Registered No. 06952311

Virgin Money plc

2017 Half-Year Results

Forward Looking Statements

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

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

Contents

	Page
Financial Review	1
Principal Risks and Uncertainties	5
Condensed Half-Year Financial Statements (unaudited)	
Income Statement	6
Statement of Comprehensive Income	7
Balance Sheet	8
Statement of Changes in Equity	9
Cash Flow Statement	11
Notes to the Condensed Financial Statements	12
Statement of Directors' Responsibilities	35
Independent Auditors' Review Report	36

Financial Review

Overview: Stable asset quality and a further increase in scale and profitability

An overview of important events affecting the Company that have occurred in the six months to 30 June 2017 is provided within the Chief Executive's Statement included in the 2017 Half-Year Results of the Virgin Money Group, which should be read together with these results.

In the first half of 2017 the Company built scale and profitability, experiencing continued strong credit performance. The successful performance of the savings franchise and additional Term Funding Scheme (TFS) drawings supported continued development of the mortgage and credit card businesses. The strong balance sheet growth increased net interest income and other operating income also showed improvement. Total income, excluding the impact of fair value gains/(losses) on financial instruments which are not reflective of the Company's underlying performance, increased by 13.7 per cent from the equivalent period in 2016 to £309.3 million.

Operational leverage continued to help increase efficiency. The 3.7 per cent increase in operating expenses, set against a 13.7 per cent increase in underlying total income, delivered a 5.4 percentage point reduction in the cost: income ratio to 55.6 per cent. This growth did not come at the expense of quality. The cost of risk remained stable at 0.13 per cent.

Against this backdrop, the Company delivered an increase in profit before tax, excluding fair value gains/(losses) on financial instruments, to £115.1 million compared to £88.7 million in the first half of 2016.

Summary Income Statement

	Half-year to 30 Jun 2017 £ million	Half-year to 30 Jun 2016 £ million	Half-year to 31 Dec 2016 £ million
Net interest income	**288.5**	252.1	267.2
Other	**20.8**	19.9	13.3
Total income, excluding fair value gains/(losses) on financial instruments	**309.3**	272.0	280.5
Operating expenses	**(172.0)**	(165.9)	(163.1)
Impairment	**(22.2)**	(17.4)	(20.2)
Profit before tax, excluding fair value gains/(losses) on financial instruments	**115.1**	88.7	97.2
Fair value gains/(losses) on financial instruments	**11.3**	(41.6)	15.4
Statutory profit before tax	**126.4**	47.1	112.6

Summary Balance Sheet

	30 Jun 2017 £ million	31 Dec 2016 £ million
Assets		
Cash and balances with central banks	**3,677.0**	786.3
Loans and receivables	**35,159.3**	32,939.3
Available-for-sale financial assets	**1,046.7**	858.8
Other	**313.9**	330.8
Total assets	**40,196.9**	34,915.2
Liabilities		
Deposits from banks	**6,122.4**	2,129.7
Customer deposits	**29,564.2**	28,106.3
Amounts due to securitisation special purpose vehicles	**1,841.7**	2,143.6
Other	**886.3**	844.4
Total liabilities	**38,414.6**	33,224.0
Total equity	**1,782.3**	1,691.2
Total liabilities and equity	**40,196.9**	34,915.2

Strong balance sheet growth

	30 Jun 2017 £ million	31 Dec 2016 £ million	Change
Loans and advances to customers	**35,011.4**	32,708.9	**7.0%**
Customer deposits	**29,564.2**	28,106.3	**5.2%**
Wholesale funding	**8,256.8**	4,567.4	**80.8%**
Wholesale funding <1 year maturity	**1,182.3**	861.7	**37.2%**
High Quality Liquid Assets[1]	**6,516.7**	4,222.6	**54.3%**

1 These include Funding for Lending drawings which are held off-balance sheet but are available for repurchase (repo) agreements and hence count towards liquidity resources.

The continuing strength of the lending franchise produced 7.0 per cent growth in loans and advances to customers in the first half of 2017. Strong gross mortgage lending of £4.3 billion, supported by a 5.5 percentage point improvement in retention took net lending to £2.1 billion. The credit card book grew by 12.6 per cent to reach £2.8 billion, reflecting the strength of the brand and in-house operation as the Company continued to progress towards achieving £3.0 billion of card balances.

This positive lending performance was funded by continued growth in retail deposits, as well as further drawings from the TFS. Total customer deposits grew by 5.2 per cent to £29.6 billion at 30 June 2017. The Company completed two reprices, each of approximately £5 billion in the first half of 2017, both of which were delivered with higher than expected retention.

The Company continued to optimise its funding base through participation in the TFS. Drawings under the scheme increased to £4.9 billion at 30 June 2017 following a £3.7 billion draw down in the first half of 2017. This included an accelerated draw down of £1.5 billion in June which represents the majority of remaining TFS funding the Company had expected to utilise in 2017. Further growth in net lending in the second half of the year would create additional capacity to draw from the TFS in future. The Company continues to target total drawings of between £5 billion and £6 billion by the time the TFS closes at the end of February 2018 in order to maintain the planned balance between retail, wholesale and TFS funding and permit planning of a prudent refinancing schedule for TFS drawings.

As a result, the Company continued to enjoy high levels of liquidity at the half-year.

In relation to other wholesale funding, the Company expects to continue to raise funding through the established Gosforth Residential Mortgage Backed Securities (RMBS) programme. Additionally, the Company has recently received approval for a regulated covered bonds programme.

Financial Review

Income benefited from growth in asset balances

	Half-year to 30 Jun 2017 £ million	Half-year to 30 Jun 2016 £ million	**Change**	Half-year to 31 Dec 2016 £ million	**Change**
Net interest income	**288.5**	252.1	**14.4%**	267.2	**8.0%**
Other	**20.8**	19.9	**4.5%**	13.3	**56.4%**
Total income[1]	**309.3**	272.0	**13.7%**	280.5	**10.3%**

1 Excluding fair value gains/(losses) on financial instruments.

In the first half of 2017 the Company increased net interest income by 14.4 per cent to £288.5 million. This was driven by strong growth in asset balances and a stable net interest margin.

The continued growth in the mortgage portfolio was a key driver of income growth in the first half of the year. Mortgage spreads in the first half continued at levels lower than 2016, supported by lower funding costs in part as a result of the TFS. New lending in the first half of 2017 was priced at an average spread of 176 basis points, a level similar to the first half of 2016 of 180 basis points.

Other income, excluding fair value gains/(losses) on financial instruments, was 4.5 per cent higher at £20.8 million. This included a gain of £6.1 million from the sale of Vocalink in the first half of 2017. Excluding both the gain from the sale of Vocalink and the gain of £5.3 million on the investment held in Visa Europe during the first half of 2016, other income increased by 0.7 per cent.

Fair value gains / (losses) on financial instruments reflect the results of hedge accounting and the fair value movements on derivatives in economic hedges (but not accounting hedges). These fair value movements were not as significant in the six months to 30 June 2017 as movements in swap curves were less volatile than in 2016. It is the Company's intention that the derivatives are held to maturity; therefore any accounting volatility in this heading represents timing differences that will be reversed through profit in future periods.

Operational efficiency improved with tightly controlled costs and increased investment

		Half-year to 30 Jun 2017	Half-year to 30 Jun 2016	**Change**	Half-year to 31 Dec 2016	**Change**
Operating expenses	£ million	**172.0**	165.9	**3.7%**	163.1	**5.5%**
Cost:income ratio[1]	%	**55.6**	61.0	**(5.4)pp**	58.1	**(2.5)pp**

1 Excluding fair value gains/(losses) on financial instruments.

Set against growth in total income of 13.7 per cent in the first half of 2017 (excluding fair value gains/(losses) on financial instruments), growth in operating expenses was constrained to just 3.7 per cent. This reduced the cost:income ratio by 5.4 percentage points to 55.6 per cent.

This continued improvement in operational efficiency demonstrated the benefit of strong cost management and ongoing operational leverage and created the capacity for increased investment in the business. The Company's level of capital investment increased, which includes capital expenditure of £20.4 million on the development of the digital bank.

