salaries for Executive Directors are as follows: Jayne-Anne Gadhia (Chief Executive): £725,000 Lee Rochford (Chief Financial Officer): £475,000
Chairman and Non-Executive Directors' fees	Disclosed in table on page 139.
Pension and other benefits	No change from the stated policy.
Annual bonus	
Opportunity	Maximum annual bonus opportunity is 80% of fixed pay for the Chief Executive and 80% of salary for the Chief Financial Officer. The target value of the bonus for Chief Executive and Chief Financial Officer is 60% of the maximum opportunity.
Deferral terms	For 2015: – up to 35% of any annual bonus will be paid in cash following the publication of the financial statements for the previous year; – up to 35% of any annual bonus will be converted into an award of equivalent value under the Deferred Bonus Share Plan, vesting immediately on award and subject to a six month retention period (post taxation); – up to 30% of any annual bonus will be converted to an award of equivalent value under the Deferred Bonus Share Plan, vesting equally over the next three annual anniversaries of award and subject to a six month retention period (post taxation); At the time of the shares being released Executive Directors may receive an amount (in cash or shares) equal to the dividends paid or payable between the date of grant and the vesting of the award on the number of shares which have vested.
Performance measures and targets	For 2015 the annual bonus will be based on: – financial measures (Underlying Profit Before Tax, Underlying Cost: Income ratio, Underlying Return on Tangible Equity and capital ratio) – 60% weighting; and – non-financial (personal strategic objectives and a series of brand, culture and control measures) – 40% weighting. The Remuneration Committee considers the targets that apply to these measures to be commercially sensitive at this time but will provide information on the level of payout relative to the performance achieved in next year's Implementation Report.

Long Term Incentive Plan

Opportunity	LTIP awards in 2015 will be granted over shares worth: – Chief Executive – 120% of fixed pay – Chief Financial Officer – 120% of salary
Vesting terms	The performance period shall be the three years commencing on 1 January 2015 and the intended date of grant is March 2015. To the extent that the performance measures are satisfied, one-third of the award will vest on the third anniversary of the date of grant, one-third will vest on the fourth such anniversary and the final one-third will vest on the fifth anniversary.
Performance measures and targets	The Remuneration Committee has chosen performance measures that are based on delivering the Company's strategic objectives, and the continued creation of shareholder value. This choice and the calibration of the targets is consistent with the strategic plan which supported the statements made in the Listing Prospectus. Given the shareholder value inherent in meeting this level of performance, the Remuneration Committee has determined that 80% vesting is justified. Performance against the targets will be subject to a risk assessment review. For the growth measures, as a supplement to the normal risk-appetite framework, a subset of measures particularly addressing the quality of business relating both to sales conduct and risk profile will be highlighted and reviewed by the Remuneration Committee. The following describes the weightings and measures for the 2015 awards.

Category	Measure	Basis of payout range	Target	Weighting
Growth	Scorecard of: a) Mortgage market share (gross lending)	Set relative to the Strategic Plan	Threshold: 2.5% Target: 3% Maximum: 3.5%	30%
	b) Cards growth (assets)		Threshold: £2,200m Target: £2,450m Maximum: £2,700m	
	c) Current account, Insurance and Investments Income		Threshold: target -2% Target: Income growth rate (CAGR) in line with net interest income Maximum: target +2%	
Quality	Capital Strength (CET1 ratio)	Set relative to the Board's approved risk appetite	Threshold: 12.0% Target: 12.5% Maximum: >12.5%, and up to 15%	20%
	Cost of Risk		Threshold: 22bps Target: 20bps Maximum: 18 bps	
Returns	Underlying Cost:Income ratio	Set relative to the Strategic Plan	Threshold: 52.5% Target: 50.0% Maximum: 47.5%	30%
	Underlying Return on Tangible Equity		Threshold: 13.5% Target: 15.0% Maximum: 16.5%	
EBO	Scorecard of measures relative to external comparators and internal scores	Continuous improvement towards top decile performance	a) Customers b) Colleagues c) Community d) Corporate Partners	20%

Outcomes will be disclosed on a retrospective basis after the end of the three year performance period.

Directors' Remuneration Report

Chairman and Non-Executive Director fees in 2014 and 2015

The annual fee for the Chairman is unchanged to that specified in the Listing Prospectus at £350,000. In addition to this annual fee, as set out in the Listing Prospectus, the Company will pay Sir David Clementi a fee of £540,000 for the period from 8 October 2014 to 30 June 2015, in nine monthly instalments. The additional fee recognises the additional time commitment necessary to lead the Company through to Listing, and to oversee all of the changes necessary to ensure compliance with the additional legal and regulatory requirements of a listed company, and secures Sir David Clementi's services until 30 June 2015.

As part of the transition arrangements, it has been agreed that Sir David Clementi will stand down as Chairman of the Board on 21 May 2015 (the first Board meeting after the AGM) and will stand down as a Director of Virgin Money on 30 June 2015. Glen Moreno will become the Chairman on 21 May 2015, and will be paid from that date on the basis of an annual fee of £350,000. Sir David Clementi has agreed to waive his annual fee for the period from 21 May 2015 to 30 June 2015.

The annual Non-Executive Director fees were reviewed in 2014. The basic fee was reduced and committee specific fees were introduced as listed below with effect from 1 October 2014.

Fees	2015	2014
Basic fee	£80,000	£80,000
Audit Committee Chairmanship	£20,000	£20,000
Remuneration Committee Chairmanship	£20,000	£20,000
Board Risk Committee Chairmanship	£20,000	£20,000
Balance Sheet Committee Chairmanship	£20,000	£20,000
Nomination Committee Chairmanship	£–	£–
Audit Committee Membership	£7,500	£7,500
Remuneration Committee Membership	£7,500	£7,500
Board Risk Committee Membership	£7,500	£7,500
Balance Sheet Committee Membership	£7,500	£7,500
Nomination Committee Membership	£–	£–

Non-Executive Directors may receive more than one of the above fees.

During 2014 the independent Non-Executive Directors committed significant time to support the listing of the Company. Such time commitment was in excess of the time commitment in their terms of appointment. The Board of the Company, led by the major shareholders, agreed additional one off payments of increased fixed fees in respect of that time commitment. Each of the independent Non-Executive Directors received an additional fee of £50,000 as disclosed in the Listing Prospectus. The total fees paid to the Chairman and each Non-Executive Director in 2014 are disclosed on page 139.

Remuneration outcome for 2014

Executive Directors (audited)

The following table summarises the total remuneration awarded in relation to Executive Director services during 2014.

	Jayne-Anne Gadhia		Lee Rochford	
	2014 £'000	2013 £'000	**2014 £'000**	2013[1] £'000
Salary	**648**	537	**453**	106
Taxable benefits[2]	**8**	8	**-**	-
Pension allowance	**139**	101	**68**	16
Total fixed	**795**	**646**	**521**	**122**
Bonus	**1,510**	806	**852**	450
LTIP and legacy awards[3]	**1,342**	-	**889**	-
Other[4]	**-**	-	**-**	860
Total remuneration	**3,647**	**1,452**	**2,262**	**1,432**

Additional disclosure: Fixed pay and annual and deferred incentives for 2014				
Total remuneration	**3,647**	**1,452**	**2,262**	**1,432**
Less: one-off growth share and IPO incentive	**(1,342)**	**-**	**(889)**	**-**
Fixed pay and annual and deferred incentives for 2014	**2,305**	**1,452**	**1,373**	**1,432**

1 Lee Rochford became an executive director on 7 October 2013. The figures shown for fixed remuneration in 2013 is for the period from 7 October 2013 to 31 December 2013.

2 Taxable benefits comprise car allowance and private medical insurance.

3 Represents the value of growth shares previously purchased which converted to Ordinary Shares at the time of listing (details on page 142) and the full value of IPO Incentive awards based on the value of the award at the time of vesting (details on page 141).

4 'Other' represents the recruitment related award to Lee Rochford in 2013 (see outstanding share awards for further details on page 142).

The following table summarises the fixed pay and annual and deferred incentives for 2014.

	Jayne-Anne Gadhia		Lee Rochford	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Cash[1]	**1,097**	807	**692**	212
Deferred[2]	**1,208**	645	**681**	360
Total	**2,305**	**1,452**	**1,373**	**572**

1 Represents total fixed pay and the proportion of annual bonus paid in cash in March 2015.

2 Represents the proportion of annual bonus which is awarded under the Deferred Bonus Share plan.

Directors' Remuneration Report

Annual Bonus

For 2014 the Chief Executive had a maximum annual bonus opportunity of 200% of fixed pay. For the Chief Financial Officer the maximum was 200% of salary.

For each Executive Director, the 2014 annual bonus determination was based on performance against:

- financial measures: 50% (60% for the Chief Financial Officer) including Underlying Profit Before Tax, Underlying Return on Tangible Equity, Underlying Cost:Income ratio and capital ratio; and
- balanced scorecard objectives: 50% (40% for the Chief Financial Officer) based on performance against strategic objectives, from the Company's corporate scorecard, and personal strategic objectives.

Actual performance against the 2014 bonus targets was as follows:

					Chief Executive		Chief Financial Officer	
Performance measure	Threshold	Target	Maximum	Actual performance	Weighting at maximum	Bonus score as a % of fixed pay	Weighting at maximum	Bonus score as a % of salary
Underlying PBT	£103.6m	£111.5m	£119.4m	£121.2m	20%	40%	12%	24%
Underlying Cost:Income ratio	70.5%	68.8%	67.1%	68.7%	10%	10%	12%	12%
Underlying Return on Tangible Equity	5.4%	6.0%	6.6%	7.4%	10%	20%	12%	24%
Capital Ratio	<17.1% or >19.8%	17.1%-17.8% or 19.2%-19.8%	17.8%-19.2%	19.0%	10%	20%	12%	24%
Balance Sheet Management	Judgement of Remuneration Committee			maximum	n/a	n/a	12%	24%
Non-financial Strategic	Judgement of Remuneration Committee			maximum	40%	80%	30%	60%
Non-financial scorecard/personal	Judgement of Remuneration Committee			maximum	10%	20%	10%	20%
Total bonus					100%	190% of fixed pay	100%	188% of salary

Looking at each measure:

- Underlying PBT – In excess of maximum target at £121.2m.
- Underlying Cost:Income ratio – In excess of target but under maximum at 68.7%.
- Underlying Return on Tangible Equity – In excess of maximum at 7.4%.
- Capital ratio – At maximum at 19.0%.
- Balance sheet performance – This has remained strong throughout the year driven by an increasing use of higher rated counterparties and an increase in the wholesale funding mix.
- Non-financial strategic – Launch of the credit card business, customer feedback measures, preparing for an IPO and management team structure. As described in the Chairman's statement commencing on page 8, these objectives have been met in full and in some cases exceeded.
- Non-financial scorecard/personal – The Committee assessed the performance of the Chief Executive and Chief Financial Officer against the framework and determined that they were rated strong in every category.

The bonuses awarded are summarised in the table below:

Name	Jayne-Anne Gadhia	Lee Rochford
Maximum opportunity (% of base salary[1])	200%	200%
% awarded for 2014	190%	188%
Bonus awarded for 2014	£1,510,382	£851,500

1 For Jayne-Anne Gadhia the maximum opportunity was a % of fixed pay.

For the 2014 annual bonus, 20% of the annual bonus will be paid in cash in March 2015, 20% will be paid in shares with a six-month holding period. The remaining 60% will be deferred with half of the deferred bonus vesting in March 2018 and the remaining half vesting in March 2019 (each with a six-month holding period). During the deferral period, the award is subject to the Company's malus policy up to the date of vesting. Once vested, the awards remain subject to clawback provisions, in line with the Company policy.

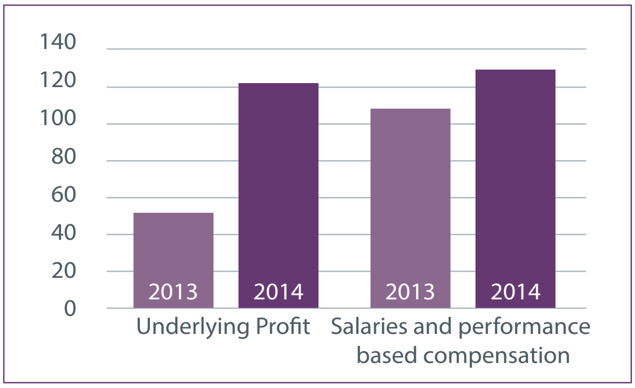
Percentage change in remuneration of Chief Executive versus the wider employee population

Figures for 'All Colleagues' are calculated using salary figures for all relevent colleagues except the Chief Executive, which is considered to be the most appropriate group of colleagues for these purposes.

	% change in base salary (2013-2014)	% change in annual bonus (2013-2014)	% change in taxable benefits (2013-2014)
Chief Executive**	21%	87%	0%
All Colleagues	2%*	42%*	0%*

* Adjusted for movements in colleague numbers and other impacts to ensure a like for like comparison.
** Note that the Chief Executive's salary increased on listing to reflect the associated additional responsibility and duties on leading a publicly listed company.

Relative spend on pay (£m)



Underlying Profit has been used for comparison on the basis that it reflects performance, excluding one-off events.

Payments within the reporting year to past Directors (audited)

Finlay Williamson ceased to be an Executive Director on 7 October 2013. He left the Company's employment in September 2014 as a good leaver.

During 2014 as part of his termination arrangements, he received £219,231 comprising six months pay in lieu of notice and £76,731 loss of office payment. In addition, £950,286 was paid in respect of a phantom share interest which paid out in cash on the Initial Public Offer in November 2014. The value of growth shares previously purchased which converted to Ordinary Shares at the time of listing was £59,832. The Company has made deferred bonus payments in line with the normal vesting periods.

Chairman and Non-Executive Directors' fees (audited)

	Fees paid in 2014 (£000s)	Fees paid in 2013 (£000s)
Sir David Clementi[1]	515	330
Colin Keogh[2]	169	120
Norman McLuskie[2]	174	120
Olivia Dickson[2] (from 01/09/14)	88	–
Marilyn Spearing[2] (from 29/01/14)	160	–
James Lockhart III	95	50
Patrick McCall	95	50
Gordon McCallum	95	50

1 The fee for 2014 includes a pro-rated payment related to the additional fee of £180,000 payable in monthly instalments commencing in October 2014.

2 Included in these figures is £50,000 for 2014 in respect of an additional fee related to time commitments in support of the IPO of the Company.

None of the Non-Executive Directors received taxable benefits.

Directors' Remuneration Report

Breakdown of Non-Executive Directors' fees

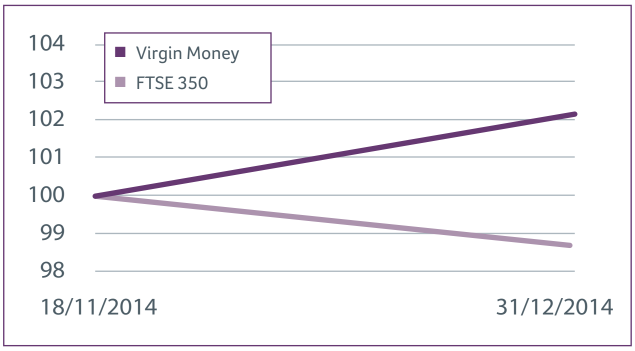
Non-Executive Directors received a base annual fee only until 30 September 2014. Fees were reviewed during the year and with effect from 1 October 2014 specific committee fees were introduced, as set out in the table on page 136.

Historical TSR performance and Chief Executive pay

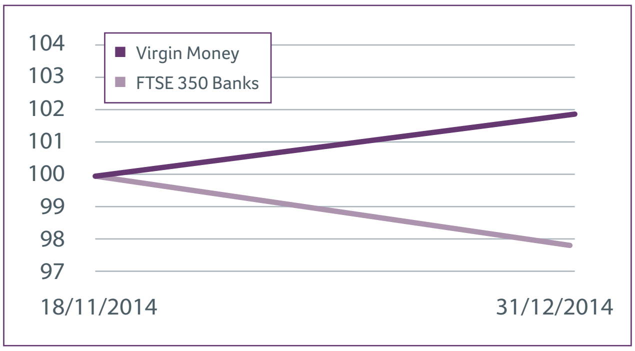
The graph below shows the total shareholder return (TSR) of the Company for approximately six weeks from the date (18 November 2014) when shares were listed on the London Stock Exchange to the end of the 2014 financial year, and the performance of the FTSE 350 Index over the same time period.

As a newly listed company, a five year TSR graph cannot be included. The Remuneration Committee has chosen to make a comparison to the FTSE 350 Index as it represents a broad market equity index. The Company is expected to become a member of a relevant FTSE Index in March 2015. To provide further context and comparison to some of the competitors, the graph on the right shows the Company's TSR performance against the FTSE 350 Banks Index over the same period.

Virgin Money TSR v FTSE 350



Virgin Money TSR v FTSE 350 Banks



Chief Executive remuneration outcome – 2014

Financial year ending	**31/12/2014**
Chief Executive	**Jayne-Anne Gadhia**
Total remuneration single figure (£000)	**£3,647**
Annual variable pay (% of maximum opportunity)	**95%**

Outstanding share awards

Directors' interests (audited)

The table below summarises the Executive Directors' shareholdings and share interests.

	Number of shares		**Number of Options**		
	Owned Outright	**Unvested subject to continued employment**	**Unvested subject to performance**	**Unvested subject to continued employment**	**Total**
Jayne-Anne Gadhia	**2,168,847**	**821,866**	**–**	**–**	**2,990,713**
Lee Rochford	**129,907**	**412,018**	**–**	**–**	**541,925**

Shareholding guidelines

The Chief Executive and Chief Financial Officer are expected to hold a set percentage of salary in shares of the Company (Chief Executive: 200% of salary, Chief Financial Officer: 150% of salary) built up over five years from listing or recruitment, whichever is the later.

As a result of the shareholdings in the table on page 140, the position for each Executive Director is as follows:

		Shareholding requirement		Current shareholding		
Executive Directors	Base salary (£000)	% of base salary	Number of shares (at 31.12.14 closing price of £2.88)	% of base salary (at 31.12.14 closing price of £2.88)	Value of shares held (at 31.12.14 closing price of £2.88)	Requirement met Yes/No
Jayne-Anne Gadhia	725	200%	503,472	862%	£6,246,279	Yes
Lee Rochford[1]	475	150%	247,396	79%	£374,132	See note 1 below

1 Lee Rochford has five years from the date of listing to meet the shareholding requirements.

Breakdown of share interests (audited)

The share numbers referred to in this section are adjusted for the effect of the re-organisation of the Company share capital on listing.

IPO Incentive Scheme

Awards were granted under the IPO Incentive Scheme on 19 December 2013, and designed to focus participants on a successful listing of the Company by December 2016. The total value of the award was confirmed on listing by reference to the IPO value and the corresponding total number of Ordinary Shares was 333,215 for the Chief Executive and 222,143 for the Chief Financial Officer. To date, 60% of the award has vested (40% on listing and 20% in December 2014); the remaining 40% vests in two final tranches of 20% in December 2015 and 20% in December 2016. Holding periods of six months apply to each deferred tranche. All awards are subject to malus and clawback provisions.

	At 1 Jan 2014	Awarded during the year	Vested during the year	Lapsed during the year	Unvested as at 31 Dec 2014	Date of grant	Market value at date of grant[1]	Notes
Jayne-Anne Gadhia	n/a	–	199,929	–	133,286	19 December 2013	n/a	
Lee Rochford	n/a	–	133,285	–	88,858	19 December 2013	n/a	

1 The Company was in private ownership at the date of grant and therefore no market value was available at that time.

Directors' Remuneration Report

Growth shares

Executive Directors subscribed for A and B shares (a separate class of shares in the Company) the value of which shared in the growth of the Company above a pre-determined hurdle rate. The A and B shares converted on listing on 18 November 2014. At this point the growth shares converted into Ordinary Shares. The number of A and B shares which converted on listing were confirmed at the point of listing. The A share holding of the Chief Executive converted to 140,946 Ordinary Shares and the B share holding of the Chief Financial Officer converted to 91,920 Ordinary Shares. In the event that the Executive Director leaves within two years of listing, the Ordinary Shares are transferred to the Company's Employee Benefit Trust for nil consideration. No performance conditions apply during this two-year period, however, clawback continues to apply. The following holding periods apply: disposal of no more than one third on or following listing, one third on or following the first anniversary of listing, and one third on or following the second anniversary of listing.

