Registered No. 06952311

Virgin Money plc

2016 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 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; 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 potential for one or more countries to exit the European Union (EU) (including the UK following its referendum vote to leave the EU), or the Eurozone, 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; 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 of 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.

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Financial Review

Overview

Virgin Money plc (Virgin Money, the Company) is a wholly owned subsidiary of Virgin Money Holdings (UK) plc (Holdings, the Group).

Virgin Money is a UK based retail bank primarily focused on providing residential mortgages, savings and credit cards. The Company provides award-winning customer service through a range of channels, including digital (online and mobile), intermediaries, contact centres and a national network of Stores and Lounges.

Business performance is driven by:

- Growth - the ability to add both assets and liabilities at high quality and without damaging margin development;
- Operational leverage - the platform of systems, people and processes can scale business volumes without parallel scaling of costs;
- Quality - controlled via rigorous underwriting, supporting a low cost of risk and capital management.

Summary Income Statement

	Half-year to 30 Jun 2016 £ million	Half-year to 30 Jun 2015 £ million	Half-year to 31 Dec 2015 £ million
Net interest income	**252.1**	221.1	236.1
Fair value losses on financial instruments	**(41.6)**	(0.4)	(7.6)
Other	**19.9**	14.4	16.1
Total income	**230.4**	235.1	244.6
Costs	**(165.9)**	(175.7)	(157.7)
Impairment	**(17.4)**	(14.3)	(16.0)
Statutory profit before tax	**47.1**	45.1	70.9
Profit before tax, excluding fair losses on financial instruments	**88.7**	45.5	78.5

Summary Balance Sheet

	30 Jun 2016 £ million	31 Dec 2015 £ million
Assets		
Cash and balances with central banks	**784.3**	888.6
Loans and receivables	**30,732.8**	27,512.3
Available-for-sale financial assets	**1,046.7**	1,296.9
Other	**390.6**	311.0
Total assets	**32,954.4**	30,008.8
Liabilities		
Deposits from banks	**991.3**	1,283.8
Customer deposits	**27,128.4**	25,145.3
Amounts due to securitisation special purpose vehicles	**2,475.8**	1,553.1
Other	**990.5**	697.9
Total liabilities	**31,586.0**	28,680.1
Total equity	**1,368.4**	1,328.7
Total liabilities and equity	**32,954.4**	30,008.8

Strong balance sheet growth

	30 Jun 2016 £ million	31 Dec 2015 £ million	**Change**
Loans and advances to customers	**30,430.6**	27,391.4	**11.1%**
Funded assets[1]	**30,896.9**	27,672.8	**11.7%**
Customer deposits	**27,128.4**	25,145.3	**7.9%**
Wholesale funding	**3,759.9**	3,125.5	**20.3%**
Wholesale funding <1 year maturity	**997.7**	1,413.6	**(29.4)%**
High Quality Liquid Assets[2]	**4,355.8**	4,238.6	**2.8%**

1. Loans and advances to customers and banks, debt securities classified as loans and receivables, encumbered available-for-sale assets and encumbered cash and balances with central banks.
2. Level 1 + 2a + 2b. See note 13: Financial risk management 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.

Mortgage balances increased by 8.7 per cent from £25,456.9 million to £27,683.7 million, driven by gross mortgage lending of £4,265.3 million in the half-year ended 30 June 2016. Growth in credit card balances continued, increasing by 30.5 per cent in the period from £1,609.8 million to £2,100.4 million.

Customer deposits were 7.9 per cent higher at £27,128.4 million at 30 June 2016 compared to £25,145.3 million at 31 December 2015. As the balance sheet consists predominantly of long-term mortgage assets, the Company does not rely on short-term wholesale funding, which can introduce refinancing risk. Funding provided by retail deposit customers represented 82.3% total liabilities and equity at 30 June 2016 (83.8% at 31 December 2015).

The Company continued to diversify and grow its wholesale funding base during the half-year ended 30 June 2016, following the successful completion of the Gosforth Funding 2016-1 and 2016-2 Residential Mortgage Backed Securities (RMBS) transactions in January and May. The transactions are in line with the Company's aim of wholesale funding providing up to 20% of total funding and also provided term funding at a cost lower than retail funding of equivalent size and tenor.

High quality liquid assets were £4,355.8 million at 30 June 2016, representing approximately 4.4 times wholesale funding with a maturity of less than one year, providing a substantial buffer in the event of an extended market dislocation.

Income benefited from strong growth in balances

	Half-year to 30 Jun 2016 £ million	Half-year to 30 Jun 2015 £ million	**Change**	Half-year to 31 Dec 2015 £ million	**Change**
Net interest income	**252.1**	221.1	**14.0%**	236.1	**6.8%**
Fair value losses on financial instruments	**(41.6)**	(0.4)	**>100%**	(7.6)	**>100%**
Other	**19.9**	14.4	**38.2%**	16.1	**23.6%**
Total income	**230.4**	235.1	**(2.0)%**	244.6	**(5.8)%**

Net interest income increased by 6.8 per cent in the half year ended 30 June 2016 to £252.1 million as the increase in average interest earning assets more than offset a decrease in margin.

Fair value losses on financial instruments reflect the results of hedge accounting and the fair value movements on derivatives in economic hedges (but not accounting hedges). In the six months to 30 June 2016, movements in the swap curves resulted in more significant negative fair value movements. 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.

Other income (excluding fair value losses on financial instruments) was 23.6 per cent or £3.8 million higher at £19.9 million. This included the gain on disposal of £5.3 million on the Company's shareholding in Visa Europe Limited, which was partially offset by a reduction in gains from debt securities in the Treasury portfolio.

Costs remain tightly controlled

		Half-year to 30 Jun 2016	Half-year to 30 Jun 2015	**Change**	Half-year to 31 Dec 2015	**Change**
Operating expenses	£ million	**165.9**	175.7	**(5.6)%**	157.7	**5.2%**
Cost:income ratio[1]	%	**72.0**	74.7	**(2.7)pp**	64.5	**7.5pp**
Adjusted cost:income ratio[2]	%	**61.0**	74.6	**(13.6)pp**	62.5	**(1.5)pp**

1. Statutory
2. Excluding fair value losses on financial instruments as disclosed on page 2

Cost growth in the six months to 30 June 2016 was 5.2 per cent. Excluding the impact of fair value losses on financial instruments, the cost:income ratio for the half-year to 30 June 2016 decreased by 1.5 percentage points to 61.0%, as the increase in net interest and other income exceeded the growth in costs.

In the first half of 2016, the Company was subject to an effective tax rate of 26.8 per cent and recognised a £12.6 million corporation tax charge, compared to an effective rate of 22.4 per cent and a charge of £10.1 million in the equivalent period of 2015.

Impairment reflects rigorous underwriting controls

		Half-year to 30 Jun 2016	Half-year to 30 Jun 2015	**Change**	Half-year to 31 Dec 2015	**Change**
Impairment charge	£ million	**17.4**	14.3	**21.7%**	16.0	**8.8%**
Cost of risk	%	**0.12**	0.12	**-**	0.12	**-**
Impaired loans as a % of loans and advances	%	**0.4**	0.3	**0.1pp**	0.4	**-**
Provisions as a % of impaired loans	%	**39.9**	37.0	**2.9pp**	35.6	**4.3pp**

Mortgage impairment charges decreased by 18.8 per cent to £1.3 million from £1.6 million in the same period in 2015, due to improved arrears performance, despite book growth. The cost of risk for mortgages was stable at 0.01%, reflective of the continued high asset quality of the portfolio and low level of defaults. Credit card impairment charges increased by 26.8 per cent to £16.1 million from £12.7 million in the same period in 2015, reflecting growth of the book. The cost of risk for credit cards decreased by 56 basis points to 1.73%, from 2.29% in the equivalent period of 2015, due to low levels of default on new and existing cards.

Impairment provisions as a percentage of impaired loans increased by 4.3 percentage points from 35.6% at 31 December 2015 to 39.9% at 30 June 2016.

Strong capital structure

		30 Jun 2016	31 Dec 2015	**Change**
Capital ratios and risk-weighted assets				
Common Equity Tier 1 capital	£ million	**1,291.2**	1,227.6	**5.2%**
Risk-weighted assets	£ million	**7,282.0**	6,059.5	**20.2%**
Common Equity Tier 1 ratio	%	**17.7**	20.3	**(2.6)pp**
Tier 1 ratio	%	**17.7**	20.3	**(2.6)pp**
Total capital ratio	%	**17.9**	20.4	**(2.5)pp**
Leverage ratio	%	**3.8**	4.0	**(0.2)pp**

Note: inclusive of verified profits for H1 2016.