Impairments reflected rigorous credit risk management

		Half-year to 30 Jun 2017	Half-year to 30 Jun 2016	**Change**	Half-year to 31 Dec 2016	**Change**
Impairment charge	£ million	**22.2**	17.4	**27.6%**	20.2	**9.9%**
Cost of risk	%	**0.13**	0.12	**1bps**	0.13	**-**
Impaired loans as a % of loans and advances	%	**0.4**	0.4	**-**	0.4	**-**
Provisions as a % of impaired loans	%	**41.6**	39.9	**1.7pp**	40.0	**1.6pp**

Credit performance in the first half of 2017 was strong, reflecting the benign economic environment, an established risk appetite framework, continued focus on underwriting rigour and origination of high credit quality assets. The cost of risk for mortgages remained stable at 0.01 per cent, with the portfolio continuing to benefit from robust underwriting standards, cautious portfolio management and the economic environment.

Credit card impairment charges increased by 29.2 per cent compared to the first half of 2016, but set against a 33.4 per cent growth in balances the cost of risk reduced to 1.58 per cent from 1.73 per cent. This demonstrated the continued high quality of new and existing cards and the expected low rate of default during the early stages of card lives.

Impaired loans as a percentage of loans and advances remained stable at 0.4 per cent. Provisions as a percentage of impaired loans increased to 41.6 per cent.

Strong capital structure

Capital ratios and risk-weighted assets		**30 Jun 2017**	31 Dec 2016	**Change**
Common Equity Tier 1 (CET1) capital	£ million	**1,424.0**	1,356.8	**5.0%**
Risk-weighted assets (RWAs)	£ million	**8,719.5**	7,603.0	**14.7%**
Common Equity Tier 1 ratio	%	**16.3**	17.8	**(1.5)pp**
Tier 1 ratio	%	**19.0**	20.9	**(1.9)pp**
Total capital ratio	%	**19.1**	21.0	**(1.9)pp**
Leverage ratio	%	**4.0**	4.4	**(0.4)pp**

Note: inclusive of verified profits for H1 2017.

The development of capital ratios during the first half of 2017 continued to reflect the strategy of ensuring strong capital resources while optimising the capital structure as the business grows. Lending growth and the mix impact from front book lending increased RWAs by 14.7 per cent to £8.7 billion. This growth, combined with investment in intangible assets in the period, including investment in the digital banking platform, reduced the CET1 ratio to 16.3 per cent at 30 June 2017 compared with 17.8 per cent at the end of 2016.

The total capital ratio was 19.1 per cent at 30 June 2017, compared to 21.0 per cent at the end of 2016, due to the same drivers as the reduction in the CET1 ratio. As a consequence of the increase in leverage ratio eligible assets the leverage ratio was 4.0 per cent at 30 June 2017, compared to 4.4 per cent the end of 2016.

Principal Risks and Uncertainties

The principal risks faced by the Company are summarised below. Full details on the principal risks and mitigating actions are disclosed in the Company's 2016 Annual Report and Accounts (pages 6 to 7).

Credit Risk

The Company provides residential and buy-to-let (BTL) mortgages and credit cards to customers across the UK. There is a risk that any adverse changes in the macro-economic environment and/or the credit quality or behaviour of borrowers results in additional impairment losses, thereby reducing profitability.

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

Market Risk

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

Operational Risk

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

Conduct and Compliance Risk

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

Strategic and Financial Risk

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

Financial risk is focused primarily on concentration risk and assumption risk. Credit concentration risk is managed for retail and wholesale credit exposures at portfolio, product and counterparty levels. Assumption risk could arise if customer behaviour turns out to be materially different from that assumed at the point the product is sold and consequently the profitability of products may be adversely affected. Customer behaviour is monitored monthly and reviewed quarterly at cohort, product and portfolio levels.

Funding and Liquidity Risk

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

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

Capital Risk

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

Condensed Half-Year Financial Statements (Unaudited)

INCOME STATEMENT

	Note	**Half-year to 30 Jun 2017 £ million**	Half-year to 30 Jun 2016 £ million	Half-year to 31 Dec 2016 £ million
Interest and similar income		**468.8**	473.6	478.1
Interest and similar expense		**(180.3)**	(221.5)	(210.9)
Net interest income	2	**288.5**	252.1	267.2
Fee and commission income		**10.7**	11.0	10.3
Fair value gains/(losses) on financial instruments		**11.3**	(41.6)	15.4
Other operating income		**10.1**	8.9	3.0
Other income		**32.1**	(21.7)	28.7
Total income		**320.6**	230.4	295.9
Operating expenses	3	**(172.0)**	(165.9)	(163.1)
Profit before tax from operating activities		**148.6**	64.5	132.8
Impairment	5	**(22.2)**	(17.4)	(20.2)
Profit before tax		**126.4**	47.1	112.6
Taxation	6	**(34.2)**	(12.6)	(31.5)
Profit for the period		**92.2**	34.5	81.1
Profit attributable to equity shareholders		**92.2**	34.5	81.1
Profit for the period		**92.2**	34.5	81.1

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

STATEMENT OF COMPREHENSIVE INCOME

	Half-year to 30 Jun 2017 £ million	Half-year to 30 Jun 2016 £ million	Half-year to 31 Dec 2016 £ million
Profit for the period	**92.2**	34.5	81.1
Other comprehensive income/(expense)			
Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of available-for-sale financial assets:			
Change in fair value	**12.0**	30.5	13.9
Income statement transfers in respect of disposals	**(10.4)**	(32.2)	(6.1)
Taxation	**(0.4)**	0.5	(2.2)
Other comprehensive income/(expense) for the period, net of tax	**1.2**	(1.2)	5.6
Total comprehensive income for the period	**93.4**	33.3	86.7
Total comprehensive income attributable to equity shareholders	**93.4**	33.3	86.7

Condensed Half-Year Financial Statements (Unaudited)

BALANCE SHEET

	Note	30 Jun 2017 £ million	31 Dec 2016 £ million
Assets			
Cash and balances at central banks		**3,677.0**	786.3
Derivative financial instruments		**26.3**	35.2
Loans and receivables:			
–Loans and advances to banks		**147.4**	229.7
–Loans and advances to customers	7	**35,011.4**	32,708.9
–Debt securities		**0.5**	0.7
		35,159.3	32,939.3
Available-for-sale financial assets		**1,046.7**	858.8
Intangible assets	8	**99.7**	80.6
Tangible fixed assets		**73.5**	75.8
Deferred tax assets		**15.5**	21.8
Other assets		**98.9**	117.4
Total assets		**40,196.9**	34,915.2
Liabilities			
Deposits from banks		**6,122.4**	2,129.7
Customer deposits	9	**29,564.2**	28,106.3
Derivative financial instruments		**136.8**	225.3
Amounts due to securitisation special purpose vehicles	7	**1,841.7**	2,143.6
Debt securities in issue		**304.1**	305.8
Provisions		**13.2**	8.5
Current tax liabilities		**25.1**	16.8
Other liabilities		**407.1**	288.0
Total liabilities		**38,414.6**	33,224.0
Equity			
Share capital		**1,400.0**	1,400.0
Other equity instruments		**230.0**	230.0
Other reserves		**5.3**	4.1
Retained earnings		**147.0**	57.1
Total equity		**1,782.3**	1,691.2
Total liabilities and equity		**40,196.9**	34,915.2

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

STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders

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

	Share capital £ million	Other equity instruments £ million	Other reserves £ million	Retained earnings £ million	Total equity £ million
Balance at 1 January 2016	1,400.0	-	(0.3)	(71.0)	1,328.7
Comprehensive income					
Profit for the period	-	-	-	34.5	34.5
Other comprehensive expense					
Net movement in available-for-sale reserve	-	-	(1.2)	-	(1.2)
Total comprehensive (expense) / income for the period	-	-	(1.2)	34.5	33.3
Transactions with equity holders					
Distributions on Additional Tier 1 securities	-	-	-	-	-
Tax attributable to Additional Tier 1 securities	-	-	-	-	-
Issue of Additional Tier 1 securities	-	-	-	-	-
Share based payments – charge for period	-	-	-	6.4	6.4
Deferred tax on share based payments	-	-	-	-	-
Total transactions with equity holders	-	-	-	6.4	6.4
Balance at 30 June 2016	1,400.0	-	(1.5)	(30.1)	1,368.4

STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders (continued)

	Share capital £ million	Other equity instruments £ million	Other reserves £ million	Retained earnings £ million	Total equity £ million
Balance at 1 July 2016	1,400.0	-	(1.5)	(30.1)	1,368.4
Comprehensive income					
Profit for the period	-	-	-	81.1	81.1
Other comprehensive expense					
Net movement in available-for-sale reserve	-	-	5.6	-	5.6
Total comprehensive income for the period	-	-	5.6	81.1	86.7
Transactions with equity holders					
Distributions on Additional Tier 1 securities	-	-	-	-	-
Tax attributable to Additional Tier 1 securities	-	-	-	-	-
Issue of Additional Tier 1 securities	-	230.0	-	-	230.0
Share based payments – charge for period	-	-	-	6.4	6.4
Deferred tax on share based payments	-	-	-	(0.3)	(0.3)
Total transactions with equity holders	-	230.0	-	6.1	236.1
Balance at 31 December 2016	1,400.0	230.0	4.1	57.1	1,691.2

CASH FLOW STATEMENT

	Half-year to 30 Jun 2017 £ million	Half-year to 30 Jun 2016 £ million	Half-year to 31 Dec 2016 £ million
Profit before taxation	**126.4**	47.1	112.6
Adjustments for:			
Changes in operating assets	**(2,301.3)**	(3,137.5)	(2,236.9)
Changes in operating liabilities	**5,209.5**	2,900.4	1,656.7
Non-cash and other items	**22.4**	(11.4)	22.7
Tax paid	**(16.6)**	(6.1)	(16.0)
Net cash generated by / (used in) operating activities	**3,040.4**	(207.5)	(460.9)
Cash flows from investing activities			
Purchase of securities	**(374.7)**	(471.7)	(198.3)
Proceeds from sale and redemption of available-for-sale financial assets	**185.7**	766.3	383.7
Purchase and investment in intangible assets	**(34.6)**	(9.7)	(21.9)
Purchase of tangible fixed assets	**(1.7)**	(3.7)	(4.9)
Disposal of tangible fixed assets	**-**	0.3	0.4
Net cash (used in) / provided by investing activities	**(225.3)**	281.5	159.0
Cash flows from financing activities			
Issue of Additional Tier 1 securities	**2.3**	-	227.7
Distributions to Additional Tier 1 security holders	**(10.1)**	-	-
Net cash (used in) / provided by financing activities	**(7.8)**	-	227.7
Change in cash and cash equivalents	**2,807.3**	74.0	(74.2)
Cash and cash equivalents at beginning of period	**966.3**	966.5	1,040.5
Cash and cash equivalents at end of period[1]	**3,773.6**	1,040.5	966.3

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 Financial Statements

Note 1: Basis of preparation and accounting policies

1.1 Basis of preparation and going concern

The condensed half-year financial statements of Virgin Money plc (the Company) for the six months ended 30 June 2017 were authorised for issue in accordance with a resolution of the Directors on 24 July 2017.

These condensed half-year financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 '*Interim Financial Reporting'* as adopted by the European Union (EU). They do not include all the information required by International Financial Reporting Standards (IFRS) in full annual financial statements and should be read in conjunction with the Company's Annual Report and Accounts for the year ended 31 December 2016.

The comparative financial information for the year ended 31 December 2016 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

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

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

1.2 Accounting policies

The accounting policies and methods of computation are consistent with those applied in the Company's 2016 Annual Report and Accounts (pages 19 to 31).

1.3 Future accounting developments

A number of IFRS pronouncements of new accounting standards and amendments to accounting standards have been issued by the IASB that are not yet effective and therefore have not been applied in preparing these condensed half-year financial statements. Those which may have a significant impact on the Company in future periods are consistent with those disclosed in the 2016 Company Annual Report and Accounts (pages 81 and 82) and further disclosures relating to IFRS 9 '*Financial Instruments*' included within note 16.

1.4 Presentation of information

Presentation of risk disclosures

IAS 34 '*Interim Financial Statements'* requires certain disclosures outlined in IFRS 7 '*Financial Instruments: Disclosure'.* These include disclosures concerning the nature and extent of risks relating to financial instruments and have been included within note 12.

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.

The areas of critical estimate and judgement are effective interest rate accounting, impairment of loans and receivables, capitalisation and impairment of intangible assets and fair value measurement. There have been no significant changes in the basis upon which these critical estimates and judgements have been determined, compared to those applied at 31 December 2016. Recognition of deferred tax assets is no longer considered to be a significant judgement in the preparation of these condensed half-year financial statements.

Note 1: Basis of preparation and accounting policies (continued)

1.5 Critical estimates and judgements (continued)

Effective interest rate accounting for unsecured lending remains an area of critical judgement and estimate for the Company. Management model future expected cash flows over the expected customer life, up to a maximum of seven years from origination. In determining the future expected cash flows management estimate future customer behaviour including card balance, transaction activity and post-promotional retention rates. In the circumstances that management revise its estimate of future cash flows, for example where actual cash flows vary from initial estimation, the balance sheet effective interest rate adjustment is recalculated to reflect the revised estimated future cash flows. The recalculated value is the present value of the revised future cash flows discounted at the original effective interest rate, with the movement recognised in profit and loss.

At 30 June 2017, the effective interest rate method gave rise to an adjustment of £123.7 million (31 December 2016: £81.8 million) to the balance sheet carrying value of unsecured loans and advances. The net movement in the unsecured lending effective interest rate accrual accounted for £41.9 million of interest income in the period.

Management consider the expected life used for modelling purposes, capped at seven years, to be a significant estimate in the unsecured effective interest rate calculation. If the modelled period had been restricted to five years at origination, the balance sheet effective interest rate adjustment would have been approximately £32 million lower as at 30 June 2017 and the interest income recognised in the period would have been reduced by approximately £11 million.

Separately, management consider the estimation of future customer behaviour to be a significant estimate in the unsecured effective interest rate calculation. Should management's current estimation of future cash flows be inaccurate to the extent that the original effective interest rates on unsecured lending cohorts were all reduced by 0.1%, the present value adjustment to interest income, in relation to the revised future cash flows, would be approximately £8 million as at 30 June 2017.

1.6 Operating segments

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

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

Notes to the Condensed Financial Statements

Note 2: Net interest income

Net interest income comprises:

	Half-year to 30 Jun 2017 £m	Half-year to 30 Jun 2016 £m	Half-year to 31 Dec 2016 £m
Interest and similar income:			
Loans and advances to customers	**463.5**	463.8	472.8
- of which relates to securitisation subordinated loan	***2.9***	*3.6*	*3.7*
Loans and advances to banks	**0.2**	0.4	0.4
Interest receivable on loans and receivables	**463.7**	464.2	473.2
Available-for sale financial assets	**2.6**	6.3	2.6
Cash and balances at central banks	**1.8**	2.3	1.5
Other interest	**0.7**	0.8	0.8
Total interest and similar income	**468.8**	473.6	478.1
Interest and similar expense:			
Deposits from banks	**(5.7)**	(3.7)	(3.9)
Customer deposits	**(152.9)**	(189.9)	(180.3)
Debt securities in issue	**(2.2)**	(2.5)	(2.4)
Securitisation special purpose vehicles	**(14.5)**	(19.6)	(18.7)
Other	**(5.0)**	(5.8)	(5.6)
Total interest and similar expense	**(180.3)**	(221.5)	(210.9)
Net interest income	**288.5**	252.1	267.2

Interest accrued on individually impaired assets for the half-year to 30 June 2017 was £3.6 million (half-year to 30 June 2016: £3.1 million, half-year to 31 December 2016: £2.7 million).