FY12 and FY13 Phantom Share Awards

Both Executive Directors continue to hold unvested awards previously granted under a deferred bonus plan known as the 'phantom incentive plan'. Historically, these awards were valued by reference to the Tangible Net Asset Value (TNAV) of the Company. On listing, all phantom share awards converted into awards over the same number of Ordinary Shares and no further phantom share awards have been granted. No further performance conditions apply, although the awards remain subject to the malus and clawback policy described on page 128. Holding periods of six months apply to each deferred tranche.

	At 1 Jan 2014	Awarded during the year	Vested during the year	Lapsed during the year	Unvested as at 31 Dec 2014	Date of grant	Market value at date of grant[1]	Notes
Jayne-Anne Gadhia	485,160	–	–	–	485,160	18 July 2013	n/a	FY2012 deferred bonus
	–	203,420	–	–	203,420	27 February 2014	n/a	FY2013 deferred bonus
Lee Rochford	–	113,540	–	–	113,540	27 February 2014	n/a	FY2013 deferred bonus

1 The Company was in private ownership at the date of grant and therefore no market value was available at that time.

Recruitment award

An individual share-based recruitment award was made to Lee Rochford in 2013 to compensate for forfeited awards from previous employment.

	At 1 Jan 2014	Awarded during the year	Vested during the year	Lapsed during the year	Unvested as at 31 Dec 2014	Date of grant	Market value at date of grant[1]	Notes
Lee Rochford	259,570	–	49,950	–	209,620	23 December 2013	n/a	–

1 The Company was in private ownership at the date of grant and therefore no market value was available at that time.

Chairman's interest in share options (audited)

The options were awarded in order to secure the current Chairman's appointment in October 2011 and are fully vested and exercisable. The options will lapse on the earlier of the event of Sir David Clementi's termination for cause or ten years after the date of Admission. The number of Ordinary Shares subject to the options will be increased in accordance with the terms of the option agreement in the event of the exercise of certain warrants over Ordinary Shares in the Company. Note that these options are in addition to the annual fee set out at page 136.

	At 1 Jan 2014	Granted during the year	Exercised during the year	Lapsed during the year	Not excercised as at 31 Dec 2014	Exercise price	Exercise period
Sir David Clementi	658,240	–	32,912	–	625,328	£2.149	To 18 November 2024

Additional disclosures

Emoluments of the eight highest paid Senior Executives

The following table sets out the emoluments of the eight highest paid Senior Executives (excluding Executive Directors) at 31 December 2014 in respect of the 2014 performance year:

	Executive							
	8 £000	**7 £000**	**6 £000**	**5 £000**	**4 £000**	**3 £000**	**2 £000**	**1 £000**
Fixed								
Salary	199	219	230	264	271	250	318	308
Taxable Benefits	1	1	1	1	–	1	4	1
Pension	30	33	35	40	41	37	48	47
Total fixed	**230**	**253**	**266**	**305**	**312**	**288**	**370**	**356**
Variable								
Bonus	385	385	447	400	499	485	426	524
LTIP and legacy awards	417	417	417	437	377	417	437	437
Other	–	–	–	–	–	–	–	–
Total remuneration	**1,032**	**1,055**	**1,130**	**1,142**	**1,188**	**1,190**	**1,233**	**1,317**

Variable pay is in respect of performance year 2014. LTIP values include the value of growth shares previously purchased which converted to Ordinary Shares at the time of listing and the full value of awards under the IPO Incentive Scheme. Pension costs are based on percentage of salary.

Directors' Remuneration Report

Directors' interest – summary of awards vested and purchases and sales made by directors in 2014

	Holding at 1 January 2014 (or appointment date)	Transactions during year	Number of shares	Notes	Holding at 31 December 2014
Jayne-Anne Gadhia	**2,703,840**	18/11/14	140,946	Conversion of A Shares to Ordinary Shares	**2,168,847**
		18/11/14	133,286	Vesting of IPO Incentive	
		18/11/14	(844,482)	Ordinary shares sold in IPO Offer	
		19/12/14	35,257	Net number of shares from vesting of second tranche of IPO incentive	
Lee Rochford	**–**	31/03/14	49,950	Vesting of Ordinary Shares granted under recruitment award	**129,907**
		18/11/14	91,920	Conversion of B Shares to Ordinary Shares	
		18/11/14	88,857	Vesting of IPO Incentive	
		18/11/14	(124,324)	Ordinary shares sold in IPO Offer	
		19/12/14	23,504	Net number of shares from vesting of second tranche of IPO incentive	
Sir David Clementi	**–**	18/11/14	32,912	Exercise of part of option	**–**
		18/11/14	(32,912)	Ordinary shares sold in IPO Offer	
Colin Keogh	**124,250**	19/5/14	13,010	Purchase of shares (using part of annual fee)	**137,260**
Norman McLuskie	**77,070**	19/5/14	13,010	Purchase of shares (using part of annual fee)	**90,080**
Olivia Dickson	**–**	–	–	–	**–**
Marilyn Spearing	**–**	–	–	–	**–**
James Lockhart III	**–**	–	–	–	**–**
Patrick McCall	**–**	–	–	–	**–**
Gordon McCallum	**–**	–	–	–	**–**

There have been no changes to the above interests between 31 December 2014 and 4 March 2015.

Risk Management Report

Virgin Money Lounge, Edinburgh

Risk Management Report

The Group's Approach to Risk

Risk management is at the heart of our quest to make banking better.

Our business strategy is focused on delivery of growth, quality and returns through our EBO philosophy. Virgin Money's risk appetite supports delivery of a sustainable business model which achieves an appropriate balance of risk and reward.

The Risk Overview on pages 48 to 53 provides a summary of risk management within the Group. It highlights the important role of risk as an enabler of growth, quality and returns. Risk achievements in 2014 and priorities for 2015 are described along with a brief overview of the Group's risk governance structure and the principal risks faced by the Group and key mitigating actions.

This risk management section provides additional information on how risk is managed within the Group and details the Group's appetite for risk, approach to risk governance, committee structures, stress testing and a full analysis of risk classes – the framework used to identify, manage, mitigate and monitor risk.

Each risk class is described using the following headings: definition, risk appetite, exposures, measurement, mitigation and monitoring.

The Group's approach to risk

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

Risk culture

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

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

Risk appetite

- The Group defines risk appetite as 'the variability in results or key outcomes that the Board is willing to accept in support of the Group's strategy'.
- Strategy is developed in parallel with risk appetite. Risk appetite is supported by more detailed metrics and limits. A Risk Appetite Statement is approved by the Board with each strategic planning cycle. This incorporates recommendations from Non-Executive Directors and is fully aligned with Group strategy.
- Risk appetite is embedded within principles, policies, authorities and limits.
- Risk appetite evolves and reflects external market developments and the progression of the Group.

All disclosures in the Risk Management Report are unaudited, unless otherwise stated. Additional disclosures can be found in Virgin Money's Pillar 3 disclosures, found on the Group's website.

The Group's Approach to Risk

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

Governance and control

- Authority is delegated from the Board to executive management and committees which are designed to promote open challenge. The Group's risk appetite, policies, procedures, controls and reporting are in line with applicable regulations, law, corporate governance and industry good practice.
- Board-level engagement, coupled with the direct involvement of senior management in risk issues at the Executive Committee, ensures the prompt escalation of issues and initiation of remediation plans where required.
- The approach to risk is founded on a robust risk management framework and a strong control culture which assigns accountability for risk and guides the way colleagues approach their work, behave and make decisions.
- The interaction of the executive and non-executive governance structures is founded upon a culture of transparency and openness that is encouraged by both the Board and senior management.
- A strong governance framework remains a priority for the Group. It is the foundation for the delivery of effective risk management.

Risk decision-making and reporting

- Taking well understood risks which are consistent with strategy and have appropriate margin is a key driver of sustainable shareholder value.
- Risk analysis and reporting supports the identification of opportunities as well as risks.
- A view of the Group's overall risk profile, key exposures and management actions, and performance against risk appetite is reported to and discussed monthly at the Risk Management Committee. The Risk Management Committee reports to the Board Risk Committee and the Board.
- Rigorous stress testing exercises are carried out to assess the impact of a range of adverse scenarios (with different probabilities and severities) to inform strategic planning.
- The Chief Risk Officer regularly informs the Board Risk Committee and the Board of the risk profile and has direct access to the Chairman.

Risk Management Report

The Group's Approach to Risk

Exposure to risk arising from the business activities of the Group

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

Virgin Money Group

Total risk-weighted assets £5,159m

Mortgages and savings	Credit cards	Current accounts, insurance and investments
Residential mortgages Buy-to-let mortgages Customer deposits	Credit cards	Current accounts Pensions Investments Insurance

Mortgages and savings – Risk-weighted assets

	£m
Credit risk	3,490
Operational risk	240
Market risk[1]	0

Credit cards – Risk-weighted assets

	£m
Credit risk	830
Operational risk	143
Market risk[1]	0

Current accounts, insurance and investments – Risk-weighted assets[2]

	£m
Credit risk	0
Operational risk	47
Market risk[1]	0

Central functions

Shared support functions
IRRBB[3]

Risk-weighted assets

	£m
Credit risk	395
Operational risk	0
Market risk[1]	0
CVA	14

1 Virgin Money does not have a trading book.

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

3 Only Pillar II capital is held for IRRBB. There is no associated risk-weighted asset measure.

Principal risks

The Group's principal risks are shown in the Risk Overview (pages 48 to 53). The Group's emerging risks are shown on pages 149 and 150. Full analysis of the Group's risk classes is on pages 157 to 212.

Emerging Risks

The Group considers the following to be risks that have the potential to increase in significance and affect the performance of the Group.

Competitive positioning

Regulatory and competition authorities have intervened to improve the resilience, recovery and resolvability of the banking sector. Market inefficiencies could change the competition landscape and possibly impact market structures and margins.

Key mitigating action

- Virgin Money is an active participant in the broad range of regulatory developments including the Competition and Markets Authority consultation currently addressed to the banking sector.

Credit cards

Virgin Money successfully built a credit card infrastructure in 2014 which has introduced additional corporate partners and strategic suppliers. In addition, during 2015 we will complete the migration of almost 700,000 customer records onto that platform, completing our programme to transfer our cards business from MBNA. This introduces material execution risk and our experienced programme team have developed approaches which aim to mitigate this risk.

Key mitigating actions

- Virgin Money continues to develop our supplier partnership and oversight capability to minimise the risk of service disruption caused by the failure of a third party.
- The Group's robust programme management and governance disciplines mitigate execution risk.
- Appropriate executive steering oversight provides a view over the whole change agenda.
- A number of additional executive and senior leadership appointments has helped to mitigate resource stretch.

Cybercrime

Digital technology is changing customer behaviour, leading to changes in the banking model. The cybercrime landscape and threat environment continues to evolve.

Key mitigating actions

- Virgin Money has increased the focus on digital capability and IT resilience.
- Continued investment in enhancing information security, fraud and anti-money laundering capability considers both the external threat environment and the changing risk profile of the business.

Banking Reform and BRRD

The Financial Services (Banking Reform) Act 2013 introduces a ring-fence for UK retail banks, with the aim of separating core banking services critical to individuals and SMEs from wholesale and investment banking services. Virgin Money anticipates being a fully ring-fenced bank by the 2019 implementation date and is preparing for this change. In addition, the PRA has proposed changes to its rules to implement the EU Bank Recovery and Resolution Directive (BRRD) with full compliance required by January 2016.

Key mitigating actions

- The Group has ongoing engagement with HM Treasury, the PRA and the Bank of England on the evolving UK regulatory framework and the impact of EU directives.
- Resources have been mobilised to assess impacts and propose potential responses aligned to the Group's strategy.

Risk Management Report

Emerging Risks

Regulatory capital requirements

While there is now greater clarity on regulatory capital requirements, there remains some uncertainty as the UK and European regulatory frameworks continue to evolve. The Basel III global regulatory standards on bank capital adequacy, stress testing and market and liquidity risk management aim to strengthen regulation, supervision and risk management in the banking sector. Virgin Money is compliant with current CRD IV/CRR requirements and will continue to respond to new guidance and technical standards as they are published.

Key mitigating actions

- The Board is focused on responding effectively, and in a timely manner, to changes in the regulatory environment to ensure compliance is maintained.
- Regulatory horizon scanning ensures that risks are mitigated within the context of risk appetite.
- The Group continues to invest in and develop our risk management frameworks, systems and processes.

Macroeconomic environment

While confidence is increasing in the stability of the UK financial system, there is a risk of contagion from increasing market volatility and geo-political uncertainty in other regions, leading to a slow down in economic growth and a delay to expected increases in base rate.

Key mitigating actions

- Virgin Money regularly reviews earnings in light of economic forecasts, with stress and scenario testing enabling management to focus on mitigating these risks.
- Through our EBO approach, Virgin Money continues to ensure there is an appropriate balance between profitability and customer outcomes.

Unit Trust Management

Virgin Money Unit Trust Managers Limited (VMUTM) is exposed to movements in stock markets. The sole income stream of VMUTM is reliant upon the performance of our funds.

Key mitigating action

- The Group currently mitigates the risk associated with the stock market movements and their impact on earnings through the use of a FTSE hedge.

Risk Governance

Virgin Money's risk management framework provides a robust and consistent approach to risk management and drives our risk profile in line with risk appetite. It articulates accountabilities for risk management, risk oversight and risk assurance; supports the discharge of responsibilities to customers, shareholders and regulators; and establishes a common risk language. The risk management framework assigns the risks the Group is exposed to into classes which are used consistently to support risk reporting.

The risk governance structure below is integral to implementing the risk management framework by ensuring Risk has appropriate representation on key committees. This ensures relevant discussion of risk management and outlines the flow and escalation of risk information and reporting from functional Risk Boards to the Executive Committees and the Board. Strategic direction and guidance is cascaded down from the Board and the Executive Committees.

Board
Chairman: Sir David Clementi

Board Committees[1]

Balance Sheet Committee	Risk Committee	Audit Committee	Remuneration Committee
Chairman: Norman McLuskie (Non-Executive Director)	Chairman: Colin Keogh (Non-Executive Director)	Chairman: Norman McLuskie (Non-Executive Director)	Chairman: Olivia Dickson (Non-Executive Director)

Executive Committees

Risk Management Committee
Chairman: Chief Risk Officer
Identifies and recommends risk appetite, manages risk within agreed limits, monitors key risk exposures, in relation to risk strategy recommends the approach to managing all types of risk.

Asset and Liability Committee
Chairman: Chief Financial Officer
Responsible for management and monitoring of liquidity, funding, capital and asset and liability management within agreed risk appetite and policy.

Management Committees

Prudential Steering Committee	Operational Risk, Conduct Risk and Compliance Committee	Credit Risk Committee	Treasury Risk Committee	Enterprise Risk Framework Committee

Functional Risk Boards

1 Additional Board Committees comprise Nomination Committee.

Board, Executive and Risk Committees

Virgin Money's risk governance structure strengthens risk evaluation and management. It positions the Group to manage the changing regulatory environment in an efficient and effective manner.

Assisted by the Board Risk, Audit, Balance Sheet and Remuneration Committees, the Board approve the Group's overall governance, risk management framework and risk appetite. Refer to the Corporate Governance section on pages 82 to 116 for further information on Board committees.

Risk Management Report

Risk Governance

Risk Management

Risk management in the business

Line management is directly accountable for identifying and managing any risks inherent in the business. A key objective is to ensure that business decisions strike an appropriate balance between risk and reward, consistent with the Group's risk appetite.

All functional areas complete a monthly risk and control attestation and a quarterly control effectiveness review. This ensures controls are fit for purpose and remedial action can be implemented where appropriate. Executives from each business area and Executive Committee members challenge and certify the accuracy of these functional assessments.

This approach provides the Group with an effective mechanism for developing and embedding risk policies and risk management strategies aligned with the risks faced by the business. It also facilitates effective communication on these risk-related matters.

Role of the Board and senior management

The key responsibilities of the Board and senior management include:

- setting risk appetite and agreeing the risk management framework;
- approval of risk policies, supporting development of appropriate risk management practices;
- cascade of delegated authority (e.g. to Board committees and the Chief Executive); and
- effective oversight of risk management consistent with risk appetite.

Risk appetite – the business plan is aligned to the Risk Appetite Statement matching the Group's short and medium-term business objectives with risk tolerances and relevant risk limits.

Governance – the Board and Executive Committee structure is designed to oversee the overall management of risk, aligned with strategy and risk appetite. This is based on a current and comprehensive risk profile that identifies all material risks to the organisation. The governance structure is underpinned by policies that are consistent, accessible and comply with regulation.

Three Lines of Defence model – the Group uses a 'Three Lines of Defence' model which defines clear responsibilities and accountabilities and ensures effective independent assurance activities take place covering key decisions.

- Line management (first line) have primary responsibility for risk decisions, measuring, monitoring and controlling risks within their areas of accountability. They are required to establish effective controls in line with policy statements, to maintain appropriate risk management skills, practices and tools, and to act within risk appetite parameters set and approved by the Board.
- Risk, HR, Finance and Legal (second line) are central functions providing oversight and independent challenge to the effectiveness of risk decisions taken by line management, providing advice and guidance. They review, challenge and report on the risk profile of the Group and ensure that mitigating actions are appropriate.
- Internal Audit (third line) provides independent, objective assurance to add value and improve operations. It helps the Group achieve our objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Role of the Risk Function – the Risk Function provides expert advice, review and challenge to the business – this includes the development of appropriate stress tests. It has a key role in promoting the implementation of a strategic approach to risk management reflecting the risk appetite and risk management framework agreed by the Board. This encompasses:

- embedded and effective risk management processes;
- transparent and focused risk monitoring and reporting;
- expert high-quality advice and guidance to the Board, executives and management on strategic issues and horizon scanning for upcoming regulatory changes;
- promoting a constructive working environment in which the Risk Function is trusted and respected; and
- effective dialogue with the first line through advice, development of common methodologies, education, training, and development of new tools.

Risk Governance

Risk, headed by the Chief Risk Officer, consists of four Risk Directors and their specialist teams. These teams provide oversight and independent challenge to line management and support senior management and the Board with independent reporting on risks and opportunities. Risk Directors, responsible for specific risk classes, meet on a regular basis with the Chief Risk Officer to review and challenge the risk profile of the Group and to ensure that mitigating actions are appropriate.

The Chief Risk Officer is accountable for developing and leading a Risk Function that adds value to the Group by:

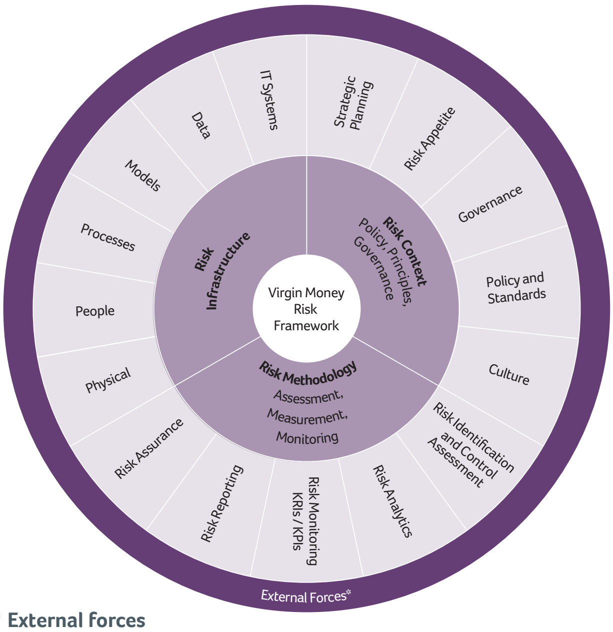
- providing a regular comprehensive view of the Group's risk profile, key risks (both current and emerging), and management actions;
- proposing risk appetite to the Board for approval, and reporting the performance of the Group against risk appetite;
- developing an effective and compliant risk management framework for approval by the Board, and overseeing its execution and compliance;
- challenging the executive on emerging risks and providing expert risk and control advice to help maintain an effective risk management framework; and
- maintaining a good working relationship with key regulators.