Capital ratios reduced during the half-year reflecting the growth strategy of the Company. The Common Equity Tier 1 (CET1) ratio was 17.7% at 30 June 2016, compared with 20.3% at the end of 2015. The reduction reflects increased capital efficiency with CET1 capital increasing by 5.2% whilst risk-weighted assets (RWAs) increased by 20.2%, driven by strong asset growth.

The total capital ratio was 17.9% at 30 June 2016, reduced from 20.4% at 31 December 2015 by the same underlying effects as CET1. As a consequence of the increase in leverage ratio eligible assets the leverage ratio was 3.8% at 30 June 2016, compared to 4.0% at the end of 2015.

Principal Risks and Uncertainties

The principal risks faced by the Company are summarised below. The impact of the EU Referendum results will manifest itself through the below risks. There has been no significant change to the description of these risks or the key mitigating actions. These are disclosed in the Company's 2015 Annual Report and Accounts.

Credit Risk

The Company provides residential and BTL 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.

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

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, and the risk of 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. Credit concentration risk is managed for retail and wholesale credit exposures at portfolio, product and counterparty levels.

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.

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 2016 £ million**	Half-year to 30 Jun 2015[1] £ million	Half-year to 31 Dec 2015 £ million
Interest and similar income		**473.6**	407.4	436.0
Interest and similar expense		**(221.5)**	(186.3)	(199.9)
Net interest income	2	**252.1**	221.1	236.1
Fee and commission income		**11.0**	9.6	12.2
Fair value losses on financial instruments		**(41.6)**	(0.4)	(7.6)
Other operating income		**8.9**	4.8	3.9
Other income		**(21.7)**	14.0	8.5
Total income		**230.4**	235.1	244.6
Total operating expenses	3	**(165.9)**	(175.7)	(157.7)
Profit before tax from operating activities		**64.5**	59.4	86.9
Impairment	5	**(17.4)**	(14.3)	(16.0)
Profit before tax		**47.1**	45.1	70.9
Taxation	6	**(12.6)**	(10.1)	(13.0)
Profit for the period		**34.5**	35.0	57.9
Profit attributable to equity shareholders		**34.5**	35.0	57.9
Profit for the period		**34.5**	35.0	57.9

[1] Restated (refer notes 1 and 17)

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

Condensed Half-Year Financial Statements (Unaudited)

STATEMENT OF COMPREHENSIVE INCOME

	Half-year to 30 Jun 2016 £ million	Half-year to 30 Jun 2015[1] £ million	Half-year to 31 Dec 2015 £ million
Profit for the period	**34.5**	35.0	57.9
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of available-for-sale financial assets:			
Change in fair value	**30.5**	10.9	14.2
Income statement transfers in respect of disposals	**(32.2)**	(15.4)	(16.8)
Taxation	**0.5**	0.9	0.3
	(1.2)	(3.6)	(2.3)
Other comprehensive expense for the period, net of tax	**(1.2)**	(3.6)	(2.3)
Total comprehensive income for the period	**33.3**	31.4	55.6
Total comprehensive income attributable to equity shareholders	**33.3**	31.4	55.6

[1] Restated (refer notes 1 and 17)

Condensed Half-Year Financial Statements (Unaudited)

BALANCE SHEET

	Note	**30 Jun 2016 £ million**	31 Dec 2015[1] £ million	1 Jan 2015[1] £ million
Assets				
Cash and balances at central banks		**784.3**	888.6	851.3
Derivative financial instruments		**106.8**	80.7	100.1
Loans and receivables:				
–Loans and advances to banks		**301.3**	119.6	136.4
–Loans and advances to customers	8	**30,430.6**	27,391.4	23,347.9
–Debt securities		**0.9**	1.3	11.0
		30,732.8	27,512.3	23,495.3
Available-for-sale financial assets		**1,046.7**	1,296.9	1,539.6
Intangible assets		**66.5**	63.0	45.0
Tangible fixed assets		**74.9**	74.6	72.0
Deferred tax assets		**32.0**	35.0	47.1
Other assets		**110.4**	57.7	68.2
Total assets		**32,954.4**	30,008.8	26,218.6
Liabilities				
Deposits from banks		**991.3**	1,283.8	845.5
Customer deposits	9	**27,128.4**	25,145.3	22,368.9
Derivative financial instruments		**397.3**	155.3	227.9
Amounts due to securitisation special purpose vehicles	8	**2,475.8**	1,553.1	1,294.9
Debt securities in issue	10	**309.1**	297.5	-
Provisions		**15.6**	8.2	9.1
Other liabilities		**268.5**	236.9	250.9
Total liabilities		**31,586.0**	28,680.1	24,997.2
Equity				
Share capital		**1,400.0**	1,400.0	1,400.0
Other reserves		**(1.5)**	(0.3)	5.6
Retained earnings		**(30.1)**	(71.0)	(184.2)
Total equity		**1,368.4**	1,328.7	1,221.4
Total liabilities and equity		**32,954.4**	30,008.8	26,218.6

[1] Restated (refer notes 1 and 17)

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

STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders

	Share capital £ million	Other 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				
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**

	Share capital £ million	Other reserves £ million	Retained earnings[1] £ million	Total equity £ million
Balance at 1 January 2015	1,400.0	5.6	(184.2)	1,221.4
Comprehensive income				
Profit for the period	-	-	35.0	35.0
Other comprehensive expense				
Net movement in available-for-sale reserve	-	(3.6)	-	(3.6)
Total comprehensive (expense) / income for the period	-	(3.6)	35.0	31.4
Transactions with equity holders				
Share based payments – charge for period	-	-	10.8	10.8
Deferred tax on share based payments	-	-	-	-
Total transactions with equity holders	-	-	10.8	10.8
Balance at 30 June 2015	1,400.0	2.0	(138.4)	1,263.6

[1] Restated (refer notes 1 and 17)

STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders (continued)

	Share capital £ million	Other reserves £ million	Retained earnings £ million	Total equity £ million
Balance at 1 July 2015	1,400.0	2.0	(138.4)	1,263.6
Comprehensive income				
Profit for the period	-	-	57.9	57.9
Other comprehensive expense				
Net movement in available-for-sale reserve	-	(2.3)	-	(2.3)
Total comprehensive (expense) / income for the period	-	(2.3)	57.9	55.6
Transactions with equity holders				
Share based payments – charge for period	-	-	9.2	9.2
Deferred tax on share based payments	-	-	0.3	0.3
Total transactions with equity holders	-	-	9.5	9.5
Balance at 31 December 2015	1,400.0	(0.3)	(71.0)	1,328.7

Condensed Half-Year Financial Statements (Unaudited)

CASH FLOW STATEMENT

	Half-year to 30 Jun 2016 £ million	Half-year to 30 Jun 2015[1] £ million	Half-year to 31 Dec 2015 £ million
Profit before taxation	**47.1**	45.1	70.9
Adjustments for:			
Changes in operating assets	**(3,137.5)**	(1,646.1)	(2,363.0)
Changes in operating liabilities	**2,900.4**	1,389.8	2,284.4
Non-cash and other items	**(23.0)**	49.9	18.1
Tax paid	**(6.1)**	-	(5.0)
Net cash (used in) / generated by operating activities	**(219.1)**	(161.3)	5.4
Cash flows from investing activities			
Net investment in intangible assets	**(9.7)**	(11.4)	(18.2)
Purchase of fixed assets	**(3.7)**	(3.0)	(7.2)
Disposal of fixed assets	**0.3**	-	-
Net investment in securities	**(471.7)**	(960.9)	(337.2)
Proceeds from sale and redemption of available-for-sale financial assets	**766.3**	639.5	573.6
Net cash provided by / (used in) investing activities	**281.5**	(335.8)	211.0
Cash flows from financing activities			
Net proceeds from issue of debt securities	**11.6**	298.9	(1.4)
Net cash provided by / (used in) financing activities	**11.6**	298.9	(1.4)
Change in cash and cash equivalents	**74.0**	(198.2)	215.0
Cash and cash equivalents at beginning of period	**966.5**	949.7	751.5
Cash and cash equivalents at end of period[2]	**1,040.5**	751.5	966.5

1 Restated (refer notes 1 and 17)

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

Note 1: Basis of preparation

1.1 Basis of preparation and going concern

The condensed half-year financial statements of Virgin Money plc (the Company) for the six months ended 30 June 2016 were authorised for issue in accordance with a resolution of the Directors on 25 July 2016.

These condensed half-year financial statements for the six months ended 30 June 2016 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 2015.

The comparative financial information for the year ended 31 December 2015 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 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.