Notes to the Condensed Financial Statements

Note 3: Operating expenses

	Half-year to 30 Jun 2017 £m	Half-year to 30 Jun 2016 £m	Half-year to 31 Dec 2016 £m
Staff costs:			
Salaries	**71.1**	73.0	83.8
Social security costs	**7.5**	7.1	7.5
Other pension costs	**5.4**	5.4	5.3
Employee share schemes	**5.1**	6.4	6.4
	89.1	91.9	103.0
Premises and equipment:			
Hire of equipment	**2.3**	2.3	2.3
Rent and rates	**7.2**	6.7	7.2
	9.5	9.0	9.5
Other expenses:			
Marketing costs	**10.3**	10.7	10.3
FSCS levy	**4.7**	7.8	-
Professional fees	**6.2**	4.7	8.6
Other	**32.8**	32.1	20.2
	54.0	55.3	39.1
Depreciation, amortisation and impairment:			
Depreciation of tangible fixed assets	**3.9**	3.4	3.8
Amortisation of intangible assets	**10.7**	6.3	7.7
Impairment of intangible assets	**4.8**	-	-
	19.4	9.7	11.5
Total operating expenses	**172.0**	165.9	163.1

Note 4: Share based payments

All share based payment charges relate to equity settled schemes. Details of the existing share plans can be found in note 6 of the 2016 Annual Report and Accounts.

In the six months to 30 June 2017 the Company granted new awards under the Deferred Bonus Share Plan and the Long Term Incentive Plan.

Notes to the Condensed Financial Statements

Note 5: Allowance for impairment losses on loans and receivables

	Half-year to 30 Jun 2017 £m	Half-year to 30 Jun 2016 £m	Half-year to 31 Dec 2016 £m
Opening allowance	**50.1**	39.9	44.1
Advances written off	**(16.6)**	(13.2)	(14.2)
Charge to income statement	**22.2**	17.4	20.2
Closing allowance	**55.7**	44.1	50.1
In respect of:			
On secured loans	**11.7**	9.5	10.6
On unsecured loans	**44.0**	34.6	39.5
Total closing allowance	**55.7**	44.1	50.1

Of the total allowance in respect of loans and advances to customers, £53.9 million was assessed on a collective basis (30 June 2016: £43.3 million, 31 December 2016: £49.4 million).

Note 6: Taxation

Analysis of the tax charge for the period:

	Half-year to 30 Jun 2017 £m	Half-year to 30 Jun 2016 £m	Half-year to 31 Dec 2016 £m
Profit before tax	**126.4**	47.1	112.6
Tax charge at standard corporation tax rate of 19.25% (30 June 2016: 20%, 31 December 2016: 20%)	**(24.3)**	(9.4)	(22.5)
Factors affecting tax charge:			
Disallowed items	**(0.6)**	(0.5)	(0.4)
Income not taxable	**-**	0.6	(0.6)
Bank corporation tax surcharge	**(9.1)**	(2.8)	(8.0)
UK corporation tax rate change	**(0.1)**	(0.1)	-
Deferred tax charge in respect of share schemes	**-**	(0.8)	(0.3)
Adjustments in respect of previous periods	**(0.1)**	0.2	0.5
Other	**-**	0.2	(0.2)
Total tax charge	**(34.2)**	(12.6)	(31.5)

A reduction in the main corporation tax rate to 17% from 1 April 2020 was announced in the 2016 Budget and substantively enacted in the Finance Act 2016.

In accordance with IAS 34 *'Interim Financial Reporting'*, the Company's tax charge for the half-year to 30 June 2017 is based on the best estimate of the weighted-average annual corporation tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual corporation tax rate, but are recognised in the relevant period.

Note 7: Loans and advances to customers

	30 Jun 2017 £m	31 Dec 2016 £m
Advances secured on residential property not subject to securitisation	**21,323.1**	19,375.2
Advances secured on residential property subject to securitisation	**4,579.6**	4,907.8
	25,902.7	24,283.0
Residential buy-to-let loans not subject to securitisation	**5,935.3**	5,468.4
Total loans and advances to customers secured on residential property	**31,838.0**	29,751.4
Unsecured receivables not subject to securitisation	**2,800.4**	2,486.6
Amounts due from group companies	**327.5**	341.8
Total loans and advances to customers before allowance for impairment losses	**34,965.9**	32,579.8
Impairment allowance (refer note 5)	**(55.7)**	(50.1)
Total loans and advances to customers excluding portfolio hedging	**34,910.2**	32,529.7
Fair value of portfolio hedging	**101.2**	179.2
Total loans and advances to customers	**35,011.4**	32,708.9

Securitisation

Securitisation is a means used by the Company to fund an element of its mortgage portfolio. These securitised advances are subject to non-recourse finance arrangements. These advances have been transferred at their carrying value to SPVs and have been funded through the issue of amortising mortgage backed securities to investors with a proportion retained by the Company. The transfers do not meet the criteria for asset derecognition in IAS 39 '*Financial Instruments: Recognition and Measurement'* as the Company has retained the risks and rewards of the assets.

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

	30 Jun 2017		31 Dec 2016	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Transferred assets	**4,579.6**	**4,666.6**	4,907.8	4,982.7
Associated liabilities	**1,841.7**	**1,841.7**	2,143.6	2,143.6

Note 8: Intangible assets

	Software £m	Core banking platforms £m	Total £m
Cost:			
At 1 January 2017	125.4	21.6	147.0
Additions	**14.2**	**20.4**	**34.6**
Disposals	**-**	**-**	**-**
At 30 June 2017	**139.6**	**42.0**	**181.6**
Accumulated amortisation and impairment:			
At 1 January 2017	59.9	6.5	66.4
Charge for the year	**8.9**	**1.8**	**10.7**
Disposals	**-**	**-**	**-**
Impairment	**4.8**	**-**	**4.8**
At 30 June 2017	**73.6**	**8.3**	**81.9**
Balance sheet amount at 30 June 2017	**66.0**	**33.7**	**99.7**
Balance sheet amount at 31 December 2016	65.5	15.1	80.6

The impairment charge of £4.8 million in the period represents previous software development which has been discontinued in light of the strategic decision to consolidate activities within the digital banking program.

Note 9: Customer deposits

	30 Jun 2017 £m	31 Dec 2016 £m
Savings and investment accounts	**29,181.2**	27,762.7
Personal current accounts	**383.0**	343.6
Total customer deposits	**29,564.2**	28,106.3

Note 10: Contingent liabilities and commitments

Contingent liabilities

The Board is not aware of any significant contingent liabilities as at 30 June 2017 (31 December 2016: none).

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

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

Loan commitments

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

	30 Jun 2017 £m	31 Dec 2016 £m
Not later than 1 year	**5,627.9**	4,854.3
Later than 1 year and not later than 5 years	**91.4**	88.2
Later than 5 years	**315.3**	346.6
Total loan commitments	**6,034.6**	5,289.1

Note 11: Fair value of financial assets and financial liabilities

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

The following table summarises the fair values of those financial assets and liabilities not presented on the Company's balance sheet at their fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised. The accounting policy in the 2016 Annual Report and Accounts sets out the key principles for estimating the fair values of financial instruments.