The Risk Directors:

- provide independent advice, oversight and challenge to the business;
- develop and maintain policies, specific risk frameworks and guidance to align business initiatives with regulatory requirements; and
- establish and maintain appropriate governance structures, culture, oversight and monitoring arrangements which ensure robust and efficient compliance with relevant risk appetite and policies.

Risk management framework

The risk management framework is structured around the components below:



* **External forces**

Legal	Customer	Political
Regulatory	Competitor	Technological
Economic	Supplier/Partner	

Risk identification and control assessment – the process to identify, measure and control risk is integrated into the overall framework for risk governance. Risk identification processes are forward-looking to ensure emerging risks are identified. Risks are captured in comprehensive risk logs and measured using robust and consistent methodologies. Measurement of risks includes the application of sound stress testing and scenario analysis, and considers whether relevant controls are in place before risks are incurred.

Risk analytics, monitoring and risk reporting – risks identified are logged and reported on a monthly basis, or as frequently as necessary, to the appropriate governance committee. The quantum of the risk is compared to the overall risk appetite as well as specific limits or triggers. When limits or triggers are breached, committee minutes are clear on the actions and timeframes required to resolve the breach and bring risk within tolerance. There is a clear process for the escalation of risks.

Culture – the risk management framework is supported by the underlying culture and values of the Group. To manage risk effectively across the organisation, the functions

Risk Management Report

Risk Governance

encompassed within the Three Lines of Defence have a clear understanding of expected behaviour and good practice, risk appetite, business strategy and a commitment to the role they play.

A number of levers are used to reinforce the risk culture, including tone from the top, governance, role profiles, training and capability development, performance management and reward.

Resources and capabilities – appropriate mechanisms are in place to avoid over-reliance on key personnel or system/technical expertise. Adequate resources are available to deal with customers both under normal working conditions and in times of stress. Monitoring procedures ensure that the level of available resource can be increased if required. Colleagues undertake appropriate training to ensure they have the skills and knowledge necessary to enable them to deliver fair outcomes for customers, being mindful of the requirements of policies, the Financial Conduct Authority and the Prudential Regulation Authority.

Independent challenge – Internal Audit provides independent assurance to the Audit Committee and the Board that risks within the Group are recognised, monitored and managed within acceptable parameters. Internal Audit is fully independent of the Risk Function, and seeks to ensure objective challenge to the effectiveness of the risk management framework.

Risk classes

The Group's risk framework covers all types of risk which affect the Group and could impact on the achievement of our strategic objectives. A detailed description of each category is provided below:

Credit Risk Page 157		Market Risk Page 182	Operational Risk Page 187	Other Operational Risk Page 187		Conduct Risk and Compliance Page 190		Strategic Risk Page 48	Financial Risk Page 191	Liquidity Page 196	Capital Page 206
Retail	Wholesale					Conduct	Compliance				
Mortgage	Wholesale Credit Risk	Foreign Exchange Risk	Operational Risk Framework	Fund Management	People	Product Design and Governance	Upstream Regulation	Macro-economic Risk	Interest Rate Risk in the Banking Book	Retail Funding Risk	Capital Sufficiency
Personal Current Accounts	Large Exposure		Corporate Risks	Legal Risk	Process	Unfair Contract Terms	Regulatory Reporting	Business Risk	Retail Concentration Risk	Off-Balance Sheet Liquidity Risk	Capital Efficiency
Credit Cards			Operational Risk Losses	Business Disruption	Systems	Sales Practices and Cultures	Critical and Important Outsourcing	Transformation Risk	Securitisation Originated	Marketable Asset Risk	
Collections & Recoveries				Information Security	Payment & Settlement Risk	Incentives and Reward	Remuneration Code	Change Risk Management	Pricing	Non-Marketable Asset Risk	
Responsible Lending				Information Management	Physical Security & Safe Environment	Quality and Competence	Senior Persons Regime	Reputation Risk Management	Model Risk	Franchise Viability Risk	
				Financial Crime	Non-financial Counterparty Risk	Post sale Administration & Transaction Handling	Privacy and Data Protection		Wholesale Credit Concentration Risk	Wholesale Funding Risk	
						Partner Conduct	Sourcebooks CASS COLL MCOB BCOB BIPRU COB CCA			Funding Concentration Risk	
						Vulnerable Customers & Treating Customers Fairly	Markets Compliance			Intra-Day Liquidity Risk	

Stress Testing

Stress testing is recognised as an essential management tool within Virgin Money.

Stress testing is undertaken by Virgin Money to further our understanding of the vulnerabilities that the business model faces under adverse conditions.

Stress testing is embedded in the planning process and is applied to the base case business plan. This allows senior management and the Board to assess the base case plan in adverse circumstances and to adjust strategies accordingly. This also facilitates the development of mitigating actions if the plan does not meet risk appetite in a particular stressed scenario. A rigorous review and challenge process ensures that senior management are involved in stress testing.

Virgin Money uses scenario stress testing to:

- assess the base case business plan against risk appetite, alongside a comparison of the plan in adverse circumstances, to ensure the Group remains within risk appetite;
- develop mitigating actions and contingency plans to address potential impacts of adverse scenarios. Stress testing outputs also link directly to the recovery planning process;
- support the Internal Capital Adequacy Assessment (ICAA), the Individual Liquidity Adequacy Assessment (ILAA) and inform the setting of regulatory guidance; and
- meet the standards required and information needs of internal and external stakeholders, including regulators.

On an annual basis, or more frequently if required, Virgin Money conducts a detailed macroeconomic stress testing exercise based on the strategic business plan. The exercise aims to highlight the key vulnerabilities of Virgin Money to adverse changes in the economic environment and to ensure that there are adequate financial resources in the event of a downturn. The exercise includes the PRA UK Variant Stress Scenario (these are the PRA's published supervisory recommended scenarios for the UK, details of which are publicly available on the Bank of England's website). Ad hoc stress testing exercises are also undertaken to assess emerging risks, as well as in response to regulatory requirements.

In addition to the running of macroeconomic scenarios, the Group's stress testing programme involves undertaking assessments of operational risk, liquidity and financial market disruption scenarios; market risk sensitivities; business specific and reverse stress testing (see relevant risk section for further information on risk specific stress testing). This provides a comprehensive view of the potential impacts arising from the risks to which the Group is exposed.

Methodology

Virgin Money develops internal scenarios based on key uncertainties for the economic outlook.

The stress tests must comply with all legal and regulatory requirements, and are put through a comprehensive review and challenge process. This is supported by analysis and insight into impacts of the scenarios on customers and business drivers. The engagement of all required risk and control areas is built into the preparation process to ensure appropriate analysis of each risk class's impact upon the business plan is understood and documented.

The methodologies and modelling approach used for stress testing ensures that clear links are shown between the macroeconomic scenarios, the business drivers for each area and the stress testing outputs. All material assumptions used in modelling are documented and justified, with a clearly communicated review and sign off process. Modelling is supported by expert judgement and is subject to the Model Policy, which includes independent model validation.

Below is an overview of the principal output responsibilities by team.

- Finance and Commercial teams prepare and review stressed business plans including income, margins, costs, lending and deposit volumes.
- Technical teams prepare and review risk-related stress outputs, including risk weighted assets, impairment charges, write-offs and expected loss.
- Risk teams design stress tests, review the stress submissions and produce a consolidated view of the results, including analysis packs for Virgin Money's senior committees.

The Board Risk Committee reviews all capital related stress outputs, including the calculation of indicative capital ratios. The Treasury team review the liquidity related stress outputs and evaluate the impact upon the Funding Plan.

Risk Management Report

Stress Testing

Reverse stress testing

Reverse stress testing is used to explore the vulnerabilities of the Group's strategies and plans to extreme adverse events. It also improves contingency planning. The scenarios used in such a stress are those that cause a failure in the business model. Where reverse stress testing reveals plausible scenarios with an unacceptably high risk when considered against risk appetite, Virgin Money will undertake measures to prevent or mitigate that risk as reflected in business and recovery plans.

Governance

Clear accountabilities and responsibilities for stress testing are assigned to senior management and the Risk and Finance Functions throughout Virgin Money.

The Risk Management Committee, chaired by the Chief Risk Officer, is the Committee that has primary responsibility for overseeing the development and execution of Virgin Money's stress tests.

The stress test outputs go through a rigorous review and challenge process at business level, including sign-off by the Chief Risk Officer, before being presented for approval by the Board.

Full Analysis of Risk Classes

Credit risk

Definition

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

Risk appetite

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

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

Exposures

The principal sources of credit risk arise from loans and advances to customers, cash, debt securities and derivatives. The credit risk exposures of the Group are set out on page 164. Credit risk exposures are categorised as retail (secured and unsecured) and wholesale.

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

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

Credit risk can also arise from debt securities, derivatives and foreign exchange activities. The Group's wholesale credit risk exposure is reflected on page 178.

Measurement

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

The Group uses Advanced Internal Ratings Based (AIRB) models in measuring the credit risk of secured loans and advances to customers, reflecting three components: (i) the 'probability of default' by the borrowers on their contractual obligations, (ii) current exposures to the borrowers and their likely future development, from which the Group derives the 'exposure at default', and (iii) the likely loss ratio on the defaulted obligations (the 'loss given default'). These parameters are used in order to derive an expected loss. In contrast, impairment allowances are recognised for financial reporting purposes only for loss events that have occurred at the balance sheet date, based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit loss provisions in the financial statements differs from the amount determined from expected loss models used for internal operational management capital requirement and other banking regulation purposes. Page 167 provides details of the Group's approach to the impairment of financial assets.

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

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

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

Risk Management Report

Full Analysis of Risk Classes

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

Mitigation

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

Internal control

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

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

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

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

Stress testing and scenario analysis: The Group's credit portfolios are subjected to regular stress testing, with stress scenario assessments run at various levels of the organisation from Group-led exercises to individual portfolio exercises. For further information on the stress testing process, methodology and governance refer to page 155.

Credit risk assurance and review: A specialist team within Risk Assurance, comprising experienced credit professionals, is in place to perform credit risk assurance. This team performs independent risk-based reviews providing an assessment of the effectiveness of internal controls and risk management practices. In addition to these 'standard' risk-based reviews, bespoke assignments are also undertaken in response to emerging risks and regulatory requirements.

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

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

For residential mortgages, the Group's policy is to reject all standard applications with a loan-to-value (LTV) greater than 95%. Applications with a LTV up to 95% are permitted

Full Analysis of Risk Classes

for certain schemes, for example, applications between 90% and 95% LTV are only permitted under the Help to Buy loan guarantee scheme. For residential mortgages the Group has maximum % LTV limits which depend upon the loan size. Residential mortgage limits are:

Loan-to-value analysis

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

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

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

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

Collateral

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

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

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

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

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

The Group considers risk concentrations by collateral providers and collateral type, as appropriate, with a view of ensuring that any potential undue concentrations of risk are identified and suitably managed by changes to strategy, policy and/or business plans. (See 'Concentration Risk').

Master netting agreements

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

Monitoring

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

The performance of all rating models is monitored on a regular basis, in order to seek to ensure that models provide

Risk Management Report

Full Analysis of Risk Classes

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

Debt management for customers in financial difficulty

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

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

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

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

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

- Payment arrangements: a temporary arrangement for customers in financial distress where arrears accrue at the contractual payment, for example short-term arrangements to pay less than the contractual payment.
- Transfers to interest only: an account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.
- Term extensions: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment.
- Discretionary payment holidays: a temporary account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.

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

- Income Support for Mortgage Interest – This is a government medium-term initiative that provides a payment for the Group for certain defined categories of customers, (principally those who are unemployed with access to a benefit scheme). Qualifying customers are able to claim for mortgage interest on up to £200,000 of the mortgage. All decisions regarding an individual's eligibility and any amounts payable under the scheme rest solely with the government. Where this scheme provides borrowers with a state benefit that is used to service the loan, there is no change in the reported status of the loan which is managed and reported in accordance with its original terms.

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

Full Analysis of Risk Classes

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

Forbearance and provisioning

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

Forbearance identification and classification: The Group has applied revised forbearance definitions based upon FCA guidance. As a result of this, forbearance data for 2013 has been restated to reflect the new definitions. The restated data for 2013 shows overall forbearance balances to be lower than reported in previous financial statements as the balances now exclude accounts with expired terms as this is not a solution offered to customers. All expired term balances will be categorised as impaired assets in line with the definitions detailed on page 167.

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

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

Secured lending

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

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

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

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

Unsecured lending

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

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

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

Risk Management Report

Full Analysis of Risk Classes

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 £m	Residential buy-to-let mortgage loans £m	Credit cards £m	Overdrafts £m	Treasury assets £m	Derivative exposures £m	Total £m
31 December 2014 (audited)							
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

Full Analysis of Risk Classes

	Secured		Unsecured		Wholesale		
	Residential mortgage loans £m	Residential buy-to-let mortgage loans £m	Credit cards £m	Overdrafts £m	Treasury assets £m	Derivative exposures £m	Total £m
31 December 2013 (audited)							
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**

Risk Management Report

Full Analysis of Risk Classes

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.

	Low risk £m	Medium risk £m	Higher risk £m	Total exposures £m	Low risk %	Medium risk %	Higher risk %
31 December 2014 (audited) **On-balance sheet**							
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 secured portfolio. Details of the new definition can be found on page 166. The 2013 numbers have been restated to reflect this change.

Full Analysis of Risk Classes

	Low risk £m	Medium risk £m	Higher risk £m	Total exposures £m	Low risk %	Medium risk %	Higher risk %
31 December 2013 (audited) **On-balance sheet**							
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 secured portfolio. Details of the new definition can be found on page 166. The 2013 numbers have been restated to reflect this change.

Risk Management Report

Full Analysis of Risk Classes

Loans and advances to customers comprise of:

	2014	2013
(audited)	£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
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 hedging	**22,985.8**	**20,351.2**

The mortgage portfolio has grown by 12% during 2014. In particular, buy-to-let balances have increased by £764.3 million (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 provision 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 improved 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 of greater than 0.8% but less than or equal to 2%; and
- low risk where assets are not past due and have a PD 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.

Full Analysis of Risk Classes

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.

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

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			
	£m	%	£m	%	£m	%	£m	%	£m	%
31 December 2014 (audited)										
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 £5.9 million was made to the value of gross loans and advances in order to take account of losses expected on purchased assets.

Risk Management Report

Full Analysis of Risk Classes

	Secured				Unsecured				Total	
	Residential mortgage loans		Residential buy-to-let mortgage loans		Credit cards		Overdrafts			
	£m	%	£m	%	£m	%	£m	%	£m	%
31 December 2013[1,2] (audited)										
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 in line 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 uses 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**	
	£m	**%**	**£m**	**%**	**£m**	**%**
31 December 2014[1] (audited)						
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 risk categories of gross loans and advances to customers for the secured portfolio. Details of the new definition can be found on page 166. The 2013 numbers have been restated to reflect this change.

Full Analysis of Risk Classes

	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
	£m	%	£m	%	£m	%
31 December 2013[1,2] (audited)						
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**	
	£m	**%**	**£m**	**%**	**£m**	**%**
31 December 2014[1] (audited)						
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	
	£m	%	£m	%	£m	%
31 December 2013[1] (audited)						
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.

Risk Management Report

Full Analysis of Risk Classes

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

	Secured		Unsecured		Wholesale		
	Residential mortgage loans £m	**Residential buy-to-let mortgage loans £m**	**Credit cards £m**	**Overdrafts £m**	**Treasury assets £m**	**Derivative exposures £m**	**Total £m**
31 December 2014 (audited)							
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] (audited)	£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)
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.

Full Analysis of Risk Classes

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	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
31 December 2014 (audited)										
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	
	£m	%	£m	%	£m	%	£m	%	£m	%
31 December 2013[1] (audited)										
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.

Risk Management Report

Full Analysis of Risk Classes

The tables below show impaired assets and impairment provisions

	Gross balances £m	Impaired balances £m	Impaired balances as a % of gross balances	Impairment provisions £m	Impairment provisions as a % of impaired balances[1]
31 December 2014 (audited)					
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 £5.9 million was made to the purchase price to take account of expected losses 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.

	Gross balances £m	Impaired balances £m	Impaired balances as a % of gross balances	Impairment provisions £m	Impairment provisions as a % of impaired balances
31 December 2013 (audited)					
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.

Full Analysis of Risk Classes

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 relating 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		
	Residential mortgage loans £m	**Residential buy-to-let mortgage loans £m**	**Credit cards £m**	**Overdrafts £m**	**Treasury assets £m**	**Derivative exposures £m**	**Total £m**
31 December 2014 (audited)							
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		
	Residential mortgage loans £m	Residential buy-to-let mortgage loans £m	Credit cards £m	Overdrafts £m	Treasury assets £m	Derivative exposures £m	Total £m
31 December 2013 (audited)							
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 pages 174 to 176.

Risk Management Report

Full Analysis of Risk Classes

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	
(audited)	**£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 in the table below.

	Residential mortgage loans		**Residential buy-to-let mortgage loans**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**
31 December 2014[1] (audited)						
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.

Full Analysis of Risk Classes

	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
	£m	%	£m	%	£m	%
31 December 2013[1,2] (audited)						
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 values represent the excess between the mortgage balance and collateral value, for mortgages where the 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 £m	**Residential buy-to-let mortgage loans £m**	**Total £m**
31 December 2014 (audited)			
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 £m	Residential buy-to-let mortgage loans £m	Total £m
31 December 2013[1] (audited)			
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.

Risk Management Report

Full Analysis of Risk Classes

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.

	2014		2013	
Possessions as a percentage of total book (number of properties)	**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.

(audited)	**2014 £m**	2013 £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**

Full Analysis of Risk Classes

Virgin Money conducted 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	
	£m	%	£m	%	£m	%	£m	%
31 December 2014[1] (audited) **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.

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Full Analysis of Risk Classes

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	
	£m	%	£m	%	£m	%	£m	%
31 December 2013[1] **Secured** (audited)								
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

(audited)	**2014 £m**	2013 £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.

Full Analysis of Risk Classes

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.

(audited)	**2014 £m**	2013[1] £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	
(audited)	**Debt securities held as loans and receivables £m**	**Available-for-sale financial assets £m**	Debt securities held as loans and receivables £m	Available-for-sale financial assets £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**

During 2014 the wholesale credit risk framework was enhanced to provide more capacity for covered bonds to form part of Virgin Money's liquidity portfolio. This resulted in an increase in the covered bonds in the liquidity portfolio from £46.1 million at December 2013 to £265.7 million at December 2014. This reflects the upcoming introduction of the Liquidity Coverage Requirement regime, which recognises these instruments as liquid assets available to meet net outflows in a stress event.

Risk Management Report

Full Analysis of Risk Classes

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

(audited)	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 liabilities under the same title.

Full Analysis of Risk Classes

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.

(audited)	**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.

(audited)	**2014 £m**	2013 £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]	
(audited)	**£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.

