2015 HALF-YEAR RESULTS
News Release

BASIS OF PRESENTATION

This report covers the results of Virgin Money Holdings (UK) plc together with its subsidiaries ('Virgin Money, Virgin Money Group or the Group') for the half-year ended 30 June 2015.

Statutory basis

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

Underlying basis

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

Forward looking statements

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

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

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VIRGIN MONEY: RESULTS FOR THE HALF-YEAR TO 30 JUNE 2015

Financial Highlights

- Underlying profit before tax increased by 37 per cent to £81.8 million, from £59.7 million in H1 2014.
- Underlying net interest margin grew by 22 basis points to 1.65 per cent, from 1.43 per cent in H1 2014.
- Underlying cost:income ratio improved to 62.2 per cent, from 66.7 per cent in H1 2014.
- Underlying return on tangible equity grew by 2.6 percentage points to 10.2 per cent, from 7.6 per cent in H1 2014.
- Underlying return on assets grew by 12 basis points to 0.40 per cent, from 0.28 per cent in H1 2014.
- Statutory profit before tax was £55.0 million in H1 2015, compared to £6.7 million in H1 2014.
- An interim dividend of 1.4 pence per ordinary share to be paid in October 2015.

Continued growth in mortgage, credit card and retail deposit balances

- Mortgage balances increased to £23.6 billion, up 8 per cent from FY 2014.
- Gross mortgage lending of £3.6 billion, 44 per cent higher than H1 2014. Net lending of £1.7 billion in H1 2015.
- Gross lending market share of 3.8 per cent and net lending market share of 20.5 per cent at the end of May 2015, the last month for which data is available.
- Credit card balances stood at £1.1 billion at H1 2015, after the successful migration of the credit card business in March 2015.
- Retail deposit balances increased to £22.8 billion, up 3 per cent from FY 2014.

Maintained focus on a high-quality balance sheet, underpinned by strong capital ratios and a prudent risk appetite

- Mortgage loans over three months in arrears of 0.25 per cent compared with the latest industry average of 1.3 per cent.
- Card balances two or more payments in arrears of 1.59 per cent.
- Cost of risk flat compared to H2 2014 at 12 basis points.
- Fully-loaded Common Equity Tier 1 ratio of 18.7 per cent at H1 2015.
- Total capital ratio of 21.7 per cent at H1 2015.
- Leverage ratio of 4.1 per cent at H1 2015.

New developments during the first half of the year

- 675,000 credit card accounts successfully migrated to Virgin Money's own platform in March 2015.
- Full national roll-out of the Virgin Essential Current Account completed.
- Three new investment funds launched offering improved customer choice.
- Wholesale funding diversified through successful issuance of £300 million Medium Term Notes and £750 million of Residential Mortgage Backed Securities.

Reconciliation to statutory profit is shown on page 4

Jayne-Anne Gadhia, Chief Executive Officer said:

“I am pleased to report a 37 per cent increase in underlying profit for the first half of 2015. This was driven by balance sheet growth, strong improvement in our net interest margin and effective cost management.

We continued to increase our share of the mortgage market while protecting the quality of our book. Gross mortgage lending increased by 44 per cent to £3.6 billion in the first half of the year, representing a 3.8 per cent market share of gross lending and a 20.5 per cent share of net lending to the end of May.

In our credit card business we successfully completed the migration of the credit cards acquired from MBNA to our own platform and launched our new range of cards to customers. This puts us in a strong position to grow our credit card business to our target of £3 billion of credit card balances by the end of 2018.

We remain focused not only on delivering growth but also generating sustainable returns to shareholders. As such, we are pleased to announce that, after taking into consideration our strong performance in the first half of the year and the growth prospects of the company, the Board has declared an interim dividend of 1.4 pence per share.”

UNDERLYING BASIS - CONSOLIDATED INCOME STATEMENT

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	***Change %***	Half-year to 31 Dec 2014 £ million	***Change %***
Net interest income	**220.3**	172.9	***27***	193.2	***14***
Other income	**34.1**	40.6	***(16)***	31.5	***8***
Total income	**254.4**	213.5	***19***	224.7	***13***
Costs	**(158.3)**	(142.5)	***11***	(158.7)	***-***
Impairments	**(14.3)**	(11.3)	***27***	(4.5)	***218***
Underlying profit before tax	**81.8**	59.7	***37***	61.5	***33***

CONSOLIDATED BALANCE SHEET

	At 30 June 2015 £ million	At 30 June 2014 £ million	***Change %***	At 31 Dec 2014 £ million	***Change %***
Assets					
Cash and balances at central banks	**687.1**	888.6	***(23)***	851.3	***(19)***
Loans and receivables	**25,362.2**	21,501.0	***18***	23,822.2	***6***
Available-for-sale financial assets	**1,405.6**	1,313.7	***7***	1,539.6	***(9)***
Other	**326.9**	441.7	***(26)***	323.7	***1***
Total assets	**27,781.8**	24,145.0	***15***	26,536.8	***5***
Liabilities and equity					
Deposits from banks	**743.2**	576.3	***29***	846.7	***(12)***
Customer deposits	**22,971.8**	21,112.8	***9***	22,365.7	***3***
Debt securities in issue	**2,338.9**	881.7	***165***	1,594.1	***47***
Other	**416.8**	629.0	***(34)***	477.2	***(13)***
Provisions	**24.8**	23.9	***4***	9.3	***167***
Total liabilities	**26,495.5**	23,223.7	***14***	25,293.0	***5***
Total equity	**1,286.3**	921.3	***40***	1,243.8	***3***
Total liabilities and equity	**27,781.8**	24,145.0	***15***	26,536.8	***5***

KEY RATIOS

	Half-year to 30 June 2015	Half-year to 30 June 2014	***Change***	Half-year to 31 Dec 2014	***Change***
Net interest margin	**1.65%**	1.43%	***22bps***	1.56%	***9bps***
Cost:income ratio	**62.2%**	66.7%	***(4.5)pp***	70.6%	***(8.4)pp***
Cost of risk[1]	**0.12%**	0.11%	***1bp***	0.12%	***-***
Statutory basic earnings per share (pence)	**8.6p**	(4.0)p	***(315)%***	3.4p	***153%***
Tangible net asset value per share[2]	**£2.44**	£2.34	***4%***	£2.36	***3%***
Loan-to-deposit ratio	**107.3%**	99.6%	***7.7pp***	102.8%	***4.5pp***
Common Equity Tier 1 ratio	**18.7%**	14.4%	***4.3pp***	19.0%	***(0.3)pp***
Leverage ratio	**4.1%**	3.8%	***0.3pp***	4.1%	***-***
Return on tangible equity[3]	**10.2%**	7.6%	***2.6pp***	7.9%	***2.3pp***

1 Defined as impairment charges divided by average gross balances for the given period, excluding debt sale in H2 2014
2 H1 2014 has been normalised to take into account primary capital raised on IPO
3 Annualised

Key ratios are presented on an underlying basis except where stated

RECONCILIATION TO STATUTORY PROFIT

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	***Change %***	Half-year to 31 Dec 2014 £ million	***Change %***
Underlying profit before tax	**81.8**	59.7	***37***	61.5	***33***
Additional Northern Rock consideration	**-**	(26.0)	***(100)***	(10.0)	***(100)***
Costs associated with IPO	**(6.5)**	(5.8)	***12***	(18.1)	***(64)***
Strategic transaction costs	**(4.8)**	(4.6)	***4***	(6.3)	***(24)***
FSCS levy	**(15.5)**	(16.6)	***(7)***	0.2	***>100***
Statutory profit before tax	**55.0**	6.7	***721***	27.3	***101***

CHIEF EXECUTIVE'S STATEMENT

In the first half of 2015 Virgin Money reported a 37 per cent increase in underlying profit as a result of delivering on all elements of our strategy of growth, quality and returns.

We continued to increase our share of the mortgage market while protecting the quality of our book. Gross mortgage lending increased by 44 per cent to £3.6 billion in the first half of the year. We delivered a 3.8 per cent market share of gross lending and a 20.5 per cent share of net lending to the end of May, the last month for which data is available.

We successfully completed the migration of the credit cards acquired from MBNA to our own platform and launched our new range of cards to customers. This puts us in a strong position to grow our credit card business to our target of £3 billion of credit card balances by the end of 2018.

Our marketing campaigns reached more than three quarters of the UK population six or more times during the period and spontaneous awareness grew 4 per cent in a market where the challenger bank average fell by 2.5 per cent.

We are particularly pleased that after taking into consideration our strong performance in the first half of the year, which delivered earnings per share of 8.6 pence, and the growth prospects of the company, the Board has declared an interim dividend of 1.4 pence per ordinary share.

Results overview

We continue to deliver a strong financial performance. Underlying profit before tax increased by 37 per cent compared to the first half of 2014 to £81.8 million driven mainly by strong growth in our mortgage business, continued high asset quality and effective management of costs within the business.

Underlying net interest income grew by 27 per cent to £220.3 million as a result of increased volumes and an improvement in net interest margin of 22 basis points to 165 basis points.

Underlying total income increased by 19 per cent compared to the first half of 2014 to £254.4 million.

Underlying cost growth was flat compared to the second half of 2014 and limited to 11 per cent compared to the first half of 2014, despite continued investment in the business and increased business volumes. Our cost:income ratio improved to 62.2 per cent from 66.7 per cent in the first half of 2014.

Asset quality remained strong and stable with a cost of risk flat compared to year end 2014 at 12 basis points.

The improvement in our return on tangible equity (RoTE) from 7.6 per cent at the end of the first half of 2014 to 10.2 per cent at the end of the first half of 2015, excluding FSCS timing effects, is a result of our continued focus on growth, quality and returns.

As a result of the new 8 per cent tax surcharge on banks' UK profits from January 2016, announced by the Chancellor of the Exchequer in his summer budget, we now expect a short delay in the delivery of mid-teens return on tangible equity.

We continue to manage our balance sheet within our prudent risk appetite with a view to maintaining its quality and efficiency. Our fully-loaded Common Equity Tier 1 (CET1) ratio was 18.7 per cent at the end of the first half of 2015. Our total capital ratio was 21.7 per cent and our leverage ratio was 4.1 per cent at 30 June 2015.

Mortgages

We delivered gross mortgage lending of £3.6 billion in the first half of the year. This is 44 per cent higher than in the first half of 2014. Our net mortgage lending increased materially to £1.7 billion from £0.7 billion in H1 2014, reflecting increased gross lending and strong retention performance. This represented a market share of 20.5 per cent of the net lending market to the end of May, the last month for which data is available. Mortgage balances grew by 8% from 31 December 2014 to £23.6 billion.

The mortgage market was very competitive during the first half of the year, putting pressure on asset spreads. We have addressed this by deepening our intermediary relationships and broadening our asset mix within our existing prudent risk appetite, substituting a portion of low loan-to-value residential mortgages, which is the area of most intense competition, with an increased volume of low loan-to-value buy-to-let business. As a result, we achieved an average completion spread of around 200 basis points in the first half of the year.

Our mortgage business remains high-quality, with an average loan-to-value of new lending of 66.9 per cent and a portfolio loan-to-value of 56.5 per cent. Buy-to-let lending stands at 16.2 per cent of the total portfolio and is in line with the overall market.

We do not expect any material impact on our business relating to the new tax regulations for buy-to-let landlords. We are not exposed to a high proportion of buy-to-let business and the regulations will be phased in over four years from April 2017.

Savings

We continued to manage the cost and volume of deposits successfully. As a result funding costs reduced in the first half of the year. Savings increased by 3 per cent from 31 December 2014 to £22.8 billion.

Funding

In April 2015 we issued £300 million of senior unsecured debt, our debut issuance under our Medium Term Note (MTN) programme. This enhances our funding mix to support growth and diversifies our investor base. In addition, we have an established Residential Mortgage Backed Securities (RMBS) programme with a strong reputation, from which we raised a further £750 million in June. As we develop our wholesale funding programmes our mix of wholesale will rise but will remain relatively low as a proportion of overall funding. Increased wholesale funding has materially reduced our weighted average cost of funds during H1 2015.

Credit cards

During the first half of the year we made significant strides with our credit card business, including successfully migrating over 675,000 customer accounts from MBNA to our own platform. The platform has been developed in partnership with leading systems provider TSYS and gives us full control of our credit card business.

Following the successful migration in March, credit card balances stood at £1.1 billion at 30 June 2015, representing a 1.8 per cent share of the £60 billion cards market. New business since migration has been strong and we remain on track to meet our target of £3 billion of credit card balances by the end of 2018.

The financial performance of the card business has also been strong at both a new business and portfolio level.

In the autumn the Financial Conduct Authority (FCA) will produce the preliminary findings of their credit card market study. We believe our platform, capability and scale mean that we are sufficiently nimble to respond to any required changes with practical ease and limited economic impact.

Current accounts, insurance and investment

The Virgin Essential Current Account (ECA) is now available across our network of 75 Stores following the full national roll-out which completed in March 2015. The ECA gives us a proven current account platform ahead of the conclusion of the Competition and Markets Authority's (CMA) review into Current Accounts which is expected in early 2016.

We launched our new simple life insurance product in partnership with Friends Life in March and have recently entered into a new marketing agreement as we grow this business. Income in our insurance business increased by 5 per cent compared to the first half of 2014, and the development of our new motor and home insurance proposition in partnership with Ageas is well advanced and will launch in the second half of the year.

In investments, we launched three new funds during the first half of the year, increasing the number of passively managed funds in our range to five. The new funds provide our customers with more choice and give us the opportunity to grow our funds under management.

Development of our insurance and investment business lines gives us the opportunity to grow our non-interest income from the second half of 2015 onwards.

Marketing and brand

Over the first half of the year, we continued to invest in our marketing campaign "There's money and there's Virgin Money" as a core part of our strategy to reinforce our differentiation from our competitors.

Our campaigns reached more than three quarters of the UK population six or more times during the period, and our digital strength was exemplified by over six million views of our content online and through social media.