At 30 June 2017	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**	**Total carrying value £m**
Cash and balances at central banks	**-**	**3,677.0**	**-**	**3,677.0**	**3,677.0**
Loans and advances to banks	**-**	**147.4**	**-**	**147.4**	**147.4**
Loans and advances to customers	**-**	**327.5**	**34,988.4**	**35,315.9**	**35,011.4**
Debt securities classified as loans and receivables	**0.4**	**-**	**-**	**0.4**	**0.5**
Available-for-sale financial assets	**-**	**-**	**0.3**	**0.3**	**0.3**
Other assets	**-**	**41.1**	**-**	**41.1**	**41.1**
Total financial assets	**0.4**	**4,193.0**	**34,988.7**	**39,182.1**	**38,877.7**
Deposits from banks	**-**	**6,122.4**	**-**	**6,122.4**	**6,122.4**
Customer deposits	**-**	**29,614.5**	**-**	**29,614.5**	**29,564.2**
Debt securities in issue	**306.2**	**-**	**-**	**306.2**	**304.1**
Amounts due to securitisation special purpose vehicles	**-**	**1,841.7**	**-**	**1,841.7**	**1,841.7**
Other liabilities	**-**	**270.9**	**-**	**270.9**	**270.9**
Total financial liabilities	**306.2**	**37,849.5**	**-**	**38,155.7**	**38,103.3**

At 31 December 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
Cash and balances at central banks	-	786.3	-	786.3	786.3
Loans and advances to banks	-	229.7	-	229.7	229.7
Loans and advances to customers	-	341.8	32,514.0	32,855.8	32,708.9
Debt securities classified as loans and receivables	0.7	-	-	0.7	0.7
Available-for-sale financial assets	-	-	0.3	0.3	0.3
Other assets	-	62.9	-	62.9	62.9
Total financial assets	0.7	1,420.7	32,514.3	33,935.7	33,788.8
Financial liabilities					
Deposits from banks	-	2,129.7	-	2,129.7	2,129.7
Customer deposits	-	28,222.7	-	28,222.7	28,106.3
Debt securities in issue	310.7	-	-	310.7	305.8
Amounts due to securitisation special purpose vehicles	-	2,143.6	-	2,143.6	2,143.6
Other liabilities	-	185.6	-	185.6	185.6
Total financial liabilities	310.7	32,681.6	-	32,992.3	32,871.0

Note 11: Fair value of financial assets and financial liabilities (continued)

Fair value hierarchy

There are three levels to the hierarchy as follows:

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

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

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

There is no significant change to what was disclosed in the Company's 2016 Annual Report and Accounts in respect of the valuation methodology (techniques and inputs) applied for calculations of fair values in the tables on the previous page.

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

The following table summarises the fair values of those financial assets and liabilities recognised at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised. The accounting policy in the 2016 Annual Report and Accounts sets out the key principles for estimating the fair values of financial instruments.

There have been no transfers between levels during the half-year ending 30 June 2017.

At 30 June 2017	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Derivative financial instruments	**-**	**26.3**	**-**	**26.3**
Available-for-sale financial assets	**898.1**	**143.2**	**5.1**	**1,046.4**
Financial liabilities				
Derivative financial instruments	**-**	**136.8**	**-**	**136.8**

At 31 December 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Derivative financial instruments	-	35.2	-	35.2
Available-for-sale financial assets	850.9	-	7.6	858.5
Financial liabilities				
Derivative financial instruments	-	225.3	-	225.3

Level 1 Valuations

The fair values of debt securities categorised as available-for-sale financial assets are derived from unadjusted quoted prices in an active market.

Level 2 Valuations

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

The fair value of level 2 available-for-securities were calculated using valuation techniques, including discounted cash flow models.

Note 11: Fair value of financial assets and financial liabilities (continued)

Level 3 Valuations

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

The Company's shares in VocaLink Holdings Limited (Vocalink) were included within this category at 31 December 2016. The shares were sold in April 2017 following regulatory approval of Mastercard's acquisition of Vocalink, resulting in recognition of a gain on disposal of £6.1 million, included within Other Operating Income in the period.

Note 12: Financial risk management

(1) Credit Risk Management

The Company's impairment allowances increased by 11.2% to £55.7 million as at 30 June 2017 (31 December 2016: £50.1 million), reflecting overall book growth of 7.4%. Impairment allowances as a percentage of loans and advances to customers remained stable at 0.16%. The proportion of impaired assets as a percentage of loans and advances to customers remained at 0.4% at 30 June 2017 (31 December 2016: 0.4%). There were no wholesale impairment provisions as at 30 June 2017.

A. Credit risk concentration

The table below shows the geographical concentration of the mortgage portfolio

Geographical concentration	**30 Jun 2017** £m	%	31 Dec 2016 £m	%
East Anglia	**802.3**	**2.5**	726.0	2.6
East Midlands	**1,673.0**	**5.3**	1,556.4	5.2
North	**1,080.5**	**3.4**	1,025.3	3.4
Yorkshire & Humberside	**1,762.9**	**5.5**	1,640.3	5.5
North West	**2,377.5**	**7.5**	2,209.3	7.4
West Midlands	**1,663.4**	**5.2**	1,560.9	5.2
South West	**2,499.4**	**7.9**	2,320.6	7.8
South East	**7,927.5**	**24.9**	7,365.7	24.8
Greater London	**8,889.0**	**27.9**	8,365.9	28.1
Wales	**713.3**	**2.2**	673.9	2.3
Scotland	**1,932.9**	**6.1**	1,828.0	6.1
Northern Ireland	**515.3**	**1.6**	478.3	1.6
Other	**1.0**	**—**	0.8	—
Total	**31,838.0**	**100.0**	29,751.4	100.0

The table below shows retail secured credit concentrations by loan size

Retail secured credit concentrations by loan size	**30 Jun 2017** £m	%	31 Dec 2016 £m	%
0-£100k	**5,239.2**	**16.5**	5,169.8	17.5
£100k-£250k	**15,074.0**	**47.3**	13,989.6	47.0
£250k-£500k	**8,747.1**	**27.5**	7,835.2	26.3
£500k-£1m	**2,552.3**	**8.0**	2,536.2	8.5
£1m-£2.5m	**212.3**	**0.7**	207.4	0.7
>£2.5m	**13.1**	**—**	13.2	—
Total	**31,838.0**	**100.0**	29,751.4	100.0

The tables below show retail secured credit concentrations by loan type

Retail secured credit concentrations by loan type	**Residential mortgage loans £m**	**%**	**Buy-to-let mortgage loans £m**	**%**	**Total £m**	**%**
At 30 June 2017						
Capital repayment	**21,340.8**	**82.4**	**977.3**	**16.5**	**22,318.1**	**70.1**
Part-and-part	**1,053.3**	**4.1**	**42.0**	**0.7**	**1,095.3**	**3.4**
Interest only	**3,508.6**	**13.5**	**4,916.0**	**82.8**	**8,424.6**	**26.5**
Total	**25,902.7**	**100.0**	**5,935.3**	**100.0**	**31,838.0**	**100.0**

Notes to the Condensed Financial Statements

Note 12: Financial risk management (continued)

Retail secured credit concentrations by loan type	Residential mortgage loans		Buy-to-let mortgage loans		Total	
	£m	%	£m	%	£m	%
At 31 December 2016						
Capital repayment	19,521.7	80.4	913.0	16.7	20,434.7	68.7
Part-and-part	1,115.6	4.6	37.3	0.7	1,152.9	3.9
Interest only	3,645.7	15.0	4,518.1	82.6	8,163.8	27.4
Total	24,283.0	100.0	5,468.4	100.0	29,751.4	100.0

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

Retail secured LTV (%) – indexed value at financial year end	**Residential mortgage loans**		**Residential buy-to-let mortgage loans**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**
At 30 June 2017						
<50%	**9,755.4**	**37.7**	**2,078.9**	**34.9**	**11,834.3**	**37.1**
50%-<60%	**5,150.2**	**19.9**	**1,655.7**	**27.9**	**6,805.9**	**21.4**
60%-<70%	**4,205.7**	**16.2**	**1,362.4**	**23.0**	**5,568.1**	**17.5**
70%-<80%	**3,547.9**	**13.7**	**834.1**	**14.1**	**4,382.0**	**13.8**
80%-<90%	**2,725.9**	**10.5**	**3.5**	**0.1**	**2,729.4**	**8.6**
90%-<100%	**514.6**	**2.0**	**0.5**	**-**	**515.1**	**1.6**
>100%	**3.0**	**-**	**0.2**	**-**	**3.2**	**-**
Total	**25,902.7**	**100.0**	**5,935.3**	**100.0**	**31,838.0**	**100.00**