Risk Management Report

Full Analysis of Risk Classes

Market risk

Definition

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

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

Risk appetite

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

Exposures

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

Interest rate risk in the Group's portfolio and in the Group's capital and funding activities arises from the different repricing characteristics of the Group's assets, liabilities (see loans and advances to customers on page 166) and off-balance sheet positions of the Group. Interest rate risk arises predominantly from the mismatch between interest rate sensitive assets and liabilities, the variation of volume of business written in response to changes in interest rate, optionality in customers' ability to complete or redeem their products, and also from the investment term of capital and reserves, and the need to stabilise earnings in order to minimise income volatility.

- Liabilities are either insensitive to interest rate movements, for example interest free or very low interest customer deposits, or are sensitive to interest rate changes and bear rates which may be varied at the Group's discretion. There is a significant proportion of deposits with contractually fixed rates for their term to maturity.
- Many assets are sensitive to interest rate movements. Some managed rate assets such as variable rate mortgages which may be considered as a partial offset to the interest rate risk arising from the managed rate liabilities. A significant proportion of the Group's lending assets (mortgages) bear interest rates which are contractually fixed for periods of up to five years or longer.
- The Group establishes two types of hedge accounting relationships for interest rate risk, fair value hedges and cash flow hedges. The Group is exposed to fair value interest rate risk on fixed rate customer loans, fixed rate customer deposits and to cash flow interest rate risk on variable rate loans and deposits.
- At 31 December 2014 the aggregate notional principal of interest rate swaps designated as fair value hedges was £22,182.3 million (2013: £21,213.4 million) with a net fair value liability of £128.4 million (2013: asset of £43.5 million). The losses on the hedging instruments were £156.3 million (2013: gains of £156.9 million). The gains on the hedged items attributable to the hedged risk were £155.1 million (2013: losses of £167.5 million).
- In addition the Group has cash flow hedges which are primarily used to hedge retail pipeline lending. Note 17 shows when the hedged cash flows are expected to occur and when they will affect income for designated cash flow hedges. The notional principal of the interest rate swaps designated as cash flow hedges at 31 December 2014 was £811.8 million (2013: £732.5 million) with a net fair value liability of £2.5 million (2013: asset of £2.4 million) (note 17). In 2014, ineffectiveness recognised in the income statement that arises from cash flow hedges was a loss of £2.7 million (2013: loss of £5.1 million).

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

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

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

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

Foreign currency risk arises as a result of having assets, liabilities and derivative items denominated in currencies other than sterling as a result of banking activities. This includes maintaining liquid assets and wholesale funding. Virgin Money

Full Analysis of Risk Classes

has minimal appetite for foreign exchange risk. The Group does allow the purchase of liquid assets denominated in both US dollars and Euros within a well controlled limit framework.

Measurement

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

Interest rate risk exposure is monitored as follows.

- Capital at Risk (CaR) is considered for assets and liabilities in all interest rate risk re-pricing periods. This is expressed as the present value of the negative impact of a sensitivity test on the Group's capital position. Risk is measured considering both positive and negative shocks to interest rates. CaR quantifies the change in market value arising from an instantaneous parallel rise or fall in the yield curve, subject to a floor at 0% and relevant non-parallel yield curve stresses. CaR is controlled by a risk appetite limit and supporting metrics.
- Earnings at Risk (EaR) is considered for assets and liabilities on the forecast balance sheet over a 12 month period. This measure is expressed as the adverse change to net interest income. EaR quantifies the impact to earnings over a rolling 12 month period of an instantaneous parallel rise or fall in the yield curve, subject to a floor at 0%. This measurement is enhanced with non-parallel stress scenarios (basis risk) and behavioural volume stresses (pipeline and optionality). EaR is controlled by a risk appetite limit and supporting metrics.

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

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

Mitigation

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

Monitoring

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

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

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

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

Risk Management Report

Full Analysis of Risk Classes

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

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

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

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

At 31 December 2014 Virgin Money had negligible net foreign exchange risk positions after taking into account foreign currency derivatives. The exposure to changes in exchange rates is minimised by using cross-currency swaps and forward foreign exchange contracts. The table below shows assets and liabilities in foreign currency at sterling carrying values.

	2014		2013	
Assets (audited)	**US$ in £m**	**€ in £m**	US$ in £m	€ in £m
Loans and advances to banks	**–**	**–**	–	0.1
Available-for-sale financial assets	**–**	**19.4**	–	20.7
Other assets	**0.1**	**–**	–	–
Total assets	**0.1**	**19.4**	–	**20.8**
Liabilities				
Total liabilities	**–**	**–**	–	–
Notional value of derivatives affecting currency exposures	**–**	**19.5**	–	20.8
Net position	**0.1**	**(0.1)**	**–**	**–**

Full Analysis of Risk Classes

The following tables give an analysis of the repricing periods of assets and liabilities on the balance sheet. Mismatches in the repricing timing of assets, liabilities, and off-balance sheet positions create interest rate risk quantified in Capital at Risk and Earnings at Risk.

	Within 3 months £m	After 3 months and within 6 months £m	After 6 months and within 1 year £m	After 1 year and within 5 years £m	After 5 years £m	Non interest bearing instruments £m	Total £m
31 December 2014[1] **Assets** (audited)							
Cash and balances at central banks	803.7	–	–	–	–	47.6	851.3
Disposal group assets held for sale	–	–	–	–	–	–	–
Loans and receivables:							
Loans and advances to banks	717.4	–	–	–	–	3.1	720.5
Loans and advances to customers	6,842.1	1,247.2	2,522.1	12,004.4	324.1	153.2	23,093.1
Debt securities	11.1	–	–	–	–	(2.5)	8.6
Available-for-sale financial assets	230.1	–	41.7	311.8	841.7	114.3	1,539.6
Other assets	–	–	–	–	–	323.7	323.7
Total assets	8,604.4	1,247.2	2,563.8	12,316.2	1,165.8	639.4	26,536.8
Liabilities							
Deposits from banks	846.7	–	–	–	–	–	846.7
Customer deposits	14,381.2	1,108.4	1,827.4	5,025.0	2.0	21.7	22,365.7
Disposal group liabilities held for sale	–	–	–	–	–	–	–
Debt securities in issue	1,594.1	–	–	–	–	–	1,594.1
Other liabilities	–	–	–	–	–	486.5	486.5
Equity	–	–	–	160.0	–	1,083.8	1,243.8
Total liabilities and equity	16,822.0	1,108.4	1,827.4	5,185.0	2.0	1,592.0	26,536.8
Notional values of derivatives affecting interest rate sensitivity	7,721.4	145.9	(517.7)	(5,799.3)	(1,548.1)	(2.2)	–
Total interest rate sensitivity gap	(496.2)	284.7	218.7	1,331.9	(384.3)	(954.8)	–
Cumulative interest rate sensitivity gap	(496.2)	(211.5)	7.2	1,339.1	954.8	–	–

1 Items are allocated to time bands in the table above by reference to the earlier of the next contractual rate repricing, date and the residual maturity date.

Risk Management Report

Full Analysis of Risk Classes

	Within 3 months £m	After 3 months and within 6 months £m	After 6 months and within 1 year £m	After 1 year and within 5 years £m	After 5 years £m	Non interest bearing instruments £m	Total £m
31 December 2013 **Assets** (audited)							
Cash and balances at central banks	1,380.1	–	–	–	–	43.4	1,423.5
Disposal group assets held for sale	85.8	–	–	–	–	0.1	85.9
Loans and receivables:							
Loans and advances to banks	625.6	–	–	–	–	1.3	626.9
Loans and advances to customers	6,924.3	1,247.6	2,038.6	9,848.4	248.2	35.4	20,342.5
Debt securities	12.0	–	–	–	–	(2.6)	9.4
Available-for-sale financial assets	408.1	8.0	148.6	378.4	729.6	6.5	1,679.2
Other assets	–	–	–	–	–	397.6	397.6
Total assets	**9,435.9**	**1,255.6**	**2,187.2**	**10,226.8**	**977.8**	**481.7**	**24,565.0**
Liabilities							
Deposits from banks	389.2	–	–	–	–	–	389.2
Customer deposits	14,000.8	1,081.3	1,854.0	3,996.0	3.7	185.6	21,121.4
Disposal group liabilities held for sale	78.1	–	–	–	–	0.8	78.9
Debt securities in issue	1,469.8	–	–	–	–	–	1,469.8
Other liabilities	–	–	–	–	–	570.8	570.8
Equity	–	–	–	–	–	934.9	934.9
Total liabilities and equity	**15,937.9**	**1,081.3**	**1,854.0**	**3,996.0**	**3.7**	**1,692.1**	**24,565.0**
Notional values of derivatives affecting interest rate sensitivity	7,193.5	(90.3)	130.9	(6,240.7)	(992.4)	(1.0)	–
Total interest rate sensitivity gap	**691.5**	**84.0**	**464.1**	**(9.9)**	**(18.3)**	**(1,211.4)**	**–**
Cumulative interest rate sensitivity gap	691.5	775.5	1,239.6	1,229.7	1,211.4	–	–

The interest rate repricing table shown above reflects the contractual repricing of assets and liabilities. The movement between 2014 and 2013 repricing gaps is primarily due to increased use of core customer deposits and shareholder funds as natural offset to matching the interest rate profile of fixed rate assets, particularly in the term bucket one to five years.

Full Analysis of Risk Classes

Operational risk

Definition

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

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

Risk appetite

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

Exposures

The principal operational risks to the Group are:

- IT systems and resilience risk arising from failure to develop, deliver and maintain effective IT solutions;
- information security risk arising from information leakage, loss or theft;
- external fraud arising from an act of deception or omission;
- cyber risk arising from malicious attacks on the Group via technology, networks and systems;
- service disruption caused by the failure of a third party corporate partner or strategic supplier; and
- normal business operational risk, including transaction processing, information capture and establishment of the new credit card business.

Measurement

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

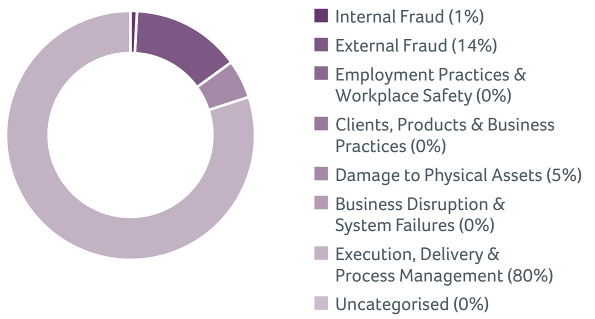
The total value of operational risk losses is £1.5 million as at 31 December 2014 (2013: £3.8 million). External fraud accounted for 49% of losses by value, £0.7 million (2013: £1.3 million). The highest frequency of events occurred in execution, delivery and process management (80%) and external fraud (14%). The charts on page 188 show high level loss and event trends using CRD IV categories.

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

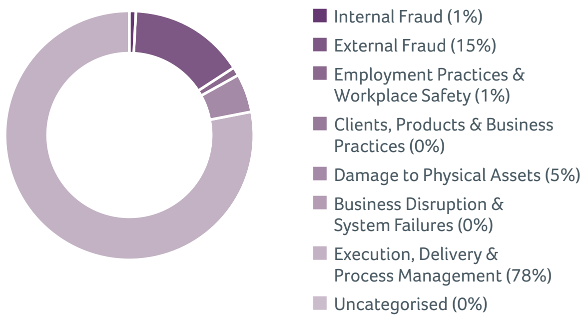
Risk Management Report

Full Analysis of Risk Classes

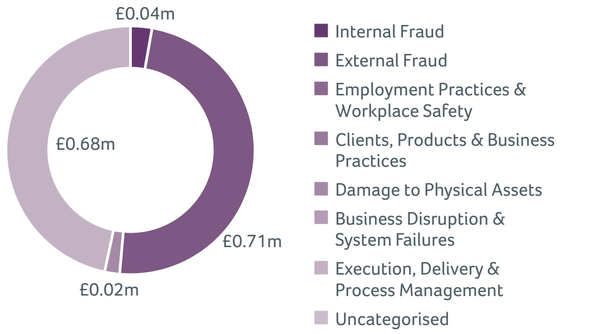
Operational losses by category % of total losses by count 2014



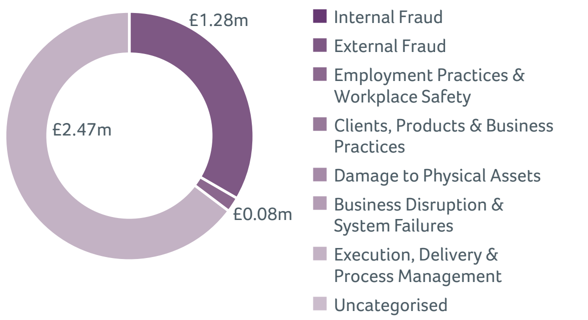
Operational losses by category % of total losses by count 2013



Operational losses by category total losses by value 2014



Operational losses by category total losses by value 2013



Full Analysis of Risk Classes

Mitigation

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

Mitigating actions for the principal risks include:

- investing in protection of customer information, including access to key systems and the security, durability and accessibility of critical records;
- a risk-based approach to mitigate the financial crime risks the Group faces, reflecting the current and emerging financial crime risks within the market. Through Group-wide policies and operational control frameworks, the Group has developed a comprehensive financial crime operating model. The Group's fraud awareness programme is a key component of our financial crime control environment;
- investment in IT security capability to protect customers and the Group; and
- operational resilience measures and recovery planning to ensure an appropriate and consistent approach to the management of continuity risks, including potential interruptions from a range of internal and external incidents or threats.

Monitoring

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

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

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

Risk Management Report

Full Analysis of Risk Classes

Conduct risk and compliance

Definition

Conduct risk is defined as 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.

Risk appetite

The Group has no appetite for regulatory breaches and no tolerance for failing to deliver fair customer outcomes arising from any of our activities, whether through product design, sales or other after sales processes. This appetite is reviewed and approved annually by the Board. The Group has policies, processes and standards which provide the framework for the business and colleagues to operate in accordance with the laws and regulations which apply to the Group and our activities.

Exposures

Conduct risk could affect all aspects of the Group's operations, all types of customers and our stakeholders. The Group faces limited conduct risk in relation to products and services, sales processes and complaint handling.

The Group complies with all current legislation and regulation and ensures compliance with new or proposed legislation and regulation. A series of change programmes drives new legislation and regulation into day-to-day operational and business practices across the Group.

Virgin Money is unburdened by any conduct risk issues such as PPI, investments or derivatives mis-selling; LIBOR manipulation; or distressed asset portfolios.

Measurement

Conduct risk and compliance are measured against a set of risk appetite metrics with appropriate thresholds approved by the Board. The metrics are regularly reviewed and monitored and include assessments of control and material regulatory rule breaches, complaints and whistleblowing.

Strong governance is in place to ensure that metrics are presented at relevant governance forums for review, challenge and action.

Mitigation

The Group takes a range of mitigating actions with respect to conduct risk and compliance. They include:

- an approach to business planning and strategy with the customer at the heart;
- a product governance framework that ensures products offer customers value for money and meet the needs of the relevant target market;
- sales processes and a governance framework designed to deliver consistently fair outcomes;
- metrics to identify where the Group may be operating outside our risk appetite;
- recruitment and training, and a focus on how the Group manages colleagues' performance with clear customer accountabilities;
- regulatory horizon scanning;
- oversight and assurance theme reviews to assess compliance with rules, regulations and policies;
- continued investment in the Group's IT systems, enabling the Group to meet our regulatory commitments;
- senior business leaders who monitor the progress of these assessments and mitigations; and
- material risks and issues which are escalated to bodies that challenge the business on our management of risks and issues.

Monitoring

A robust assurance and quality monitoring regime is in place to test performance of customer critical activities. Customer metrics are proactively used when reviewing business performance and feedback loops have been established to learn from issues identified.

The Risk Function reports on conduct risk and compliance exposure. The report forms the basis of challenge to the business at the monthly Operational Risk, Conduct Risk and Compliance Committee. This committee may escalate matters to the Chief Risk Officer, the Risk Management Committee or the Board Risk Committee, as appropriate.

Full Analysis of Risk Classes

Concentration risk[1]

Definition

Concentration risk is defined as the exposure of the Group to credit concentrations in relation to retail and wholesale portfolios, products, obligors and counterparty levels.

Risk appetite

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

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

Exposures

The principal source of concentration risk is from loans and advances to customers in relation to geography, loan size and loan type concentrations in the mortgage portfolio; and from cash, debt securities and derivatives in relation to individual counterparty and country of exposure. Virgin Money has no significant concentrations of risk within the credit card portfolio.

Measurement

Credit concentration risk is measured through the application of limits relating to each concentration category.

1 All risk class components of Financial Risk are outlined on page 154. Concentration risk is the most significant component of financial risk and therefore has been disclosed in detail.

Mitigation

Credit risk management includes portfolio controls on product lines and risk segments to reflect risk appetite as well as individual limit guidelines. Credit policy is aligned to the Group's risk appetite and restricts exposure to more vulnerable sectors and segments. Exposures are monitored to prevent an excessive concentration of risk. The Group's large exposures are reported in accordance with regulatory reporting requirements.

Monitoring

Monthly reporting on concentration risk exposures is made to the Board.

Secured credit

There has been significant focus on house price inflation in 2014, with London and the South East experiencing significantly higher levels of house price growth than the rest of the UK. Whilst demand for London property may be influenced by the international market, concerns over an asset bubble forming in these two regions are based on the rate of growth relative to the other regions, a potential divergence in supply and demand for property, and customer affordability being stretched. As discussed on page 158, the Group made changes to our lending policy in 2014 in response to this risk.

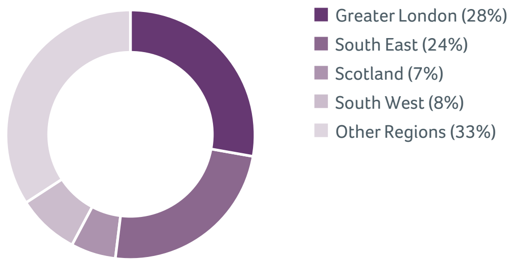
Risk Management Report

Full Analysis of Risk Classes

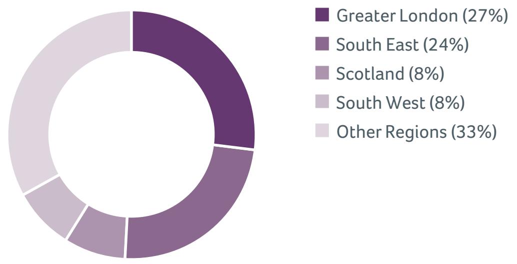
The table below shows the geographical concentration of the mortgage portfolio.

	2014		2013	
(audited)	£m	%	£m	%
East Anglia	**517.8**	**2.4**	457.0	2.3
East Midlands	**1,071.6**	**4.9**	918.1	4.7
North	**919.2**	**4.2**	878.0	4.5
Yorkshire & Humberside	**1,232.0**	**5.6**	1,101.8	5.6
North West	**1,652.1**	**7.5**	1,472.5	7.5
West Midlands	**1,078.2**	**4.9**	948.5	4.8
South West	**1,696.3**	**7.7**	1,537.4	7.9
South East	**5,178.8**	**23.7**	4,622.1	23.6
Greater London	**6,037.0**	**27.6**	5,305.6	27.1
Wales	**547.0**	**2.5**	503.3	2.6
Scotland	**1,616.3**	**7.4**	1,560.1	8.0
Northern Ireland	**347.9**	**1.6**	269.8	1.4
Other	**0.9**	**–**	2.9	–
Total	**21,895.1**	**100.0**	**19,577.1**	**100.0**

2014



2013



The geographical split of the portfolio has remained relatively stable between 2013 and 2014, despite the rise in demand seen in London and the South East.

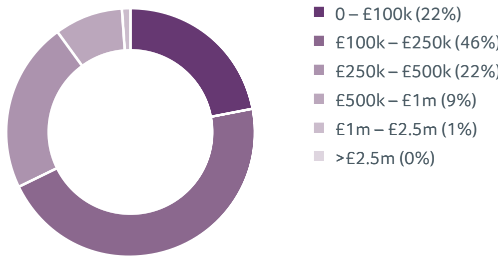
Full Analysis of Risk Classes

The table below shows retail secured credit concentrations by loan size.