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

The Directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the condensed half-year financial statements. In reaching this assessment, the Directors have considered projections for the Company'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 Company's 2015 Annual Report and Accounts (pages 19 to 28) except as described below.

On 1 January 2016 the Company adopted the following amendments to standards:

Amendment to IAS 1 'Presentation of financial statements'

The amendment clarifies that material information should not be obscured by disclosure of large amounts of immaterial detail and when line items should be disaggregated in the Balance Sheet and Income Statement.

Amendment to IAS 16 'Property, plant and equipment'

The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

Amendment to IAS 19 'Employee Benefits'

The requirement in relation to contributions in Defined Benefit Schemes from employees or third parties that are linked to service have been amended.

Amendment to IAS 24 'Related party disclosures'

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

Amendment to IAS 27 'Separate financial statements'

The amendment allow entities to account for investments in subsidiaries, joint ventures and associates in their separate financial statements either at cost, in accordance with IFRS 9 or using the equity method as described in IAS 28. The accounting option must be applied by category of investments.

Amendment to IAS 34 'Interim financial information'

The amendment clarifies that where referencing from the interim financial statements to information elsewhere in the interim report, the location of that information must be provided.

Amendment to IAS 38 'Intangible assets'

The amendment clarifies that when an intangible asset is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

Note 1: Basis of preparation (continued)

1.2 Accounting policies (continued)

Amendment to IFRS 2 'Share based payments'

The definitions of 'vesting condition' and 'market condition' have been amended to add definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').

Amendment to IFRS 7 'Financial instruments: disclosures'

The amendment provides additional guidance on what constitutes continuing involvement in an asset when servicing those assets and clarifies that additional offsetting disclosures introduced in the previous amendment to the standard are not required for interim periods.

Amendment to IFRS 8 'Operating Segments'

The amendment requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments.

The amendment clarifies that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

Amendment to IFRS13 'Fair value measurement'

The amendment clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

These changes have not had a significant impact on the Company.

1.3 Prior period restatements

The Company raises wholesale funding through securitisation of mortgage loans and advances to customers, via the Gosforth securitisation Special Purpose Vehicles (SPVs) and retains a proportion of the loan notes issued by the SPVs, which can be used as collateral for repurchase or similar transactions. The Company applied the de-recognition criteria outlined in IAS 39 '*Financial instruments: Recognition and measurement'* to account for securitisation transactions and, as a result, retained recognition of the mortgages subject to securitisation on its Balance Sheet, since the Company retains substantially all of the risks and rewards associated with those assets. In 2016, the Company reconsidered the previous accounting treatments for retained notes and swaps between the Company and the SPVs, determining that they did not best reflect the substance of the Company's economic returns and exposures.

Previously, the Company recorded retained loan notes as debt securities within loans and receivables, and included obligations within the deemed loans to the SPVs to support repayment of those notes. This approach resulted in the Company recognising both the securitised mortgages and retained notes linked to those mortgages as assets on the Balance Sheet, and liabilities payable to itself on those notes within the deemed loans. The Company has now restated the financial statements to eliminate the retained notes from the Balance Sheet, reduce the deemed loan carrying values (removing the internal liabilities) and remove the associated interest income and expense on those balances.

In addition, the Company entered into basis rate swaps with the SPVs. The swaps hedge the interest rate risk between the interest to be paid by the Company in respect of fixed rate, tracker rate and standard variable rate securitised mortgages and the coupon rate on the notes issued by the SPVs. The Company previously presented the basis rate swaps as separately recognised derivative financial instruments, which were recorded at fair value with valuation movements recognised in the Income Statement.

To address a measurement mismatch between the deemed loans and the basis rate swaps that would arise from subsequent fair value movements on the basis rate swaps, the Company also previously elected to designate the deemed loans to be measured at fair value, with valuation movements on the swaps and the loans recorded in the Income Statement.

Note 1: Basis of preparation (continued)

1.3 Prior period restatements (continued)

The Company has revised the accounting for the basis rate swaps, determining that, by setting the coupon rates on the deemed loans, they represent an integral element of those loans. As a result, the basis rate swap derivatives have been eliminated from the Balance Sheet and adjustments recorded to the deemed loans to reflect the impact of the swaps on their carrying values.

In restating the financial statements to eliminate the basis rate swaps, the previous fair value measurement basis for the deemed loans is no longer valid. The Company's previous election to measure the loans at fair value was predicated on the existence of a measurement mismatch at the inception of those loans. No mismatch exists where the swaps are not separately recognised. Therefore the Company has restated the deemed loans to unwind all fair value movements recorded through the Income Statement since their inception, adjusting the carrying values accordingly.

In accordance with IAS 8 '*Accounting policies, changes in accounting estimates and errors'* the voluntary changes in accounting policies noted above required restatement to previously presented prior periods, which were adjusted through opening reserves.

1.4 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 2015 Company Annual Report and Accounts (page 83)

1.5 Presentation of information

Presentation of risk disclosures

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

1.6 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 2015.

Note 2: Net interest income

Net interest income comprises:

	Half-year to 30 Jun 2016 £m	Half-year to 30 Jun 2015[1] £m	Half-year to 31 Dec 2015 £m
Interest and similar income:			
Loans and advances to customers	**460.2**	396.9	424.3
Loans and advances to banks	**0.4**	0.3	0.3
Interest receivable on loans and receivables	**460.6**	397.2	424.6
Available-for sale financial assets	**6.3**	5.0	5.5
Cash and balances at central banks	**2.3**	2.0	2.0
Securitisation subordinated loan	**3.6**	1.8	2.6
Other interest	**0.8**	1.4	1.3
Total interest and similar income	**473.6**	407.4	436.0
Interest and similar expense:			
Deposits from banks including liabilities under sale and repurchase agreements	**(3.7)**	(3.2)	(3.6)
Customer deposits	**(189.9)**	(165.6)	(174.4)
Debt securities in issue	**(2.5)**	(1.0)	(2.5)
Securitisation special purpose vehicles	**(19.6)**	(12.1)	(14.5)
Other	**(5.8)**	(4.4)	(4.9)
Total interest and similar expense	**(221.5)**	(186.3)	(199.9)
Net interest income	**252.1**	221.1	236.1

[1] Restated (refer notes 1 and 17)

Interest accrued on individually impaired assets for the half-year to 30 June 2016 was £3.1 million (half-year to 30 June 2015: £4.3 million, half-year to 31 December 2015: £2.5 million).

Note 3: Total operating expenses

Total operating expenses comprise:

	Note	**Half-year to 30 Jun 2016 £m**	Half-year to 30 Jun 2015 £m	Half-year to 31 Dec 2015 £m
Staff costs:				
Salaries		**73.0**	68.7	70.2
Social security costs		**7.1**	7.3	8.9
Other pension costs		**5.4**	5.2	5.4
Employee share option schemes	4	**6.4**	10.8	9.2
		91.9	92.0	93.7
Premises and equipment:				
Hire of equipment		**2.3**	2.3	2.3
Rent and rates		**6.7**	5.9	7.3
		9.0	8.2	9.6
Other expenses:				
Marketing costs		**10.7**	12.2	10.0
FSCS levy		**7.8**	15.5	(3.0)
Professional fees		**4.7**	4.0	6.5
Other		**32.1**	35.3	30.3
		55.3	67.0	43.8
Depreciation and amortisation:				
Depreciation of tangible fixed assets		**3.4**	3.5	4.0
Amortisation of intangible assets		**6.3**	5.0	6.6
		9.7	8.5	10.6
Total operating expenses		**165.9**	175.7	157.7

Note 4: Share based payments

Share based payment charge comprises:

	Half-year to 30 Jun 2016 £m	Half-year to 30 Jun 2015 £m	Half-year to 31 Dec 2015 £m
Equity settled	**6.4**	10.8	9.2
Total share based payment charge	**6.4**	10.8	9.2

Details of the existing share plans can be found in note 6 of the 2015 Annual Report and Accounts.

There have been no changes to share plans in the half-year to 30 June 2016 except for new awards granted in 2016 under the Deferred Bonus Share Plan and the Long Term Incentive Plan.

Note 5: Allowance for impairment losses on loans and receivables

	Half-year to 30 Jun 2016 £m	Half-year to 30 Jun 2015 £m	Half-year to 31 Dec 2015 £m
Opening provision	**39.9**	30.6	35.3
Advances written off	**(15.9)**	(13.1)	(14.8)
Gross charge to income statement	**20.1**	17.8	19.4
Closing provision	**44.1**	35.3	39.9
In respect of:			
On secured loans	**9.5**	8.0	8.7
On unsecured loans	**34.6**	27.3	31.2
Total closing provision	**44.1**	35.3	39.9

Of the total allowance in respect of loans and advances to customers, £43.3 million was assessed on a collective basis (half-year to 30 June 2015: £33.8 million, half-year to 31 December 2015: £38.8 million).