Average loan to value of stock – indexed[1]	**56.2**	**54.7**	**55.9**
Average loan to value of new business	**70.1**	**60.0**	**68.2**

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

Retail secured LTV (%) – indexed value at financial year end	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
	£m	%	£m	%	£m	%
At 31 December 2016						
<50%	9,476.6	39.1	1,922.8	35.2	11,399.4	38.3
50%-<60%	4,958.1	20.4	1,454.8	26.6	6,412.9	21.6
60%-<70%	3,918.9	16.1	1,271.8	23.3	5,190.7	17.4
70%-<80%	3,162.8	13.0	796.4	14.6	3,959.2	13.3
80%-<90%	2,307.7	9.5	19.0	0.3	2,326.7	7.8
90%-<100%	445.1	1.8	2.2	-	447.3	1.5
>100%	13.8	0.1	1.4	-	15.2	0.1
Total	24,283.0	100.0	5,468.4	100.0	29,751.4	100.0

Average loan to value of stock – indexed[1]	55.6	54.8	55.4
Average loan to value of new business	69.8	60.5	68.0

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

The average indexed LTV of the overall mortgage portfolio increased marginally by 0.5 percentage points as at 30 June 2017, reflecting new business growth which has offset positive house price movements observed during the reporting period. The average LTV for new business lending increased to 68.2% in the half-year to 30 June 2017, below the current risk appetite limit of 75%.

Note 12: Financial risk management (continued)

B. Credit quality of assets

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

Loans and advances which are past due and not impaired

The balance of mortgages which were past due and not impaired totalled £153.6 million at 30 June 2017. This represented a 9.1% (£15.3 million) reduction from 31 December 2016, attributable to improved arrears performance. These assets represented 0.5% of secured loans at 30 June 2017 (31 December 2016: 0.6%). All unsecured assets which are past due are treated as impaired.

Past due and not impaired loans	**Residential mortgage loans**		**Residential buy-to-let mortgage loans**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**
At 30 June 2017						
Up to one month	**46.7**	**33.9**	**4.5**	**29.1**	**51.2**	**33.4**
One to three months	**62.2**	**45.0**	**7.6**	**49.0**	**69.8**	**45.4**
Three to six months	**19.4**	**14.0**	**2.9**	**18.7**	**22.3**	**14.5**
Over six months	**9.8**	**7.1**	**0.5**	**3.2**	**10.3**	**6.7**
Total past due and not impaired	**138.1**	**100.0**	**15.5**	**100.0**	**153.6**	**100.0**

Past due and not impaired loans	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
	£m	%	£m	%	£m	%
At 31 December 2016						
Up to one month	57.1	37.8	4.3	24.4	61.4	36.4
One to three months	63.9	42.2	10.8	61.4	74.7	44.2
Three to six months	21.4	14.1	2.1	11.9	23.5	13.9
Over six months	8.9	5.9	0.4	2.3	9.3	5.5
Total past due and not impaired	151.3	100.0	17.6	100.0	168.9	100.0

The stock of repossessions has fallen over the reporting period, representing 16 cases at 30 June 2017, compared to 6 cases at 31 December 2016.

Note 12: Financial risk management (continued)

Impaired balances and impairment provisions

At 30 June 2017	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	**25,902.7**	**87.9**	**0.3**	**9.6**	**10.9**
Residential buy-to-let mortgage loans	**5,935.3**	**10.4**	**0.2**	**2.1**	**20.2**
Total secured	**31,838.0**	**98.3**	**0.3**	**11.7**	**11.9**
Credit cards	**2,800.3**	**35.6**	**1.3**	**43.9**	**123.3**
Overdrafts	**0.1**	**-**	**-**	**0.1**	**-**
Total unsecured	**2,800.4**	**35.6**	**1.3**	**44.0**	**123.6**
Wholesale treasury assets	**5,199.1**	**-**	**-**	**-**	**-**
Wholesale derivative exposures	**26.3**	**-**	**-**	**-**	**-**
Total	**39,863.8**	**133.9**	**0.3**	**55.7**	**41.6**

At 31 December 2016	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	24,283.0	83.9	0.3	9.4	11.2
Residential buy-to-let mortgage loans	5,468.4	9.0	0.2	1.2	13.3
Total secured	29,751.4	92.9	0.3	10.6	11.4
Credit cards	2,486.5	32.5	1.3	39.4	121.2
Overdrafts	0.1	-	-	0.1	-
Total unsecured	2,486.6	32.5	1.3	39.5	121.5
Wholesale treasury assets	2,217.3	-	-	-	-
Wholesale derivative assets	35.2	-	-	-	-
Total	34,490.5	125.4	0.4	50.1	40.0

Impaired assets

Total impaired assets increased by 6.8% (£8.5 million) in the first half of 2017. This increase is in line with growth in loans and advances to customers of 7.4%. Impaired assets as a proportion of total loans remained at 0.3% for secured lending 1.3% for unsecured lending as at 30 June 2017.

Impairment provisions

Secured impairment allowances increased by £1.1 million in the first half of 2017. Reductions due to continued HPI growth and favourable arrears performance were offset by one-off operational losses and book growth.

In line with the growth in new lending, unsecured impairment allowances increased by £4.5 million in the first half of the year.

Note 12: Financial risk management (continued)

C. Wholesale Credit Risk

Wholesale credit exposures	**30 Jun 2017 £m**	31 Dec 2016 £m
Loans and advances to banks	**147.4**	229.7
Bank of England	**3,677.0**	786.3
Debt securities classified as loans and receivables	**0.5**	0.7
Debt securities classified as available-for-sale financial assets	**1,041.3**	850.9
Gross positive fair value of derivative contracts	**26.3**	35.2
Loans and advances to customers – amounts due from group companies	**327.5**	341.8
Total	**5,220.0**	2,244.6

Wholesale credit exposures increased by £3.0 billion during the first six months of the year to £5.2 billion at 30 June 2017, due to increased use of the Bank of England's (BoE) Term Funding Scheme (TFS), to support additional lending. Wholesale credit exposures are assessed by reference to credit rating. All of the Company's wholesale exposures are investment grade and classified as low risk. There were no wholesale credit exposures that were past due or impaired as at 30 June 2017 or at 31 December 2016.

D. Forbearance

The value of forbearance stock totalled £314.2 million at 30 June 2017, representing a 12.6% (£35.2 million) increase since 31 December 2016.

Secured

At 30 June 2017, £300.1 million (31 December 2016: £266.3 million) of retail secured loans and advances were subject to forbearance. The introduction of buy-to-let (BTL) retention products resulted in an increased number of BTL customers going through mortgage reviews compared to previous periods. As a result, the Company has seen an increase in routine term extensions and transfers to interest only. Prudently, these are caught within the Company's definition of forbearance. This has resulted in a £37.7 million increase in forbearance, all of which is classified as neither past due nor impaired. Secured forbearance as a percentage of stock remains below 1% of the portfolio.

Loans which are forborne are grouped with other assets with similar risk characteristics and assessed collectively for impairment. The loans are not considered as impaired loans unless they meet the Company's definition of an impaired asset.

The Company's approach is to ensure that provisioning models, supported by management judgement, appropriately reflect the incurred loss risk of exposures. The Company uses behavioural scoring to assess customers' credit risk, taking a range of potential indicators of customer financial distress into account.

Unsecured

At 30 June 2017, total retail unsecured loans and advances benefiting from forbearance totalled £14.1 million (31 December 2016: £12.7 million).

Credit risk provisioning for the retail unsecured portfolio is undertaken on a collective basis, except for fraud cases which are fully provided for. The approach used is based on the 'probability of default' (PD) for various behavioural and arrears status segments, measuring the likelihood of default and the probability of charge-off given default.

Note 12: Financial risk management (continued)

A breakdown of secured and unsecured forbearance is shown below.