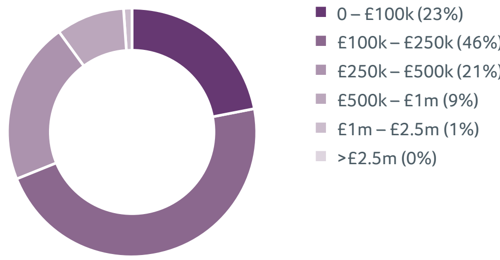
	2014		2013	
(audited)	£m	%	£m	%
0-£100k	**4,722.5**	**21.5**	4,399.6	22.5
£100k-£250k	**10,023.9**	**45.8**	8,977.6	45.9
£250k-£500k	**4,851.3**	**22.2**	4,136.5	21.1
£500k-£1m	**2,068.1**	**9.4**	1,827.4	9.3
£1m-£2.5m	**210.1**	**1.0**	217.1	1.1
>£2.5m	**19.2**	**0.1**	18.9	0.1
Total	**21,895.1**	**100.0**	**19,577.1**	**100.0**

1.1% (2013: 1.2%) of mortgage stock is represented by loans of £1 million and above.

2014



2013



The portfolio has seen a small increase in the proportion of loans greater than £250,000. This reflects slight growth in London and the South East, where average house prices are higher than in the rest of the UK.

The table below shows retail secured credit average LTV by loan size.

(audited)	2014 LTV %	2013 LTV %
0-£100k	**48.4**	49.9
£100k-£250k	**59.5**	63.7
£250k-£500k	**56.7**	62.4
£500k-£1m	**52.9**	59.2
£1m-£2.5m	**49.1**	56.2
>£2.5m	**44.8**	51.2
Total	**55.7**	**59.8**

The average LTV for each loan band demonstrates that, other than for loans under £100,000, higher value loans have lower LTVs. The Group's policy broadly restricts LTV for higher value loans. Average indexed LTV across the loan bands has fallen in the year due to positive HPI movements.

Risk Management Report

Full Analysis of Risk Classes

Virgin Money has made changes to underwriting policy aimed at reducing exposure to customers who might be more heavily indebted and thus less able to cope with any prospective rise in interest rates. The changes introduced a loan income multiple cap on residential mortgages for customers with high debt to income levels. These changes to underwriting were designed to improve the resilience of the portfolio to any reversal of house price inflation gains that were seen during 2014, or future interest rate rises.

Loan type

The residential mortgage loan portfolio comprises three principal loan repayment types:

- capital repayment loans amortise monthly through customer repayments which comprise an interest payment and contribution to the principal loan balance;
- part and part loans provide customers with the flexibility to choose to pay a proportion of the loan on a capital repayment basis and a proportion on interest only, with the interest only element repaid from an acceptable repayment vehicle; and
- interest only loans allow borrowers to pay only the interest on the loan each month, with the capital to be repaid in full at the end of the loan period from an acceptable repayment vehicle. For residential mortgage customers, Virgin Money continues to apply strict affordability criteria and restricts applicant loan-to-value. For buy-to-let customers, interest only mortgages continue to be the predominant repayment method, with the majority of customers looking to the sale of the mortgaged property as the ultimate loan repayment vehicle. These loans are also subject to stringent lending standards.

The tables below show retail secured credit concentrations by loan type.

	Residential mortgage loans		**Buy-to-let mortgage loans**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**
31 December 2014 (audited)						
Capital repayment	**12,712.5**	**67.7**	**556.9**	**17.8**	**13,269.4**	**60.6**
Part and part	**1,419.9**	**7.6**	**23.9**	**0.8**	**1,443.8**	**6.6**
Interest only	**4,627.1**	**24.7**	**2,554.8**	**81.4**	**7,181.9**	**32.8**
Total	**18,759.5**	**100.0**	**3,135.6**	**100.0**	**21,895.1**	**100.0**

	Residential mortgage loans		Buy-to-let mortgage loans		Total	
	£m	%	£m	%	£m	%
31 December 2013 (audited)						
Capital repayment	10,396.5	60.4	394.1	16.6	10,790.6	55.1
Part and part	1,581.8	9.2	20.8	0.9	1,602.6	8.2
Interest only	5,227.5	30.4	1,956.4	82.5	7,183.9	36.7
Total	**17,205.8**	**100.0**	**2,371.3**	**100.0**	**19,577.1**	**100.0**

Full Analysis of Risk Classes

Wholesale

Concentration risk is managed at both individual counterparties and on the countries of exposure. The Group does not set a limit to exposures to the Bank of England and the UK Sovereign. The table below shows exposures by country.

(audited)	**2014 £m**	2013[1] £m
Australia	**88.3**	133.7
Canada	**151.1**	195.8
Finland	**–**	100.2
France	**84.0**	117.6
UK	**2,373.7**	2,786.4
of which UK Banks and Building Societies	***606.1***	*524.0*
Germany	**6.6**	21.5
Netherlands	**118.8**	115.8
Norway	**44.8**	13.0
USA	**43.2**	21.9
Supranational	**310.7**	420.6
Total	**3,221.2**	**3,926.5**

1 Values in this table as at 31 December 2013 have been re-stated following a review of the approach to geographic reporting. The re-stated 31 December 2013 classification of geography is based on the country of domicile of Virgin Money's counterparties, rather than that of the counterparties' ultimate parent entity.

The Group's wholesale credit risk exposures reduced primarily to fund the growth in new loans and advances to customers. The drop in exposures to Australian counterparties reflects the re-alignment of the Group's liquid asset portfolio to the new liquidity standards, reducing assets ineligible for inclusion in the liquidity coverage ratio requirement in favour of eligible asset classes.

The largest exposure to a single counterparty which is not a sovereign or a supranational obligor at 31 December 2014 was £110.1 million (2013: £163.4 million). These exposures were to large universal banks.

Risk Management Report

Full Analysis of Risk Classes

Funding and liquidity risk

Definition

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

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

Risk appetite

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

Exposures

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

Measurement

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

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

Mitigation

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

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

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

- drives customer pricing and supports the overall Group balance sheet strategy; and
- is consistent with regulatory requirements.

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

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

Full Analysis of Risk Classes

Monitoring

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

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

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

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

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

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

  The key risk driver assumptions applied to the scenarios are:

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

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

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

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

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

Risk Management Report

Full Analysis of Risk Classes

Funding and liquidity management in 2014

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

Virgin Money is predominantly funded through customer deposits. Wholesale funding is used to support balance sheet growth and 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.

(audited)	**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**

Full Analysis of Risk Classes

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

(audited)	**2014 £m**	2013 £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.

31 December 2014 (audited)	**Within 3 months £m**	**3-12 months £m**	**1-5 years £m**	**After 5 years £m**	**Total £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**

31 December 2013 (audited)	Within 3 months £m	3-12 months £m	1-5 years £m	After 5 years £m	Total £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 have contributed to the increased tenor of wholesale funding by eight months (based on the forecast behavioural paydown of the Gosforth RMBS programme).

Risk Management Report

Full Analysis of Risk Classes

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		
31 December 2014 (audited)	**Pledged as collateral £m**	**Other[1] £m**	**Available as collateral £m**	**Other[2] £m**	**Total £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**

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 note 19 of the financial statements.

	Encumbered assets		Unencumbered assets		
31 December 2013 (audited)	Pledged as collateral £m	Other[1] £m	Available as collateral £m	Other[2] £m	Total £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 note 19 of the financial statements.

Full Analysis of Risk Classes

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.

(unaudited) **Level 1**	**2014** **£m**	**2014** **Average** **£m**	2013 £m	2013 Average £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**

Risk Management Report

Full Analysis of Risk Classes

The tables below analyse assets and liabilities of the Group into relevant maturity groupings based on the remaining contractual period at the balance sheet date; balances with no fixed maturity are included in the over five years category. The Group's assets and liabilities may be repaid or otherwise mature earlier or later than implied by their contractual terms, and readers are therefore advised to use caution when using this data to evaluate the Group's liquidity position. In particular, amounts in respect of customer deposits are usually contractually payable on demand or at short notice. In practice, these deposits are not usually withdrawn on their contractual maturity.

31 December 2014 (audited) **Assets**	**Within 3 months £m**	**3-12 months £m**	**1-5 years £m**	**After 5 years £m**	**Total £m**
Cash and balances at central banks	813.3	–	–	38.0	851.3
Disposal group assets held for sale	–	–	–	–	–
Derivative financial instruments	6.7	12.8	70.7	11.0	101.2
Loans and receivables:					
Loans and advances to banks	720.5	–	–	–	720.5
Loans and advances to customers	1,264.8	468.6	2,859.7	18,500.0	23,093.1
Debt securities	–	–	–	8.6	8.6
Available-for-sale financial assets	20.1	122.2	406.0	991.3	1,539.6
Other assets	41.2	28.1	34.6	118.6	222.5
Total assets	2,866.6	631.7	3,371.0	19,667.5	26,536.8
Liabilities					
Deposits from banks	283.7	563.0	–	–	846.7
Customer deposits	18,041.0	2,356.4	1,967.4	0.9	22,365.7
Disposal group liabilities held for sale	–	–	–	–	–
Derivative financial instruments	6.3	6.8	133.1	82.0	228.2
Debt securities in issue	–	–	–	1,594.1	1,594.1
Other liabilities	191.7	42.5	19.3	4.8	258.3
Total liabilities	18,522.7	2,968.7	2,119.8	1,681.8	25,293.0
Net liquidity (gap)/surplus	(15,656.1)	(2,337.0)	1,251.2	17,985.7	1,243.8

Full Analysis of Risk Classes

31 December 2013 (audited) **Assets**	Within 3 months £m	3-12 months £m	1-5 years £m	After 5 years £m	Total £m
Cash and balances at central banks	1,388.4	–	–	35.1	1,423.5
Disposal group assets held for sale	–	85.9	–	–	85.9
Derivative financial instruments	6.2	14.4	124.5	42.4	187.5
Loans and receivables:					
Loans and advances to banks	626.9	–	–	–	626.9
Loans and advances to customers	916.0	402.5	2,427.3	16,596.7	20,342.5
Debt securities	–	–	–	9.4	9.4
Available-for-sale financial assets	100.0	172.3	610.8	796.1	1,679.2
Other assets	28.5	11.0	73.5	97.1	210.1
Total assets	**3,066.0**	**686.1**	**3,236.1**	**17,576.8**	**24,565.0**
Liabilities					
Deposits from banks	239.2	150.0	–	–	389.2
Customer deposits	16,620.5	2,087.0	2,411.6	2.3	21,121.4
Disposal group liabilities held for sale	–	78.9	–	–	78.9
Derivative financial instruments	8.2	16.8	90.3	31.8	147.1
Debt securities in issue	–	–	–	1,469.8	1,469.8
Other liabilities	169.0	84.4	18.6	151.7	423.7
Total liabilities	**17,036.9**	**2,417.1**	**2,520.5**	**1,655.6**	**23,630.1**
Net liquidity (gap)/surplus	(13,970.9)	(1,731.0)	715.6	15,921.2	934.9

Risk Management Report

Full Analysis of Risk Classes

Cashflow profile

The table below divides Virgin Money's non-derivative cash outflows into relevant maturity groupings based on the remaining period between the balance sheet date and the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. These differ from balance sheet values due to the effects of discounting on certain balance sheet items and due to the inclusion of contractual future interest flows.

31 December 2014 (audited)	**Within 3 months £m**	**3-6 months £m**	**6-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Deposits from banks	**284.4**	**564.9**	**–**	**–**	**–**	**849.3**
Customer deposits	**18,151.5**	**1,372.4**	**1,140.9**	**2,204.6**	**1.0**	**22,870.4**
Debt securities in issue	**185.3**	**128.7**	**223.5**	**1,123.4**	**–**	**1,660.9**
Total	**18,621.2**	**2,066.0**	**1,364.4**	**3,328.0**	**1.0**	**25,380.6**

31 December 2013 (audited)	Within 3 months £m	3-6 months £m	6-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Deposits from banks	239.9	0.5	150.9	–	–	391.3
Customer deposits	16,772.6	1,145.6	1,108.3	2,627.3	2.3	21,656.1
Debt securities in issue	310.7	237.8	301.4	662.1	–	1,512.0
Total	**17,323.2**	**1,383.9**	**1,560.6**	**3,289.4**	**2.3**	**23,559.4**

Virgin Money's contractual cash flow profile of customer deposits has shortened.

The table below divides the derivative cash outflows into relevant maturity groupings based on the remaining period between the balance sheet date and the contractual maturity date. Cash flows for the floating legs of derivative transactions are computed based on market indications of future interest rates. As a result, totals in this table are not intended to be identical to tables on OTC derivatives or the notes to the financial statements by definition.

31 December 2014 (audited) **Settled on a net basis**	**Within 3 months £m**	**3-6 months £m**	**6-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Derivatives in economic and not accounting hedges	**(2.8)**	**(2.2)**	**(5.5)**	**(9.4)**	**(2.5)**	**(22.4)**
Derivatives in accounting hedge relationships	**(31.6)**	**(22.9)**	**(45.8)**	**(91.2)**	**(12.6)**	**(204.1)**
	(34.4)	**(25.1)**	**(51.3)**	**(100.6)**	**(15.1)**	**(226.5)**
Settled on a gross basis						
Outflows	**–**	**–**	**–**	**–**	**–**	**–**
Inflows	**–**	**–**	**–**	**–**	**–**	**–**
Derivatives in accounting hedge relationships	**–**	**–**	**–**	**–**	**–**	**–**
Total	**(34.4)**	**(25.1)**	**(51.3)**	**(100.6)**	**(15.1)**	**(226.5)**

Full Analysis of Risk Classes

31 December 2013 (audited) **Settled on a net basis**	Within 3 months £m	3-6 months £m	6-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Derivatives in economic and not accounting hedges	(3.0)	(1.9)	(0.4)	(10.6)	(0.8)	(16.7)
Derivatives in accounting hedge relationships	(20.6)	(14.8)	(21.3)	(66.5)	(3.2)	(126.4)
	(23.6)	(16.7)	(21.7)	(77.1)	(4.0)	(143.1)
Settled on a gross basis						
Outflows	–	–	(0.7)	(25.0)	–	(25.7)
Inflows	0.1	0.1	0.2	25.1	–	25.5
Derivatives in accounting hedge relationships	0.1	0.1	(0.5)	0.1	–	(0.2)
Total	**(23.5)**	**(16.6)**	**(22.2)**	**(77.0)**	**(4.0)**	**(143.3)**

Virgin Money has a single cross-currency swap settled on a gross basis, which at 31 December 2014 was in an asset position and therefore has been excluded from this disclosure.

External credit ratings

Virgin Money Holdings (UK) plc does not have an external credit rating. Disclosures below relate to its subsidiary, Virgin Money plc. VM plc's short and long-term credit ratings as at 31 December 2014 are as follows.

	Long term	Short term	Outlook	Date of last rating action	Rating action type
Fitch	BBB+	F2	Stable	27 November 2014	Affirmed

In January 2014 Fitch upgraded its long and short-term ratings to BBB+ and F2, respectfully. The ratings were further affirmed in November 2014.

The table below sets out the amount of additional collateral the Company would need to provide in the event of a one and two notch downgrade by external credit ratings agencies.

	Cumulative adjustment for a one-notch downgrade £m	Cumulative adjustment for a two-notch downgrade £m
2014	–	10.0

Risk Management Report

Full Analysis of Risk Classes

Capital

Definition

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

Risk appetite

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

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

Capital resources

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

Measurement of capital

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

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

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

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

Mitigation

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

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

Monitoring

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

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

Full Analysis of Risk Classes

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

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

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

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

Capital developments during 2014

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

CRD IV introduced new capital limits and buffers for banks, and includes a requirement to hold Common Equity Tier 1 capital to account for capital conservation, countercyclical and systemic risk buffers. These new buffers will influence the type of capital instruments that best meet the requirements likely to be expected of the Group. Implementation is required from 2016. The Group reviews the capital structure on an on-going basis to ensure it is well placed to react to prevailing economic and regulatory conditions. From a capital perspective, on a fully-loaded basis, the Common Equity Tier 1 capital ratio for the Group was 19% as at 31 December 2014, compared with a fully-loaded regulatory minimum of 7.0% (comprised of Common Equity Tier 1 capital of 4.5% and a capital conservation buffer of 2.5%).

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

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

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

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

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 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.

Risk Management Report

Full Analysis of Risk Classes

The table below shows the Group's capital resources.

	Fully loaded		PRA transitional rules	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Common Equity Tier 1 (audited)				
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 (unaudited)				
Deconsolidation of non regulated companies	**4.1**	3.5	**4.1**	3.5
Expected distinction 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 (unaudited)				
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 (unaudited)	**19.0%**	15.5%	**18.9%**	15.4%
Tier 1 ratio (unaudited)	**22.0%**	18.4%	**21.9%**	18.3%
Total capital ratio (unaudited)	**22.1%**	18.6%	**22.0%**	18.5%

Full Analysis of Risk Classes

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

	Fully loaded		PRA transitional rules	
(unaudited)	**2014 £m**	2013 £m	**2014 £m**	2013 £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 primarily reflecting the development of the core cards platform.

The table below shows risk-weighted assets.

	Fully loaded		PRA transitional rules	
(unaudited)	**2014 £m**	2013 £m	**2014 £m**	2013 £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

Risk Management Report

Full Analysis of Risk Classes

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

(unaudited)	**2014 Risk weighted assets £m**	**2014 Capital requirement £m**	2013 Risk weighted assets £m	2013 Capital requirement £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 £167.6 million, 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 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.

Full Analysis of Risk Classes

(unaudited)	Total £m	IRB mortgage £m	Standardised lending £m	Other standardised assets £m	Credit valuation adjustment £m	Operational risks £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.

(unaudited)	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%**

Risk Management Report

Full Analysis of Risk Classes

2014 Accounting reconciliation

(unaudited)	Accounting balance sheet as in published financial statements £m	Deconsolidation of other entities £m	Under regulatory scope of consolidation £m
Assets			
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

Virgin Money London Marathon 2014

Financial statements

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Virgin Money website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company and the Group 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 Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Jayne-Anne Gadhia CBE
Chief Executive
4 March 2015

Lee Rochford
Chief Financial Officer
4 March 2015

Independent Auditor's Report to the members of Virgin Money Holdings (UK) plc

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Virgin Money Holdings (UK) plc for the year ended 31 December 2014 set out on pages 220 to 301. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above, we designed our audit procedures to reflect the risks we identified in the Group by performing increased procedures in areas with the most significant risk.

Our audit began with a risk assessment of the inherent risks facing the Group and how these are managed. This included understanding: the strength of the Group's capital and liquidity position; the impact of key strategic projects (most significantly listing on the London Stock Exchange; the development of the credit cards proposition and the signing of several strategic partnerships); the composition of its balance sheet; and the management of its cost base. We assessed and challenged the inherent risks with reference to:

- Our experience of the Group and the retail banking industry;
- The views of our specialists in a number of areas including regulation, IT and tax;
- The views of the Prudential Regulatory Authority and Financial Conduct Authority; and
- The significant changes taking place in banking regulation in the UK.

We also considered the Group's control environment, including appropriate controls designed to prevent fraud.

The risk assessment highlighted the areas where significant judgement was required. As described on pages 101 to 102 these are also areas that have been focused on by the Group's Audit Committee. In forming our unmodified opinion on the financial statements, we undertook the following principal procedures on each of the areas as follows.

Impairment of loans and advances (£15.8m)

Refer to page 101 (Audit Committee Report), pages 231 and 240 (accounting policy) and note 8 (financial disclosures).

The risk: The impairment provision relating to secured and unsecured loans is one of the key judgemental areas for our audit due to the level of subjectivity inherent in estimating the impact of certain key assumptions on the recoverability of loan balances.

The Group performs an assessment of its loans for impairment, with the key assumptions being the probability of an account falling into arrears and subsequently defaulting, the emergence period, and the valuation of any recoveries expected to be made. For secured lending, the recoveries assessment includes the market valuations of collateral provided and the estimated time and cost to sell any property repossessed by the Group. For unsecured lending, the likelihood and amount of recoveries through sales to third parties is assessed. Due to the limited historical information available on actual default patterns and loss emergence periods there is a risk that the actual outcome is different from the probability assumed.

Our response: Our audit procedures included:

- We assessed the accuracy of the secured and unsecured impairment models by re-performing a sample of calculations performed by the impairment models and agreed a sample of data inputs, including the loans split by arrears status, to reports from the source systems. We assessed whether these reports were complete and accurate by checking the system codes used to extract the information.

- We compared the assumptions used in the impairment models to those approved by the Group. We critically assessed those assumptions against our understanding of the Group, the historical accuracy of its estimates and the current and past performance of the Group's loans and our knowledge of the industry in respect of these types of loans.
- We benchmarked the Group's assumptions, such as arrears trends, and the ratio between provisions and total/impaired loan balances against industry data, and compared macroeconomic variables such as house price inflation to market information.
- We tested the controls designed and applied by the Group to provide assurance that the assumptions explained above are regularly updated, that changes are monitored, scrutinised and approved by appropriate personnel and that the final assumptions used in the impairment models have been appropriately approved.

Recognition of revenue from secured and unsecured lending (£752.6m)

Refer to page 101 (Audit Committee Report), pages 229 and 240 (accounting policy) and note 3 (financial disclosures).

The risk: Interest earned on loans and receivables is recognised using the effective interest rate method which spreads the directly attributable cash flows including transaction costs and discounts over the expected lives of the instrument. The key assumption in this calculation is the expected life of the instrument. The expected lives are informed by past customer behaviour which demonstrates how and when customers have historically paid off their loans. Judgement is used by the Group to convert this historical information into the assumptions of future behaviour included in the models. There is a risk that this judgement may not appropriately reflect all the facts available, which would skew the recognition of interest income.

Our response: Our audit procedures included:

- We agreed a sample of inputs into the models to source information, including comparing total secured loan balances to the loan system output and total unsecured balances to the reporting received from third party administrators.
- We used data tools to identify changes to the calculations used by the model and re-performed a sample of calculations performed to check their accuracy. We compared the methodology used to our interpretation of the requirements of the relevant accounting standards.
- We challenged the appropriateness of key assumptions, including the expected lives, by comparing these to historical expected life trends within the Group and to our own expectations based on our knowledge of the Group and experience of the industry in which it operates.

Share based payments (£13.5m)

Refer to page 101 (Audit Committee Report), pages 231 and 240 (accounting policy) and note 7 (financial disclosures).

The risk: The Group has a number of share schemes, the most significant of which is the IPO incentive scheme. The original terms of the IPO incentive scheme granted in 2013, which was modified during the reporting period, included vesting conditions that were related to achieving a certain IPO price. The fair value of awards with future share price conditions requires complex calculations and is dependent on management judgement regarding the expected underlying IPO price. Each of the inputs such as the probability of achieving the minimum price or achieving a certain level of IPO price were required to be estimated at points in time and are inherently subjective.

Our response: Our audit procedures included:

- We used our own valuation specialists to evaluate and challenge the model used by the Group to value the IPO incentive scheme and critically assessed the estimates, especially the share price volatility which would be affected by the intention to IPO, that were applied in the model by the Group.
- We challenged and corroborated the Group's estimate of underlying value of the original awards through discussions with the Board and Audit Committee to confirm that it fell within the Group's expected range of IPO valuation at grant date.
- We considered the adequacy of the Group's disclosures over the nature of existing share schemes, including the approach to determine fair value and the sensitivities of fair value to the Group's estimates.

Capitalisation of project costs (£26.9m)

Refer to page 101 (Audit Committee Report), page 236 and 241 (accounting policy) and note 21 (financial disclosures).

The risk: Over the course of the year, the Group continued to develop its internal systems in relation to the credit

Independent Auditor's Report to the members of Virgin Money Holdings (UK) plc

card platform and commenced development of software underlying the build of digital capability. These projects are being developed alongside third party service providers and are complex in nature. Consequently, judgement is required when determining that the costs incurred are directly attributable to the assets developed by the Group and can be measured reliably.

Our response: Our audit procedures included:

- We assessed the Group's rationale for recognition of the credit card platform and digital capability as intangible assets with reference to the criteria specified by accounting standards. This included consideration of the assets being developed and whether the development progress was proceeding according to plan, both in terms of time and costs, and whether the technical functionality originally anticipated was still expected to be delivered.
- We inspected Board minutes and project reports to compare costs against budget and discussed the development progress with senior officials of the Group.
- We tested the controls designed and applied by the Group over the review and approval of costs. We also examined the way in which the allocation of internal costs to each project was controlled and approved. This included performing sample testing on invoices and timesheets.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £6.0 million, determined with reference to a benchmark of gross interest receivable plus non-funded income (of which it represents 0.7 percent). We have considered revenue to be the most appropriate benchmark whilst the Group has been restoring the Virgin Money plc business to profitability and a number of exceptional transactions have occurred as it provides a more stable measure year on year than Group profit before tax.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.3 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audits of the six components of the Group were performed by the audit team at the Group's central hubs that perform or support the key financial processes in Edinburgh and Gosforth. The audit work undertaken at these two hubs was all performed by the Group auditor to materiality levels set individually for each component, which ranged from £0.1 million to £6.0 million. These Group procedures covered 100% of total Group revenue, Group profit before taxation and total Group assets.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 78, in relation to going concern; and
- the part of the Corporate Governance Statement on page 94 relating to the company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Statement of Directors' Responsibilities set out on page 215, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Mike Peck

Michael Peck (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
4 March 2015

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
Additional Northern Rock consideration	6	**(36.0)**	(9.0)
Premium on repurchase of Non-core Tier 1 notes in issue	28	**(4.5)**	–
Loss for the period 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.

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	2014 £ million	2013[1] £ 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	31	**12.1**	5.6
Income statement transfers in respect of disposals	31	**(10.3)**	(10.2)
Taxation	31	**(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	31	**(14.1)**	7.0
Net income statement transfers	31	**2.6**	4.8
Taxation	31	**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.

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		**26,536.8**	24,565.0

1 Restated (refer notes 1 and 39).

Consolidated balance sheet

As at 31 December

Equity and liabilities	Note	2014 £ million	2013[1] £ million
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.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 4 March 2015.

Sir David Clementi
Chairman

Jayne-Anne Gadhia CBE
Chief Executive

Lee Rochford
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December

Attributable to equity holders

	Share capital and share premium £ million	Other equity instruments £ million	Other reserves £ million	Retained earnings[1] £ million	Total equity £ 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 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 security holders	–	–	–	(3.2)	(3.2)
Distribution to Non-core Tier 1 noteholders	–	–	–	(9.2)	(9.2)
Group relief attributable to Tier 1 securities	–	–	–	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

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.

Consolidated statement of changes in equity

For the year ended 31 December

Attributable to equity holders (continued)

	Share capital and share premium £ million	Other equity instruments £ million	Other reserves £ million	Retained earnings[1] £ million	Total equity £ 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.

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 available-for-sale financial assets		**1,278.5**	615.4
Movement in disposal 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 additional Northern Rock 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 Group and consolidated financial statements, which should be read in conjunction with the Directors' Report, have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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 additional Northern Rock 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, additional Northern Rock consideration	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 note 10).

The following interpretation was endorsed by the EU and is mandatory for annual reporting periods beginning 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 to note 39 for details of the impact of this change on the prior year comparatives.

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

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. (Refer 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. Where marked as 'audited' these are covered by the Independent Auditor's Report on page 216.

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

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

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 note 39).

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. Policies which are relevant to the financial statements as a whole are set out below.

The accounting policies set out in the notes 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. The Group Executive Committee (management) 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'. Management 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

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

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 new 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 expenses

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.

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

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 profit or loss 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

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

- 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 own 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.

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

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 policy (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 policy (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.

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

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.

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

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.

› 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

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

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'.

Expenditure incurred in relation to scoping, planning and researching the build of an asset as part of a project is expensed as incurred.

Development expenditure incurred on a project is capitalised only if the following criteria are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

Following the initial recognition of development expenditure, the cost is amortised over the estimated useful lives of the assets created. Amortisation commences on the date that the asset is brought into use.

Internally generated intangible assets of Virgin Money relate to computer software and core banking platforms.

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.

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

› 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.

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

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 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.

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

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.

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

(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. Management review and monitor the capitalisation of significant project development costs on a regular basis to ensure that they meet the recognition criteria for capitalisation of an intangible asset and to ensure the costs are directly attributable to the individual projects where an asset is under construction. 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 assets is set out in policy (u). A deferred taxation assets 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, additional 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. Judgement was as at 31 December 2013 as to the level of additional consideration to be recognised. During 2014, as a result of listing, a payment of £50.0 million was made by HM Treasury in respect of this additional consideration.

Notes to the consolidated financial statements

Note 1: Basis of preparation (continued)

(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 ten 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
- 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 continued to receive commission from MBNA for new Virgin Money branded credit cards written until November 2014 when the Group acquired this tranche of balances and launched its own credit card platform. All new business is now written directly to the Group's balance sheet.

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 Management. It is not the 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.

Notes to the consolidated financial statements

Note 2: Operating segments (continued)

	Mortgages and savings £m	Credit cards £m	Current accounts, insurance and investments £m	Central functions[2] £m	Underlying basis total £m
Year ended 31 December 2014					
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) before tax	**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 £m	Credit cards £m	Current accounts, insurance and investments £m	Central functions[2] £m	Underlying basis total £m
Year ended 31 December 2013[1]					
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) before tax	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 (refer notes 1 and 39).

2 Central functions segment assets and liabilities includes fixed assets and treasury assets and liabilities.

Notes to the consolidated financial statements

Note 2: Operating segments (continued)

Reconciliation of statutory results to underlying basis

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 £m	**Credit card transaction £m**	**Acquisition and other related items £m**	**Fair value adjustments £m**	**FSCS provisions £m**	**Costs associated with listing[1] £m**	**Underlying basis total £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	**(15.8)**	**–**	**–**	**–**	**–**	**–**	**(15.8)**
Gain on sale of subsidiary	**4.5**	**–**	**(4.5)**	**–**	**–**	**–**	**–**
Additional Northern Rock 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 before tax	**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 £m	Credit card transaction £m	Acquisition and other related items £m	Fair value adjustments £m	FSCS provisions £m	Costs associated with listing £m	Underlying basis total £m
Year ended 31 December 2013[1]							
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 Restated (refer notes 1 and 39).

Notes to the consolidated financial statements

Note 2: Operating segments (continued)

Geographical areas

As the Group's operating activities are exclusively in the UK, further analysis is not provided.

Note 3: Net interest income

Net interest income comprises:

	2014 £m	2013 £m
Interest and similar income:		
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. The full discount was unwound in 2013 in full based on the repayment profiles.

Notes to the consolidated financial statements

Note 4: Net fee and commission income

Net fee and commission income comprises:

	2014 £m	2013[1] £m
Fee and commission income:		
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 £m	2013[1] £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 other 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.

Notes to the consolidated financial statements

Note 6: Total operating expenses

Total operating expenses comprise:

	2014 £m	2013[1] £m
Other operating expenses		
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

1 Restated (refer notes 1 and 39).

Note 6: Total operating expenses (continued)

Costs associated with listing:

Included within total operating expenses for the year ended 31 December 2014 are non-recurring costs of £59.9 million 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 additional Northern Rock consideration payments made on listing; these costs are as follows:

	£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 raising new primary capital including 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 as follows:

	£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 additional consideration which became payable on the successful listing of the Company. At 31 December 2013, the additional consideration was estimated at £14.0 million.

Deferred bonus amounts included within staff costs

In 2013 the Group established a Phantom scheme which was accounted for as a long-term employee benefit. The charge for deferred bonus amounts of £4.9 million relating to the Phantom scheme, and other legacy long-term incentive plans which are now closed, were included within staff costs.

On 23 September 2014 the Remuneration Committee agreed that existing awards under the Phantom scheme, 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 scheme such that it is now accounted for as an equity settled share based payment rather than as a long-term employee benefit (refer 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 the income statement 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).

Notes to the consolidated financial statements

Note 6: Total operating expenses (continued)

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 assurance 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

Included within the total other non-audit fees of £2.0 million are fees in relation to the listing of the Group which total £1.9 million exclusive of VAT.

Notes to the consolidated financial statements

Note 7: Share based payments

Share based payments charge comprise:

	2014 £m	2013 £m
Equity settled	**12.9**	0.6
Cash settled	**0.6**	–
Total share based payment charge	**13.5**	0.6

The listing of the Company crystallised the vesting of a number of share schemes. Of the total share based payment charge of £13.5 million in 2014, £10.7 million of this was attributable to awards which vested on listing.

A breakdown of this is below.

Vested on listing	£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 which vested on listing	**10.7**

The scheme details are summarised below.

Equity settled schemes

	Award plan	Eligible employees	Nature of award	Vesting conditions[1]	Issue dates[2]
(A)	IPO incentive plan 2013	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
(C)	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 leaver 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

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.

Note 7: Share based payments (continued)

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 pre-determined 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 employees below executive level to share in the future success and growth of the Company by granting an award of 43 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 during 2013 by the Remuneration Committee so that the award was based on Tangible Net Asset Value (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 an existing 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.

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.

Notes to the consolidated financial statements

Note 7: Share based payments (continued)

(D) Growth shares

Offers to acquire Growth shares (a restricted class of shares) were extended to selected senior executives in 2012 (A Ordinary Shares) and 2014 (B Ordinary Shares).

During 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 was closed.

(E) Share award plan

Under the scheme the participants received shares in 2014 and will receive shares on vesting dates in 2015 and 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 for 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 LTIP approved by the Remuneration Committee during 2014. Awards are made within limits set by the rules of the plan. The maximum number of shares that can be awarded equates 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 the grant date. The number of shares granted was 105,448 with a fair value of £0.3 million. The fair value of the award was calculated based on the number of shares awarded and the Company's share price at grant date of 284.75p.

(H) IPO share award (2014)

On listing the Group granted all employees below executive level 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 different vesting schedules, and holding periods, to comply with the PRA Remuneration Code. 1,773,880 shares were granted with an estimated fair value of £5.0 million. At 31 December 2014, £0.4 million (2013: £nil) has been charged to the income statement in respect of this scheme.

Notes to the consolidated financial statements

Note 7: Share based payments (continued)

The fair value was determined using a Black Scholes valuation model. The significant inputs are summarised below:

	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]

1 As historic data is not available for the Company, expected volatility was determined using observed market benchmarks.

2 For awards granted to senior employees that are subject to the PRA remuneration code, 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.

(I) 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.

Share awards for the deferred element of 2014 bonuses will be granted under this scheme 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 2015, 2016, 2017 and 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 award was determined using a Black Scholes valuation model. The significant inputs are summarised below:

	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]

1 As historic data is not available for the Company, 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 resulting in a charge of £0.3 million to the income statement in 2014.

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.

Notes to the consolidated financial statements

Note 7: Share based payments (continued)

Movement in share options and conditional shares

	Ordinary Shares				
	Chairman's interest in share options[1]	Employee share award plan[1]	Share award plan[1]	Phantom share award[1]	IPO share award[1]
Shares in existence at 1 January 2014	65,824	104,232	39,014	–	–
Modification to Phantom share award	–	–	–	312,090	–
Impact of share reorganisation[4]	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 31 December 2014	**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 plans[3]	Growth shares[1,2]
Shares in existence at 1 January 2014	–	–	–	1,123,407
Conversion of A and B Ordinary Shares	–	–	–	(1,123,407)
Crystallisation of IPO incentive plan award shares	–	–	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 31 December 2014	**–**	**14,918**	**664,658**	**–**
Of which exercisable	**–**	**–**	**–**	**–**

1 Awards have vesting conditions.

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 plan 2013 was 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.

4 Immediately prior to listing, there was a reorganisation of share capital (refer note 29).

Notes to the consolidated financial statements

Note 7: Share based payments (continued)

	Ordinary Shares			A and B Ordinary Shares
	Chairman's interest in share options[1]	Employee share award plan[1]	Share award plan[1]	Growth shares[1,2]
Shares in existence at 1 January 2013	65,824	–	–	1,062,130
Granted in year[3]	–	106,898	39,014	102,128
Less: forfeited in year	–	(2,666)	–	(40,851)
Outstanding at 31 December 2013	65,824	104,232	39,014	1,123,407
Of which exercisable	43,833	–	–	–

1 Awards have vesting conditions.

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 plan 2013 was 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 £m	On advances secured on residential buy-to-let property £m	On unsecured loans £m	Total £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**

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. This subsequently completed on 31 October 2014 with net 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.

Notes to the consolidated financial statements

Note 9: Taxation

(A) Analysis of the tax charge for the year

	2014 £m	2013[1] £m
UK corporation tax		
Current tax on profit for the year	**(0.7)**	–
Adjustments in respect of prior years	**(2.3)**	–
	(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)
Deferred tax charge in the income statement	**(22.3)**	(6.4)
Tax charge	**(25.3)**	(6.4)

1 Restated (refer notes 1 and 39).

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

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

1 Restated (refer notes 1 and 39).

Notes to the consolidated financial statements

Note 9: Taxation (continued)

(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 £m	2013[1] £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), during 2009. VMCL was a subsidiary of the Group until its sale on 18 January 2013. It is no longer part of the Group and has now been renamed Sapphire Cards Limited.

A Sapphire Cards Limited corporation tax liability of £2.3 million, a reduction in the Group deferred tax assets 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 Sapphire Cards Limited 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 reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

Notes to the consolidated financial statements

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

	2014 Number of shares (million)	2013[1] 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).

Notes to the consolidated financial statements

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

	Held at amortised cost £m	Other financial liabilities £m	Loans and receivables £m	Available -for-sale securities £m	Derivatives not designated as hedging instruments £m	Derivatives designated as hedging instruments: Fair value hedges £m	Derivatives designated as hedging instruments: Cash flow hedges £m	Total £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
Available-for-sale financial assets	–	–	–	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

Notes to the consolidated financial statements

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

	Held at amortised cost £m	Other financial liabilities £m	Loans and receivables £m	Available -for-sale securities £m	Derivatives not designated as hedging instruments £m	Derivatives designated as hedging instruments: Fair value hedges £m	Derivatives designated as hedging instruments: Cash flow hedges £m	Total £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
Available-for-sale financial assets	–	–	–	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

Notes to the consolidated financial statements

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.

The sale of CHT was completed for cash consideration of £13.0 million received in 2014 and deferred consideration of £0.7 million which will be received in 2015. 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 note 20). The gain on disposal was arrived at after deducting the carrying value of the net assets disposed from the proceeds less costs to sell. The Company made a loss on disposal of £0.4 million due to the carrying value of CHT being higher than the proceeds less costs to sell.

The Group incurred a loss of £1.0 million (2013: £0.5 million loss) on the disposal group for the 11 months ended 30 November 2014. The Group had no assets or liabilities in a disposal group from 1 December 2014. The assets and liabilities of the disposal group at 31 December 2013, 30 November 2014 (date of disposal) and 31 December 2014 are presented below:

	31 December 2014 £m	**30 November 2014 £m**	31 December 2013 £m
Assets			
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 £m	2013 £m
Fixed rate deposits	**355.1**	208.8
Variable rate deposits	**365.4**	418.1
Total	**720.5**	626.9

Of which £234.3 million (2013: £195.8 million) loans and advances to banks represented fixed rate balances within securitisation vehicles.

Notes to the consolidated financial statements

Note 14: Loans and advances to customers

Loans and advances comprise:

	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
	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 £m	Fair value £m	Carrying value £m	Fair value £m
Listed and variable rate securities	**8.6**	**10.0**	9.4	9.8

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'.

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

Notes to the consolidated financial statements

Note 16: Available-for-sale financial assets

Available-for-sale financial assets comprise:

	2014 £m	2013 £m
At fair value		
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 financial assets is set out in the Risk Management report on pages 179-180.

	2014 £m	2013 £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

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

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

Note 17: Derivative financial instruments

	2014			2013		
	Contract/ notional amount £m	**Asset fair value £m**	**Liability fair value £m**	Contract/ notional amount £m	Asset fair value £m	Liability fair value £m
Derivatives in accounting hedge relationships						
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)
	22,182.3	**75.3**	**(203.7)**	21,213.4	170.2	(126.7)
Derivatives designated as cashflow hedges:						
Interest rate swaps	**811.8**	**–**	**(2.5)**	732.5	4.8	(2.4)
Total derivative assets/liabilities – in accounting hedge relationships	**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 – in economic hedging relationship but not in accounting hedge 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 derivative contracts 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.

Notes to the consolidated financial statements

Note 17: Derivative financial instruments (continued)

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 impact income.

	2014 £m	2013 £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 £m	2013 £m
Gain/(loss) from fair value hedge accounting[1]:		
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; or
– the derivative was designated in or 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 IAS 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;
- sale and repurchase and reverse sale and repurchase agreements; and
- securities lending and borrowing.

Collateral in respect of derivatives 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.

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

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

Notes to the consolidated financial statements

Note 19: Securitisation

Assets and liabilities of the SPVs comprise:

	2014 £m	2013 £m
Assets		
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 £m	2013 £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.

On 5 September 2014, the Group priced an offering by Gosforth Funding 2014-1 plc raising £1.0 billion from institutional investors in two tranches of AAA related notes.

Notes to the consolidated financial statements

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 2013 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. 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 were £1,042.7 million and the initial estimate of contractual cash flows that were 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 were rebranded during 2013. £5.0 million of the gain on sale of Virgin Money Cards Limited was deferred and was recognised in income in 2013.

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 on a commission basis. On 30 November 2014 the Group completed an agreement to purchase the assets originated during this period. 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 previously been charged-off. The premium will be unwound over the life of the purchased assets.

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.

Notes to the consolidated financial statements

Note 21: Intangible assets

Intangible assets comprise:

	Core deposit intangible £m	Goodwill £m	Software £m	Core banking platform £m	Total £m
Cost:					
Cost at 1 January 2013	4.8	4.6	45.2	–	54.6
Additions	–	–	23.7	6.9	30.6
Disposals	–	–	(0.8)	–	(0.8)
Cost 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:					
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
Accumulated amortisation 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

Additions during the year relate to software and core banking platform intangible assets. This is the construction of assets which support the development of the Group's credit card capability in partnership with TSYS and the development of the Group's digital banking channel.

Notes to the consolidated financial statements

Note 22: Tangible fixed assets

Tangible fixed assets comprise:

	Land and buildings £m	Plant, equipment fixtures, fittings and vehicles £m	Total £m
Cost:			
Cost 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)
Cost 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:			
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	0.3	0.4	0.7
Accumulated depreciation and impairment at 31 December 2013	6.5	16.9	23.4
Depreciation charge for the year	**2.1**	**5.9**	**8.0**
Disposals	**(1.3)**	**(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

Notes to the consolidated financial statements

Note 23: Deferred tax assets

Deferred tax assets and liabilities comprise:

	2014 £m	2013[1] £m
Deferred tax assets/(liabilities):		
Accelerated capital allowances	7.1	8.6
Cash flow hedge reserve	2.2	(0.3)
Change in accounting basis on adoption of IFRS	(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).

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

	2014 £m	2013[1] £m
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)
At 31 December	**50.2**	70.0

1 Restated (refer notes 1 and 39).

Notes to the consolidated financial statements

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. These transactions are treated as secured borrowing as none of the risks and rewards of ownership ever pass to the buyer. 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).

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

Notes to the consolidated financial statements

Note 27: Provisions

The movement in the provision was as follows:

	FSCS £m	Other £m	Total £m
At 1 January 2014	**7.2**[1]	**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**

1 Restated (refer notes 1 and 39).

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. This required a prior period restatement. The opening provision for 2014 decreased by £18.3 million to £7.5 million. (Refer note 39)

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 in the Risk Management Report on page 202.

Notes to the consolidated financial statements

Note 29: Share capital and share premium

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

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.

Notes to the consolidated financial statements

Note 29: Share capital and share premium (continued)

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). 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 which 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, which 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 (and pursuant to the provisions of the Companies Act relating in respect of shares held in own shares), 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 an additional 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, which is the minimum level of nominal share capital required by the Companies Act for a company to be established as a public limited company.

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 Company issued new Ordinary Shares for a consideration of £150 million. Incremental costs of £4.6 million arising from the issue of new Ordinary Shares have been charged to the share premium account (refer note 6).

Notes to the consolidated financial statements

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

Notes to the consolidated financial statements

Note 32: Retained earnings

	2014 £m	2013[1] £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 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

Notes to the consolidated financial statements

Note 33: Contingent liabilities and commitments (continued)

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

Notes to the consolidated financial statements

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

Notes to the consolidated financial statements

Note 34: Fair value of financial assets and liabilities (continued)

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.

Notes to the consolidated financial statements

Note 34: Fair value of financial assets and liabilities (continued)

Fair value of financial assets and liabilities recognised at fair value

The following table summarises the fair values of those financial assets and liabilities recognised 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 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

Notes to the consolidated financial statements

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.

Notes to the consolidated financial statements

Note 35: Cash flow statements (continued)

(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.

The Group is committed to maintaining a strong capital base and has complied with all capital requirements set by the regulators throughout the year.

The table on the following page analyses the composition of the regulatory capital resources of the Group on a CRD IV basis. The 2013 comparatives have been restated using the CRD IV rules and the restated 2013 balance sheet positions. They therefore differ from the Basel II capital positions reported to the PRA and disclosed in the 2013 Group statutory accounts.

Throughout 2014, transitional rules for calculating capital under CRD IV were in place. Capital numbers below have been quoted using both these transitional rules, and the fully loaded CRD IV rules which came into effect from 1 January 2015. Net gains in the AFS reserve are excluded from capital under the transitional CRD IV rules adopted by the PRA.

Notes to the consolidated financial statements

Note 36: Capital resources (continued)

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 (unaudited)				
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 (unaudited)	**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 (unaudited)	**1,137.0**	958.9	**1,130.0**	952.4
Tier 2 capital (unaudited)				
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 (unaudited)	**1,142.9**	969.9	**1,135.9**	963.4

Notes to the consolidated financial statements

Note 36: Capital resources (continued)

Movements in Common Equity Tier 1 capital are summarised below.

(unaudited)	Fully loaded 2014 £m	Fully loaded 2013 £m	Transitional Rules 2014 £m	Transitional Rules 2013 £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

(unaudited)	Fully loaded 2014 £m	Fully loaded 2013 £m	Transitional Rules 2014 £m	Transitional Rules 2013 £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 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.

(unaudited)	Fully loaded 2014 %	Fully loaded 2013 %	Transitional rules 2014 %	Transitional rules 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%

Notes to the consolidated financial statements

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).

Notes to the consolidated financial statements

Note 37: Related party transactions (continued)

(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 notes 12 and 20).

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

Notes to the consolidated financial statements

Note 37: Related party transactions (continued)

(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:	2014 £m	2013 £m
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 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.

Notes to the consolidated 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 re-classification £ 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[1]	38.0
Fee and commission expense	(13.2)	–	12.0[2]	(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)[3]	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[4]	(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
Additional Northern Rock 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

1 The 2013 comparative for 'Other fee and commission income' increased by £5.2 million to £6.7 million.

2 Within Fee and commission expense, the 2013 comparative for 'Other' decreased by £11.8 million to £1.2 million and the 2013 comparative in respect of fees 'On other customer accounts' decreased by £0.2 million to £nil.

3 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 the 2013 comparative for 'Other' decreased by £1.3 million to £0.3 million.

4 The 2013 comparative for 'Other operating expenses' decreased by £1.5 million to £340.8 million.

Notes to the consolidated financial statements

Note 39: Restatement of prior period information (continued)

Consolidated statement of comprehensive income – year ended 31 December 2013

	As previously stated £ million	IFRIC 21 £ million	Presentation re-classification £ 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.

Notes to the consolidated financial statements

Note 39: Restatement of prior period information (continued)

Consolidated cash flow statement – year ended 31 December 2013

	As previously stated £ million	IFRIC 21 £ million	Presentation re-classification £ 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

Notes to the consolidated financial statements

Note 39: Restatement of prior period information (continued)

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

Notes to the consolidated financial statements

Note 39: Restatement of prior period information (continued)

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

Notes to the consolidated financial statements

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.

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.

	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.

Parent Company balance sheet

As at 31 December

	Notes	2014 £ million	2013 £ million
Assets			
Loans and advances to banks	2	**127.8**	11.8
Derivative financial instruments		**1.1**	0.2
Investment in subsidiary undertakings	3	**1,107.6**	1,119.0
Deferred tax assets	4	**0.2**	0.2
Other assets	5	**16.3**	14.3
Total assets		**1,253.0**	1,145.5
Equity and liabilities			
Liabilities			
Deposits from banks		**1.0**	–
Derivative financial instruments		**0.2**	2.0
Other liabilities	6	**165.9**	308.9
Total liabilities		**167.1**	310.9
Equity			
Share capital and share premium	7	**654.6**	509.2
Other equity instruments	8	**156.5**	–
Retained earnings	9	**274.8**	325.4
Total equity		**1,085.9**	834.6
Total equity and liabilities		**1,253.0**	1,145.5

The accompanying notes are an integral part of the parent financial statements.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 4 March 2015.

Sir David Clementi
Chairman

Jayne-Anne Gadhia CBE
Chief Executive

Lee Rochford
Chief Financial Officer

Parent Company statement of changes in equity

As at 31 December

	Share capital and share premium £ million	Other equity instruments £ million	Retained earnings £ million	Total equity £ million
Balance as at 1 January 2014	**509.2**	**–**	**325.4**	**834.6**
Loss for the year	–	–	(57.4)	(57.4)
Total comprehensive expense for the year	–	–	**(57.4)**	**(57.4)**
Transactions with equity holders				
Share based payments – charge for the year	–	–	12.9	12.9
Share based payments – reclassification 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 noteholders	–	–	(3.2)	(3.2)
Distribution to Non-core Tier 1 noteholders	–	–	(9.2)	(9.2)
Group relief attributable to Tier 1 Securities	–	–	2.1	2.1
Balance as at 31 December 2014	**654.6**	**156.5**	**274.8**	**1,085.9**

Balance as at 1 January 2013	509.2	–	357.8	867.0
Loss for the year	–	–	(17.3)	(17.3)
Total comprehensive (expense) for the year	–	–	(17.3)	(17.3)
Transactions with equity holders				
Distribution to Non-core Tier 1 noteholders	–	–	(15.7)	(15.7)
Share based payments	–	–	0.6	0.6
Balance as at 31 December 2013	509.2	–	325.4	834.6

Parent Company cash flow statement

For the year ended 31 December 2014

	Notes	2014 £ million	2013 £ million
Loss before taxation		**(57.4)**	(19.7)
Adjustments for:			
Changes in operating assets	12(a)	**1.7**	0.1
Changes in operating liabilities	12(b)	**(0.9)**	0.7
Non-cash and other items	12(c)	**57.1**	9.0
Movement in amounts due to group undertakings		**28.9**	(37.9)
Tax received		**–**	2.2
Unrealised movement on derivatives		**(2.0)**	2.7
Loss on sale of subsidiaries		**0.4**	–
Net cash provided by/(used in) operating activities		**27.8**	(42.9)
Net cash (outflow)/inflow from investing activities			
Net cash flow from disposal of Church House Trust		**11.5**	–
Net cash provided by investing activities		**11.5**	–
Net cash (outflow)/inflow from financing activities			
Distribution to Non-core Tier 1 loan noteholders		**(17.0)**	(7.8)
Repayment of Non-core Tier 1 notes		**(154.5)**	–
Issue of Additional Tier 1 securities (net)		**156.5**	–
Distribution to Additional Tier 1 security holders		**(3.2)**	–
Proceeds from share issues (net)		**145.4**	–
Movements in amounts from group undertakings		**(0.5)**	45.4
Payment of additional Northern Rock consideration		**(50.0)**	–
Net cash provided by financing activities		**76.7**	37.6
Change in cash and cash equivalents		**116.0**	(5.3)
Cash and cash equivalents at beginning of year		**11.8**	17.1
Cash and cash equivalents at end of year		**127.8**	11.8

The accompanying notes are an integral part of the parent company financial statements.

Notes to the Parent Company financial statements

Note 1: Basis of preparation

1.1 Basis of preparation

The Company financial statements of Virgin Money Holdings (UK) plc, the Parent Company (the Company), which should be read in conjunction with the Group Directors' Report, have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. No individual profit and loss account is presented for the Company, as permitted by Section 408(4) of the Companies Act 2006.

1.2 Basis of measurement

The financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments and other assets held at fair value through profit or loss.

The preparation of the 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, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The accounting policies of the Company are the same as those of the Group which are set out in note 1.10 of the consolidated financial statements except that the Company has no policy in respect of consolidation and investments in subsidiaries which are carried at historical cost, less any provision for impairment. These accounting policies have been applied consistently to all periods presented in these financial statements.

Note 2: Loans and advances to banks

	2014 £m	2013 £m
Fixed rate	**120.8**	–
Variable rate	**7.0**	11.8
Total	**127.8**	11.8

Note 3: Related party transactions

Key Management personnel

The Key Management personnel of the Group and the Company are the same. The relevant disclosures are given in note 37 to the consolidated financial statements. The Company has no employees (2013: nil).

As discussed in note 7 of the consolidated financial statements, the Group provides share-based compensation to employees through a number of schemes; these are all in relation to shares in the Company and the cost of providing those benefits is recharged to the employing companies in the Group on a cash basis.

Other transactions

	Transaction value Year ended 31 December		**Balance outstanding at 31 December**	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Recharges and trading balances from subsidiaries	**3.0**	3.2	**(12.2)**	0.7
Loans to subsidiaries	**3.6**	3.2	**136.4**	121.7

Investment in subsidiaries

	2014 £m	2013 £m
At 1 January	**1,119.0**	1,118.4
Sale of Church House Trust Limited	**(28.5)**	–
Capital contribution – share based payments	**17.1**	0.6
At 31 December	**1,107.6**	1,119.0

Notes to the Parent Company financial statements

Note 3: Related party transactions (continued)

The following were subsidiaries of the Company:

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%

Special purpose vehicles	Nature of business
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

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

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 notes 12 and 20 in the consolidated financial statements).

Notes to the Parent Company financial statements

Note 4: Deferred tax assets

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 net deferred tax assets of £0.2 million (2013: £0.2 million) should be recognised at the balance sheet date.

	2014 £m	2013 £m
Change in accounting basis on adoption of IFRS	0.2	0.2
Recognised deferred tax assets	**0.2**	0.2

The Company is expected to generate sufficient taxable profits in future periods to recover these assets.

Note 5: Other assets

	2014 £m	2013 £m
Amounts owed from related parties	12.3	11.8
Group relief owed from related parties	3.2	2.5
Other	0.8	–
Total	**16.3**	14.3

Note 6: Other liabilities

	2014 £m	2013 £m
Non core tier 1 notes	–	150.0
Other creditors	1.8	23.7
Amounts owed to subsidiary undertakings	164.1	135.2
Total	**165.9**	308.9

The Non-core Tier 1 notes of £150.0 million were issued to HM Treasury on 1 January 2012 as part consideration for 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.

Note 7: Share capital and share premium

Details of the Company's share capital and share premium are given in note 29 of the Group financial statements.

Note 8: Other equity instruments

Details of the Company's Other equity instruments are given in note 30 of the Group financial statements.

Notes to the Parent Company financial statements

Note 9: Retained earnings

	2014 £m	2013 £m
At 1 January	**325.4**	357.8
Loss for the year	**(57.4)**	(17.3)
Dividends and appropriations	**(10.3)**	(15.7)
Value of employee services – share option scheme	**17.1**	0.6
As at 31 December	**274.8**	325.4

The Company has not recognised deferred tax assets in respect of gross unused tax losses of £28.7 million (2013: 26.4 million).

Employee benefit trust

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 Employee Benefit Trust (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 Virgin Money 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).

Note 10: Analysis of financial assets and financial liabilities by measurement basis

2014	Financial liabilities at amortised cost £m	Loans and receivables £m	Derivatives not in IAS 39 hedges £m	Total £m
Financial assets				
Loans and advances to banks	–	127.8	–	127.8
Derivative financial instruments	–	–	1.1	1.1
Other assets	–	12.3	–	12.3
Total financial assets	–	140.1	1.1	141.2
Non financial assets				1,111.8
Total assets				1,253.0
Financial liabilities				
Deposits from banks	1.0	–	–	1.0
Derivative financial instruments	–	–	0.2	0.2
Amounts owed to subsidiary undertakings	147.7	–	–	147.7
Total financial liabilities	148.7	–	0.2	148.9
Non financial liabilities				18.2
Total liabilities				167.1
Equity				1,085.9
Total liabilities and equity				1,253.0

Notes to the Parent Company financial statements

Note 10: Analysis of financial assets and financial liabilities by measurement Basis (continued)

2013	Financial liabilities at amortised cost £m	Loans and receivables £m	Derivatives not in IAS 39 hedges £m	Total £m
Financial assets				
Loans and advances to banks	–	11.8	–	11.8
Derivative financial instruments	–	–	0.2	0.2
Other assets	–	11.5	–	11.5
Total financial assets	–	23.3	0.2	23.5
Non financial assets				1,122.0
Total assets				1,145.5
Financial liabilities				
Derivative financial instruments	–	–	2.0	2.0
Non-core tier 1 notes	150.0	–	–	150.0
Additional Northern Rock considerations	14.0	–	–	14.0
Amounts owed to group undertakings	133.2	–	–	133.2
Total financial liabilities	297.2	–	2.0	299.2
Non financial liabilities				11.7
Total liabilities				310.9
Equity				834.6
Total liabilities and equity				1,145.5

Note 11: Fair value of financial assets and financial liabilities recognised at cost

				2014		2013	
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**	**Total carrying value £m**	Total fair value £m	Total carrying value £m
Financial assets							
Loans and advances to banks	**–**	**127.8**	**–**	**127.8**	**127.8**	11.8	11.8
Other assets	**–**	**12.3**	**–**	**12.3**	**12.3**	11.5	11.5
Financial liabilities							
Non-core Tier 1 notes	**–**	**–**	**–**	**–**	**–**	150.0	150.0
Other liabilities	**–**	**148.7**	**–**	**148.7**	**148.7**	133.2	133.2

The Company has £0.9 million (2013: net liability of £1.8 million) of net derivative financial instruments classified as level 2 in the fair value hierarchy. At 31 December 2013 additional Northern Rock consideration of £14.0 million was classified as a level 3 other liability in the fair value hierarchy (2014: nil).

Notes to the Parent Company financial statements

Note 12: Cash flow statements

(a) Change in operating assets

	2014 £m	2013 £m
Change in derivative financial assets	**1.1**	–
Change in other operating assets	**0.6**	0.1
Change in operating assets	**1.7**	0.1

(b) Change in operating liabilities

	2014 £m	2013 £m
Change in derivative financial liabilities	**(1.8)**	(2.7)
Change in other operating liabilities	**0.9**	3.4
Change in operating liabilities	**(0.9)**	0.7

(c) Non-cash and other items

	2014 £m	2013 £m
Other non-cash items	**57.1**	9.0
Total non-cash and other items	**57.1**	9.0

Glossary

Admission to Listing	Admission to the premium segment of the FCA Official List and trading on the main market of the London Stock Exchange. The Company was admitted on 18 November 2014.
AGM	Annual General Meeting
AIL	Ageas Insurance Limited, a corporate partner of the Group.
ALCO	Asset and Liability Committee
Arrears	For secured, this is where the customer has failed to make contractual due date and the payment shortfall exceeds 1 per cent of the current monthly contractual payment amount. For unsecured, this is where the customer has failed to meet the scheduled minimum monthly payment; i.e. the customer is at least one month past due.
AT1 Securities	Additional Tier 1 securities
Bank	Virgin Money plc, the principal operating bank subsidiary of the Company.
Bank Board	The board of directors of Virgin Money plc, the Bank.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision in June 2006 in the form of the 'International Convergence of Capital Measurement and capital standards'
Basel III	Global regulatory standard on Bank Capital Adequacy, Stress Testing and Market and Liquidity proposed by the Basel Committee on Banking Supervision in 2010. It aims to strengthen regulation, supervision and risk management in the banking sector. See also CRD IV.
Basis Point (bps)	One hundredth of a percent (0.01%). 100 basis points is 1%. It is used in quoting movements in interest rates or yields on securities.
BBA	British Bankers Association, the leading trade association for the UK banking sector.
BIPRU	The prudential sourcebook for banks, building societies and investment firms. The part of the Financial Conduct Authority's (FCA) Handbook that sets out detailed prudential requirements for the banks that they regulate.
Board	The Company Board
BOE	Bank of England
BRRD	Bank Recovery and Resolution Directive
Buy-to-let Mortgages	Buy-to-let mortgages are those mortgages offered to customers purchasing residential property as a rental investment.
Capital at Risk (CaR)	Approach set out for the quantification of interest rate risk expressed as present value of the impact of the sensitivity analysis on the Group's capital.
Capital Requirements Regulation (CRR)	The European Union has implemented the Basel III capital proposals through the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), collectively known as CRD IV. CRD IV was implemented on 1 January 2014.
Capital Risk	The risk that the Group has a sub-optimal amount or quality of capital or that capital is inefficiently deployed across the Group.
CASS	Client Assets Sourcebook – included in the FCA Handbook and sets out the requirements with which firms must comply when holding or controlling client assets.
Certificates of Deposit	Bearer negotiable instruments acknowledging the receipt of a fixed term deposit at a specified interest rate.
Chairman Designate	Glen Moreno was appointed as an independent Non-Executive Director on 1 January 2015 and will replace Sir David Clementi as chairman.
Charge Off	Charge off occurs on outstanding credit card balances which are deemed irrecoverable. This involves the removal of the balance and associated provision from the balance sheet with any remaining outstanding balance recognised as a loss.
Chief Executive	Jayne-Anne Gadhia CBE.
Chief Financial Officer	Lee Rochford.
Chairman	Sir David Clementi
CMA	Competition and Markets Authority
CML	Council of Mortgage Lenders
Code	The FRC's UK Corporate Governance Code (2012 edition).
Common Equity Tier 1 Capital (CET1)	The highest quality form of capital under CRD IV that comprises common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.
Company	Virgin Money Holdings (UK) plc.

Compliance Risk — 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.

CONC — Consumer Credit Sourcebook

Concentration Risk — The exposure of the Group to credit concentrations in relation to retail and wholesale portfolios, products, obligor and counterparty levels.

Conduct Risk — The risk that our operating model, culture or actions result in unfair outcomes for customers.

Contractual Maturities — Contractual maturity refers to the final payment date of a loan or financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Cost of Capital — The cost of funds used to finance the business including distributions to NCT1 note holders and AT1 security holders.

Cost of Risk — Cost of risk is defined as impairment charges divided by average gross loans for a given period.

Cost:Income Ratio — Operating expenses compared to total income. The Group calculates this ratio using the 'underlying basis' which is the basis on which financial information is reported internally to management.

Covered Bonds — Debt securities backed by a portfolio of mortgages that are segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds.

CRD — Capital Requirements Directive

CRD IV — In June 2013, the European Commission published legislation for a Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) which form the CRD IV package. The package implements the Basel III proposals in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. The rules are implemented in the UK via the PRA policy statement PS7/13 and came into force from 1 January 2014, with certain sections subject to transitional phase in.

Credit Swap Default — A credit swap default is a type of credit derivative. It is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. The entity selling protection receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

Credit Enhancements — Techniques that improve the credit standing of financial obligations; generally those issued by a structured entity in a securitisation. External credit enhancements include financial guarantees from third-party providers. Internal enhancements include excess spread – the difference between the interest rate received on the underlying portfolio and the coupon on the issued securities; and over-collateralisation – on securitisation, the value of the underlying portfolio is greater than the securities issued. Additionally, certain lower rated tranches of notes issued under the securitisation programme are held within the Group and group provides subordinated loans to support the securitisation transactions.

Credit Risk — Credit risk is the risk that a borrower or counterparty fails to pay the interest or the capital due on a loan or other financial instrument on or off balance sheet .

Credit Spread — The credit spread is the yield spread between the securities with the same currency and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.

Credit Valuation Adjustments (CVA) — These are adjustments to the fair values of derivative assets to reflect the creditworthiness of the counterparty.

Cross-currency Swaps — An arrangement in which two parties exchange specific principal amounts in different currencies at inception and subsequently interest payments on the principal amounts.

Customer Accounts — Money deposited with the Group by counterparties other than banks and classified as liabilities. They include demand, savings and time deposits; securities sold under repurchase agreements; and other short term deposits. Deposits received from banks are classified as deposits from banks.

Customer Deposits — Money deposited by retail savings and current account holders. Such funds are recorded as liabilities of the Group.

Debt Securities — Debt securities are assets held by the Group representing certificates of indebtedness of credit institutions, public bodies or other undertakings, excluding those issued by Central Banks.

Debt Securities in Issue — These are unsubordinated debt securities issued by the Group. These are all notes issued under the securitisation programme by special purpose vehicles.

Glossary

Default	Default occurs where a borrower has missed 6 months of mortgage repayments or 3 months of credit card repayments, or, the borrower is deemed to be unlikely to repay their loan. The definition of unlikely to repay includes those loans where: the property has been taken into possession; loans that have been modified in the form of a "Rescue Solution" debt management plan; loans where the customer is at least one month in arrears and they have active public information at the credit bureau.
Deferred Tax Asset	Income taxes recoverable in future periods as a result of deductible temporary differences (temporary differences between the accounting and tax base of an asset or liability that will result in tax deductible amounts in future periods) and the carry-forward of tax losses and unused tax credits.
Diversity Policy	The Diversity Policy related to the Company Board and the boards of the Company's main subsidiaries approved by the Board in 2014.
DTR	The Financial Conduct Authority's Disclosure and Transparency Rules.
Earnings at Risk (EaR)	Approach set out for the quantification of interest rate risk expressed as the impact of the sensitivity analysis on the change to net interest income.
EBO	Everyone's better off.
Effective Interest Rate	The effective interest rate method calculates the amortised cost of a financial asset or financial liability, and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or financial liability. Calculation of the effective interest rate takes into account all contractual terms of the financial instrument but includes all amounts received or paid 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.
Encumbrance	An interest in an asset held by another party. Encumbrance usually impacts the transferability of the asset and can restrict its free use until the encumbrance is removed.
EPS	Earnings per share
Eurozone	The economic region formed by those member countries of the European Union that have adopted the euro.
Executive Directors	Jayne-Anne Gadhia and Lee Rochford, the executive directors on the Board.
Expected Loss	This is the amount of loss that can be expected by the Group calculated in accordance with PRA rules. In broad terms it is calculated by multiplying the Default Frequency by the Loss Given Default by the Exposure at Default.
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Exposure at Default	An estimate of the amount expected to be owed by a customer at the time of a customer's default.
Fair Value	Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
FCA	Financial Conduct Authority.
Financial Services Compensation Scheme (FSCS)	The Financial Services Compensation Scheme is the UK's independent statutory compensation fund for customers of authorised financial service firms and pays compensation if a firm is unable to pay claims against it. The FSCS is funded by Management expenses levies and, where necessary, compensation levies on the authorised firms.
Forbearance	Forbearance takes place when a concession is made on the contractual terms of a loan in response to borrowers financial difficulties; or for where the contractual terms have been cancelled for credit cards. Forbearance options are determined by assessing the customer's personal circumstances.
Foreign Exchange Risk	The risk of changes to asset/liability values due to movements in exchange rates.
FPC	Financial Policy Committee.
FRC	The Financial Reporting Council.
FTP	Funds Transfer Pricing.
Full Time Equivalent (FTE)	A full time employee is one that works a standard five day week. The hours worked by part time employees are measured against this standard and accumulated along with the number of full time employees and counted as full time equivalents. This is a more consistent measure of the amount of time worked than employee numbers which will fluctuate as the mix of part time and full time employees changes.
Fully-loaded	Regulatory capital calculated using the fully loaded basis assumes that the full impact of the CRD IV requirements are in force with no transitional provisions.
Funding for Lending Scheme (FLS)	The Bank of England launched the Funding for Lending scheme in 2012 to allow banks and building societies to borrow from the Bank of England at cheaper than market rates for up to four years. This was designed to increase lending to businesses by lowering interest rates and increasing access to credit.

Funding Risk	The inability to raise and maintain sufficient funding in quality and quantity to support the delivery of the business plan.
GHG	Greenhouse Gas
Group	The Company and its subsidiaries.
HMRC	Her Majesty's Revenue and Customs
HPI	House Pricing Index
Help to Buy	'Help to Buy' was formed as part of the 2013 budget announcement by the government and is part of a package of measures designed to increase the availability of low-deposit mortgages for credit worthy households and to boost the supply of new housing.
IFDS	International Financial Data Services
IFRS	International Financial Reporting Standards.
ILAA	Individual Liquidity Adequacy Assessment
Impaired Assets	Loans that are in arrears, or where there is objective evidence of impairment, and where the carrying amount of the loan exceeds the expected recoverable amount.
Impairment Allowance	Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss inherent in the lending book. An impairment allowance may either be individual or collective.
Impairment Losses	An impairment loss is the reduction in value that arises following an impairment review of an asset that determined that the asset's value is lower than its carrying value. For impaired financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Impairment losses can be difficult to assess and critical accounting estimates and judgements are made when determining impairment losses.
Information Management	Management of information through its lifecycle to maintain quality and value. This includes creation, collection, organisation, control, retention and disposal.
Information Security	Activities to ensure the availability, confidentiality and integrity of Virgin Money and customer information.
Interest Rate Risk	The risk of a reduction in the value of earnings or assets resulting from an adverse movement in interest rates.
Interest Rate Risk in the Banking Book (IRRBB)	The risk to interest income arising from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's own assessment, based on Basel II requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events as they apply on a solo level and on a consolidated level.
IASB	International Accounting Standards Board
ISDA	International Swaps and Derivatives Association.
Investment Grade	This refers to the highest range of credit ratings, from 'AAA' to 'BBB' as measured by external credit rating agencies.
IPO	Initial Public Offering
LAB	Liquid Asset Buffer.
Legal Risk	The risk of Virgin Money activities being unlawful and not aligned with best legal practice.
Leverage Ratio	A new balance sheet metric system introduced by regulators from January 2014.
LIBOR	London Inter-Bank Offered Rate
Liquidity Coverage Ratio (LCR)	The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress, and ideally, central bank eligible.
Liquidity Risk	The inability to accommodate liability maturities and withdrawals, fund asset growth, and otherwise meet our contractual obligations to make payments as they fall due.
Listing	The Company's shares being on the list of stocks that are officially traded on a stock exchange. The Company listed on 13 November 2015.
Listing Rules	The FCA's Listing Rules.
Loan-to-Deposit Ratio	The ratio of loans and advances to customers net of allowance for impairment losses and excluding reverse repurchase agreements divided by customer deposits excluding repurchase agreements. Fair value of portfolio hedging is excluded from this calculation.

Glossary

Loan-to-Value Ratio	The amount of a secured loan as a percentage of the appraised value of the security e.g. the outstanding amount of mortgage loan as a percentage of the property's value.
Loss Emergence Period	The loss emergence period is the estimated period between impairment occurring and the loss specifically identified and evidenced by the establishment of an appropriate impairment allowance.
Loss Given Default	The estimated loss that will arise if a customer defaults. It is calculated after taking account of credit risk mitigation and includes the cost of recovery.
LTIP`	Long-Term Incentive Plan
Market Risk	The risk that the value of, or net income arising from, our assets and liabilities changes as a result of movements in interest or exchange rates.
Master Netting Agreement	An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.
MMR	Mortgage Market Review: a comprehensive review by the FCA of all aspects of the mortgage market and its regulation. As a result, reforms introduced under the Mortgage Market Review deliver a mortgage market that works better for consumers and is sustainable for all participants. The main changes brought about by the review come into force on 26 April 2014.
Model Risk	The risk arising through deficiencies in the development of a model or its control environment including quality and control of model inputs and outputs, leading to sub-standard decision-making and/or financial loss.
Neither past due nor impaired	Loans that are not in arrears and which do not meet the impaired asset definition. This segment can include assets subject to forbearance solutions.
Neither past due nor impaired but in forbearance	Loans that are categorised as neither past due nor impaired, but are currently subject to one of the defined forbearance solutions.
NCT1 Notes	Non-core Tier 1 notes
Net Interest Income	The difference between interest received on assets and interest paid on liabilities.
Net Interest Margin (NIM)	Net interest income as a percentage of average interest-earning assets.
Net Stable Funding Ratio (NSFR)	The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. The ratio is required to be 100% with effect from 2018. Available stable funding would include such items as equity capital, preferred stock with a maturity of over 1 year, or liabilities with a maturity of over 1 year.
Nominee Directors	James Lockhart III and Gordon McCallum appointed as nominee directors by each of WLR and Virgin respectively pursuant to the terms of the Relationship Agreements.
Non-Executive Directors	The non-executive directors on the Board.
NPS	Net Promoter Score
Operational Leverage	A measurement of the degree to which a firm or project incurs a combination of fixed and variable costs.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.
Option	An option is a contract that gives the holder of the right but not the obligation to buy (or sell) a specified amount of the underlying physical or financial commodity, at a specified price, at an agreed date or over an agreed period. Options can be exchange-traded or traded over the counter.
OTC	Over the Counter.
Other Encumbered Assets	Assets that cannot be used for secured funding due to legal or other reasons. These include cash reserves supporting secured funding structures.
Past due	A financial asset such as a loan is past due when the counterparty has failed to make a payment when contractually due.
Past due but not impaired	Loans that are in arrears or where there is objective evidence of impairment, but the asset does not meet the definition of an impaired asset as the expected recoverable amount exceeds the carrying amount.
Personal Current Account (PCA)	A deposit account held at a bank or other financial institution
Pillar 1	The part of Basel II that sets out the process by which regulatory capital requirements should be calculated for credit, market and operational risk.
Pillar 2	The part of Basel II that sets out the process by which a bank should review its overall capital adequacy and the processes under which the supervisors evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments.
Pillar 3	The part of Basel II that sets out the information banks must disclose in relation to their risks, the amount of capital required to absorb them, and their approach to risk management. The aim is to strengthen market discipline.

PP	Percentage points.
PRA	Prudential Regulation Authority
Probability of Default (PD)	Probability of Default measures the probability of a customer becoming six months or more past due on their mortgage obligations, or three month past due for credit cards, over a defined outcome period. The outcome period varies for assessment of capital requirements and for assessment of provisions.
Relationship Agreements	The relationship agreements with Virgin and WLR.
Repurchase Agreements or 'Repos'	An agreement where one party, the seller, sells a financial asset to another party, the buyer, at the same time the seller agrees to reacquire and the buyer to resell the asset at a later date. From the seller's perspective such agreements are repurchase agreements (repos) and from the buyer's reverse repurchase agreements (reverse repos).
Retail Distribution Review	Consumer protection strategy of the FCA.
Return on Equity	Profit attributable to ordinary shareholders divided by average shareholders' equity as a percentage.
Ring-fenced Bank	A portion of a company's assets or profits are financially separated without necessarily being operated as a separate entity.
Risk Appetite	The Variability in results or key outcomes that the board is willing to accept in support of the Group.
Risk-weighted Assets	Sum of all risk-weighted assets as required for regulatory capital ratio measures.
RMBS	Residential Mortgage Backed Securities.
Sale and Repurchase Agreements	In a sale and repurchase agreement one party, the seller, sells a financial asset to another party, the buyer, at the same time the seller agrees to reacquire and the buyer to resell the asset at a later date. From the seller's perspective such agreements are repurchase agreements (repos) and from the buyer's reverse repurchase agreements (reverse repos).
Savings Ratio	The percentage of disposable income that is saved.
SBC	Scottish Business in the Community.
Secured Lending	Lending on which the borrower uses collateral such as equity in their home.
Securitisation/ Securitisation Programme	Securitisation is a process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities. Securitisation is the process by which asset-backed securities are created. A company sells assets to a special purpose vehicle which then issued securities backed by the assets. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors. Assets used in securitisations include mortgages to create mortgage-backed securities or residential mortgage backed securities. Group has established several securitisation structures as part of its funding and capital management activities. The generally using mortgages as asset pools.
Sovereign Exposures	Exposures to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned.
SPV	Special Purpose Vehicle.
Standardised Approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings of obligators (where available) and supervisory risk weights. In relation to operational risk, a method of calculating the operational risk capital requirement by the application of a supervisory defined percentage charge to the gross income of specified business lines.
Stress Testing	Stress and scenario testing is the term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held.
Tangible Equity	A subset of shareholders equity that is not intangible assets.
Tier 1 Capital	A measure of banks financial strength defined by the PRA. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, but is subject to a deduction in respect of material holdings in financial companies.
Tier 1 Capital Ratio	Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 Capital	A further component of regulatory capital defined by the PRA. It comprises eligible collective assessed impairment allowances under CRD IV.
TNAV	Tangible net asset value.
TSYS	Total System Services, Inc. A global leader in payments solutions, services for acquirers and merchants of every size. The Group's strategic partner for credit card operations.
UKFI	UK Financial Investments Ltd is a Companies Act Company with HM Treasury as its sole shareholder.
Unencumbered Assets	Assets that are readily available to secure funding or to meet collateral requirements, and assets that are not subject to any restrictions but are not readily available for use.

Glossary

Underlying EPS	Underlying profit after tax attributable to ordinary shareholders of the parent company divided by the weighted-average number of ordinary shares outstanding during the period excluding own shares held in employee benefit trusts or held for trading.
Underlying return on tangible equity	Underlying profit before tax adjusted for FSCS levy, distributions to Non-core Tier 1 noteholders and tax dividend by average tangible equity.
Unsecured Lending	Lending with no collateral held such as credit cards and current account overdrafts.
VEL	Virgin Enterprises Limited, the licensor of the perpetual licence to Virgin Money to use the “Virgin” and “Virgin Money” trademarks.
Virgin	Virgin Financial Investments Limited, a major shareholder of the Company.
Virgin Money Foundation	A new charitable foundation established by Virgin Money to invest in projects designed to benefit communities in which Virgin Money works.
Virgin Money Trademark Licence Agreement	The agreement under which VEL grants perpetual licence to Virgin Money to use the “Virgin” and “Virgin Money” trademarks.
WLR	WLR IV VM LLC and WLR IV VM II LLC together major shareholders of the Company.
Write Off	Mortgages: may be written off where the outstanding balance or shortfall from sale of property is deemed irrecoverable. Assets written off will be deducted from the balance sheet. Credit cards: a write off occurs following charge off when all attempts to recover the outstanding balance is exhausted and the account is closed.
Yield Curve	A line that plots the interest rates, at a set point in time, of an asset class or swap rate at varying maturities. This can be used as a gauge to evaluate the future of interest rates.

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