In the half-year to 30 June 2016, sales of credit card receivables which had been previously written off resulted in a net recovery which totalled £2.7 million (half-year to 30 June 2015: £3.5 million, half-year to 31 December 2015: £3.4 million). The full amount of the proceeds has been recognised as a gain and the net charge to the income statement is summarised below:

	Half-year to 30 Jun 2016 £m	Half-year to 30 Jun 2015 £m	Half-year to 31 Dec 2015 £m
Gross charge to income statement	**20.1**	17.8	19.4
Debt sale recoveries	**(2.7)**	(3.5)	(3.4)
Net charge to income statement	**17.4**	14.3	16.0

Note 6: Taxation

Analysis of the tax charge for the period:

	Half-year to 30 Jun 2016 £m	Half-year to 30 Jun 2015[1] £m	Half-year to 31 Dec 2015 £m
Profit before tax	**47.1**	45.1	70.9
Tax charge at standard corporation tax rate of 20% (30 June 2015: 20.25%, 31 December 2015: 20.25%)	**(9.4)**	(9.1)	(14.4)
Factors affecting tax charge:			
Disallowed items	**(0.5)**	(1.0)	(0.4)
Income not taxable	**0.6**	-	-
Bank corporation tax surcharge	**(2.8)**	-	-
UK corporation tax rate change	**(0.1)**	-	2.5
Deferred tax charge in respect of share schemes	**(0.8)**	-	-
Adjustments in respect of previous periods	**0.2**	-	(0.7)
Other	**0.2**	-	-
Total tax charge	**(12.6)**	(10.1)	(13.0)

[1] Restated (refer notes 1 and 17)

At 31 December 2015 there was a £2.3 million provision held by the Company in respect of an open HMRC enquiry regarding the tax treatment of certain commercial funding transactions that were entered into during 2009 involving Virgin Money Cards Limited (since renamed Sapphire cards Limited), which is no longer part of the Group. This was resolved in April 2016 and a payment of £2.1 million was made to HMRC in final settlement. This has resulted in a prior year credit of £0.2 million in the period to 30 June 2016.

The Finance (No. 2) Act 2015 was substantively enacted on 26 October 2015. This reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020.

A reduction in the main corporation tax rate to 17% from 1 April 2020 was announced in the 2016 Budget. It is likely to be substantively enacted as part of the Finance Bill 2016 in July 2016. Tax balances have been prepared on the assumption that the main corporation tax rate from 1 April 2020 is 18%.

The Bank corporation tax surcharge of 8% was effective from 1 January 2016. This has resulted in a current year tax charge of £2.8 million in the period to 30 June 2016.

In accordance with IAS 34 *'Interim Financial Reporting'*, the Company's tax charge for the half-year to 30 June 2016 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: Analysis of financial assets and financial liabilities by measurement basis

	Held at amortised cost £m	Fair value through profit or loss £m	Loans and receivables £m	Available-for-sale securities £m	Derivatives not designated as hedging instruments £m	Derivatives designated as hedging instruments in fair value hedges £m	Total £m
As at 30 June 2016							
Financial assets							
Cash and balances at central banks	**-**	**-**	**784.3**	**-**	**-**	**-**	**784.3**
Derivative financial instruments	**-**	**-**	**-**	**-**	**32.5**	**74.3**	**106.8**
Loans and receivables:							
Loans and advances to banks	**-**	**-**	**301.3**	**-**	**-**	**-**	**301.3**
Loans and advances to customers	**-**	**-**	**30,430.6**	**-**	**-**	**-**	**30,430.6**
Debt securities	**-**	**-**	**0.9**	**-**	**-**	**-**	**0.9**
Available-for-sale financial assets	**-**	**-**	**-**	**1,046.7**	**-**	**-**	**1,046.7**
Other assets – trade debtors and accrued income	**-**	**-**	**18.2**	**-**	**-**	**-**	**18.2**
Total financial assets	**-**	**-**	**31,535.3**	**1,046.7**	**32.5**	**74.3**	**32,688.8**
Non financial assets							**265.6**
Total assets							**32,954.4**
Financial liabilities							
Deposits from banks	**991.3**	**-**	**-**	**-**	**-**	**-**	**991.3**
Customer deposits	**27,128.4**	**-**	**-**	**-**	**-**	**-**	**27,128.4**
Derivative financial instruments	**-**	**-**	**-**	**-**	**49.4**	**347.9**	**397.3**
Amounts due to securitisation special purpose vehicles	**2,475.8**	**-**	**-**	**-**	**-**	**-**	**2,475.8**
Debt securities in issue	**309.1**	**-**	**-**	**-**	**-**	**-**	**309.1**
Other liabilities – trade creditors and accrued interest	**176.1**	**-**	**-**	**-**	**-**	**-**	**176.1**
Total financial liabilities	**31,080.7**	**-**	**-**	**-**	**49.4**	**347.9**	**31,478.0**
Non financial liabilities							**108.0**
Total liabilities							**31,586.0**
Equity							**1,368.4**
Total liabilities and equity							**32,954.4**

Note 7: Analysis of financial assets and financial liabilities by measurement basis (continued)

	Held at amortised cost £m	Fair value through profit or loss £m	Loans and receivables £m	Available-for -sale securities £m	Derivatives not designated as hedging instruments £m	Derivatives designated as hedging instruments in fair value hedges £m	Total £m
As at 31 December 2015							
Financial assets							
Cash and balances at central banks	-	-	888.6	-	-	-	888.6
Derivative financial instruments	-	-	-	-	17.2	63.5	80.7
Loans and receivables:							
Loans and advances to banks	-	-	119.6	-	-	-	119.6
Loans and advances to customers	-	-	27,391.4	-	-	-	27,391.4
Debt securities	-	-	1.3	-	-	-	1.3
Available-for-sale financial assets	-	-	-	1,296.9	-	-	1,296.9
Other assets – trade debtors and accrued income	-	-	13.1	-	-	-	13.1
Total financial assets	-	-	28,414.0	1,296.9	17.2	63.5	29,791.6
Non financial assets							217.2
Total assets							30,008.8
Financial liabilities							
Deposits from banks	1,283.8	-	-	-	-	-	1,283.8
Customer deposits	25,145.3	-	-	-	-	-	25,145.3
Derivative financial instruments	-	-	-	-	15.7	139.6	155.3
Amounts due to securitisation special purpose vehicles	1,553.1	-	-	-	-	-	1,553.1
Debt securities in issue	297.5	-	-	-	-	-	297.5
Other liabilities – trade creditors and accrued interest	152.7	-	-	-	-	-	152.7
Total financial liabilities	28,432.4	-	-	-	15.7	139.6	28,587.7
Non financial liabilities							92.4
Total liabilities							28,680.1
Equity							1,328.7
Total liabilities and equity							30,008.8

Note 8: Loans and advances to customers

Loans and advances to customers comprise:

	30 Jun 2016 £m	31 Dec 2015[1] £m
Advances secured on residential property not subject to securitisation	**16,814.9**	17,386.3
Advances secured on residential property subject to securitisation	**5,973.3**	3,669.5
	22,788.2	21,055.8
Residential buy-to-let loans not subject to securitisation	**4,895.5**	4,401.1
Total loans and advances to customers secured on residential property	**27,683.7**	25,456.9
Unsecured receivables not subject to securitisation	**2,100.6**	1,610.0
Amounts due from group companies	**399.6**	278.7
Total loans and advances to customers before allowance for impairment losses	**30,183.9**	27,345.6
Impairment allowance (refer note 5)	**(44.1)**	(39.9)
Total loans and advances to customers excluding portfolio hedging	**30,139.8**	27,305.7
Fair value of portfolio hedging	**290.8**	85.7
Total loans and advances to customers	**30,430.6**	27,391.4

1 Restated (refer notes 1 and 17)

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. Where relevant, the table also sets out the net position of the fair value of financial assets where the counterparty to the associated liabilities has recourse only to the financial assets. There were no transactions in the period where the Company transferred financial assets that should have been derecognised in their entirety.

