Registered No. 06952311

Virgin Money plc

2018 Half-Year Results

Forward Looking Statements

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

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

Note: The information in this announcement relates to the Company as a standalone business and does not take into account the impact of the offer for the Company's parent undertaking from CYBG PLC which was announced on 18 June 2018.

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Overview

An overview of important events affecting the Company that have occurred in the six months to 30 June 2018 is provided within the Chief Executive's Statement included in the 2018 Half-Year Results of the Virgin Money Group, which should be read together with these results.

In the first half of 2018 asset growth was managed to protect returns in a competitive environment. The Company experienced strong credit performance and continued to maintain a high quality balance sheet.

The robust performance of the savings franchise underpinned the Company's growth and helped deliver net interest income growth of 5.1 per cent. Underlying total income increased by 3.9 per cent on H1 2017.

Further improvements in operating leverage and effective cost management resulted in a 0.8 per cent reduction in costs. This reduction in costs resulted in the cost:income ratio reducing by 2.5 percentage points on H1 2017, to 53.1 per cent. The cost of risk of 0.16 per cent continued to evidence the Company's commitment to prime lending segments.

Taken together, the Company delivered an underlying profit before tax of £120.3 million, 4.5 per cent higher than H1 2017.

In March an application was submitted for a reduction in mortgage risk-weights to the Prudential Regulation Authority (PRA) reflecting the excellent credit quality of the mortgage portfolio. The PRA have approved these model changes and the reduction in risk-weights is reflected within the material increase to the Common Equity Tier 1 (CET1) ratio to 18.2 per cent.

Summary Income Statement

	Half-year to 30 Jun 2018 £ million	Half-year to 30 Jun 2017 £ million	Half-year to 31 Dec 2017 £ million
Net interest income	**303.3**	288.5	306.2
Underlying other income	**18.0**	20.8	14.1
Underlying total income	**321.3**	309.3	320.3
Operating expenses	**(170.6)**	(172.0)	(160.1)
Impairment	**(30.4)**	(22.2)	(22.0)
Underlying profit before tax	**120.3**	115.1	138.2
Fair value gains/(losses) on financial instruments	**4.7**	11.3	(1.5)
Statutory profit before tax	**125.0**	126.4	136.7

Summary Balance Sheet

	30 Jun 2018 £ million	31 Dec 2017 £ million
Assets		
Cash and balances at central banks	**4,164.2**	2,579.0
Loans and advances to banks	**114.3**	122.9
Loans and advances to customers	**37,441.0**	37,099.9
Financial instruments at fair value through other comprehensive income	**1,495.3**	–
Available-for-sale financial assets	**–**	902.4
Other	**329.1**	314.7
Total assets	**43,543.9**	41,018.9
Liabilities		
Deposits from banks	**7,082.9**	5,377.7
Customer deposits	**31,445.6**	30,808.4
Amounts due to securitisation special purpose vehicles	**2,145.0**	2,300.4
Debt securities in issue	**653.4**	302.8
Other	**362.1**	350.4
Total liabilities	**41,689.0**	39,139.7
Total equity	**1,854.9**	1,879.2
Total liabilities and equity	**43,543.9**	41,018.9

Financial Review

Balance sheet growth

	30 Jun 2018 £ million	31 Dec 2017 £ million	**Change**
Loans and advances to customers	**37,441.0**	37,099.9	**0.9%**
Customer deposits	**31,445.6**	30,808.4	**2.1%**
Wholesale funding (including government funding)	**9,872.4**	7,969.2	**23.9%**
Wholesale funding <1 year maturity	**1,031.5**	1,215.8	**(15.2)%**
High quality liquid assets[1]	**5,338.0**	5,264.4	**1.4%**

1 At 31 December 2017 these included Funding for Lending Scheme (FLS) drawings which were held off-balance sheet, but were available for repo and hence counted towards liquidity resources. FLS drawings were repaid in full during February 2018.

Lending was carefully managed to protect returns in the first half of 2018.

Mortgage balances grew to £34.1 billion as the Company's share of gross lending was balanced with a focus on returns. Volumes accelerated in the second quarter as the Company broadened its mortgage product offering. As a result, the Company entered the second half with a mortgage pipeline of £2.2 billion compared to £1.4 billion at year end.

Credit card balances grew to £3.1 billion during the half, including diversifying the portfolio with the successful launch of new Virgin Atlantic credit cards.

Lending was funded by continued growth in the retail deposit franchise. Total customer deposits grew to £31.4 billion at 30 June 2018, with particularly strong performance in cash ISAs.

Further steps were taken to diversify the funding base with the launch of the new SME deposit account in the first half of 2018. Balances stood at over £160 million as at 30 June 2018 and are on track to reach £500 million of new balances by the end of the year.

The Company repriced £1.5 billion of existing deposits in the first half of 2018, following on from significant repricing activity in 2017. This enabled further reduction in the cost of funds and helped to offset margin pressure from lower asset spreads.

The Company continued to optimise the mix and duration of the funding base in the first half of 2018. Term Funding Scheme (TFS) drawings totalled £6.4 billion at the closure of the scheme at the end of February 2018. TFS drawings in the first two months of the year were used to repay outstanding FLS balances in full.

In wholesale funding, the Company completed an MREL eligible subordinated note issuance to its parent undertaking of £350 million in April.

The Company maintained its strong liquidity position throughout the first half of 2018. At the balance sheet date high quality liquid assets stood at £5.3 billion. The repayment in full of off-balance sheet FLS drawings with the final TFS drawing, which is held on balance sheet, resulted in an increase in on balance sheet liquidity.

Income benefited from growth in asset balances and optimisation of funding costs

	Half-year to 30 Jun 2018 £ million	Half-year to 30 Jun 2017 £ million	**Change**	Half-year to 31 Dec 2017 £ million	**Change**
Net interest income	**303.3**	288.5	**5.1%**	306.2	**(0.9)%**
Underlying other income[2]	**18.0**	20.8	**(13.5)%**	14.1	**27.7%**
Underlying total income[2]	**321.3**	309.3	**3.9%**	320.3	**0.3%**

2 Excluding non-cash fair value gains/(losses) on financial instruments.

Net interest income increased by 5.1 per cent to £303.3 million. This was driven by growth in customer balances over the past year which more than offset the reduction in margins.

The pressure on margins from lower mortgage spreads was partially offset by further optimisation of the funding base, through both improved deposit spreads and the benefit from TFS funding, and by the decision to moderate mortgage balance growth in the competitive environment.

The credit card book continued to perform strongly. A full and in depth analysis of all customer behaviours as at 30 June was undertaken, which included the 49,000 customers who have come off their zero per cent promotion period in the first half of the year. This analysis resulted in a net adjustment to reduce total income by £7.8 million across the whole portfolio to reflect those behaviours over the seven year modelling period. £5.4 million of the total represents income previously recognised and £2.4 million represents the present value of income not yet earned.

Underlying other income decreased by £2.8 million compared to the prior period. In the first half of 2018 other income included a gain of £3.0 million from the sale of equity investments. The first half of 2017 included a gain of £6.1 million from the sale of Vocalink shares. Excluding those gains, underlying other income increased by 2.0 per cent.

Fair value gains and losses on financial instruments reflect the results of hedge accounting and the fair value movements on derivatives in economic hedges to the extent that they either do not meet the criteria for hedge accounting or give rise to hedge ineffectiveness. Where these derivatives are held to maturity, fair value movements recorded in this heading represent timing differences that will reverse over their lives and therefore excluding these from underlying profit better represents the underlying performance of the Company.

Operational efficiency improved with tightly controlled costs and increased investment

		Half-year to 30 Jun 2018	Half-year to 30 Jun 2017	**Change**	Half-year to 31 Dec 2017	**Change**
Operating expenses	£ million	**170.6**	172.0	**(0.8)%**	160.1	**6.6%**
Cost:income ratio[3]	%	**53.1**	55.6	**(2.5)pp**	50.0	**3.1pp**

3 Operating expenses divided by underlying total income.

Operating expenses remained tightly controlled, reducing by 0.8 per cent. Set against underlying total income growth of 3.9 per cent, this reduced the cost:income ratio by 2.5 percentage points, to 53.1 per cent.

This performance reflected the continued benefits of the Company's scalable platform and disciplined cost management across the business.

In addition to revenue expenditure, the Company continued to invest in the business with £44.1 million (H1 2017: £36.3 million) of capital expenditure. This supported the customer proposition, systems and processes in the core bank as well as strategic initiatives which included the continued build of the digital bank.

Impairments reflected a benign environment and rigorous credit risk management

		Half-year to 30 Jun 2018	Half-year to 30 Jun 2017	**Change**	Half-year to 31 Dec 2017	**Change**
Mortgages						
Impairment charge	£ million	**0.9**	1.4	**(35.7)%**	0.8	**12.5%**
Cost of risk[4]	%	**<0.01**	0.01	**<(1)bp**	0.01	**<(1)bp**
Cards						
Impairment charge	£ million	**29.5**	20.8	**41.8%**	21.2	**39.2%**
Cost of risk[4]	%	**1.87**	1.58	**29bps**	1.44	**43bps**
Company						
Impairment charge	£ million	**30.4**	22.2	**36.9%**	22.0	**38.2%**
Cost of risk[4]	%	**0.16**	0.13	**3bps**	0.12	**4bps**
Provisions as a % of arrears balances[5 6]	%	**63.4**			58.6	**4.8pp**
Loans classified as Stage 2[5]	%	**5.4**			4.9	**0.5pp**
Stage 2 loans not past due[5]	%	**90.6**			88.6	**2.0pp**

4 Impairment charge divided by simple average gross loans for the period. The figures for the half-year to 30 June 2018 reflect impairment charges on an expected credit loss basis in accordance with IFRS 9. The comparative figures reflect impairment charges on an incurred loss basis under IAS 39.

5 The figures for 31 December 2017 are as at 1 January 2018 to reflect IFRS 9; see note 17 of the condensed half-year financial statements for further detail.

6 Secured lending is classified as in arrears where the customer's payment shortfall exceeds 1 per cent of the current monthly contractual payment amount. For unsecured lending, customers are classified as in arrears at one day past due.

Credit performance remained strong in the first half of 2018, reflecting the established risk appetite framework, ongoing focus on underwriting rigour and the origination of high credit quality customers and prime assets.

The cost of risk for mortgages on an IFRS 9 basis reduced to less than 0.01 per cent. This performance reflected robust underwriting standards and the benign economic environment, leading to a continued low level of defaults. The percentage of mortgages over three months in arrears was 0.12 per cent at 30 June 2018 (31 December 2017: 0.12 per cent).

The impairment charge for credit cards grew from £20.8 million in the first half of 2017 to £29.5 million in the first half of 2018 as a result of reporting under IFRS 9 and balance growth in the portfolio. £4.7 million of the £8.7 million increase was as a result of the change to reporting under IFRS 9 with the balance reflecting growth in the portfolio.

Provisions as a percentage of balances in arrears increased to 63.4 per cent (1 January 2018: 58.6 per cent) as the Company retained appropriate coverage of balances at risk of loss.

The proportion of credit-impaired assets as a percentage of total loans and advances remained low at 0.6 per cent as at 30 June 2018 (1 January 2018: 0.5 per cent).

Continued strong progression in returns

		Half-year to 30 Jun 2018	Half-year to 30 Jun 2017	**Change**	Half-year to 31 Dec 2017	**Change**
Return on tangible equity[7]	%	**10.7**	10.8	**(0.1)pp**	12.9	**(2.2)pp**

7 Underlying profit before tax (adjusted to deduct distributions on Additional Tier 1 securities) less tax calculated using the statutory effective tax rate of the Company, divided by simple average tangible equity. Tangible equity is calculated as total equity less other equity instruments and intangible assets.

Return on tangible equity was 10.7 per cent in the first half of 2018, compared to 10.8 per cent in the first half of 2017. On a statutory basis, return on assets (profit attributable to equity owners divided by closing total assets) was 0.42 per cent in the first half of 2018, compared to 0.46 per cent in in the first half of 2017.

Capital strength whilst investing in the future

		30 Jun 2018	31 Dec 2017	Change
Capital ratios and risk-weighted assets				
Common Equity Tier 1 (CET1) capital	£ million	**1,455.6**	1,489.1	**(2.2)%**
Risk-weighted assets (RWAs)	£ million	**7,985.4**	9,093.4	**(12.2)%**
- of which mortgage credit risk RWAs	£ million	**4,394.3**	5,790.5	**(24.1)%**
- of which credit card credit risk RWAs	£ million	**2,389.4**	2,282.9	**4.7%**
- of which all other RWAs	£ million	**1,201.7**	1,020.0	**17.8%**
Common Equity Tier 1 ratio	%	**18.2**	16.4	**1.8pp**
Tier 1 ratio	%	**21.1**	18.9	**2.2pp**
Total capital ratio	%	**21.1**	19.1	**2.0pp**
Leverage ratio	%	**3.8**	4.1	**(0.3)pp**

Note: inclusive of verified profits for H1 2018.

Capital ratios

Capital ratios improved strongly during the first half of 2018 as the reduction in capital resources was more than offset by the reduction in risk-weighted assets. This led to a 1.8 percentage point increase in the CET1 ratio to 18.2 per cent, and a 2.0 percentage point increase in the total capital ratio to 21.1 per cent.

The leverage ratio at 30 June 2018 was 3.8 per cent and reflected the growth in lending portfolios and higher levels of on balance sheet liquidity as FLS was repaid in full.

Capital resources

During the first half of 2018 the Company generated profit attributable to equity shareholders of £83.5 million. This profit flowed into capital resources and after allowing for investment, dividends to the parent undertaking and movements in regulated items, this resulted in CET1 capital of £1,455.6 million at 30 June 2018 to support customer lending.

Risk-weighted assets

The Company received approval for improvements to its AIRB models which reduced mortgage risk weight density at 30 June 2018 to 12.9 per cent from 17.7 per cent. This improvement, after taking into account growth in balances, resulted in mortgage RWAs at 30 June 2018 of £4,394.3 million, a £1,396.2 million reduction compared to £5,790.5 million at 31 December 2017.

Credit card credit risk RWAs increased to £2,389.4 million, principally in line with balance growth as credit card RWAs are calculated using the standardised approach.

Other RWAs increased to £1,201.7 million, driven by increased operational risk RWAs which were recalibrated during the first half of the year to reflect the growth in average income over the past three years, in line with the standardised approach.

Total RWAs at 30 June 2018, after mortgage risk weight model improvements, were 12.2 per cent lower than at 31 December 2017 at £7,985.4 million.

Principal Risks and Uncertainties

The principal risks faced by the Company are summarised below. Except where noted, there has been no significant change to the descriptions of these risks or key mitigating actions disclosed in the Company's 2017 Annual Report and Accounts (pages 7 to 9).

Credit risk

Credit risk is the risk of loss resulting from a borrower or counterparty failing to pay amounts due. The Company provides residential and buy-to-let mortgages and credit cards to customers across the UK. There is a risk that any adverse changes in the macro-economic environment and/or the credit quality or behaviour of borrowers results in additional impairment losses, thereby reducing profitability.

Wholesale exposures arise through operational exposures, the Company's liquid asset portfolio and the use of derivative instruments to manage interest rate risk.

Market risk

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

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. The management of third party relationships, cybercrime and information security remains a key focus for the Company. During 2018, the Company will become a direct member of all relevant UK inter-bank payment systems.

Conduct and Compliance risk

Conduct and compliance risk is defined as the risk that the Company's operating model, culture or actions result in unfair outcomes for customers. This could result in regulatory sanction, material financial loss or reputational damage if the Company fails to design and implement operational processes, systems and controls and maintain compliance with all applicable regulatory requirements.

Strategic and Financial risk

Strategic risk is the risk of significant loss or damage arising from business decisions that impact the long-term interests of stakeholders or from an inability to adapt to external developments.

Financial risk is focused primarily on credit concentration risk, which is managed for retail and wholesale credit exposures at portfolio, product and counterparty levels.

Financial performance can be impacted by adverse changes in customer behaviour. Customer behaviour is monitored monthly and reviewed quarterly at cohort, product and portfolio levels.

Funding and Liquidity risk

Funding risk represents the inability to raise and maintain sufficient funding in quality and quantity to support the delivery of the business plan.

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

Capital risk

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

Condensed Half-Year Financial Statements (Unaudited)

INCOME STATEMENT

	Note	**Half-year to 30 Jun 2018 £ million**	Half-year to 30 Jun 2017 £ million	Half-year to 31 Dec 2017 £ million
Interest and similar income		**521.1**	468.8	495.9
Interest and similar expense		**(217.8)**	(180.3)	(189.7)
Net interest income	2	**303.3**	288.5	306.2
Net fee and commission income		**11.9**	10.7	10.9
Fair value gains/(losses) on financial instruments		**7.7**	11.3	(1.5)
Other operating income		**3.1**	10.1	3.2
Other income		**22.7**	32.1	12.6
Total income		**326.0**	320.6	318.8
Operating expenses	3	**(170.6)**	(172.0)	(160.1)
Profit before tax from operating activities		**155.4**	148.6	158.7
Impairment charge	5	**(30.4)**	(22.2)	(22.0)
Profit before tax		**125.0**	126.4	136.7
Taxation	6	**(34.1)**	(34.2)	(36.6)
Profit for the period		**90.9**	92.2	100.1
Profit attributable to equity owners		**90.9**	92.2	100.1
Profit for the period		**90.9**	92.2	100.1

The accompanying notes are an integral part of these condensed half-year financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	Half-year to 30 Jun 2018[1] £ million	Half-year to 30 Jun 2017 £ million	Half-year to 31 Dec 2017 £ million
Profit for the period	**90.9**	92.2	100.1
Other comprehensive income/(expense)			
Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of available-for-sale financial assets:			
Change in fair value	**–**	12.0	2.0
Income statement transfers in respect of disposals	**–**	(10.4)	(3.1)
Taxation	**–**	(0.4)	0.3
	–	1.2	(0.8)
Movements in revaluation reserve for debt instruments at fair value through other comprehensive income:			
Change in fair value	**3.5**	–	–
Income statement transfers in respect of disposals	**(3.3)**	–	–
Taxation	**0.2**	–	–
	0.4	–	–
Items that will not be reclassified to profit or loss:			
Movements in revaluation reserve for equity investments designated at fair value through other comprehensive income:			
Change in fair value	**0.3**	–	–
Taxation	**(0.1)**	–	–
	0.2	–	–
Other comprehensive income/(expense) for the period, net of tax	**0.6**	1.2	(0.8)
Total comprehensive income for the period	**91.5**	93.4	99.3
Total comprehensive income attributable to equity owners	**91.5**	93.4	99.3

1 Under IFRS 9 'Financial Instruments, debt investments previously classified in the available-for-sale category were reclassified to the new fair value through other comprehensive income category at 1 January 2018 (see note 17).

The accompanying notes are an integral part of these condensed half-year financial statements.

Condensed Half-Year Financial Statements (Unaudited)

BALANCE SHEET

	Note	**30 Jun 2018 £ million**	31 Dec 2017 £ million
Assets			
Cash and balances at central banks		**4,164.2**	2,579.0
Derivative financial instruments		**15.5**	22.0
Loans and advances to banks		**114.3**	122.9
Loans and advances to customers	7	**37,441.0**	37,099.9
Financial instruments at fair value through other comprehensive income[1]		**1,495.3**	–
Equity investments at fair value through profit or loss		**1.0**	–
Available-for-sale financial assets[1]		**–**	902.4
Intangible assets	8	**158.5**	128.4
Tangible fixed assets		**72.3**	73.5
Deferred tax assets		**20.7**	10.4
Other assets		**61.1**	80.4
Total assets		**43,543.9**	41,018.9
Liabilities			
Deposits from banks		**7,082.9**	5,377.7
Customer deposits	9	**31,445.6**	30,808.4
Derivative financial instruments		**49.2**	93.1
Amounts due to securitisation special purpose vehicles	7	**2,145.0**	2,300.4
Debt securities in issue	10	**653.4**	302.8
Current tax liabilities		**28.7**	23.7
Other liabilities		**284.2**	233.6
Total liabilities		**41,689.0**	39,139.7
Equity			
Share capital		**1,400.0**	1,400.0
Other equity instruments		**230.0**	230.0
Other reserves		**5.1**	4.5
Retained earnings		**219.8**	244.7
Total equity		**1,854.9**	1,879.2
Total liabilities and equity		**43,543.9**	41,018.9

1 Under IFRS 9 'Financial Instruments, debt investments previously classified in the available-for-sale category were reclassified to the new fair value through other comprehensive income category at 1 January 2018 (see note 17).

The accompanying notes are an integral part of these condensed half-year financial statements.

STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders

	Share capital £ million	Other equity instruments £ million	Other reserves £ million	Retained earnings £ million	Total equity £ million
Balance at 1 January 2018	**1,400.0**	**230.0**	**4.5**	**244.7**	**1,879.2**
Changes on adoption of IFRS 9 (see note 17)	–	–	–	**(33.6)**	**(33.6)**
Restated balance at 1 January 2018	**1,400.0**	**230.0**	**4.5**	**211.1**	**1,845.6**
Comprehensive income					
Profit for the period	–	–	–	**90.9**	**90.9**
Other comprehensive income					
Net movement in revaluation reserve in respect of financial assets held at fair value through other comprehensive income	–	–	**0.6**	–	**0.6**
Total comprehensive income for the period	–	–	**0.6**	**90.9**	**91.5**
Transactions with equity holders					
Dividends paid to ordinary shareholders	–	–	–	**(80.0)**	**(80.0)**
Distributions on Additional Tier 1 securities	–	–	–	**(10.1)**	**(10.1)**
Tax attributable to Additional Tier 1 securities	–	–	–	**2.7**	**2.7**
Share based payments – charge for period (net of tax)	–	–	–	**5.2**	**5.2**
Total transactions with equity holders	–	–	–	**(82.2)**	**(82.2)**
Balance at 30 June 2018	**1,400.0**	**230.0**	**5.1**	**219.8**	**1,854.9**

	Share capital £ million	Other equity instruments £ million	Other reserves £ million	Retained earnings £ million	Total equity £ million
Balance at 1 January 2017	1,400.0	230.0	4.1	57.1	1,691.2
Comprehensive income					
Profit for the period	–	–	–	92.2	92.2
Other comprehensive income					
Net movement in revaluation reserve in respect of available-for-sale financial assets	–	–	1.2	–	1.2
Total comprehensive income for the period	–	–	1.2	92.2	93.4
Transactions with equity holders					
Dividends paid to ordinary shareholders	–	–	–	–	–
Distributions on Additional Tier 1 securities	–	–	–	(10.1)	(10.1)
Tax attributable to Additional Tier 1 securities	–	–	–	2.7	2.7
Share based payments – charge for period (net of tax)	–	–	–	5.1	5.1
Total transactions with equity holders	–	–	–	(2.3)	(2.3)
Balance at 30 June 2017	1,400.0	230.0	5.3	147.0	1,782.3

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Attributable to equity holders

	Share capital £ million	Other equity instruments £ million	Other reserves £ million	Retained earnings £ million	Total equity £ million
Balance at 1 July 2017	1,400.0	230.0	5.3	147.0	1,782.3
Comprehensive income					
Profit for the period	–	–	–	100.1	100.1
Other comprehensive expense					
Net movement in revaluation reserve in respect of available-for-sale financial assets	–	–	(0.8)	–	(0.8)
Total comprehensive (expense) / income for the period	–	–	(0.8)	100.1	99.3
Transactions with equity holders					
Dividends paid to ordinary shareholders	–	–	–	–	–
Distributions on Additional Tier 1 securities	–	–	–	(10.0)	(10.0)
Tax attributable to Additional Tier 1 securities	–	–	–	2.8	2.8
Share based payments – charge for period (net of tax)	–	–	–	4.8	4.8
Total transactions with equity holders	–	–	–	(2.4)	(2.4)
Balance at 31 December 2017	1,400.0	230.0	4.5	244.7	1,879.2

Condensed Half-Year Financial Statements (Unaudited)

CASH FLOW STATEMENT

	Half-year to 30 Jun 2018 £ million	Half-year to 30 Jun 2017 £ million	Half-year to 31 Dec 2017 £ million
Profit before taxation	**125.0**	126.4	136.7
Adjustments for:			
Changes in operating assets	**(426.3)**	(2,301.3)	(2,089.6)
Changes in operating liabilities	**2,222.6**	5,209.5	754.9
Non-cash and other items	**(16.1)**	22.4	10.9
Tax paid	**(23.9)**	(16.6)	(28.5)
Net cash provided by / (used in) operating activities	**1,881.3**	3,040.4	(1,215.6)
Cash flows from investing activities			
Purchase of securities	**(901.1)**	(374.7)	(166.8)
Proceeds from sale and redemption of securities	**296.5**	185.7	311.4
Purchase and investment in intangible assets	**(41.5)**	(34.6)	(39.7)
Purchase of tangible fixed assets	**(2.6)**	(1.7)	(4.0)
Net cash (used in) / provided by investing activities	**(648.7)**	(225.3)	100.9
Cash flows from financing activities			
Dividends paid to ordinary shareholders	**(30.0)**	–	–
Issue of Additional Tier 1 securities	–	2.3	–
Distributions to Additional Tier 1 security holders	**(10.1)**	(10.1)	(10.0)
Net proceeds from issue of debt securities	**348.6**	–	–
Net cash provided by / (used in) financing activities	**308.5**	(7.8)	(10.0)
Change in cash and cash equivalents	**1,541.1**	2,807.3	(1,124.7)
Cash and cash equivalents at beginning of period	**2,648.9**	966.3	3,773.6
Cash and cash equivalents at end of period[1]	**4,190.0**	3,773.6	2,648.9

1 The composition of cash and cash equivalents is consistent with the basis applied in the 2017 Annual Report and Accounts.

Notes to the Condensed Half-Year Financial Statements

Note 1: Basis of preparation

1.1 Basis of preparation and going concern

The condensed half-year financial statements of Virgin Money plc (the Company) for the six months ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 25 July 2018.

These condensed half-year financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 '*Interim Financial Reporting'* as adopted by the European Union (EU). They do not include all the information required by International Financial Reporting Standards (IFRS) in full annual financial statements and should be read in conjunction with the Company's Annual Report and Accounts for the year ended 31 December 2017.

The comparative financial information for the year ended 31 December 2017 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

As permitted by section 400 of the Companies Act 2006 the Company has not prepared consolidated financial statements.

The Directors have reviewed the strategic plan which shows the financial position, cash flow, liquidity and capital forecasts for the Company. The Directors are confident that they show that the Company will have sufficient resources to meet its liabilities as they fall due and to continue to operate for a period of at least 12 months from the date of the condensed half-year financial statements. Accordingly the Directors believe it remains appropriate to prepare the condensed half-year financial statements on a going concern basis.

1.2 Accounting policies

The accounting policies and methods of computation are consistent with those applied in the Company's 2017 Annual Report and Accounts (pages 24 to 32) with the exception of new accounting policies in respect of IFRS 9 '*Financial Instruments*' and IFRS 15 *'Revenue'* which were both adopted on 1 January 2018.

IFRS 9 replaces IAS 39 *'Financial Instruments: Recognition and Measurement'*. This new accounting standard has three core areas of change: Classification and Measurement; Hedge Accounting; and Impairment. The most significant impacts on the Company are from the changes to impairment. Details of the new accounting policies applied and the impact of transition to IFRS 9 can be found in note 17.

IFRS 15 replaces IAS 18 *'Revenue'* and IAS 11 *'Construction contracts'* as a comprehensive standard for revenue recognition. Financial instruments and other contractual rights or obligations within the scope of IFRS 9 are excluded from the scope of this standard. IFRS 15 does not have a financial impact on the Company, as a substantial proportion of the Company's income is generated from financial instruments.

1.3 Future accounting developments

A number of IFRS pronouncements of new accounting standards and amendments to accounting standards have been issued by the IASB that are not yet effective and therefore have not been applied in preparing these condensed half-year financial statements. Those which may have a significant impact on the Company in future periods are consistent with those disclosed in the 2017 Company Annual Report and Accounts (page 85).

1.4 Presentation of information

Presentation of risk disclosures

IAS 34 '*Interim Financial Statements'* requires certain disclosures outlined in IFRS 7 '*Financial Instruments: Disclosure'.* These include disclosures concerning the nature and extent of risks relating to financial instruments and have been included within note 13.

1.5 Critical estimates and judgements

The preparation of financial statements in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are based on Management's knowledge and historical experience. Due to the inherent uncertainty in making estimates, actual results in future periods may include amounts which differ from those estimates.

Note 1: Basis of preparation (continued)

The following updates are provided on critical estimates and judgements, which should be read in conjunction with the 2017 Annual Report and Accounts (pages 33 and 34).

(a) Effective interest rates

Effective interest rate (EIR) accounting for unsecured lending remains an area of critical judgement and estimate for the Company. Management model expected future cash flows over the estimated customer life, restricted to a maximum of seven years, which is supported by observed experience. Income recognition can differ significantly from actual cash receipts over that period. The selection of expected life for modelling purposes also has a material bearing on the EIR rate used for each cohort. A shorter modelling period results in a lower rate for income recognition.

As at 30 June 2018 the EIR method gave rise to an adjustment of £192.6 million (31 December 2017: £159.8 million) to the balance sheet value of unsecured loans. This adjustment represented 6.1% (31 December 2017: 5.3%) of the balance sheet carrying value of unsecured loans.

In the calculation of EIR, Management uses estimates and assumptions of future customer behaviour. These include the estimation of utilisation of available credit, transaction and repayment activity and the retention of the customer balance after the end of a promotional period.

As at 30 June 2018 a full and in depth analysis of all customer behaviours was undertaken, which included the 49,000 customers who have come off their zero per cent promotion period during the first half of the year. The customer behaviours and future cash flow assumptions, in respect of the seven year modelling period used within the EIR calculations, have been updated across the portfolio to reflect these latest observed data points. This resulted in a net reduction to total income of £(7.8) million. £(5.4) million of the total represents income previously recognised and £(2.4) million represents the present value of income not yet earned.

In relation to future sensitivities, should Management's current estimation of future cash flows be inaccurate to the extent that the original effective interest rates on unsecured lending cohorts were all reduced by 0.1%, the present value adjustment to interest income would be approximately £(12.3) million as at 30 June 2018 (31 December 2017: £(10.2) million).

The level of repayment immediately post-promotional period is a key estimate in the EIR calculation. Management have undertaken a sensitivity on post-promotion payment rates for all cohorts which are still within their promotional periods as at 30 June 2018. For these cohorts, should the payment rate be 10% higher than forecast for the six months following end of promotion, Management estimate this would result in a negative present value adjustment to interest income of approximately £(24.3) million as at 30 June 2018 (31 December 2017: £(30.8) million). In such an adjustment, £(10.9) million (31 December 2017: £(11.5) million) would relate to write-off of income previously recognised in the income statement, with £(13.4) million (31 December 2017: £(19.3) million) representing an adjustment to reflect a lower level of interest income expected in future accounting periods.

(b) Capitalisation of intangible assets

Management judgement is required in assessing intangible assets for impairment, including those not yet in use at the reporting date. As part of that judgement, the Management have considered the outlook for the Company and the current intention to deliver the Company's stated strategic objectives. On this basis the Management are satisfied with the carrying value of intangible assets at 30 June 2018.

In the event of a future change in ownership, there may be changes that affect the Company's current strategic objectives. Management acknowledge such a change in circumstance may give rise to a requirement to review this judgement at a future date.

(c) Impairment of loans and receivables

Impairment of loans and receivables is now accounted for under IFRS 9 *'Financial Instruments'*. Details of the new critical estimates and judgements made under IFRS 9 can be found be note 17.

Note 1: Basis of preparation (continued)

1.6 Operating segments

The Company has issued debt securities which are traded in a public market and therefore falls within the scope of IFRS 8 *'Operating Segments'*. However, no discrete financial information on the performance of the Company is prepared nor regularly reviewed by the Company's chief operating decision maker (which has been determined to be the Group Executive Committee). The Company has therefore determined that it has no reportable operating segments and is not required to produce additional segmental disclosure.

Segmental performance disclosures of the Group, in which the condensed half-year financial statements of the Company are consolidated, are included in the condensed consolidated half-year financial statements of Virgin Money Holdings (UK) plc.

Note 2: Net interest income

	Half-year to 30 Jun 2018 £m	Half-year to 30 Jun 2017 £m	Half-year to 31 Dec 2017 £m
Interest and similar income:			
Loans and advances to customers	**505.1**	463.5	487.5
- of which relates to securitisation subordinated loan	***2.8***	*2.9*	*2.9*
Loans and advances to banks	**0.2**	0.2	0.2
Available-for sale financial assets	**–**	2.6	3.0
Financial instruments at fair value through other comprehensive income	**4.7**	–	–
Cash and balances at central banks	**10.5**	1.8	4.5
Other interest	**0.6**	0.7	0.7
Total interest and similar income	**521.1**	468.8	495.9
Interest and similar expense:			
Deposits from banks	**(19.3)**	(5.7)	(10.8)
Customer deposits	**(174.6)**	(152.9)	(157.9)
Debt securities in issue	**(4.3)**	(2.2)	(2.1)
Amounts due to securitisation special purpose vehicles	**(17.4)**	(14.5)	(14.8)
Other	**(2.2)**	(5.0)	(4.1)
Total interest and similar expense	**(217.8)**	(180.3)	(189.7)
Net interest income	**303.3**	288.5	306.2

Notes to the Condensed Half-Year Financial Statements

Note 3: Operating expenses

	Half-year to 30 Jun 2018 £m	Half-year to 30 Jun 2017 £m	Half-year to 31 Dec 2017 £m
Staff costs:			
Wages and salaries	**86.1**	75.3	86.6
Social security costs	**7.6**	7.5	8.0
Other pension costs	**5.7**	5.4	5.5
Employee share schemes	**5.2**	5.1	4.8
	104.6	93.3	104.9
Premises and equipment:			
Hire of equipment	**2.3**	2.3	2.3
Rent and rates	**7.6**	7.2	6.8
Other property costs	**5.8**	5.8	5.2
	15.7	15.3	14.3
Depreciation, amortisation and impairment:			
Depreciation of tangible fixed assets	**3.8**	3.9	4.1
Amortisation of intangible assets	**11.4**	10.7	11.0
Impairment of intangible assets	**–**	4.8	–
	15.2	19.4	15.1
Other expenses	**35.1**	44.0	25.8
Total operating expenses	**170.6**	172.0	160.1

Note 4: Share based payments

All share based payment charges relate to equity settled schemes. Details of the existing share plans can be found in note 6 of the 2017 Annual Report and Accounts.

In the six months to 30 June 2018 the Company granted new awards under the Deferred Bonus Share Plan and the Long Term Incentive Plan.

Note 5: Allowance for impairment losses on loans and advances to customers

	Half-year to 30 Jun 2018 £m	Half-year to 30 Jun 2017 £m	Half-year to 31 Dec 2017 £m
Opening allowance at 31 December	**59.4**	50.1	55.7
Changes on adoption of IFRS 9 at 1 January 2018 (refer note 17)	**44.8**	–	–
Restated opening balance at 1 January	**104.2**	50.1	55.7
Advances written off	**(21.5)**	(16.6)	(18.3)
Charge to income statement	**30.4**	22.2	22.0
Closing allowance	**113.1**	55.7	59.4
In respect of:			
Secured loans	**12.8**	11.7	12.1
Unsecured loans	**100.3**	44.0	47.3
Total closing allowance	**113.1**	55.7	59.4

A loss allowance of £0.2 million (30 June 2017 and 31 December 2017: £nil) is recognised in relation to loans and advances to banks.

Note 6: Taxation

Analysis of the tax charge for the period:

	Half-year to 30 Jun 2018 £m	Half-year to 30 Jun 2017 £m	Half-year to 31 Dec 2017 £m
Profit before tax	**125.0**	126.4	136.7
Tax charge at standard tax rate of 19.00% (30 June 2017: 19.25%, 31 December 2017: 19.25%)	**(23.8)**	(24.3)	(26.3)
Factors affecting tax charge:			
Disallowed items	**(1.0)**	(0.6)	(0.3)
Bank corporation tax surcharge	**(9.1)**	(9.1)	(10.1)
UK corporation tax rate changes	**(0.2)**	(0.1)	(0.3)
Deferred tax charge in respect of share schemes	**0.1**	–	–
Adjustments in respect of prior periods	**–**	(0.1)	0.4
Other	**(0.1)**	–	–
Total tax charge	**(34.1)**	(34.2)	(36.6)

The main rate of corporation tax reduced from 20% to 19% on 1 April 2017, and will reduce further to 17% on 1 April 2020 in accordance with the Finance Act 2016.

In accordance with IAS 34 *'Interim Financial Reporting'*, the Company's tax charge for the half-year to 30 June 2018 is based on the best estimate of the weighted-average annual corporation tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual corporation tax rate, but are recognised in the relevant period.

Note 7: Loans and advances to customers

	30 Jun 2018 £m	31 Dec 2017 £m
Secured residential loans and advances not subject to securitisation	**22,342.1**	21,878.7
Secured residential loans and advances subject to securitisation	**5,112.5**	5,438.5
	27,454.6	27,317.2
Secured residential buy-to-let loans and advances not subject to securitisation	**6,626.9**	6,367.3
Total loans and advances to customers secured on residential property	**34,081.5**	33,684.5
Unsecured loans and advances not subject to securitisation	**3,240.7**	3,071.4
Amounts due from group companies	**265.0**	359.7
Total loans and advances to customers before allowance for impairment losses	**37,587.2**	37,115.6
Impairment allowance (refer note 5)	**(113.1)**	(59.4)
Total loans and advances to customers excluding portfolio hedging	**37,474.1**	37,056.2
Fair value of portfolio hedging	**(33.1)**	43.7
Total loans and advances to customers	**37,441.0**	37,099.9

Securitisation

Securitisation is a means used by the Company 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 carrying value to SPVs and have been funded through the issue of amortising mortgage backed securities to investors with a proportion retained by the Company. The transfers do not meet the criteria for asset derecognition in IFRS 9 '*Financial Instruments'* as the Company has retained the risks and rewards of the assets.

The following table sets out the carrying amount of financial assets that did not qualify for derecognition and their associated liabilities. The table also sets out the fair value of financial assets where the counterparty to the associated liabilities has recourse to those financial assets. There were no transactions in the period where the Company transferred financial assets that should have been derecognised in their entirety.

	30 Jun 2018		31 Dec 2017	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Transferred assets	**5,112.5**	**5,162.2**	5,438.5	5,512.6
Associated liabilities	**2,145.0**	**2,145.0**	2,300.4	2,300.4

Note 8: Intangible assets

	Software £m	Banking platforms £m	Total £m
Cost:			
At 1 January 2018	155.7	59.9	215.6
Additions	**21.1**	**20.4**	**41.5**
At 30 June 2018	**176.8**	**80.3**	**257.1**
Accumulated amortisation and impairment:			
At 1 January 2018	77.1	10.1	87.2
Charge for the period	**9.9**	**1.5**	**11.4**
At 30 June 2018	**87.0**	**11.6**	**98.6**
Balance sheet amount at 30 June 2018	**89.8**	**68.7**	**158.5**
Balance sheet amount at 31 December 2017	78.6	49.8	128.4

Note 9: Customer deposits

	30 Jun 2018 £m	31 Dec 2017 £m
Savings and investment accounts	**31,005.6**	30,393.0
Personal current accounts	**440.0**	415.4
Total customer deposits	**31,445.6**	30,808.4

Note 10: Debt securities in issue

	Medium term notes £m	Subordinated notes £m	Total £m
At 1 January 2018	302.8	–	302.8
Issues	**–**	**348.6**	**348.6**
Amortisation of issue costs and hedge accounting adjustments	**(1.4)**	**3.4**	**2.0**
At 30 June 2018	**301.4**	**352.0**	**653.4**

Medium term notes

The Medium term notes have a nominal value of £300.0 million at a coupon of 2.25% per annum and will be repayable on 21 April 2020. They were issued as part of the Group's £3 billion Global Medium Term Note programme.

Subordinated notes

In April 2018, the Company issued callable Subordinated notes to its parent undertaking with a nominal value of £350.0 million at a coupon of 3.375% per annum, repayable on 24 April 2026. The notes qualify for Minimum Requirements for Own Funds and Eligible Liabilities (MREL).

The notes constitute direct, unsecured and subordinated obligations of the Company that rank junior to the claims of senior creditors, but senior to claims of Additional Tier 1 securities holders and ordinary shareholders.

Note 11: Contingent liabilities and commitments

Contingent liabilities

The Board is not aware of any significant contingent liabilities as at 30 June 2018 (31 December 2017: none).

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

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

Loan commitments

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

	30 Jun 2018 £m	31 Dec 2017 £m
Not later than 1 year	**6,835.8**	5,815.9
Later than 1 year and not later than 5 years	**85.2**	97.1
Later than 5 years	**257.5**	280.5
Total loan commitments	**7,178.5**	6,193.5

Note 12: Fair value of financial assets and financial liabilities

(1) Fair value of financial assets and liabilities recognised at cost

The following table summarises the fair values of those financial assets and liabilities not presented on the Company's balance sheet at their fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised. The accounting policy in the 2017 Annual Report and Accounts sets out the key principles for estimating the fair values of financial instruments.

At 30 June 2018	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**	**Total carrying value £m**
Cash and balances at central banks	**–**	**4,164.2**	**–**	**4,164.2**	**4,164.2**
Loans and advances to banks	**–**	**114.3**	**–**	**114.3**	**114.3**
Loans and advances to customers	**–**	**265.0**	**37,442.6**	**37,707.6**	**37,441.0**
Other assets	**0.1**	**37.8**	**–**	**37.9**	**37.9**
Total financial assets	**0.1**	**4,581.3**	**37,442.6**	**42,024.0**	**41,757.4**
Deposits from banks	**–**	**7,082.9**	**–**	**7,082.9**	**7,082.9**
Customer deposits	**–**	**31,433.7**	**–**	**31,433.7**	**31,445.6**
Amounts due to securitisation special purpose vehicles	**–**	**2,145.0**	**–**	**2,145.0**	**2,145.0**
Debt securities in issue	**653.4**	**–**	**–**	**653.4**	**653.4**
Other liabilities	**–**	**263.8**	**–**	**263.8**	**263.8**
Total financial liabilities	**653.4**	**40,925.4**	**–**	**41,578.8**	**41,590.7**

At 31 December 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
Cash and balances at central banks	–	2,579.0	–	2,579.0	2,579.0
Loans and advances to banks	–	122.9	–	122.9	122.9
Loans and advances to customers	–	359.6	36,951.6	37,311.2	37,099.9
Available-for-sale financial assets	–	–	0.3	0.3	0.3
Other assets	0.3	51.1	–	51.4	51.4
Total financial assets	0.3	3,112.6	36,951.9	40,064.8	39,853.5
Deposits from banks	–	5,377.7	–	5,377.7	5,377.7
Customer deposits	–	30,800.5	–	30,800.5	30,808.4
Amounts due to securitisation special purpose vehicles	–	2,300.4	–	2,300.4	2,300.4
Debt securities in issue	305.1	–	–	305.1	302.8
Other liabilities	–	210.5	–	210.5	210.5
Total financial liabilities	305.1	38,689.1	–	38,994.2	38,999.8

Note 12: Fair value of financial assets and financial liabilities (continued)

Fair value hierarchy

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

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

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

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

There is no significant change to what was disclosed in the Company's 2017 Annual Report and Accounts in respect of the valuation methodology (techniques and inputs) applied for calculations of fair values in the tables on the previous page.

(2) Fair value of financial assets and liabilities recognised at fair value

The following table summarises the fair values of those financial assets and liabilities recognised at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised. The accounting policy in the 2017 Annual Report and Accounts sets out the key principles for estimating the fair values of financial instruments. There have been no transfers between levels during the half-year ending 30 June 2018.

At 30 June 2018	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Derivative financial instruments	**–**	**15.5**	**–**	**15.5**
Financial instruments at fair value through other comprehensive income	**1,492.8**	**–**	**2.5**	**1,495.3**
Equity investments at fair value through profit or loss	**–**	**–**	**1.0**	**1.0**
Financial liabilities				
Derivative financial instruments	**–**	**49.2**	**–**	**49.2**

At 31 December 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Derivative financial instruments	–	22.0	–	22.0
Available-for-sale financial assets	899.3	–	2.8	902.1
Financial liabilities				
Derivative financial instruments	–	93.1	–	93.1

Level 1 valuations

The fair values of debt securities recognised at fair value through other comprehensive income are derived from unadjusted quoted prices in an active market.

Level 2 valuations

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

Level 3 valuations

Level 3 financial assets represent the Company's best estimates of the value of certain equity investments in unlisted companies and of unlisted preferred stock. The valuations take into account relevant information on the individual investments, with discounts applied to reflect their illiquid nature and, in respect of the preferred stock, risks of reduction in conversion rights. The discounts applied are the most significant unobservable valuation inputs.

Note 13: Financial risk management

(1) Credit risk management

The Company's credit risk exposures are categorised as retail (secured and unsecured) and wholesale. As at 30 June 2018, the total credit risk exposures of the Company totalled £43,374.1 million, comprising secured loans and advances to customers of £34,081.5 million (78.6%), unsecured loans and advances to customers of £3,240.7 million (7.5%) and wholesale exposures of £6,051.9 million (13.9%).

A. Adoption of IFRS 9

The Company adopted IFRS 9 *'Financial Instruments'* on 1 January 2018, which supersedes IAS 39 *'Financial Instruments: Recognition and Measurement'.* This new accounting standard has three key areas of change: impairment, classification and measurement, and hedge accounting.

Impairment

The impairment requirements of IFRS 9 affect the Company's retail and wholesale portfolios and introduce an expected credit loss (ECL) assessment, resulting in earlier recognition of credit losses.

ECL is calculated using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) for each account, which are defined as:

- PD is an estimate of the likelihood of the account defaulting over either 12 months or the lifetime of the account.
- EAD is the amount the Company expects the customer account to represent at the point of default.
- LGD is the amount of loss that will be incurred in the event of default.

IFRS 9 also requires that multiple forward-looking macro-economic scenarios are incorporated into the ECL calculation.

A three stage categorisation is used for assessing impairment under IFRS 9. This is outlined in the table below.

Credit risk categorisation	Expected credit loss calculation period	Description
Stage 1	12 months	A loan that is not credit-impaired on initial recognition and has not experienced a significant increase in credit risk.
Stage 2	Lifetime	If a significant increase in credit risk has occurred since initial recognition, the loan is moved to stage 2, but is not yet deemed to be credit-impaired.
Stage 3	Lifetime	If the loan is credit-impaired it is moved to stage 3. All expired term, fraud and operational risk loans are treated as credit-impaired.

Further information regarding IFRS 9, including transition disclosures, can be found in note 17.

Note 13: Financial risk management (continued)

The illustrative reconciliation of the IAS 39 retail impairment allowance at 31 December 2017 to the IFRS 9 retail ECL at 1 January 2018 is shown in the table below.

	£m
At 31 December 2017 – IAS 39 incurred loss provision	59.4
Removal of latent risk and other calibration differences	(14.0)
12 month ECL	3.9
Lifetime ECL	42.1
Undrawn balances	11.6
Multiple economic scenarios	1.2
At 1 January 2018 – IFRS 9 expected credit loss	**104.2**

The reconciling items in the table above represent:

Latent risk and other calibration differences: Under IFRS 9, an ECL is recognised for every financial asset, on either a 12 month or lifetime basis. This reconciling item removes the provision held under IAS 39 for losses which had been incurred, but not specifically identified at the reporting date, and adjustments arising from other calibration differences under IFRS 9.

12 month ECL: IFRS 9 recognises a 12 month ECL on all performing loans classified as stage 1. Under IAS 39, an impairment provision would only have been recognised against these accounts to the extent there were observable indicators of impairment.

Lifetime ECL: IFRS 9 recognises a lifetime ECL on all loans that have experienced a significant increase in credit risk. Under IAS 39, an impairment provision would only have been recognised against these accounts to the extent there were observable indicators of impairment.

Undrawn balances: IFRS 9 requires an impairment allowance to be recognised on undrawn balances, where IAS 39 did not. For credit cards, the impact of undrawn exposure on ECL is captured as part of the EAD estimate, and recognised within the ECL calculation.

Multiple economic scenarios: IFRS 9 requires that multiple forward-looking macro-economic scenarios are incorporated into the ECL calculation. Details of the macro-economic scenarios used at 1 January 2018 and 30 June 2018 can be found in note 17.

The changes in the loss allowance between 1 January 2018 and 30 June 2018 can be found in note 5.

Classification and measurement

Unless otherwise stated, the comparatives presented are the balance sheet position under IFRS 9 at 1 January 2018, and under IAS 39 at 31 December 2017.

Note 13: Financial risk management (continued)

B. Credit quality of assets

Loans and advances to customers

The Company's mortgage portfolio is secured on residential and buy-to-let properties and represented 91.3% of retail loans and advances to customers at 30 June 2018. Residential lending grew by 0.5% (£137.4 million) during the first half of 2018 and credit quality remained strong. Buy-to-let loans grew by 4.1% (£259.6 million) to £6,626.9 million. This is a contained section of the portfolio that represents 19.4% of total secured loans (31 December 2017: 18.9%).

The Company's credit card portfolio represented 8.7% of retail loans and advances to customers at 30 June 2018 (31 December 2017: 8.4%). Unsecured credit card lending increased by £169.3 million during the first six months of 2018 to £3,240.6 million and the quality of new business remained strong. New lending was well within the approved policy, lending and concentration limits.

Gross retail credit risk exposures by IFRS 9 stage allocation

Information regarding the Company's retail credit risk exposures at 30 June 2018 and 1 January 2018, including corresponding impairment allowances and coverage ratios, can be found in the tables below. Information regarding the 31 December 2017 position on an IAS 39 basis can be found in the Company's 2017 Annual Report and Accounts.

At 30 June 2018	Stage 1	Stage 2	Stage 3	Total
Gross exposure (£m)				
Residential mortgage loans	**25,798.8**	**1,484.9**	**170.9**	**27,454.6**
Residential buy-to-let mortgage loans	**6,415.9**	**194.4**	**16.6**	**6,626.9**
Total secured	**32,214.7**	**1,679.3**	**187.5**	**34,081.5**
Credit cards	**2,869.5**	**337.2**	**33.9**	**3,240.6**
Overdrafts	**–**	**0.1**	**–**	**0.1**
Total unsecured	**2,869.5**	**337.3**	**33.9**	**3,240.7**
Total	**35,084.2**	**2,016.6**	**221.4**	**37,322.2**
Impairment allowance (£m)				
Residential mortgage loans	**2.8**	**5.2**	**3.6**	**11.6**
Residential buy-to-let mortgage loans	**0.1**	**0.4**	**0.7**	**1.2**
Total secured	**2.9**	**5.6**	**4.3**	**12.8**
Credit cards	**24.8**	**56.0**	**19.4**	**100.2**
Overdrafts	**–**	**0.1**	**–**	**0.1**
Total unsecured	**24.8**	**56.1**	**19.4**	**100.3**
Total	**27.7**	**61.7**	**23.7**	**113.1**
Coverage ratio (%)				
Residential mortgage loans	**<0.1%**	**0.4%**	**2.1%**	**<0.1%**
Residential buy-to-let mortgage loans	**<0.1%**	**0.2%**	**4.2%**	**<0.1%**
Total secured	**<0.1%**	**0.3%**	**2.3%**	**<0.1%**
Credit cards	**0.9%**	**16.6%**	**57.2%**	**3.1%**
Overdrafts	**–**	**100.0%**	**–**	**100.0%**
Total unsecured	**0.9%**	**16.6%**	**57.2%**	**3.1%**
Total	**<0.1%**	**3.1%**	**10.7%**	**0.3%**

Note 13: Financial risk management (continued)

At 1 January 2018	Stage 1	Stage 2	Stage 3	Total
Gross exposure (£m)				
Residential mortgage loans	25,869.6	1,300.1	147.5	27,317.2
Residential buy-to-let mortgage loans	6,167.8	183.4	16.1	6,367.3
Total secured	32,037.4	1,483.5	163.6	33,684.5
Credit cards	2,741.6	300.3	29.4	3,071.3
Overdrafts	–	0.1	–	0.1
Total unsecured	2,741.6	300.4	29.4	3,071.4
Total	34,779.0	1,783.9	193.0	36,755.9
Impairment allowance (£m)				
Residential mortgage loans	3.2	4.5	3.2	10.9
Residential buy-to-let mortgage loans	0.1	0.3	0.8	1.2
Total secured	3.3	4.8	4.0	12.1
Credit cards	23.3	51.5	17.2	92.0
Overdrafts	–	0.1	–	0.1
Total unsecured	23.3	51.6	17.2	92.1
Total	26.6	56.4	21.2	104.2
Coverage ratio (%)				
Residential mortgage loans	<0.1%	0.3%	2.2%	<0.1%
Residential buy-to-let mortgage loans	<0.1%	0.2%	5.0%	<0.1%
Total secured	<0.1%	0.3%	2.4%	<0.1%
Credit cards	0.8%	17.1%	58.5%	3.0%
Overdrafts	–	100.0%	–	100.0%
Total unsecured	0.8%	17.2%	58.5%	3.0%
Total	<0.1%	3.2%	11.0%	0.3%

Credit impaired assets and impairment allowances

Total credit-impaired assets increased by £28.4 million in the first half of 2018, and the proportion of credit-impaired assets as a percentage of retail loans and advances to customers remained low at 0.6% as at 30 June 2018 (1 January 2018: 0.5%).

Secured credit-impaired loans as a proportion of total secured loans have increased marginally to 0.6% (1 January 2018: 0.5%), with balances increasing by £23.9 million to £187.5 million as at 30 June 2018. This is due to a reduction in interest only expired terms being offset by an increase in fraud balances. The fraud balances account for less than 0.2% of the portfolio, have an average LTV of 64.4%, and are managed at an account level. Provisioning for fraud reflects the expected credit loss associated with each individual account.

Secured impairment allowances increased from £12.1 million to £12.8 million during the first six months of 2018. House Price Index (HPI) reductions in some regions of the UK and book growth were offset by favourable arrears performance.

Unsecured credit-impaired loans as a proportion of retail unsecured loans has remained stable at 1.0% (1 January 2018: 1.0%), with balances increasing by £4.5 million to £33.9 million as at 30 June 2018. This is primarily due to expected seasoning of the portfolio.

In line with the growth in new lending, unsecured impairment allowances increased by £8.2 million during the first six months of the year.

Note 13: Financial risk management (continued)

Assets classified as stage 2

The tables below present stage 2 retail loans and advances by days past due at 30 June 2018 and 1 January 2018.

At 30 June 2018	**Not past due £m**	**1-30 days past due £m**	**Over 30 days past due £m**	**Total £m**
Residential mortgage loans	**1,319.3**	**110.3**	**55.3**	**1,484.9**
Residential buy-to-let mortgage loans	**178.0**	**9.9**	**6.5**	**194.4**
Total secured	**1,497.3**	**120.2**	**61.8**	**1,679.3**
Credit cards	**329.3**	**4.5**	**3.4**	**337.2**
Overdrafts	**0.1**	**–**	**–**	**0.1**
Total unsecured	**329.4**	**4.5**	**3.4**	**337.3**
Total	**1,826.7**	**124.7**	**65.2**	**2,016.6**

At 1 January 2018	Not past due £m	1-30 days past due £m	Over 30 days past due £m	Total £m
Residential mortgage loans	1,119.0	121.5	59.6	1,300.1
Residential buy-to-let mortgage loans	167.7	9.1	6.6	183.4
Total secured	1,286.7	130.6	66.2	1,483.5
Credit cards	292.9	4.5	2.9	300.3
Overdrafts	0.1	–	–	0.1
Total unsecured	293.0	4.5	2.9	300.4
Total	1,579.7	135.1	69.1	1,783.9

Stage 2 loans as a proportion of total retail loans and advances to customers have increased to 5.4% (1 January 2018: 4.9%), with balances increasing by £232.7 million to £2,016.6 million as at 30 June 2018. In assessing whether an account is classified as stage 2, the Company considers a series of quantitative, qualitative and backstop criteria. As a consequence, certain fully performing loans will be captured in stage 2 through the Company's internal debt management processes. These accounts are closely monitored.

In relation to mortgages, the movement is primarily due to an increase in accounts that, while fully performing, have experienced PD deterioration since origination. The majority of these accounts are mature interest only accounts. As the remaining term of the mortgages reduced, the PD increases, irrespective of credit quality, due to increased likelihood of default. The average LTV of these accounts is 45.3% and the resultant expected credit loss is low. The average lifetime PD for secured accounts classified as stage 2 is 7.0%.

In relation to credit cards, the movement is primarily due to an increase in accounts subject to internal account management activity, which is reflective of expected seasoning of the portfolio.

The Company held 15 repossessed properties as at 30 June 2018 (31 December 2017: ten).

Note 13: Financial risk management (continued)

C. Collateral held as security

Period end and weighted average LTVs across the retail mortgage portfolios are shown in the tables below.

	Residential mortgage loans		**Residential buy-to-let mortgage loans**		**Total**	
At 30 June 2018	**£m**	**%**	**£m**	**%**	**£m**	**%**
<50%	**9,635.4**	**35.1**	**2,200.8**	**33.2**	**11,836.2**	**34.8**
50%-<60%	**5,179.2**	**18.9**	**1,926.6**	**29.1**	**7,105.8**	**20.9**
60%-<70%	**4,635.7**	**16.9**	**1,548.4**	**23.4**	**6,184.1**	**18.1**
70%-<80%	**4,211.1**	**15.3**	**942.9**	**14.2**	**5,154.0**	**15.1**
80%-<90%	**3,008.2**	**11.0**	**6.5**	**0.1**	**3,014.7**	**8.8**
90%-<100%	**778.3**	**2.8**	**1.3**	**–**	**779.6**	**2.3**
>100%	**6.7**	**–**	**0.4**	**–**	**7.1**	**–**
Total	**27,454.6**	**100.0**	**6,626.9**	**100.0**	**34,081.5**	**100.00**

Average loan to value of stock – indexed[1]	**57.6%**	**55.1%**	**57.1%**
Average loan to value of new business[2]	**71.9%**	**56.2%**	**68.8%**

1 The average loan to value of stock and new business is balance weighted.
2 New business includes lending since 1 January 2018.

	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
At 31 December 2017	£m	%	£m	%	£m	%
<50%	10,249.6	37.6	2,293.5	36.1	12,543.1	37.2
50%-<60%	5,362.9	19.6	1,851.5	29.1	7,214.4	21.4
60%-<70%	4,508.4	16.5	1,441.4	22.6	5,949.8	17.7
70%-<80%	4,022.9	14.7	778.1	12.2	4,801.0	14.3
80%-<90%	2,725.7	10.0	1.9	–	2,727.6	8.1
90%-<100%	444.6	1.6	0.6	–	445.2	1.3
>100%	3.1	–	0.3	–	3.4	–
Total	27,317.2	100.0	6,367.3	100.0	33,684.5	100.0

Average loan to value of stock – indexed[1]	56.1%	54.1%	55.8%
Average loan to value of new business[2]	70.0%	59.7%	68.1%

1 The average loan to value of stock and new business is balance weighted.
2 New business includes lending since 1 January 2017.

The average indexed LTV of the overall mortgage portfolio increased marginally by 1.3 percentage points as at 30 June 2018, reflecting new business growth and negative HPI movements observed in some regions during the first six months of the year.

Note 13: Financial risk management (continued)

The tables below show retail secured credit average LTV by loan size.

At 30 June 2018	**Residential mortgage loans %**	**Residential buy-to-let mortgage loans %**	**Total %**
0-£100k	**42.5**	**56.2**	**47.8**
£100k-£250k	**60.0**	**56.1**	**59.2**
£250k-£500k	**61.1**	**52.4**	**60.1**
£500k-£1m	**52.7**	**45.6**	**52.1**
£1m-£2.5m	**45.6**	**39.9**	**44.5**
>£2.5m	**35.2**	**–**	**35.2**
Total	**57.6**	**55.1**	**57.1**

At 31 December 2017	Residential mortgage loans %	Residential buy-to-let mortgage loans %	Total %
0-£100k	42.1	56.1	47.5
£100k-£250k	58.9	54.9	58.1
£250k-£500k	59.1	50.3	58.2
£500k-£1m	50.9	43.7	50.2
£1m-£2.5m	43.1	38.7	42.3
>£2.5m	34.0	–	34.0
Total	56.1	54.1	55.8

Note 13: Financial risk management (continued)

D. Forbearance

The value of forbearance stock totalled £202.1 million at 30 June 2018, representing a 14.6% (£25.7 million) increase during the first six months of the year.

Secured

At 30 June 2018, £185.8 million (1 January 2018: £161.2 million) of retail secured loans and advances were subject to forbearance. The increase is primarily due to a series of definitional changes following a review of forbearance activity and the data capture process. These changes have been applied from 1 January 2018. Secured loans with a payment arrangement in place increased due to the definition now capturing accounts in both overpayment and underpayment arrangements.

Secured forbearance as a percentage of stock is below 0.6% of the portfolio. Loans which are forborne are grouped with other assets with similar risk characteristics and assessed collectively for impairment. The loans are not considered as credit-impaired unless they meet the Group's definition of a credit-impaired asset.

Unsecured

At 30 June 2018, total retail unsecured loans and advances benefiting from forbearance totalled £16.3 million (1 January 2018: £15.2 million).

A breakdown of secured and unsecured forbearance is shown below.

	Total		**Of which in Stage 3**	
At 30 June 2018	**£m**	**%**	**£m**	**%**
Secured				
Payment arrangement	**35.1**	**18.9**	**21.6**	**81.8**
Transfer to interest only	**29.7**	**16.0**	**1.3**	**4.9**
Term extension	**49.8**	**26.8**	**2.9**	**11.0**
Payment holiday	**71.2**	**38.3**	**0.6**	**2.3**
Total secured forbearance	**185.8**	**100.0**	**26.4**	**100.0**
Unsecured				
Accounts where the customer has been approved on a payment plan	**16.3**	**100.0**	**12.2**	**100.0**
Total forbearance	**202.1**	**100.0**	**38.6**	**100.0**

	Total		Of which in Stage 3	
At 1 January 2018	£m	%	£m	%
Secured				
Payment arrangement	2.0	1.2	1.0	7.6
Transfer to interest only	30.9	19.2	1.1	8.3
Term extension	64.3	39.9	10.3	78.0
Payment holiday	64.0	39.7	0.8	6.1
Total secured forbearance	161.2	100.0	13.2	100.0
Unsecured				
Accounts where the customer has been approved on a payment plan	15.2	100.0	11.4	100.0
Total forbearance	176.4	100.0	24.6	100.0

Note 13: Financial risk management (continued)

E. Wholesale credit risk

Wholesale credit risk exposures increased by £2.1 billion during the first six months of the year to £6,051.9 million at 30 June 2018, primarily due to increased deposits at the Bank of England. This reflects the replacement of off-balance sheet liquidity from the Bank of England's Funding for Lending Scheme (FLS) with on-balance sheet liquidity. The table below shows the wholesale credit risk exposures of the Group.

Wholesale credit exposures	**30 Jun 2018 £m**	1 Jan 2018 £m	31 Dec 2017 £m
Loans and advances to banks	**114.3**	122.7	122.9
Cash and balances at central banks	**4,164.2**	2,579.0	2,579.0
Debt securities classified as available-for-sale financial assets	**–**	–	899.3
Debt securities classified as fair value through other comprehensive income	**1,492.8**	899.3	–
Gross positive fair value of derivative contracts	**15.5**	22.0	22.0
Loans and advances to customers – amounts due from group companies	**265.0**	359.7	359.7
Other assets[1]	**0.1**	0.3	0.3
Total	**6,051.9**	3,983.0	3,983.2

1 Other assets relates to debt securities at amortised cost (previously debt securities classified as loans and receivables under IAS 39).

The Company has increased its holdings of high-quality wholesale assets during the period including supranational, covered bond and RMBS investments. Wholesale credit risk exposures are assessed by reference to credit rating. There were no wholesale credit exposures classified as credit-impaired at 30 June 2018, 1 January 2018 or 31 December 2017.

An impairment allowance of £0.2 million as at 30 June 2018 (1 January 2018: £0.2 million; 31 December 2017: £nil) is recognised in relation to loans and advances to banks.

Full disclosure of the Company's portfolio of liquid assets can be found on the following page.

Note 13: Financial risk management (continued)

(2) Funding and liquidity management

The Company is predominantly funded through retail customer deposits. During the first six months of 2018, the Company maintained a strong presence in the retail savings market. Total customer deposits increased by £637.2 million in the first half of 2018.

The Company adopts a prudent wholesale funding strategy which meets a series of balance sheet metrics to limit concentration and refinancing risk exposures. The Bank of England's Term Funding Scheme (TFS) closed in February 2018. Prior to its closure, the Company made further drawings of £2,151.0 million to repay all remaining FLS funding, taking total TFS drawings to £6,387.0 million as at 30 June 2018. Repayment of the TFS lending is scheduled to be completed in a controlled manner, ahead of the contractual maturity date. The Company completed an MREL-eligible subordinated note issuance of £350.0 million in April 2018 and further information can be found in note 10.

A. Liquid asset portfolio

The Company maintains a portfolio of liquid assets, predominantly in high-quality unencumbered securities issued by the UK Government or Supranational institutions and deposits with the Bank of England. The portfolio mix is aligned to the liquidity coverage requirement defined by the EBA in European liquidity regulatory standards. Other liquidity resources represent additional unencumbered liquid assets held over and above high-quality liquid assets. These are intended to cover more extreme stress events and provide flexibility for liquidity management.

The table below shows composition of the Company's liquidity portfolio.

	30 Jun 2018 £m	**2018 Average £m**	31 Dec 2017 £m	2017 Average £m
Level 1				
Cash and balances at central banks	**4,075.7**	**4,040.8**	2,525.9	1,923.0
UK Government securities	**202.2**	**123.8**	207.3	221.8
Other HQLA level 1 eligible	**28.3**	**12.1**	–	–
Supranational securities	**395.6**	**330.0**	234.1	178.0
Treasury bills raised through FLS	**–**	**486.1**	1,850.6	2,219.7
Covered bonds (Level 1 eligible)	**470.3**	**425.2**	374.7	378.8
Total level 1	**5,172.1**	**5,418.0**	5,192.6	4,921.3
Level 2a				
Covered bonds (Level 2a eligible)	**29.8**	**22.3**	21.7	22.2
Total level 2a	**29.8**	**22.3**	21.7	22.2
Level 2b				
Eligible RMBS	**136.1**	**101.7**	50.1	52.6
Total level 2b	**136.1**	**101.7**	50.1	52.6
High quality liquid assets (Level 1 + 2a + 2b)	**5,338.0**	**5,542.0**	5,264.4	4,996.1
Other liquidity resources				
Non-eligible RMBS	**10.5**	**11.1**	11.4	8.6
Certificates of deposit	**–**	**–**	–	37.6
Floating rate notes	**–**	**–**	–	7.7
Total other liquidity resources	**10.5**	**11.1**	11.4	53.9
Self-issued RMBS	**839.7**	**825.4**	601.7	958.2
Total liquidity	**6,188.2**	**6,378.5**	5,877.5	6,008.2

Note 13: Financial risk management (continued)

B. Wholesale funding

Analysis of total wholesale funding by residual maturity

At 30 June 2018	**Within 3 months £m**	**3-12 months £m**	**1-5 years £m**	**After 5 years £m**	**Total £m**
Amounts due to securitisation special purpose vehicles	**212.2**	**132.3**	**712.7**	**1,087.8**	**2,145.0**
Debt securities in issue	**–**	**–**	**304.8**	**348.6**	**653.4**
Liabilities in respect of securities sold under repurchase agreements	**312.0**	**375.0**	**–**	**–**	**687.0**
Secured loans	**–**	**–**	**6,387.0**	**–**	**6,387.0**
Total on-balance sheet sources of funds	**524.2**	**507.3**	**7,404.5**	**1,436.4**	**9,872.4**
Treasury bills raised through FLS	**–**	**–**	**–**	**–**	**–**
Total	**524.2**	**507.3**	**7,404.5**	**1,436.4**	**9,872.4**

At 31 December 2017	Within 3 months £m	3-12 months £m	1-5 years £m	After 5 years £m	Total £m
Amounts due to securitisation special purpose vehicles	218.7	142.1	767.6	1,172.0	2,300.4
Debt securities in issue	–	–	302.8	–	302.8
Liabilities in respect of securities sold under repurchase agreements	5.0	850.0	275.0	–	1,130.0
Secured loans	–	–	4,236.0	–	4,236.0
Total on-balance sheet sources of funds	223.7	992.1	5,581.4	1,172.0	7,969.2
Treasury bills raised through FLS	–	1,098.5	935.0	–	2,033.5
Total	223.7	2,090.6	6,516.4	1,172.0	10,002.7

Secured loans relate to the Company's drawings from the Bank of England's TFS. The increase is due to additional drawings during the first six months of the year to repay remaining FLS funding. The Company manages funding concentration risk arising from wholesale maturities through Board-approved risk appetite which limits the amount of funding refinancing over a 90-day period and requires the early accumulation of liquidity ahead of refinancing events.

Note 13: Financial risk management (continued)

C. Encumbered assets

The Company's assets are used to support collateral requirements for central bank operations, third party re-purchase agreements, swap transactions, securitisation and balances at central banks. Assets that have been set aside for such purposes are classified as 'encumbered and pledged assets' and cannot be used for other purposes. The tables below show the total asset encumbrance position of the Company at 30 June 2018 and 31 December 2017.

	Encumbered assets		**Unencumbered assets**		**Total**
At 30 June 2018	**Pledged as collateral[1] £m**	**Other[2] £m**	**Available as collateral[3] £m**	**Other[4] £m**	**£m**
Cash and balances at central banks	**–**	**251.2**	**–**	**3,913.0**	**4,164.2**
Financial instruments at fair value through other comprehensive income	**220.0**	**–**	**1,272.8**	**2.5**	**1,495.3**
Equity investments at fair value through profit and loss	**–**	**–**	**–**	**1.0**	**1.0**
Derivative financial assets	**–**	**–**	**–**	**15.5**	**15.5**
Loans and advances to banks	**77.3**	**–**	**–**	**37.0**	**114.3**
Loans and advances to customers	**12,548.1**	**–**	**5,380.3**	**19,512.6**	**37,441.0**
Other assets	**3.9**	**–**	**0.1**	**308.6**	**312.6**
Total assets	**12,849.3**	**251.2**	**6,653.2**	**23,790.2**	**43,543.9**
Treasury bills raised through FLS held off balance sheet[5]	**–**	**–**	**–**	**–**	**–**
Total assets plus off balance sheet treasury bills raised through FLS	**12,849.3**	**251.2**	**6,653.2**	**23,790.2**	**43,543.9**

	Encumbered assets		Unencumbered assets		Total
At 31 December 2017	Pledged as collateral[1] £m	Other[2] £m	Available as collateral[3] £m	Other[4] £m	£m
Cash and balances at central banks	–	215.7	–	2,363.3	2,579.0
Debt securities classified as loans and receivables	–	–	0.3	–	0.3
Available-for-sale financial assets	–	–	899.3	3.1	902.4
Derivative financial assets	–	–	–	22.0	22.0
Loans and advances to banks	89.7	–	–	33.2	122.9
Loans and advances to customers	13,109.4	–	4,670.3	19,320.2	37,099.9
Other assets	8.5	–	–	283.9	292.4
Total assets	13,207.6	215.7	5,569.9	22,025.7	41,018.9
Treasury bills raised through FLS held off balance sheet[5]	182.9	–	1,850.6	–	2,033.5
Total assets plus off balance sheet FLS	13,390.5	215.7	7,420.5	22,025.7	43,052.4

1 Encumbered assets pledged as collateral include amounts to derivative counterparties of £77.3 million (31 December 2017: £89.7 million) and amounts in respect of centrally cleared derivatives of £3.9 million (31 December 2017: £8.5 million). Encumbered loans and advances to customers of £12,548.1 million (31 December 2017: £13,109.4 million) consist of securitised mortgages and other loan pools positioned with the Bank of England that have been pledged as collateral for funding and liquidity transactions. At 30 June 2018, £8,283.9 million (31 December 2017: £6,219.8 million) of loan pools have been pledged as collateral in respect of secured loans and repo agreements.

2 Other encumbered assets are assets that cannot be used for secured funding due to legal or other reasons. These comprise the mandatory reserve and the minimum requirement for the BACS payment system.

3 Unencumbered assets which are classified as 'available for collateral' are readily available to secure funding or to meet collateral requirements. Loans and advances to customers are classified as 'available for collateral' only if they are already in such a form that they can be used immediately to raise funding.

4 Other unencumbered assets are assets which are not subject to any restrictions and are not readily available for use.

5 These amounts represent Treasury bills received by the Company through FLS which are not recognised on the balance sheet. The Company is permitted to re-pledge these securities to generate on-balance sheet financial assets, such as cash or to fund lending. These items are classified as encumbered where the Company has used them in repurchase transactions or unencumbered where it has not.

Note 13: Financial risk management (continued)

The Company's total level of asset encumbrance reduced by £505.7 million to 30.1% at 30 June 2018 (31 December 2017: 31.6%). This was primarily driven by asset growth, partially supported by unsecured wholesale funding activity in the first six months of the year. The Company manages the volume of available unencumbered collateral to meet requirements arising from current and future secured funding transactions.

Note 14: Related party transactions

Full details of the Company's related party transactions for the year to 31 December 2017 can be found in note 33 of the 2017 Annual Report and Accounts.

Related party transactions for the half-year to 30 June 2018 are similar in nature to those for the year to 31 December 2017 apart from those discussed below.

Dividends

In February 2018, an interim dividend of £80.0 million was declared and paid. By agreement with the parent undertaking, £50.0 million of this dividend was set-off against loans receivable from the parent undertaking of equivalent value, with the balancing value of £30.0 million settled from cash and cash equivalents.

As the value of the dividend set-off against loans receivable was a non-cash transaction, it is not disclosed within financing activities within the Cash Flow Statement.

An additional interim dividend, amounting to £40.0 million, was declared on 25 July 2018 and will be paid on 29 August 2018 to the parent undertaking.

Subordinated note issuance

In April 2018 the Company issued callable Subordinated notes to its parent undertaking with a nominal value of £350.0 million. Further details can be found in note 10.

Securitisation special purpose vehicles

The following balances were outstanding at the period end with the securitisation special purpose vehicles which have arisen in connection with the Company's securitisation programme:

Balances outstanding at period end:

	30 Jun 2018 £m	31 Dec 2017 £m
Assets		
Amounts due from securitisation special purpose vehicles	**227.1**	272.3
Liabilities		
Amounts due to securitisation special purpose vehicles	**2,145.0**	2,300.4

There are no other changes to related party transactions that have had a material effect on the financial position or performance of the Company.

Note 15: Events after balance sheet date

There have been no significant events between 30 June 2018 and the date of approval of the condensed half-year financial statements which would require a change to or additional disclosure in the financial statements apart from the declaration of the additional interim dividend as disclosed in note 14.

Note 16: Parent undertaking

The Company is a subsidiary of Virgin Money Holdings (UK) plc, a company registered in England and Wales.

Virgin Money Holdings (UK) plc is the largest and smallest group in which the financial statements of the Company are consolidated. The consolidated financial statements of Virgin Money Holdings (UK) plc may be obtained from Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

The Company's direct and ultimate controlling party is Virgin Money Holdings (UK) plc.

Note 17: Transition to IFRS 9 *'Financial Instruments'*

On 1 January 2018 the Company adopted IFRS 9 *'Financial Instruments'* which replaces IAS 39 '*Financial Instruments: Recognition and Measurement'*. This new accounting standard has three core areas of change: Classification and Measurement; Hedge Accounting; and Impairment. The most significant impacts on the Company are from the changes to impairment.

(1) Transitional disclosures and impact

In relation to classification and measurement, the primary impact of IFRS 9 is the reclassification of debt investments in the available-for-sale (AFS) category to the new fair value through other comprehensive income (FVOCI) category. Management also have an option to classify non-trading equity investments as fair value through profit or loss (FVPL) or irrevocably designate them as FVOCI, on an investment by investment basis.

The material retail financial asset portfolios (primarily secured and unsecured loans) retain their classification as amortised cost, so there is no change in the classification and measurement of these financial assets. The classification requirements for financial liabilities are unchanged on adoption of IFRS 9.

The following table sets out the reclassification impacts of transitioning from IAS 39 to IFRS 9 on 1 January 2018:

	IAS 39		IFRS 9	
Financial assets	Measurement category	Carrying amount £m	Measurement category	Carrying amount £m
Cash and balances at central banks	Loans and receivables (amortised cost)	2,579.0	Amortised cost	2,579.0
Derivative financial instruments	FVPL (Hedging instrument)	22.0	FVPL (mandatory)	22.0
Loans and advances to banks	Loans and receivables (amortised cost)	122.9	Amortised cost	122.7
Loans and advances to customers	Loans and receivables (amortised cost)	37,099.9	Amortised cost	37,055.1
Available for sale financial assets	Available-for-sale	902.4	FVOCI	899.3
			FVOCI (designated)[1]	2.1
			FVPL	1.0

1 Management has the option to designate non-trading equity investments as FVOCI on an investment by investment basis.

Note 17: Transition to IFRS 9 *'Financial Instruments'* (continued)

The following table sets out the one-off balance sheet reclassification and remeasurement impacts of transitioning from IAS 39 to IFRS 9 on 1 January 2018:

Financial assets	IAS 39 At 1 Jan 2018 £m	Reclassification £m	Remeasurement £m	IFRS 9 At 1 Jan 2018 £m
Cash and balances at central banks	2,579.0	–	–	2,579.0
Derivative financial instruments	22.0	–	–	22.0
Loans and advances to banks	122.9	–	(0.2)	122.7
Loans and advances to customers	37,099.9	–	(44.8)	37,055.1
Financial instruments at fair value through other comprehensive income	–	901.4	–	901.4
Available-for-sale financial assets	902.4	(902.4)	–	–
Equity investments at fair value through profit or loss	–	1.0	–	1.0
Deferred tax assets	10.4	–	11.4	21.8
Other assets	282.3	–	–	282.3
Total assets	**41,018.9**	**–**	**(33.6)**	**40,985.3**
Total liabilities	**39,139.7**	**–**	**–**	**39,139.7**
Total equity	**1,879.2**	**–**	**(33.6)**	**1,845.6**

Information on the stage allocation of the Company's loans and advances to customers as at 1 January 2018, and as at 30 June 2018, can be found in note 13.

(2) Accounting policies

Classification and measurement

Under IFRS 9 financial assets are classified into one of three measurement categories:

- amortised cost;
- fair value through other comprehensive income (FVOCI); or
- fair value through profit or loss (FVPL).

Classification is based on the objectives of the Company's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 retains most of the existing classification and measurement requirements for financial liabilities from IAS 39.

The business model reflects how the Company manages the assets in order to generate cash flows. One of the following business models is identified for each financial instrument depending on how the risks are managed, past experience with the financial asset and how performance is measured and reported:

- hold to collect: it is intended to collect the contractual cash flows from the assets (Amortised cost classification);
- hold to collect and to sell: it is intended to collect both the contractual cash flows and cash flows arising from the sale of the asset (FVOCI classification); or
- hold to sell: it is intended to sell the financial asset in the short to medium term, or the asset is designated FVPL to minimise an accounting mismatch (FVPL classification).

Note 17: Transition to IFRS 9 *'Financial Instruments'* (continued)

Where the business model is 'held to collect' or 'held to collect and sell' the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with previously separable embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Company reclassifies debt investments only when its business model for managing those assets changes. Such changes are expected to be very infrequent and none occurred during the period.

The accounting requirements of the three measurement categories are as follows:

Amortised cost

Financial assets at amortised cost are initially recognised at fair value, including direct and incremental transaction costs. Subsequent measurement is at amortised cost using the effective interest rate method. The Company's secured and unsecured loan portfolios are classified as amortised cost.

The carrying amount of these assets is adjusted by any expected credit loss allowance. Interest income is included in 'Interest income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI)

Financial assets at FVOCI are initially measured at fair value, including direct and incremental transaction costs. Subsequent measurement is at fair value, with changes in fair value being recognised in other comprehensive income, with the exception of impairment gains or losses, interest income and foreign exchange gains and losses on the instruments amortised cost which are recognised in profit or loss. Interest income from these financial assets is included in 'interest income' using the effective interest rate method. The Company's investments in debt securities are classified as FVOCI.

On derecognition of a financial asset, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Fair value gains/losses on financial instruments'.

Fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL on initial recognition and at each reporting date.

Any gain or loss on an asset that is subsequently measured at FVPL, and is not part of a hedging relationship, is recognised in profit or loss and presented in the profit or loss statement within 'Fair value gains/losses on financial instruments'.

Interest income from these financial assets is included separately in 'Net Interest Income'.

Equity instruments

Equity instruments are instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets (e.g. basic ordinary shares).

The Company measures all equity investments at fair value through profit or loss, except where Management has elected, at initial recognition, to irrevocably designate the non-trading equity investment at FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses are not reported separately from other changes in fair value. Dividends continue to be recognised in profit or loss as 'Other income' when the Company's right to receive payments is established.

Gains or losses on equity investments at FVPL are included in the 'Fair value gains/losses on financial instruments' line in the Income Statement.

Note 17: Transition to IFRS 9 *'Financial Instruments'* (continued)

Fair value measurement

The measurement of fair value has not changed as a result of adopting IFRS 9. Fair value measurement is determined by IFRS 13 *'Fair Value Measurement'* and the accounting policy for determining fair value can be found in the 2017 Annual Report and Accounts.

Expected Credit Loss (Impairment)

The Company assesses all financial assets and off-balance sheet commitments for impairment at each reporting date. For the Company, this is primarily loans and advances to customers and undrawn lending commitments. Under IFRS 9 a 'three-stage' model for calculating Expected Credit Losses (ECL) is used, and is based on changes in credit quality since initial recognition as summarised below:

- Stage 1 - A financial instrument that is not credit-impaired on initial recognition and has not significantly increased in credit risk;
- Stage 2 - If a significant increase in credit risk has occurred since initial recognition, the financial instrument is moved to stage 2 but is not yet deemed to be credit-impaired; and
- Stage 3 - If the financial instrument is credit-impaired, the financial instrument is then moved to stage 3.

ECL is measured on either a 12 month or lifetime basis depending on whether a significant increase in credit risk (SICR) has occurred since initial recognition or whether an asset is considered to be credit-impaired. 12 month ECL is recognised on stage 1 accounts and lifetime ECL is recognised on stage 2 and 3 accounts. Interest income is recognised on the gross carrying value of stage 1 and 2 assets and the net carrying value of stage 3 assets.

ECL is calculated using a Probability of Default (PD), which reflects the likelihood of a borrower defaulting over either the next 12 months or the lifetime of the account, and includes forward-looking economic information in this estimation. The Exposure at Default (EAD) and Loss Given Default (LGD) for each account are also calculated to estimate actual loss at the point of default. These assumptions incorporate expected contractual payments, utilisation of available credit limits, collateral values and forced sale discounts. The LGD component incorporates forward-looking economic variables (e.g. house price inflation).

These variables (PD, LGD and EAD) are projected for each future month and for each individual exposure or collective segment. Segmentation is used in the determination of these variables where accounts have similar characteristics and are expected to behave in uniform ways. This allows for an ECL to be calculated for each account for each future month, which is then discounted back to the reporting date to create a total ECL at account level. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Hedge Accounting

The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices than the current IAS 39 requirements and follow a principles-based approach. However, there is an option in IFRS 9 to maintain existing IAS 39 hedge accounting rules until the IASB completes its project on macro hedging. This option has been provided because the macro hedging project is still in the consultation phase, with a second discussion paper due to be issued by the International Accounting Standards Board (IASB) in 2019.

Management have analysed the benefits of adopting IFRS 9 hedge accounting but currently the preferred approach is to continue applying IAS 39 hedge accounting in its entirety. As a result there is no change from the 2017 Annual Report and Accounts accounting policy. The revised disclosure requirements of IFRS 7 '*Financial Instruments: Disclosures'* in relation to hedge accounting will be applied.

Note 17: Transition to IFRS 9 *'Financial Instruments'* (continued)

(3) Critical judgements and estimates

IFRS 9 requires Management to make estimates and judgements in its application that affect the allowance for expected credit loss. Estimates and judgements are based on Management's knowledge and historical experience. The nature of the calculation of ECL and the various estimates included means that Management recognise the potential for possible volatility in the level of ECL in the coming periods. The critical estimates and judgements made are:

Significant increase in credit risk (SICR) assessment

A significant increase in credit risk is not a defined term, and is determined by Management, based on their experience and judgement. In assessing whether the credit risk has significantly increased the Company has identified a series of quantitative, qualitative and backstop criteria (30 days past due as set by IFRS 9) which take into account forward-looking macroeconomic factors. These are referred to as the staging criteria.

The staging criteria have been extensively tested to ensure the characteristics of the portfolio are correctly reflected and accounts appropriately flow through the stages prior to default, without either a prolonged duration in stage 2 or introducing significant volatility by moving unnecessarily between the stages. For unsecured exposures, a cure period of two months has been applied to reduce volatility between stages. This means that an account remains in stage 2 for a period of two months after it ceases to meet any stage 2 criteria.

The staging criteria take into account the following:

- Quantitative criteria – if an account's current lifetime PD is greater than a multiple of origination lifetime PD then the credit risk of the account is considered to have increased significantly;
- Qualitative criteria – if an account enters forbearance or demonstrates other indicators of financial difficulty, not yet caught by an increase in PD, then the credit risk of the account is considered to have increased significantly; and
- Backstop – if the account is 30 days past due it will automatically transition to Stage 2.

The staging criteria are monitored and revisited in advance of each reporting date.

Definition of default

The definition of default is used to determine both the PD and the transition to stage 3 (all accounts which have defaulted are recognised in stage 3).

For the retail portfolios, the Company defines a financial instrument as in default, when it meets one or more of the following criteria:

- The customer is more than 90 days past due on their contractual payments;
- The customer meets unlikeliness to pay criteria, which indicates the customer is in significant financial difficulty; or
- The account term has expired, but the account has not been fully paid down or refinanced (secured lending).

A secured loan can transition (cure) back to stage 2 when it has not met any of the default criteria for six consecutive months. For unsecured loans, an account cannot cure from stage 3 as the account is blocked from future use once the customer enters default.

For secured exposures, the definition of default for regulatory expected loss capital purposes is 180 days past due. However for accounting purposes Management have elected not to rebut the 90 days past due presumption under IFRS 9 for both secured and unsecured loan portfolios.

Probability of default (PD)

PD is a key component in the calculation of ECL and the transition from stage 1 to stage 2. It is an estimate of the likelihood of default over either 12 months or the lifetime of the account. Management have used historical data, assumptions and expectations of future conditions to model PD over time for the secured and unsecured portfolios. An origination PD is required for each account. Where origination PDs were not available at the origination date, the origination PD was approximated, based on available account level data.

Note 17: Transition to IFRS 9 *'Financial Instruments'* (continued)

Exposure at default (EAD)

EAD is the amount that the Company expects the exposure to be at the point of default. For secured loans, this is a highly predictable amount based on the contractual payment profile and historic behaviours. For unsecured loans, the estimated balance utilisation at default is determined based on the characteristics of the account, including arrears status, consumer credit index of the account, and the current utilisation of the account (including whether the card is inactive).

Loss given default (LGD)

LGD is the amount of loss that will be incurred in the event of default. It represents the actual cash flows expected to be recovered for an individual account, and takes in to account collateral values and other cash recovered (e.g. through debt sale arrangements).

Expected life

The calculation of ECL is over the contractual life of the account, or the period over which the account exposes the Company to credit risk. For secured loans, this is the contractual period of the mortgage. For unsecured loans, the lifetime is the behavioural life of the credit card, which is the period over which the Company is exposed to credit risk.

Origination dates

The origination date of an exposure is the contractual origination date. The origination date is when the origination PD is determined, which will be referenced at each reporting period when determining if there has been a significant increase in credit risk.

For newly originated accounts, the origination PD is recorded on the contractual origination date. For acquired portfolios, Management have considered the facts around the purchase of each portfolio to determine the origination date to be applied.

Macro-economic scenarios

Unbiased macro-economic scenarios covering multiple potential outcomes are required by IFRS 9 to be incorporated into the ECL calculation.

Macro-economic variables impacting credit risk and expected credit losses for each portfolio have been investigated by performing statistical regression analysis to understand how changes in these variables have historically impacted default rates and the components of LGD. The macro-economic variables with the most significant impact on PD and LGD, for the Company, are judged to be house price inflation; unemployment rate; household debt-to-income ratio[1]; and bank base rate.

The Company has determined an approach to the selection and application of multiple scenarios. The Company does not have an in-house economics function and has therefore sourced economic scenarios from a third party to form the basis of the economic scenarios used. The Company has considered a minimum of three scenarios on a probability-weighted approach. These scenarios include a base, an upside and a downside scenario. The combination of the three scenarios provides an unbiased but representative macro view of reasonably possible future outcomes, not biased to extreme, or stressed, scenarios. At 1 January 2018, three scenarios were used and weighted 40% to the base and 30% to each of the upside and downside scenarios. The scenarios include the key variables which ECL is sensitive to, resulting in an asymmetric and non-linear impact on ECL.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes based on reliable available information.

Where there are specific events, which due to timing or their nature, have not been incorporated into the macro-economic scenarios Management may overlay additional adjustments to ECL to take account of additional economic assumptions. This is considered when Management believe the impact of a specific event or change in market sentiment has not been appropriately captured in the ECL calculation inputs, for example events occurring very close to the reporting date.

1 Household debt service ratio is used to inform the debt-to-income ratio used in the calculation of ECL.

Note 17: Transition to IFRS 9 *'Financial Instruments'* (continued)

The macro-economic assumptions adopted in the ECL calculation of the Company, and the impact of multiple economic scenarios on the ECL calculation were:

As at 30 June 2018		**Scenarios**	
	Base	**Upside**	**Downside**
House price index (5 year average)	**2.0%**	**3.9%**	**(1.1)%**
Unemployment rate (5 year average)	**4.9%**	**3.8%**	**7.1%**
Household debt service ratio (5 year average)	**11.6%**	**11.8%**	**11.2%**
Bank base rate (5 year average)	**1.2%**	**1.5%**	**0.3%**
Weighting assigned	**40%**	**30%**	**30%**

	Base case ECL	**Probability weighted ECL**	**Difference**
Impairment allowance as at 30 June 2018	**£112.4m**	**£113.3m**	**£0.9m**

As at 1 January 2018		**Scenarios**	
	Base	**Upside**	**Downside**
House price index (5 year average)	2.0%	3.5%	0.5%
Unemployment rate (5 year average)	5.2%	4.2%	6.8%
Household debt service ratio (5 year average)	11.8%	12.0%	11.4%
Bank base rate (5 year average)	1.2%	1.7%	0.2%
Weighting assigned	40%	30%	30%

	Base case ECL	**Probability weighted ECL**	**Difference**
Impairment allowance as at 1 January 2018	£103.2m	£104.4m	£1.2m

Statement of Directors' Responsibilities

The Directors are responsible for preparing the condensed half-year financial statements in accordance with applicable laws and regulations.

The Directors confirm that these condensed half-year financial statements have been prepared in accordance with International Accounting Standard 34 '*Interim Financial Reporting'*, as adopted by the European Union and the interim management report includes a fair review of the information required by DTR 4.2.7.

By order of the Board,

Jayne-Anne Gadhia CBE
Chief Executive
25 July 2018

Independent Auditors' Review Report to Virgin Money plc

Report on the condensed half-year financial statements

Our conclusion

We have reviewed Virgin Money plc's condensed half-year financial statements (the "interim financial statements") in the 2018 half-year results of Virgin Money plc for the 6 month period ended 30 June 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the balance sheet as at 30 June 2018;
- the income statement and statement of comprehensive income for the period then ended;
- the cash flow statement for the period then ended;
- the statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the 2018 half-year results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Company is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The 2018 half-year results, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the 2018 half-year results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the 2018 half-year results based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the 2018 half-year results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
25 July 2018