As a result of our marketing efforts, sales visits to our website increased by 8 per cent, customer numbers grew to 2.9 million from 2.8 million at year end and spontaneous awareness grew 4 per cent in a market where the challenger bank average fell by 2.5 per cent. Our Lounge footfall grew by 7 per cent and for the second consecutive year Virgin Money was voted the Coolest Brand in Financial Services.

Regulation

We continue to work with the relevant authorities on the introduction of regulations connected to the Financial Services (Banking Reform) Act 2013, which will result in the ring-fencing of retail and commercial banking operations to separate them from investment banking activities. Given that we are a UK focused retail bank, we believe that our entire business will be within the ring fence when it comes into effect at the beginning of 2019.

Colleagues

Virgin Money recognises the value of diversity across our colleagues, who together bring a broad range of skills and experience to our business. We are committed to increasing diversity at all levels and that commitment is reflected in our Board Diversity and Inclusion Policy. We aim to lead by example and strive to ensure that those who work for our business reflect the customers we serve, enabling us to provide a relevant, practical and personal banking service. Our gender balance at 30 June was 45 per cent male to 55 per cent female.

Our latest colleague engagement survey was conducted in July and we look forward to sharing the results in the autumn.

Culture

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

Community

During the first half of the year we established the Virgin Money Foundation which will launch in the second half of the year and will focus initially on projects in the North East of England.

Virgin Money Giving continues to grow and in the first half of the year has raised £57.7 million (including Gift Aid) for charities.

Through our investment in our enterprise education programme, "Make £5 Grow", and our sponsorship of the "Fiver Challenge", our brand has reached nearly 40,000 primary school children from more than 600 schools across the UK in the first six months of the year.

External environment, economy and housing market

Economic fundamentals in the UK continue to help underpin the housing market, despite uncertainty in domestic and international financial markets.

Consumer confidence is supported by near record numbers of people in work, a low rate of unemployment (5.6 per cent) and rising real incomes. The pace of earnings growth has increased in recent months and is now about 3 per cent higher than a year ago. This is the strongest performance for several years. Lower energy and food costs mean that consumer prices remain broadly the same as a year ago.

Growth in the number of households continues to outstrip the supply of new housing. While the Government is committed to a raft of initiatives to support growth in home ownership and house building, these may take some time to have an appreciable impact in meeting the current shortfall in housing supply. Continued increases in house prices appear likely whilst an imbalance between supply and demand remains.

The introduction of the Mortgage Market Review (MMR) in 2014 and intervention by the FPC on income multiples has had a small dampening effect on overall transaction growth. The buy-to-let market has continued to grow to meet the demands for private rented accommodation. The market expectation is for gradual base rate rises which should provide a catalyst for customers to re-mortgage without triggering an affordability shock. We therefore believe that conditions are supportive of steady and sustainable growth in housing transactions.

The Bank of England's latest credit survey reports an increase in mortgage demand in the second quarter of 2015 and expectations of a further increase in Q3. This is in line with CACI data that tracks weekly mortgage application data. According to the Bank of England, lender approvals for house purchases have been on an improving trend during the first half of 2015 and surpassed year-earlier levels in the past few months. All this market data now points to a gradual growth in activity in the near-term and the Council of Mortgage Lenders now forecasts that housing transactions will grow by 2 per cent and that gross lending volumes will increase by 10 per cent next year.

Outlook and guidance

Virgin Money has performed strongly in the first half of the year with mortgage growth, net interest margin and RoTE all performing ahead of expectations.

Competition in the mortgage market, reflected in asset spread compression, remains a headwind in the second half of the year. We will protect spread by a continued focus on managing volumes.

The credit card business is now fully operational on Virgin Money's own platform and new business has been strong since the successful migration. This means we are well positioned to meet our target of £3 billion of credit card balances by the end of 2018.

We remain confident that will deliver a full-year net interest margin slightly ahead of our guidance of up to 160 basis points in 2015.

Cost flexibility remains an opportunity to drive returns in the medium term. We will continue to deliver on our cost efficiency targets and are well positioned to achieve a cost:income ratio of no more than 50% as planned in 2017.

The unexpected addition of the bank surcharge is expected to slow our progress to mid-teens returns on tangible equity and we now expect to achieve this by the end of 2017.

Current account, digital and SME development give us significant potential and opportunity to drive the growth of the business.

We have the brand, the capability and the flexibility to adapt to market conditions and to pursue new opportunities and, importantly, we have the capital to support our growth ambitions.

I am delighted that we have delivered strongly against the objectives set out at IPO and believe that the dividend the Board has declared today is evidence of this.

Jayne-Anne Gadhia, CBE
Chief Executive

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE

Overview: Strong growth in profitability and return on equity

In the first half of 2015 Virgin Money delivered continued growth in the balance sheet, maintained high asset quality and improved profitability.

Mortgage balances increased by 8 per cent to £23.6 billion and retail savings by 3 per cent to £22.8 billion. Cards balances were broadly flat at £1.1 billion as origination was minimised during preparations for the successful migration of customer accounts to Virgin Money's own platform.

Income increased by 19 per cent to £254.4 million driven by mortgage lending and an improvement in net interest margin (NIM) to 165 basis points from 143 basis points. Operational efficiency continued to improve with the cost:income ratio decreasing to 62.2 per cent from 66.7 per cent. This trading performance combined with continued high asset quality generated a 37 per cent increase in profits before tax to £81.8 million.

Statutory profit before tax grew from £6.7 million in the first half of 2014 to £55.0 million. This was driven by improved profitability and the non-recurrence of one-off costs from the Initial Public Offering.

The results set out above increased the return on tangible equity to 10.2 per cent from 7.6 per cent in the first half of 2014.

Earnings per share increased to 8.6 pence.

Total income

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	***Change %***	Half-year to 31 Dec 2014 £ million	***Change %***
Net interest income	**220.3**	172.9	***27***	193.2	***14***
Other income	**34.1**	40.6	***(16)***	31.5	***8***
Total income	**254.4**	213.5	***19***	224.7	***13***
Net interest margin	**1.65%**	1.43%	***22bps***	1.56%	***9bps***
Average interest earning assets	**26,446.0**	24,008.7	***10***	24,949.8	***6***
Loan-to-deposit ratio	**107.3%**	99.6%	***7.7pp***	102.8%	***4.5pp***

Total income was £254.4 million, 19 per cent higher than in the first half of 2014. Strong growth in net interest income was partially offset by the expected reduction in other income.

Net interest income increased by 27 per cent to £220.3 million in the first half of 2015. This reflected the improved net interest margin as well as the increase in mortgage balances.

Other income was lower primarily due to the planned reduction in fee income from the ending of the credit card agreement with MBNA in November 2014. There was also a reduction in gains arising from asset sales in Treasury. Those reductions were partially offset by a 9 per cent increase in total income from the current account, insurance and investments business which was driven mainly by growth in funds under management and pension sales.

The improvement in net interest margin to 1.65 per cent in the first half of 2015 was driven by a reduction in retail cost of funds which more than offset asset pricing pressures.

The financial metrics in this section are presented on an underlying basis unless labelled as statutory

Costs

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	***Change %***	Half-year to 31 Dec 2014 £ million	***Change %***
Costs	**158.3**	142.5	***11***	158.7	***-***
Cost:income ratio	**62.2%**	66.7%	***(4.5)pp***	70.6%	***(8.4)pp***

Costs increased by 11 per cent to £158.3 million from £142.5 million in the first half of 2014. This increase was mainly due to the build out of the operating platform and increased headcount during 2014.

Compared to the second half of 2014, total costs registered a slight reduction as a result of a continued focus on cost management and from the benefits of reductions in costs in the credit card platform.

Total income increased by £29.7 million from the second half of 2014 while costs decreased by £0.4 million. As a result, in the first half of 2015 the cost:income ratio improved by 8.4 percentage points to 62.2 per cent from 70.6 per cent in the second half of 2014.

Impairment

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	***Change %***	Half-year to 31 Dec 2014 £ million	***Change %***
Impairment charge - mortgages	**1.6**	(0.8)	***300***	2.0	***(20)***
Impairment charge - cards[1]	**12.7**	12.1	***5***	11.4	***11***
Cost of risk – mortgages	**0.01%**	*(0.01)%*	***2bps***	*0.02%*	***(1)bps***
Cost of risk- cards[1]	**2.29%**	3.12%	***(83)bps***	2.42%	***(13)bps***
Impaired loans as a % of loans and advances	**0.4%**	0.6%	***(0.2)pp***	0.5%	***(0.1)pp***
Provisions as a % of impaired loans	**37.0%**	24.5%	***12.5pp***	29.5%	***7.5pp***
Provisions plus excess expected loss as a % of impaired loans	**64.1%**	49.1%	***15.0pp***	53.6%	***10.5pp***

¹ Excluding the impact of the sale of charged off balances in H2 2014

The impairment charge for mortgages reduced by 20 per cent compared with the second half of 2014, despite the growth in the mortgage book. This reflected the continued high asset quality of the loan portfolio and the low level of defaults. The cost of risk for mortgages, or the impairment charge expressed as a percentage of average loans and advances, decreased to 0.01 per cent in the first half of 2015.

The impairment charge for credit cards increased to £12.7 million from £11.4 million in the second half of 2014. This principally reflected the growth in customer balances in the cards business following the acquisition of £359.3 million of card balances in November 2014. The cost of risk for credit cards decreased by 13 basis points against the second half of 2014 to 2.29 per cent.

Combining the impairment charges for mortgages and credit cards, total cost of risk increased by 1 basis point to 12 basis points from 11 basis points in the first half of 2014.

Provisions as a percentage of impaired loans and advances increased to 37.0 per cent from 24.5 per cent at 30 June 2014, driven by a reduction in impaired balances following improved arrears performance. Mortgage provisions plus excess expected mortgage losses as a percentage of impaired loans also increased to 64.1 per cent from 49.1 per cent at 30 June 2014.

The financial metrics in this section are presented on an underlying basis unless labelled as statutory

Returns on assets and tangible equity

		Half-year to 30 June 2015	Half-year to 30 June 2014	Change	Half-year to 31 Dec 2014	Change
Return on tangible equity[1]	%	**10.2**	7.6	***2.6pp***	7.9	***2.3pp***
Return on assets[1]	%	**0.40**	0.28	***12bps***	0.30	***10bps***

[1] Excluding FSCS timing effects

The return on tangible equity increased to 10.2 per cent in the first half of 2015 from 7.9 per cent in the second half of 2014 and 7.6 per cent in the first half of 2014. The return on assets grew by 12 basis points to 0.40 per cent in the first half of 2015 from 0.28 per cent in the first half of 2014. This was due to improved net interest margin driving profitability faster than total asset growth. These are annualised measures and in calculating them the FSCS charge has been smoothed evenly over the year whereas the entire FSCS levy is recognised in April each year under the applicable accounting standard.

Statutory profit

Statutory profit before tax of £55.0 million for the first half of 2015 grew from £6.7 million in the first half of 2014. This was due to a £22.1 million increase in profit and the non-recurrence of exceptional costs incurred in 2014 including the additional Northern Rock consideration. The additional costs recognised in the statutory profit before tax are set out below.

Underlying profit to statutory profit reconciliation

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	Half-year to 31 Dec 2014 £ million
Underlying profit:	**81.8**	59.7	61.5
— Additional Northern Rock consideration	**-**	(26.0)	(10.0)
— IPO costs	**-**	(0.8)	(11.8)
— IPO share based awards and one-off payments on listing	**(6.5)**	(5.0)	(6.3)
— Premium on repurchase of NCT1 note in issue	**-**	-	(4.5)
	(6.5)	(31.8)	(32.6)
Strategic items:			
— Strategic transaction costs	**(4.8)**	(2.9)	(6.1)
— Loss for the year of disposal group	**-**	(0.5)	(0.5)
— Gain on sale of subsidiary	**-**	-	4.5
— Fair value adjustments	**-**	(1.2)	0.3
	(4.8)	(4.6)	(1.8)
— FSCS levy	**(15.5)**	(16.6)	0.2
Profit before tax – statutory	**55.0**	6.7	27.3
Taxation	**(12.1)**	(15.1)	(10.2)
Profit for the half-year – statutory	**42.9**	(8.4)	17.1
Basic earnings per share – statutory (pence)	**8.6**	**(4.0)**	**3.4**

Additional Northern Rock consideration

The terms agreed in respect of the acquisition of Northern Rock on 1 January 2012 included an amount payable to HM Treasury in the event of a successful, profitable IPO or sale of Virgin Money between 2012 and 2016. In the first half of 2014, with preparations for the IPO having commenced, an additional £26.0 million was recognised to reflect the increased likelihood of this amount becoming payable.

The financial metrics in this section are presented on an underlying basis unless labelled as statutory

Strategic items

In the first half of 2015, the Group incurred strategic transaction costs of £4.8 million relating primarily to the investment in the credit card platform.

FSCS levy

The FSCS levy in the first half of 2015 amounted to £15.5 million, a reduction of £1.1 million compared to 2014. While Virgin Money's share of protected deposits grew year on year, the reduction in the element of the FSCS levy relating to recovery of amounts previously paid out in respect of failed institutions more than offset the increase in the element relating to the Group's share of protected deposits.

Taxation

In the first half of 2015, the Group was subject to an effective tax rate of 22 per cent and recognised a £12.1 million corporation tax charge.

BALANCE SHEET

Capital ratios and risk-weighted assets

		At 30 June 2015	At 31 Dec 2014	***Change %***
Risk-weighted assets	£ million	**5,420.1**	5,160.6	***5***
Common Equity Tier 1 ratio	%	**18.7**	19.0	***(0.3)pp***
Total capital ratio	%	**21.7**	22.1	***(0.4)pp***
Leverage ratio	%	**4.1**	4.1	***-***

Risk-weighted assets (RWAs) grew by 5 per cent to £5,420.1 million at the end of the first half, primarily due to increased mortgage lending being partially offset by a change in the Advanced Internal Ratings Based (AIRB) model which was agreed with the Prudential Regulation Authority (PRA). The change was implemented to account for the growth in the House Price Index (HPI) beyond historic peak property prices in 2007. The change more accurately reflects an up to date view of the value of the secured property and therefore allows the Group to recognise the benefit of strong house prices in the downturn LGD. This contributed a significant reduction in RWAs of £354 million during the first half of the year.

The Group continued to be well capitalised to support its continued growth with a Common Equity Tier 1 ratio of 18.7 per cent, a total capital ratio of 21.7 per cent and a leverage ratio of 4.1 per cent.

Funding and liquidity

	At 30 June 2015 £ million	At 31 Dec 2014 £ million	***Change %***
Loans and advances to customers	**24,705.5**	23,093.1	***7***
Funded assets	**25,476.1**	24,181.9	***5***
Customer deposits	**22,971.8**	22,365.7	***3***
Wholesale funding	**3,053.3**	2,429.4	***26***
Wholesale funding <1 year maturity	**714.4**	835.3	***(14)***
Loan-to-deposit ratio	**107.3%**	102.8%	***4.5pp***
High quality liquid assets[1]	**4,056.5**	4,235.9	***(4)***

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

The financial metrics in this section are presented on an underlying basis unless labelled as statutory

During 2015 loans and advances to customers increased by £1,612.4 million to £24,705.5 million and customer deposits grew by £606.1 million to £22,971.8 million. Virgin Money has a strong and diversified funding base with funding provided by retail deposit customers representing 88.3 per cent of total funding.

The Group aims to manage its balance sheet so that customer asset growth is broadly matched with sustainable retail deposit growth. This is monitored through the loan-to-deposit ratio which is actively managed to ensure compliance with Board approved metrics. The loan-to-deposit ratio was 107.3 per cent at 30 June 2015, compared to 102.8 per cent at 31 December 2014. This reflects the increase in wholesale funding balances in the first half of 2015 as the Group took advantage of attractive opportunities in the capital markets to increase its balance sheet efficiency.

Under its Global MTN programme Virgin Money successfully completed a debut issuance and there was a further RMBS issued from the established Gosforth programme. Both issues were oversubscribed and upsized. These securities diversified funding sources in line with the aim of wholesale funding providing up to 20 per cent of total funding and also provided term funding at a cost lower than retail funding of equivalent size.

In addition to non-retail funding on the balance sheet, the Group also accessed the Government's Funding for Lending Scheme (FLS), with £450 million drawn during the first half of the year to support lending growth and liquidity. Total drawings from the FLS at 30 June 2015 were £2.7 billion. All FLS drawings remain off balance sheet and are therefore not included in the table above.

The Group's liquidity position remains strong, with high quality liquid assets of £4,056.5 million at 30 June 2015 (31 December 2014: £4,235.9 million). High quality liquid assets represent more than 5 times wholesale funding with a maturity of less than one year, providing a substantial buffer in the event of extended market dislocation.

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

Conclusion

Virgin Money continues to deliver a strong financial performance. During the first half of the year income grew as mortgage lending increased and funding costs fell, more than offsetting lower yields on mortgage lending. Overall, the business delivered growth in the balance sheet, sustained high asset quality, significantly improved profitability and maintained strong capital ratios to support continued growth.

Virgin Money remains focused not only on delivering growth but also generating sustainable returns to shareholders. Taking into account the strong performance of the business in the first half of the year, which delivered earnings per share of 8.6 pence, the Board has declared an interim dividend of 1.4 pence per ordinary share.

Lee Rochford
Chief Financial Officer

The financial metrics in this section are presented on an underlying basis unless labelled as statutory

DIVISIONAL HIGHLIGHTS

MORTGAGES AND SAVINGS PERFORMANCE

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

Performance summary

Half-year financial highlights
• Net interest income increased by 30 per cent to £176.5 million, driven by growth in balances and an improvement in net interest margin. • Strong cost management produced positive JAWS of 10 per cent. • Contribution improved by 31 per cent to £128.6 million.

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	***Change %***	Half-year to 31 Dec 2014 £ million	***Change %***
Mortgage balances	**23,585.2**	20,304.3	***16***	21,887.5	***8***
Savings balances	**22,757.7**	20,918.7	***9***	22,164.1	***3***
Net interest income	**176.5**	135.8	***30***	155.2	***14***
Other income	**1.1**	1.4	***(21)***	1.7	***(35)***
Total Income	**177.6**	137.2	***29***	156.9	***13***
Costs	**(47.4)**	(39.9)	***19***	(45.8)	***3***
Impairment losses on loans and advances	**(1.6)**	0.8	***(300)***	(2.0)	***(20)***
Underlying contribution	**128.6**	98.1	***31***	109.1	***18***
Net interest margin (NIM)	**1.55%**	1.35%	***20bps***	1.49%	***6bps***

Mortgages

Virgin Money offers a wide range of mortgage products supported by excellent service, primarily through its intermediary partners and supplemented by direct distribution. Product development for mortgages is focused on extending its market coverage into stronger yielding sectors, whilst maintaining its prudent risk appetite. Virgin Money will continue to strengthen its intermediary proposition to build upon its existing intermediary relationships.

Virgin Money achieved a 3.8 per cent share of the gross mortgage market to the end of May 2015.

The mortgage book grew by 8 per cent during the first half of 2015 driven by strong new gross lending of £3.6 billion. Combined with strong customer retention, net lending of £1.7 billion in the first half of the year delivered a 20.5 per cent market share to the end of May, the last month for which data is available. This lending growth was achieved at an average completion spread of around 200 basis points.

The quality of the mortgage book remains strong. Loans over three months in arrears were 0.25 per cent of the book at the end of H1 2015 compared with the latest industry average of 1.3 per cent, according to the Council of Mortgage Lenders. The average loan-to-value of the book was 56.5 per cent in the first half of 2015 and the split of loans was 83.8 per cent residential and 16.2 per cent buy-to-let.

The financial metrics in this section are presented on an underlying basis unless labelled as statutory

In the first half of the year, Virgin Money helped more people to get on the property ladder through continued development of First Time Buyer and New Build propositions, including a number of enhancements to its lending policy.

Maintaining and building on the high-quality service proposition is a key area of focus in Virgin Money's mortgage business, and the launch of new intermediary commitments during the first half of the year has been positively received by intermediary partners. The quality of intermediary service was recognised by winning the "Best Service from a Buy-to-Let Lender" award at the Business Moneyfacts Awards, as well as the prestigious "Best Lender for Partnership" at the Legal & General Mortgage Club Awards.

Virgin Money has seen a 15 point improvement in its intermediary Net Promoter Score to +40 from +25.

Savings

Virgin Money's savings products are simple and transparent, with no hidden catches. It avoids 'teaser' products with bonus rates which subsequently fall to sub-market levels and provoke customer churn. Instead customer retention is encouraged with enduring, good value offers. Virgin Money continues to offer a broad range of easy access and fixed term products, with no channel bias, both as ISAs and stand-alone products.

Savings book growth was managed carefully across the first half of the year and included the introduction of a new defined access saver product, broadening our range of variable savings products and offering competitive rates for customers. Total savings balances grew by 3 per cent during the first half of the year to £22.8 billion.

ISA performance was particularly strong in the first half of the year, with Virgin Money taking a 10 per cent share of net inflows in the Cash ISA market to the end of May. This resulted in our Cash ISA market share increasing to 3.3 per cent at the end of May compared to 3.0 per cent at the end of the 2014. Virgin Money also won a "Your Money Best Cash ISA Award" for the third year running.

Funding costs reduced during the first half of the year, offsetting lower yields on mortgage lending, due to continued focus on managing savings pricing while continuing to provide customers with competitive and good value returns.

The financial metrics in this section are presented on an underlying basis unless labelled as statutory

CREDIT CARDS PERFORMANCE

During the first half of 2015 Virgin Money successfully migrated over 675,000 customer accounts from MBNA to its own credit card platform.

Performance summary

Half-year financial highlights

- Net interest income increased 18 per cent to £43.9 million, driven by the acquisition of £359.3 million of card balances in November 2014.
- Fee income reduced to £8.0 million, reflecting no new card origination fees since November 2014 which were receivable under the previous agreement with MBNA.
- Costs increased by £2.8 million as payments were made to MBNA for servicing customer accounts until March 2015. This increased cost will not recur in the second half of 2015.

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	***Change %***	Half-year to 31 Dec 2014 £ million	***Change %***
Credit card balances	**1,065.3**	725.0	***47***	1,098.2	***(3)***
Net interest income	**43.9**	37.1	***18***	38.0	***16***
Other income	**8.0**	12.8	***(38)***	12.4	***(35)***
Total Income	**51.9**	49.9	***4***	50.4	***3***
Costs	**(19.5)**	(16.7)	***17***	(23.8)	***(18)***
Impairment losses on loans and advances	**(12.7)**	(12.1)	***5***	(2.5)	***408***
Underlying contribution	**19.7**	21.1	***(7)***	24.1	***(18)***
Net interest margin (NIM)	**8.39%**	9.95%	***(156)bps***	9.28%	***(89)bps***

The successful migration of customer accounts to Virgin Money's own platform was completed in March 2015, giving full control of the credit card business and enabling it to grow the business through simple, transparent products supported by strong risk management and excellent service. The credit card manufacturing capability was developed in partnership with leading credit card systems provider TSYS.

Credit card balances were maintained at £1.1 billion at the end of the half-year, representing a 1.8 per cent share of the £60 billion credit card market. The business remains on track to grow towards its target of £3 billion of balances by the end of 2018.

The capability of the new platform allows Virgin Money to respond to market conditions more quickly and better align its products to customers' needs. Continued presence in the balance transfer market and a broadened product range of seven products in the first half of the year covered three key customer needs: debt consolidation, borrowing and everyday spending. The distribution of cards was expanded across a range of aggregators during the first half of the year. The new Sex Pistols card designs, drawing on Virgin's heritage, were launched and have been very successful in driving awareness of the card range.

The financial metrics in this section are presented on an underlying basis unless labelled as statutory

CURRENT ACCOUNTS, INSURANCE AND INVESTMENTS PERFORMANCE

Virgin Money offers a leading basic current account and works with a range of partners to provide insurance, investments and pension products.

Performance summary

Half-year financial highlights
• Total income grew by 9 per cent compared to H1 2014, driven by growth of 1 per cent in funds under management to £3.1 billion and pension sales growth of 19 per cent. • Current account balances increased to £214.1 million, up 10 per cent from H1 2014. • Costs increased to £8.5 million as a result of investing in new platforms to support the launch of three new funds in February together with the recruitment of new talent.

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	***Change*** %	Half-year to 31 Dec 2014 £ million	***Change*** %
Current account balances	**214.1**	194.1	***10***	201.6	***6***
Net interest income	**(0.1)**	-	***-***	-	***-***
Investments	**15.9**	14.4	***10***	14.6	***9***
Insurance and other	**2.1**	2.0	***5***	1.8	***17***
Total Income	**17.9**	16.4	***9***	16.4	***9***
Costs	**(8.5)**	(6.6)	***29***	(6.7)	***27***
Impairment losses on loans and advances	**-**	-	***-***	-	***-***
Underlying contribution	**9.4**	9.8	***(4)***	9.7	***(3)***

Current account

The full national roll-out of the Virgin Essential Current Account (ECA) was completed in March 2015 with the account now available through all 75 Stores. The ECA gives Virgin Money a proven current account platform ahead of the conclusion of the CMA review into current accounts which is expected in early 2016.

In June Virgin Money entered a long-term agreement to issue contactless-enabled MasterCard debit cards to its customers. Access to MasterCard's technology and expertise positions Virgin Money well in terms of future digital and mobile payments innovation.

Virgin Money continues to challenge the barriers to entry and the anti-competitive nature of the current account market – particularly the free-if-in-credit model and lack of fair access to the payments infrastructure. While these conditions persist, Virgin Money has limited its participation in the market and continues to build capability in order to be ready to leverage future opportunities.

Insurance

Virgin Money's insurance strategy is based on a partnership model. It seeks partners who share its commitment to straightforward and transparent products. Virgin Money builds on their capabilities with its brand and marketing expertise to access profitable sectors whilst moderating financial risk.

The insurance business performed well during the first half of the year with income up 5 per cent from H1 2014. This was driven mainly by life insurance and travel insurance where 178,000 new policies were written in H1 2015.

The financial metrics in this section are presented on an underlying basis unless labelled as statutory

New travel insurance products were launched in June to improve its competitive position, broaden its proposition and improve cover for customers.

Virgin Money launched its new life insurance product in partnership with Friends Life in March and has recently commenced a new marketing agreement as it grows this business.

The launch of a new home and motor proposition, in conjunction with strategic partner Ageas, is nearing completion. These new products will support growth plans and further strengthen the customer focused insurance services model. Ageas, which is a leading provider of award-winning insurance solutions to around nine million customers, will support Virgin Money by providing sales, servicing, administration and claims management support.

Investment and pensions

In the first half of 2015, investment and pension income was £15.9 million, a 10 per cent increase over the same period in 2014. Total funds under management were £3,084 million at the end of the first half of 2015, a 1 per cent increase from the end of 2014, following strong retention and the launch of three new funds in February.

Almost 40 per cent of Virgin Money's funds under management support customer pensions, the sales of which increased by 19 per cent during H1 2015.

In April Virgin Money completed a project to ensure compliance with the pension reforms, including the ability for pension savers to access their funds as cash from the age of 55. The pension vesting process was also changed to include information about the Government-backed PensionWise guidance service, and the creation of an Independent Governance Committee (IGC). The newly formed IGC will oversee work place pension schemes, and work with Virgin Money to ensure the schemes offer value for money and continue to serve the interests of members.

CENTRAL FUNCTIONS PERFORMANCE

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

Costs are allocated to the main business divisions, with the remainder of overheads in central functions.

Performance summary

Half-year financial highlights

- Income from the sale of available-for-sale and debt securities from within the Treasury portfolio make up the most of the £7.0 million income in the period.
- Costs during the first half of the year were flat compared with the second half of 2014, reflecting a focus on effective cost management.

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	***Change*** %	Half-year to 31 Dec 2014 £ million	***Change*** *%*
Net interest income	**-**	-	***-***	-	***-***
Other income	**7.0**	10.0	***(30)***	1.0	***600***
Income	**7.0**	10.0	***(30)***	1.0	***600***
Costs	**(82.9)**	(79.3)	***5***	(82.4)	***1***
Impairment	**-**	-	***-***	-	***-***
Underlying contribution	**(75.9)**	(69.3)	***10***	(81.4)	***(7)***

Virgin Money has an extensive investment programme to support its ambition to expand its product range and distribution capability.

During the first half of the year, it built upon its digital and mobile capability to develop customer propositions for both direct and indirect channels. Virgin Money also continued to invest in mortgage operations, both to improve efficiency and to prepare for upcoming regulatory changes as a result of the Mortgage Credit Directive.

Central Functions attributable expenses were held flat to the second half of 2014 through focus on disciplined cost management while the business grows to scale.

The financial metrics in this section are presented on an underlying basis unless labelled as statutory

RISK MANAGEMENT REPORT

The mortgage book has shown strong growth in the first half of the year, increasing by 8 per cent. This represents an increased market share to 3.8 per cent of gross lending to the end of May.

There was a marginal shift in the mix of new business towards a higher LTV, represented by a 2.4 per cent increase in the proportion of new loans having LTVs greater than 75 per cent. This is largely driven by the new mortgages written under the Government's Help to Buy equity and guarantee schemes. There has also been an increase in low LTV buy-to-let lending within risk appetite and in line with growth in this market segment.

The proportion of residential interest-only lending has reduced from 24.7 per cent at 31 December 2014 to 21.9 per cent at 30 June 2015. Mortgage balances remains high-quality, with reducing 3+ arrears from 0.31 per cent of the book at year end to 0.25 per cent at the half-year, well below the CML industry average of 1.30 per cent.

The first six months of the year saw the migration of over 675,000 customer credit card accounts from MBNA to its own platform. This was successfully completed and impairments have remained stable throughout the period.

Wholesale credit risk is well managed. Credit quality has remained strong, with no credit risk exposures which are past due or impaired.

The diversification of funding sources during the first half of 2015 has improved balance sheet efficiency. In April, Virgin Money made a successful debut issue of £300 million of senior unsecured MTN funding. Issuing senior unsecured debt enhances the funding mix and further diversifies the investor base. In addition, £750 million of RMBS funding was issued in June and the use of the Bank of England FLS facility was continued. This has resulted in greater utilisation of limits for encumbrance and an increase in the loan-to-deposit ratio to 107.3 per cent from 102.8 per cent. Wholesale refinancing is managed within tight refinancing limits.

All of this has been achieved within risk appetite and whilst maintaining a stable overall risk profile.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks faced by the Group are summarised below, along with key mitigating actions.

Credit Risk

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

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

Mitigating Actions

- Credit risk is managed through risk appetite and risk limits reflected in approved credit policy.
- A robust credit risk framework helps ensure that the credit quality and composition of the portfolios remain within risk appetite limits. This is monitored and reported through governance committees regularly.
- Stress and scenario testing is undertaken annually to support each planning round.
- Credit risk metrics are benchmarked against competitors and industry averages.
- Credit risk arising from derivative and from securities financing transactions is mitigated by collateralising exposures on a daily basis.

Market Risk

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

Mitigating Actions

- Market risk is managed through Board approved risk appetite limits and policy.
- Virgin Money mitigates exposures through the use of natural offsets and derivatives.
- Stress and scenario testing is undertaken annually to support each planning round.

Operational Risk

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

Mitigating Actions

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

Conduct Risk and Compliance

Conduct risk is the risk that its operating model, culture or actions result in unfair outcomes for customers.

Compliance risk is the risk of regulatory sanction, material financial loss or reputational damage if the organisation fails to design and implement operational processes, systems and controls such that it can maintain compliance with all applicable regulatory requirements.

Mitigating Actions

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

Strategic and Financial Risk

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

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

Mitigating Actions

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

Funding and Liquidity Risk

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

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

Mitigating Actions

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

Capital Risk

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

Mitigating Actions

- Board approved risk appetite and capital management policy.
- Capital management procedures that are designed to ensure that Virgin Money operate within risk appetite.
- Ability to accumulate additional capital through profit retention or by raising equity.
- Management of the demand for capital through management actions.

CREDIT RISK MANAGEMENT

Overview

- Impairment provisions increased 15 per cent to £35.3 million in the first half of this year to 30 June 2015.
- Impairment provisions coverage as a percentage of loans and advances to customers increased to 0.14 per cent as at 30 June 2015 compared to 0.13 per cent at 31 December 2014.
- There were no wholesale impairment provisions as at 30 June 2015.

The following categorisations are used for segmenting the portfolio.

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

Loans and advances to customers

	At 30 June 2015 £m	At 31 Dec 2014 £m
Advances secured on residential property not subject to securitisation	**15,524.1**	15,631.2
Advances secured on residential property subject to securitisation	**4,235.3**	3,128.3
Total advances secured on residential property	**19,759.4**	18,759.5
Residential buy-to-let loans not subject to securitisation	**3,833.8**	3,135.6
Total loans and advances to customers secured on residential property	**23,593.2**	21,895.1
Impairment allowance- secured	**(8.0)**	(7.6)
Loans and advances- secured	**23,585.2**	21,887.5
Credit cards	**1,092.5**	1,121.1
of which relates to the fair value of expected losses on acquired assets	***(2.1)***	*(5.9)*
Overdrafts	**0.2**	0.2
Unsecured receivables not subject to securitisation	**1,092.7**	1,121.3
Impairment allowance - unsecured	**(27.3)**	(23.0)
Loans and advances- unsecured	**1,065.4**	1,098.3
Total loans and advances to customers excluding portfolio hedging	**24,650.6**	22,985.8

The mortgage portfolio has grown by 8 per cent during the first half of 2015. In particular, buy-to-let balances have continued to increase, rising by £698.2 million (22.3 per cent) over the reporting period. This movement is reflective of Virgin Money's appetite and the growth of the buy-to-let market.

The unsecured portfolio has been managed as planned in the first half of the year to ensure safe migration from MBNA to Virgin Money's fully operational card platform in March 2015.

Wholesale Credit Risk

	At 30 June 2015 £m	At 31 Dec 2014 £m
Loans and advances to banks	**655.1**	720.5
Cash and balances at central banks	**687.1**	851.3
Debt securities held as loans and receivables	**1.6**	8.6
Available-for-sale financial assets	**1,405.6**	1,539.6
Gross positive fair value of derivative contracts	**97.4**	101.2
Total	**2,846.8**	3,221.2

The Group's wholesale credit risk exposures have reduced as balance sheet efficiency improved. Wholesale credit exposures are assessed by reference to credit rating. All of Virgin Money's wholesale exposures are investment grade and classified as low risk. There were no wholesale credit exposures past due not impaired as at 30 June 2015 and at 31 December 2014.

Impaired balances and provisions

At 30 June 2015	Gross balances £m	Impaired balances £m	Impaired balances as a % of gross balances %	Impairment provisions £m	Impairment provisions as a % of impaired balances %
Residential mortgage loans	**19,759.4**	**59.4**	**0.3**	**6.8**	**11.4**
Residential buy-to-let mortgage loans	**3,833.8**	**6.9**	**0.2**	**1.2**	**17.4**
Total secured	**23,593.2**	**66.3**	**0.3**	**8.0**	**12.1**
Credit cards[1]	**1,092.5**	**29.2**	**2.7**	**27.2**	**93.2**
Overdrafts	**0.2**	**-**	**-**	**0.1**	**-**
Total unsecured	**1,092.7**	**29.2**	**2.7**	**27.3**	**93.5**
Wholesale treasury assets	**2,749.4**	**-**	**-**	**-**	**-**
Wholesale derivative exposures	**97.4**	**-**	**-**	**-**	**-**
Total wholesale	**2,846.8**	**-**	**-**	**-**	**-**
Total	**27,532.7**	**95.5**	**0.3**	**35.3**	**37.0**

[1] A fair value adjustment of £5.9 million was made to the purchase price to take account of the losses already incurred on these assets.

At 31 December 2014	Gross balances £m	Impaired balances £m	Impaired balances as a % of gross balances %	Impairment provisions £m	Impairment provisions as a % of impaired balances %
Residential mortgage loans	18,759.5	68.9	0.4	6.2	9.0
Residential buy-to-let mortgage loans	3,135.6	7.6	0.2	1.4	18.4
Total secured	21,895.1	76.5	0.3	7.6	9.9
Credit cards[1]	1,121.1	27.4	2.4	22.9	83.6
Overdrafts	0.2	-	-	0.1	-
Total unsecured	1,121.3	27.4	2.4	23.0	83.9
Wholesale treasury assets	3,120.0	-	-	-	-
Wholesale derivative exposures	101.2	-	-	-	-
Total wholesale	3,221.2	-	-	-	-
Total	26,237.6	103.9	0.4	30.6	29.5

[1] A fair value adjustment of £5.9 million was made to the purchase price to take account of the losses already incurred on these assets.

Retail Credit Risk

Impaired Assets

Total impaired assets improved by £8.4 million during the first six months of 2015. There was a £10.2 million reduction in impaired loans in the secured portfolio, reflecting an improvement in arrears performance. This was offset by an increase of £1.8 million in the unsecured portfolio, following the migration of credit cards onto Virgin Money systems.

Impairment provisions

Secured impairment allowances have increased by £0.4 million in the first half of the year. A reduction in impaired balances following improved arrears performance has resulted in an increase in the proportion of impairment provision to impaired balances.

Unsecured impairment allowances have increased by £4.3 million in the half-year following the migration of credit cards onto Virgin Money systems.

Loans and advances which are past due and not impaired

The balance of mortgages which are past due and not impaired totalled £182.6 million at 30 June 2015. This improvement of 8.8 per cent (£17.6 million) compared to 31 December 2014 is attributable to reduced arrears observed in the first six months of 2015. These assets now represent 0.8 per cent of secured balances (31 December 2014: 0.9 per cent).

All unsecured assets which are past due are treated as impaired.

	Residential mortgage loans		**Residential buy-to-let mortgage loans**		**Total**	
At 30 June 2015[1]	**£m**	**%**	**£m**	**%**	**£m**	**%**
Up to one month	**55.8**	**33.4**	**5.1**	**32.5**	**60.9**	**33.4**
One to three months	**65.4**	**39.2**	**7.6**	**48.4**	**73.0**	**39.9**
Three to six months	**27.7**	**16.6**	**2.2**	**14.0**	**29.9**	**16.4**
Over six months	**18.0**	**10.8**	**0.8**	**5.1**	**18.8**	**10.3**
Total past due and not impaired	**166.9**	**100.0**	**15.7**	**100.0**	**182.6**	**100.0**

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

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

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

The stock of repossessions remained stable over the reporting period, representing 18 cases at 30 June 2015.

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

At 30 June 2015	**Residential mortgage loans**		**Residential buy-to-let mortgage loans**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**
<50%	**6,533.3**	**33.0**	**1,040.8**	**27.1**	**7,574.1**	**32.1**
50%-<60%	**4,692.2**	**23.7**	**1,108.9**	**28.9**	**5,801.1**	**24.6**
60%-<70%	**4,239.7**	**21.5**	**1,027.6**	**26.8**	**5,267.3**	**22.3**
70%-<80%	**2,501.2**	**12.7**	**638.5**	**16.7**	**3,139.7**	**13.3**
80%-<90%	**1,512.0**	**7.7**	**13.1**	**0.3**	**1,525.1**	**6.5**
90%-<100%	**259.4**	**1.3**	**2.4**	**0.1**	**261.8**	**1.1**
>100%	**21.6**	**0.1**	**2.5**	**0.1**	**24.1**	**0.1**
Total[1]	**19,759.4**	**100.0**	**3,833.8**	**100.0**	**23,593.2**	**100.0**
Average loan-to-value[2] of stock – indexed		**56.4%**		**56.8%**		**56.5%**
Average loan-to-value of new business		**69.0%**		**61.5%**		**66.9%**

1 All new completions between 90% and 95% LTV, and the majority of new lending above 85% LTV are permitted under the Help to Buy loan guarantee scheme. Mortgages written under the Help to Buy Guarantee Scheme provide Virgin Money with a guarantee from the Government to cover a proportion of net losses in the event of possession.
2 The average loan-to-value of stock and new business is balance weighted.

At 31 December 2014	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
	£m	%	£m	%	£m	%
<50%	6,252.0	33.3	909.9	29.0	7,161.9	32.7
50%-<60%	4,649.9	24.8	978.3	31.2	5,628.2	25.7
60%-<70%	4,132.2	22.0	842.4	26.9	4,974.6	22.7
70%-<80%	2,464.8	13.1	396.0	12.6	2,860.8	13.1
80%-<90%	1,064.3	5.7	5.3	0.2	1,069.6	4.9
90%-<100%	180.9	1.0	2.4	0.1	183.3	0.8
>100%	15.4	0.1	1.3	-	16.7	0.1
Total[1]	18,759.5	100.0	3,135.6	100.0	21,895.1	100.0
Average loan-to-value[2] of stock – indexed		55.8%		55.6%		55.7%
Average loan-to-value of new business		68.4%		61.3%		66.9%

1 All new completions between 90% and 95% LTV, and the majority of new lending above 85% LTV are permitted under the Help to Buy loan guarantee scheme. Mortgages written under the Help to Buy Guarantee Scheme provides Virgin Money with a guarantee from the Government to cover a proportion of net losses in the event of possession.
2 The average loan-to-value of stock and new business is balance weighted.

Average indexed LTVs on the book have increased by 0.8 per cent during the reporting period, reflecting the subdued house price movements reported in the first quarter of 2015 for most UK regions. Average LTV for new business has remained consistent at 66.9 per cent.

Forbearance

The value of forbearance stock totalled £259.9 million at 30 June 2015, representing a 7.3 per cent (£20.5 million) reduction on 31 December 2014. The treatment of forbearance on secured and unsecured loans is detailed below.

Secured

At 30 June 2015, £248.1 million (31 December 2014: £267.5 million) of retail secured loans and advances were subject to forbearance.

The impairment assessment of retail secured loans subject to forbearance is performed on a collective basis. Loans which are forborne are grouped with other assets with similar risk characteristics and assessed collectively. The loans are not considered as impaired loans unless they meet the Group's definition of an impaired asset.

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

Mortgage fraud cases are assessed on an individual basis, with expected recoveries used to assess the amount of provision required.

Unsecured

At 30 June 2015, total retail unsecured loans and advances benefitting from forbearance totalled £11.8 million (31 December 2014: £12.9 million).

The impairment assessment of retail unsecured loans and advances subject to forbearance is performed on a collective basis. The approach used is based on roll rates for various behavioural and arrears status segments, measuring the likelihood of default and the probability of charge-off given default.

Unsecured fraud cases are assessed on an individual basis, with 100 per cent of the exposure held as a provision.

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

A breakdown of secured and unsecured forbearance is shown below:

	Neither past due nor impaired		Past due not impaired		Impaired		Total	
At 30 June 2015	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Secured								
Payment arrangement	**2.8**	**1.2**	**0.8**	**7.0**	**-**	**-**	**3.6**	**1.5**
Transfer to interest only	**17.5**	**7.5**	**6.1**	**53.0**	**0.4**	**22.2**	**24.0**	**9.7**
Term extension	**157.1**	**66.9**	**3.4**	**29.6**	**1.1**	**61.1**	**161.6**	**65.1**
Payment holiday	**57.4**	**24.4**	**1.2**	**10.4**	**0.3**	**16.7**	**58.9**	**23.7**
Total secured forbearance	**234.8**	**100.0**	**11.5**	**100.0**	**1.8**	**100.0**	**248.1**	**100.0**
Total unsecured forbearance	**3.3**	**100.0**	**-**	**-**	**8.5**	**100.0**	**11.8**	**100.0**
Total forbearance	**238.1**	**100.0**	**11.5**	**100.0**	**10.3**	**100.0**	**259.9**	**100.0**

	Neither past due nor impaired		Past due not impaired		Impaired		Total	
At 31 December 2014	£m	%	£m	%	£m	%	£m	%
Secured								
Payment arrangement	2.8	1.1	0.4	2.4	0.1	4.8	3.3	1.2
Transfer to interest only	19.7	7.9	8.6	52.2	0.6	28.6	28.9	10.8
Term extension	162.5	65.3	4.0	24.2	0.9	42.8	167.4	62.6
Payment holiday	63.9	25.7	3.5	21.2	0.5	23.8	67.9	25.4
Total secured forbearance	248.9	100.0	16.5	100.0	2.1	100.0	267.5	100.0
Total unsecured forbearance [1]	3.2	100.0	-	-	9.7	100.0	12.9	100.0
Total forbearance	252.1	100.0	16.5	100.0	11.8	100.0	280.4	100.0

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

FUNDING AND LIQUIDITY MANAGEMENT

Overview

- Virgin Money is predominantly funded through customer deposits. During 2015, the Group maintained a strong presence in the retail savings market. The focus of retail funding was fixed rate ISAs, growing 31.2 per cent in the first six months of the year. The behavioural stability of Virgin Money's funding has improved due to attrition in easy access deposits being offset by new term deposits.
- Wholesale funding is used to diversify sources of funding, extend tenor and optimise funding costs. The Group has continued to diversify its sources of wholesale funding, issuing a debut note from its Global MTN programme, through the well established Gosforth RMBS programme and additional drawings from the Bank of England FLS facility. The volume of encumbered assets has increased as a result of RMBS issuance and additional FLS drawings.

Grexit

The ongoing uncertainty in Greece's future has caused some disruption to the markets. Virgin Money is proactively monitoring the impact of the situation on markets, business flows and customers on a daily basis. The Group has completed its planned wholesale issuances for 2015 and has no direct exposure to the Greek or other peripheral sovereigns or financial institutions.

Group funding sources

The Group's loan-to-deposit ratio has increased to 107.3 per cent at 30 June 2015, in line with risk appetite, compared with 102.8 per cent at 31 December 2014.

	At 30 June 2015 £m	At 31 Dec 2014 £m
Loans and advances to customers	**24,705.5**	23,093.1
Loans and advances to banks	**655.1**	720.5
Debt securities held as loans and receivables	**1.6**	8.6
Available-for-sale financial assets (encumbered)	**74.1**	321.7
Cash and balances at central banks (encumbered)	**39.8**	38.0
Funded assets	**25,476.1**	24,181.9
Other assets	**326.9**	323.7
Total assets (excluding liquid assets)	**25,803.0**	24,505.6
On balance sheet primary liquid assets		
Cash and balances at central banks – primary	**647.3**	813.3
Available-for-sale financial assets (unencumbered)	**1,331.5**	1,217.9
Total assets	**27,781.8**	26,536.8
Less: Other liabilities	**(470.4)**	(497.9)
Funding requirement	**27,311.4**	26,038.9
Funded by		
Customer deposits	**22,971.8**	22,365.7
Wholesale funding	**3,053.3**	2,429.4
Total equity	**1,286.3**	1,243.8
Total funding	**27,311.4**	26,038.9

Analysis of total wholesale funding by residual maturity

At 30 June 2015	**Within 3 months £m**	**3-12 months £m**	**1-5 years £m**	**After 5 years £m**	**Total £m**
Debt securities in issue	**-**	**-**	**294.5**	**2,044.4**	**2,338.9**
Term repo	**439.8**	**274.6**	**-**	**-**	**714.4**
Total on-balance sheet sources of funds	**439.8**	**274.6**	**294.5**	**2,044.4**	**3,053.3**
FLS drawings	**-**	**-**	**2,710.0**	**-**	**2,710.0**
Total	**439.8**	**274.6**	**3,004.5**	**2,044.4**	**5,763.3**

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

The 2015 Gosforth RMBS issuance and increased FLS drawings have lengthened the average tenor of wholesale funding more than the offsetting pay down from earlier RMBS.

Encumbered assets

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

	Encumbered assets[2]		**Unencumbered assets**		
At 30 June 2015	**Pledged as collateral £m**	**Other £m**	**Available as collateral[3] £m**	**Other[4] £m**	**Total £m**
Cash and balances at central banks	**39.8**	**-**	**-**	**647.3**	**687.1**
Debt securities held as loans and receivables	**-**	**-**	**1.6**	**-**	**1.6**
Available-for-sale financial assets	**74.1**	**-**	**1,331.5**	**-**	**1,405.6**
Derivative financial assets	**-**	**-**	**-**	**97.4**	**97.4**
Loans and advances to banks	**-**	**502.2**	**-**	**152.9**	**655.1**
Loans and advances to customers[1]	**7,207.2**	**-**	**2,666.4**	**14,831.9**	**24,705.5**
Other assets	**-**	**-**	**-**	**229.5**	**229.5**
Total assets	**7,321.1**	**502.2**	**3,999.5**	**15,959.0**	**27,781.8**
Treasury bills raised through FLS held off balance sheet[5]	**632.0**	**-**	**2,078.0**	**-**	**2,710.0**
Total assets plus off balance sheet FLS	**7,953.1**	**502.2**	**6,077.5**	**15,959.0**	**30,491.8**

1 Loans and advances to customers consist of collateral pledged to the Bank of England and securitised mortgage pools.
2 Other encumbered assets' are assets that cannot be used for secured funding due to legal or other reasons. These include cash reserves supporting secured funding structures.
3 Unencumbered assets which are classified as 'available as collateral' are readily available to secure funding or to meet collateral requirements. Loans and advances to customers are classified as 'available as 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 include Treasury Bills received by the Group through FLS which are not recognised on the balance sheet which the Group is permitted to re-pledge.

	Encumbered assets[2]		Unencumbered assets		
	Pledged as collateral	Other	Available as collateral[3]	Other[4]	Total
At 31 December 2014	£m	£m	£m	£m	£m
Cash and balances at central banks	38.0	-	-	813.3	851.3
Debt securities held as loans and receivables	-	-	8.6	-	8.6
Available-for-sale financial assets	321.7	-	1,217.9	-	1,539.6
Derivative financial assets	-	-	-	101.2	101.2
Loans and advances to banks	-	569.8	-	150.7	720.5
Loans and advances to customers[1]	6,609.4	-	2,075.0	14,408.7	23,093.1
Other assets	-	-	-	222.5	222.5
Total assets	6,969.1	569.8	3,301.5	15,696.4	26,536.8
Treasury bills raised through FLS held off balance sheet[5]	-	-	2,260.0	-	2,260.0
Total assets plus off balance sheet FLS	6,969.1	569.8	5,561.5	15,696.4	28,796.8

1 Loans and advances to customers consist of collateral pledged to the Bank of England and securitised mortgage pools.
2 Other encumbered assets' are assets that cannot be used for secured funding due to legal or other reasons. These include cash reserves supporting secured funding structures.
3 Unencumbered assets which are classified as 'available as collateral' are readily available to secure funding or to meet collateral requirements. Loans and advances to customers are classified as 'available as 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 include Treasury Bills received by the Group through FLS which are not recognised on the balance sheet which the Group is permitted to re-pledge.

Virgin Money's total level of asset encumbrance increased to 27.7 per cent at 30 June 2015 compared with 26.2 per cent at 31 December 2014. Encumbrance of assets predominantly arises from the use of the Gosforth RMBS programme and Bank of England FLS liquidity facility.

The Group manages the volume of available unencumbered collateral to meet the requirements arising from both current and future secured funding transactions. During 2015, Virgin Money's unencumbered loans and advances to customers increased by £1,015 million due to loan origination.

Liquidity portfolio

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

	At 30 June 2015	**2015 Average**	At 31 Dec 2014	2014 Average
Level 1	**£m**	**£m**	£m	£m
Cash and balances at central banks	**647.3**	**786.8**	813.3	1,120.9
UK Government securities	**579.5**	**373.5**	586.2	637.8
Other HQLA level 1 eligible	**25.7**	**7.4**	-	33.9
Supranational securities	**311.0**	**313.5**	310.7	350.1
Treasury bills raised through FLS	**2,078.0**	**2,208.0**	2,260.0	1,598.5
Covered bonds (Level 1 eligible)[1]	**360.9**	**51.6**	**-**	**-**
Total level 1	**4,002.4**	**3,740.8**	3,970.2	3,741.2
Level 2a				
Covered bonds (Level 2a eligible)[1]	**15.3**	**230.7**	225.7	127.9
Total level 2a	**15.3**	**230.7**	225.7	127.9
Level 2b				
Eligible RMBS	**38.8**	**36.6**	40.0	42.1
Total level 2b	**38.8**	**36.6**	40.0	42.1
High quality liquid assets (Level 1 + 2a + 2b)	**4,056.5**	**4,008.1**	4,235.9	3,911.2
Other liquidity resources				
Non-eligible RMBS	**-**	**3.0**	8.6	8.8
Certificates of deposit	**-**	**-**	-	43.8
Floating rate notes	**-**	**-**	-	11.1
Fixed rate bonds	**0.3**	**30.1**	55.3	120.3
Money market loans	**36.8**	**12.6**	-	-
Total other liquidity resources	**37.1**	**45.7**	63.9	184.0
Self-issued RMBS	**744.0**	**220.9**	92.8	433.4
Total liquidity	**4,837.6**	**4,274.7**	4,392.6	4,528.6

1 During 2015, the Group reclassified covered bonds to align with the European Commission's delegated act with regard to the liquidity coverage requirement. The legislation prescribes a liquidity classification based on several criteria, including the credit quality and indicators of liquidity performance under stress conditions of the instrument.

The introduction of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as part of CRD IV are intended to raise the resilience of banks to potential liquidity shocks and provide the basis for a harmonised approach to liquidity risk management across Europe. The Group manages LCR within an internal risk appetite established above the European and UK regulatory requirements.

CAPITAL MANAGEMENT

Overview

- The Common Equity Tier 1 capital ratio for the Group was 18.7 per cent as at 30 June 2015, compared with a fully loaded regulatory minimum of 7.0 per cent (comprised of Common Equity Tier 1 capital of 4.5 per cent and a capital conservation buffer of 2.5 per cent).
- The leverage ratio for the Group (based on the Basel III definition of January 2014, and the revised CRD IV definition of October 2014) is 4.1 per cent, compared with a regulatory minimum of 3.0 per cent.
- The Group reviews the capital structure on an on-going basis to ensure it is well placed to react to prevailing economic and regulatory conditions.

Regulation

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

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

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

CRD IV also introduced a new leverage ratio requirement. The leverage ratio is a measure that is designed to act as a supplement to risk based capital requirements. The leverage calculation determines a ratio based on the relationship between Tier 1 capital and total consolidated exposure.

The table below shows capital resources.

	At 30 June 2015 £m	At 31 December 2014 £m
Share capital and share premium account	**654.6**	654.6
Other equity instruments	**156.5**	156.5
Other reserves	**(8.0)**	(1.8)
Retained earnings	**483.2**	434.5
Total equity per balance sheet	**1,286.3**	1,243.8
Regulatory capital adjustments		
Deconsolidation of non regulated companies	**4.1**	4.1
Expected distributions on Additional Tier 1 securities and ordinary share capital	**(9.9)**	(2.1)
Other equity instruments	**(156.5)**	(156.5)
Other reserves	**10.5**	8.8
Intangible assets	**(52.0)**	(46.1)
Excess of expected loss over impairment	**(34.5)**	(33.4)
Deferred tax on brought forward tax losses	**(34.8)**	(38.1)
Common Equity Tier 1 capital	**1,013.2**	980.5
Additional Tier 1 securities	**156.5**	156.5
Total Tier 1 capital	**1,169.7**	1,137.0
Tier 2 capital		
General credit risk adjustments	**6.0**	5.9
Total Tier 2 capital	**6.0**	5.9
Total own funds (total capital)	**1,175.7**	1,142.9
Common Equity Tier 1 ratio	**18.7%**	19.0%
Tier 1 ratio	**21.6%**	22.0%
Total capital ratio	**21.7%**	22.1%

As required by Article 26(2) of the Capital Requirements Regulation, a deduction has been made for foreseeable dividends on interim profits to date. In accordance with regulations, as no final dividend has been declared yet, a foreseeable dividend has been deducted at the top of the range previously indicated.

Movements in Common Equity Tier 1

	£m
At 31 December 2014	**980.5**
Movement in retained earnings	**48.7**
Movement in AFS reserve	**(4.5)**
Expected distributions on Additional Tier 1 securities and ordinary share capital	**(7.8)**
Intangible assets	**(5.9)**
Excess of expected loss over impairment	**(1.1)**
Movement in deferred tax	**3.3**
At 30 June 2015	**1,013.2**

The main driver for the increase in capital resources is the increase in retained earnings, offset by a number of items as set out above.

Risk-weighted assets

	At 30 June 2015	At 31 December 2014
	£m	£m
Retail mortgages	**3,700.4**	3,489.7
Retail unsecured lending	**805.1**	830.0
Treasury	**206.3**	221.7
Other assets	**167.5**	175.0
Credit valuation adjustments	**15.6**	13.7
Operational risk	**525.2**	430.5
Market risk	**-**	-
Total risk-weighted assets	**5,420.1**	5,160.6

Movement in risk-weighted assets

	Total	**IRB mortgage**	**Standardised lending**	**Other standardised assets**	**Credit valuation adjustment**	**Operational risks**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
RWAs at 31 December 2014	**5,160.6**	**3,489.7**	**830.0**	**396.7**	**13.7**	**430.5**
Increases in lending	**248.2**	**273.2**	**(25.0)**	**-**	**-**	**-**
Model calibration	**37.4**	**37.4**	**-**	**-**	**-**	**-**
Model updates	**(354.0)**	**(354.0)**	**-**	**-**	**-**	**-**
Other movements	**327.9**	**254.1**	**0.1**	**(22.9)**	**1.9**	**94.7**
RWAs at 30 June 2015	**5,420.1**	**3,700.4**	**805.1**	**373.8**	**15.6**	**525.2**

Virgin Money uses a variable scalar methodology to calculate the Probability of Default (PD) parameter used within the Advanced Internal Ratings Based (AIRB) capital models. This approach aids capital management by ensuring the regulatory PD, and therefore the resultant regulatory capital requirements, fluctuate mainly due to changes in the credit quality mix of the portfolio, rather than changes in the economy. This methodology reduces, but does not eliminate, procyclicality within PD estimates. During the first half of 2015 the improvement in arrears rates has caused a reduction in the point-in-time PDs. These lower point-in-time PDs have resulted in the requirement to increase the 'scaling' factor used to transform these to the long-run average estimates. It is these higher scaling factors, shown in the above table as 'model calibration', that resulted in increased RWAs of £37.4 million in the first half of 2015, despite lower arrears rates observed within the period.

A change was implemented within the AIRB models during the first half of 2015 to account for the growth in the House Price Index (HPI) beyond historic peak property prices in 2007. The change more accurately reflects an up to date view of the value of the secured property and therefore allows the Group to recognise the benefit of strong house prices in the downturn LGD.

In addition to these movements, the profile of new lending has led to an overall increase in PD and LGD components.

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

Leverage ratio

CRD IV introduced a new balance sheet metric, the leverage ratio, as a requirement from 1 January 2014. The leverage ratio is risk insensitive, requiring capital to be held against total and off-balance sheet exposures such as undrawn credit facilities.

The Basel Committee is testing this ratio at a minimum threshold of 3.0 per cent until 2017. The Group's leverage ratio as at 30 June 2015 was 4.1 per cent (31 December 2014: 4.1 per cent) as disclosed below.

	At 30 June 2015 £m	At 31 December 2014 £m
Tier 1 capital	**1,169.7**	1,137.0
Exposures measure		
Total regulatory balance sheet assets	**27,781.3**	26,540.6
Removal of accounting values for derivatives	**(97.4)**	(101.2)
Exposure value for derivatives	**148.8**	172.3
Exposure value for securities financing transactions	**120.3**	353.8
Off-balance sheet items	**616.8**	607.8
Other regulatory adjustments	**(110.9)**	(108.8)
Total exposures	**28,458.9**	27,464.5
Leverage ratio	**4.1%**	4.1%

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

Off-balance sheet items are made up of undrawn credit facilities. Credit conversion factors have been applied to these items to convert them to an on-balance sheet equivalent in compliance with the CRD IV rules.

Other regulatory adjustments consist of adjustments that have been applied to the Tier 1 capital which are also applied to the leverage ratio exposure measure. This ensures consistency between the Tier 1 capital and total exposures components of the ratio.

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	**Half-year to 30 June 2015 £ million**	Half-year to 30 June 2014 £ million	Half-year to 31 Dec 2014 £ million
Interest and similar income		**406.7**	379.8	391.8
Interest and similar expense		**(185.9)**	(207.1)	(197.2)
Net interest income	3	**220.8**	172.7	194.6
Fee and commission income		**12.6**	18.5	16.6
Fee and commission expense		**(0.7)**	(0.7)	(0.4)
Net fee and commission income		**11.9**	17.8	16.2
Fair value (losses)/gains on financial instruments		**(0.1)**	0.1	-
Other operating income		**22.3**	22.1	14.8
Other income		**34.1**	40.0	31.0
Total income		**254.9**	212.7	225.6
Other operating expenses		**(185.6)**	(167.4)	(171.5)
Fees associated with listing		**-**	(0.8)	(11.8)
Total operating expenses	4	**(185.6)**	(168.2)	(183.3)
Profit before tax from operating activities		**69.3**	44.5	42.3
Impairment	6	**(14.3)**	(11.3)	(4.5)
Gain on sale of subsidiary		**-**	-	4.5
Additional Northern Rock consideration		**-**	(26.0)	(10.0)
Premium on repurchase of Non-core Tier 1 notes in issue		**-**	-	(4.5)
Loss for the period of disposal group		**-**	(0.5)	(0.5)
Profit before tax		**55.0**	6.7	27.3
Taxation	7	**(12.1)**	(15.1)	(10.2)
Profit/(loss) for the period		**42.9**	(8.4)	17.1
Profit/(loss) attributable to equity shareholders		**42.9**	(8.4)	17.1
Profit/(loss) for the period		**42.9**	(8.4)	17.1
Basic earnings per share (pence)	8	**8.6**	(4.0)	3.4
Diluted earnings per share (pence)	8	**8.5**	(4.0)	3.4

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

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	Half-year to 31 Dec 2014 £ million
Profit/(loss) for the period	**42.9**	(8.4)	17.1
Other comprehensive (expense)/income			
Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of available-for-sale financial assets:			
Change in fair value	**10.8**	8.8	3.3
Income statement transfers in respect of disposals	**(16.2)**	(12.0)	1.7
Taxation	**0.9**	(0.4)	(0.9)
	(4.5)	(3.6)	4.1
Movements in cash flow hedging reserve:			
Effective portion of changes in fair value taken to other comprehensive income	**(4.3)**	(0.3)	(13.8)
Net income statement transfers	**2.2**	1.0	1.6
Taxation	**0.4**	-	2.5
	(1.7)	0.7	(9.7)
Other comprehensive expense for the period, net of tax	**(6.2)**	(2.9)	(5.6)
Total comprehensive income/(expense) for the period	**36.7**	(11.3)	11.5
Total comprehensive income/(expense) attributable to equity shareholders	**36.7**	(11.3)	11.5

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**At 30 June 2015 £ million**	At 31 Dec 2014 £ million
Assets			
Cash and balances at central banks		**687.1**	851.3
Derivative financial instruments		**97.4**	101.2
Loans and receivables:			
- Loans and advances to banks		**655.1**	720.5
- Loans and advances to customers	11	**24,705.5**	23,093.1
- Debt securities		**1.6**	8.6
		25,362.2	23,822.2
Available-for-sale financial assets		**1,405.6**	1,539.6
Intangible assets		**52.0**	46.1
Tangible fixed assets		**71.8**	72.9
Deferred tax assets		**45.4**	50.2
Other assets		**60.3**	53.3
Total assets		**27,781.8**	26,536.8

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

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

CONDENSED CONSOLIDATED BALANCE SHEET

Equity and liabilities	Note	At 30 June 2015 £ million	At 31 Dec 2014 £ million
Liabilities			
Deposits from banks		**743.2**	846.7
Customer deposits	12	**22,971.8**	22,365.7
Derivative financial instruments		**165.8**	228.2
Debt securities in issue	13	**2,338.9**	1,594.1
Other liabilities		**251.0**	249.0
Provisions	14	**24.8**	9.3
Total liabilities		**26,495.5**	25,293.0
Equity			
Share capital and share premium	15	**654.6**	654.6
Other equity instruments		**156.5**	156.5
Other reserves		**(8.0)**	(1.8)
Retained earnings		**483.2**	434.5
Total equity		**1,286.3**	1,243.8
Total liabilities and equity		**27,781.8**	26,536.8

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

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders

	Share capital and share premium £ million	Other equity instruments £ million	Other reserves £ million	Retained earnings £ million	Total equity £ million
Balance at 1 January 2015	**654.6**	**156.5**	**(1.8)**	**434.5**	**1,243.8**
Comprehensive income					
Profit for the period	**-**	**-**	**-**	**42.9**	**42.9**
Other comprehensive (expense)/income					
Net movement in available-for-sale reserve	**-**	**-**	**(4.5)**	**-**	**(4.5)**
Net movement in cash flow hedge reserve	**-**	**-**	**(1.7)**	**-**	**(1.7)**
Total other comprehensive expense	**-**	**-**	**(6.2)**	**-**	**(6.2)**
Total comprehensive (expense)/income for the period	**-**	**-**	**(6.2)**	**42.9**	**36.7**
Transactions with equity holders					
Share based payments – charge for the period	**-**	**-**	**-**	**10.8**	**10.8**
Distribution to Additional Tier 1 security holders	**-**	**-**	**-**	**(6.3)**	**(6.3)**
Group tax relief attributable to Tier 1 securities	**-**	**-**	**-**	**1.3**	**1.3**
Total transactions with equity holders	**-**	**-**	**-**	**5.8**	**5.8**
Balance at 30 June 2015	**654.6**	**156.5**	**(8.0)**	**483.2**	**1,286.3**

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Attributable to equity holders

	Share capital and share premium £ million	Other equity instruments £ million	Other reserves £ million	Retained earnings £ million	Total equity £ million
Balance at 1 January 2014	509.2	-	6.7	419.0	934.9
Comprehensive expense					
Loss for the period	-	-	-	(8.4)	(8.4)
Other comprehensive expense					
Net movement in available-for-sale reserve	-	-	(3.6)	-	(3.6)
Net movement in cash flow hedge reserve	-	-	0.7	-	0.7
Total other comprehensive expense	-	-	(2.9)	-	(2.9)
Total comprehensive expense for the period	-	-	(2.9)	(8.4)	(11.3)
Transactions with equity holders					
Share based payments – charge for the period	-	-	-	4.4	4.4
Employee Benefit Trust	-	-	-	0.1	0.1
Distribution to Non-core Tier 1 noteholders	-	-	-	(7.8)	(7.8)
Group tax relief attributable to Tier 1				1.0	1.0
Total transactions with equity holders	-	-	-	(2.3)	(2.3)
Balance at 30 June 2014	509.2	-	3.8	408.3	921.3

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Attributable to equity holders

	Share capital and share premium £ million	Other equity instruments £ million	Other reserves £ million	Retained earnings £ million	Total equity £ million
Balance at 1 July 2014	509.2	-	3.8	408.3	921.3
Comprehensive income					
Profit for the period	-	-	-	17.1	17.1
Other comprehensive (expense)/income					
Net movement in available-for-sale reserve	-	-	4.1	-	4.1
Net movement in cash flow hedge reserve	-	-	(9.7)	-	(9.7)
Total other comprehensive expense	-	-	(5.6)	-	(5.6)
Total comprehensive (expense)/income for the period	-	-	(5.6)	17.1	11.5
Transactions with equity holders					
Share based payments – charge for the	-	-	-	8.5	8.5
Share based payments – reclassifications from liabilities	-	-	-	4.2	4.2
Employee Benefit Trust	-	-	-	(0.1)	(0.1)
Issue of ordinary shares (net)	145.4	-	-	-	145.4
Issue of Additional Tier 1 security holders	-	156.5	-	-	156.5
Distribution to Additional Tier 1 security	-	-	-	(3.2)	(3.2)
Distribution to Non-core Tier 1 noteholders	-	-	-	(1.4)	(1.4)
Group tax relief attributable to Tier 1	-	-	-	1.1	1.1
Total transactions with equity holders	145.4	156.5	-	9.1	311.0
Balance at 31 December 2014	654.6	156.5	(1.8)	434.5	1,243.8

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Half-year to 30 June 2015 £ million	Half-year to 30 June 2014 £ million	Half-year to 31 Dec 2014 £ million
Profit before taxation	**55.0**	6.7	27.3
Adjustments for:			
Changes in operating assets	**(1,631.7)**	(634.4)	(1,696.2)
Changes in operating liabilities	**457.7**	169.3	1,636.3
Non-cash and other items	**46.0**	14.0	(146.8)
Net cash used in operating activities	**(1,073.0)**	(444.4)	(179.4)
Cash flows from investing activities			
Net investment in intangible assets	**(11.4)**	(11.5)	(15.4)
Purchase of fixed assets	**(2.9)**	(5.7)	(4.9)
Disposal of fixed assets	**-**	-	(0.2)
Net investment in securities	**(322.0)**	(270.4)	(686.1)
Proceeds from sale and redemption of available-for-sale financial assets	**439.4**	662.5	616.0
Movement in disposal group assets and liabilities	**-**	-	7.7
Net investment in credit card portfolio	**-**	-	(362.7)
Net cash flow from disposal of Church House Trust Limited	**-**	-	11.5
Net cash provided by/(used in) investing activities	**103.1**	374.9	(434.1)
Cash flows from financing activities			
Distribution to Non-core Tier 1 noteholders	**-**	(7.8)	(9.2)
Distribution to Additional Tier 1 security holders	**(6.3)**	-	(3.2)
Repayment of Non-core Tier 1 notes	**-**	-	(154.5)
Net increase/(decrease) in debt securities in issue	**744.8**	(588.1)	712.4
Proceeds from issue of Additional Tier 1 securities (net)	**-**	-	156.5
Proceeds from issue of ordinary shares (net)	**-**	-	145.4
Payment of additional Northern Rock consideration	**-**	-	(50.0)
Net cash provided by/(used in) financing activities	**738.5**	(595.9)	797.4
Change in cash and cash equivalents	**(231.4)**	(665.4)	183.9
Cash and cash equivalents at beginning of period	**1,533.8**	2,015.3	1,349.9
Cash and cash equivalents at end of period[1]	**1,302.4**	1,349.9	1,533.8

[1] Cash and cash equivalents comprise cash and balances at central banks (excluding mandatory reserve deposits) and loans and advances to banks

Notes to the condensed consolidated half-year financial statements

Note 1: Basis of preparation

1.1 Basis of preparation and going concern

The condensed consolidated half-year financial statements of Virgin Money Holdings (UK) plc and its subsidiaries (the Group) for the six months ended 30 June 2015 were authorised for issue in accordance with a resolution of the Directors on 27 July 2015.

These condensed consolidated half-year financial statements for the six months ended 30 June 2015 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and 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 Annual Report and Accounts for the year ended 31 December 2014. Copies of the 2014 Annual Report and Accounts are available on the Group's website.

The comparative financial information for the year ended 31 December 2014 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 auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor 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.

The Directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the condensed consolidated half-year financial statements. In reaching this assessment, the Directors have considered projections for the Group's capital and funding position and have had regard to the principal risks and uncertainties of the liquidity and capital requirements of the business over the next 12 months.

1.2 Accounting policies

The accounting policies and methods of computation are consistent with those applied in the 2014 Annual Report and Accounts (pages 229 to 239) except as described below.

The Group adopted the amendment to IFRS 13 *Fair Value Measurement* which became effective on 1 January 2015. This clarifies that the portfolio exception includes all contracts accounted for within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* regardless of whether they meet the definition of financial assets or liabilities as defined in IAS 32 *Financial Instruments: Presentation*. This amendment does not have a material impact on the Group.

1.3 Future accounting developments

Details of those IFRS pronouncements which will be relevant to the Group but which are not effective for annual periods ending on 31 December 2015 and which have not been applied in preparing these condensed consolidated half-year financial statements are set out in note 20.

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 the Risk Management Report.

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 and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, due to inherent uncertainty in making estimates, actual results in future periods may include amounts which differ from those estimates.

There have been no significant changes in the basis upon which critical estimates and judgements have been determined, compared to those applied at 31 December 2014. Judgements relating to additional Northern Rock consideration and the disposal group classification and measurement of Church House Trust Limited (CHT) are no longer applicable.

Note 2: Operating segments

Segmental reporting

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

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

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

Mortgages and savings

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

Credit cards

In January 2013 the Group acquired £1.0 billion of Virgin Money branded credit card balances from MBNA. The Group continued to receive commission from MBNA for new Virgin Money branded credit cards written until November 2014 when the Group acquired this tranche of balances. In March 2015 Virgin Money launched its own credit card platform and all accounts were migrated successfully. All new business is now written directly to the Group's balance sheet.

Current accounts, insurance and investments

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

Central functions

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

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

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

Note 2: Operating segments (continued)

	Mortgages and savings £m	**Credit cards £m**	**Current accounts, insurance and investments £m**	**Central functions £m**	**Underlying basis total £m**
Half-year to 30 June 2015					
Net interest income/(expense)	**176.5**	**43.9**	**(0.1)**	**-**	**220.3**
Other income	**1.1**	**8.0**	**18.0**	**7.0**	**34.1**
Total underlying income	**177.6**	**51.9**	**17.9**	**7.0**	**254.4**
Total costs	**(47.4)**	**(19.5)**	**(8.5)**	**(82.9)**	**(158.3)**
Impairment	**(1.6)**	**(12.7)**	**-**	**-**	**(14.3)**
Underlying profit/(loss) before tax	**128.6**	**19.7**	**9.4**	**(75.9)**	**81.8**
Segment assets	**23,590.1**	**1,069.2**	**2.9**	**3,119.6**	**27,781.8**
Segment liabilities	**22,938.1**	**4.6**	**215.7**	**3,337.1**	**26,495.5**

	Mortgages and savings £m	Credit cards £m	Current accounts, insurance and investments £m	Central functions £m	Underlying basis total £m
Half-year to 30 June 2014					
Net interest income	135.8	37.1	-	-	172.9
Other income	1.4	12.8	16.4	10.0	40.6
Total underlying income	137.2	49.9	16.4	10.0	213.5
Total costs	(39.9)	(16.7)	(6.6)	(79.3)	(142.5)
Impairment	0.8	(12.1)	-	-	(11.3)
Underlying profit/(loss) before tax	98.1	21.1	9.8	(69.3)	59.7
Segment assets	20,395.5	736.7	3.0	3,009.8	24,145.0
Segment liabilities	21,177.2	4.8	196.6	1,845.1	23,223.7

Note 2: Operating segments (continued)

	Mortgages and savings £m	Credit cards £m	Current accounts, insurance and investments £m	Central functions £m	Underlying basis total £m
Half-year to 31 December 2014					
Net interest income	155.2	38.0	-	-	193.2
Other income	1.7	12.4	16.4	1.0	31.5
Total underlying income	156.9	50.4	16.4	1.0	224.7
Total costs	(45.8)	(23.8)	(6.7)	(82.4)	(158.7)
Impairment	(2.0)	(2.5)	-	-	(4.5)
Underlying profit/(loss) before tax	109.1	24.1	9.7	(81.4)	61.5
Segment assets	22,005.6	1,112.8	3.6	3,414.8	26,536.8
Segment liabilities	22,322.6	4.8	202.5	2,763.1	25,293.0

Note 2: Operating segments (continued)

Reconciliation of statutory results to underlying basis

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

		Adjusted for					
	Virgin Money Group statutory £m	Credit card transaction £m	Acquisition and other related items £m	Fair value adjustments £m	FSCS levy £m	Costs associated with listing[1] £m	Underlying basis total £m
Half-year ended 30 June 2015							
Net interest income	**220.8**	**-**	**-**	**(0.5)**	**-**	**-**	**220.3**
Other income	**34.1**	**-**	**-**	**-**	**-**	**-**	**34.1**
Total income/ (expense)	**254.9**	**-**	**-**	**(0.5)**	**-**	**-**	**254.4**
Other operating expenses/ (income)	**(185.6)**	**3.6**	**1.2**	**0.5**	**15.5**	**6.5**	**(158.3)**
Profit before tax from operating activities	**69.3**	**3.6**	**1.2**	**-**	**15.5**	**6.5**	**96.1**
Impairment	**(14.3)**	**-**	**-**	**-**	**-**	**-**	**(14.3)**
Profit before tax	**55.0**	**3.6**	**1.2**	**-**	**15.5**	**6.5**	**81.8**

[1] Listing costs comprise of £6.5 million share based payment (SBP) inclusive of their respective employer's national insurance contributions.

Note 2: Operating segments (continued)

		Adjusted for					
	Virgin Money Group statutory £m	Credit card transaction £m	Acquisition and other related items £m	Fair value adjustments £m	FSCS levy £m	Costs associated with listing[1] £m	Underlying basis total £m
Half-year ended 30 June 2014							
Net interest income	172.7	-	-	0.2	-	-	172.9
Other income	40.0	-	-	0.6	-	-	40.6
Total income	212.7	-	-	0.8	-	-	213.5
Total operating expenses/ (income)	(168.2)	2.9	-	0.4	16.6	5.8	(142.5)
Profit before tax from operating activities	44.5	2.9	-	1.2	16.6	5.8	71.0
Impairment	(11.3)	-	-	-	-	-	(11.3)
Additional Northern Rock consideration	(26.0)	-	26.0	-	-	-	-
(Loss)/gain for the year of disposal group	(0.5)	-	0.5	-	-	-	-
Profit before tax	6.7	2.9	26.5	1.2	16.6	5.8	59.7

1 Listing costs include £0.8 million listing costs and £5.0 million share based payment (SBP).

Note 2: Operating segments (continued)

		Adjusted for					
	Virgin Money Group statutory £m	Credit card transaction £m	Acquisition and other related items £m	Fair value adjustments £m	FSCS levy £m	Costs associated with listing[1] £m	Underlying basis total £m
Half-year ended 31 December 2014							
Net interest income/ (expense)	194.6	-	-	(1.4)	-	-	193.2
Other income	31.0	-	-	0.5	-	-	31.5
Total income/ (expense)	225.6	-	-	(0.9)	-	-	224.7
Total operating expenses/ (income)	(183.3)	4.3	1.8	0.6	(0.2)	18.1	(158.7)
Profit/(loss) before tax from operating activities	42.3	4.3	1.8	(0.3)	(0.2)	18.1	66.0
Impairment	(4.5)	-	-	-	-	-	(4.5)
Gain/(loss) on sale of subsidiary	4.5	-	(4.5)	-	-	-	-
Additional Northern Rock consideration	(10.0)	-	10.0	-	-	-	-
Premium on repurchase of NCT 1 notes in issue	(4.5)	-	4.5	-	-	-	-
(Loss)/gain for the year of disposal group	(0.5)	-	0.5	-	-	-	-
Profit/(loss) before tax	27.3	4.3	12.3	(0.3)	(0.2)	18.1	61.5

1 Listing costs include £11.8 million listing costs and £6.3 million share based payment (SBP) and one-off bonus payments.

Geographical areas

As the Group's operating activities are exclusively in the UK, further analysis is not provided.

Note 3: Net interest income

Net interest income comprises:

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Interest and similar income:			
Loans and advances to customers – secured	**346.8**	325.5	336.5
Loans and advances to customers – unsecured	**51.7**	44.4	45.4
Loans and advances to banks	**1.2**	0.8	0.9
Debt securities held as loans and receivables	**-**	-	0.1
Interest receivable on loans and receivables	**399.7**	370.7	382.9
Available-for-sale financial assets	**5.0**	5.8	5.7
Cash and balances at central banks	**2.0**	3.0	2.9
Other interest	**-**	0.3	0.3
Total interest and similar income	**406.7**	379.8	391.8
Interest and similar expense:			
Deposits from banks	**(3.7)**	(1.4)	(1.9)
Customer deposits	**(167.0)**	(192.4)	(180.9)
Debt securities in issue	**(12.7)**	(11.7)	(11.9)
Other	**(2.5)**	(1.6)	(2.5)
Total interest and similar expense	**(185.9)**	(207.1)	(197.2)
Net interest income	**220.8**	172.7	194.6

Interest accrued on individually impaired assets for the half-year was £4.3 million (30 June 2014: £5.1 million, 31 December 2014: £6.8 million).

Note 4: Total operating expenses

Total operating expenses comprise:

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Other operating expenses			
Staff costs:			
Salaries	**68.7**	58.9	66.7
Social security costs	**7.3**	6.2	8.1
Other pension costs	**5.2**	4.7	4.9
Employee share option schemes	**10.8**	5.4	8.1
	92.0	75.2	87.8
Premises and equipment:			
Hire of equipment	**2.3**	2.5	2.3
Rent and rates	**4.5**	4.1	4.4
	6.8	6.6	6.7
Other expenses:			
Marketing costs	**12.3**	7.5	9.0
FSCS levy	**15.5**	16.6	(0.2)
Professional fees	**4.1**	5.6	2.9
Other	**45.4**	48.8	57.6
	77.3	78.5	69.3
Depreciation and amortisation:			
Depreciation of tangible fixed assets	**4.1**	3.8	4.2
Amortisation of intangible assets	**5.4**	3.3	3.5
	9.5	7.1	7.7
Total other operating expenses	**185.6**	167.4	171.5
Fees associated with listing	**-**	0.8	11.8
Total operating expenses	**185.6**	168.2	183.3

Note 5: Share-based payments

Share-based payments charge comprises:

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Equity settled	**10.8**	4.4	8.5
Cash settled	**-**	1.0	(0.4)
Total share based payment charge	**10.8**	5.4	8.1

Details of the existing share plans can be found in note 7 of the 2014 Annual Report and Accounts. Of the £10.8 million share-based payments charge in the six months ended 30 June 2015, £6.5 million relates to costs associated with listing, inclusive of their respective employer's national insurance contributions.

There have been no changes to the share plans in the six months ended 30 June 2015 except for new awards granted in 2015 under the Deferred Bonus Share Plan and the Long Term Incentive Plan.

Note 6: Allowance for impairment losses on loans and receivables

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Opening provision	**30.6**	34.7	30.6
Advances written off	**(13.1)**	(15.4)	(13.4)
Gross charge to the income statement net of recoveries	**17.8**	11.3	13.4
Closing provision	**35.3**	30.6	30.6
In respect of:			
Advances secured on residential property	**6.8**	5.4	6.2
Advances secured on residential buy-to-let property	**1.2**	1.0	1.4
Unsecured loans	**27.3**	24.2	23.0
Total closing provision	**35.3**	30.6	30.6

Of the total allowance in respect of loans and advances to customers, £33.8 million (31 December 2014: £27.6 million) was assessed on a collective basis.

In the half-year to 30 June 2015, sales of credit card receivables which had been previously written-off resulted in a net recovery which totalled £3.5 million (half-year to 30 June 2014: £nil, half-year to 31 December 2014: £8.9 million). The full amount of the proceeds have been recognised as a gain and the net charge to the income statement is summarised overleaf.

Note 6: Allowance for impairment losses on loans and receivables (continued)

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Gross charge to the income statement	**17.8**	11.3	13.4
Debt sale recovery	**(3.5)**	-	(8.9)
Net charge to the income statement	**14.3**	11.3	4.5

Note 7: Taxation

Analysis of the tax charge for the period:

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Profit before tax	**55.0**	6.7	27.3
Tax charge at effective tax rate of 20.25% (30 June 2014: 21.5%, 31 December 2014: 21.5%)	**(11.1)**	(1.4)	(5.9)
Factors affecting tax charge:			
Expenses not deductible for taxation purposes	**(1.0)**	(7.5)	(4.1)
Income not taxable	**-**	2.4	(1.3)
Effect of change in taxation rate	**-**	0.3	(0.1)
Adjustments in respect of prior periods	**-**	(8.8)	0.5
Gains covered by the substantial shareholding exemption	**-**	-	1.0
Other items	**-**	(0.1)	(0.3)
Total tax charge	**(12.1)**	(15.1)	(10.2)

The Group has been engaged in discussion with HM Revenue and Customs (HMRC) regarding the tax treatment of certain commercial funding transactions during 2009 involving Virgin Money Cards Limited (since renamed Sapphire Cards Limited), which is no longer part of the Group. Tax charges of £8.8 million in relation to settlement of the HMRC enquiry are reflected in the 2014 prior year adjustments. This includes an anticipated benefit from the surrender of up to £62.9 million of tax losses by the Virgin Group for an expected payment in the region of £15.3 million.

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

In accordance with IAS 34 *Interim Financial Reporting*, the Group's tax charge for the half-year to 30 June 2015 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 8: Earnings per share

The Group presents basic and diluted earnings per share (EPS) data in relation to the ordinary shares of Virgin Money Holdings (UK) plc.

	Half-year to 30 June 2015 £m	Half-year to 30 June 2014 £m	Half-year to 31 Dec 2014 £m
Profit/(loss) attributable to equity shareholders – basic and diluted	**42.9**	(8.4)	17.1
Distributions to Non-core Tier 1 noteholders and Additional Tier 1 security holders (net of group relief)	**(5.0)**	(6.8)	(3.5)
Profit/(loss) attributable to equity holders for the purposes of basic and diluted EPS	**37.9**	(15.2)	13.6

	30 June 2015 Number of shares (million)	30 June 2014 Number of shares (million)	31 Dec 2014 Number of shares (million)
Weighted-average number of ordinary shares in issue – basic	**440.9**	384.8	397.8
Adjustment for share options and awards	**3.6**	-	0.4
Weighted-average number of ordinary shares in issue – diluted	**444.5**	384.8	398.2
Basic earnings per share (pence)	**8.6**	(4.0)	3.4
Diluted earnings per share (pence)	**8.5**	(4.0)	3.4

Note 9: Dividends on Ordinary Shares

An interim dividend for 2015 of 1.4 pence per ordinary share was declared on 27 July 2015 and will be paid on 9 October 2015 to shareholders on the share register at close of business on 28 August 2015.

There were no dividends declared or paid in the preceding periods.

Note 10: Analysis of financial assets and financial liabilities by measurement basis

	Held at amortised cost £m	Loans and receivables £m	Available - for-sale securities £m	Derivatives not designated as hedging instruments £m	Derivatives designated as hedging instruments: Fair value hedges £m	Derivatives designated as hedging instruments: Cash flow hedges £m	Total £m
As at 30 June 2015							
Financial assets							
Cash and balances at central banks	-	687.1	-	-	-	-	687.1
Derivative financial instruments	-	-	-	18.6	77.8	1.0	97.4
Loans and receivables:							
- Loans and advances to banks	-	655.1	-	-	-	-	655.1
- Loans and advances to customers	-	24,705.5	-	-	-	-	24,705.5
- Debt securities	-	1.6	-	-	-	-	1.6
Available-for-sale financial assets	-	-	1,405.6	-	-	-	1,405.6
Other assets – accrued income	-	4.7	-	-	-	-	4.7
Total financial assets	-	26,054.0	1,405.6	18.6	77.8	1.0	27,557.0
Non financial assets							224.8
Total assets							27,781.8
Financial liabilities							
Deposits from banks	743.2	-	-	-	-	-	743.2
Customer deposits	22,971.8	-	-	-	-	-	22,971.8
Derivative financial instruments	-	-	-	16.0	149.8	-	165.8
Debt securities in issue	2,338.9	-	-	-	-	-	2,338.9
Other liabilities – accrued interest	141.4	-	-	-	-	-	141.4
Total financial liabilities	26,195.3	-	-	16.0	149.8	-	26,361.1
Non financial liabilities							134.4
Total liabilities							26,495.5
Equity							1,286.3
Total liabilities and equity							27,781.8

Note 10: Analysis of financial assets and financial liabilities by measurement basis (continued)

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

Note 11: Loans and advances to customers

Loans and advances to customers comprise:

	At 30 June 2015 £m	At 31 Dec 2014 £m
Advances secured on residential property not subject to securitisation	**15,524.1**	15,631.2
Advances secured on residential property subject to securitisation	**4,235.3**	3,128.3
	19,759.4	18,759.5
Residential buy-to-let loans not subject to securitisation	**3,833.8**	3,135.6
Total loans and advances to customers secured on residential property	**23,593.2**	21,895.1
Unsecured receivables not subject to securitisation	**1,092.7**	1,121.3
Total loans and advances to customers before allowance for impairment losses	**24,685.9**	23,016.4
Impairment allowance (refer note 6)	**(35.3)**	(30.6)
Total loans and advances to customers excluding portfolio hedging	**24,650.6**	22,985.8
Fair value of portfolio hedging	**54.9**	107.3
Total loans and advances to customers	**24,705.5**	23,093.1
Loans and advances to customers by rate		
Fixed rate	**18,667.0**	17,135.4
Variable rate	**6,038.5**	5,957.7
Total	**24,705.5**	23,093.1

Note 12: Customer deposits

Customer deposits comprise:

	At 30 June 2015 £m	At 31 Dec 2014 £m
Fixed rate deposits	**10,724.0**	9,721.8
Variable rate deposits	**12,247.8**	12,643.9
Total customer deposits	**22,971.8**	22,365.7

Note 13: Debt securities in issue

	Secured £m	Unsecured £m	Total £m
At 1 January 2014	1,469.8	-	1,469.8
Repayments	(874.1)	-	(874.1)
Issues	1,000.0	-	1,000.0
Other movements	(1.6)	-	(1.6)
At 31 December 2014	1,594.1	-	1,594.1
At 1 January 2015	**1,594.1**	**-**	**1,594.1**
Repayments	**(298.1)**	**-**	**(298.1)**
Issues	**750.0**	**298.9**	**1,048.9**
Other movements	**(1.6)**	**(4.4)**	**(6.0)**
At 30 June 2015	**2,044.4**	**294.5**	**2,338.9**

Other movements comprise accrued interest, unamortised issue costs or hedge accounting adjustments.

On 16 April 2015, the Group issued 5 year Medium Term Notes with a nominal value of £300 million at a coupon of 2.25% per annum. The notes were issued as part of the Group's recently launched £3 billion Global Medium Term Note programme, which was established to diversify the Group's wholesale funding base further.

On 8 June 2015, the Group raised £750 million from institutional investors through the issuance of Residential Mortgage Backed Securities in the Gosforth Funding 2015-1 transaction.

Note 14: Provisions

The movement in provision balances was as follows:

	FSCS £m	Other £m	Total £m
At 1 January 2014	7.2	0.3	7.5
Provisions applied	(15.1)	(0.2)	(15.3)
Charge for the year	16.6	0.5	17.1
At 31 December 2014	8.7	0.6	9.3
Provisions applied	**-**	**(0.2)**	**(0.2)**
Charge for the year	**15.5**	**0.2**	**15.7**
At 30 June 2015	**24.2**	**0.6**	**24.8**

Note 14: Provisions (continued)

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the UK's statutory fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS can only raise a levy within its scheme year (which commences 1 April) and under IFRIC 21 *Levies* the Group recognises its FSCS provision in the scheme year itself (period ended 30 June).

Note 15: Share capital and share premium

	At 30 June 2015 £m	At 31 Dec 2014 £m
Share capital	**0.1**	0.1
Share premium	**654.5**	654.5
Total	**654.6**	654.6

Note 16: Contingent liabilities and commitments

Contingent liabilities

The Board was not aware of any significant contingent liabilities as at 30 June 2015 (31 December 2014: none).

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

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

Commitments

Loan commitments

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

	At 30 June 2015 £m	At 31 Dec 2014 £m
Not later than 1 year	**3,331.9**	3,100.2
Later than 1 year and not later than 5 years	**-**	-
Later than 5 years	**558.9**	594.0
Total loan commitments	**3,890.8**	3,694.2

Note 17: Fair value of financial assets and liabilities

Fair value of financial assets and liabilities measured at amortised cost

The following table summarises the fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised. The accounting policy in the 31 December 2014 Annual Report and Accounts sets out the key principles for estimating the fair values of financial instruments.

	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**	**Total carrying value £m**
At 30 June 2015					
Cash and balances at central banks	**-**	**687.1**	**-**	**687.1**	**687.1**
Loans and advances to banks	**-**	**655.1**	**-**	**655.1**	**655.1**
Loans and advances to customers	**-**	**-**	**24,963.8**	**24,963.8**	**24,705.5**
Debt securities held as loans and receivables	**1.6**	**-**	**-**	**1.6**	**1.6**
Other assets – accrued income	**-**	**4.7**	**-**	**4.7**	**4.7**
Total	**1.6**	**1,346.9**	**24,963.8**	**26,312.3**	**26,054.0**
Deposits from banks	**-**	**743.2**	**-**	**743.2**	**743.2**
Customer deposits	**-**	**23,019.5**	**-**	**23,019.5**	**22,971.8**
Debt securities in issue	**2,332.9**	**-**	**-**	**2,332.9**	**2,338.9**
Other liabilities – accrued interest	**-**	**141.4**	**-**	**141.4**	**141.4**
Total	**2,332.9**	**23,904.1**	**-**	**26,237.0**	**26,195.3**

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

Note 17: Fair value of financial assets and liabilities (continued)

Fair value hierarchy

The tables above 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 31 December 2014 Annual Report and Accounts in respect of the valuation methodology (techniques and inputs) applied for calculations of fair values in the tables above.

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 31 December 2014 Annual Report and Accounts sets out the key principles for estimating the fair values of financial instruments.

30 June 2015	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Derivative financial instruments	**-**	**97.4**	**-**	**97.4**
Available-for-sale financial assets	**1,405.6**	**-**	**-**	**1,405.6**
Financial liabilities				
Derivative financial instruments	**-**	**165.8**	**-**	**165.8**

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

Level 1 Valuations

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

Level 2 Valuations

The fair values of derivative 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

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

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

	Six months to 30 June 2015 £m	Year to 31 Dec 2014 £m
Opening balance	**–**	14.0
Increase in value of additional Northern Rock consideration	**–**	36.0
Settlement of additional Northern Rock consideration	**–**	(50.0)
Closing balance of additional Northern Rock consideration liability	**–**	–

Note 18: Related party transactions

Full details of the Group's related party transactions for the year to 31 December 2014 can be found in note 37 of the 2014 Annual Report and Accounts.

Related party transactions for the half-year to 30 June 2015 are similar in nature to those for the year to 31 December 2014.

Note 19: Events after the balance sheet date

There have been no significant events between 30 June 2015 and the date of approval of the condensed consolidated half-year financial statements which would require a change to or additional disclosure in the financial statements apart from the following:

On 8 July 2015, the Chancellor of the Exchequer announced a new tax surcharge on UK banks' profits for periods starting 1 January 2016.

As disclosed in note 9, on 27 July 2015, the Group declared an interim dividend of 1.4 pence per ordinary share. The dividend will be paid on 9 October 2015.

Note 20: Future accounting developments

A number of new accounting standards and amendments to accounting standards have been issued by the IASB. They are, however not effective for the year ended 31 December 2015. Those which may have a significant impact on the Group in future periods are set out below:

Pronouncement	Nature of change	IASB effective date
IFRS 15 *Revenue from Contracts with Customers*	Current revenue recognition accounting standards have led to inconsistencies in accounting for similar transactions and inadequate disclosures. IFRS 15 specifies comprehensive principles on whether, how much and when an entity should recognise revenue arising from customer contracts. In addition, extensive disclosure requirements have been introduced to provide more informative and relevant disclosures, particularly around estimates and judgements. The Group is reviewing the requirements of the new standard to determine its effect on its financial reporting.	1 January 2017 (has not been EU endorsed)
IFRS 9 *Financial Instruments*	This new accounting standard has been split into three phases: Phase 1 of the IFRS 9 project addresses the recognition and measurement of financial assets and liabilities. Financial assets are classified and measured based upon the business model in which they are held and the characteristics of their contractual cash flows. Financial liabilities designated under the fair value option will be required to present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Phase 2 of the IFRS 9 project addresses the impairment of financial assets and will replace the current incurred loss model with an expected loss model. In addition, extensive new disclosure requirements in relation to impairment losses are introduced. Phase 3 of the IFRS 9 project introduces a principles based approach to hedge accounting. This will align hedge accounting more closely with risk management. This new accounting standard is expected to have a significant impact on the Group when adopted. The impact has not yet been fully assessed.	1 January 2018 (has not been EU endorsed)

DIRECTORS' RESPONSIBILITY STATEMENT

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 that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

By order of the Board,

Jayne-Anne Gadhia, CBE
Chief Executive
27 July 2015

INDEPENDENT AUDITOR'S REVIEW REPORT TO VIRGIN MONEY HOLDINGS (UK) PLC

Introduction

We have been engaged by the Company to review the condensed set of consolidated financial statements in the half-year financial report for the six months ended 30 June 2015 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-year financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-year financial report in accordance with the DTR of the UK FCA.

As disclosed in Note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of consolidated financial statements included in this half-year financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of consolidated financial statements in the half-year financial report based on our review.

Scope of review

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 UK. 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 Ireland) 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-year financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

John Ellacott
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
27 July 2015

Analyst and investor call

An analyst and investor call will be held as follows:

Date: Tuesday 28 July 2015
Time: 9.30am
Dial: +44 203 059 8125 and quote Virgin Money when prompted.
An operator will assist you in joining the call.
There will be a webcast available at http://webcasts.virginmoney.com/results/2015halfyear

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NOTES TO EDITORS

About Virgin Money

- Virgin Money provides savings, mortgages, credit cards, current accounts, pensions, investment and insurance products
- Virgin Money's business ambition is to make "everyone better off" – this philosophy underpins the approach to business by offering good value to customers, treating employees well, making a positive contribution to society and delivering a profit to shareholders
- Virgin Money is the official sponsor of the London Marathon, the biggest annual one-day fundraising event in the world. Virgin Money has helped London Marathon runners raise over £¼ billion, including funds raised through Virgin Money Giving its not-for-profit online fundraising service, since 2010.

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