	30 Jun 2016		31 Dec 2015[1]	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Transferred assets	**5,973.3**	**6,005.1**	3,669.5	3,727.5
Associated liabilities	**2,475.8**	**2,475.8**	1,553.1	1,553.1

1 Restated (refer notes 1 and 17)

Note 9: Customer deposits

Customer deposits comprise:

	30 Jun 2016 £m	31 Dec 2015 £m
Savings and investment accounts	**26,856.5**	24,915.0
Personal current accounts	**271.9**	230.3
Total customer deposits	**27,128.4**	25,145.3

Notes to the Condensed Financial Statements

Note 10: Debt securities in issue

	Unsecured £m
At 1 January 2015	-
Repayments	-
Issues	298.9
Other movements	(1.4)
At 31 December 2015	297.5
Repayments	**-**
Issues	**-**
Other movements	**11.6**
At 30 June 2016	**309.1**

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

On 16 April 2015, the Company 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 Company's £3 billion Global Medium Term Note programme, which was established to diversify the Company's wholesale funding base further.

Note 11: Contingent liabilities and commitments

Contingent liabilities

The Board is not aware of any significant contingent liabilities as at 30 June 2016 (31 December 2015: 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.

Commitments

Loan commitments

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

	30 Jun 2016 £m	31 Dec 2015 £m
Not later than 1 year	**4,614.1**	3,958.7
Later than one year and not later than 5 years	**-**	-
Later than 5 years	**495.1**	521.1
Total loan commitments	**5,109.2**	4,479.8

Note 12: 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 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 2015 Annual Report and Accounts sets out the key principles for estimating the fair values of financial instruments.

At 30 June 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
Cash and balances at central banks	-	784.3	-	784.3	784.3
Loans and advances to banks	-	301.3	-	301.3	301.3
Loans and advances to customers	-	399.6	29,877.8	30,277.4	30,430.6
Debt securities classified as loans and receivables	0.9	-	-	0.9	0.9
Available-for-sale financial assets	-	-	0.3	0.3	0.3
Other assets – trade debtors and accrued income	-	18.2	-	18.2	18.2
Total financial assets	0.9	1,503.4	29,878.1	31,382.4	31,535.6
Deposits from banks	-	991.3	-	991.3	991.3
Customer deposits	-	27,205.6	-	27,205.6	27,128.4
Debt securities in issue	311.2	-	-	311.2	309.1
Amounts due to securitisation special purpose vehicles	-	2,475.8	-	2,475.8	2,475.8
Other liabilities – trade creditors and accrued interest	-	176.1	-	176.1	176.1
Total financial liabilities	311.2	30,848.8	-	31,160.0	31,080.7

At 31 December 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
Cash and balances at central banks	-	888.6	-	888.6	888.6
Loans and advances to banks	-	119.6	-	119.6	119.6
Loans and advances to customers	-	278.7	27,243.2	27,521.9	27,391.4
Debt securities classified as loans and receivables	1.2	-	-	1.2	1.3
Available-for-sale financial assets	-	-	1.3	1.3	1.3
Other assets – trade debtors and accrued income	-	13.1	-	13.1	13.1
Total financial assets	1.2	1,300.0	27,244.5	28,545.7	28,415.3
Financial liabilities					
Deposits from banks	-	1,283.8	-	1,283.8	1,283.8
Customer deposits	-	25,162.5	-	25,162.5	25,145.3
Debt securities in issue	292.1	-	-	292.1	297.5
Amounts due to securitisation special purpose vehicles	-	1,553.1	-	1,553.1	1,553.1
Other liabilities – trade creditors and accrued interest	-	152.7	-	152.7	152.7
Total financial liabilities	292.1	28,152.1	-	28,444.2	28,432.4

Note 12: Fair value of financial assets and 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 2015 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.

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 2015 Annual Report and Accounts sets out the key principles for estimating the fair values of financial instruments. In the six months to 30 June 2016, movements in interest rate swap curves resulted in negative fair value movements on the Company's derivative financial instruments, resulting in an increase in financial liability fair values.

There have been no transfers between levels during the half-year ending 30 June 2016.

At 30 June 2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Derivative financial instruments	**-**	**106.8**	**-**	**106.8**
Available-for-sale financial assets	**1,039.0**	**-**	**7.4**	**1,046.4**
Financial liabilities				
Derivative financial instruments	**-**	**397.3**	**-**	**397.3**

At 31 December 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Derivative financial instruments	-	80.7	-	80.7
Available-for-sale financial assets	1,233.3	59.0	3.3	1,295.6
Financial liabilities				
Derivative financial instruments	-	155.3	-	155.3

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.

The fair value of level 2 available-for-sale financial assets are calculated using valuation techniques, including discounted cash flow models.

Level 3 Valuations

Level 3 available-for-sale financial assets represent the Company's best estimates of the value of certain equity investments in unlisted companies and of Visa Inc. preferred stock.

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

The level 3 valuation of £3.3 million at 31 December 2015 represented the Company's best estimate at that time of the value of its equity investment in Visa Europe Limited, with reference to the consideration expected to be received from the proposed acquisition of that company by Visa Inc.

The acquisition by Visa Inc. completed on 21 June 2016, resulting in disposal of the investment and receipt of Visa Inc. preferred stock and cash consideration and recognition of a gain on disposal of £5.3 million, included within Other Operating Income.

The Visa Inc. preferred stock value of £1.3 million was determined by reference to the Visa Inc. common stock price at 30 June 2016, less a discount to reflect restrictions on transferability and the risk of future reduction in conversion to Visa Inc. common stock. The discount applied is the most significant unobservable input to the valuation.

The Company has determined of the fair value of the investments in the relevant unlisted entities by reference to third party valuations, taking into account pertinent information received on the individual investments to adjust those valuations, where considered appropriate.

Note 13: Financial risk management

(1) Credit Risk Management

The Company's impairment provisions increased by 10.5% to £44.1 million as at 30 June 2016 (31 December 2015: £39.9 million). The proportion of impaired assets as a percentage of loans and advances to customers remained stable at 0.4% at 30 June 2016 (31 December 2015: 0.4%). There were no wholesale impairment provisions as at 30 June 2016.

A. Credit risk concentration

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 £m**	**%**	**Residential buy-to-let mortgage loans £m**	**%**	**Total £m**	**%**
At 30 June 2016						
<50%	**8,872.0**	**39.1**	**1,639.8**	**33.5**	**10,511.8**	**38.0**
50%-<60%	**4,784.8**	**21.0**	**1,260.0**	**25.7**	**6,044.8**	**21.8**
60%-<70%	**3,928.7**	**17.2**	**1,172.6**	**24.0**	**5,101.3**	**18.4**
70%-<80%	**2,719.7**	**11.9**	**811.2**	**16.6**	**3,530.9**	**12.8**
80%-<90%	**2,056.6**	**9.0**	**10.4**	**0.2**	**2,067.0**	**7.5**
90%-<100%	**417.9**	**1.8**	**1.1**	**-**	**419.0**	**1.5**
>100%	**8.5**	**-**	**0.4**	**-**	**8.9**	**-**
Total	**22,788.2**	**100.0**	**4,895.5**	**100.0**	**27,683.7**	**100.00**

Average loan to value of stock – indexed[1]	**55.4**	**55.5**	**55.4**
Average loan to value of new business[1]	**70.0**	**62.4**	**68.6**

[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 £m	%	Residential buy-to-let mortgage loans £m	%	Total £m	%
At 31 December 2015						
<50%	8,124.2	38.6	1,443.1	32.8	9,567.3	37.6
50%-<60%	4,679.6	22.2	1,202.7	27.3	5,882.3	23.1
60%-<70%	4,025.3	19.1	1,069.6	24.3	5,094.9	20.0
70%-<80%	2,247.2	10.7	680.4	15.5	2,927.6	11.5
80%-<90%	1,719.7	8.2	3.4	0.1	1,723.1	6.8
90%-<100%	250.4	1.2	1.4	-	251.8	1.0
>100%	9.4	-	0.5	-	9.9	-
Total	21,055.8	100.0	4,401.1	100.0	25,456.9	100.0

Average loan to value of stock – indexed[1]	54.9	55.4	55.0
Average loan to value of new business[1]	69.8	62.7	68.0

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

Average indexed LTVs on the book have increased marginally by 0.4% as at 30 June 2016, reflecting new business growth which has offset positive house price movements observed during the reporting period. The average LTV for new business remains below 70.0% at 30 June 2016.

Note 13: 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 are past due and not impaired totalled £152.5 million at 30 June 2016. This represents a 4.8% (£7.7 million) decrease from 31 December 2015, attributable to improved arrears performance. These assets represent 0.6% of secured loans (31 December 2015: 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 2016						
Up to one month	**46.7**	**34.3**	**4.1**	**24.8**	**50.8**	**33.3**
One to three months	**58.8**	**43.2**	**9.8**	**59.4**	**68.6**	**45.0**
Three to six months	**20.2**	**14.9**	**2.2**	**13.3**	**22.4**	**14.7**
Over six months	**10.3**	**7.6**	**0.4**	**2.5**	**10.7**	**7.0**
Total past due and not impaired	**136.0**	**100.0**	**16.5**	**100.0**	**152.5**	**100.0**

Past due and not impaired loans	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
	£m	%	£m	%	£m	%
At 31 December 2015						
Up to one month	44.4	30.6	4.3	28.7	48.7	30.4
One to three months	63.5	43.7	8.3	55.3	71.8	44.8
Three to six months	24.1	16.6	1.3	8.7	25.4	15.9
Over six months	13.2	9.1	1.1	7.3	14.3	8.9
Total past due and not impaired	145.2	100.0	15.0	100.0	160.2	100.0

The stock of repossessions has fallen over the reporting period, representing 8 cases at 30 June 2016, compared to 12 cases at 31 December 2015.

Note 13: Financial risk management (continued)

Impaired balances and provisions

At 30 June 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	**22,788.2**	**75.1**	**0.3**	**8.2**	**10.9**
Residential buy-to-let mortgage loans	**4,895.5**	**7.9**	**0.2**	**1.3**	**16.5**
Total secured	**27,683.7**	**83.0**	**0.3**	**9.5**	**11.4**
Credit cards	**2,100.4**	**27.6**	**1.3**	**34.5**	**125.0**
Overdrafts	**0.2**	**-**	**-**	**0.1**	**-**
Total unsecured	**2,100.6**	**27.6**	**1.3**	**34.6**	**125.4**
Wholesale treasury assets	**2,532.8**	**-**	**-**	**-**	**-**
Wholesale derivative exposures	**106.8**	**-**	**-**	**-**	**-**
Total	**32,423.9**	**110.6**	**0.3**	**44.1**	**39.9**

At 31 December 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	21,055.8	77.6	0.4	7.7	9.9
Residential buy-to-let mortgage loans	4,401.1	7.0	0.2	1.0	14.3
Total secured	25,456.9	84.6	0.3	8.7	10.3
Credit cards	1,609.8	27.4	1.7	31.1	113.5
Overdrafts	0.2	-	-	0.1	-
Total unsecured	1,610.0	27.4	1.7	31.2	113.9
Wholesale treasury assets	2,585.1	-	-	-	-
Wholesale derivative assets	80.7	-	-	-	-
Total	29,732.7	112.0	0.4	39.9	35.6

Impaired Assets

Total impaired assets reduced by £1.4 million in the first half of 2016. This reduction was due to improved arrears performance, despite book growth. Impaired assets as a proportion of total loans remained stable for secured lending at 0.3% and improved for unsecured loans from 1.7% at 31 December 2015 to 1.3% at 30 June 2016.

Impairment provisions

Secured impairment allowances increased by £0.8 million in the first half of the year due to book growth.

Unsecured impairment allowances have increased by £3.4 million in the half-year which is in line with the growth in new lending.

Note 13: Financial risk management (continued)

C. Wholesale Credit Risk

Wholesale credit exposures	**30 Jun 2016 £m**	31 Dec 2015 £m
Loans and advances to banks	**301.3**	119.6
Cash and balances at central banks	**784.3**	888.6
Debt securities classified as loans and receivables	**0.9**	1.3
Debt securities classified as available-for-sale financial assets	**1,039.0**	1,292.3
Gross positive fair value of derivative contracts	**106.8**	80.7
Loans and advances to customers – amounts due from group companies	**399.6**	278.7
Total	**2,631.9**	2,661.2

Wholesale exposures have decreased by £29.3 million to £2,631.9 million at 30 June 2016. The decrease was mainly driven by a change in the mix of high quality liquid assets, with an increase in Treasury bills raised through FLS. 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 nor impaired as at 30 June 2016 or at 31 December 2015.

D. Forbearance identification and classification

The value of forbearance stock totalled £269.7 million at 30 June 2016, representing a 0.1% (£0.4 million) reduction since 31 December 2015.

The performance of provision models is monitored and challenged on an ongoing basis in line with the Retail Credit Provisioning Policy. The models are also regularly recalibrated to reflect up-to-date customer behaviour and market conditions. Specifically, regular detailed analysis of modelled provision outputs is undertaken to demonstrate that the risk of forbearance or other similar activities is recognised, that the outcome period adequately captures the risk and that the underlying risk is appropriately reflected. Where this is not the case, additional provisions are applied to capture the risk.

Secured

At 30 June 2016, £258.2 million (31 December 2015: £259.4 million) of retail secured loans and advances were currently, or recently, subject to forbearance.

Collective impairment

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. 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.

Unsecured

At 30 June 2016, total retail unsecured loans and advances benefiting from forbearance totalled £11.5 million (31 December 2015: £10.7 million).

Collective impairment

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

Note 13: Financial risk management (continued)

A breakdown of secured and unsecured forbearance is shown below.

At 30 June 2016	Neither past due nor impaired £m	%	Past due not impaired £m	%	Impaired £m	%	Total £m	%
Secured								
Payment arrangement	**2.1**	**0.8**	**0.8**	**8.0**	**0.3**	**12.5**	**3.2**	**1.2**
Transfer to interest only	**18.6**	**7.6**	**3.1**	**31.0**	**0.2**	**8.3**	**21.9**	**8.5**
Term extension	**166.3**	**67.7**	**4.9**	**49.0**	**1.3**	**54.2**	**172.5**	**66.8**
Payment holiday	**58.8**	**23.9**	**1.2**	**12.0**	**0.6**	**25.0**	**60.6**	**23.5**
Total secured forbearance	**245.8**	**100.0**	**10.0**	**100.0**	**2.4**	**100.0**	**258.2**	**100.0**
Unsecured								
Accounts where the customer has been approved on a repayment plan	**3.0**	**100.0**	**-**	**-**	**8.5**	**100.0**	**11.5**	**100.0**
Total unsecured forbearance	**3.0**	**100.0**	**-**	**-**	**8.5**	**100.0**	**11.5**	**100.0**
Total forbearance	**248.8**	**100.0**	**10.0**	**100.0**	**10.9**	**100.0**	**269.7**	**100.0**

At 31 December 2015	Neither past due nor impaired £m	%	Past due not impaired £m	%	Impaired £m	%	Total £m	%
Secured								
Payment arrangement	3.0	1.2	0.3	3.1	0.3	12.5	3.6	1.4
Transfer to interest only	17.5	7.1	3.3	34.0	0.8	33.3	21.6	8.3
Term extension	171.9	69.5	5.3	54.6	0.7	29.2	177.9	68.6
Payment holiday	54.9	22.2	0.8	8.3	0.6	25.0	56.3	21.7
Total secured forbearance	247.3	100.0	9.7	100.0	2.4	100.0	259.4	100.0
Unsecured								
Accounts where the customer has been approved on a repayment plan	2.9	100.0	-	-	7.8	100.0	10.7	100.0
Total unsecured forbearance	2.9	100.0	-	-	7.8	100.0	10.7	100.0
Total forbearance	250.2	100.0	9.7	100.0	10.2	100.0	270.1	100.0

Note 13: Financial risk management (continued)

(2) Funding and Liquidity Management

The Company is predominantly funded through customer deposits. During the first six months of 2016, the Company maintained a strong presence in the retail savings market, increasing total customer deposits by £1,983.1 million.

The Company 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 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 liquidity portfolio.

Composition of the liquidity portfolio	**30 Jun 2016 £m**	**2016 Average £m**	31 Dec 2015 £m	2015 Average £m
Level 1				
Cash and balances at central banks	**736.9**	**825.8**	846.3	796.4
UK Government securities	**192.0**	**420.1**	409.5	392.6
Other HQLA level 1 eligible	**56.4**	**51.5**	25.4	15.8
Supranational securities	**228.5**	**295.4**	203.7	294.6
Treasury bills raised through FLS	**2,595.0**	**2,387.1**	2,174.0	2,150.6
Covered bonds (Level 1 eligible)	**470.4**	**488.2**	498.2	248.2
Total level 1	**4,279.2**	**4,468.1**	4,157.1	3,898.2
Level 2a				
Covered bonds (Level 2a eligible)	**22.5**	**22.3**	22.1	133.5
Total level 2a	**22.5**	**22.3**	22.1	133.5
Level 2b				
Eligible RMBS	**54.1**	**56.4**	59.4	44.7
Total level 2b	**54.1**	**56.4**	59.4	44.7
High quality liquid assets (Level 1 + 2a + 2b)	**4,355.8**	**4,546.8**	4,238.6	4,076.4
Other liquidity resources				
Covered Bonds	**-**	**2.1**	15.0	2.3
Non-eligible RMBS	**15.1**	**9.0**	-	3.7
Certificates of deposit	**-**	**82.6**	59.0	4.5
Fixed rate bonds	**-**	**-**	-	17.0
Total other liquidity resources	**15.1**	**93.7**	74.0	27.5
Self-issued RMBS	**568.6**	**653.7**	326.7	197.6
Total liquidity	**4,939.5**	**5,294.2**	4,639.3	4,301.5

Note 13: Financial risk management (continued)

Analysis of total wholesale funding by residual maturity

At 30 June 2016	Within 3 months £m	3-12 months £m	1-5 years £m	After 5 years £m	Total £m
Amounts due to securitisation SPVs	**163.0**	**134.7**	**751.2**	**1,426.9**	**2,475.8**
Debt securities in issue	**-**	**-**	**309.1**	**-**	**309.1**
Term repo	**350.0**	**350.0**	**275.0**	**-**	**975.0**
Total on-balance sheet sources of funds	**513.0**	**484.7**	**1,335.3**	**1,426.9**	**3,759.9**
FLS drawings	**-**	**810.0**	**2,387.0**	**-**	**3,197.0**
Total	**513.0**	**1,294.7**	**3,722.3**	**1,426.9**	**6,956.9**

At 31 December 2015	Within 3 months £m	3-12 months £m	1-5 years £m	After 5 years £m	Total £m
Amounts due to securitisation SPVs	52.5	86.2	487.7	926.7	1,553.1
Debt securities in issue	-	-	297.5	-	297.5
Term repo	749.9	525.0	-	-	1,274.9
Total on-balance sheet sources of funds	802.4	611.2	785.2	926.7	3,125.5
FLS drawings	-	510.0	2,450.0	-	2,960.0
Total	802.4	1,121.2	3,235.2	926.7	6,085.5

The Company manages funding concentration risk arising from wholesale maturities through a Board approved risk appetite and limit structure.

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 2016	**Pledged as collateral £m**	**Other[1] £m**	**Available as collateral[2] £m**	**Other[3] £m**	**£m**
Cash and balances at central banks[4]	**164.1**	**-**	**-**	**620.2**	**784.3**
Debt securities classified as loans and receivables	**-**	**-**	**0.9**	**-**	**0.9**
Available-for-sale financial assets	**-**	**-**	**1,039.0**	**7.7**	**1,046.7**
Derivative financial assets	**-**	**-**	**-**	**106.8**	**106.8**
Loans and advances to banks	**-**	**270.6**	**-**	**30.7**	**301.3**
Loans and advances to customers[5]	**9,288.2**	**-**	**3,657.6**	**17,484.8**	**30,430.6**
Other assets	**42.4**	**-**	**-**	**241.4**	**283.8**
Total assets	**9,494.7**	**270.6**	**4,697.5**	**18,491.6**	**32,954.4**
Treasury bills raised through FLS held off balance sheet[6]	**602.0**	**-**	**2,595.0**	**-**	**3,197.0**
Total assets plus off balance sheet FLS	**10,096.7**	**270.6**	**7,292.5**	**18,491.6**	**36,151.4**

1 Other encumbered assets' are assets that cannot be used for secured funding due to legal or other reasons. These include cash reserves supporting secured funding structures.

2 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.

3 Other unencumbered assets are assets which are not subject to any restrictions but are not readily available for use.

4 Encumbered cash and balances at central banks includes the minimum reserve collateralisation requirement for the BACS payment system, introduced in September 2015.

5 Loans and advances to customers consist of collateral pledged to the Bank of England and securitised mortgage pools.

6 These include 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 re-purchase transactions or unencumbered when it has not.

Note 13: Financial risk management (continued)

	Encumbered assets		Unencumbered assets		Total
At 31 December 2015	Pledged as collateral £m	Other[1] £m	Available as collateral[2] £m	Other[3] £m	£m
Cash and balances at central banks[4]	160.5	-	-	728.1	888.6
Debt securities classified as loans and receivables	-	-	1.3	-	1.3
Available-for-sale financial assets	-	-	1,292.3	4.6	1,296.9
Derivative financial assets	-	-	-	80.7	80.7
Loans and advances to banks	-	94.0	-	25.6	119.6
Loans and advances to customers[5]	7,850.8	-	2,826.8	16,713.8	27,391.4
Other assets	-	-	-	230.3	230.3
Total assets	8,011.3	94.0	4,120.4	17,783.1	30,008.8
Treasury bills raised through FLS held off balance sheet[6]	786.0	-	2,174.0	-	2,960.0
Total assets plus off balance sheet FLS	8,797.3	94.0	6,294.4	17,783.1	32,968.8

1 Other encumbered assets are assets that cannot be used for secured funding due to legal or other reasons. These include cash reserves supporting secured funding structures.

2 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.

3 Other unencumbered assets' are assets which are not subject to any restrictions but are not readily available for use.

4 Encumbered cash and balances at central banks includes the minimum reserve collateralisation requirement for the BACS payment system, introduced in September 2015.

5 Loans and advances to customers consist of collateral pledged to the Bank of England and securitised mortgage pools.

6 These include 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 re-purchase transactions or unencumbered when it has not.

The Company's total level of asset encumbrance increased by £1,476.0 million to 28.7% compared with 27.0% at 31 December 2015, as a result of using wholesale funding to support increased lending. Encumbrance of assets predominantly arises from the securitisation of mortgages and the use of the BoE FLS liquidity facility. The Company manages the volume of available unencumbered collateral to meet requirements arising from current and future secured funding transactions.

Note 14: Related party transactions

Full details of the Company's related party transactions for the year to 31 December 2015 can be found in note 34 of the 2015 Annual Report and Accounts.

Related party transactions for the half-year to 30 June 2016 are similar in nature to those for the year to 31 December 2015 apart from that discussed below.

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 2016 £m	31 Dec 2015 £m
Assets		
Amounts due from securitisation special purpose vehicles	**276.2**	155.4
Prepayments and accrued interest	**1.4**	0.7
Liabilities		
Amounts due to securitisation special purpose vehicles	**2,475.8**	1,553.1

Note 15: Events after balance sheet date

There have been no significant events between 30 June 2016 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 16: Parent undertaking

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

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

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

Note 17: Restatement of prior period information

As explained in note 1.3, the comparative financial statements for 30 June 2015 have been restated to reflect a reassessment of the accounting for Gosforth securitisation SPV issued notes held by the Company, and accounting for loans and swaps between the Company and those SPVs.

The impact of the restatements on the Condensed Income Statement and Condensed Statement of Comprehensive Income for the half-year to 30 June 2015 is as follows:

Income Statement Half-year ended 30 June 2015	As previously stated £ million	Internally held SPV notes £ million	Basis rate swap/ deemed loan fair values £ million	Restated £ million
Interest and similar income	416.9	(9.5)[1]	-	407.4
Interest and similar expense	(195.8)	9.5[1]	-	(186.3)
Net interest income	**221.1**	**-**	**-**	**221.1**
Fee and commission income	9.6	-	-	9.6
Fair value losses on financial instruments	(1.7)	-	1.3[2]	(0.4)
Other operating income	4.8	-	-	4.8
Other income	**12.7**	**-**	**1.3**	**14.0**
Total income	**233.8**	**-**	**1.3**	**235.1**
Total operating expenses	(175.7)	-	-	(175.7)
Profit before tax from operating activities	**58.1**	**-**	**1.3**	**59.4**
Impairment	(14.3)	-	-	(14.3)
Profit before tax	**43.8**	**-**	**1.3**	**45.1**
Taxation	(9.8)	-	(0.3)[3]	(10.1)
Profit for the period	**34.0**	**-**	**1.0**	**35.0**
Profit attributable to equity shareholders	34.0	-	1.0	35.0
Profit for the period	**34.0**	**-**	**1.0**	**35.0**

[1] Representing Interest and similar income and Interest and similar expense relating to notes issued by SPVs held by the Company, amounting to £9.5 million in the period.

[2] Representing the fair value movement in the period on basis rate swaps of £(12.6) million and the change in fair value of deemed loans to SPVs of £11.3million.

The basis rate swaps are not separately recognised in the Restated Balance Sheet and the deemed loans are not recognised at fair value through profit and loss. Refer to the Restated Balance Sheet for further information.

[3] Representing the deferred tax impact, amounting to £(0.3) million in aggregate, of the above restatements.

Note 17: Restatement of prior period information (continued)

Statement of Comprehensive Income Half-year ended 30 June 2015	As previously stated £ million	Adjustments £ million	Restated £ million
Profit for the period	34.0	1.0	35.0
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of available-for-sale financial assets:			
Change in fair value	10.9	-	10.9
Income statement transfers in respect of disposals	(15.4)	-	(15.4)
Taxation	0.9	-	0.9
	(3.6)	-	(3.6)
Other comprehensive expense for the period, net of tax	**(3.6)**	**-**	**(3.6)**
Total comprehensive income for the period	**30.4**	**1.0**	**31.4**
Total comprehensive income attributable to equity shareholders	**30.4**	**1.0**	**31.4**

Note 17: Restatement of prior period information (continued)

The impact of the restatements on the previously published Balance Sheets as at 31 December 2015 and 1 January 2015 is as follows:

Balance Sheet – 31 December 2015	As previously stated £ million	Internally held SPV notes £ million	Basis rate swap/ deemed loan fair values £ million	Restated £ million
Assets				
Cash and balances at central banks	888.6	-	-	888.6
Derivative financial instruments	143.5	-	(62.8)[1]	80.7
Loans and receivables:				
–Loans and advances to banks	119.6	-	-	119.6
–Loans and advances to customers	27,368.6	22.8[5]	-	27,391.4
–Debt securities	1,723.9	(1,722.6)[2]	-	1.3
	29,212.1	(1,699.8)	-	27,512.3
Available-for-sale financial assets	1,296.9	-	-	1,296.9
Intangible assets	63.0	-	-	63.0
Tangible fixed assets	74.6	-	-	74.6
Deferred tax assets	34.9	-	0.1[3]	35.0
Other assets	60.1	(2.4)[4]	-	57.7
Total assets	31,773.7	(1,702.2)	(62.7)	30,008.8
Liabilities				
Deposits from banks	1,283.8	-	-	1,283.8
Customer deposits	25,145.3	-	-	25,145.3
Derivative financial instruments	155.3	-	-	155.3
Amounts due to securitisation special purpose vehicles	3,318.4	(1,702.2)[5]	(63.1)[6]	1,553.1
Debt securities in issue	297.5	-	-	297.5
Provisions	8.2	-	-	8.2
Other liabilities	236.9	-	-	236.9
Total liabilities	30,445.4	(1,702.2)	(63.1)	28,680.1
Equity				
Share capital	1,400.0	-	-	1,400.0
Other reserves	(0.3)	-	-	(0.3)
Retained earnings	(71.4)	-	0.4	(71.0)
Total equity	1,328.3	-	0.4	1,328.7
Total liabilities and equity	31,773.7	(1,702.2)	(62.7)	30,008.8

1. Representing elimination of the previously reported carrying value of basis rate swaps, transacted between the Company and the SPVs, of £62.8 million now considered an integral element of the carrying value of the deemed loans to the SPVs.

2. Representing elimination of the previously reported carrying value of SPV notes held by the Company of £1,722.6 million.

3. Representing the deferred tax impact, amounting to £0.1 million in aggregate, of all of the other restatements to the Balance Sheet.

4. Representing removal of accrued interest income on retained SPV notes held by the Company of £2.4 million.

5. Representing removal from deemed loan liabilities to SPVs of amounts supporting the repayment of notes retained by the Company of £1,725.0 million. As noted previously, the Company has no economic cash flow exposure on retained notes.

   In removing the liability for internally held notes issued by Gosforth Funding 2012-2 plc, the net position between the Company and that entity was an asset due to the Company of £22.8 million. This has been reclassified to amounts due from group companies within loans and advances to customers.

6. Representing elimination of cumulative fair value adjustments within the carrying value of the deemed loans of £56.0 million and accrued interest on basis rate swaps of £7.1 million.

Note 17: Restatement of prior period information (continued)

Balance Sheet – 1 January 2015	As previously stated £ million	Internally held SPV notes £ million	Basis rate swap/ deemed loan fair values £ million	Restated £ million
Assets				
Cash and balances at central banks	851.3	-	-	851.3
Derivative financial instruments	178.0	-	(77.9)[1]	100.1
Loans and receivables:				
–Loans and advances to banks	136.4	-	-	136.4
–Loans and advances to customers	23,347.9	-	-	23,347.9
–Debt securities	1,407.4	(1,396.4)[2]	-	11.0
	24,891.7	(1,396.4)	-	23,495.3
Available-for-sale financial assets	1,539.6	-	-	1,539.6
Intangible assets	45.0	-	-	45.0
Tangible fixed assets	72.0	-	-	72.0
Deferred tax assets	46.0	-	1.1[3]	47.1
Other assets	71.2	(3.0)[4]	-	68.2
Total assets	27,694.8	(1,399.4)	(76.8)	26,218.6
Liabilities				
Deposits from banks	845.5	-	-	845.5
Customer deposits	22,368.9	-	-	22,368.9
Derivative financial instruments	227.9	-	-	227.9
Amounts due to securitisation special purpose vehicles	2,766.9	(1,399.4)[5]	(72.6)[6]	1,294.9
Debt securities in issue	-	-	-	-
Provisions	9.1	-	-	9.1
Other liabilities	250.9	-	-	250.9
Total liabilities	26,469.2	(1,399.4)	(72.6)	24,997.2
Equity				
Share capital	1,400.0	-	-	1,400.0
Other reserves	5.6	-	-	5.6
Retained earnings	(180.0)	-	(4.2)	(184.2)
Total equity	1,225.6	-	(4.2)	1,221.4
Total liabilities and equity	27,694.8	(1,399.4)	(76.8)	26,218.6

1. Representing elimination of the previously reported carrying value of basis rate swaps, transacted between the Company and the SPVs, of £77.9 million now considered an integral element of the carrying value of the deemed loans to the SPVs.

2. Representing elimination of the previously reported carrying value of SPV notes held by the Company of £1,396.4 million.

3. Representing the deferred tax impact, amounting to £1.1 million in aggregate, of all of the other restatements to the Balance Sheet.

4. Representing removal of accrued interest income on retained SPV notes held by the Company of £3.0 million.

5. Representing removal from deemed loan liabilities to SPVs of amounts supporting the repayment of notes retained by the Company of £1,399.4 million. As noted previously, the Company has no economic cash flow exposure on retained notes.

6. Representing elimination of cumulative fair value adjustments within the carrying value of the deemed loans of £63.4 million and accrued interest on basis rate swaps of £9.2 million.

Note 17: Restatement of prior period information (continued)

The impact of the restatements on the previously published Cash Flow Statement for the half-year to 30 June 2015 is as follows:

Cash Flow Statement **Half-year ended 30 June 2015**	As previously stated £ million	Adjustments £ million	Restated £ million
Profit before taxation	43.8	1.3	45.1
Adjustments for:			
Changes in operating assets	(1,646.1)	-	(1,646.1)
Changes in operating liabilities	1,389.8	-	1,389.8
Non-cash and other items	51.2	(1.3)	49.9
Tax paid	-	-	-
Net cash used in operating activities	(161.3)	-	(161.3)
Cash flows from investing activities			
Net investment in intangible assets	(11.4)	-	(11.4)
Purchase of fixed assets	(3.0)	-	(3.0)
Disposal of fixed assets	-	-	-
Net investment in securities	(960.9)	-	(960.9)
Proceeds from sale and redemption of available-for-sale financial assets	639.5	-	639.5
Net cash used in investing activities	(335.8)	-	(335.8)
Cash flows from financing activities			
Net proceeds from issue of debt securities	298.9	-	298.9
Net cash provided by financing activities	298.9	-	298.9
Change in cash and cash equivalents	(198.2)	-	(198.2)
Cash and cash equivalents at beginning of period	949.7	-	949.7
Cash and cash equivalents at end of period	751.5	-	751.5

Statement of Directors' Responsibilities

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

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

By order of the Board,

Jayne-Anne Gadhia, CBE
Chief Executive
25 July 2016

Independent Auditor’s Review Report to Virgin Money plc

Report on the Virgin Money plc 2016 half-year results

Our conclusion

We have reviewed the condensed interim financial statements (the "interim financial statements") in the half-year results of Virgin Money plc for the 6 month period ended 30 June 2016. 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 Rules and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the balance sheet as at 30 June 2016;
- 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 2016 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 Rules and Transparency Rules 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 2016 half-year results, including the interim financial statements, is the responsibility of, and has been approved by, the directors.

Our responsibility is to express a conclusion on the interim financial statements 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 Rules and Transparency Rules of the United Kingdom’s Financial Conduct Authority and for no other purpose. Our report may not be made available to any other party without our prior written consent. 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 Auditor's 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 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.

We have read the other information contained in the 2016 half-year results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
25 July 2016

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