At 30 June 2017	Neither past due nor impaired £m	%	Past due not impaired £m	%	Impaired £m	%	Total £m	%
Secured								
Payment arrangement	**1.4**	**0.4**	**0.4**	**5.9**	**0.3**	**16.7**	**2.1**	**0.7**
Transfer to interest only	**25.8**	**8.9**	**0.9**	**13.2**	**-**	**-**	**26.7**	**8.9**
Term extension	**209.8**	**72.0**	**3.2**	**47.1**	**0.7**	**38.9**	**213.7**	**71.2**
Payment holiday	**54.5**	**18.7**	**2.3**	**33.8**	**0.8**	**44.4**	**57.6**	**19.2**
Total secured forbearance	**291.5**	**100.0**	**6.8**	**100.0**	**1.8**	**100.0**	**300.1**	**100.0**
Unsecured								
Accounts where the customer has been approved on a repayment plan	**3.4**	**100.0**	**-**	**-**	**10.7**	**100.0**	**14.1**	**100.0**
Total unsecured forbearance	**3.4**	**100.0**	**-**	**-**	**10.7**	**100.0**	**14.1**	**100.0**
Total forbearance	**294.9**	**100.0**	**6.8**	**100.0**	**12.5**	**100.0**	**314.2**	**100.0**

At 31 December 2016	Neither past due nor impaired £m	%	Past due not impaired £m	%	Impaired £m	%	Total £m	%
Secured								
Payment arrangement	0.1	0.1	0.6	9.7	0.2	6.9	0.9	0.3
Transfer to interest only	20.9	8.1	1.8	29.0	0.6	20.7	23.3	8.7
Term extension	177.0	68.8	2.3	37.1	1.4	48.3	180.7	67.9
Payment holiday	59.2	23.0	1.5	24.2	0.7	24.1	61.4	23.1
Total secured forbearance	257.2	100.0	6.2	100.0	2.9	100.0	266.3	100.0
Unsecured								
Accounts where the customer has been approved on a repayment plan	2.9	100.0	-	-	9.8	100.0	12.7	100.0
Total unsecured forbearance	2.9	100.0	-	-	9.8	100.0	12.7	100.0
Total forbearance	260.1	100.0	6.2	100.0	12.7	100.0	279.0	100.0

Note 12: Financial risk management (continued)

(2) Funding and Liquidity Management

The Company is predominantly funded through customer deposits. During the first six months of 2017, the Company maintained a strong presence in the retail savings market. Total customer deposits increased by £1,457.9 million in the first half of 2017. The retail funding portfolio demonstrated resilience throughout the first six months of 2017 with the retail product mix, level of concentration risk and contractual tenor remaining materially unchanged following repricing activities.

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

Composition of the liquidity portfolio	**30 Jun 2017 £m**	**2017 Average £m**	31 Dec 2016 £m	2016 Average £m
Level 1				
Cash and balances at central banks	**3,626.2**	**1,463.4**	737.2	819.6
UK Government securities	**186.9**	**246.2**	306.7	339.3
Other HQLA level 1 eligible	**-**	**-**	-	33.8
Supranational securities	**162.6**	**145.5**	129.3	222.0
Treasury bills raised through FLS	**2,029.9**	**2,502.2**	2,683.7	2,528.2
Covered bonds (Level 1 eligible)	**422.0**	**363.6**	304.9	434.4
Total level 1	**6,427.6**	**4,720.9**	4,161.8	4,377.3
Level 2a				
Covered bonds (Level 2a eligible)	**22.2**	**22.2**	22.2	22.4
Total level 2a	**22.2**	**22.2**	22.2	22.4
Level 2b				
Eligible RMBS	**66.9**	**46.5**	38.6	49.1
Total level 2b	**66.9**	**46.5**	38.6	49.1
High quality liquid assets (Level 1 + 2a + 2b)	**6,516.7**	**4,789.6**	4,222.6	4,448.8
Other liquidity resources				
Covered Bonds	**-**	**-**	-	1.2
Non-eligible RMBS	**12.5**	**5.7**	13.6	11.6
Certificates of deposit	**143.2**	**20.5**	-	44.5
Floating rate notes	**25.0**	**10.8**	25.0	9.6
Total other liquidity resources	**180.7**	**37.0**	38.6	66.9
Self-issued RMBS	**708.4**	**669.8**	1,306.4	550.8
Total liquidity	**7,405.8**	**5,496.4**	5,567.6	5,066.5

Note 12: Financial risk management (continued)

Analysis of total wholesale funding by residual maturity

At 30 June 2017	Within 3 months £m	3-12 months £m	1-5 years £m	After 5 years £m	Total £m
Amounts due to securitisation special purpose vehicles	**163.3**	**119.0**	**655.9**	**903.5**	**1,841.7**
Debt securities in issue	**-**	**-**	**304.1**	**-**	**304.1**
Liabilities in respect of securities sold under repurchase agreements	**350.0**	**550.0**	**275.0**	**-**	**1,175.0**
Secured loans	**-**	**-**	**4,936.0**	**-**	**4,936.0**
Total on-balance sheet sources of funds	**513.3**	**669.0**	**6,171.0**	**903.5**	**8,256.8**
Treasury bills raised through FLS	**99.9**	**599.6**	**1,435.3**	**-**	**2,134.8**
Total	**613.2**	**1,268.6**	**7,606.3**	**903.5**	**10,391.6**

At 31 December 2016	Within 3 months £m	3-12 months £m	1-5 years £m	After 5 years £m	Total £m
Amounts due to securitisation special purpose vehicles	161.5	125.2	685.6	1,171.3	2,143.6
Debt securities in issue	-	-	305.8	-	305.8
Liabilities in respect of securities sold under repurchase agreements	500.0	75.0	275.0	-	850.0
Secured loans	-	-	1,268.0	-	1,268.0
Total on-balance sheet sources of funds	661.5	200.2	2,534.4	1,171.3	4,567.4
Treasury bills raised through FLS	-	649.2	2,034.5	-	2,683.7
Total	661.5	849.4	4,568.9	1,171.3	7,251.1

The Company manages funding concentration risk arising from wholesale maturities through a Board-approved risk appetite which limits the amount of funding refinancing over a 90 day period and minimum tenor.

Encumbered assets

The Company'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		**Unencumbered assets**		**Total**
At 30 June 2017	**Pledged as collateral[1] £m**	**Other[2] £m**	**Available as collateral[3] £m**	**Other[4] £m**	**£m**
Cash and balances at central banks	**-**	**195.8**	**-**	**3,481.2**	**3,677.0**
Debt securities classified as loans and receivables	**-**	**-**	**0.5**	**-**	**0.5**
Available-for-sale financial assets	**-**	**-**	**1,041.3**	**5.4**	**1,046.7**
Derivative financial assets	**-**	**-**	**-**	**26.3**	**26.3**
Loans and advances to banks	**119.4**	**-**	**-**	**28.0**	**147.4**
Loans and advances to customers	**14,068.7**	**-**	**2,899.1**	**18,043.6**	**35,011.4**
Other assets	**28.2**	**-**	**-**	**259.4**	**287.6**
Total assets	**14,216.3**	**195.8**	**3,940.9**	**21,843.9**	**40,196.9**
Treasury bills raised through FLS held off balance sheet[5]	**104.9**	**-**	**2,029.9**	**-**	**2,134.8**
Total assets plus off balance sheet treasury bills raised through FLS	**14,321.2**	**195.8**	**5,970.8**	**21,843.9**	**42,331.7**

Notes to the Condensed Financial Statements

Note 12: Financial risk management (continued)

	Encumbered assets		Unencumbered assets		Total
	Pledged as collateral[1]	Other[2]	Available as collateral[3]	Other[4]	
At 31 December 2016	£m	£m	£m	£m	£m
Cash and balances at central banks	-	168.1	-	618.2	786.3
Debt securities classified as loans and receivables	-	-	0.7	-	0.7
Available-for-sale financial assets	10.6	-	840.3	7.9	858.8
Derivative financial assets	-	-	-	35.2	35.2
Loans and advances to banks	179.1	-	-	50.6	229.7
Loans and advances to customers	9,425.6	-	2,932.9	20,350.4	32,708.9
Other assets	53.9	-	-	241.7	295.6
Total assets	9,669.2	168.1	3,773.9	21,304.0	34,915.2
Treasury bills raised through FLS held off balance sheet[5]	-	-	2,683.7	-	2,683.7
Total assets plus off balance sheet FLS	9,669.2	168.1	6,457.6	21,304.0	37,598.9

1 Encumbered assets pledged as collateral include amounts to OTC derivative counterparties of £119.4million (31 December 2016: £179.1 million) and amounts in respect of centrally cleared derivatives of £28.2 million (31 December 2016: £53.9 million). Encumbered loans and advances to customers of £14,068.7 million (31 December 2016: £9,425.6 million) consist of securitised mortgages and other loan pools positioned with the Bank of England that have been pledged as collateral for funding and liquidity transactions. At 30 June 2017, £7,442.8million (31 December 2016: £2,302.3 million of loan pools have been pledged as collateral in respect of secured loans and repo agreements.

