Virgin Money Holdings (UK) plc
Pillar 3 Disclosures
31 December 2015

Contents

Introduction 2
Summary analysis 3
Disclosure policy 9
Scope of consolidation 10
Regulatory capital framework 14
Risk management 20
Capital resources 24
Pillar 1 capital requirements 30
Credit risk 33
Credit risk mitigation 56
Counterparty credit risk 59
Market risk 61
Operational risk 64
APPENDIX 1 — EBA own funds disclosure template 66
APPENDIX 2 — Capital instrument key features 69
APPENDIX 3 — Disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical buffer 71
APPENDIX 4 — Analysis of leverage ratio 74
APPENDIX 5 — Analysis of encumbered assets 77
APPENDIX 6 — Group remuneration disclosures 79
APPENDIX 7 — Virgin Money plc Pillar 3 disclosures 86
Glossary 98
Abbreviations 102
Index of tables 103

Introduction

This document presents the consolidated Pillar 3 disclosures of Virgin Money Holdings (UK) plc (the Group) as at 31 December 2015.

The disclosures have been prepared in accordance with the requirements of the Capital Requirements Directive and Regulation (CRD IV) which came into force on 1 January 2014.

The disclosures also take into account the recommendations of the Enhanced Disclosure Task Force by including a reconciliation of accounting balance sheet to regulatory balance sheet and an analysis of movements in risk-weighted assets and own funds.

Some disclosures made within this document have also been made within the 2015 Virgin Money Group Annual Report and Accounts.

2015 developments

The disclosures follow largely the same format as last year with the following changes and enhancements:

– all regulatory capital numbers have been disclosed on a fully loaded CRD IV basis. In 2014, transitional rules applied meaning that the available-for-sale reserve, and associated adjustments, were excluded from exposures and the capital calculation;

– all 2014 comparatives have been restated to show the fully loaded position;

– counterparty credit risk exposures to derivatives and repos have been disclosed separately from ordinary credit risk. All 2014 comparatives have been restated to remove counterparty credit risk from the credit risk tables;

– Appendix 3 shows the disclosure of information in relation to the calculation of the countercyclical buffer, in accordance with Regulation EU 2015/1555; and

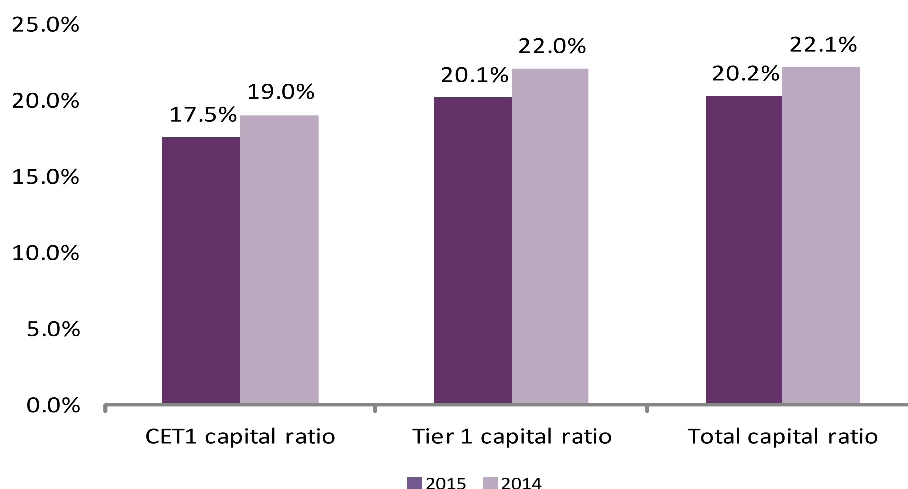
– Appendix 4 shows the calculation of the leverage ratio in the template set out in Implementing Technical Standard EBA/ITS/2014/04/rev1.

Summary Analysis

A high level summary analysis of the consolidated capital position, requirements and credit risk exposures of the Group as at 31 December 2015 is provided below.

Capital and leverage ratios

Table 1: Capital ratios



Capital ratios have reduced during 2015 in line with the Group's growth strategy as loans and advances to customers increased by over £4 billion during the year.

The impact of this growth on capital ratios was offset by the 25.4% increase in retained earnings to £544.8 million at the end of 2015 from £434.5 million at the end of 2014.

The increased profits also utilised tax losses carried forward, leading to a reduction in the associated deferred tax asset, which is excluded from regulatory capital.

2015 is the first year that the Group has declared a dividend. An interim dividend of £6.2 million was paid in October 2015 and capital resources have been adjusted to take into account the forecast final dividend to be paid in 2016 in respect of the 2015 year end.

The leverage ratio has reduced from 4.1% in 2014 to 4.0% in 2015, in line with the Group's growth strategy but remains well in excess of the future minimum requirement of 3.0%.

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

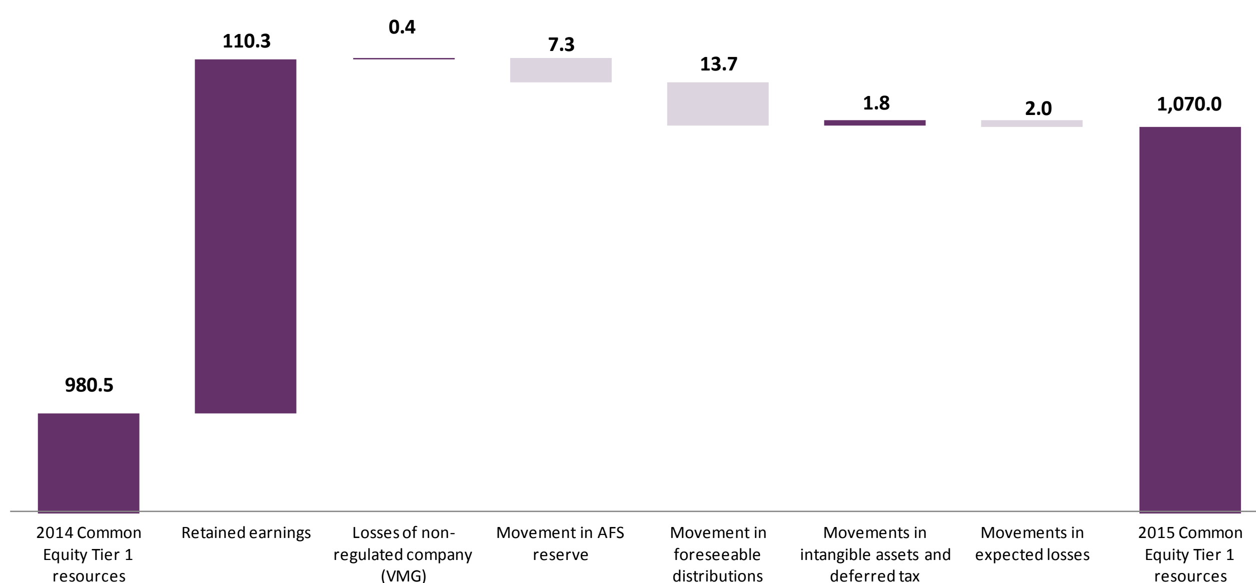
For a more detailed disclosure of the leverage ratio, see page 29.

Capital resources

Table 2: Capital resources

	2015	2014
	£m	£m
Common Equity Tier 1		
Share capital and share premium	**654.6**	654.6
Other equity instruments	**156.5**	156.5
Other reserves	**(15.6)**	(1.8)
Retained earnings	**544.8**	434.5
Total equity per balance sheet	**1,340.3**	1,243.8
Regulatory capital adjustments		
Net liabilities of companies outside the regulatory Group	**4.5**	4.1
Foreseeable distribution on Additional Tier 1 securities	**(2.1)**	(2.1)
Foreseeable dividends on ordinary share capital	**(13.7)**	-
Other equity instruments	**(156.5)**	(156.5)
Cash flow hedge reserve	**15.3**	8.8
Intangible assets	**(64.4)**	(46.1)
Deferred tax on tax losses carried forward	**(18.0)**	(38.1)
Excess of expected loss over impairment	**(35.4)**	(33.4)
Common Equity Tier 1 Capital	**1,070.0**	980.5
Additional Tier 1 securities	**156.5**	156.5
Total Tier 1 Capital	**1,226.5**	1,137.0
Tier 2 capital		
General credit risk adjustments	**7.6**	5.9
Total Tier 2 capital	**7.6**	5.9
Total own funds	**1,234.1**	1,142.9

Table 3: Movement in capital

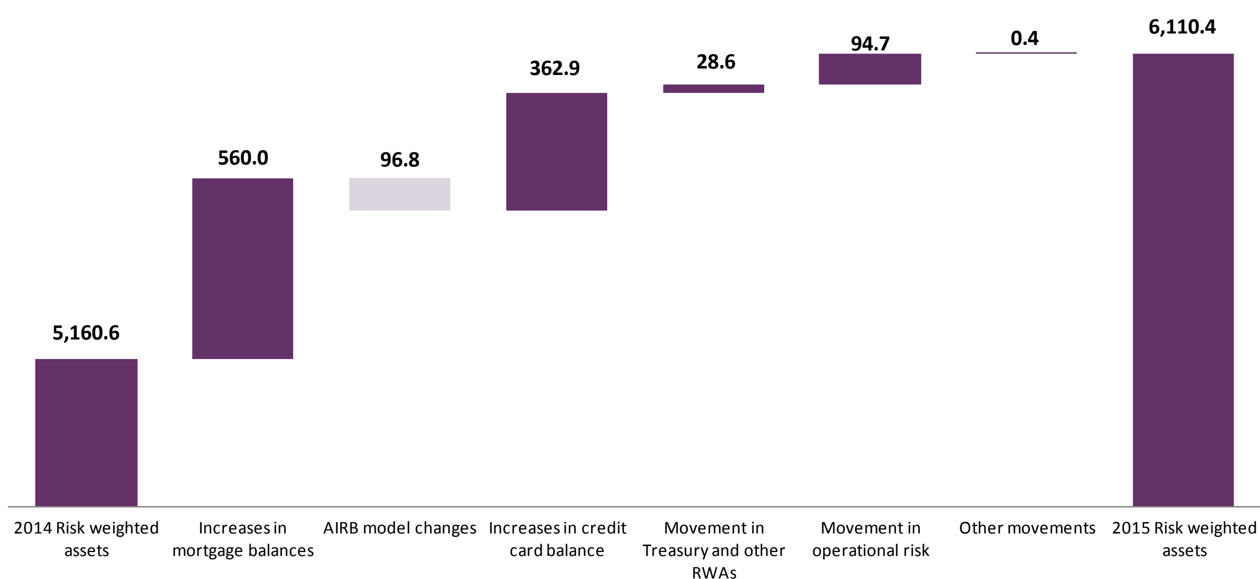


Risk-weighted assets and Pillar 1 capital requirements

Table 4: Risk-weighted assets

Risk-weighted assets	2015 £m	2014 £m
Credit risk (Individual Ratings Based approach)	**3,952.9**	3,489.7
Credit risk (Standardised approach)	**1,596.3**	1,192.2
Total credit risk	**5,549.2**	4,681.9
Counterparty credit risk	**21.7**	34.5
Credit valuation adjustment (CVA)	**14.3**	13.7
Operational risk	**525.2**	430.5
	6,110.4	5,160.6

Table 5: Movement in risk-weighted assets



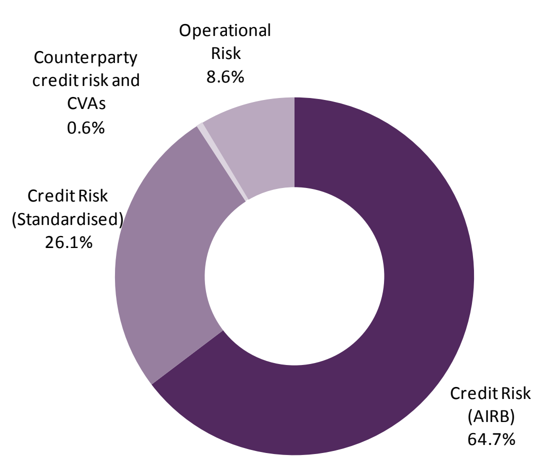
Risk-weighted assets have increased primarily as a result of increased lending which has been offset by changes to the AIRB model, discussed in more depth on page 31.

Operational risk increased in 2015 in line with year on year increases in total income.

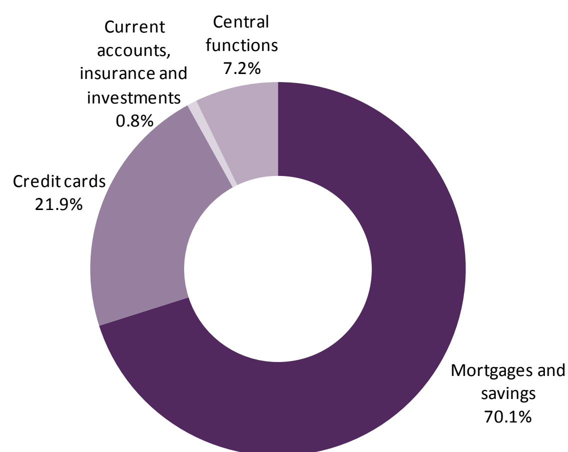
Table 6: Risk-weighted assets – segmental analysis

Risk-weighted assets – segmental analysis	**2015** **£m**	2014 £m
Mortgages and savings	**4,284.5**	3,729.8
Credit cards	**1,334.7**	973.2
Current accounts, insurance and investments	**51.6**	47.2
Central functions	**439.6**	410.4
	6,110.4	5,160.6

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



Make up of risk-weighted assets by risk type



Make up of risk-weighted assets by segment

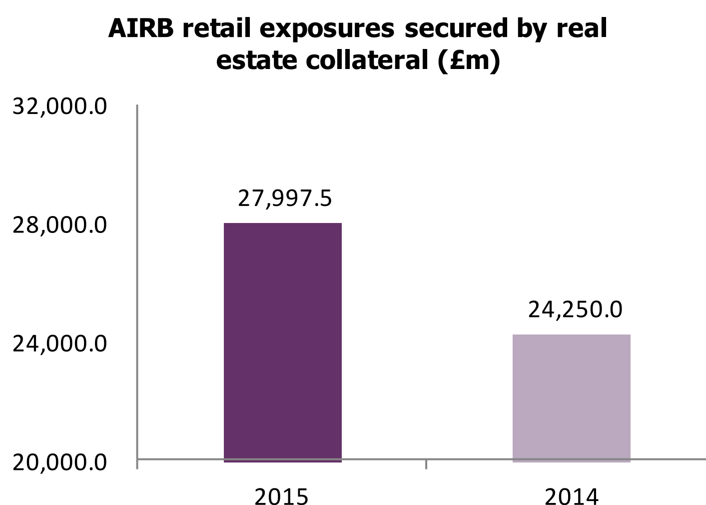
Credit Risk Exposures

Table 8: Credit risk exposures

	2015			2014		
	Exposure	**RWAs**	**Average RW**	Exposure	RWAs	Average RW
	£m	**£m**	**%**	£m	£m	%
AIRB						
Retail exposures secured by real estate collateral	**27,997.5**	**3,952.9**	**14.1**	24,250.0	3,489.7	14.4
Standardised						
Credit cards and other retail exposures	**1,574.6**	**1,180.9**	**75.0**	1,097.3	822.9	75.0
Items in default	**11.8**	**11.8**	**100.0**	7.1	7.1	100.0
Central Governments and Central Banks	**1,286.9**	**-**	**-**	1,636.9	-	-
Multilateral development banks	**203.7**	**-**	**-**	310.7	-	-
Institutions	**626.1**	**141.7**	**22.6**	714.5	157.8	22.1
Securitisation positions	**60.6**	**12.1**	**20.0**	74.1	16.0	21.6
Covered Bonds	**535.3**	**53.5**	**10.0**	265.7	26.6	10.0
Other	**177.6**	**196.3**	**110.5**	153.0	161.8	105.8
Total standardised	**4,476.6**	**1,596.3**	**35.7**	4,259.3	1,192.2	28.0
	32,474.1	**5,549.2**	**17.1**	28,509.3	4,681.9	16.4

Year on year movements in AIRB exposures

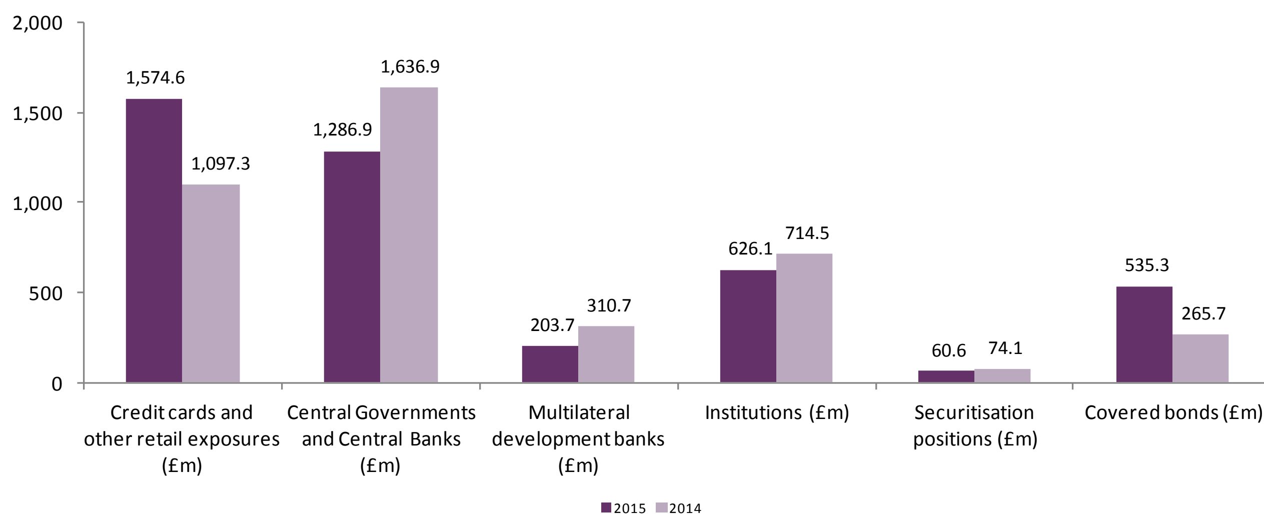
Table 9: AIRB exposures



AIRB exposures are made up solely of residential mortgages. The year on year increase reflects the Group's organic growth in mortgage lending. During 2015 the Group's gross mortgage lending was £7.5 billion, with a net mortgage lending figure of £3.6 billion.

Year on year movements in standardised exposures

Table 10: Standardised exposures



The major movements in exposures arise from:

- credit cards and other retail exposures increased following organic growth in the credit card book; and
- during the year, the Group has reduced liquid assets held as gilts with the Bank of England and redirected the investments into covered bonds.

A detailed analysis of the key movements in exposures is provided in table 25 on page 34.

Disclosure policy

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

Basis of preparation

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

There are a number of differences between the accounting disclosures published within the 2015 Virgin Money Group Annual Report and Accounts and these Pillar 3 disclosures. In particular, there are differences surrounding the make up of the consolidated Group for statutory reporting and regulatory purposes, and the definition of credit risk exposure.

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

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

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

Frequency, media and location

The Group's policy is to publish the disclosures required on an annual basis. The information is published in conjunction with the 2015 Virgin Money Group Annual Report and Accounts. The Pillar 3 disclosure document is published within the Investor Relations section of the corporate website www.virginmoney.com.

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

Verification

The Group's Pillar 3 disclosures have been reviewed by the Audit Committee and approved by the Board. In addition, the remuneration disclosures as detailed in Appendix 6 of this document have been reviewed by the Remuneration Committee. The disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements and disclosed in the 2015 Virgin Money Group Annual Report and Accounts.

Risk profile disclosure

In accordance with Part VIII of the CRR and the Group's Pillar 3 disclosure policy, the Group is required to assess whether its external disclosures portray its risk profile comprehensively. The disclosures of risk management objectives and procedures within this Pillar 3 document are reproduced within the Risk Management Report of the 2015 Virgin Money Group Annual Report and Accounts.

Scope of consolidation

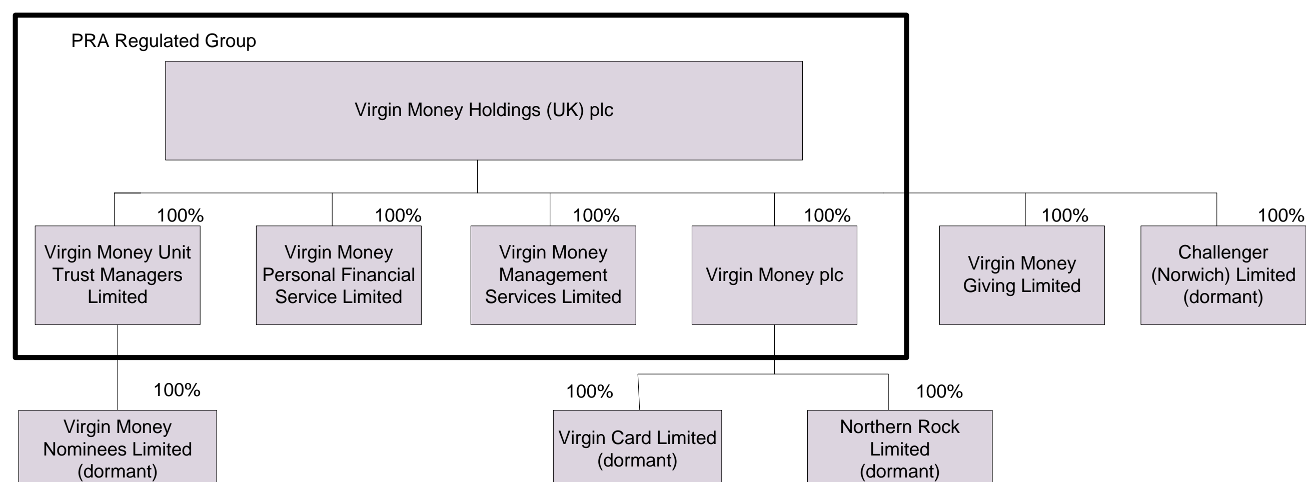
This disclosure report is based on the consolidated corporate Group referred to and described as 'Virgin Money' (Virgin Money Regulated Group) with the exception of Appendices 1, 3, 4 and 7 which disclose the position of Virgin Money plc, the significant subsidiary within the Group. The Group has complied with the Prudential Sourcebooks throughout the year. This disclosure is presented in respect of the year ended 31 December 2015.

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

Regulatory consolidation Group

The Group structure at 31 December 2015 is set out below.

Table 11: Regulatory Group structure



At 31 December 2015, the Virgin Money Regulated Group was made up of the following companies:

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

The regulatory consolidation disclosed within this document therefore differs from the consolidated Group disclosed within the 2015 Virgin Money Group Annual Report and Accounts, by excluding the following companies.

- Virgin Money Giving Limited;
- Challenger (Norwich) Limited (dormant);
- Virgin Money Nominees Limited (dormant);
- Virgin Card Limited (dormant); and
- Northern Rock Limited (dormant).

Sub Group disclosures

Virgin Money plc (VM plc) is the significant banking subsidiary within the Group. Separate Pillar 3 disclosures for VM plc have been made in Appendices 1, 3, 4 and 7 of this document.

The following companies are special purpose vehicles (SPVs) established in connection with the Group's securitisation programme. Although Virgin Money plc has no direct or indirect ownership interest in these companies, they are accounted for as subsidiaries of Virgin Money plc. This is because they are principally engaged in providing a source of long term funding to the Group, which in substance means the Group is exposed to rights of variable returns from its involvement in the SPVs and has the ability to affect those returns through its power over the entities.

Table 12: Special purpose vehicles

As at 31 December 2015:	Nature of business
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 Funding 2015-1 plc	Issue of securitised notes
Gosforth Funding 2016-1 plc[1]	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 Mortgages Trustee 2015-1 Limited	Trust
Gosforth Mortgages Trustee 2016-1 Limited[1]	Trust
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
Gosforth Holdings 2015-1 Limited	Holding company
Gosforth Holdings 2016-1 Limited[1]	Holding company

[1] Dormant companies as at 31 December 2015.

All SPVs are incorporated in England & Wales.

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

Consolidated balance sheet under the regulatory scope of consolidation

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

Table 13: Reconciliation of statutory balance sheet to regulatory balance sheet

2015

	Accounting balance sheet as in published financial statements	Deconsolidation of other entities	Under regulatory scope of consolidation
	£m	£m	£m
Assets			
Cash and balances at central banks	888.6	-	888.6
Derivative financial instruments	82.3	-	82.3
Loans and receivables:			
- Loans and advances to banks	614.5	(0.1)	614.4
- Loans and advances to customers	27,109.0	-	27,109.0
- Debt securities	1.1	-	1.1
Available-for-sale financial assets	1,296.9	-	1,296.9
Intangible assets	64.4	-	64.4
Tangible fixed assets	74.6	-	74.6
Deferred tax assets	38.0	-	38.0
Other assets	59.6	(0.4)	59.2
Intercompany assets	-	4.7	4.7
Total assets	30,229.0	4.2	30,233.2
Liabilities			
Deposits from banks	1,298.7	-	1,298.7
Customer deposits	25,144.9	-	25,144.9
Derivative financial instruments	156.0	-	156.0
Debt securities in issue	2,039.4	-	2,039.4
Provisions	8.4	(0.2)	8.2
Other liabilities	241.3	(0.1)	241.2
Total liabilities	28,888.7	(0.3)	28,888.4
Equity			
Share capital and share premium	654.6	-	654.6
Other equity instruments	156.5	-	156.5
Other reserves	(15.6)	-	(15.6)
Retained earnings	544.8	4.5	549.3
Total equity	1,340.3	4.5	1,344.8
Total liabilities and equity	30,229.0	4.2	30,233.2

Regulatory balance sheet assets to credit risk exposure

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

Table 14: Reconciliation of regulatory balance sheet to credit risk and counterparty credit risk exposure

	Under regulatory scope of consolidation	Assets deducted from own funds	Derivative and repo adjustments	Provisions	Credit risk exposures	Counterparty credit risk exposures
	£m	£m	£m	£m	£m	£m
Assets						
Cash and balances at central banks	**888.6**	**-**	**-**	**-**	**888.6**	**-**
Derivative financial instruments	**82.3**	**-**	**(31.1)**	**-**	**-**	**51.2**
Loans and receivables:						
- Loans and advances to banks	**614.4**	**-**	**(73.1)**	**-**	**541.1**	**0.2**
- Loans and advances to customers	**27,109.0**	**-**	**-**	**16.2**	**27,125.2**	**-**
- Debt securities	**1.1**	**-**	**-**	**-**	**1.1**	**-**
Available-for-sale financial assets	**1,296.9**	**-**	**-**	**-**	**1,296.9**	**-**
Intangible assets	**64.4**	**(64.4)**	**-**	**-**	**-**	**-**
Tangible fixed assets	**74.6**		**-**	**-**	**74.6**	**-**
Deferred tax assets	**38.0**	**(18.0)**	**-**	**-**	**20.0**	**-**
Other assets	**59.2**	**-**	**261.7**	**-**	**59.2**	**261.7**
Intercompany assets	**4.7**	**-**	**-**	**-**	**4.7**	**-**
Total assets	**30,233.2**	**(82.4)**	**157.5**	**16.2**	**30,011.4**	**313.1**
Add AIRB and fair value adjustments					**2,462.7**	**-**
Total regulatory capital exposures					**32,474.1**	**313.1**

Exposures relating to derivatives and repurchase transactions (repos or securities financing transactions) are disclosed within the counterparty credit risk section on pages 59 to 60. All other exposures fall into the credit risk category and are analysed in more detail on pages 34 to 38.

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

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

AIRB and fair value adjustments mainly reflect the adjustments to balance sheet exposures in order to calculate exposures at default.

Regulatory capital framework

CRD IV came into force in the European Union on 1 January 2014. The Capital Regulations (as implemented in the UK by the PRA policy statement PS7/13) define a framework of regulatory capital resources and requirements.

Capital resources

Capital resources are classified depending on the level of permanency and loss absorbancy.

Common Equity Tier 1 capital (CET1)

CET1 capital comprises ordinary share capital, share premium and allowable reserves after deducting prudential filters such as intangible assets, expected losses in excess of provisions in respect of the AIRB mortgage portfolio and deferred taxation arising from tax losses carried forward.

Additional Tier 1 capital (AT1)

AT1 capital instruments are non-cumulative perpetual securities that contain a specific provision to write down the security or convert it to equity should the CET1 ratio fall below the trigger limit.

Tier 2 capital

For the Group, Tier 2 capital is comprised of general provisions (under the CRD IV definition) on credit cards.

The capital resources of the Group are shown in table 19.

Capital requirements

The capital and prudential requirements included within the Capital Regulations are categorised under three pillars:

Pillar 1

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

Credit risk

Standardised approach

Description:

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

Group Application

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

Advanced Internal Ratings Based (AIRB) Approach

Description:

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

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

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

An expected loss (EL) is derived by multiplying the PD, LGD and EAD risk components together, aligning to long run average PDs and downturn LGDs. As such the EL calculated represents an estimate of the monetary amount the business expects to lose from a customer defaulting within a 12 month outcome window, irrespective of current economic conditions. Where expected losses exceed accounting impairment provisions linked to the underlying credit risk exposures the resultant excess expected loss (EEL) is deducted from Common Equity Tier 1 capital.

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

Group Application

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

Counterparty credit risk

Standardised method

Description:

– an add on for potential future exposure on derivatives is applied to the net balance sheet value of the derivatives, after deducting any collateral;

– the exposure of asset repurchase agreements (or repos) is calculated by calculating the difference between the current market value of the asset repo'ed and the cash received plus interest accumulated, net of collateral posted or received; and

– the risk-weighted exposure amount is obtained by multiplying the exposure by the risk weight corresponding to the counterparty to the repo or derivative.

Group Application

The Group calculates its counterparty credit risk using the standardised method.

Credit valuation adjustment (CVA)

Standardised approach

Description:

– a credit valuation adjustment (CVA) is an adjustment to the fair value of a derivative contract reflecting the value of counterparty credit risk inherent in that contract; and

– the standardised approach takes account of the external credit ratings of derivative counterparties and incorporates the exposure at default and effective maturity of exposures using the calculation prescribed by the CRR.

Group Application

The Group calculates its CVA requirement using the Standardised Approach.

Operational risk

Standardised approach

Description:

– medium risk sensitivity and complexity;

– the capital requirement is derived from the three year average of the aggregate risk-weighted income of the underlying business. This requires a firm's activities to be split into a number of defined business lines with a specific risk weight applied to the income of each business line; and

– firms must meet certain qualifying criteria to be able to use the Standardised Approach.

Group Application

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

Market risk

Standardised approach

Description:

– low risk sensitivity and complexity.

Group Application

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

Pillar 2

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

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

Pillar 2A

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

The Virgin Money ICAAP supplements the Pillar 1 capital requirements for credit risk, counterparty credit risk, operational risk and market risk by assessments of the material risks not covered or not fully captured under Pillar 1.

The material risks assessed as part of the ICAAP are:

Credit Concentration Risk - the risk of losses arising as a result of concentrations of exposures due to imperfect diversification. This imperfect diversification can arise from the small size of a portfolio or a large number of exposures to specific obligors (single name concentration) or from imperfect diversification with respect to economic sectors or geographical regions.

Credit Risk - credit risk capital requirements are determined in accordance with Pillar 1 of the CRR. However, there are asset classes for which the standardised approach underestimates the risk. Potential underestimation is quantified against benchmark internal ratings based approaches and included in Pillar 2 credit risk.

Interest Rate Risk in the Banking Book - risk of losses arising from changes in the interest rates associated with banking book items.

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

Business Risk - risk arising from changes in the business, including the risk that VM may not be able to execute its business plan and/or strategy. It also includes risks arising from a firm's remuneration policy.

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

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

Pillar 2B

Forecast capital positions are subjected to extensive stress analyses to determine the adequacy of the Group's capital resources under stressed conditions. Under Pillar 2B the PRA uses the outputs from some of these stress analyses to inform the setting of the Group's capital planning buffer (CPB), defining a minimum level of capital buffers over and above the minimum regulatory requirements that should be maintained in non-stressed conditions as mitigation against potential future periods of stress. The PRA requires the CPB to remain confidential between the Group and the PRA.

Further details on the Group's stress testing processes are shown on pages 150 to 151 in the 2015 Virgin Money Group Annual Report and Accounts.

From 2016, the CPB will be replaced by the PRA buffer, described in more detail below.

Regulatory Capital Buffers

There is a requirement to maintain a countercyclical buffer of up to 2.5% from 1 January 2016. This buffer is time-varying and is designed to require banks to hold additional capital to remove or reduce the build up of systemic risk in times of credit boom, providing additional loss absorbing capacity and acting as an incentive for banks to constrain further credit growth. The buffer is calculated on a weighted average of the countercyclical capital buffer rates that apply in the jurisdictions in which the Group's credit exposures are located. The Financial Policy Committee (FPC) of the Bank of England is responsible for setting the UK countercyclical rate and for recognising rates set by other juridiscations, or for recommending higher rates. This buffer is currently set at zero for the UK. Rates for Norway and Sweden (at 1%) have been recognised by the FPC and apply from October 2015. The Group has minimal exposures to these two countries, and given that foreign exposures qualifying for the countercyclical buffer make up less than the de minimis level of 2% of the total exposures, the Group treats all exposures as arising in the UK. See Appendix 3 for further analysis.

The FPC can also set sectoral capital requirements which are temporary increases to banks' capital requirements on exposures to specific sectors, if the FPC judges that exuberant lending to those sectors poses risks to financial stability. No sectoral capital requirements currently apply to the Group.

There will be two other CET1 capital buffers phased in over the period from 2016 to 1 January 2019. The capital conservation buffer is a general buffer of 2.5% of risk-weighted assets designed to build up capital buffers outside periods of stress. The framework for a Systemic Risk Buffer for ring-fenced banks will be applied to individual institutions by the PRA and will be introduced, like ring-fencing rules, from 2019. Given the scale of the Group it is likely to attract a Systemic Risk Buffer of 0%.

To recognise these new buffers the PRA has renamed the CPB as the PRA buffer from 1 January 2016, and when setting this buffer, will take into account the extent to which these CRD IV buffers already capture the risks identified in the PRA buffer assessment.

The excess of the PRA buffer assessment over the Capital Conservation buffer and any systemic buffers, is to be treated as the PRA buffer from 1 January 2016. Where the PRA buffer assessment is less than the capital conservation buffer and systemic buffers, no PRA buffer will be applied.

All buffers are required to be met with CET1 capital, with the requirement for the PRA buffer to be met by CET1 capital to be phased in from 2016 to 1 January 2019. Where there is a breach of the PRA buffer this would trigger a discussion between the bank and the PRA to agree what action is required. Where the capital conservation buffer and systemic buffers are binding, a breach of these buffer requirements would give rise to automatic constraints upon any discretionary capital distributions by the Group.

The following table summarises all regulatory capital requirements for Group:

Table 15: Summary of CRD IV capital requirements

Requirement or buffer	Calculation method	Quality of capital	Impact on Group
Pillar 1	Fixed percentage of RWAs based on Article 92 of CRR	4.5% of RWAs met by CET1 capital 6.0% of RWAs met by Tier 1 capital 8.0% of RWAs met by total capital	As shown in Pillar 1 capital requirements section
Pillar 2A	Percentage of Pillar 1 plus a fixed add on	56% of Pillar 2A met by CET1 capital 75% of Pillar 2A met by Tier 1 capital 100% of Pillar 2A met by total capital	Pillar 2A is set by the PRA and is confidential
Macroprudential tools (countercyclical buffer and sectoral capital requirements)	Expressed as a percentage of RWAs	All to be met by CET1 capital	Set by the PRA, currently 0%
Systemic buffers	Expressed as a percentage of RWAs	All to be met by CET1 capital	Given the size of VM Group will be set at 0%
Capital conservation buffer	Expressed as a percentage of RWAs	All to be met by CET1 capital	Rising from 0.625% in 2016, to 2.5% in 2019
PRA buffer	Expressed as a percentage of RWAs	Phased in from 2016 All to be met by CET1 capital by 2019	PRA buffer is set by the PRA and is confidential

Pillar 3

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

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

Leverage framework

The leverage ratio is calculated in addition to the risk-based capital framework described above and there are minimum capital requirements that must be adhered to. The leverage ratio is calculated by dividing tier 1 capital resources by a defined measure of on-balance sheet assets and off-balance sheet items.

The EBA leverage ratio regime comes into force in 2018. At present the Group has no minimum leverage requirement as it is currently exempt from the UK Leverage Framework Regime, as its deposit levels are less than £50 billion. However, the Group maintains a prudent risk appetite limit well above the minimum leverage ratio requirement.

A 3.0% minimum leverage ratio requirement is expected to be introduced by the EBA in 2018. At this time the Group is expected to meet the minimum requirement. Further guidance is expected between now and 2018.

Future Pillar 3 regulatory developments

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

Risk management

The Group's approach to risk

The Group takes a prudent approach to risk with rigorous management controls to keep the Group safe. The Group has a strong and independent risk function with a duty to maintain a robust Risk Management Framework, identify and escalate emerging risks and support sustainable business growth within risk appetite achieving an appropriate balance of risk and reward.

Risk culture

The Group articulates its risk values which describe how it expects all colleagues, suppliers and partners to operate. They are outlined below:

The Board ensures that senior management implements risk appetite and policies that either limit or, where appropriate, prohibit activities that could be detrimental to the Group.

The Group has a customer focused, low risk business model built on a prudent risk culture. The focus remains on building and sustaining long-term relationships with customers whatever the economic climate.

Risk appetite

- the Group defines risk appetite as the amount and type of risk that the Group is prepared to seek, accept or tolerate;
- strategy is developed in conjunction with risk appetite. A Risk Appetite Statement is approved by the Board with each strategic planning cycle. This incorporates recommendations from Non-Executive Directors;
- risk appetite is embedded within principles, policies, authorities and limits; and
- risk appetite evolves and reflects external market developments and the development of the Group.

Table 16: Balance sheet strength

Balance Sheet Strength		
Capital	**Liquidity**	**Profitability**
The Group 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.	The Group 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, the Group ensures that depositors' financial assets and all customers' personal data are protected.	Unrewarded risks only expose the Group to downside risk. The Group avoids unrewarded risks where possible or controls them as far as is economically feasible.	The Group 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

- a strong governance framework remains a priority for the Group. It is the foundation for the delivery of effective risk management;
- governance is maintained through delegation of authority from the Board to executive management and committees and is designed to promote open challenge. The Group's risk appetite, policies, procedures, controls and reporting are in line with 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 that issues are promptly escalated and remediation plans are initiated where required;
- the approach to risk is founded on a robust risk management framework and a strong control culture which ensures accountability for risk and guides the way all colleagues operate; and
- the interaction of the executive and non-executives is transparent and open, an approach encouraged by both the Board and senior management.

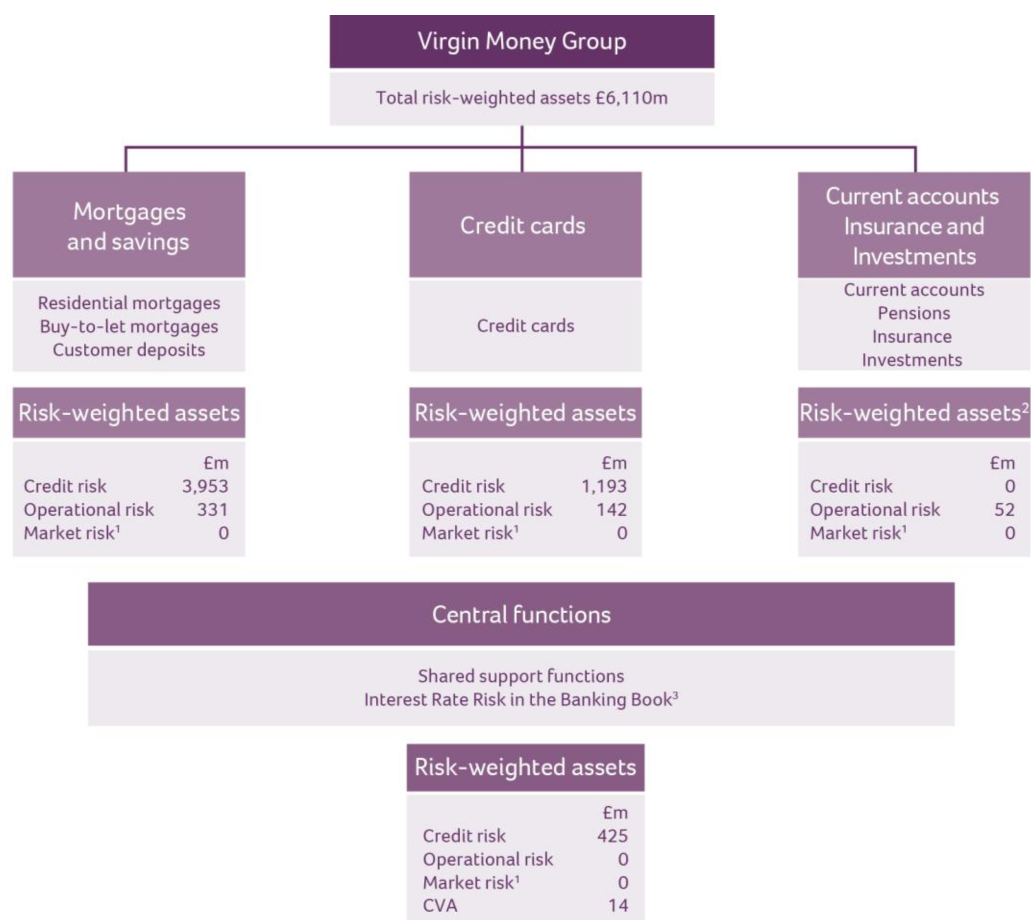
Risk decision-making and reporting

- taking risks which are well understood, consistent with strategy and have appropriate returns is a key driver of sustainable shareholder value;
- risk analysis and reporting supports the identification of opportunities and risks;
- a current and forecast 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; and
- the Board Risk Committee met 5 times during 2015.

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 risk-weighted assets.

Table 17: Split of Group's business activities



[1] Virgin Money does not have a trading book.
[2] The capital requirements for Virgin Money Unit Trust Managers Limited and Virgin Money Personal Financial Service Limited have been met, with a Common Equity Tier 1 ratio of 94% and 96% respectively.
[3] Only Pillar 2 capital is held for Interest Rate Risk in the Banking Book. There is no associated risk-weighted asset measure.

Risk disclosure statement

The Directors believe that the risk management framework in place is adequate for Virgin Money's profile and strategy.

The Board focuses on ensuring alignment of business development and planning with risk appetite. A clearly defined risk appetite aids Virgin Money in maintaining a high-quality capital base, targeting capital ratios which support business development and are in excess of regulatory minimum. Capital is actively managed with regulatory ratios being a key factor in Virgin Money's planning processes and stress analysis. The Group reviews the capital structure on an on-going basis to ensure it is well placed to react to prevailing economic and regulatory conditions. The Common Equity Tier 1 ratio for the group was 17.5% as at 31 December 2015, compared to the regulatory minimum of 7%.

Analysis of Directors

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

Table 18: Analysis of directors as at 31 December 2015

	Number of directorships
Glen Moreno	3[1]
Jayne-Anne Gadhia	1
Geeta Gopalan	2
Marian Martin	2
Colin Keogh	4
Norman McCluskie	1
Marilyn Spearing	1

[1] this includes a directorship which Mr Moreno resigned from on 31 December 2015

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

Further details of the Directors and other members of the management body of the Group can be found on pages 74 to 80 of the 2015 Virgin Money Group Annual Report and Accounts. Details of the recruitment policy for Directors can be found in the Nominations Committee section of the Corporate Governance report within the Annual Report and Accounts.

Capital resources

Capital risk

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 the Group 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 the 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 resources and requirements

The Group 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. The capital requirement for residential mortgages is measured using an Advanced Internal Ratings Based (AIRB) approach approved by the PRA, and all other requirements are calculated using the Standardised Approach.

The Group uses AIRB models in measuring the credit risk of secured loans and advances to customers. They reflect 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. Pages 39 to 43 provide details of the Group's approach to the impairment of financial assets. Further details can also be found in note 1 to the financial statements in the 2015 Virgin Money Group Annual Report and Accounts.

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

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

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

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

The PRA supplements the Group'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; this is known as the Internal Capital Adequacy Assessment process. The material Pillar 2 risks identified by the Group 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.

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 Group has been set a specific ICG by the PRA and maintains capital at a level which exceeds this requirement. The PRA requires the regulatory capital requirement to remain confidential between the Group and the PRA.

Mitigation

The Group has capital management procedures that are designed to ensure compliance with risk appetite and regulatory requirements and are positioned to meet anticipated future changes to capital requirements.

The Group is able to accumulate additional capital through profit retention by raising equity through, 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. The Group is also able to manage the demand for capital through management actions including adjusting lending strategy, risk hedging strategies and through business disposals. If necessary, this can include limiting new business.

Monitoring and planning

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

Capital plans are tested for capital adequacy using market-wide and idiosyncratic stress scenarios covering adverse economic conditions and other adverse factors that could impact the Group. The Group maintains mitigation and recovery options which set out a range of potential actions that could be taken in response to a stress.

Capital management is 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 the Group operates continues to be enhanced as part of the global banking reforms. Since the end of 2014, the Group reports its capital position on a fully loaded basis. The transitional provisions relating to adjustments to capital resources and requirements no longer apply.

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. HM Treasury has been consulted on the practical aspects of the application of a countercyclical buffer.

The Group 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

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 that 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, the Common Equity Tier 1 capital ratio for the Group was 17.5% as at December 2015, 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).

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 4.0%. There is no minimum requirement for the Group until it has deposits of £50 billion. To avoid capital cliffs the Group maintains a prudent risk appetite for leverage.

Ring-fencing is scheduled to be implemented fully into the UK banking system by 1 January 2019. The PRA has imposed a ring-fencing threshold of £25 billion retail deposits that the Group expects to breach before the proposed implementation date. On the assumption of organic growth and based on current business undertaken we expect the entire business will be within the ring-fence when it comes into effect at the beginning of 2019.

Minimum Requirements for Eligible Liabilities (MREL) are applicable from 1 January 2016 and will be phased in fully by 1 January 2020. Prior to 31 December 2019, MREL will be equal to an institution's minimum regulatory capital requirements. The Bank of England will provide prospective MREL guidance during 2016 to the Group, as well as guidance on the transitional arrangements until 1 January 2020. Once this is received the Group will work towards implementation of these requirements.

The framework for a systemic risk buffer for ring-fenced banks will be applied to individual institutions by the PRA and will be introduced, like ring-fencing rules, from 2019. Given the scale of the Group it is likely to attract a systemic buffer of 0%.

Group capital resources

The following table sets out the capital resources of the Group at 31 December 2015.

Table 19: Group capital resources

	2015 £m	2014 £m
Common Equity Tier 1		
Share capital and share premium	**654.6**	654.6
Other equity instruments	**156.5**	156.5
Other reserves	**(15.6)**	(1.8)
Retained earnings	**544.8**	434.5
Total equity per balance sheet	**1,340.3**	1,243.8
Regulatory capital adjustments		
Net liabilities of companies outside the regulatory Group	**4.5**	4.1
Foreseeable distribution on Additional Tier 1 securities and ordinary share capital	**(2.1)**	(2.1)
Foreseeable dividends on ordinary share capital	**(13.7)**	-
Other equity instruments	**(156.5)**	(156.5)
Cash flow hedge reserve	**15.3**	8.8
Intangible assets	**(64.4)**	(46.1)
Deferred tax on brought forward tax losses	**(18.0)**	(38.1)
Excess of expected loss over impairment	**(35.4)**	(33.4)
Common Equity Tier 1 Capital	**1,070.0**	980.5
Additional Tier 1 securities	**156.5**	156.5
Total Tier 1 Capital	**1,226.5**	1,137.0
Tier 2 capital		
General credit risk adjustments	**7.6**	5.9
Total Tier 2 capital	**7.6**	5.9
Total own funds	**1,234.1**	1,142.9
Pillar 1 Risk-weighted assets		
Retail mortgages	**3,952.9**	3,489.7
Unsecured lending	**1,192.7**	830.0
Wholesale	**207.3**	200.4
Other assets	**196.3**	161.8
Counterparty credit risk	**21.7**	34.5
Credit valuation adjustments	**14.3**	13.7
Operational risk	**525.2**	430.5
Total risk-weighted assets	**6,110.4**	5,160.6
Common Equity Tier 1 ratio	**17.5%**	19.0%
Tier 1 ratio	**20.1%**	22.0%
Total capital ratio	**20.2%**	22.1%

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

Movements in capital

The following table sets out the movements in capital resources during 2015.

Table 20: Movements in capital resources

	Common Equity Tier 1	Additional Tier 1 capital	Tier 2 capital
	£m	£m	£m
At 1 January 2015	**980.5**	**156.5**	**5.9**
Movement in retained earnings	**110.3**	-	-
Movement in available-for-sale reserve	**(7.3)**	-	-
Foreseeable distributions on ordinary shares	**(13.7)**		
Movement in reserves of companies outside the regulatory Group	**0.4**	-	-
Movement in intangible assets	**(18.3)**	-	-
Movement in excess of expected loss over impairment	**(2.0)**	-	-
Movement in deferred tax on tax losses carried forward	**20.1**	-	-
Movement in general provisions	-	-	**1.7**
At 31 December 2015	**1,070.0**	**156.5**	**7.6**

Capital resources increased predominantly through increased retained earnings and reduced deferred tax on tax losses carried forward, offset by intangible assets and foreseeable distributions.

Capital securities

Tier 1

The Company issued Additional Tier 1 securities of £160.0 million to investors on 31 July 2014, which have a discretionary coupon of 7.875% per annum.

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

Tier 2

Tier 2 capital is comprised of general provisions (under the CRD IV definition) on credit cards.

Leverage ratio

The capital requirements regulation 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 2015 was 4.0%.

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

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

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

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

Table 21: Leverage ratio

	2015 £m	2014 £m
Tier 1 capital	**1,226.5**	1,137.0
Exposures measure		
Total regulatory balance sheet assets	**30,233.2**	26,540.6
Removal of accounting values for derivatives	**(82.3)**	(101.2)
Exposure value for derivatives	**61.8**	172.3
Exposure value for securities financing transactions (repos)	**261.7**	353.8
Off-balance sheet items	**659.5**	607.8
Other regulatory adjustments	**(102.5)**	(108.8)
Total exposure	**31,031.4**	27,464.5
Leverage ratio at 31 December 2015	**4.0%**	4.1%

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

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

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

Appendix 4 shows detailed leverage ratio disclosures made in accordance with the EBA's Implementing Technical Standard EBA/ITS/2014/04/rev1.

Pillar 1 capital requirements

Group risk-weighted assets and Pillar 1 capital requirements

The Pillar 1 capital requirements of the Group are made up of credit risk, operational risk and credit valuation adjustment elements.

These are calculated as follows:

– credit risk requirements are taken as 8% of risk-weighted assets, which in turn are calculated by applying risk weightings to balance sheet exposures. This is discussed in more detail from page 33 onwards;

– counterparty credit risk requirements are taken as 8% of risk-weighted assets, which in turn are calculated by applying risk weightings to balance sheet exposures adjusted for potential future exposures for derivatives;

– credit valuation adjustment – an adjustment to the fair value of a derivative contract reflecting the value of counterparty credit risk inherent in that contract;

– operational risk requirements are calculated under the standardised approach, explained more on pages 64 to 65; and

– Pillar 1 market risk requirements are relevant mainly to institutions with a trading book. As the Group has no trading book the market risk requirement is below the de minimis limit under CRD IV. Interest rate risk is addressed through the Pillar 2A requirement.

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

Table 22: Risk-weighted assets and capital requirements

	2015	**2015**	2014	2014
	Risk-weighted assets	**Pillar 1 capital requirements**	Risk-weighted assets	Pillar 1 capital requirements
	£m	**£m**	£m	£m
AIRB approach				
Standard mortgages	**3,396.1**	**271.7**	3,040.2	243.2
Buy-to-let mortgages	**556.8**	**44.5**	449.5	36.0
Total AIRB exposures – Retail exposures secured by real estate collateral	**3,952.9**	**316.2**	3,489.7	279.2
Standardised approach				
Credit cards and other retail exposures	**1,180.9**	**94.5**	822.9	65.8
Items in default	**11.8**	**0.9**	7.1	0.6
Institutions	**141.7**	**11.3**	157.8	12.6
Securitisation positions	**12.1**	**1.0**	16.0	1.3
Covered bonds investments	**53.5**	**4.3**	26.6	2.1
Other assets	**196.3**	**15.7**	161.8	12.9
Total standardised exposures	**1,596.3**	**127.7**	1,192.2	95.3
Credit risk	**5,549.2**	**443.9**	4,681.9	374.5
Counterparty credit risk	**21.7**	**1.8**	34.5	2.7
Credit valuation adjustments	**14.3**	**1.1**	13.7	1.1
Operational risk	**525.2**	**42.0**	430.5	34.4
Market risk	**-**	**-**	-	-
Total	**6,110.4**	**488.8**	5,160.6	412.7

Risk-weighted asset movements

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

Table 23: Risk-weighted asset movements

	AIRB mortgages	Other standardised lending	Other standardised assets[1]	Credit valuation adjustment	Operational risks	Total
	£m	£m	£m	£m	£m	£m
RWAs at 1 January 2015	3,489.7	830.0	396.7	13.7	430.5	5,160.6
Book size	560.0	362.9	-	-	-	922.9
Model calibration	46.1	-	-	-	-	46.1
Model updates	(343.8)	-	-	-	-	(343.8)
Other movements	200.9	(0.2)	28.6	0.6	94.7	324.6
RWAs at 31 December 2015	3,952.9	1,192.7	425.3	14.3	525.2	6,110.4

[1] This includes counterparty credit risk

The strong growth in mortgage balance to an exposure at default (EAD) of £27,997.5 million increased RWAs by £560.0 million.

The Group uses a variable scalar methodology to calculate the probability of default (PD) used within the 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, and does not eliminate, procyclicality within PD estimates. During 2015 the improvement in arrears rates and the increase in the proportion of accounts in the lowest risk bands have 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, shown in the table above as 'model calibration', that resulted in increased RWAs of £46.1 million in 2015.

During 2015, changes were implemented within the AIRB models. The most significant change was to account for the growth in the House Price Index (HPI) beyond historic peak property prices in 2007. This change, combined with a minor change to the classification of accounts within the AIRB models is represented in the table above by 'model updates'.

In addition further changes in the portfolio have been observed over the last 12 months. These impacts are included in the 'other movements' in the table above and are attributed to:

- a change in the portfolio distribution across the PD model segments, from new business acquisitions and portfolio attrition, resulting in an increase in the regulatory PDs and the associated RWAs; and
- significant house price growth observed across the UK in 2015 which increased downturn loss given default, corresponding in a further increase in RWAs.

The growth in credit card exposures from £1,097.3 million in 2014 to £1,574.6 million in 2015 increased RWAs by £362.9 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 2011 to 2014.

Segmental risk-weighted assets

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

Table 24: Segmental risk-weighted assets

	2015	**2015**	2014	2014
	Risk-weighted assets	**Capital Requirement**	Risk-weighted assets	Capital Requirement
	£m	**£m**	£m	£m
Mortgages and savings	**4,284.5**	**342.8**	3,729.8	298.4
Credit cards	**1,334.7**	**106.8**	973.2	77.9
Current accounts, insurance and investments	**51.6**	**4.1**	47.2	3.7
Central functions	**439.6**	**35.1**	410.4	32.7
Total	**6,110.4**	**488.8**	5,160.6	412.7

Credit risk

Definition

Credit risk is defined as 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

The Group has appetite for high-quality and affordable lending. Credit risk appetite is reported through a comprehensive suite of metrics, supported by triggers, limits and policies.

Exposures

The principal sources of credit risk arise from loans and advances to customers, cash, debt securities and derivatives. The credit risk exposures of the Group are set out in table 25 on page 34. 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 small closed portfolio with overdraft balances anticipated to reduce over time.

Loans and advances expose the Group to customer re-mortgage risk. Re-mortgage risk is the possibility that an outstanding exposure cannot be repaid at its contractual maturity date. If the Group does not wish to re-mortgage the exposure then there is re-mortgage risk if the customer is unable to repay by securing alternative finance. Re-mortgage risk exposures are managed in accordance with the Group's existing credit risk policies, processes and controls. They are not considered to be material given the Group's prudent risk appetite which is designed to be resilient through the cycle.

Where re-mortgage risk exists (such as in the interest only retail mortgage portfolio) exposures are minimised through intensive account management and are impaired, where appropriate, with balance sheet provisions raised.

The Group regularly reviews lending practices in line with market conditions and regulatory focus. Growth in buy-to-let lending has been undertaken in a controlled manner, with Board oversight against risk appetite. Buy-to-let lending policy is targeted towards amateur landlords, with specific restrictions in place on total exposures by loan amount and number of properties.

Credit risk can also arise from debt securities, derivatives and foreign exchange activities. The Group's wholesale credit risk exposure is reflected on page 173 of the 2015 Virgin Money Group Annual Report and Accounts.

Measurement

The Group uses statistical models to measure credit risk exposures. Models are supported by both internal and external data.

The 'probability of default' (that borrowers will not meet their contractual obligations), current exposures, and the likely loss ratio on defaulted obligations are calculated to measure and mitigate credit risk.

Portfolios are assessed by using segmentation for measurement and reporting purposes. Details of the classifications used for asset quality can be found on page 158 of the 2015 Virgin Money Group Annual Report and Accounts.

The Group uses Advanced Internal Ratings Based (AIRB) models in measuring the credit risk of secured loans and advances to customers. All retail unsecured and wholesale exposures are measured under the Standardised Approach for regulatory capital.

Pages 39 to 43 provides details of the Group's approach to the impairment of financial assets. Further details can also be found in note 1 to the financial statements in the 2015 Virgin Money Group Annual Report and Accounts.

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

Credit risk exposure by exposure class

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

The following table sets out the exposures for the various types of asset held by the Group at 31 December 2015, and the average exposures during the year.

Table 25: Group exposures, risk weights and average exposures

	Exposure at 31 December 2015	**RWAs at 31 December 2015**	**Average RWA**	**Average exposure in period**
	£m	**£m**	**%**	**£m**
AIRB				
Retail exposures secured by real estate collateral	**27,997.5**	**3,952.9**	**14.1**	**26,141.1**
Standardised				
Credit cards and other retail exposures	**1,574.6**	**1,180.9**	**75.0**	**1,227.0**
Items in default	**11.8**	**11.8**	**100.0**	**7.7**
Central Governments and Central Banks	**1,286.9**	**-**	**-**	**1,345.4**
Multilateral development banks	**203.7**	**-**	**-**	**291.9**
Institutions	**626.1**	**141.7**	**22.6**	**623.9**
Securitisation positions	**60.6**	**12.1**	**20.0**	**62.3**
Covered bonds	**535.3**	**53.5**	**10.0**	**408.4**
Other	**177.6**	**196.3**	**110.5**	**166.8**
Total standardised	**4,476.6**	**1,596.3**	**35.7**	**4,133.4**
	32,474.1	**5,549.2**	**17.1**	**30,274.5**

	Exposure at 31 December 2014	RWAs at 31 December 2014	Average RWA	Average exposure in period
	£m	£m	%	£m
AIRB				
Retail exposures secured by real estate collateral	24,250.0	3,489.7	14.4	22,701.4
Standardised				
Credit cards and other retail exposures	1,097.3	822.9	75.0	820.5
Items in default	7.1	7.1	100.0	4.1
Central Governments and Central Banks	1,636.9	-	-	1,997.0
Multilateral development banks	310.7	-	-	355.8
Institutions	714.5	157.8	22.1	736.9
Securitisation positions	74.1	16.0	21.6	90.2
Covered bonds	265.7	26.6	10.0	135.0
Other	153.0	161.8	105.8	147.4
Total standardised	4,259.3	1,192.2	28.0	4,286.9
	28,509.3	4,681.9	16.4	26,988.3

Note: 2014 comparatives have been restated on a fully loaded basis and to remove those exposures related to counterparty credit risk.

The main increase in exposures during the year arose from the increase in lending to customers. Mortgages showed organic growth of £3.6 billion, giving rise to an increase in mortgage EAD of £3.7 billion. Credit card exposures also increased by £480 million. This was offset by a net reduction in wholesale assets, mainly in balances with Central Banks following the increase in lending balances at the end of the year.

Credit risk exposure by division

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

Table 26: Group credit risk exposures by business segment

	2015	**2015**	2014	2014
	Exposures AIRB	**Exposures Standardised**	Exposures AIRB	Exposures Standardised
	£m	**£m**	£m	£m
Mortgages and savings	**27,997.5**	**-**	24,250.0	-
Credit cards	**-**	**1,586.4**	-	1,104.4
Current accounts, insurance and investments	**-**	**-**	-	-
Central functions	**-**	**2,890.2**	-	3,154.9
Total	**27,997.5**	**4,476.6**	24,250.0	4,259.3

Note: 2014 comparatives have been restated on a fully loaded basis and to remove those exposures related to counterparty credit risk.

Credit risk exposure by industry

The tables below give details of the distributions of exposures by industry or counterparty type at 31 December 2015 and 31 December 2014.

Table 27: Credit risk exposures by industry or counterparty type

2015	**Mortgages – individuals**	**Other lending – individuals**	**Financial**	**Other assets**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
AIRB					
Retail exposures secured by real estate collateral	**27,997.5**	**-**	**-**	**-**	**27,997.5**
Standardised					
Credit cards and other retail exposures	**-**	**1,574.6**	**-**	**-**	**1,574.6**
Items in default	**-**	**11.8**	**-**	**-**	**11.8**
Central Governments and Central Banks	**-**	**-**	**1,286.9**	**-**	**1,286.9**
Multilateral development banks	**-**	**-**	**203.7**	**-**	**203.7**
Institutions	**-**	**-**	**626.1**	**-**	**626.1**
Securitisation positions	**-**	**-**	**60.6**	**-**	**60.6**
Covered Bonds	**-**	**-**	**535.3**	**-**	**535.3**
Other assets	**-**	**-**	**-**	**177.6**	**177.6**
	27,997.5	**1,586.4**	**2,712.6**	**177.6**	**32,474.1**

2014	Mortgages – individuals	Other lending – individuals	Financial	Other assets	Total
	£m	£m	£m	£m	£m
AIRB					
Retail exposures secured by real estate collateral	24,250.0	-	-	-	24,250.0
Standardised					
Credit cards and other retail exposures	-	1,097.3	-	-	1,097.3
Items in default	-	7.1	-	-	7.1
Central Governments and Central Banks	-	-	1,636.9	-	1,636.9
Multilateral development banks	-	-	310.7	-	310.7
Institutions	-	-	714.5	-	714.5
Securitisation positions	-	-	74.1	-	74.1
Covered Bonds	-	-	265.7	-	265.7
Other assets	-	-	-	153.0	153.0
	24,250.0	1,104.4	3,001.9	153.0	28,509.3

Note: 2014 comparatives have been restated on a fully loaded basis and to remove those exposures related to counterparty credit risk.

Credit risk exposure by geographical area

The tables below give details of the geographical distributions of exposures at 31 December 2015 and 31 December 2014.

Table 28: Credit risk exposures by geographical area

2015

	UK	**Europe**	**Rest of the World**	**Total**
	£m	**£m**	**£m**	**£m**
AIRB				
Retail exposures secured by real estate collateral	**27,997.5**	**-**	**-**	**27,997.5**
Standardised				
Credit cards and other retail exposures	**1,574.6**	**-**	**-**	**1,574.6**
Items in default	**11.8**	**-**	**-**	**11.8**
Central Governments and Central Banks	**1,286.9**	**-**	**-**	**1,286.9**
Multilateral development banks	**-**	**145.9**	**57.8**	**203.7**
Institutions	**265.3**	**184.8**	**176.0**	**626.1**
Securitisation positions	**59.3**	**-**	**1.3**	**60.6**
Covered Bonds	**535.3**	**-**	**-**	**535.3**
Other	**177.6**	**-**	**-**	**177.6**
	31,908.3	**330.7**	**235.1**	**32,474.1**

2014

	UK	Europe	Rest of the World	Total
	£m	£m	£m	£m
AIRB				
Retail exposures secured by real estate collateral	24,250.0	-	-	24,250.0
Standardised				
Credit cards and other retail exposures	1,097.3	-	-	1,097.3
Items in default	7.1	-	-	7.1
Central Governments and Central Banks	1,636.9	-	-	1,636.9
Multilateral development banks	-	219.1	91.6	310.7
Institutions	220.5	239.2	254.8	714.5
Securitisation positions	72.0	-	2.1	74.1
Covered Bonds	265.7	-	-	265.7
Other	153.0	-	-	153.0
	27,702.5	458.3	348.5	28,509.3

Note: 2014 comparatives have been restated on a fully loaded basis and to remove those exposures related to counterparty credit risk.

Credit risk exposure by residual maturity

The following tables give details of the contractual residual maturities of exposures at 31 December 2015 and 31 December 2014.

Table 29: Credit risk exposures by residual maturity

2015

	Residual maturity			
	< 1 year	**1-5 yrs**	**> 5 years**	**Total**
	£m	**£m**	**£m**	**£m**
AIRB				
Retail exposures secured by real estate collateral	**125.3**	**874.5**	**26,997.7**	**27,997.5**
Standardised				
Credit cards and other retail exposures	**1,574.6**	**-**	**-**	**1,574.6**
Items in default	**11.8**	**-**	**-**	**11.8**
Central Governments and Central Banks	**877.4**	**-**	**409.5**	**1,286.9**
Multilateral development banks	**4.7**	**82.4**	**116.6**	**203.7**
Institutions	**583.2**	**25.3**	**17.6**	**626.1**
Securitisation positions	**-**	**-**	**60.6**	**60.6**
Covered Bonds	**47.5**	**316.7**	**171.1**	**535.3**
Other	**177.6**	**-**	**-**	**177.6**
	3,402.1	**1,298.9**	**27,773.1**	**32,474.1**

2014

	Residual maturity			
	< 1 year	1-5 yrs	> 5 years	Total
	£m	£m	£m	£m
AIRB				
Retail exposures secured by real estate collateral	107.7	849.9	23,292.4	24,250.0
Standardised				
Credit cards and other retail exposures	1,097.3	-	-	1,097.3
Items in default	7.1	-	-	7.1
Central Governments and Central Banks	841.9	103.4	691.6	1,636.9
Multilateral development banks	90.8	113.8	106.1	310.7
Institutions	611.1	95.0	8.4	714.5
Securitisation positions	-	-	74.1	74.1
Covered Bonds	20.1	115.0	130.6	265.7
Other	153.0	-	-	153.0
	2,929.0	1,277.1	24,303.2	28,509.3

Note: 2014 comparatives have been restated on a fully loaded basis and to remove those exposures related to counterparty credit risk.

Past due exposures, impaired exposures and impairment provisions

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

Table 30: Categorisation of credit risk by impairment level

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

Managing Credit Risk Impairments for Retail Exposures

Provisioning Policy

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

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

Adequacy Reviews

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

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

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

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

Reporting

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

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

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

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

Debt management for customers in financial difficulty

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

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 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.

Debt management for secured lending

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; and

- 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 Income Support for Mortgage Interest, a UK Government sponsored programme for households. This is a Government medium-term initiative that provides a payment to 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 this 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.

The Group is monitoring developments in relation to the ruling by the Northern Ireland courts against capitalisation of arrears in Bank of Scotland versus Rea.

Debt management for unsecured lending

Income and expenditure assessments are undertaken for all customers entering into a long-term repayment plan to ensure that customers are provided with a sustainable and affordable solution that allows customers a realistic opportunity to repay their debt in the short to medium-term. In addition, the Group will signpost customers to contact debt management companies (such as Citizens Advice Bureau, Stepchange and Payplan). These companies do not charge any fees and will offer advice to customers as well as work with creditors to agree affordable repayment plans. Understanding what has changed and establishing the customers' current and future financial situation is imperative to ensuring that the right level of support is offered and that customers receive the appropriate solution to help them manage their debt when in financial difficulty.

Forbearance and provisioning

The Group measures the success of forbearance schemes for secured loans. This is based upon the proportion of customers who remain neither past due nor impaired or repay their loan fully over the 12 months following the exit from a forbearance treatment. For temporary treatments, 100% 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 as at 31 December 2015. For permanent treatments, 94% of customers who have accepted interest only

concessions, 96% of customers who have had a discretionary payment holiday and 95% of customers who have accepted term extensions, remained within contractual terms following the end of their treatment as at 31 December 2015.

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 is 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.

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.

Forbearance provisioning for secured lending

At 31 December 2015, £259.5 million (2014: £267.5 million) of retail secured loans and advances were currently, or recently, subject to forbearance.

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. The loans are not considered as impaired loans unless they meet the Group's definition of an impaired asset.

Forbearance provisioning for unsecured lending

At 31 December 2015, total retail unsecured loans and advances benefiting from forbearance totalled £10.7 million (2014: £12.9 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.

Following the migration of the credit card portfolio, the Group widened its definition of forbearance[1]. The migration of the credit card portfolio to the Group's infrastructure has allowed an improvement to management information and better identification of individual customer circumstances.

---

[1] The December 2014 forbearance balance has been restated to reflect a change in the definition to include customers categorised as in hardship and on a payment plan or vulnerable.

Analysis of past due and impaired loans and advances to customers

The table below indicates the level of impaired and past due exposures by exposure class, and of the levels of provisions against them at 31 December 2015.

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

2015

	Impaired exposures	**Past due but not impaired**	**General impairment provisions**	**Specific impairment provisions**
	£m	**£m**	**£m**	**£m**
Retail exposures secured by real estate collateral	**84.6**	**160.2**	**7.8**	**0.9**
Credit cards	**27.4**	**-**	**7.5**	**23.6**
Other retail exposures	**-**	**-**	**0.1**	**-**
	112.0	**160.2**	**15.4**	**24.5**

2014

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

Total impaired assets increased by £8.1 million in the year to 31 December 2015. The increase in impaired asset balances on the secured portfolio is a result of a higher rate of discount cost observed on sold possessions, which have reduced the estimated recoverable loan amount of assets in this category. Observed discount costs are based on a low volume of possession sales during 2015 which have reduced to 47 cases (2014: 63). Possession stock reduced to 12 cases at 31 December 2015 from 18 cases in 2014. Despite this, secured impaired assets as a proportion of total secured loans remain stable at 0.3%.

Impaired assets on the unsecured portfolio have remained stable despite book growth. This is as a result of new lending in the period along with overall improved arrears performance.

Analysis of movements in impairment provisions

Table 32: Analysis of movements in impairment provisions

	Retail mortgages	**Credit cards**	**Other retail exposures**	**Total**
	£m	**£m**	**£m**	**£m**
General impairment provisions				
At 1 January 2015	**2.6**	**5.9**	**0.1**	**8.6**
Increase/(decrease) in provision during year net of recoveries	**5.2**	**1.6**	**-**	**6.8**
Amounts written off during the year	**-**	**-**	**-**	**-**
At 31 December 2015	**7.8**	**7.5**	**0.1**	**15.4**
Specific impairment provisions				
At 1 January 2015	**5.0**	**17.0**	**-**	**22.0**
Increase/(decrease) in provision during year net of recoveries	**(2.2)**	**25.7**	**-**	**23.5**
Amounts written off during the year	**(1.9)**	**(19.1)**	**-**	**(21.0)**
At 31 December 2015	**0.9**	**23.6**	**-**	**24.5**

Exposures subject to the AIRB approach

Scope of the AIRB permission

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

As at 31 December 2015, the scope of the AIRB permission was the mortgage portfolio. Asset classes not falling within the scope of the Group's AIRB permission are treated under the standardised approach.

Development and monitoring of AIRB models

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

Internal application of the AIRB approach

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

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

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

Analysis of AIRB exposures by exposure class

Table 33: AIRB exposures and risk-weighted assets by exposure class

Retail AIRB	2015 Exposures £m	2015 RWAs £m	2014 Exposures £m	2014 RWAs £m
Retail exposures secured by real estate collateral				
Buy-to-let	4,832.5	556.8	3,596.7	449.5
Standard residential lending	23,165.0	3,396.1	20,653.3	3,040.2
	27,997.5	3,952.9	24,250.0	3,489.7

The following table details the Group's exposures for its sole AIRB exposure class of retail exposures secured by real estate collateral. These relate to exposure at default, and include all on and off-balance sheet exposures. The risk bands are segmented based upon three characteristics: mortgage type (residential buy-to-let and standard residential), borrower type (single or joint) and LTV.

Table 34: AIRB exposures by risk band

2015

Risk Band	LRA PD %	Exposure £m	Downturn LGD %	RWA %	RWA £m	Average time on Book months	Undrawn Commitments £m
BTL 1a	0.44%	1,573.5	8.81%	5.25%	82.6	24	114.3
BTL 2a	1.01%	1,216.2	15.22%	16.62%	202.2	20	97.8
BTL 3a	1.82%	28.5	10.60%	19.13%	5.4	118	4.2
BTL 4a	2.61%	46.8	10.78%	19.88%	9.3	120	4.7
BTL 1b	0.80%	1,098.9	8.50%	6.91%	76.0	31	75.0
BTL 2b	1.68%	798.5	14.46%	20.02%	159.9	26	50.8
BTL 3b	3.80%	29.3	10.21%	24.41%	7.1	119	3.6
BTL 4b	5.53%	38.8	9.88%	27.17%	10.5	119	3.0
BTL default	100.00%	2.0	18.11%	192.23%	3.8	67	-
Total buy-to-let		4,832.5			556.8		353.4
Standard 1a	0.56%	3,235.4	5.54%	3.75%	121.4	66	318.1
Standard 2a	0.93%	5,920.4	9.25%	8.82%	522.0	48	433.8
Standard 3a	1.48%	3,918.7	12.79%	16.88%	661.6	52	245.6
Standard 4a	1.78%	2,206.3	16.53%	23.94%	528.2	48	187.2
Standard 5a	2.20%	1,951.5	19.64%	35.65%	695.6	47	158.4
Standard 1b	0.78%	1,190.0	5.50%	4.72%	56.2	78	111.1
Standard 2b	1.30%	1,874.5	8.88%	9.99%	187.3	60	143.7
Standard 3b	1.56%	1,338.8	12.16%	14.23%	190.5	67	84.9
Standard 4b	1.84%	756.8	15.14%	19.63%	148.5	63	53.5
Standard 5b	2.47%	746.3	17.99%	30.42%	227.1	75	47.0
Standard default	100.00%	26.3	20.71%	219.78%	57.7	122	-
Total standard		23,165.0			3,396.1		1,783.3
Total		27,997.5			3,952.9		2,136.7

2014

Risk Band	LRA PD %	Exposure £m	Downturn LGD %	RWA %	RWA £m	Average time on Book months	Undrawn Commitments £m
BTL 1a	0.44%	1,132.9	10.26%	5.96%	67.5	25	148.0
BTL 2a	1.01%	795.1	15.39%	16.98%	135.0	21	87.6
BTL 3a	1.80%	34.5	13.29%	21.39%	7.4	105	4.1
BTL 4a	2.60%	54.0	13.36%	24.65%	13.3	108	4.4
BTL 1b	0.80%	879.7	10.25%	7.64%	67.2	31	104.6
BTL 2b	1.68%	616.1	15.28%	20.12%	124.0	26	61.8
BTL 3b	3.79%	34.8	13.95%	32.72%	11.4	105	3.6
BTL 4b	5.52%	46.8	12.94%	37.04%	17.3	106	3.9
BTL default	100.00%	2.8	20.81%	228.57%	6.4	63	-
Total buy-to-let		3,596.7			449.5		418.0
Standard 1a	0.54%	3,115.2	5.99%	4.07%	126.7	65	410.6
Standard 2a	0.92%	5,104.1	10.23%	9.71%	495.4	49	369.5
Standard 3a	1.46%	3,631.0	14.10%	17.87%	648.7	52	174.4
Standard 4a	1.77%	1,775.5	16.43%	23.05%	409.3	54	100.2
Standard 5a	2.21%	1,361.0	19.44%	33.32%	453.5	63	119.2
Standard 1b	0.75%	1,208.2	5.90%	4.96%	59.9	76	135.0
Standard 2b	1.29%	1,751.5	10.10%	11.42%	200.0	59	109.7
Standard 3b	1.55%	1,328.2	13.96%	17.01%	225.9	64	66.5
Standard 4b	1.84%	711.9	16.23%	19.65%	139.9	64	39.3
Standard 5b	2.46%	628.9	18.17%	30.32%	190.7	88	47.5
Standard default	100.00%	37.8	21.72%	238.62%	90.2	106	-
Total standard		20,653.3			3,040.2		1,571.9
Total		24,250.0			3,489.7		1,989.9

Key Movements

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

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

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

AIRB model performance – regulatory expected loss versus accounting actual loss

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

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

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

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

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

Regulatory EL has increased in line with book growth over the last 12 months. However the ratio of EL to EAD has fallen, this is largely due to the implementation of the LGD model enhancement within the year, which reduced the downturn LGD component of the EL calculation by 9.5%.

This table shows the regulatory EL measure, compared with impairment provision by AIRB exposure class.

Table 35: AIRB expected loss and impairment provision

2015

	Regulatory Expected Loss	**Impairment provision**
	£m	**£m**
Retail exposures secured by real estate collateral	**44.1**	**8.7**

2014

	Regulatory Expected Loss	Impairment provision
	£m	£m
Retail exposures secured by real estate collateral	41.0	7.6

AIRB model performance

Back-testing methodologies are applied to assess model performance. Results from these exercises have shown that models continue to perform satisfactorily. During 2015, the majority of modelled outcomes have been higher than actual outcomes and evidence an appropriately prudent calibration. The PD and LGD values are outputs from the Group's point-in-time calibrations. In conducting the PD back-testing process the model estimate is compared to the total defaults observed during the year that have emerged from the population not in default at 1 January 2015. The actual LGD value is calculated from recorded losses following repossession and subsequent sale of the property during the year. In addition, the actual LGD value is augmented with the latest LGD estimate for those defaulted accounts which are still in the workout process at the end of the period. In 2015, the actual LGD was higher than estimated as a result of a small number of exceptional cases with high LGD. The EAD ratio is calculated by comparing the exposure of new defaults with the EAD estimate 12 months prior to defaulting. Where the estimated EAD is greater than the actual exposure at the point of default, the ratio will be greater than one.

The following table shows the forecast and actual PD and LGD as well as the ratio of estimated to actual EAD by AIRB exposure class.

Table 36: AIRB model performance

2015

	PD of total portfolio		LGD of defaulted assets		EAD of defaulted assets
	Estimated[1]	Actual[2]	Estimated[3]	Actual[4]	Ratio of Estimated to Actual
	%	%	%	%	
Retail exposures secured by real estate collateral	**0.48**	**0.14**	**2.60**	**4.42**	**1.01**

2014

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

1 This estimate is the output from the Group's point-in-time model as at 1 January 2015 (comparative 2014) and is based on the total number of accounts not in default.

2 Actual default is calculated as the total of emergent defaults during 2015 (comparative 2014) measured as a proportion of the total number of accounts not in default at 1 January 2015.

3 This estimate is the exposure weighted output from the Group's point-in-time model as at 1 January 2015 (comparative 2014) and is based on the total default population at that time.

4 This value is calculated from accounts in default at 1 January 2015 (comparative 2014). The observed loss is defined as the loss following repossession and subsequent sale of the property within the year. This value uses the latest LGD estimate to determine the percentage of loss for those defaulted accounts which are still in the workout process at the end of the period.

The continued growth of the Virgin Money mortgage portfolio has not been at the expense of asset quality. Mortgage asset quality has been maintained – arrears rates have fallen over the year and the indexed loan-to-value of the book has remained relatively static, reducing from 55.7% to 55.0%.

Levels of defaults and subsequent repossessions have been low. The AIRB models have been calibrated with an appropriate level of conservatism given the short observation period of the transferred portfolio and the small population of defaulted loans. During 2015 the observed default rates have remained significantly lower than the point-in-time calibrations.

The observed LGD is higher than estimated; this is a result of low estimates due to positive house price forecast and an increase in the observed figure due to volatility caused by low volumes and a small number of exceptional cases with higher than average forced sale discount. Over time, emergent data can be used to recalibrate the point-in-time models to improve their alignment with the risk profile within the portfolio. Subsequently, the Group expects levels of actual and estimate to converge as the mortgage book seasons further.

Exposures subject to the standardised approach

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

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

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

Table 37: Standardised exposures by risk weight

	2015	**2015**	2014	2014
	Credit risk exposure	**Risk Weighted Asset**	Credit risk exposure	Risk Weighted Asset
	£m	**£m**	£m	£m
Central Governments and Central Banks				
0%	**1,286.9**	**-**	1,636.9	-
Multilateral Development Banks				
0%	**203.7**	**-**	310.7	-
Institutions				
20%	**571.2**	**114.2**	664.7	132.9
50%	**54.9**	**27.5**	49.8	24.9
150%	**-**	**-**	-	-
Covered bonds				
10%	**535.3**	**53.5**	265.7	26.6
Securitisation positions				
20%	**60.6**	**12.1**	70.1	14.0
50%	**-**	**-**	4.0	2.0
Retail				
75%	**1,574.6**	**1,180.9**	1,097.3	822.9
Items in default				
100%	**11.8**	**11.8**	7.1	7.1
Other items				
0%	**10.8**	**-**	9.4	-
20%	**0.6**	**0.1**	-	-
100%	**146.2**	**146.2**	131.5	131.5
250%	**20.0**	**50.0**	12.1	30.3
	4,476.6	**1,596.3**	4,259.3	1,192.2

Note: 2014 comparatives have been restated on a fully loaded basis and to remove those exposures related to counterparty credit risk.

Wholesale credit risk exposures by credit rating

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

Table 38: Standardised wholesale exposures by credit rating

2015

	Exposure value by external rating			
	AAA to AA-	**A+ to A-**	**BBB+ to BBB-**	**Total**
	£m	**£m**	**£m**	**£m**
Central Governments and Central Banks	**1,286.9**	**-**	**-**	**1,286.9**
Multilateral development banks	**203.7**	**-**	**-**	**203.7**
Institutions	**311.7**	**299.4**	**15.0**	**626.1**
Securitisation positions	**60.6**	**-**	**-**	**60.6**
Covered Bonds	**535.3**	**-**	**-**	**535.3**
	2,398.2	**299.4**	**15.0**	**2,712.6**

2014

		Exposure value by external rating			
	Non-wholesale exposures	AAA to AA-	A+ to A-	BBB+ to BBB-	Total
	£m	£m	£m	£m	£m
Central Governments and Central Banks	-	1,636.9	-	-	1,636.9
Multilateral development banks	-	310.7	-	-	310.7
Institutions	0.3	432.6	281.6	-	714.5
Securitisation positions	-	70.1	4.0	-	74.1
Covered Bonds	-	265.7	-	-	265.7
	0.3	2,716.0	285.6	-	3,001.9

Note: 2014 comparatives have been restated on a fully loaded basis and to remove those exposures related to counterparty credit risk.

Exposures in equities

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

Table 39: Exposures in equities

	31 Dec 2015	31 Dec 2014
	£m	£m
Other equities	**4.6**	1.3

Exposure to securitisation positions

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

Securitisation strategy and roles

The Group undertakes securitisation activities principally to provide funding diversification, giving access to a wide range of investors in different geographic areas. Securitisation also serves to generate liquidity from different illiquid asset types, principally residential mortgage loans. During 2015, the Group continued to make use of the Funding for Lending Scheme (FLS), launched by the Bank of England and HM Treasury in July 2012. As an investor, the Group invests directly in third party asset backed securities.

Summary analysis

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

Originated securitisations

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

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

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

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

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

Summary of accounting policies

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

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

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

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

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

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

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

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

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

Mortgages eligible for future securitisations are held at amortised cost using the effective interest method less any provision for impairment, described in more detail in Note 1 to the consolidated financial statements in the 2015 Annual Report and Accounts. As the Group has no trading book, all mortgages are held in the Group's non-trading book.

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

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

Gosforth Funding 2012-1 plc, Gosforth Funding 2012-2 plc, Gosforth Funding 2014-1 plc and Gosforth Funding 2015-1 plc have been designated from inception to hold the deemed loan at fair value on the balance sheet, with changes in value being recorded in the income statement. The deemed loan in Gosforth 2011-1 plc is not held at fair value.

During 2015 and 2014 the Group did not sell any of the bonds retained since the closing date of each securitisation transaction. The reduction in the amounts retained in Gosforth Funding 2012-1, Gosforth Funding 2012-2 and Gosforth Funding 2014-1 is as a result of repayments of principal collected on the underlying assets.

Securitisation programmes and activity

During the year ended 31 December 2015, the Group, under the heading of Gosforth Funding 2015-1 plc, undertook the issuance of listed residential mortgage backed securities to the value of £1,388.9 million. Of the £1,388.9 million securities issued, securities totalling £638.9 million were retained by the Group.

The Group undertook one securitisation during 2014, issuing listed residential mortgage backed securities to the value of £1,388.9 million, of which £388.9 million were retained by the Group.

As at 31 December 2015 the total outstanding externally issued securitisation debt was £1,746.1 million (2014: £1,597.9 million).

As at 31 December 2015 the total outstanding retained securitisation debt was £1,722.7 million (2014: £1,396.4 million). All retained securitisation debt is in sterling and is detailed in the table below:

Table 40: Retained securitisations

Issuer	**Notes**	**31 Dec 2015 £m**	**Moody's**	**Fitch**
Gosforth Funding 2011-1 plc	**Class M**	**38.4**	**Aa1(sf)**	**AAsf**
Gosforth Funding 2011-1 plc	**Class Z**	**102.5**	**Unrated**	**Unrated**
Gosforth Funding 2012-1 plc	**Class A**	**16.0**	**Aaa**	**AAAsf**
Gosforth Funding 2012-1 plc	**Class M**	**32.1**	**Aa1(sf)**	**AAsf**
Gosforth Funding 2012-1 plc	**Class Z**	**85.4**	**Unrated**	**Unrated**
Gosforth Funding 2012-2 plc	**Class A2**	**185.6**	**Aaa**	**AAAsf**
Gosforth Funding 2012-2 plc	**Class M**	**88.1**	**Aaa(sf)**	**AAAsf**
Gosforth Funding 2012-2 plc	**Class Z**	**146.8**	**Unrated**	**Unrated**
Gosforth Funding 2014-1 plc	**Class A2**	**250.0**	**Aaa(sf)**	**AAAsf**
Gosforth Funding 2014-1 plc	**Class M**	**55.6**	**Aa1(sf)**	**AAsf**
Gosforth Funding 2014-1 plc	**Class Z**	**83.3**	**Unrated**	**Unrated**
Gosforth Funding 2015-1 plc	**Class A2**	**500.0**	**Aaa(sf)**	**AAAsf**
Gosforth Funding 2015-1 plc	**Class M**	**55.6**	**Aa1(sf)**	**AAsf**
Gosforth Funding 2015-1 plc	**Class Z**	**83.3**	**Unrated**	**Unrated**
Total		**1,722.7**		

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

The ratings assigned to the Gosforth Funding 2011-1 plc Class M notes, the Gosforth Funding 2012-1 plc Class M notes and the Gosforth Funding 2012-2 plc Class M notes were upgraded by Fitch in January 2015 from AA(sf) to AAA(sf). These notes were also upgraded by Moody's from Aa1(sf) to Aaa(sf) in May 2015.

At 31 December 2015 the Group had FLS drawings of £2,960.0 million (2014: £2,260.0 million). This has been collateralised through a combination of Aaa rated retained Gosforth notes and mortgage pools pre-positioned with the Bank of England.

Risks inherent in securitised assets

The Group's securitisation programmes are made up of residential mortgages, where credit risk is the primary risk driver to the underlying asset pool.

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

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

Regulatory treatment

Risk-weighted exposures reported for purchased securitised assets at 31 December 2015 are calculated in line with CRR under the standardised approach.

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

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

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

Table 41: Purchased securitisation positions

Risk weighting	2015	2014
	£m	£m
20% (Credit Rating of AA- or higher)	60.6	70.1
50% (Credit Rating of A)	-	4.0
	60.6	74.1

Gross securitised exposure

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

Table 42: Impaired securitised assets

2015	Balance sheet value	Impaired and past due	Losses
	£m	£m	£m
Retail mortgages	3,669.5	18.4	0.2
Total	3,669.5	18.4	0.2

2014	Balance sheet value	Impaired and past due	Losses
	£m	£m	£m
Retail mortgages	3,125.8	24.6	0.1
Total	3,125.8	24.6	0.1

Monitoring changes in the credit risk of securitised exposures

The processes undertaken by the Group to monitor changes in the credit risk of securitised mortgages are the same as unsecuritised mortgages and are described in pages 44 to 48.

Assets awaiting securitisation

As at 31 December 2015 there are no assets awaiting securitisation (2014: nil).

Credit risk 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 for each type of credit risk. 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 rule set 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 Risk Assurance and Internal Audit.

Controls over rating systems

The Group has established an Independent Model Validation team that sets common minimum standards. The standards are 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 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, where appropriate. This is performed by 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 to individual portfolio exercises. For further information on the stress testing process, methodology and governance refer to the Risk Management Report in the 2015 Virgin Money Group Annual Report and Accounts.

Credit risk assurance and review

A specialist team within Risk Assurance, comprising of 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 maximum limits on 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.

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

Table 43: Maximum LTVs for residential lending

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.

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

Collateral for secured retail and wholesale exposures

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

The sole collateral type for loans and advances to customers (mortgages) is residential real estate. Property offered as collateral must be of acceptable construction and located in England, Wales, Scotland or Northern Ireland. Title to the property must be good, marketable and free from onerous restrictions and conditions. The Group requires first legal charge over the property offered as collateral and does not accept charges over part of the collateral. The Group does not lend where the collateral is land only.

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 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 a wholesale counterparty as soon as impairment indicators are identified for the relevant wholesale exposures.

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 (refer to Concentration Risk in the Virgin Money 2015 Annual Report and Accounts).

Master netting agreements for wholesale exposures

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

Fair value of collateral

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

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

2015	**Residential mortgage loans**		**Residential buy-to-let mortgage loans**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**
Neither past due nor impaired	**20,836.9**	**100.0**	**4,379.8**	**100.0**	**25,216.7**	**100.0**
- of which in receipt of forbearance	***238.6***	***100.0***	***8.8***	***100.0***	***247.4***	***100.0***
Past due and not impaired	**145.2**	**100.0**	**15.0**	**100.0**	**160.2**	**100.0**
Impaired	**77.3**	**99.6**	**7.0**	**100.0**	**84.3**	**99.6**
- of which in possession	***0.9***	***100.0***	***0.1***	***100.0***	***1.0***	***100.0***
Total	**21,059.4**	**100.0**	**4,401.8**	**100.0**	**25,461.2**	**100.0**

2014[1]	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
	£m	%	£m	%	£m	%
Neither past due nor impaired	18,506.6	100.0	3,110.2	100.0	21,616.8	100.0
- of which in receipt of forbearance	*241.7*	*100.0*	*7.2*	*100.0*	*248.9*	*100.0*
Past due and not impaired	182.6	100.0	17.6	100.0	200.2	100.0
Impaired	68.4	99.3	7.6	100.0	76.0	99.3
- of which in possession	*1.0*	*100.0*	*0.3*	*100.0*	*1.3*	*100.0*
Total	18,757.6	100.0	3,135.4	100.0	21,893.0	100.0

[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 at the amount outstanding on an individual loan basis. The percentages in the previous table represent the value of collateral, capped at loan amount, divided by the total loan amount in each category.

Wholesale exposures

Credit Support Annexes (CSAs) exist for collateralising derivative transactions with counterparties to which the Group has its derivative exposures in order to mitigate the risk of loss on default. The CSAs allow margin calls to be made on the net mark to market (MtM) value of derivative exposures with a particular counterparty. All interest rate derivative relationships are subject to margin calls on a daily basis. All collateral held or paid under the CSAs is in the form of cash in GBP. No collateral is paid or received in the form of securities meaning no MtM on collateral balances are required. These CSAs are taken into consideration when setting the internal credit risk limits for derivative counterparties. As permitted under the Standardised Approach, the Group recognises the risk mitigating effect of these CSAs in its Pillar 1 capital calculations. At 31 December 2015 cash collateral of £94.0 million (2014: £121.8 million) had been pledged by the Group and £10.6 million (2014: £11.4 million) has been received as cash collateral by the Group.

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

Counterparty credit risk

Counterparty credit risk (CCR) is the risk that the counterparty to a transaction could default during the life of the transaction. For the Group, this applies to derivative and repo contracts.

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

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

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

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

The exposure of asset repurchase agreements (or repos) is measured by calculating the difference between the value of the asset repo'ed and the cash received from the counterparty.

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

The Group does not have any exposures to credit derivatives.

The table below details over the counter (OTC) derivatives exposures.

Table 45: Derivative exposures

	2015 £m	2014 £m
Gross positive fair values of contracts	**82.3**	101.2
Netting with gross negative fair value of derivative contracts	**(70.4)**	(90.0)
Potential future incremental exposure	**49.9**	49.4
Collateral received	**(10.6)**	(11.1)
Net OTC derivative exposures	**51.2**	49.5

Total credit risk exposures in relation to counterparty credit risk are shown below.

Table 46: Analysis by exposure class

	2015 £m	2014 £m
Institutions	**51.4**	49.5
Other assets - repos	**261.7**	353.8
Total	**313.1**	403.3

Table 47: Analysis by contract type

	Exposures		Risk-weighted assets	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Interest rate and inflation contracts	**49.8**	48.3	**21.4**	20.8
Equity contracts	**1.4**	1.2	**0.3**	0.2
Central counterparties	**0.2**	-	**-**	-
Securities financing transactions (repos)	**261.7**	353.8	**-**	13.5
Total	**313.1**	403.3	**21.7**	34.5

Securities financing transactions have decreased since 2014 in line with the Group's management of its cash position to the required levels.

Market risk

Definition

Market risk is defined as the risk that the value of, or net income arising from, assets and liabilities changes as a result of interest rate or exchange rate movements. Market risk for the Group arises only as a natural consequence of carrying out and supporting core business activities. The Group does not trade or make markets. As a result interest rate risk is the only material market risk for the Group and interest rate risk is addressed through the Pillar 2A requirement.

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

Risk appetite

The Group has limited risk appetite for exposures to interest rate risk in the banking book (IRRBB), in terms of both potential changes to economic value, and changes to expected net interest income or earnings. This volatility is managed and reported through a suite of metrics supported by triggers, limits and policies.

Exposures

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

Interest rate mismatch risk in the Group's portfolio and in the Group's capital and funding activities arises from the different re-pricing characteristics of the Group's assets, liabilities 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, 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 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; and

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

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

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.

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. The Group has minimal appetite for foreign currency risk. However, the Group does allow the purchase of liquid assets denominated in both US dollars and Euros within a well controlled limit framework.

Measurement

The Group uses scenario/stress based risk measures, for example, single factor stresses. These include interest rate re-pricing gaps, earnings sensitivity analysis and open foreign exchange positions.

During May 2015, the European Banking Authority published updated guidelines relating to the management of interest rate risk arising from non-trading activities. The Group expanded the IRRBB measurement framework and met regulatory guidelines in advance of the 1 January 2016 application date.

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; and

- 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 it to measure and manage interest rate re-pricing profiles (including behavioural assumptions), perform stress testing and produce forecasts.

The following tables 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's IRRBB Policy, the Interest Rate Risk Transfer Pricing framework is used for all hedgeable interest rate risk. 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 approved 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 on page 63.

Monitoring

The Board Risk Committee regularly reviews market risk exposure as part of the wider risk management framework. Levels of exposures are compared to approved limits and triggers.

Table 48: Capital at Risk

	2015 Positive rate shock	**2015 Negative rate shock[1]**	2014 Positive rate shock	2014 Negative rate shock
	£m	**£m**	£m	£m
Interest rate mismatch risk	**(3.8)**	**3.1**	(5.7)	4.1
Basis risk	**-**	**-**	0.4	0.4
Pipeline risk	**8.9**	**4.7**	8.1	6.0
Optionality risk	**27.1**	**12.3**	23.5	10.7
Total interest rate risk – Capital at Risk	**32.2**	**20.1**	26.3	21.2

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

CaR as at 31 December 2015 increased from £26.3 million at 31 December 2014 to £32.2 million in a positive rate shock scenario. The increase in CaR arising under a positive rate shock is primarily due to the growth of fixed rate customer assets and liabilities, where customers may terminate their contract prior to the end of the fixed rate period. The level of CaR under a negative rate shock remains stable.

Table 49: Earnings at Risk

	2015 Positive rate shock	**2015 Negative rate shock[1]**	2014 Positive rate shock	2014 Negative rate shock
	£m	**£m**	£m	£m
Interest rate mismatch risk	**4.0**	**2.9**	(1.8)	10.9
Basis risk	**(0.2)**	**0.1**	(0.4)	1.1
Pipeline risk	**3.8**	**1.7**	3.7	2.1
Optionality risk	**8.3**	**0.8**	6.5	0.6
Total interest rate risk – Earnings at Risk	**15.9**	**5.5**	8.0	14.7

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

EaR as at 31 December 2015 increased from £8.0 million at 31 December 2014 to £15.9 million in a positive rate shock scenario due to an increase in forecast contractually rate insensitive assets which do not reprice in an upward rate shock. EaR in a negative rate shock scenario has decreased by £9.2 million since 2014. The decline reflects revised forecast rate rises throughout the year. As a result, the stress severity reduced.

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

Market risk capital requirement

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

Operational risk

Definition

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

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

Risk appetite

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

Exposures

The principal operational risks to the Group are:

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

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

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

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

– service disruption;

– failure of a third party corporate partner or strategic supplier; and

– normal business operational risk including transaction processing, information capture and implementation of change.

Measurement

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.

Operational risk exposure and actual losses are used by the Group to calculate the appropriate holding of operational risk capital. The Group calculates Pillar 1 operational risk capital requirements using the Standardised Approach, in line with the Basel Committee guidance.

Mitigation

The Group's control environment is regularly reviewed. Reporting on material risks is discussed monthly by senior management. Risks are managed through 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:

– investment in IT to ensure continued availability, security and resilience of infrastructure;

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

– 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 the financial crime control environment; 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, where 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 executive management.

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 the Group keeps customers and the business safe, reduces costs, and improves efficiency.

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

Operational risk capital requirement

At December 2015, the Group capital requirement of operational risk was £42.0 million (2014: £34.4 million), calculated under the Standardised Approach.

APPENDIX 1

EBA OWN FUNDS DISCLOSURE TEMPLATE

Table 50: Own funds disclosure template

The following table shows the make up of own funds of the Group and Virgin Money plc in the format prescribed in Regulation (EU) 1423/2013. Any blank cells in the template have been removed from this disclosure.

		VIRGIN MONEY HOLDINGS (UK) PLC REGULATED GROUP	VIRGIN MONEY PLC
		£m	£m
	Common Equity Tier 1 (CET1) Capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**654.6**	**1,400.0**
2	Retained earnings	**533.5**	**(55.7)**
3	Accumulated other comprehensive income (and other reserves)	**(15.6)**	**(15.6)**
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,172.5**	**1,328.7**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
8	Intangible assets (net of related tax liability) (negative amount)	**(64.4)**	**(63.0)**
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount	**(18.0)**	**(18.0)**
11	Fair value reserves related to gains or losses on cash flow hedges	**15.3**	**15.3**
12	Negative amounts resulting from the calculation of expected loss amounts	**(35.4)**	**(35.4)**
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(102.5)**	**(101.1)**
29	Common Equity Tier 1 (CET1) capital	**1,070.0**	**1,227.6**
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	**156.5**	**-**
31	of which: classified as equity under applicable accounting standards	**156.5**	**-**
36	Additional Tier 1 (AT1) capital before regulatory adjustments	**156.5**	**-**
44	Additional Tier 1 (AT1) capital	**156.5**	**-**
45	Tier 1 capital (T1 = CET1 + AT1)	**1,226.5**	**1,227.6**
	Tier 2 (T2) capital: instruments and provisions		
50	Credit risk adjustments	**7.6**	**7.6**
51	Tier 2 (T2) capital before regulatory adjustments	**7.6**	**7.6**
58	Tier 2 (T2) capital	**7.6**	**7.6**
59	Total capital (TC = T1 + T2)	**1,234.1**	**1,235.2**
60	Total risk-weighted assets	**6,110.4**	**6,059.5**

	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**17.5%**	**20.3%**
62	Tier 1 (as a percentage of total risk exposure amount)	**20.1%**	**20.3%**
63	Total capital (as a percentage of total risk exposure amount)	**20.2%**	**20.4%**
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	**4.5%**	**4.5%**
65	of which: capital conservation buffer requirement	**0.0%**	**0.0%**
66	of which: countercyclical buffer requirement	**0.0%**	**0.0%**
67	of which: systemic risk buffer requirement	**0.0%**	**0.0%**
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	**0.0%**	**0.0%**
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**13.0%**	**15.8%**
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**7.6**	**7.6**
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**20.2**	**21.0**

APPENDIX 2

CAPITAL INSTRUMENT KEY FEATURES

Table 51: Capital instruments' main features template

1	Issuer	**Virgin Money Holdings (UK) plc**
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	**XS1090191864**
3	Governing law(s) of the instrument	**English**
	Regulatory treatment	
4	Transitional CRR rules	**AT1**
5	Post-transitional CRR rules	**AT1**
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	**Consolidated**
7	Instrument type (types to be specified by each jurisdiction)	**AT1**
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	**£156.5m**
9	Nominal amount of instrument	**£160,000,000**
9a	Issue price	**100.00**
9b	Redemption price	**100.00**
10	Accounting classification	**Shareholders' equity**
11	Original date of issuance	**31 July 2014**
12	Perpetual or dated	**Perpetual**
13	Original maturity date	**n/a**
14	Issuer call subject to prior supervisory approval	**Yes**
15	Optional call date, contingent call dates and redemption amount	**31 July 2019 at par or at any time upon a Tax Event or a Capital Disqualification Event (full exclusion) at par**
16	Subsequent call dates, if applicable	**Following the First Call date any Interest Payment Date thereafter: 31 January, 30 April, 31 July and 31 October**
	Coupons / dividends	
17	Fixed or floating dividend/coupon	**Fixed**
18	Coupon rate and any related index	**7.875%**
19	Existence of a dividend stopper	**No**
20 a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	**Fully discretionary**
20 b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	**Fully discretionary**
21	Existence of step up or other incentive to redeem	**No**
22	Noncumulative or cumulative	**Non-cumulative**
23	Convertible or non-convertible	**Convertible**
24	If convertible, conversion trigger(s)	**Group's CET1 ratio falls below 7%, on a fully loaded basis**
25	If convertible, fully or partially	**Always Fully**
26	If convertible, conversion rate	**£3.50**
27	If convertible, mandatory or optional conversion	**Mandatory**
28	If convertible, specify instrument type convertible into	**Common Equity Tier 1**
29	If convertible, specify issuer of instrument it converts into	**Virgin Money Holdings (UK) plc**
30	Write-down features	**No**
31 - 34	If write-down, write-down trigger(s), full/partial, PWD/TWD	**N/A**
32	If write-down, full or partial	**N/A**
33	If write-down, permanent or temporary	**N/A**
34	If temporary write-down, description of write-up mechanism	**N/A**
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	**N/A**
36	Non-compliant transitioned features	**No**
37	If yes, specify non-compliant features	**N/A**

APPENDIX 3

DISCLOSURE OF INFORMATION IN RELATION TO THE COMPLIANCE OF INSTITUTIONS WITH THE REQUIREMENT FOR A COUNTERCYCLICAL BUFFER

The countercyclical buffer is an additional requirement introduced by CRD IV, calculated by applying a weighted average of country countercyclical buffer rates (based on the geographical distribution of relevant exposures) to the overall capital requirement of the Group.

The following tables disclose information relevant for the calculation of the countercyclical buffer as at 31 December 2015 in accordance with Regulation (EU) 2015/1555.

Level of application: Consolidated

Table 52: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

Row		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Sec'n exposures	Total	Own funds req'ts weights	Counter-cyclical capital buffer rate
		010	020	030	040	050	060	070	080	090	100	110	120
010	Breakdown by country:												
	UK	2,299.3	27,997.5	-	-	60.6	-	431.6	-	1.0	432.6	100.00%	0%
020	Total	2,299.3	27,997.5	-	-	60.6	-	431.6	-	1.0	432.6	100.00%	0%

Credit exposures relevant to the calculation of the countercyclical buffer consist of exposures to retail lending (including mortgages and credit cards), covered bonds, securitisation exposures and other assets. All other exposures are excluded.

In accordance with Regulation (EU) 1152/2014, as foreign credit exposures represent less than 2% of the Group's aggregate risk weighted exposures, all exposures have been allocated to the UK.

Table 53: Amount of institution specific countercyclical capital buffer

Row		Column
		010
010	Total risk exposure amount	432.6
020	Institution specific countercyclical buffer rate	0%
030	Institution specific countercyclical buffer requirement	-

Level of application: Solo

Table 54: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer – Virgin Money plc

Row		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Sec'n exposures	Total	Own funds req'ts weights	Counter-cyclical capital buffer rate
		010	020	030	040	050	060	070	080	090	100	110	120
010	Breakdown by country:												
	UK	2,388.9	27,997.5	-	-	60.6	-	438.4	-	1.0	439.4	100.00%	0%
020	Total	2,388.9	27,997.5	-	-	60.6	-	438.4	-	1.0	439.4	100.00%	0%

Credit exposures relevant to the calculation of the countercyclical buffer consist of exposures to retail lending (including mortgages and credit cards), covered bonds, securitisation exposures and other assets. All other exposures are excluded.

In accordance with Regulation (EU) 1152/2014, as foreign credit exposures represent less than 2% of the Virgin Money plc's aggregate risk weighted exposures, all exposures have been allocated to the UK.

Table 55: Amount of institution specific countercyclical capital buffer – Virgin Money plc

Row		Column
		010
010	Total risk exposure amount	439.4
020	Institution specific countercyclical buffer rate	0%
030	Institution specific countercyclical buffer requirement	-

APPENDIX 4

ANALYSIS OF LEVERAGE RATIO

The following tables show the Group and Virgin Money plc detailed leverage ratio disclosures made in accordance with the EBA's Implementing Technical Standard EBA/ITS/2014/04/rev1.

Table 56: Summary reconciliation of accounting assets and leverage ratio exposures

	Reference date	31 December 2015	
	Entity name	Virgin Money Holdings (UK) plc	Virgin Money plc
	Level of application	Consolidated	Solo
Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures			
1	Total assets as per published financial statements	**30,229.0**	**31,773.7**
2	Adjustments for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**4.2**	**(1,559.7)**
4	Adjustment for derivative financial instruments	**(20.5)**	**(22.4)**
5	Adjustments for securities financing transactions "SFTs"	**261.7**	**261.7**
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**659.5**	**659.5**
7	Other adjustments	**(102.5)**	**(101.1)**
8	**Total leverage ratio exposure**	**31,031.4**	**31,011.7**

Table 57: Leverage ratio common disclosures

Table LRCom: Leverage ratio common disclosure			
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**30,150.9**	**30,133.2**
2	Asset amounts deducted in determining Tier 1 capital	**(102.5)**	**(101.1)**
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**30,048.4**	**30,032.1**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions(i.e. net of eligible cash variation margin	**11.8**	**10.4**
5	Add on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	**50.0**	**48.0**
11	Total derivative exposures	**61.8**	**58.4**
Securities financing transaction exposures			
14	Counterparty credit risk exposure for SFT assets	**261.7**	**261.7**
16	Total securities financing transaction exposures	**261.7**	**261.7**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	**4,483.5**	**4,483.5**
18	Adjustments for conversion to credit equivalent amounts	**(3,824.0)**	**(3,824.0)**
19	**Other off-balance sheet exposures**	**659.5**	**659.5**
Capital and total exposures			
20	**Tier 1 capital**	**1,226.5**	**1,227.6**
21	**Total leverage ratio exposures**	**31,031.4**	**31,011.7**
Leverage ratio			
22	**Leverage ratio**	**4.0%**	**4.0%**
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure		**Fully phased in**

Table 58: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures	
		VMH(UK)plc	**VMplc**
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	**30,150.9**	**30,133.2**
EU-3	Banking book exposures, of which:	**30,150.9**	**30,133.2**
EU-4	Covered bonds	**535.3**	**535.3**
EU-5	Exposures treated as sovereigns	**1,286.9**	**1,286.9**
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**203.7**	**203.7**
EU-7	Institutions	**699.2**	**588.7**
EU-8	Secured by mortgages of immovable properties	**25,502.0**	**25,505.7**
EU-9	Retail exposures	**1,567.0**	**1,567.0**
EU-11	Exposures in default	**40.0**	**40.0**
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	**316.8**	**405.9**

Table 59: Free format text boxes for disclosure on qualitative items

Table LRQua: Free format text boxes for disclosure on qualitative items

1	**Description of the processes used to manage the risk of excessive leverage**

Leverage is actively managed with the ratio being a key factor in the Group's planning processes and stress analysis. A minimum of a three year forecast of the Group's leverage position, based on the strategic plan, is produced at least annually. Shorter term forecasts are more frequently undertaken to understand and respond to variations of the Group's actual performance against plan.

2	**Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers**

The main factor impacting the leverage ratio during 2015 was the increased total assets arising from the increased lending activities of the Group. This was offset by increased Tier 1 capital primarily due to increased retained earnings during 2015.

APPENDIX 5

ANALYSIS OF ENCUMBERED ASSETS

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

Table 60: Asset encumbrance Template A – assets

		Carrying amount of encumbered assets 010	Fair value of encumbered assets 040	Carrying amount of unencumbered assets 060	Fair value of unencumbered assets 090
		£m	£m	£m	£m
010	**Assets of the reporting institution**	**7,106.8**	**n/a**	**21,163.6**	**n/a**
030	Equity instruments	**-**	**-**	**1.4**	**1.4**
040	Debt securities	**73.0**	**73.0**	**1,258.0**	**1,258.0**
120	Other assets	**-**	**n/a**	**336.8**	**n/a**

No collateral has been received by the Group for the purposes of the EBA asset encumbrance disclosure guidelines.

Table 61: Asset encumbrance Template C – Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent 010	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered 030
		£m	£m
010	**Carrying amount of selected financial liabilities**	**3,449.6**	**3,742.0**

Asset encumbrance Template D – Information on importance of encumbrance

Asset values reported in the tables above are median values based on twelve months of data. Virgin Money's assets are used to support collateral requirements for central bank operations, third-party repurchase agreements, swap transactions, securitisation and the FLS scheme. Assets that have been set aside for such purposes are classified as encumbered and cannot be used for other purposes.

Under the terms and conditions of collateralisation agreements entered into for securing liabilities, assets are deemed encumbered if they cannot be freely withdrawn. Cash reserves supporting secured funding structures are also not available for encumbrance due to legal reasons. All assets included in the 'Other Assets' category, although classed as unencumbered are deemed not available for encumbrance in the normal course of business due to the nature of these assets.

Any excess collateral provided above the minimum collateral required is deemed unencumbered unless it cannot be freely withdrawn. No assets are encumbered through transactions between entities of the Group. All remaining assets are deemed available for encumbrance.

Since the prior year, the value of encumbered assets has increased, but the proportion of assets encumbered has decreased. This is primarily due to growth in the mortgage and credit card businesses, the wind down of previous securitisations and the use of off balance sheet FLS T-Bills as collateral in repo transactions in preference to debt securities. The decrease has been offset to some extent by an additional securitisation programme, a higher value of mortgages pledged as part of the FLS scheme and an increase in collateral requirements for participation in the BACS scheme.

APPENDIX 6

GROUP REMUNERATION DISCLOSURES

Approach to remuneration

Virgin Money's Group Remuneration Policy is designed to support the delivery of the Group's long term corporate strategy in a manner that is compliant with the Prudential Regulation Authority's Remuneration Code (the Code). The Group Remuneration Policy is based on principles which are applicable to all employees within the Group and in particular the principle that the remuneration framework should support the delivery of the Group's wider strategic goals. The Policy supports Virgin Money's aim of building a bank that makes everyone better off by motivating colleagues to secure the long term success of the business and create a valuable return for shareholders in a meaningful and well balanced way. The Group ensures its approach to remuneration and in particular variable pay, is aligned with clear risk principles which aim to drive sustainable growth, with absolutely no reward for inappropriate risk taking. Strong performance is rewarded in line with best practice in the UK listed financial services sector.

The Group is mindful of the views of shareholders and engagement with shareholders is a key part of the process for determining a fair and appropriate remuneration policy.

Code staff

The Remuneration Code and European Regulatory Technical Standards require the Group to identify Code Staff, also known as 'Material Risk Takers'. Code Staff are deemed to have, or potentially have, a material impact on the risk profile of the Group or a significant entity within the Group. The Code Staff population in 2015 totalled 46 including all Directors. Virgin Money operates a proportional approach to the identification of Code Staff as required by the Code.

On this basis, the following groups of individuals have been identified as meeting the criteria for Code Staff, i.e. those colleagues who are deemed to have, or potentially have, a material impact on the risk profile of the Group or a significant entity within the Group:

- Executive Directors and Non-Executive Directors;
- all members of the Virgin Money Executive Committee (ExCo);
- Senior Risk colleagues;
- Senior Finance colleagues (including Treasury);
- those colleagues who sit on a committee responsible for specific risk categories and/or product development; and
- other highly remunerated individuals whose activities could have an impact on the Group's risk profile.

The remuneration for these colleagues is governed under the Group remuneration policy.

The Remuneration Committee

The Remuneration Committee of the board of directors of the Group (the Committee) is responsible for determining and recommending to the Board for approval a Group remuneration policy that aligns with the Group's risk principles and is consistent with the Group's corporate strategy. It determines the remuneration of the Chairman and members of the Executive Team, including payments and awards under annual bonus plans, share incentive schemes, pension schemes and any other compensation arrangements (including terms for departing Code Staff). The Committee undertakes periodic reviews of the Remuneration Policy (at least annually) to ensure continued compliance and alignment with the Remuneration Code.

The Group has a clear governance structure, with the Committee reviewing all reward decisions for Executive Directors, Executive Committee members, senior risk and compliance officers and any other Code Staff or high earners. The Remuneration Committee works closely with the Risk Committee in moderation of the variable pay pool and performance assessment, to ensure both adequately reflect the Group's risk appetite and to assess whether any adjustment is required.

The Remuneration Committee's Terms of Reference are available from the Company Secretary and are on the Virgin Money website. These were last updated in November 2014.

The Committee members during the year were:

- Olivia Dickson (Member and Chair until 31 December 2015);
- Norman McLuskie;
- Sir David Clementi (until 21 May 2015);
- Marilyn Spearing (Member throughout 2015. Chair from 1 January 2016); and
- Geeta Gopalan (from 25 June 2015).

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

The Committee appoints independent consultants to provide advice on specific matters according to their particular expertise. During 2015, the Remuneration Committee took external advice from PricewaterhouseCoopers (PwC), the independent consultants in relation to Directors' remuneration. 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.

The Committee meets at least four times a year and at such other times as the Committee Chair or any member of the Committee may request. The Committee met on seven occasions during 2015.

During 2015 the Committee considered the following remuneration matters:

- performance conditions for the FY15 annual bonus and LTIP;
- review of the Group remuneration policy;
- personal strategic objectives for Executive Directors in FY15;
- FY16 annual bonus and LTIP design and performance measures;
- Executive awards vesting in 2015;
- review of the Directors' Remuneration Report and Remuneration Policy Statement for FY15;
- terms for the outgoing Chief Financial Officer; and
- consideration of remuneration governance in light of regulatory change, including deferral requirements.

Design characteristics of the remuneration system

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

Remuneration is delivered in a proportion of fixed and variable components. The variable elements are subject to appropriate limits (capped at 2:1 variable to fixed ratio) as approved by shareholders. Variable pay awards for senior colleagues and Code Staff are subject to deferral in line with the Code to promote longer term risk awareness.

Base salary

All Code Staff receive salaries (save for Non-Executive Directors who receive fees), determined to reflect the role of the individual taking account of responsibilities and experience. Base salaries are reviewed annually, taking into account individual performance and market information.

Annual Bonus and Deferred Bonus Share Plan

All Code Staff (excluding Non-Executive Directors) are eligible to be considered for an annual bonus. 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 annual bonus opportunity is based on performance against key financial measures determined at the beginning of each financial year as well as performance against non-financial measures.

In line with regulatory requirements a proportion of any bonus is deferred (as per the 'deferral and vesting' section below). 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 (see below).

Long-term incentives

The Group's Long Term Incentive Plan (LTIP) 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 while supporting the long-term success of the Group.

Performance conditions are normally tested over a period of three financial years and, subject to the achievement of any performance conditions, Awards will vest according to timetables designed to comply with regulatory requirements. The performance conditions will be based on the Group's strategic aims of growth, quality, returns and enhancing the EBO culture over the performance period.

Deferral and vesting

Variable pay deferral levels are set at the time of award and in line with regulatory requirements. At present this means that, for Code Staff receiving a variable pay award that exceeds 33% of total pay:

- at least 40% of total variable pay is deferred;
- at least 50% of variable pay is paid in shares; and
- vested shares are subject to a six month retention period.

The ultimate release of deferred amounts is governed by a robust risk assessment framework. Both clawback and malus provisions can be applied by the Committee both during and after any relevant performance period to adjust (including to nil) any variable pay awarded, paid or deferred. A performance adjustment may include, but is not limited to:

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

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

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

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

- where an employee has participated in or was responsible for conduct which resulted in significant losses to the firm, as determined by the Remuneration Committee;
- where an employee has significantly failed to meet appropriate standards of fitness and propriety, taking into account their seniority, experience, remuneration and level of responsibility;
- where the firm or the relevant business unit has suffered a material downturn in the financial performance;

- where the firm or the relevant business unit has suffered a material failure of risk management;
- where the firm has reasonable evidence of fraud or material dishonesty by the employee;
- where the firm becomes aware of any material wrongdoing on the part of the employee that would have resulted in the relevant award not being made had it known about such material wrongdoing at the time the relevant award was made;
- where the firm becomes aware of a material error in assessing the employee's performance against the relevant performance conditions at the time that the award was made; and
- the employee has acted in any manner which in the opinion of the Remuneration Committee has brought or is likely to bring the firm into material disrepute or is materially adverse to the interests of the firm.

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

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

Link between pay and performance and the performance criteria used

The Group's approach to reward is to ensure that all elements of pay are aligned with the long-term interests of the Group and a prudent approach to risk management while being sufficiently competitive to attract, retain and motivate the most talented individuals in the financial services sector.

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

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

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

- the Committee considered the profit before tax performance for the financial year (and any other relevant financial/non-financial measures);
- the Committee reviewed underlying business performance against the corporate scorecard to ensure that the outcomes are appropriate;
- the Chief Risk Officer provided the Committee with an independent risk assessment report to consider whether and to what extent the variable remuneration pool should be subject to risk adjustment; and
- the Chief Financial Officer and the People Director also provided the Committee with an assessment of financial and individual performance to identify any significant any instances when the operation of the malus provisions might be appropriate.

Remuneration for Code Staff

The following tables display the 2015 remuneration for Virgin Money's Executive, Non-Executive and Senior Management and colleagues whose professional activities may have a material impact on the risk profile of the Group.

Fixed and variable remuneration

The table below shows total fixed and variable remuneration awarded to Code Staff in 2015 broken down between Senior Management and Other Code Staff. The data has not been broken down by business area due to size and scale of some operations.

Table 62: Remuneration of Code Staff

Remuneration of Code Staff[1]	2015	Senior Management	Other Code Staff
Number of Code Staff	46	12	34
	£m	£m	£m
Total fixed	11.8	3.0	8.8
Total variable	11.4	1.9	9.5
Total remuneration	23.3	4.9	18.3
Variable remuneration awarded in:			
- Cash	2.3	0.3	2.0
- Shares[2]	9.1	1.6	7.5
- Share linked instruments	-	-	-
Deferred remuneration outstanding[3]	17.2	4.7	12.5
Deferred remuneration awarded for 2015	6.8	1.3	5.5
Deferred remuneration paid out in 2015[4]	2.5	1.0	1.5
Sign on payments	-	-	-
Severance payments	-	-	-

1 Numbers within this table have been rounded to the nearest £0.1m
2 Code Staff are required to hold the net number of shares from any share-based award for a period of six months
3 Includes 2015 deferred remuneration plus all outstanding remuneration awards made prior to 2015, based on value at time of award. Values for LTIP awards are based on an on target performance assumption of 80% of maximum value
4 Includes outstanding deferred remuneration awards made prior to 2015 where they vested in 2015, based on the value of awards at the time of vesting.

Analysis of high earners by band

During 2015 7 Code Staff received total remuneration in excess of €1 million. The table below shows the breakdown by band.

Table 63: Analysis of high earners

Number of Code Staff paid €1 million[1,2] or more for 2015	Dec 15 Code Staff
€1.0m - €1.5m	4
€1.5m - €2.0m	1
€2.0m - €2.5m	-
€2.5m - €3.0m	-
€3.0m - €3.5m	-
€3.5m - €4.0m	2
€4.0m - €4.5m	-

1 Converted to Euros using the exchange rate of €1.42=£1.00
2 Values for LTIP awards based on an on target performance assumption of 80% of maximum value

The Virgin Money Holdings (UK) plc Annual Report 2015

Further details on the remuneration policies and practices of the Group, including the key components of the Group's remuneration structure for Directors' remuneration can be found in the Directors' Remuneration Report contained in the 2015 Virgin Money Group Annual Report and Accounts. This also includes changes to the Group Remuneration Policy effective from 1 January 2016.

Recruitment policy for the selection of members of the management body

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

- where practicable, the Remuneration Committee will look to align the remuneration package for any new appointments with the Group remuneration policy;
- to facilitate a recruitment the Remuneration Committee may need to 'buy-out' remuneration arrangements forfeited or forgone on leaving a previous employer, including long-term awards, deferred awards, in year and prior year annual bonuses and other contractual entitlements; 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 to those awards; and
    - the vesting profile of the awards and the likelihood of vesting.

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

APPENDIX 7

VIRGIN MONEY PLC
PILLAR 3 DISCLOSURES

Introduction

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

Capital resources

The Company's capital is managed in the same way as the Group. For a discussion of capital management, the ICAAP process and Pillar 2 capital for the Company, see pages 24 to 26 in the main body of this report.

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

Table 64: Virgin Money plc capital resources

	2015	2014
	£m	£m
Common Equity Tier 1		
Ordinary share capital	**1,400.0**	1,400.0
Retained reserves	**(71.4)**	(180.0)
Other reserves	**(0.3)**	5.6
Total equity per balance sheet	**1,328.3**	1,225.6
Regulatory capital adjustments		
Net assets/(liabilities) of SPVs	**15.7**	4.5
Intangible assets	**(63.0)**	(45.0)
Deferred tax on tax losses carried forward (after consolidation of SPVs)	**(18.0)**	(38.1)
Excess of expected loss over impairment	**(35.4)**	(33.4)
Common Equity Tier 1 Capital	**1,227.6**	1,113.6
Total Tier 1 Capital	**1,227.6**	1,113.6
Tier 2 capital		
General credit risk adjustments	**7.6**	5.9
Total Tier 2 capital	**7.6**	5.9
Total available capital resource	**1,235.2**	1,119.5
Pillar 1 risk-weighted assets		
Retail mortgages	**3,952.9**	3,489.7
Unsecured lending	**1,192.7**	830.0
Wholesale	**183.9**	161.6
Other assets	**281.2**	269.0
Counterparty credit risk	**21.2**	34.2
Credit valuation adjustments	**13.9**	13.4
Operational risk	**413.7**	284.8
Total risk-weighted assets	**6,059.5**	5,082.7
Common Equity Tier 1 ratio	**20.3%**	21.9%
Tier 1 ratio	**20.3%**	21.9%
Total capital ratio	**20.4%**	22.0%

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

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

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

The following table sets out the movements in capital resources during 2015.

Table 65: Virgin Money plc movements in capital resources

	Common Equity Tier 1 and Tier 1	Tier 2 capital
	£m	£m
At 1 January 2015	**1,113.6**	**5.9**
Movements in retained earnings	**108.6**	**-**
Movement in net liabilities of SPVs	**11.2**	**-**
Movement in intangible assets	**(18.0)**	**-**
Movement in deferred tax on tax losses carried forward	**20.1**	**-**
Movement in excess of expected loss over impairment	**(2.0)**	**-**
Movement in available-for-sale reserve	**(5.9)**	**-**
Movement in general provisions	**-**	**1.7**
At 31 December 2015	**1,227.6**	**7.6**

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

General provisions on the credit card book showed an increase during the year in line with increased balances.

Capital securities

Tier 1 capital

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

The Company has no Additional Tier 1 capital.

Tier 2 capital

Tier 2 capital is comprised of general provisions (under the CRD IV definition) on credit cards.

Pillar 1 capital requirements

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

Table 66: Virgin Money plc risk-weighted assets and capital requirements

	2015	**2015**	2014	2014
	Risk-weighted assets	**Capital Requirement**	Risk-weighted assets	Capital Requirement
	£m	**£m**	£m	£m
AIRB approach				
Standard mortgages	**3,396.1**	**271.7**	3,040.2	243.2
Buy to let mortgages	**556.8**	**44.5**	449.5	36.0
Retail exposures secured by real estate collateral	**3,952.9**	**316.2**	3,489.7	279.2
Standardised approach				
Credit cards and other retail exposures	**1,180.9**	**94.5**	822.9	65.8
Items in default	**11.8**	**0.9**	7.1	0.6
Institutions	**118.3**	**9.4**	119.0	9.5
Covered bonds investments	**53.5**	**4.3**	26.6	2.1
Securitisation positions	**12.1**	**1.0**	16.0	1.3
Other assets	**281.2**	**22.5**	269.0	21.5
Total standardised exposures	**1,657.8**	**132.6**	1,260.6	100.8
Credit risk	**5,610.7**	**448.8**	4,750.3	380.0
Counterparty credit risk	**21.2**	**1.7**	34.2	2.7
Credit valuation adjustment	**13.9**	**1.1**	13.4	1.1
Operational risk	**413.7**	**33.1**	284.8	22.8
Market risk	**-**	**-**	-	-
Total	**6,059.5**	**484.7**	5,082.7	406.6

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

Table 67: Virgin Money plc risk-weighted asset movements

	AIRB mortgages	**Other standardised lending**	**Other standardised assets**	**Credit valuation adjustment**	**Operational risks**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
RWAs at 1 January 2015	**3,489.7**	**830.0**	**464.8**	**13.4**	**284.8**	**5,082.7**
Book size	**560.0**	**362.9**	**-**	**-**	**-**	**922.9**
Model calibration	**46.1**	**-**	**-**	**-**	**-**	**46.1**
Model updates	**(343.8)**	**-**	**-**	**-**	**-**	**(343.8)**
Other movements	**200.9**	**(0.2)**	**21.5**	**0.5**	**128.9**	**351.6**
RWAs at 31 December 2015	**3,952.9**	**1,192.7**	**486.3**	**13.9**	**413.7**	**6,059.5**

The strong growth in mortgage balance to an exposure at default (EAD) of £27,997.5 million increased RWAs by £560.0 million.

The Group uses a variable scalar methodology to calculate the probability of default (PD) used within the 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, and does not eliminate, procyclicality within PD estimates. During 2015 the improvement in arrears rates and the increase in the proportion of accounts in the lowest risk bands have 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, shown in table 67 as 'model calibration', that resulted in decreased RWAs of £46.1 million in 2015, following lower arrears rates observed within the period.

During 2015, changes were implemented within the AIRB models. The most significant change was to account for the growth in the House Price Index (HPI) beyond historic peak property prices in 2007. This change, combined with a minor change to the classification of accounts within the AIRB models is represented in the table above by 'model updates'.

In addition further changes in the portfolio have been observed over the last 12 months. These impacts are included in the 'other movements' in the table above and are attributed to:

- a change in the portfolio distribution across the PD model segments, from new business acquisitions and portfolio attrition, resulting in an increase in the regulatory PDs and the associated RWAs; and
- significant house price growth observed across the UK in 2015 which increased downturn loss given default, corresponding in a further increase in RWAs.

The growth in credit card exposures from £1,097.3 million in 2014 to £1,574.6 million in 2015 increased RWAs by £362.9 million.

Operational risk is calculated using the Standardised Approach, based on the average Company income over the past three years. The year-on-year increase reflects the increasing Company income from 2011 to 2014.

Leverage ratio

The regulations introduce a new balance sheet metric, the leverage ratio, as a requirement from 1 January 2014. The Basel Committee is testing this ratio at a minimum threshold of 3% until 2017. The Company's leverage ratio as at 31 December 2015 was 4.0%.

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

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

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

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

Table 68: Virgin Money plc leverage ratio

	2015	2014
	£m	£m
Tier 1 capital	**1,227.6**	1,113.6
Exposures measure		
Total regulatory balance sheet assets	**30,214.0**	26,522.8
Removal of accounting values for derivatives	**(80.8)**	(100.1)
Exposure value for derivatives	**58.4**	169.9
Exposure value for securities financing transactions	**261.7**	353.8
Off-balance sheet items	**659.5**	607.8
Other regulatory adjustments	**(101.1)**	(107.7)
Total exposures	**31,011.7**	27,446.5
Leverage ratio at 31 December 2015	**4.0%**	4.1%

Regulatory balance sheet assets include an adjustment for SPVs not included in the statutory balance sheet.

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

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

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

Appendix 4 shows detailed leverage ratio disclosures made in accordance with the EBA's Implementing Technical Standard EBA/ITS/2014/04/rev1.

Credit risk

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

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

Table 69: Virgin Money plc credit risk exposures, risk weights and average exposures

	Exposure at 31 December 2015	**RWAs at 31 December 2015**	**Average RWA**	**Average exposure in period**
	£m	**£m**	**%**	**£m**
AIRB				
Retail exposures secured by real estate collateral	**27,997.5**	**3,952.9**	**14.1**	**26,141.1**
Standardised				
Credit cards and other retail exposures	**1,574.6**	**1,180.9**	**75.0**	**1,227.0**
Items in default	**11.8**	**11.8**	**100.0**	**7.7**
Central Governments and Central Banks	**1,286.9**	**-**	**-**	**1,345.4**
Multilateral development banks	**203.7**	**-**	**-**	**291.9**
Institutions	**515.7**	**118.3**	**22.9**	**484.5**
Securitisation positions	**60.6**	**12.1**	**20.0**	**62.3**
Covered Bonds	**535.3**	**53.5**	**10.0**	**408.4**
Other	**267.3**	**281.2**	**105.2**	**274.9**
Total standardised	**4,455.9**	**1,657.8**	**37.2**	**4,102.1**
	32,453.4	**5,610.7**	**17.3**	**30,243.2**

	Exposure at 31 December 2014	RWAs at 31 December 2014	Average RWA	Average exposure in period
	£m	£m	%	£m
AIRB				
Retail exposures secured by real estate collateral	24,250.0	3,489.7	14.4	22,701.4
Standardised				
Credit cards and other retail exposures	1,097.3	822.9	75.0	820.3
Items in default	7.1	7.1	100.0	3.4
Central Governments and Central Banks	1,636.9	-	-	1,972.2
Multilateral development banks	310.7	-	-	354.2
Institutions	578.4	119.0	20.6	708.5
Securitisation positions	74.1	16.0	21.6	90.2
Covered Bonds	265.7	26.6	10.0	135.0
Other	264.9	269.0	101.5	240.0
Total standardised	4,235.1	1,260.6	29.8	4,323.8
	28,485.1	4,750.3	16.7	27,025.2

Note: 2014 comparatives have been restated on a fully loaded basis and to remove those exposures related to counterparty credit risk.

The main increase in exposures during the year arose from the increase in lending to customers. Mortgages showed organic growth of £3.6 billion, giving rise to an increase in mortgage EAD of £3.7 billion. Credit card exposures also increased by £480 million. This was offset by a net reduction in wholesale assets, mainly in balances with Central Banks following the increase in lending balances at the end of the year.

Credit risk exposure by industry

The tables below give details of the distributions of exposures by industry at 31 December 2015 and 31 December 2014.

Table 70: Virgin Money plc credit risk exposures by industry

2015

	Mortgages – individuals	Other lending – individuals	Financial	Other assets	Total
	£m	%	£m	£m	£m
AIRB					
Retail exposures secured by real estate collateral	**27,997.5**	**-**	**-**	**-**	**27,997.5**
Standardised					
Credit cards and other retail exposures	**-**	**1,574.6**	**-**	**-**	**1,574.6**
Items in default	**-**	**11.8**	**-**	**-**	**11.8**
Central Governments and Central Banks	**-**	**-**	**1,286.9**	**-**	**1,286.9**
Multilateral development banks	**-**	**-**	**203.7**	**-**	**203.7**
Institutions	**-**	**-**	**515.7**	**-**	**515.7**
Securitisation positions	**-**	**-**	**60.6**	**-**	**60.6**
Covered Bonds	**-**	**-**	**535.3**	**-**	**535.3**
Other assets	**-**	**-**	**-**	**267.3**	**267.3**
	27,997.5	**1,586.4**	**2,602.2**	**267.3**	**32,453.4**

2014

	Mortgages – individuals	Other lending – individuals	Financial	Other assets	Total
	£m	%	£m	£m	£m
AIRB					
Retail exposures secured by real estate collateral	24,250.0	-	-	-	24,250.0
Standardised					
Credit cards and other retail exposures	-	1,097.3	-	-	1,097.3
Items in default	-	7.1	-	-	7.1
Central Governments and Central Banks	-	-	1,636.9	-	1,636.9
Multilateral development banks	-	-	310.7	-	310.7
Institutions	-	-	578.4	-	578.4
Securitisation positions	-	-	74.1	-	74.1
Covered Bonds	-	-	265.7	-	265.7
Other assets	-	-	-	264.9	264.9
	24,250.0	1,104.4	2,865.8	264.9	28,485.1

Note: 2014 comparatives have been restated on a fully loaded basis and to remove those exposures related to counterparty credit risk.

Geographical distribution of exposures

The tables below give details of the geographical distributions of exposures at 31 December 2015 and 31 December 2014.

Table 71: Virgin Money plc credit risk exposures by geographical area

2015

	UK	**Europe**	**Rest of the World**	**Total**
	£m	**£m**	**£m**	**£m**
AIRB				
Retail exposures secured by real estate collateral	**27,997.5**	**-**	**-**	**27,997.5**
Standardised				
Credit cards and other retail exposures	**1,574.6**	**-**	**-**	**1,574.6**
Items in default	**11.8**	**-**	**-**	**11.8**
Central Governments and Central Banks	**1,286.9**	**-**	**-**	**1,286.9**
Multilateral development banks	**-**	**145.9**	**57.8**	**203.7**
Institutions	**199.0**	**140.8**	**175.9**	**515.7**
Securitisation positions	**59.4**	**-**	**1.2**	**60.6**
Covered Bonds	**535.3**	**-**	**-**	**535.3**
Other	**267.3**	**-**	**-**	**267.3**
	31,931.8	**286.7**	**234.9**	**32,453.4**

2014

	UK	Europe	Rest of the World	Total
	£m	£m	£m	£m
AIRB				
Retail exposures secured by real estate collateral	24,250.0	-	-	24,250.0
Standardised				
Credit cards and other retail exposures	1,097.3	-	-	1,097.3
Items in default	7.1	-	-	7.1
Central Governments and Central Banks	1,636.9	-	-	1,636.9
Multilateral development banks	-	219.1	91.6	310.7
Institutions	129.1	194.5	254.8	578.4
Securitisation positions	72.0	-	2.1	74.1
Covered Bonds	265.7	-	-	265.7
Other	264.9	-	-	264.9
	27,723.0	413.6	348.5	28,485.1

Note: 2014 comparatives have been restated on a fully loaded basis and to remove those exposures related to counterparty credit risk.

Exposures by residual maturity

The following tables give details of the contractual residual maturities of exposures at 31 December 2015 and 31 December 2014.

Table 72: Virgin Money plc credit risk exposures by residual maturity

2015

	Residual maturity			
	< 1 year	**1-5 yrs**	**> 5 years**	**Total**
	£m	**£m**	**£m**	**£m**
AIRB				
Retail exposures secured by real estate collateral	**125.3**	**874.5**	**26,997.7**	**27,997.5**
Standardised				
Credit cards and other retail exposures	**1,574.6**	**-**	**-**	**1,574.6**
Items in default	**11.8**	**-**	**-**	**11.8**
Central Governments and Central Banks	**877.4**	**-**	**409.5**	**1,286.9**
Multilateral development banks	**4.7**	**82.4**	**116.6**	**203.7**
Institutions	**472.7**	**25.4**	**17.6**	**515.7**
Securitisation positions	**-**	**-**	**60.6**	**60.6**
Covered Bonds	**47.5**	**316.7**	**171.1**	**535.3**
Other	**267.3**	**-**	**-**	**267.3**
	3,381.3	**1,299.0**	**27,773.1**	**32,453.4**

2014

	Residual maturity			
	< 1 year	1-5 yrs	> 5 years	Total
	£m	£m	£m	£m
AIRB				
Retail exposures secured by real estate collateral	107.7	849.9	23,292.4	24,250.0
Standardised				
Credit cards and other retail exposures	1,097.3	-	-	1,097.3
Items in default	7.1	-	-	7.1
Central Governments and Central Banks	841.9	103.4	691.6	1,636.9
Multilateral development banks	90.8	113.8	106.1	310.7
Institutions	475.0	95.0	8.4	578.4
Securitisation positions	-	-	74.1	74.1
Covered Bonds	20.1	115.0	130.6	265.7
Other	264.9	-	-	264.9
	2,904.8	1,277.1	24,303.2	28,485.1

Note: 2014 comparatives have been restated on a fully loaded basis and to remove those exposures related to counterparty credit risk.

Credit risk impairments

For a discussion of credit impairment for the Company see pages 39 to 42 in the main body of the narrative.

Analysis of past due and impaired loans and advances to customers

The table below indicates the level of impaired and past due exposures by exposure class, and of the levels of provisions against them at 31 December 2015.

Table 73: Virgin Money plc analysis of past due and impaired loans and advances to customers

2015

	Impaired exposures	**Past due but not impaired**	**General impairment provisions**	**Specific impairment provisions**
	£m	**£m**	**£m**	**£m**
Retail exposures secured by real estate collateral	**84.6**	**160.2**	**7.8**	**0.9**
Credit cards	**27.4**	**-**	**7.5**	**23.6**
Other retail exposures	**-**	**-**	**0.1**	**-**
	112.0	**160.2**	**15.4**	**24.5**

2014

	Impaired exposures	Past due but not impaired	General impairment provisions	Specific impairment provisions
	£m	£m	£m	£m
Retail exposures secured by real estate collateral	76.4	200.1	2.6	5.0
Credit cards	27.4	-	5.9	17.0
Other retail exposures	-	-	0.1	-
	103.8	200.1	8.6	22.0

Total impaired assets increased by £8.1 million in the year to 31 December 2015. The increase in impaired asset balances on the secured portfolio is a result of a higher rate of discount cost observed on sold possessions, which have reduced the estimated recoverable loan amount of assets in this category. Observed discount costs are based on a low volume of possession sales during 2015 which have reduced to 47 cases (2014: 63). Possession stock reduced to 12 cases at 31 December 2015 from 18 cases in 2014. Despite this, secured impaired assets as a proportion of total secured loans remain stable at 0.3%.

Impaired assets on the unsecured portfolio have remained stable despite book growth. This is as a result of new lending in the period along with overall improved arrears performance.

Analysis of movements in impairment provisions

Table 74: Virgin Money plc analysis of movements in impairment provisions

	Retail mortgages	**Credit cards**	**Other retail exposures**	**Total**
	£m	**£m**	**£m**	**£m**
General impairment provisions				
At 1 January 2015	**2.6**	**5.9**	**0.1**	**8.6**
Increase/(decrease) in provision during year net of recoveries	**5.2**	**1.6**	**-**	**6.8**
Amounts written off during the year	**-**	**-**	**-**	**-**
At 31 December 2015	**7.8**	**7.5**	**0.1**	**15.4**
Specific impairment provisions				
At 1 January 2015	**5.0**	**17.0**	**-**	**22.0**
Increase/(decrease) in provision during year net of recoveries	**(2.2)**	**25.7**	**-**	**23.5**
Amounts written off during the year	**(1.9)**	**(19.1)**	**-**	**(21.0)**
At 31 December 2015	**0.9**	**23.6**	**-**	**24.5**

Virgin Money plc remuneration disclosures

Virgin Money plc has the same remuneration policy as the rest of the Group, and so for the individual Company disclosures please see Appendix 6.

Glossary

AIRB approach	A CRD IV approach for measuring exposure to retail credit risks. The method of calculating credit risk capital requirements uses internal PD, LGD and EAD models. AIRB approaches may only be used with PRA permission.
Arrears	For secured, this is where the customer has failed to make contractual due date and the payment shortfall exceeds 1% of the current monthly contractual payment amount. For unsecured, this is where the customer has failed to meet the scheduled minimum monthly payment; i.e. the customer is at least one month past due.
Available-for-sale Reserve	This reserve represents the unrealised change in the fair value of available for sale investments since initial recognition.
Asset Backed Securities (ABS)	Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows, including credit card assets, but are commonly pools of residential or commercial mortgages. Investors in these securities have the right to cash received from future payments (interest and/or principal) on the underlying asset pool. See also **RMBS**.
Basel III	Global regulatory standard on Bank Capital Adequacy, Stress Testing and Market and Liquidity proposed by the Basel Committee on Banking Supervision in 2010. See also **CRD IV**.
Board	The Group Board.
Capital at Risk (CaR)	Approach set out for the quantification of interest rate risk expressed as present value of the impact of the sensitivity analysis on the Group's capital.
Charge off	Charge off occurs on outstanding credit card balances which are deemed irrecoverable. This involves the removal of the balance and associated provision from the balance sheet with any remaining outstanding balance recognised as a loss.
Collective impairment allowances	Assets may be assessed for impairment allowance on a collective basis for loans of similar attributes; e.g. payment status; given the homogeneous nature of assets in the portfolio.
Company	Virgin Money Holdings (UK) plc. In Appendix 7, Virgin Money plc.
Conduct risk	The risk that the Group's operating model, culture or actions result in unfair outcomes for customers.
Common Equity Tier 1 capital (CET1)	The highest form of regulatory capital under Basel III that comprises common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.
CET 1 ratio	CET 1 capital expressed as a percentage of total risk-weighted assets.
CRD IV	In June 2013, the European Commission published legislation for a Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) which form the CRD IV package. The package implements the Basel III proposals in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. The rules are implemented in the UK via the PRA policy statement PS7/13 and came into force from 1 January 2014, with certain sections subject to transitional phase in.
Credit risk	Credit risk is the risk that a borrower or counterparty fails to pay the interest or the capital on a loan or other financial instrument on time.
Credit Valuation Adjustment	These are adjustments to the fair values of derivative assets to reflect the credit worthiness of the counterparty.
Default	Default occurs where a borrower has missed 6 months of mortgage repayments or 3 months of credit card repayments, or, the borrower is deemed to be unlikely to repay their loan. The definition of unlikely to repay includes those loans where: the property has been taken into possession; loans that have been modified in the form of a "Rescue Solution" debt management plan; loans where the customer is at least one month in arrears and they have active public information at the credit bureau.
Earnings at Risk (EaR)	Approach set out for the quantification of interest rate risk expressed as the impact of the sensitivity analysis on the change to net interest income.

Excess expected loss	Where expected losses exceed accounting impairment provisions linked to the underlying credit risk exposures the resultant excess expected loss is deducted from Common Equity Tier 1 capital.
Expected Loss (EL)	Expected Loss (EL) represents the anticipated loss, in the event of a default, on a credit risk exposure modeled under the Advanced Internal Ratings Based approach. EL is determined by multiplying the associated PD, LGD and EAD
Exposure	An asset, off-balance sheet item or position which carries a risk of financial loss.
Exposure at default (EAD)	A parameter used in AIRB approaches to estimate the amount outstanding at the time of default. The EAD calculation includes amounts where customers have contractual rights to draw down further balances and estimates of interest accruals to the point of default.
Forbearance	Forbearance takes place when a concession is made on the contractual terms of a loan in response toborrowers' 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.
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.
Group	The Company and its subsidiaries.
Haircut	Where an asset's market value is reduced for the purpose of calculating collateral levels.
Help to Buy	'Help to Buy' was formed as part of the 2013 budget announcement by the government and is part of a package of measures designed to increase the availability of low-deposit mortgages for credit worthy households and to boost the supply of new housing.
Impaired assets	Loans that are in arrears, or where there is objective evidence of impairment, and where the carrying amount of the loan exceeds the expected recoverable amount.
Interest rate risk	The risk of a reduction in the value of earnings or assets resulting from an adverse movement in interest rates.
Interest rate 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.
Interest rate swap	An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount.
Internal capital adequacy assessment process (ICAAP)	The Group's own assessment 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.
Legal risk	The risk of Virgin Money activities being unlawful and not aligned to with best legal practice.
Leverage ratio	Total Tier 1 Capital expressed as a percentage of Total assets (adjusted in accordance with CRD IV).
Liquidity risk	The inability to accommodate liability maturities and withdrawals, fund asset growth, and otherwise meet the Group's contractual obligations to make payments as they fall due.
Long run average probability of default	An estimate of the likelihood of a borrower defaulting on their credit obligations over a forward looking 12 month period, with the estimates based on default experience across a full economic cycle rather than current economic conditions.
Loss Given Default (LGD)	A parameter used to estimate the difference between exposure at default (EAD) and the net amount of the expected recovery expressed as a percentage of EAD.

Market risk	The risk that the value of, or net income arising from, assets and liabilities changes as a result of movements in interest or exchange rates.
Model risk	The risk arising through deficiencies in the development of a model or its control environment including quality and control of model inputs and outputs, leading to sub-standard decision-making and/or financial loss.
Neither past due nor impaired	Loans that are not in arrears and which do not meet the impaired asset definition. This segment can include assets subject to forbearance solutions.
Neither past due nor impaired but in forbearance	Loans that are categorised as neither past due nor impaired, but are currently subject to one of the defined forbearance solutions.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.
Other encumbered assets	Assets that cannot be used for secured funding due to legal or other reasons. These include cash reserves supporting secured funding structures.
Own funds	Total capital. The sum of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital.
Past due	Past due items is an exposure class under the standardised approach to credit risk. An asset falls into this exposure class when it is more than 90 days past due and fails to meet payments when they are contractually due.
Past due but not impaired	Loans that are in arrears or where there is objective evidence of impairment, but the asset does not meet the definition of an impaired asset as the expected recoverable amount exceeds the carrying amount.
Pillar 1	The part of CRD IV that sets out the process by which regulatory capital requirements should be calculated for credit, market and operational risk.
Pillar 2	The part of CRD IV that sets out the process by which a bank should review its overall capital adequacy and the processes under which the supervisors evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments.
Pillar 3	The part of CRD IV that sets out the information banks must disclose in relation to their risks, the amount of capital required to absorb them, and their approach to risk management. The aim is to strengthen market discipline.
Probability of Default (PD)	The probability of a customer reaching default over a defined outcome period. The definition of default varies across products and varies for assessment of capital requirements and for assessment of provisions.
Repurchase Agreements (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).
Risk appetite	The variability in results or key outcomes that the board is willing to accept in support of the Group.
Risk-weighted assets (RWAs)	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with PRA rules.
Secured lending	Lending on which the borrower uses collateral such as equity in their home.
Securitisation	A process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities. A company transfers assets to a special purpose vehicle (SPV) which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities. These securitisation structures use retail mortgages as the asset pool. In addition, the Group invests in various securitisation structures in its Treasury portfolio.
Senior management	An individual other than a director: (a) who is employed by: (i) a firm; or (ii) a body corporate within a group of which the firm is a member;

(b) to whom the governing body of the firm, or a member of the governing body of the firm, has given responsibility, either alone or jointly with others, for management and supervision;

(c) who, if the individual is employed by the firm, reports directly to:

  (i) the governing body; or

  (ii) a member of the governing body; or

  (iii) the chief executive; or

  (iv) the head of a significant business unit; and

(d) who, if the individual is employed by a body corporate within the Group, reports directly to a person who is the equivalent of a body or person referred to in (c).

Standardised approach The basic method used to calculate credit risk capital requirements under CRD IV. In this approach the risk weights used in the capital calculation are determined by PRA supervisory parameters. The Standardised approach is less risk-sensitive than AIRB.

Tier 1 capital A measure of a bank's financial strength defined by the PRA. It comprises Common Equity Tier 1 capital plus other Tier 1 securities in issue.

Tier 1 capital ratio Tier 1 capital as a percentage of risk-weighted assets.

Tier 2 capital A further component of regulatory capital defined by the PRA. For the Group, it comprises eligible general impairment allowances under CRD IV.

Unencumbered assets Assets that are readily available to secure funding or to meet collateral requirements, and assets that are not subject to any restrictions but are not readily available for use.

Unsecured lending Lending with no collateral held such as credit cards and current account overdrafts.

Write off Mortgages may be written off where the outstanding balance, or shortfall from sale of property is deemed irrecoverable. Assets written off will be deducted from the balance sheet. For credit cards a write off occurs following charge off when all attempts to recover the outstanding balance is exhausted and the account is closed.

Abbreviations

AIRB	Advanced Internal Ratings Based	**EBO**	Everyone's better off	**LGD**	Loss given default
AT1	Additional Tier 1	**ECAI**	External Credit Assessment Institution	**LIBOR**	London Inter-Bank Offered Rate
BBR	Bank Base Rate	**EL**	Expected loss	**LRA**	Long run average
BOE	Bank of England	**FCA**	Financial Conduct Authority	**LTIP**	Long-Term Incentive Plan
CET1	Common Equity Tier 1 Capital	**FLS**	Funding for Lending	**LTV**	Loan to Value
CCR	Counterparty credit risk	**FPC**	Financial Policy Committee	**MtM**	Mark to Market
CRR	Capital Requirements Regulation	**FSCS**	Financial Services Compensation Scheme	**OTC**	Over the Counter
CRD	Capital Requirements Directive	**HPI**	House Pricing Index	**PD**	Probability of Default
CSA	Credit Support Annexes	**IFRS**	International Financial Reporting Standards	**PRA**	Prudential Regulation Authority
CVA	Credit Valuation Adjustment	**IRRBB**	Interest rate risk in the banking book	**RMBS**	Residential Mortgage Backed Securities
EAD	Exposure at default	**ISDA**	International Swaps and Derivatives Association	**SPV**	Special Purpose Vehicle

Index of tables

Table 1 — Capital ratios 3
Table 2 — Capital resources 4
Table 3 — Movement in capital 4
Table 4 — Risk-weighted assets 5
Table 5 — Movement in risk-weighted assets 5
Table 6 — Risk-weighted assets — segmental analysis 6
Table 7 — Risk-weighted assets by risk type and by business segment 6
Table 8 — Credit risk exposures 7
Table 9 — AIRB exposures 7
Table 10 — Standardised exposures 8
Table 11 — Regulatory Group structure 10
Table 12 — Special purpose vehicles 11
Table 13 — Reconciliation of statutory balance sheet to regulatory balance sheet 12
Table 14 — Reconciliation of regulatory balance sheet to credit risk exposures 13
Table 15 — Summary of CRD IV capital requirements 18
Table 16 — Balance sheet strength 21
Table 17 — Split of Group's business activities 22
Table 18 — Analysis of directors as at 31 December 2015 23
Table 19 — Group capital resources 27
Table 20 — Movements in capital resources 28
Table 21 — Leverage ratio 29
Table 22 — Risk-weighted assets and capital requirements 30
Table 23 — Risk-weighted asset movements 31
Table 24 — Segmental risk-weighted assets 32
Table 25 — Group exposures, risk weights and average exposures 34
Table 26 — Group credit exposures by business segment 35
Table 27 — Credit risk exposures by industry or counterparty type 36
Table 28 — Credit risk exposures by geographical area 37
Table 29 — Credit risk exposures by residual maturity 38
Table 30 — Categorisation of credit risk by impairment level 39
Table 31 — Analysis of past due and impaired loans and advances to customers 43
Table 32 — Analysis of movements in impairment provisions 43
Table 33 — AIRB exposures and risk-weighted assets by exposure class 45
Table 34 — AIRB exposures by risk band 45
Table 35 — AIRB expected loss and impairment provision 47
Table 36 — AIRB model performance 48
Table 37 — Standardised exposures by risk weight 49
Table 38 — Standardised wholesale exposures by credit rating 50
Table 39 — Exposures in equities 50
Table 40 — Retained securitisations 53
Table 41 — Purchased securitisation positions 55
Table 42 — Impaired securitised assets 55
Table 43 — Maximum LTVs for residential lending 57
Table 44 — Fair value of collateral against secured loans, capped at loan value 58
Table 45 — Derivative exposures 59
Table 46 — Analysis by exposure class 59
Table 47 — Analysis by contract type 60
Table 48 — Capital at Risk 63
Table 49 — Earnings at Risk 63
Table 50 — Own funds disclosure template 67
Table 51 — Capital instruments' main features template 70
Table 52 — Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer 72
Table 53 — Amount of institution specific countercyclical capital buffer 72
Table 54 — Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer – Virgin Money plc 73
Table 55 — Amount of institution specific countercyclical capital buffer – Virgin Money plc 73
Table 56 — Summary reconciliation of accounting assets and leverage ratio exposures 75
Table 57 — Leverage ratio common disclosures 75
Table 58 — Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) 76
Table 59 — Free format text boxes for disclosure on qualitative items 76
Table 60 — Asset encumbrance template A — assets 78
Table 61 — Asset encumbrance template C — Encumbered assets/collateral received and associated liabilities 78
Table 62 — Remuneration of Code Staff 84
Table 63 — Analysis of high earners 84

Table 64 — Virgin Money plc capital resources.. 88
Table 65 — Virgin Money plc movements in capital resources 89
Table 66 — Virgin Money plc risk-weighted assets and capital requirements... 90
Table 67 — Virgin Money plc risk-weighted asset movements 90
Table 68 — Virgin Money plc leverage ratio... 92
Table 69 — Virgin Money plc credit risk exposures, risk weights and average exposures....................................... 93
Table 70 — Virgin Money plc credit risk exposures by industry 94
Table 71 — Virgin Money plc credit risk exposures by geographical area 95
Table 72 — Virgin Money plc credit risk exposures by residual maturity 96
Table 73 — Virgin Money plc analysis of past due and impaired loans and advances to customers 97
Table 74 — Virgin Money plc analysis of movements in impairments provisions 97

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