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

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

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

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

The Company's total level of asset encumbrance increased by £4,679.7 million to 34.3%. This was primarily due to using the TFS to support increased lending, including an accelerated drawing in late June 2017 in anticipation of potential changes to the TFS which took total drawings to date to £4,936.0 million. The Company manages the volume of available unencumbered collateral to meet requirements arising from current and future secured funding transactions.

Note 13: Related party transactions

Full details of the Company's related party transactions for the year to 31 December 2016 can be found in note 34 of the 2016 Annual Report and Accounts.

Related party transactions for the half-year to 30 June 2017 are similar in nature to those for the year to 31 December 2016 apart from that discussed below.

In June 2017 an agreement was signed with Virgin Atlantic Airways Limited (VAA) which will give rise to related party transactions in future periods.

Securitisation special purpose vehicles

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

Balances outstanding at period end:

	30 Jun 2017 £m	31 Dec 2016 £m
Assets		
Amounts due from securitisation special purpose vehicles	**248.0**	267.6
Liabilities		
Amounts due to securitisation special purpose vehicles	**1,841.7**	2,143.6

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

Note 14: Events after balance sheet date

There have been no significant events between 30 June 2017 and the date of approval of the condensed half-year financial statements which would require a change to or additional disclosure in the financial statements.

Note 15: Parent undertaking

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

Virgin Money Holdings (UK) plc is the largest and smallest group in which the financial statements of the Company are consolidated. The consolidated financial statements of Virgin Money Holdings (UK) plc may be obtained from Companies House, Crown Way, Cardiff, CF4 3ZU.

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

Note 16: Future accounting developments

IFRS 9 *'Financial Instruments'* (Effective 1 January 2018, EU endorsed on 22 November 2016)

Background

IFRS 9 '*Financial Instruments'* replaces IAS 39 '*Financial Instruments: Recognition and Measurement'* and has three core areas of change: Impairment (Expected Credit Loss), Classification and Measurement; and Hedge Accounting. An update is provided on each of these three areas below:

Impairment (Expected Credit Loss)

IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss approach, resulting in earlier recognition of credit losses. The IFRS 9 impairment model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk (stage 2).

Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39. Loan commitments and financial guarantees not measured at fair value through profit or loss are also in scope for impairment. The assessment of whether a significant increase in credit risk has occurred is a key aspect of the IFRS 9 methodology. It involves quantitative and qualitative measures and therefore requires considerable management judgement. In addition IFRS 9 also requires the use of more forward-looking information including reasonable and supportable forecasts of future economic conditions.

IFRS 9 implementation programme

The Company has an established IFRS 9 programme to ensure a high quality implementation in compliance with the accounting and regulatory guidance. The Audit Committee has oversight responsibility for the implementation of IFRS 9. The Company has built expected credit loss models for the key retail portfolios (secured and unsecured). The Company will run these models for the remainder of 2017 in a period of parallel run which will ensure full readiness in advance of implementation on 1 January 2018.

The Company continues to monitor the wider market developments in relation to IFRS 9, including evolving disclosure requirements and regulatory developments such as potential capital transitionary rules.

Key accounting judgments

The Company has completed technical assessment, which has highlighted certain significant accounting policies and judgements. These areas include the selection of quantitative and qualitative criteria for the determination of significant increase in credit risk and the application of forward-looking data into the expected credit loss calculations, including multiple economic scenarios.

Significant Increase in Credit Risk (SICR)

The Company has identified a series of quantitative, qualitative and backstop criteria that will be used to determine if an account has demonstrated a significant increase in credit risk. The quantitative measures consider the increase in an account's remaining lifetime PD compared to the expected residual lifetime PD when the account was originated. The Company will segment its credit portfolios into PD bands and has determined a relevant threshold for each PD band, where a movement in excess of threshold is considered to be significant. These thresholds have been determined separately for each portfolio based on historical evidence of delinquency. Qualitative measures include the observation of a specific event such as short-term forbearance, payment cancellation, historical arrears or extension to customer terms. The Company considers 30 days past due to be an appropriate backstop measure.

Application of forward-looking economic scenarios

The assessment of SICR and the ECL calculation both incorporate forward-looking information. The Company has identified the most significant macroeconomic factors include house price inflation, unemployment rate and Bank Base Rate. These variables and their associated impact on PD, EAD and LGD have been factored into the ECL models. The Company has determined an approach to running multiple scenarios.

Note 16: Future accounting developments (continued)

Expected impact of IFRS 9

The implementation of IFRS 9 is expected to result in a material increase in the Company's balance sheet allowance for loan loss. The extent of any increase will depend upon, amongst other things, the portfolio and forecast economic conditions at the date of implementation. The factors affecting the transition of accounts between stages, including the impact of changes in forecast economic conditions, is likely to result in impairment charges being more volatile when compared to IAS 39.

The initial outputs of the Company's IFRS 9 models indicate that the change in balance sheet allowance for the unsecured credit card portfolio is material. In relation to the secured and wholesale portfolios, the initial outputs indicate that the change in balance sheet allowance for loan loss may be insignificant. This reflects the low LTVs and high credit quality of the mortgage portfolio and the high credit ratings of the wholesale book.

The implementation of IFRS 9 will result in a negative impact on the Company's regulatory capital position, although the capital transitional arrangements are not yet defined. At this stage the Company has reflected the full impact in forecast CET 1 resources and will allow for transitional arrangements once determined by the relevant authorities.

Classification and Measurement

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost. For financial assets classification is based on the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 retains most of the existing classification requirements for financial liabilities.

In relation to Classification and Measurement, IFRS 9 will not result in a significant change to current asset and liability measurement bases.

Hedge Accounting

The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach. However, there is an option to maintain existing IAS 39 hedge accounting rules until the IASB completes its project on macro hedging.

In relation to Hedge Accounting, the Company will continue applying IAS 39 hedge accounting.

Transition to IFRS 9

The Company has undertaken an assessment to determine the impact of adoption of IFRS 9. The changes in relation to impairment, as noted above, will have the most significant impact on the Company. The final impact of IFRS 9 on the Company is dependent upon the circumstances in place as at 1 January 2018, the effective date, and the Company does not expect to restate prior periods on implementation.

Statement of Directors' Responsibilities

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

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

By order of the Board,

Jayne-Anne Gadhia, CBE
Chief Executive
24 July 2017

Independent Auditors' Review Report to Virgin Money plc

Report on the Virgin Money plc 2017 half-year results

Our conclusion

We have reviewed Virgin Money plc's condensed half-year financial statements (the "interim financial statements") in the 2017 half-year results of Virgin Money plc for the 6 month period ended 30 June 2017. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the balance sheet as at 30 June 2017;
- the income statement and statement of comprehensive income for the period then ended;
- the cash flow statement for the period then ended;
- the statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the 2017 half-year results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors[1,2]

The 2017 half-year results, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the 2017 half-year results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the 2017 half-year results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent Auditors' Review Report to Virgin Money plc

What a review of interim financial statements involves

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

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

We have read the other information contained in the 2017 half-year results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
24 July 2017

1. The maintenance and integrity of the Virgin Money Holdings (UK) plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdiction