2016 HALF-YEAR RESULTS

News release

BASIS OF PRESENTATION

This report covers the results of Virgin Money Holdings (UK) plc together with its subsidiaries ('Virgin Money', 'Virgin Money Group' or 'the Group') for the half-year ended 30 June 2016.

Statutory basis

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

Underlying basis

In order to present a more meaningful view of business performance, the results of the Group and business units are presented on an underlying basis, which excludes IPO costs, certain strategic items, fair value losses and compensation paid to senior leavers. A full reconciliation to statutory profit is provided on page 4 with background to the reconciling items provided on page 12.

Forward looking statements

This document contains certain forward looking statements with respect to the business, strategy and plans of Virgin Money Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Virgin Money Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other G8 central banks; fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to Virgin Money'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 Virgin Money's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices; regulatory capital or liquidity requirements and similar contingencies outside Virgin Money's control; the policies and actions of governmental or regulatory authorities in the UK, the 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 Virgin Money in managing the risks of the foregoing.

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

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VIRGIN MONEY GROUP: RESULTS FOR THE HALF-YEAR TO 30 JUNE 2016

- **Virgin Money maintains momentum with continued strong lending growth**
- **Underlying profit before tax increased by 53 per cent to £101.8 million, from £66.4 million in H1 2015**
- **Underlying return on tangible equity improved to 12.2 per cent from 9.5 per cent in H1 2015**
- **An interim dividend of 1.6 pence per ordinary share to be paid in September 2016**
- **Overall Net Promoter Score increased to +28 from +19 in H2 2015 as more customers than ever before would recommend Virgin Money**

Financial Highlights

- Underlying profit before tax increased by 53 per cent to £101.8 million, from £66.4 million in H1 2015.
- Underlying net interest margin of 1.60 per cent, in line with previous guidance.
- Underlying return on tangible equity improved to 12.2 per cent from 9.5 per cent in H1 2015.
- Underlying cost:income ratio improved to 58.8 per cent, from 68.3 per cent in H1 2015.
- Statutory profit before tax was £93.7 million in H1 2016, compared to £55.0 million in H1 2015.

Continued growth across our core businesses

- Mortgage balances increased to £27.7 billion, 9 per cent higher than FY 2015.
- Gross mortgage lending of £4.3 billion, 19 per cent higher than H1 2015. Net lending of £2.2 billion in H1 2016, 29 per cent higher than H1 2015.
- Gross lending market share of 3.6 per cent and net lending market share of 12.7 per cent at the end of May 2016, the last month for which data is available.
- Mortgage book comprised 82 per cent residential and 18 per cent buy-to-let mortgages at the end of June 2016.
- Credit card balances increased to £2.1 billion at the end of June 2016, 31 per cent higher than FY 2015.
- Retail deposit balances increased to £27.1 billion at the end of June 2016, 8 per cent higher than FY 2015.

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

- Strong capital base, with a Common Equity Tier 1 ratio of 15.3 per cent at H1 2016.
- Total capital ratio of 17.5 per cent and a leverage ratio of 3.8 per cent at H1 2016.
- Whole book mortgage arrears held at low levels, with loans over three months in arrears of 0.16 per cent compared with the latest industry average of 1.04 per cent.
- Low credit card arrears maintained, with credit card balances two or more payments in arrears of 0.79 per cent, compared with the latest industry average of 2.5 per cent.

Reconciliation to statutory profit is shown on page 4 of the 2016 Half-Year Results with background to the reconciling items provided on page 12.

Impact of the EU Referendum

Virgin Money is in a strong position to deal with a period of post-referendum uncertainty. Since the vote to leave the EU we have experienced continued strong customer demand and no evidence of changes in customer behaviour.

Following the EU Referendum outcome market commentators have suggested that the mortgage market could slow and that unemployment could rise.

It is also possible that Bank Base Rate (BBR) could be reduced and stay low for a long period of time.

As a result we anticipate some adjustments to our financial outlook as follows:

Guidance

- Net interest margin (NIM) of up to 160 basis points for 2016, depending on the timing of any BBR reduction. We expect continued progress in our return on tangible equity (RoTE) and anticipate solid double digit RoTE for 2017.
- All other guidance, including asset volumes and cost:income ratio remains unchanged.

Jayne-Anne Gadhia, Chief Executive said:

“I am delighted to report that it has been an excellent first half for Virgin Money. We continued to grow the business strongly and have delivered a 53 per cent increase in underlying profit as a result of our increased share of the mortgage market and the continued success of our credit card business. I am particularly pleased that more customers than ever before would recommend Virgin Money to their friends and family with our overall Net Promoter Score increasing to +28 in the first half of the year.

After taking into consideration our strong performance in the first half of the year and the prospects for the company, we are pleased to announce that the Board has declared an interim dividend of 1.6 pence per share in respect of the half-year.

Since the vote to leave the EU we have experienced continued strong customer demand and no evidence of changes in customer behaviour. Virgin Money is in a strong position to deal with a period of post-referendum uncertainty as a low risk retail bank with a high-quality asset base and unburdened by legacy conduct issues.

We remain on track to achieve our target of £3 billion of high-quality credit card balances by the end of 2017 and remain focused on maintaining the high quality of our mortgage business. We look to the future with confidence and will continue to drive our customer-focused strategy of growth, quality and returns.”

UNDERLYING BASIS - CONSOLIDATED INCOME STATEMENT

	Half-year to 30 Jun 2016 £ million	Half-year to 30 Jun 2015 £ million[1]	**Change %**	Half-year to 31 Dec 2015 £ million	**Change %**
Net interest income	**252.2**	220.3	**14**	235.8	**7**
Other income	**37.4**	34.2	**9**	33.2	**13**
Total income	**289.6**	254.5	**14**	269.0	**8**
Costs	**(170.4)**	(173.8)	**(2)**	(158.7)	**7**
Impairment	**(17.4)**	(14.3)	**22**	(16.0)	**9**
Underlying profit before tax	**101.8**	66.4	**53**	94.3	**8**

[1] The FSCS levy was previously excluded from underlying performance measures, but is now included as it is considered to be a recurring cost to the Group.

CONSOLIDATED BALANCE SHEET

	At 30 Jun 2016 £ million	At 30 Jun 2015 £ million	**Change** %	At 31 Dec 2015 £ million	**Change %**
Assets					
Cash and balances at central banks	**784.3**	687.1	**14**	888.6	**(12)**
Loans and receivables	**30,865.1**	25,362.2	**22**	27,724.6	**11**
Available-for-sale financial assets	**1,046.7**	1,405.6	**(26)**	1,296.9	**(19)**
Other	**451.9**	326.9	**38**	318.9	**42**
Total assets	**33,148.0**	27,781.8	**19**	30,229.0	**10**
Liabilities and equity					
Deposits from banks	**1,016.5**	743.2	**37**	1,298.7	**(22)**
Customer deposits	**27,128.4**	22,971.8	**18**	25,144.9	**8**
Debt securities in issue	**2,948.2**	2,338.9	**26**	2,039.4	**45**
Other	**673.8**	416.8	**62**	397.3	**70**
Provisions	**15.8**	24.8	**(36)**	8.4	**88**
Total liabilities	**31,782.7**	26,495.5	**20**	28,888.7	**10**
Total equity	**1,365.3**	1,286.3	**6**	1,340.3	**2**
Total liabilities and equity	**33,148.0**	27,781.8	**19**	30,229.0	**10**

KEY RATIOS

		Half-year to 30 Jun 2016	Half-year to 30 Jun 2015	**Change**	Half-year to 31 Dec 2015	**Change**
Net interest margin	%	**1.60**	1.65	**(5)bps**	1.65	**(5)bps**
Cost:income ratio[1]	%	**58.8**	68.3	**(9.5)pp**	59.0	**(0.2)pp**
Cost of risk[2]	%	**0.12**	0.12	**-**	0.12	**-**
Underlying earnings per share	p	**15.5**	11.4	**36%**	15.4	**1%**
Tangible net asset value per share	£	**2.58**	2.44	**14p**	2.54	**4p**
Loan-to-deposit ratio	%	**109.6**	107.3	**2.3pp**	107.5	**2.1pp**
Common Equity Tier 1 ratio	%	**15.3**	18.7	**(3.4)pp**	17.5	**(2.2)pp**
Leverage ratio	%	**3.8**	4.1	**(0.3)pp**	4.0	**(0.2)pp**
Return on tangible equity[3]	%	**12.2**	9.5	**2.7pp**	12.3	**(0.1)pp**

[1] Including FSCS levy.
[2] Defined as impairment charges net of debt recoveries divided by average gross balances for the period.
[3] FSCS levy included in H1.
Key ratios are presented on an underlying basis except where stated. Capital ratios include verified profit for H1 2016.

RECONCILIATION TO STATUTORY PROFIT

	Half-year to 30 Jun 2016 £ million	Half-year to 30 Jun 2015 £ million	**Change %**	Half-year to 31 Dec 2015 £ million	**Change %**
Underlying profit before tax	**101.8**	66.4	**53**	94.3	**8**
IPO share based awards	**(1.4)**	(6.5)		(4.0)	
Strategic items	**1.7**	(4.8)		(3.3)	
Compensation for senior leavers	**(3.3)**	-		(3.7)	
Fair value losses on financial instruments	**(5.1)**	(0.1)		(0.3)	
Statutory profit before tax	**93.7**	55.0	**70**	83.0	**13**

CHIEF EXECUTIVE'S STATEMENT

Results overview

I am delighted to report another excellent performance during the first half of the year, which reflects the work we are doing to ensure our customers remain at the heart of our strategy of driving growth, quality and returns.

I am particularly pleased that more customers than ever before would recommend Virgin Money to their friends and family with our overall Net Promoter Score (NPS) improving to +28 in the first half of the year. We are growing at a rate of 50,000 customers per month and now have over 3.1 million customers.

During the period we delivered a strong financial performance. Underlying profit before tax increased by 53 per cent compared to the first half of 2015, to £101.8 million, and our return on tangible equity grew to 12.2 per cent from 9.5 per cent in H1 2015.

Our gross mortgage lending increased by 19 per cent to £4.3 billion in the first half of the year. We delivered a 3.6 per cent market share of gross lending and a 12.7 per cent share of net lending to the end of May.

The performance of our credit card business continues to surpass expectations over one year on since launching to the public and we remain on track to achieve our target of £3 billion of high-quality credit card balances by the end of 2017.

Our lending growth has been supported by an equally strong performance in retail deposits where we have had an excellent start to the year, delivering 8 per cent growth in balances to £27.1 billion.

Net interest income grew by 14 per cent compared to the first half of 2015, to £252.2 million, as a result of strong growth in mortgage balances, which increased by 17 per cent compared with June 2015. Total income increased by 14 per cent compared to the first half of 2015 to £289.6 million.

Our disciplined approach to cost management continues to yield positive results. Total costs reduced by 2 per cent to £170.4 million compared to H1 2015 and our cost:income ratio, including the FSCS levy, improved to 58.8 per cent from 68.3 per cent in the first half of 2015.

We continue to manage our balance sheet within our prudent risk appetite with a view to maintaining its quality and efficiency. Our Common Equity Tier 1 ratio was 15.3 per cent at the end of the first half of 2016, while our total capital ratio was 17.5 per cent and our leverage ratio was 3.8 per cent.

As a result of the confidence we have in our strategy and prospects for the company, the Board has declared an interim dividend of 1.6 pence per share in respect of the half-year, which is an increase on the 2015 interim dividend.

Mortgages

We delivered gross mortgage lending of £4.3 billion in the first half of the year, 19 per cent higher than in the first half of 2015 and represented a market share of 3.6 per cent to the end of May, the last month for which data is available. Strong new lending and retention performance led to a 29 per cent increase in net lending to £2.2 billion, compared to £1.7 billion in H1 2015. Mortgage balances grew by 9 per cent from 31 December 2015, to £27.7 billion.

Our mortgage business remains high quality and we continue to focus primarily on providing residential mortgages. The mortgage book comprised 82 per cent residential and 18 per cent buy-to-let mortgages at the end of June 2016. The average loan-to-value of our retail mortgage portfolio was 55.4 per cent at H1 2016.

Our intermediary business continues to flourish and we have made excellent progress with our intermediary partners. Our intermediary NPS improved from +40 at the end of Q4 2015 to +57. The quality of our intermediary service was recognised by winning the prestigious 'Best Lender for Partnership', at the Legal & General Mortgage Club Awards for the second year running.

Credit cards

During the first half of the year we continued to make considerable progress with our credit card business. Our most recent credit card customer satisfaction survey reported a NPS of +41, reflecting our ongoing commitment to high standards of customer service and our provision of easy to use, transparent products.

Credit card balances increased to £2.1 billion at the end of June and represented a 3.1 per cent share of the £64 billion cards market. New business continues to be strong and we remain on track to meet our target of £3 billion of high-quality credit card balances by the end of 2017. Financial performance has also been strong at both a new business and portfolio level. The credit card business contribution increased to £35.3 million at 30 June 2016, 79 per cent higher than H1 2015.

We were delighted to win four awards at the uSwitch awards in February, including Best Overall Customer Service, Best Application Process and Best for Balance Transfers. We also won the Best Card Provider (Balance Transfer Rate) at the 2016 Moneyfacts Awards and the Judges Award at the 2016 Card and Payment Industry Awards. This was in recognition of the development of our cards business and the creation of a new payments business under the Virgin brand in such a short period.

We continue to engage with the industry-wide FCA Credit Card Market Study. The final report is expected to be published in Q3 2016. If changes are required by the FCA, our platform and capability give us confidence that we will be able to comply with limited economic impact.

Savings and Funding

Our savings business has delivered an excellent performance so far this year and we have continued to manage both the cost and volume of deposits successfully. The strength of our ISA proposition continues to be recognised by customers, with total ISA inflows of £1.7 billion in H1 2016, up 26 per cent from £1.4 billion in H1 2015. Overall retail deposits increased by 8 per cent from £25.1 billion in December 2015 to £27.1 billion in June 2016.

We remain focused on prudent and efficient funding management and the loan-to-deposit ratio increased slightly during H1 2016 to 109.6 per cent as we grew wholesale funding, which contributed to a reduced weighted average cost of funds during H1 2016.

During the first half of the year, we successfully completed two issues of Residential Mortgage Backed Securities (RMBS) totalling £1.3 billion, extending our reach in the wholesale markets beyond Sterling and Euro into US Dollars for the first time. Both offerings saw strong demand and were multiple times oversubscribed.

Current Accounts, Insurance and Investments

The Current Accounts, Insurance and Investments segment showed continued progress during the first half of the year. Current account balances increased by 18 per cent to £272 million reflecting growth in sales of the Essential Current Account (ECA) having completed the national rollout across our network of 75 Stores, in H1 2015.

The insurance business performed well during the first half of the year, mainly driven by travel insurance. Our home insurance line has become established in H1 2016 and we continue to work closely with Ageas to develop our proposition for customers.

Customers continue to appreciate the transparency and choice our investment funds provide. Stocks and Shares ISA sales in the first half of 2016 were 9 per cent higher than H1 2015, which was a strong result given the subdued ISA season. Funds under management increased by £114 million during the first half of the year to end at £3.1 billion at H1 2016.

Customers and Distribution

I am delighted to report that our overall NPS increased to +28 in the first half of the year meaning more customers than ever before would recommend Virgin Money to their friends and family.

We continue to provide award-winning customer service to over 3.1 million customers and operate a digitally-led distribution model supported by Contact Centres, Stores and Lounges.

Our award-winning Lounges remain unique in UK banking. They deliver excellent customer satisfaction ratings and are a strong commercial success, attracting over 200,000 visitors so far this year. The Lounges were awarded the Customer Satisfaction Innovation of the Year award by the Institute of Customer Service in the first half of 2016, and achieved a NPS of +86 at the end of H1 2016. Access to Lounges is available to all Virgin Money customers, and membership is free. As part of Virgin Money's ambition to make 'everyone better off', Lounges are also available on request for use by the local community for events, charity meetings and fundraising activities. We opened a new customer Lounge in Sheffield in July 2016.

Our Intermediary Partnerships remain a key part of the Virgin Money mortgage strategy. In June 2016, we launched a major advertising campaign promoting to consumers the option of seeking advice from mortgage intermediaries. As part of the campaign, we announced that we would introduce a new mortgage retention platform for intermediaries, which went live in early July and was welcomed by the market. During July, we also entered a new partnership with Manchester United Football Club, becoming their official retail financial services partner. The first co-branded Virgin Money and Manchester United product, a savings bond, was launched and further products will be added to the range.

Virgin Money was recognised with the Judges' Choice Award for outstanding achievement in customer experience at the Confirmit ACE Awards in May 2016. In addition, research from the Reputation Institute revealed that Virgin Money was one of Britain's most trusted banks in April 2016, second only to Nationwide, Britain's biggest building society.

Colleagues

At Virgin Money we have highly engaged colleagues who are focused on serving the needs of our customers and stakeholders. We continue to invest in the development of all colleagues and we were delighted to win the Employee Engagement – Improving Customer Experience award at the UK Employee Experience Awards in May 2016.

We recognise the value of diversity across our colleagues, who together bring a broad range of skills and experience to our business. We are committed to ensuring that our culture is always flexible, inclusive and balanced and strive to ensure that those who work for our business reflect the customers we serve, enabling us to provide a relevant, practical and personal banking service. We signed up to the HMT Women in Finance Charter in March 2016, an initiative designed to improve gender diversity in senior positions in the financial sector.

Given the importance we place on purpose, values and culture – manifest in our ambition to make 'everyone better off' – we are participating in the Banking Standard Board's (BSB) 2016 annual assessment exercise, designed to take the temperature on culture and leadership in the banking sector. This includes a colleague survey which was completed by more than 1,000 Virgin Money colleagues in May. The BSB survey will be followed up by a series of focus groups and one-to-one interviews with colleagues in H2 2016. The BSB are aiming to build an evidence-based picture of developments across the industry to help raise standards, benchmark performance and share good practice.

Community and Culture

We are proud of a culture that sustains our ambition to make 'everyone better off'. It provides the foundation for our differentiated approach to banking and it cannot be readily and credibly replicated in the UK banking sector. This, combined with our prudent approach to financial and risk management, has resulted in strong relationships with our customers, corporate partners, shareholders, regulators and ratings agencies.

Virgin Money Giving continues to perform strongly. Our partnership with the London Marathon continues to drive growth in Virgin Money Giving donations which totalled £56.4 million, including Gift Aid, in the first half of the year.

In its first grant programme, the Virgin Money Foundation distributed almost £1 million in the North East of England to a total of 26 organisations working in social enterprise, youth employment and housing programmes.

A second grant programme of a further £1 million was opened for applications during the first half of the year. We also extended our investment in education and enterprise initiatives and our 'Make £5 Grow' initiative is now available as an online tool to schools across the UK. In the second half of the year we will be supporting the roll-out of a financial education and savings club programme in primary schools, called LifeSavers.

Regulation

We continue to work with the relevant authorities on the evolving UK regulatory framework and the impact of EU directives. Our capital ratios and liquidity measures are comfortably ahead of current regulatory requirements.

Our business model and customer-focused strategy, underpinned by our strong culture, enables us to meet the challenges of the evolving regulatory and competitive environment and ensures the business continues to deliver sustainable success for all stakeholders. Given that we are a UK-focused retail bank, we believe that our entire business will be within the ring fence when it comes into effect at the beginning of 2019.

Outlook

We were delighted that Virgin Money continued to perform strongly in the first half of the year with growth in mortgages, credit cards and savings, as well as earnings performing in line with expectations.

Virgin Money is a strong, customer-focused, low risk retail bank, unburdened by legacy conduct issues. We have a strong capital base and excellent asset quality. The focus on maintaining a high-quality balance sheet is supported by our prudent risk appetite and robust approach to risk management. As a result, the Group is well placed to navigate an uncertain economic outlook and a lower for longer interest rate environment.

Against this backdrop we will continue to protect our strong capital position and fund growth in the most cost efficient way, optimising volume and asset mix. We will continue to ensure we grow assets at the right price and quality.

Our mortgage book remains high quality, with no exposure to commercial property, and is comprised of 82 per cent residential and 18 per cent buy-to-let mortgages. The average loan-to-value of our retail mortgage portfolio was 55.4 per cent at H1 2016. We will continue to focus on maintaining the high quality of our mortgage business.

We entered the second half of the year with a strong mortgage pipeline and we expect to achieve a market share of annual gross mortgage lending at the higher end of our 3.0–3.5 per cent target range.

Our credit card business continued to grow strongly in H1 2016. We will continue to protect the prime quality of our credit card book and expect to reach our target of £3 billion of credit card balances by the end of 2017.

Our strategy is focused on creating a business that can continue to grow, maintaining our excellent asset quality, and successfully delivering sustainable shareholder returns through the economic cycle. As part of this, we have decided that it is prudent to defer our SME and unsecured lending plans and focus investment on enhancing our digital capability.

We expect continued progress in our return on tangible equity and anticipate solid double digit RoTE for 2017.

We are pleased to announce that, after taking into consideration our strong performance in the first half of the year and the prospects of the company, the Board has declared an interim dividend of 1.6 pence per share.

To conclude, we are delighted that we have delivered strongly against our objectives in H1 2016 and I would like to thank our Virgin Money colleagues for their hard work and achievements so far this year. We will continue to put customers at the heart of everything we do and look to the future with confidence.

Jayne-Anne Gadhia, CBE
Chief Executive

FINANCIAL REVIEW

Overview: Strong growth in balance sheet and underlying profit

In the first half of 2016 we have continued to build scale and profitability in our high quality asset portfolios. We have grown our market shares in mortgages and credit cards and successfully grown customer deposit balances. The success in retail deposits was supplemented by further participation in the wholesale funding markets. Strong balance sheet growth more than offset the expected reduction in net interest margin (NIM) to drive a further increase in net interest income.

We continued to operate in a challenging environment with a low and flat base rate and continued pressure on mortgage margins. Against that backdrop we have delivered an increase in underlying profit before tax of 53.3 per cent compared to the first half of 2015, rising to £101.8 million from £66.4 million. As a result, return on tangible equity improved to 12.2 per cent from 9.5 per cent in the same period last year.

Strong balance sheet growth

	At 30 Jun 2016 £ million	At 31 Dec 2015 £ million	**Change**
Loans and advances to customers	**30,031.0**	27,109.0	**10.8%**
Funded assets[1]	**31,029.2**	27,885.1	**11.3%**
Customer deposits	**27,128.4**	25,144.9	**7.9%**
Wholesale funding	**3,923.2**	3,314.3	**18.4%**
Wholesale funding <1 year maturity	**700.0**	1,274.9	**(45.1)%**
Loan-to-deposit ratio	**109.6%**	107.5%	**+2.1pp**
High Quality Liquid Assets[2]	**4,355.8**	4,238.6	**2.8%**

[1] Loans and advances to customers and banks, encumbered available-for-sale assets and encumbered cash and balances with central banks.

[2] These include Funding for Lending drawings which are held off balance sheet and are available for repo and hence count towards liquidity resources.

In the first half of 2016, total loans and advances to customers increased by 10.8 per cent to £30.0 billion. We delivered record gross mortgage lending of £4.3 billion, up 19.4 per cent from H1 2015. We have been particularly focused on growing our residential mortgage portfolio, delivering an increase of £2.2 billion. Our credit card book grew by 30.9 per cent from the year end to reach £2.1 billion as we continue to expand and develop our credit card offering.

Asset growth was funded by growth in retail deposits and wholesale funding. Total customer deposits grew by 7.9 per cent to £27.1 billion at 30 June 2016. We continued to diversify our wholesale funding base with the successful issue of a further £1.3 billion of Residential Mortgage Backed Securities through our established Gosforth programme, made up of Sterling, Euro and US Dollar tranches. As a result, the loan-to-deposit ratio increased to 109.6 per cent during the first half of 2016, from 107.5 per cent at the end of 2015, well within our risk appetite of 115 per cent. In addition to diversifying our funding sources, this successful RMBS issuance lowered our overall cost of funding.

The Group's liquidity position remained strong, with high quality liquid assets of £4.4 billion. The liquid asset portfolio represented more than 6 times our wholesale funding with a maturity of less than one year. This provided us with a substantial buffer in the event of market dislocation.

Income benefited from 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	**252.2**	220.3	**14.5%**	235.8	**7.0%**
Other income	**37.4**	34.2	**9.4%**	33.2	**12.7%**
Total income	**289.6**	254.5	**13.8%**	269.0	**7.7%**
Net interest margin	**1.60%**	1.65%	**(5)bps**	1.65%	**(5)bps**
Average interest earning assets	**31,411**	26,446	**18.8%**	28,709	**9.4%**

Net interest income grew by 14.5 per cent to £252.2 million as a 18.8 per cent increase in average interest earning assets more than offset a lower net interest margin.

In H1 2016 the continued strong growth in our mortgage portfolio with new business priced below back book spreads, continued to put pressure on Group NIM. This asset spread pressure was partly offset by a further reduction in the cost of retail funding and the higher proportion of credit cards on the balance sheet. This led, as expected, to a NIM of 160bps in the first half of 2016.

Other income was 9.4 per cent higher at £37.4 million. This included a gain of £5.3 million arising on the investment held in Visa Europe Limited following its acquisition by Visa Inc. in June 2016 which was partially offset by a reduction in asset sales from the Treasury portfolio.

Total income increased by 13.8 per cent to £289.6 million from £254.5 million in the first half of 2015.

Costs remain tightly controlled

	Half-year to 30 Jun 2016 £ million	Half-year to 30 Jun 2015 £ million	**Change**	Half-year to 31 Dec 2015 £ million	**Change**
Costs[1]	**170.4**	173.8	**(2.0)%**	158.7	**7.4%**
Cost:income ratio[1]	**58.8%**	68.3%	**(9.5)pp**	59.0%	**(0.2)pp**

[1] Including FSCS levy.

Total costs (including the FSCS levy of £7.8 million) decreased by 2 per cent to £170.4 million compared to the same period last year. This reduction in costs combined with the increase in income of 13.8 per cent resulted in positive JAWS at 15.8 per cent. This drove the cost:income ratio down by 9.5 percentage points to 58.8 per cent, including the FSCS levy. We continued to improve operational efficiency and deliver strong cost management, whilst maintaining levels of investment spend. The Group incurred a lower FSCS levy of £7.8 million compared to £15.5 million in the same period in 2015. This was driven by a further reduction in the element of the FSCS levy that relates to the recovery of amounts previously paid out in respect of failed institutions. Excluding the FSCS levy, the cost:income ratio reduced by 6.1 percentage points to 56.1 per cent.

Impairment reflects rigorous underwriting controls

	Half-year to 30 Jun 2016 £ million	Half-year to 30 Jun 2015 £ million	**Change**	Half-year to 31 Dec 2015 £ million	**Change**
Mortgages					
Impairment charge	**1.3**	1.6	**(18.8)%**	1.4	**(7.1)%**
Cost of risk	**0.01%**	0.01%	**-**	0.01%	**-**
Cards					
Impairment charge	**16.1**	12.7	**26.8%**	14.6	**10.3%**
Cost of risk	**1.73%**	2.29%	**(56)bps**	2.16%	**(43)bps**
Group					
Impairment charge	**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%**	0.4%	**-**	0.4%	**-**
Provisions as a % of impaired loans	**39.9%**	37.0%	**2.9pp**	35.6%	**4.3pp**

The cost of risk for mortgages remained broadly stable at 0.01 per cent, underlining our continued diligent adherence to strict underwriting standards. Even though we continued to grow our mortgage portfolio, the impairment charge for mortgages decreased by 18.8 per cent to £1.3 million.

The increase in impairment charge for credit cards reflects the growth in card balances. The cost of risk net of debt recoveries reduced to 1.7 per cent in H1 2016 from 2.3 per cent in the same period in 2015. This demonstrated the continued high quality of new and existing cards and the expected low rate of default during the first year of a balance transfer. Net of debt recoveries of £2.7 million, the impairment charge increased by 26.8 per cent to £16.1 million. This compared favourably to the 30.9 per cent growth in cards balances over the same period.

Impaired loans as a percentage of loans and advances was stable at 0.4 per cent. Provisions as a percentage of impaired loans increased to 39.9 per cent.

STATUTORY PROFIT

Our statutory profit before tax was £93.7 million. This was an increase of 70.4 per cent compared to the statutory profit before tax of £55.0 million in the first half of 2015. A full reconciliation is provided in note 2 to the financial statements.

Underlying profit to statutory profit reconciliation

	Half-year to 30 Jun 2016 £ million	Half-year to 30 Jun 2015[1] £ million	Half-year to 31 Dec 2015 £ million
Underlying profit before tax	**101.8**	66.4	94.3
IPO share based payments	**(1.4)**	(6.5)	(4.0)
Strategic items	**1.7**	(4.8)	(3.3)
Compensation for senior leavers	**(3.3)**	-	(3.7)
Fair value losses on financial instruments	**(5.1)**	(0.1)	(0.3)
Statutory profit before tax	**93.7**	55.0	83.0
Taxation	**(26.2)**	(12.1)	(14.7)
Profit for the half-year – statutory	**67.5**	42.9	68.3
Basic earnings per share – statutory (pence)	**14.1**	8.6	14.4

[1] The FSCS levy was previously excluded from underlying performance measures, and is now included as it is considered to be a recurring cost to the Group.

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

IPO share based payments

These costs relate to share based payment charges triggered by IPO which we recognised over their vesting period, and by their nature are non recurring.

Strategic items

We incurred strategic investment costs totalling £2.7 million in the first half of 2016, which largely related to digital investment spend. These costs have been offset by a gain of £4.4 million resulting from the final recognition of fair value adjustments arising from the Northern Rock acquisition which will not occur in future periods.

Compensation for senior leavers

Compensation for senior leavers includes costs associated with senior employees who left the business during the period. These costs include accelerated share based payment charges. These are non-recurring items that are not considered part of the underlying results.

Fair value losses on financial instruments

Fair value gains and losses on financial instruments reflect the results of hedge accounting and the fair value movements on derivatives in economic hedges (but not accounting hedges). Where derivatives are held to maturity, the accounting volatility recorded in this heading represents timing differences and is excluded from underlying profit.

Taxation

As a result of the introduction of the bank tax surcharge, the Group's effective tax rate increased to 28.0 per cent. In the first half of 2016, the Group recognised a corporation tax charge of £26.2 million.

Continued progress in driving returns

		Half-year to 30 Jun 2016	Half-year to 30 Jun 2015	**Change**	Half-year to 31 Dec 2015	**Change**
Return on tangible equity	%	**12.2**	9.5	**2.7pp**	12.3	**(0.1)pp**

Return on tangible equity increased to 12.2 per cent in the first half of 2016 from 9.5 per cent in the same period of the previous year. This reflected our continued operational leverage and was primarily due to continued positive JAWS between income growth and cost growth combined with stable impairment charges. This measure includes the FSCS levy which is recognised in April each year under the applicable accounting standard, and therefore affects the first half of each year. This accounts for the slight reduction against the second half of 2015.

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

STRONG CAPITAL STRUCTURE

Capital ratios and risk-weighted assets

		At 30 Jun 2016	At 31 Dec 2015	**Change**
Common Equity Tier 1 capital (CET1)	£ million	**1,128.1**	1,070.0	**5.4%**
Risk-weighted assets (RWAs)	£ million	**7,377.8**	6,110.4	**20.7%**
Common Equity Tier 1 ratio	%	**15.3**	17.5	**(2.2)pp**
Tier 1 ratio	%	**17.4**	20.1	**(2.7)pp**
Total capital ratio	%	**17.5**	20.2	**(2.7)pp**
Leverage ratio	%	**3.8**	4.0	**(0.2)pp**

Note: inclusive of verified profits for H1 2016

The continued growth in our mortgage and credit card balances, and the resulting increase in RWAs, was the main driver behind the reduction in our CET1 capital ratio to 15.3 per cent at the end of the first half from 17.5 per cent at the end of 2015. The 20.7 per cent growth in RWAs was partly offset by a 5.4 per cent increase in CET1 capital.

Our total capital ratio was 17.5 per cent at the end of June 2016, down from 20.2 per cent at the end of 2015, due to the same drivers as the reduction in CET1 capital ratio.

As a consequence of the increase in leverage ratio eligible assets our leverage ratio was 3.8 per cent at the end of the first half, compared to 4.0 per cent at the end of 2015.

Dividend

The Board has recommended an interim dividend of 1.6 pence per share, reflecting the performance of the business and our confidence in our future plans.

Conclusion

In the first half of 2016 we delivered continued strong performance, with a further increase in returns. We have delivered significant growth in customer balances while retaining a high quality balance sheet and further diversified our funding base. As a result of the strength of the business, our excellent asset quality and our prudent risk appetite, we are well placed to deliver sustainable returns through the economic cycle.

Dave Dyer
Chief Financial Officer

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

DIVISIONAL HIGHLIGHTS

MORTGAGES AND SAVINGS

We provide residential and buy-to-let mortgages, primarily through our intermediary partners. Our savings accounts are primarily sold direct to customers through our digital channel.

Our Mortgage and Savings business remains the key profit driver for the Group, contributing 66 per cent of total income in the first half of 2016.

Half-year highlights

- net interest income increased by 7.7 per cent to £190.0 million largely driven by the growth in mortgage balances. Our total income rose by 7.4 per cent to £190.9 million;
- our contribution increased by 8.9 per cent in the first half reflecting strong asset growth and continued high asset quality, allied with careful pricing and cost management;
- new business spreads improved compared to H2 2015, although average mortgage spreads for the whole book were lower year-on-year as new business continued to price below back book spreads. We delivered a NIM of 1.43 per cent in the mortgage and savings business, compared to 1.55 per cent in H1 2015. The increase in mortgage lending volume more than offsets the reduction in NIM;
- the quality of the mortgage book remains strong with the cost of risk stable at 1 basis point;
- buy-to-let mortgages as a percentage of the overall mortgage book remained low at 17.7 per cent; and
- risk-weighted assets at the end of H1 2016 increased by 18.1 per cent primarily reflecting increased lending, which was at higher LTVs than redeeming mature accounts.

Performance summary

	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	**190.0**	176.4	**7.7%**	182.1	**4.3%**
Other income	**0.9**	1.3	**(30.8)%**	1.2	**(25.0)%**
Total income	**190.9**	177.7	**7.4%**	183.3	**4.1%**
Total costs	**(49.4)**	(47.4)	**4.2%**	(45.3)	**9.1%**
Impairment	**(1.3)**	(1.6)	**(18.8)%**	(1.4)	**(7.1)%**
Contribution	**140.2**	128.7	**8.9%**	136.6	**2.6%**
Mortgages and savings NIM	1.43%	1.55%	**(12)bps**	1.50%	**(7)bps**
Cost of risk	0.01%	0.01%	**-**	0.01%	**-**

Key balance sheet items:

	At 30 Jun 2016 £ million	At 31 Dec 2015 £ million	**Change**
Loans and advances to customers	**27,674.2**	25,453.5	**8.7%**
– of which prime residential	**22,780.0**	21,052.6	**8.2%**
– of which buy-to-let	**4,894.2**	4,400.9	**11.2%**
Customer deposits	**26,856.5**	24,914.6	**7.8%**
Total customer balances	**54,530.7**	50,368.1	**8.3%**
Risk-weighted assets	**5,058.0**	4,284.5	**18.1%**

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

Mortgages

We offer a wide range of mortgage products with a strong focus on providing excellent customer service. Our intermediary partners are the primary distribution channel for our mortgages, supplemented by direct distribution. Additionally, we continue to invest in the retention of our existing customers.

In the first half we have focused on strong growth in prime residential balances which represented 82 per cent of mortgage balances.

Key developments – Mortgages

- we delivered strong growth in mortgage balances in H1 2016, with an increase of 8.7 per cent to £27.7 billion at 30 June 2016;
- the overall growth in balances was driven by strong gross lending of £4.3 billion in the half-year, equivalent to a 3.6 per cent market share of gross lending to the end of May;
- prime residential balances grew by 8.2 per cent to £22.8 billion representing 82 per cent of the overall mortgage book and 82 per cent of new lending in H1 2016;
- buy-to-let balances of £4.9 billion represented 18 per cent of the overall mortgage book at end of June; and
- we successfully retained 69.0 per cent of customers with maturing fixed rate or tracker products.

Savings

We offer customers a range of competitively-priced instant access and fixed term savings products. These are both available as ISAs and are distributed through all our channels: store, online, postal and telephone.

Our savings products are simple and transparent. We encourage customer retention with enduring, good value offers. This means that we avoid 'teaser' products with bonus rates which subsequently fall to sub–market levels and provoke customer churn.

In the first half, we delivered strong growth in savings balances to help fund the growth in mortgage balances. The reduction in our cost of funding was driven by appropriate repricing of deposits in the context of lower savings rates across the market.

Key developments – Savings

- we grew retail savings balances by 7.8 per cent to £26.9 billion at 30 June 2016, up from £24.9 billion at the end of 2015;
- we opened close to 200,000 new savings accounts in the first six months of the year;
- we had more than 1.3 million savings customers at 30 June 2016 and balances were higher than at any point in Virgin Money's history;
- balance growth of 7.8 per cent outpaced market growth of 0.3 per cent to the end of June. We took a 4.31 per cent market share of net inflows, and grew our market share of savings stock from 1.52 per cent at the end of 2015 to 1.63 per cent at the end of June; and
- our Cash ISA performance was particularly strong, taking a 17.5 per cent market share of net inflows to the end of May 2016, which reflected the strong appeal of our customer proposition. This performance resulted in our Cash ISA market share increasing to 4.40 per cent at the end of May, from 4.02 per cent at the end of 2015.

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CREDIT CARDS

We grew credit card balances to £2.1 billion at 30 June 2016, an increase of 30.9 per cent since year end. As a result, contribution from our card business in the first half of 2016 increased 79.2 per cent to £35.3 million compared to the same period last year.

Half-year highlights

- net interest income increased 41.7 per cent to £62.2 million, driven by growth in credit card balances of £1 billion since 30 June 2015. Growth in the number of front book customers on promotional terms contributed to NIM falling by 162 basis points to 6.84 per cent;
- other income increased to £8.5 million, reflecting fees from increased promotional cash volumes more than offsetting reduced interchange income following the reduction in domestic interchange rates towards the end of 2015; and
- total costs remained stable half on half in spite of balance and account growth. Migration of accounts resulted in lower underlying unit costs, which reflects the sustaining operating efficiency of the new platform; and impairments increased in line with the growth in credit card balances. Underlying portfolio arrears and charge offs remain low reflecting the strong credit quality of the book, with cost of risk falling from 2.29 per cent to 1.73 per cent. This reflects the expected low rate of arrears in the first year of a balance transfer and the higher proportion of recent originations in the book as a whole.

Performance summary

	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	**62.2**	43.9	**41.7%**	53.7	**15.8%**
Other income	**8.5**	8.0	**6.3%**	10.0	**(15.0)%**
Total income	**70.7**	51.9	**36.2%**	63.7	**11.0%**
Total costs	**(19.3)**	(19.5)	**(1.0)%**	(17.6)	**9.7%**
Impairment charge	**(16.1)**	(12.7)	**26.8%**	(14.6)	**10.3%**
Contribution	**35.3**	19.7	**79.2%**	31.5	**12.1%**
Credit cards NIM	**6.84%**	8.46%	**(162)bps**	8.05%	**(121)bps**
Cost of risk	**1.73%**	2.29%	**(56)bps**	2.16%	**(43)bps**

Key balance sheet items:

	At 30 Jun 2016 £ million	At 31 Dec 2015 £ million	**Change**
Credit card balances	**2,065.9**	1,578.7	**30.9%**
Total customer balances	**2,065.9**	1,578.7	**30.9%**
Risk-weighted assets	**1,724.7**	1,334.7	**29.2%**

Credit Cards

The successful migration of customer accounts to our own platform was completed in March 2015. This gave us full control of the credit card business and enabled growth through simple, transparent products supported by strong risk management and analytical capability.

Through the first half of 2016 we have maintained our presence in the balance transfer market and continued to offer a broad range of products covering three key customer needs: debt consolidation, borrowing and everyday spending.

Continued strong customer uptake of our card offers resulted in credit card balances growing to £2.1 billion at the end of the half-year, representing a 3.1 per cent share of the £64.5 billion credit card market. The business remains on track to grow towards its target of £3 billion of balances by the end of 2017.

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

CURRENT ACCOUNTS, INSURANCE AND INVESTMENTS

In addition to our Essential Current Account, we offer a range of insurance and investment products delivered through strategic partners. In the first half of 2016 Current Accounts, Insurance and Investments (CII) contributed 7 per cent of total income of the Group.

Half-year highlights

- our funds under management stood at £3.1 billion at 30 June 2016 delivering investment income of £15.6 million;
- our investments and pensions income hedge resulted in income being broadly flat year-on-year, despite the average FTSE index level being c.800 points lower than in the comparable period. The hedging put in place mitigated the majority of the income impact of this FTSE fall;
- our insurance income in H1 2016 grew by 131.3 per cent year on year to £3.7 million; and
- current account balances increased by £41.6 million since the year end to £271.9 million.

Performance summary

	Half-year to 30 Jun 2016 £ million	Half-year to 30 Jun 2015 £ million	**Change**	Half-year to 31 Dec 2015 £ million	**Change**
Investments and pensions	**15.6**	15.9	**(1.9)%**	15.7	**(0.6)%**
Insurance and other	**4.7**	2.1	**123.8%**	2.9	**62.1%**
Total income	**20.3**	18.0	**12.8%**	18.6	**9.1%**
Total costs	**(9.3)**	(8.4)	**10.7%**	(8.3)	**12.0%**
Contribution	**11.0**	9.6	**14.6%**	10.3	**6.8%**

Key balance sheet items:

	At 30 Jun 2016 £ million	At 31 Dec 2015 £ million	**Change**
Loans and advances to customers	**0.1**	0.1	**-**
Customer deposits	**271.9**	230.3	**18.1%**
Total customer balances	**272.0**	230.4	**18.1%**
Risk-weighted assets	**52.3**	51.6	**1.4%**

Current account

The Virgin Essential Current Account (ECA) is available across our store network. Current account balances increased by 18.1 per cent in H1 2016.

Insurance

In the first half of 2016, the insurance business performed well, with year-on-year growth in income of 131.3 per cent compared to the same period in 2015. This performance was mainly driven by travel insurance.

Further income benefit was delivered by the establishment of our home insurance proposition, which launched in partnership with Ageas in Q4 2015.

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

Investment and pensions

In the first half of 2016, investment and pension income was £15.6 million, a 1.9 per cent decrease on the same period in 2015. Total funds under management were relatively stable at £3.1 billion.

Stocks and Shares ISA sales in the first half of 2016 were 9 per cent higher than H1 2015, which was a strong result given the subdued ISA season. Sales have been boosted by our double air miles campaign with Virgin Atlantic Airways with 31 per cent of total sales in the first half being generated by this promotion.

Pension sales in the six months to 30 June 2016 have been in line with sales in H1 2015.

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

CENTRAL FUNCTIONS

Our Central Functions division provides shared support services to each of our business lines. These services include Information Technology and Property together with functions such as Risk, Finance, Treasury, Human Resources and the Group's Executive. It is not our policy to allocate the cost of these shared functions to each business line.

Our divisional view of the business allocates directly attributable costs to the main income lines, with the remainder of overheads in Central Functions.

Half-year highlights

- other income includes gains from the sale of available-for-sale assets and debt securities. In the first half of 2016 this included a gain of £5.3 million arising on the investment held in Visa Europe Limited following its acquisition by Visa Inc. in June 2016; and
- excluding an increase in depreciation and investment of £2.3 million, and a reduction in the FSCS levy, costs during the first half of the year were 6.2 per cent down compared with the first half of 2015, reflecting a focus on effective cost management.

Performance summary

	Half-year to 30 Jun 2016 £ million	Half-year to 30 Jun 2015 £ million	**Change**	Half-year to 31 Dec 2015 £ million	**Change**
Other income	**7.7**	6.9	**11.6%**	3.4	**126.5%**
Total income	**7.7**	6.9	**11.6%**	3.4	**126.5%**
Total costs	**(92.4)**	(98.5)	**(6.2)%**	(87.5)	**(5.6)%**
Loss	**(84.7)**	(91.6)	**(7.5)%**	(84.1)	**0.7%**

Key balance sheet items:

	At 30 Jun 2016 £ million	At 31 Dec 2015 £ million	**Change**
Risk-weighted assets	**542.8**	439.6	**23.5%**

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

RISK MANAGEMENT REPORT

The mortgage portfolio has grown by 8.7%, with the Group's market share representing 3.6% of gross lending flows during the first six months of the year. Credit quality has remained robust with assets classified as neither past due nor impaired increasing fractionally. Arrears levels have continued to reduce in the first half of 2016 to 0.16% for 3+ arrears and are substantially lower than the CML comparison of 1.04% (as at 31 March 2016). These trends reflect the benign economic conditions in recent years and book growth. The portfolio's average indexed LTV increased marginally reflecting new business growth which has offset positive house price movements. The proportion of new residential interest only business remains low, further reducing our residential mortgage exposure to interest only.

The buy-to-let (BTL) mortgage portfolio has grown by 11.2% in the first half of 2016, now representing 17.7% of the total mortgage portfolio. Over 50% of this lending has been provided to existing landlords looking to remortgage from other lenders. This increase is in line with growth in the private rental sector and BTL mortgage lending in the market. In particular, the market experienced an increase in BTL lending during Q1 2016 ahead of the stamp duty changes which came into effect on 1 April 2016.

New lending above 75% LTV has increased during the first half of 2016. This includes new mortgages written under the Government's Help to Buy Equity and Guarantee schemes. Only 1.5% of the mortgage stock has a LTV of greater than 90%.

Unsecured portfolio balances have increased by £490.6 million since December 2015 to £2.1 billion. This is supported by a competitive credit card product offering which has been well received by the market. The quality of new business is strong, as observed through high application scores and strong delinquency performance which is well within expectations. New lending is also well within the approved policy, lending and concentration limits.

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

The Group has continued to diversify its wholesale funding base with issuance of Residential Mortgage Backed Securities in Sterling, US Dollars and Euros as part of the Gosforth funding programme. The Group raised £803 million during January 2016 and a further issuance in May 2016 raised £474 million.

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

EMERGING RISKS

The Group considers the following to be risks that have the potential to increase in significance and affect the performance of the Group.

EU Referendum and the Macroeconomic Environment

Although the full implications of the UK leaving the EU are not yet clear, the decision has introduced a significant degree of uncertainty for the UK economy. Whilst the Group has not seen any changes in customer behaviour so far, it faces the potential risk of a slowing housing market and rise in unemployment. Although the Bank of England did not cut the Bank rate in July 2016, interest rates are now expected to stay lower for longer. A lower for longer forecast interest rate may put pressure on banking sector net interest margins and therefore business and financial performance.

Prior to the referendum, the Group transacted additional basis swaps and hedged future FTSE income to protect it from adverse market volatility and disruption. The Group completed a second RMBS issuance in May 2016 securing that tranche of funding and enhancing the Group's strong balance sheet position in preparation for the referendum. Executive focus is now on determining the appropriate short and medium-term strategy to protect capital and deliver appropriate returns in a weaker economic environment.

Buy-to-Let Lending

The BoE Financial Stability Reports published in December 2015 and July 2016 referred to concerns over the growth in BTL lending and the impact that a structural shift to the private rental sector may have on market stability. In addition, there have been several tax and regulatory changes that may collectively weaken the attractiveness of BTL to an investor.

These changes have added uncertainty to the outlook of BTL for both landlords and lenders, particularly over the medium to long-term.

Cybercrime

Cyber attack is a serious and growing threat to the resilience of the UK financial system, reflecting increased use of technology in financial services. Resilience to cyber attack and the ability to recover quickly from attacks that inevitably occur are priorities in a cybercrime landscape and threat environment that continues to evolve. This is in the context of digital technology that is changing customer behaviour, leading to changes in banking models.

Regulatory Capital Requirements

While there is now greater clarity on regulatory capital requirements, there remains some uncertainty as the UK and European regulatory frameworks continue to evolve. The Basel III global regulatory standards on bank capital adequacy, stress testing and market and liquidity risk management aim to strengthen regulation, supervision and risk management in the banking sector. The Group is compliant with current CRD IV / CRR requirements and will continue to respond to new guidance and technical standards as they are published.

Competition Regulation

Regulatory and competition authorities continue to review key banking markets. Market inefficiencies and consolidation within the sector could change the competitive landscape and possibly impact market structures and margins.

Banking Reform

The Financial Services (Banking Reform) Act 2013 introduces a ring-fence for UK retail banks, with the aim of separating core banking services critical to individuals and small and medium–sized enterprises from wholesale and investment banking services. The Group anticipates being compliant with ring-fencing requirements by 2019 and has started work to ensure compliance is achieved. The Group has responded to changes to the PRA's rules implementing the EU Bank Recovery and Resolution Directive.

Supplier Partnerships

The Group manages outsourced relationships with parties who support the credit card, investment and insurance business lines. The Group has strategic suppliers for key components of its infrastructure. Reliance on key corporate partners and strategic suppliers involves the potential risk of disruption to service arising from the failure of a third party.

Unit Trust Management

Virgin Money Unit Trust Managers Limited (VMUTM) is exposed to movements in stock markets. The sole income stream of VMUTM is reliant upon investment fund performance.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks faced by the Group are summarised below. Full details on the principal risks and mitigating actions are disclosed in the Group's 2015 Annual Report and Accounts.

Credit Risk
We provide 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. We do not trade or make markets. Interest rate risk is the only material category of market risk for the Group.

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 us.

Conduct Risk and Compliance
Conduct and compliance risk is defined as the risk that the Group'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 Group 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
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 Group has a sub-optimal amount or quality of capital or that capital is inefficiently deployed across the Group.

CREDIT RISK MANAGEMENT

Overview

The Group'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 has remained stable at 0.4% as at 30 June 2016 (31 December 2015: 0.4%). There were no wholesale impairment provisions as at 30 June 2016.

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 assets are treated as impaired at one day past due. All fraud and operational risk loans are categorised as impaired irrespective of the expected recoverable amount.

Loans and advances to customers

	At 30 Jun 2016 £m	At 31 Dec 2015 £m
Advances secured on residential property not subject to securitisation	**16,814.9**	17,389.9
Advances secured on residential property subject to securitisation	**5,973.3**	3,670.4
Total advances secured on residential property	**22,788.2**	21,060.3
Residential buy-to-let loans not subject to securitisation	**4,895.5**	4,401.9
Total loans and advances to customers secured on residential property	**27,683.7**	25,462.2
Impairment allowance - secured	**(9.5)**	(8.7)
Loans and advances - secured	**27,674.2**	25,453.5
Credit cards	**2,100.4**	1,609.8
Overdrafts	**0.2**	0.2
Unsecured receivables not subject to securitisation	**2,100.6**	1,610.0
Impairment allowance - unsecured	**(34.6)**	(31.2)
Loans and advances - unsecured	**2,066.0**	1,578.8
Total loans and advances to customers excluding portfolio hedging	**29,740.2**	**27,032.3**

The mortgage portfolio has grown by 8.7% (£2.2 billion) during the first half of 2016. BTL loans grew by 11.2% (£0.5 billion) to £4.9 billion, accounting for 17.7% of total secured loans (31 December 2015: 17.3%). This increase is in line with growth in the private rental sector and BTL mortgage lending in the market. In particular, the market experienced an increase in BTL lending during the first three months of 2016, ahead of the stamp duty changes which came into effect on 1 April 2016. Growth in BTL lending has been undertaken in a controlled manner, with the intention of keeping the BTL mix broadly in line with the market average.

Unsecured portfolio balances have increased by £490.6 million since 31 December 2015 to £2.1 billion. This is supported by a competitive credit card product offering which has been well received by the market. The quality of new business is strong, as observed through high application scores and strong delinquency performance which is well within expectations. New lending is also well within the approved policy, lending and concentration limits.

Secured impairment allowances increased from £8.7 million to £9.5 million during the first six months of 2016 in line with book growth. Unsecured impairment provisions increased by £3.4 million in first half of 2016, to £34.6 million in line with the increase in new lending.

Wholesale Credit Risk

	At 30 Jun 2016 £m	At 31 Dec 2015 £m
Loans and advances to banks excluding Bank of England	**833.2**	614.5
Bank of England	**784.3**	888.6
Debt securities classified as loans and receivables	**0.9**	1.1
Debt securities classified as available-for-sale financial assets	**1,039.0**	1,292.3
Gross positive fair value of derivative contracts	**158.7**	82.3
Total	**2,816.1**	**2,878.8**

Wholesale exposures have decreased by £62.7 million to £2,816.1 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 Group's wholesale exposures are investment grade and classified as low risk. There were no wholesale credit exposures either past due nor impaired as at 30 June 2016 or at 31 December 2015.

Loans and advances which are past due and not impaired

The balances 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 now represent 0.6% of secured loans (31 December 2015: 0.6%). All unsecured assets which are past due are treated as impaired.

	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
At 30 Jun 2016	**£m**	**%**	**£m**	**%**	**£m**	**%**
Up to one month	**46.7**	**34.3**	**4.2**	**25.5**	**50.9**	**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**	**0.3**	**1.8**	**10.6**	**7.0**
Total past due and not impaired	**136.0**	**100.0**	**16.5**	**100.0**	**152.5**	**100.0**

	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
At 31 Dec 2015	£m	%	£m	%	£m	%
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.

Impaired assets and impairment provisions

At 30 Jun 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	**2,665.1**	**-**	**-**	**-**	**-**
Wholesale derivative exposures	**158.7**	**-**	**-**	**-**	**-**
Total wholesale	**2,823.8**	**-**	**-**	**-**	**-**
Total	**32,608.1**	**110.6**	**0.3**	**44.1**	**39.9**

At 31 Dec 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	21,060.3	77.6	0.4	7.7	9.9
Residential buy-to-let mortgage loans	4,401.9	7.0	0.2	1.0	14.3
Total secured	**25,462.2**	**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	2,801.1	-	-	-	-
Wholesale derivative exposures	82.3	-	-	-	-
Total wholesale	**2,883.4**	**-**	**-**	**-**	**-**
Total	**29,955.6**	**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 the 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.

In line with the growth in new lending, unsecured impairment allowances have increased by £3.4 million in the first half of the year.

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

At 30 Jun 2016	**Residential mortgage loans**		**Residential buy-to-let mortgage loans**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**
<50%	**8,872.0**	**39.1**	**1,639.7**	**33.5**	**10,511.7**	**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**	**1.2**	**-**	**419.1**	**1.5**
>100%	**8.5**	**-**	**0.4**	**-**	**8.9**	**-**
Total	**22,788.2**	**100.0**	**4,895.5**	**100.0**	**27,683.7**	**100.0**
Average loan-to-value[1] of stock – indexed		**55.4%**		**55.5%**		**55.4%**
Average loan-to-value of new business		**70.0%**		**62.4%**		**68.6%**

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

At 31 Dec 2015	Residential mortgage loans		Residential buy-to-let mortgage loans		Total	
	£m	%	£m	%	£m	%
<50%	8,125.8	38.6	1,443.5	32.8	9,569.3	37.6
50%-<60%	4,680.7	22.2	1,202.9	27.3	5,883.6	23.1
60%-<70%	4,026.2	19.1	1,069.7	24.3	5,095.9	20.0
70%-<80%	2,247.7	10.7	680.5	15.5	2,928.2	11.5
80%-<90%	1,720.1	8.2	3.4	0.1	1,723.5	6.8
90%-<100%	250.4	1.2	1.4	-	251.8	1.0
>100%	9.4	-	0.5	-	9.9	-
Total	**21,060.3**	**100.0**	**4,401.9**	**100.0**	**25,462.2**	**100.0**
Average loan-to-value[1] of stock – indexed		54.9%		55.4%		55.0%
Average loan-to-value of new business		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 has increased to 68.6% as at 30 June 2016.

Forbearance

The value of forbearance stock totalled £269.7 million at 30 June 2016, representing a 0.2% (£0.5 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 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: £259.5 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 Group's definition of an impaired asset.

The Group's approach is to ensure that provisioning models, supported by management judgement, appropriately reflect the incurred loss risk of exposures. The Group uses behavioural scoring to assess customers' credit risk. The underlying behavioural scorecards consider many different characteristics of customer behaviour, both static and dynamic, from internal sources and from credit bureau data. This includes 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.

A breakdown of secured and unsecured forbearance is shown below:

	Neither past due nor impaired		**Past due not impaired**		**Impaired**		**Total**	
At 30 Jun 2016	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£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 payment plan	**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**

	Neither past due nor impaired		Past due not impaired		Impaired		Total	
At 31 Dec 2015	£m	%	£m	%	£m	%	£m	%
Secured								
Payment arrangement	3.0	1.2	0.3	3.2	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	55.0	22.2	0.8	8.2	0.6	25.0	56.4	21.7
Total secured forbearance	**247.4**	**100.0**	**9.7**	**100.0**	**2.4**	**100.0**	**259.5**	**100.0**
Unsecured								
Accounts where the customer has been approved on a payment plan	2.9	100.0	-	-	7.8	100.0	10.7	100.0
Total forbearance	**250.3**	**100.0**	**9.7**	**100.0**	**10.2**	**100.0**	**270.2**	**100.0**

FUNDING AND LIQUIDITY MANAGEMENT

Overview

The Group is predominantly funded through customer deposits. During the first six months of 2016, the Group maintained a strong presence in the retail savings market, increasing total customer deposits by £1,983.5 million to represent 83.7% of the Group's funding.

Wholesale funding has been used to support balance sheet growth, lengthen the tenor of funding and diversify sources of funding. During 2016, the Group has raised wholesale funding through the well-established Gosforth Residential Mortgage Backed Securities (RMBS) programme, third party re-purchase and BoE liquidity facilities (Funding for Lending Scheme and Indexed-Long Term Repo). The RMBS issuance further diversified the Group's investor base and sources of wholesale funding, issuing in Euro and US Dollars. The volume of encumbered assets has increased as a result of additional FLS, Term Repo and RMBS issuance.

Group funding sources

The Group's loan-to-deposit ratio has increased to 109.6% during 2016 compared with 107.5% at 31 December 2015, as a result of bringing forward the second 2016 RMBS issuance. The following table shows the funding position:

	At 30 Jun 2016 £m	At 31 Dec 2015 £m
Loans and advances to customers	**30,031.0**	27,109.0
Loans and advances to banks	**833.2**	614.5
Debt securities held as loans and receivables	**0.9**	1.1
Cash and balances at central banks (encumbered)	**164.1**	160.5
Funded assets	**31,029.2**	**27,885.1**
Other assets	**451.9**	318.9
Total assets (excluding liquid assets)	**31,481.1**	**28,204.0**
On balance sheet primary liquid assets		
Cash and balances at central banks – primary	**620.2**	728.1
Available-for-sale financial assets (unencumbered)	**1,046.7**	1,296.9
Total assets	**33,148.0**	**30,229.0**
Less: Other liabilities	**(731.1)**	(429.5)
Funding requirement	**32,416.9**	**29,799.5**
Funded by		
Customer deposits	**27,128.4**	25,144.9
Wholesale funding	**3,923.2**	3,314.3
Total equity	**1,365.3**	1,340.3
Total funding	**32,416.9**	**29,799.5**

Analysis of total wholesale funding by residual maturity

At 30 Jun 2016	**Within 3 months £m**	**3-12 months £m**	**1-5 years £m**	**After 5 years £m**	**Total £m**
Debt securities in issue	**-**	**-**	**309.1**	**2,639.1**	**2,948.2**
Term repo	**350.0**	**350.0**	**275.0**	**-**	**975.0**
Total on-balance sheet sources of funds	**350.0**	**350.0**	**584.1**	**2,639.1**	**3,923.2**
FLS drawings	**-**	**810.0**	**2,387.0**	**-**	**3,197.0**
Total	**350.0**	**1,160.0**	**2,971.1**	**2,639.1**	**7,120.2**

At 31 Dec 2015	Within 3 months £m	3-12 months £m	1-5 years £m	After 5 years £m	Total £m
Debt securities in issue	-	-	297.5	1,741.9	2,039.4
Term repo	749.9	525.0	-	-	1,274.9
Total on-balance sheet sources of funds	**749.9**	**525.0**	**297.5**	**1,741.9**	**3,314.3**
FLS drawings	-	510.0	2,450.0	-	2,960.0
Total	**749.9**	**1,035.0**	**2,747.5**	**1,741.9**	**6,274.3**

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

Encumbered assets

The Group'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**		
At 30 Jun 2016	**Pledged as collateral £m**	**Other[1] £m**	**Available as collateral[2] £m**	**Other[3] £m**	**Total £m**
Cash and balances at central banks[4]	**164.1**	**-**	**-**	**620.2**	**784.3**
Debt securities held as loans and receivables	**-**	**-**	**0.9**	**-**	**0.9**
Available-for-sale financial assets	**-**	**-**	**1,039.0**	**7.7**	**1,046.7**
Derivative financial assets	**-**	**-**	**-**	**158.7**	**158.7**
Loans and advances to banks	**-**	**733.5**	**-**	**99.7**	**833.2**
Loans and advances to customers[5]	**8,719.6**	**-**	**4,226.2**	**17,085.2**	**30,031.0**
Other assets	**42.4**	**-**	**-**	**250.8**	**293.2**
Total assets	**8,926.1**	**733.5**	**5,266.1**	**18,222.3**	**33,148.0**
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	**9,528.1**	**733.5**	**7,861.1**	**18,222.3**	**36,345.0**

[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 and 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] Encumbered loans and advances to customers consist of collateral pledged to the Bank of England and securitised mortgage pools.

[6] These amounts represent Treasury Bills received by the Group through FLS, which are not recognised on the balance sheet. The Group 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 Group has used them in re-purchase transactions or unencumbered when it has not.

	Encumbered assets		Unencumbered assets		
	Pledged as collateral	Other[1]	Available as collateral[2]	Other[3]	Total
At 31 Dec 2015	£m	£m	£m	£m	£m
Cash and balances at central banks[4]	160.5	-	-	728.1	888.6
Debt securities held as loans and receivables	-	-	1.1	-	1.1
Available-for-sale financial assets	-	-	1,292.3	4.6	1,296.9
Derivative financial assets	-	-	-	82.3	82.3
Loans and advances to banks	-	478.6	-	135.9	614.5
Loans and advances to customers[5]	7,524.1	-	3,153.5	16,431.4	27,109.0
Other assets	-	-	-	236.6	236.6
Total assets	**7,684.6**	**478.6**	**4,446.9**	**17,618.9**	**30,229.0**
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	**8,470.6**	**478.6**	**6,620.9**	**17,618.9**	**33,189.0**

[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 and 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] Encumbered loans and advances to customers consist of collateral pledged to the Bank of England and securitised mortgage pools.

[6] These amounts represent Treasury Bills received by the Group through FLS, which are not recognised on the balance sheet. The Group 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 Group has used them in re-purchase transactions or unencumbered when it has not.

The Group's total level of asset encumbrance increased by £1,312.4 million to 28.2% 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 use of the Gosforth RMBS programme and from the BoE FLS liquidity facility. The Group manages the volume of available unencumbered collateral to meet requirements arising from current and future secured funding transactions.

Liquidity portfolio

The Group maintains a portfolio of liquid assets in accordance with risk appetite. Liquid assets are held predominantly in high-quality unencumbered securities issued by the UK Government or 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:

Level 1	**At 30 Jun 2016 £m**	**2016 Average £m**	At 31 Dec 2015 £m	2015 Average £m
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**	-	3.0
Certificates of deposit	**-**	**82.6**	59.0	4.5
Fixed rate bonds	**-**	**-**	-	17.0
Money market loans	**34.6**	**46.2**	54.0	30.9
Total other liquidity resources	**49.7**	**139.9**	**128.0**	**57.7**
Self-issued RMBS	**568.6**	**653.7**	326.7	197.6
Total liquidity	**4,974.1**	**5,340.4**	**4,693.3**	**4,331.7**

The Group monitors the level of liquidity daily against internal liquidity stress testing and the regulatory Liquidity Coverage Ratio (LCR). The Group's LCR as at 30 June 2016 was 152% representing a material surplus above the UK regulatory minimum requirement of 80%. The LCR has reduced from 202% at 31 December 2015 as a result of a change in the mix of retail deposits, along with a growing mortgage pipeline.

CAPITAL MANAGEMENT

Overview

The Common Equity Tier 1 capital ratio for the Group was 15.3% as at 30 June 2016, compared with a regulatory minimum of 7.0%.

The leverage ratio for the Group (based on the Basel III definition of January 2014, and the revised CRD IV definition of October 2014) is 3.8%. The Group is not required to comply with the PRA leverage ratio framework until retail deposits exceed the £50 billion threshold. However, to avoid capital cliffs the Group maintains a prudent risk appetite for leverage.

The Group reviews the capital structure on an on-going basis to ensure it is well placed to react to prevailing economic and regulatory conditions.

Regulation

CRD IV introduced new capital limits and buffers for banks, and includes a requirement to hold Common Equity Tier 1 capital to account for capital conservation, countercyclical and systemic risk buffers. These new buffers will influence the type of capital instruments that best meet the requirements likely to be expected of the Group. A capital conservation buffer of 0.625% was introduced on 1 January 2016. This will increase each year to 2019 in line with regulations.

CRD IV also introduced a new leverage ratio requirement. The leverage ratio is a non-risk based measure that is designed to act as a supplement to risk based capital requirements. It is intended as a back stop measure. The leverage calculation determines a ratio based on the relationship between Tier 1 capital and total consolidated exposure (total exposure is the sum of on-balance sheet exposures, derivative exposures, securities financing transaction exposures and off-balance sheet items).

Ring-fencing is scheduled to be implemented fully into the UK banking system by 1 January 2019. On the assumptions of organic growth and based on current business undertaken, the Group expects to comply with ring-fencing rules when they come into effect at the beginning of 2019.

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

The framework for a Systemic Risk Buffer for ring-fenced banks will be applied to individual institutions by the PRA and will be introduced, like ring-fencing rules, from 2019. The Systemic Risk Buffer will only apply to firms with total assets that exceed £175 billion.

The table below shows capital resources:

	At 30 Jun 2016 £m	At 31 Dec 2015 £m
Share capital and share premium account	**654.6**	654.6
Other equity instruments	**156.5**	156.5
Other reserves	**(43.4)**	(15.6)
Retained earnings	**597.6**	544.8
Total equity per balance sheet	**1,365.3**	**1,340.3**
Regulatory capital adjustments		
Deconsolidation of non regulated companies	**4.8**	4.5
Foreseeable distributions on Additional Tier 1 securities	**(2.1)**	(2.1)
Foreseeable distribution on ordinary shares	**(9.1)**	(13.7)
Other equity instruments	**(156.5)**	(156.5)
Cash flow hedge reserve	**41.9**	15.3
Prudential valuation adjustment	**(1.6)**	-
Intangible assets	**(66.5)**	(64.4)
Excess of expected loss over impairment	**(40.5)**	(35.4)
Deferred tax on brought forward tax losses	**(7.6)**	(18.0)
Common Equity Tier 1 capital	**1,128.1**	**1,070.0**
Additional Tier 1 securities	**156.5**	**156.5**
Total Tier 1 capital	**1,284.6**	**1,226.5**
Tier 2 capital		
General credit risk adjustments	**9.9**	7.6
Total Tier 2 capital	**9.9**	**7.6**
Total own funds	**1,294.5**	**1,234.1**

Common Equity Tier 1 ratio	**15.3%**	17.5%
Tier 1 ratio	**17.4%**	20.1%
Total capital ratio	**17.5%**	20.2%

As required by Article 26(2) of the Capital Requirements Regulation, a deduction has been made for foreseeable dividends on 2016 profits.

Movements in Common Equity Tier 1

	2016 £m
At 1 Jan 2016	**1,070.0**
Movement in retained earnings	**52.8**
Add back 2015 distributions already deducted from capital	**13.7**
Movement in available-for-sale reserve	**(1.2)**
Foreseeable distribution on ordinary shares	**(9.1)**
Exclude losses from non-regulated companies	**0.3**
Prudential valuation adjustment	**(1.6)**
Movement in intangible assets	**(2.1)**
Movement in excess of expected loss over impairment	**(5.1)**
Movement in deferred tax on tax losses carried forward	**10.4**
At 30 Jun 2016	**1,128.1**

The main driver for the increase in capital resources is the increase in retained earnings and the reduction in deferred tax asset on tax losses, offset by expected distributions, and other items as set out in the table above.

Risk-weighted assets

	At 30 Jun 2016 £m	At 31 Dec 2015 £m
Retail mortgages	**4,619.9**	3,952.9
Retail unsecured lending	**1,559.8**	1,192.7
Treasury	**235.2**	229.0
Other assets	**270.0**	196.3
Credit valuation adjustments	**37.6**	14.3
Operational risk	**655.3**	525.2
Total risk-weighted assets	**7,377.8**	**6,110.4**

Movement in risk-weighted assets

	IRB mortgage £m	**Standardised lending £m**	**Other standardised assets £m**	**Credit valuation adjustment £m**	**Operational risks £m**	**Total £m**
RWAs at 1 Jan 2016	**3,952.9**	**1,192.7**	**425.3**	**14.3**	**525.2**	**6,110.4**
Book size	**344.1**	**368.0**	**-**	**-**	**-**	**712.1**
Model calibration	**136.6**	**-**	**-**	**-**	**-**	**136.6**
Other movements	**186.3**	**(0.9)**	**79.9**	**23.3**	**130.1**	**418.7**
RWAs at 30 Jun 2016	**4,619.9**	**1,559.8**	**505.2**	**37.6**	**655.3**	**7,377.8**

The Group uses a variable scalar methodology to calculate the probability of default (PD) used within the AIRB capital models. This approach aids capital management by ensuring the regulatory capital requirements fluctuate primarily as a result of changes in the credit quality mix of the portfolio, rather than changes in the economy.

This methodology reduces, but does not eliminate, procyclicality within PD estimates. During the first half of 2016 the improvement in arrears volume and subsequent arrears rates, combined with the increase in the proportion of accounts in the lowest risk bands resulted in a reduction in the point-in-time PDs. These lower point-in-time PDs have resulted in the requirement to increase the scaling factor used to transform these to the long-run average estimates. It is these higher scaling factors, shown in the following table as 'model calibration', which resulted in increased RWAs of £136.6 million in the period.

There have been no AIRB model updates implemented during the first half of 2016.

Further changes in the portfolio during the first half of the year are captured in the 'other movements' element of the table. These are attributed to changes in the portfolio distribution with new business driving higher long run PDs and LGDs. However, this is partly offset by positive house price growth reducing LGD and RWAs on the back book.

Operational risk is calculated using the Standardised Approach, based on the average Group income over the past three years. The year-on-year increase reflects the increasing Group income from 2012 to 2015.

Leverage ratio

The leverage ratio is risk insensitive, requiring capital to be held against total and off-balance sheet exposures such as undrawn credit facilities.

The Group's leverage ratio as at 30 June 2016 was 3.8% (31 December 2015: 4.0%) as disclosed below:

	At 30 Jun 2016 £m	At 31 Dec 2015 £m
Tier 1 capital	**1,284.6**	**1,226.5**
Exposures measure		
Total regulatory balance sheet assets	**33,152.5**	30,233.2
Removal of accounting values for derivatives	**(158.7)**	(82.3)
Exposure value for derivatives	**150.3**	61.8
Exposure value for securities financing transactions	**126.3**	261.7
Off-balance sheet items	**711.9**	659.5
Other regulatory adjustments	**(74.3)**	(102.5)
Total exposures	**33,908.0**	**31,031.4**
Leverage ratio	**3.8%**	**4.0%**

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

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

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

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	**Half-year to 30 Jun 2016 £ million**	Half-year to 30 Jun 2015 £ million	Half-year to 31 Dec 2015 £ million
Interest and similar income		**473.9**	406.7	432.6
Interest and similar expense		**(218.3)**	(185.9)	(198.6)
Net interest income	3	**255.6**	220.8	234.0
Fee and commission income		**15.2**	12.6	14.8
Fee and commission expense		**(0.7)**	(0.7)	(0.5)
Net fee and commission income		**14.5**	11.9	14.3
Other operating income		**23.0**	22.3	19.0
Fair value losses on financial instruments		**(5.1)**	(0.1)	(0.3)
Other income		**32.4**	34.1	33.0
Total income		**288.0**	254.9	267.0
Total operating expenses	4	**(176.9)**	(185.6)	(168.0)
Profit before tax from operating activities		**111.1**	69.3	99.0
Impairment	6	**(17.4)**	(14.3)	(16.0)
Profit before tax		**93.7**	55.0	83.0
Taxation	7	**(26.2)**	(12.1)	(14.7)
Profit for the period		**67.5**	42.9	68.3
Profit attributable to equity owners		**67.5**	42.9	68.3
Profit for the period		**67.5**	42.9	68.3
Basic earnings per share (pence)	8	**14.1**	8.6	14.4
Diluted earnings per share (pence)	8	**14.0**	8.5	14.2

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

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half-year to 30 Jun 2016 £ million	Half-year to 30 Jun 2015 £ million	Half-year to 31 Dec 2015 £ million
Profit for the period	**67.5**	42.9	68.3
Other comprehensive (expense)/income *Items that may subsequently be reclassified to profit or loss:*			
Movements in revaluation reserve in respect of available-for-sale financial assets:			
- Change in fair value	**30.5**	10.8	14.3
- Income statement transfers in respect of disposals	**(32.2)**	(16.2)	(17.4)
- Taxation	**0.5**	0.9	0.3
	(1.2)	(4.5)	(2.8)
Movements in cash flow hedging reserve:			
- Effective portion of changes in fair value taken to other comprehensive income	**(41.3)**	(4.3)	(8.9)
- Net income statement transfers	**4.4**	2.2	2.9
- Taxation	**10.3**	0.4	1.2
	(26.6)	(1.7)	(4.8)
Other comprehensive expense for the period, net of tax	**(27.8)**	(6.2)	(7.6)
Total comprehensive income for the period	**39.7**	36.7	60.7

Total comprehensive income attributable to equity shareholders	**39.7**	36.7	60.7

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

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

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**At 30 Jun 2016 £ million**	At 31 Dec 2015 £ million
Assets			
Cash and balances at central banks		**784.3**	888.6
Derivative financial instruments		**158.7**	82.3
Loans and receivables:			
- Loans and advances to banks		**833.2**	614.5
- Loans and advances to customers	11	**30,031.0**	27,109.0
- Debt securities		**0.9**	1.1
		30,865.1	27,724.6
Available-for-sale financial assets		**1,046.7**	1,296.9
Intangible assets		**66.5**	64.4
Tangible fixed assets		**76.8**	74.6
Deferred tax assets		**33.4**	38.0
Other assets		**116.5**	59.6
Total assets		**33,148.0**	30,229.0

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

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

Equity and liabilities	Note	At 30 Jun 2016 £ million	At 31 Dec 2015 £ million
Liabilities			
Deposits from banks		**1,016.5**	1,298.7
Customer deposits	12	**27,128.4**	25,144.9
Derivative financial instruments		**398.8**	156.0
Debt securities in issue	13	**2,948.2**	2,039.4
Provisions	14	**15.8**	8.4
Other liabilities		**275.0**	241.3
Total liabilities		**31,782.7**	28,888.7
Equity			
Share capital and share premium		**654.6**	654.6
Other equity instruments		**156.5**	156.5
Other reserves		**(43.4)**	(15.6)
Retained earnings		**597.6**	544.8
Total equity		**1,365.3**	1,340.3
Total liabilities and equity		**33,148.0**	30,229.0

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

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders

	Share capital and share premium £ million	Other equity instruments £ million	Other reserves £ million	Retained earnings £ million	Total equity £ million
Balance at 1 January 2016	**654.6**	**156.5**	**(15.6)**	**544.8**	**1,340.3**
Comprehensive income					
Profit for the period	**-**	**-**	**-**	**67.5**	**67.5**
Other comprehensive					
Net movement in available-for-sale	**-**	**-**	**(1.2)**	**-**	**(1.2)**
Net movement in cash flow hedge reserve	**-**	**-**	**(26.6)**	**-**	**(26.6)**
Total other comprehensive expense	**-**	**-**	**(27.8)**	**-**	**(27.8)**
Total comprehensive (expense)/income for the period	**-**	**-**	**(27.8)**	**67.5**	**39.7**
Transactions with equity holders					
Share based payments – charge for the period	**-**	**-**	**-**	**6.4**	**6.4**
Purchase of own shares	**-**	**-**	**-**	**(2.4)**	**(2.4)**
Distribution to Additional Tier 1 security holders	**-**	**-**	**-**	**(6.3)**	**(6.3)**
Group tax relief attributable to Tier 1 securities	**-**	**-**	**-**	**1.3**	**1.3**
Dividends paid to Ordinary Shareholders	**-**	**-**	**-**	**(13.7)**	**(13.7)**
Total transactions with equity holders	**-**	**-**	**-**	**(14.7)**	**(14.7)**
Balance at 30 June 2016	**654.6**	**156.5**	**(43.4)**	**597.6**	**1,365.3**

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Attributable to equity holders

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

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Attributable to equity holders

	Share capital and share premium £ million	Other equity instruments £ million	Other reserves £ million	Retained earnings £ million	Total equity £ million
Balance at 1 July 2015	654.6	156.5	(8.0)	483.2	1,286.3
Comprehensive income					
Profit for the period	-	-	-	68.3	68.3
Other comprehensive (expense)/income					
Net movement in available-for-sale reserve	-	-	(2.8)	-	(2.8)
Net movement in cash flow hedge reserve	-	-	(4.8)	-	(4.8)
Total other comprehensive expense	-	-	(7.6)	-	(7.6)
Total comprehensive (expense)/income for the period	-	-	(7.6)	68.3	60.7
Transactions with equity holders					
Share based payments – charge for the period	-	-	-	9.2	9.2
Deferred tax on share based payments	-	-	-	0.3	0.3
Purchase of own shares	-	-	-	(5.0)	(5.0)
Distribution to Additional Tier 1 security holders	-	-	-	(6.3)	(6.3)
Group tax relief attributable to Tier 1 securities	-	-	-	1.3	1.3
Dividends paid to Ordinary Shareholders	-	-	-	(6.2)	(6.2)
Total transactions with equity holders	-	-	-	(6.7)	(6.7)
Balance at 31 December 2015	654.6	156.5	(15.6)	544.8	1,340.3

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Half-year to 30 Jun 2016 £ million	Half-year to 30 Jun 2015 £ million	Half-year to 31 Dec 2015 £ million
Profit before taxation	**93.7**	55.0	83.0
Adjustments for:			
Changes in operating assets	**(3,076.1)**	(1,631.7)	(2,405.6)
Changes in operating liabilities	**1,991.3**	457.7	2,688.7
Non-cash and other items	**(101.7)**	46.0	16.4
Tax paid	**(6.1)**	-	(5.0)
Net cash (used in)/provided by operating activities	**(1,098.9)**	(1,073.0)	377.5
Cash flows from investing activities			
Net investment in intangible assets	**(9.7)**	(11.4)	(18.1)
Purchase of fixed assets	**(3.7)**	(2.9)	(7.3)
Disposal of fixed assets	**0.3**	-	-
Net investment in securities	**(762.6)**	(322.0)	(337.2)
Proceeds from sale and redemption of securities	**1,099.1**	439.4	461.1
Net cash provided by investing activities	**323.4**	103.1	98.5
Cash flows from financing activities			
Distribution to Tier 1 noteholders	**(6.3)**	(6.3)	(6.3)
Net increase/(decrease) in debt securities in issue	**908.8**	744.8	(299.5)
Purchase of own shares	**(2.3)**	-	(5.0)
Dividends paid to Ordinary Shareholders	**(13.7)**	-	(6.2)
Net cash provided by/(used in) financing activities	**886.5**	738.5	(317.0)
Change in cash and cash equivalents	**111.0**	(231.4)	159.0
Cash and cash equivalents at beginning of period	**1,461.4**	1,533.8	1,302.4
Cash and cash equivalents at end of period[1]	**1,572.4**	1,302.4	1,461.4

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

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS

Note 1: Basis of preparation

1.1 Basis of preparation and going concern

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

These condensed consolidated half-year financial statements for the six months ended 30 June 2016 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and IAS 34 *Interim Financial Reporting* as adopted by the European Union (EU). They do not include all the information required by International Financial Reporting Standards (IFRS) in full annual financial statements and should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2015. Copies of the 2015 Annual Report and Accounts are available on the Group's website.

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 auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

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

1.2 Accounting policies

The accounting policies and methods of computation are consistent with those applied in the 2015 Annual Report and Accounts (pages 222 to 231) except as described below.

Amendment to IAS 1 'Presentation of financial statements'

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

Amendment to IAS 16 'Property, plant and equipment'

The amendment clarifies the requirements for applying the revaluation method and provides clarifications in relation to proportionate restatement of accumulated depreciation.

Amendment to IAS 19 'Employee Benefits'

The amendment clarifies requirements for estimating the discount rate for post-employment benefits.

Amendment to IAS 24 'Related party disclosures'

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

Amendment to IAS 27 'Separate financial statements'

The amendment clarifies when entities are preparing their separate financial statements, joint ventures, investments in subsidiaries and associates may be accounted for at cost, in accordance with IFRS 9 or using the equity method as described in IAS 28.

Amendment to IAS 34 'Interim financial information'

The amendment clarifies that required interim disclosures must be included in the interim financial statements or cross-referenced to elsewhere in the interim report. This amendment also clarifies the definition of 'elsewhere in the interim report'.

Amendment to IAS 38 'Intangible assets'

The amendment clarifies the requirements for applying the revaluation method and provides clarifications in relation to proportionate restatement of accumulated amortisation.

Amendment to IFRS 2 'Share based payments'

The amendment has added the definitions for 'performance condition' and 'service condition' and amended the definitions of 'vesting condition' and 'market condition'.

Note 1: Basis of preparation (continued)

Amendment to IFRS 7 'Financial instruments: disclosures'

The amendment clarifies whether a servicing contract constitutes continuing involvement in an asset that has been transferred and derecognised in its entirety for disclosure purposes. In addition, it was clarified that 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 the disclosure of management judgements made applying the aggregation criteria to operating segments.

The amendment clarifies that if segment assets are reported regularly, reconciliations of the total reportable segments' assets to the entity's assets must be provided.

Amendment to IFRS13 'Fair value measurement'

The amendment clarifies that when the effect of discounting is immaterial short-term receivables and payables with no stated interest rate can be held at their invoice amounts.

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

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 Group in future periods are consistent with those disclosed in the 2015 Annual Report and Accounts (page 271).

1.4 Presentation of information

Presentation of risk disclosures

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

1.5 Critical estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, due to inherent uncertainty in making estimates, actual results in future periods may include amounts which differ from those estimates.

There have been no significant changes in the basis upon which critical estimates and judgements have been determined, compared to those applied at 31 December 2015.

Note 2: Operating segments

Segmental reporting

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

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

These business groupings reflect how the Executive assesses performance and makes decisions regarding the allocation of resources to the business on the basis of product and customers. Internal and external sources of revenue are allocated to the appropriate business segment. There has been no change to the segments descriptions included in the 2015 Annual Report and Accounts (page 234).

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

Note 2: Operating segments (continued)

Half-year to 30 June 2016	**Mortgages and savings £m**	**Credit cards £m**	**CII £m**	**Central functions £m**	**Underlying basis total £m**
Net interest income	**190.0**	**62.2**	**-**	**-**	**252.2**
Other income	**0.9**	**8.5**	**20.3**	**7.7**	**37.4**
Total underlying income	**190.9**	**70.7**	**20.3**	**7.7**	**289.6**
Total costs	**(49.4)**	**(19.3)**	**(9.3)**	**(92.4)**	**(170.4)**
Impairment	**(1.3)**	**(16.1)**	**-**	**-**	**(17.4)**
Underlying profit/(loss) before tax	**140.2**	**35.3**	**11.0**	**(84.7)**	**101.8**
Segment assets	**27,676.9**	**2,072.0**	**2.5**	**3,396.6**	**33,148.0**
Segment liabilities	**27,026.9**	**4.1**	**275.7**	**4,476.0**	**31,782.7**

Half-year to 30 June 2015	Mortgages and savings £m	Credit cards £m	CII £m	Central functions[1] £m	Underlying basis total £m
Net interest income/(expense)	176.4	43.9	-	-	220.3
Other income	1.3	8.0	18.0	6.9	34.2
Total underlying income	177.7	51.9	18.0	6.9	254.5
Total costs	(47.4)	(19.5)	(8.4)	(98.5)	(173.8)
Impairment	(1.6)	(12.7)	-	-	(14.3)
Underlying profit/(loss) before tax	128.7	19.7	9.6	(91.6)	66.4
Segment assets	23,590.1	1,069.2	2.9	3,119.6	27,781.8
Segment liabilities	22,938.1	4.6	215.7	3,337.1	26,495.5

Half-year to 31 December 2015	Mortgages and savings £m	Credit cards £m	CII £m	Central functions[1] £m	Underlying basis total £m
Net interest income	182.1	53.7	-	-	235.8
Other income	1.2	10.0	18.6	3.4	33.2
Total underlying income	183.3	63.7	18.6	3.4	269.0
Total costs	(45.3)	(17.6)	(8.3)	(87.5)	(158.7)
Impairment	(1.4)	(14.6)	-	-	(16.0)
Underlying profit/(loss) before tax	136.6	31.5	10.3	(84.1)	94.3
Segment assets	25,457.9	1,585.2	2.3	3,183.6	30,229.0
Segment liabilities	25,063.3	4.0	235.5	3,585.9	28,888.7

[1] The FSCS Levy was previously excluded from underlying performance measures, but is now included in central functions as it is considered to be a recurring cost to the Group.

Note 2: Operating segments (continued)

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

		Adjusted for				
	Statutory results	**IPO Share based awards**	**Strategic items**	**Compensation for senior leavers**	**Fair value losses on financial instruments**	**Underlying basis**
Half-year to 30 June 2016	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	**255.6**	**-**	**(3.4)**	**-**	**-**	**252.2**
Other income	**32.4**	**-**	**(0.1)**	**-**	**5.1**	**37.4**
Total income	**288.0**	**-**	**(3.5)**	**-**	**5.1**	**289.6**
Total operating expenses	**(176.9)**	**1.4**	**1.8**	**3.3**	**-**	**(170.4)**
Profit before tax from operating activities	**111.1**	**1.4**	**(1.7)**	**3.3**	**5.1**	**119.2**
Impairment	**(17.4)**	**-**	**-**	**-**	**-**	**(17.4)**
Profit before tax	**93.7**	**1.4**	**(1.7)**	**3.3**	**5.1**	**101.8**

		Adjusted for				
	Statutory results	IPO Share based awards	Strategic items	Compensation for senior leavers	Fair value losses on financial instruments	Underlying basis[1]
Half-year to 30 June 2015	£m	£m	£m	£m	£m	£m
Net interest income	220.8	-	(0.5)	-	-	220.3
Other income	34.1	-	-	-	0.1	34.2
Total income	254.9	-	(0.5)	-	0.1	254.5
Total operating expenses	(185.6)	6.5	5.3	-	-	(173.8)
Profit before tax from operating activities	69.3	6.5	4.8	-	0.1	80.7
Impairment	(14.3)	-	-	-	-	(14.3)
Profit before tax	55.0	6.5	4.8	-	0.1	66.4

[1] The FSCS Levy was previously excluded from underlying performance measures, but is now included in central functions as it is considered to be a recurring cost to the Group.

Note 2: Operating segments (continued)

		Adjusted for				
	Statutory results	IPO Share based awards	Strategic items	Compensation for senior leavers	Fair value losses on financial instruments	Underlying basis[1]
Half-year to 31 December 2015	£m	£m	£m	£m	£m	£m
Net interest income	234.0	-	1.8	-	-	235.8
Other income	33.0	-	(0.1)	-	0.3	33.2
Total income	267.0	-	1.7	-	0.3	269.0
Total operating expenses	(168.0)	4.0	1.6	3.7	-	(158.7)
Profit before tax from operating activities	99.0	4.0	3.3	3.7	0.3	110.3
Impairment	(16.0)	-	-	-	-	(16.0)
Profit before tax	83.0	4.0	3.3	3.7	0.3	94.3

[1] The FSCS Levy was previously excluded from underlying performance measures, but is now included in central functions as it is considered to be a recurring cost to the Group.

Note 3: 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	**464.0**	398.5	423.9
Loans and advances to banks	**1.3**	1.2	1.2
Interest receivable on loans and receivables	**465.3**	399.7	425.1
Available-for-sale financial assets	**6.3**	5.0	5.5
Cash and balances at central banks	**2.3**	2.0	2.0
Total interest and similar income	**473.9**	406.7	432.6
Interest and similar expense:			
Deposits from banks including liabilities under sale and repurchase agreements	**(3.7)**	(3.2)	(3.6)
Customer deposits	**(190.4)**	(167.0)	(175.7)
Debt securities in issue	**(20.7)**	(12.7)	(16.3)
Other	**(3.5)**	(3.0)	(3.0)
Total interest and similar expense	**(218.3)**	(185.9)	(198.6)
Net interest income	**255.6**	220.8	234.0

[1] Items within interest income and expense have been reclassified to better reflect the interest bearing assets and liabilities to which they relate.

Note 3: Net interest income (continued)

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

Note 4: Total operating expenses

Total operating expenses comprise:

	Half-year to 30 Jun 2016 £m	Half-year to 30 Jun 2015 £m	Half-year to 31 Dec 2015 £m
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 schemes	**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	**6.9**	6.6	7.4
	9.2	8.9	9.7
Other expenses:			
Marketing costs	**10.7**	12.3	10.0
FSCS levy	**7.8**	15.5	(3.0)
Professional fees	**4.9**	4.1	6.6
Other	**43.3**	43.3	40.9
	66.7	75.2	54.5
Depreciation and amortisation:			
Depreciation of tangible fixed assets	**1.5**	4.1	4.3
Amortisation of intangible assets	**7.6**	5.4	5.8
	9.1	9.5	10.1
Total operating expenses	**176.9**	185.6	168.0

Note 5: Share-based payments

Share-based payments 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 7 of the 2015 Annual Report and Accounts. Of the £6.4 million share-based payments charge in the six months ended 30 June 2016, £1.9 million relates to costs associated with listing, inclusive of their respective employer's national insurance contributions.

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

Note 6: Allowance for impairment losses on loans and receivables

	Half-year to 30 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 the income statement	**20.1**	17.8	19.4
Closing provision	**44.1**	35.3	39.9
In respect of:			
Secured loans	**9.5**	8.0	8.7
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 have 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 the income statement	**20.1**	17.8	19.4
Debt sale recoveries	**(2.7)**	(3.5)	(3.4)
Net charge to the income statement	**17.4**	14.3	16.0

Note 7: Taxation

Analysis of the tax charge for the period:

	Half-year to 30 Jun 2016 £m	Half-year to 30 Jun 2015 £m	Half-year to 31 Dec 2015 £m
Profit before tax	**93.7**	55.0	83.0
Tax charge at standard tax rate of 20% (30 June 2015: 20.25%, 31 December 2015: 20.25%)	**(18.7)**	(11.1)	(16.8)
Factors affecting tax charge:			
Disallowed items	**(1.2)**	(1.0)	(0.5)
Bank corporation tax surcharge	**(5.8)**	-	-
Non taxable income	**-**	-	0.8
UK corporation tax rate changes	**(0.1)**	-	2.5
Deferred tax charge in respect of share schemes	**(0.8)**	-	-
Adjustments in respect of prior periods	**0.2**	-	(0.7)
Other	**0.2**	-	-
Total tax charge	**(26.2)**	(12.1)	(14.7)

At 31 December 2015 there was a £2.3 million provision held in Virgin Money plc 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 £5.8 million in the period to 30 June 2016.

In accordance with IAS 34 '*Interim Financial Reporting'*, the Group'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 8: Earnings per share

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

	Half-year to 30 Jun 2016 £m	Half-year to 30 Jun 2015 £m	Half-year to 31 Dec 2015 £m
Profit attributable to equity shareholders – basic and diluted	**67.5**	42.9	68.3
Distributions to Additional Tier 1 security holders (net of group relief)	**(5.0)**	(5.0)	(5.0)
Profit attributable to equity holders for the purposes of basic and diluted EPS	**62.5**	37.9	63.3

	30 Jun 2016 Number of shares (million)	30 Jun 2015 Number of shares (million)	31 Dec 2015 Number of shares (million)
Weighted-average number of Ordinary Shares in issue – basic	**442.6**	440.9	441.0
Adjustment for share options and awards	**3.4**	3.6	4.9
Weighted-average number of Ordinary Shares in issue – diluted	**446.0**	444.5	445.9
Basic earnings per share (pence)	**14.1**	8.6	14.4
Diluted earnings per share (pence)	**14.0**	8.5	14.2

Note 9: Dividends on Ordinary Shares

An interim dividend for 2016 of 1.6 pence per Ordinary Share was declared on 25 July 2016 and will be paid on 23 September 2016 to shareholders on the share register at close of business on 12 August 2016.

An interim dividend for 2015 of 1.4 pence per Ordinary Share amounting to £6.2 million, was paid in October 2015. A final dividend in respect of the year ended 31 December 2015 of 3.1 pence per Ordinary Share amounting to £13.7 million, was paid in May 2016.

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

	Held at amortised cost £m	Loans and receivables £m	Available - for-sale securities £m	Derivatives not designated as hedging instruments £m	Derivatives designated as hedging instruments: Fair value hedges £m	Derivatives designated as hedging instruments: Cash flow hedges £m	Total £m
At 30 June 2016							
Financial assets							
Cash and balances at central banks	-	784.3	-	-	-	-	784.3
Derivative financial instruments	-	-	-	38.1	74.3	46.3	158.7
Loans and receivables:							
- Loans and advances to banks	-	833.2	-	-	-	-	833.2
- Loans and advances to customers	-	30,031.0	-	-	-	-	30,031.0
- Debt securities	-	0.9	-	-	-	-	0.9
Available-for-sale financial assets	-	-	1,046.7	-	-	-	1,046.7
Other assets – trade debtors and accrued income	-	21.2	-	-	-	-	21.2
Total financial assets	-	31,670.6	1,046.7	38.1	74.3	46.3	32,876.0
Non financial assets							272.0
Total assets							33,148.0
Financial liabilities							
Deposits from banks	1,016.5	-	-	-	-	-	1,016.5
Customer deposits	27,128.4	-	-	-	-	-	27,128.4
Derivative financial instruments	-	-	-	32.8	347.9	18.1	398.8
Debt securities in issue	2,948.2	-	-	-	-	-	2,948.2
Other liabilities – trade creditors and accrued interest	187.5	-	-	-	-	-	187.5
Total financial liabilities	31,280.6	-	-	32.8	347.9	18.1	31,679.4
Non financial liabilities							103.3
Total liabilities							31,782.7
Equity							1,365.3
Total liabilities and equity							33,148.0

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

	Held at amortised cost £m	Loans and receivables £m	Available - for-sale securities £m	Derivatives not designated as hedging instruments £m	Derivatives designated as hedging instruments: Fair value hedges £m	Derivatives designated as hedging instruments: Cash flow hedges £m	Total £m
At 31 December 2015							
Financial assets							
Cash and balances at central banks	-	888.6	-	-	-	-	888.6
Derivative financial instruments	-	-	-	18.3	63.5	0.5	82.3
Loans and receivables:							
- Loans and advances to banks	-	614.5	-	-	-	-	614.5
- Loans and advances to customers	-	27,109.0	-	-	-	-	27,109.0
- Debt securities	-	1.1	-	-	-	-	1.1
Available-for-sale financial assets	-	-	1,296.9	-	-	-	1,296.9
Other assets – trade debtors accrued income	-	14.6	-	-	-	-	14.6
Total financial assets	-	28,627.8	1,296.9	18.3	63.5	0.5	30,007.0
Non financial assets							222.0
Total assets							30,229.0
Financial liabilities							
Deposits from banks	1,298.7	-	-	-	-	-	1,298.7
Customer deposits	25,144.9	-	-	-	-	-	25,144.9
Derivative financial instruments	-	-	-	15.4	139.6	1.0	156.0
Debt securities in issue	2,039.4	-	-	-	-	-	2,039.4
Other liabilities – trade creditors and accrued interest	155.1	-	-	-	-	-	155.1
Total financial liabilities	28,638.1	-	-	15.4	139.6	1.0	28,794.1
Non financial liabilities							94.6
Total liabilities							28,888.7
Equity							1,340.3
Total liabilities and equity							30,229.0

Note 11: Loans and advances to customers

Loans and advances to customers comprise:

	At 30 Jun 2016 £m	At 31 Dec 2015 £m
Advances secured on residential property not subject to securitisation	**16,814.9**	17,389.9
Advances secured on residential property subject to securitisation	**5,973.3**	3,670.4
	22,788.2	21,060.3
Residential buy-to-let loans not subject to securitisation	**4,895.5**	4,401.9
Total loans and advances to customers secured on residential property	**27,683.7**	25,462.2
Unsecured receivables not subject to securitisation	**2,100.6**	1,610.0
Total loans and advances to customers before allowance for impairment losses	**29,784.3**	27,072.2
Impairment allowance (refer note 6)	**(44.1)**	(39.9)
Total loans and advances to customers excluding portfolio hedging	**29,740.2**	27,032.3
Fair value of portfolio hedging	**290.8**	76.7
Total loans and advances to customers	**30,031.0**	27,109.0

Note 12: Customer deposits

Customer deposits comprise:

	At 30 Jun 2016 £m	At 31 Dec 2015 £m
Savings and investment accounts	**26,856.5**	24,914.6
Personal current accounts	**271.9**	230.3
Total customer deposits	**27,128.4**	25,144.9

Note 13: Debt securities in issue

	Secured £m	Unsecured £m	Total £m
At 1 January 2015	1,594.1	-	1,594.1
Repayments	(601.9)	-	(601.9)
Issues	750.0	298.9	1,048.9
Other movements	(0.3)	(1.4)	(1.7)
At 31 December 2015	1,741.9	297.5	2,039.4
Repayments	**(425.8)**	**-**	**(425.8)**
Issues	**1,278.9**	**-**	**1,278.9**
Revaluation	**47.8**	**-**	**47.8**
Other movements	**(3.7)**	**11.6**	**7.9**
At 30 June 2016	**2,639.1**	**309.1**	**2,948.2**

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

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

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

On 25 January 2016, the Group raised £803 million from institutional investors through the issuance of Residential Mortgage Backed Securities in the Gosforth Funding 2016-1 transaction in Euro, US Dollars and Sterling. On 9 May 2016, the Group raised £474.5 million from institutional investors through the issuance of Residential Mortgage Backed Securities (RMBS) in the Gosforth Funding 2016-2 transaction in Euro and Sterling. For all RMBS funding raised in currencies other than Sterling, the Group enter into cross-currency derivatives which swap the foreign currency liabilities back into Sterling.

Note 14: Provisions

The movement in provision balances was as follows:

	FSCS £m	Other £m	Total £m
At 1 January 2015	8.7	0.6	9.3
Provisions applied	(14.6)	(0.2)	(14.8)
Charge for the year	12.5	1.4	13.9
At 31 December 2015	6.6	1.8	8.4
Provisions applied	**-**	**(0.4)**	**(0.4)**
Charge for the year	**7.8**	**-**	**7.8**
At 30 June 2016	**14.4**	**1.4**	**15.8**

Note 14: Provisions (continued)

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the UK's statutory fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS has borrowed from HM Treasury to fund the compensation costs associated with institutions that failed in 2008 and will receive the receipts from asset sales, surplus cash flows and other recoveries from these institutions in the future. The FSCS meets its obligations by raising management expense and compensation levies. These include amounts to cover the interest on its borrowings and on-going management expenses. Each deposit taking institution contributes in proportion to its share of total protected deposits.

The FSCS can only raise a levy within its scheme year (which commences 1 April) and under IFRIC 21 'Levies' the Group recognises its FSCS provision in the scheme year itself.

Note 15: Contingent liabilities and commitments

Contingent liabilities

The Board was not aware of any significant contingent liabilities as at 30 June 2016 (31 December 2015: none).

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

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

Commitments

Loan commitments

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

	At 30 Jun 2016 £m	At 31 Dec 2015 £m
Not later than 1 year	**4,614.1**	3,958.7
Later than 1 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 16: Fair value of financial assets and liabilities

Fair value of financial assets and liabilities recognised at cost

The following table summarises the fair values of those financial assets and liabilities not presented on the Group'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 31 December 2015 Annual Report and Accounts sets out the key principles for estimating the fair values of financial instruments.

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
At 30 June 2016					
Cash and balances at central banks	**-**	**784.3**	**-**	**784.3**	**784.3**
Loans and advances to banks	**-**	**833.2**	**-**	**833.2**	**833.2**
Loans and advances to customers[1]	**-**	**-**	**29,877.8**	**29,877.8**	**30,031.0**
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	**-**	**21.2**	**-**	**21.2**	**21.2**
Total financial assets at fair value	**0.9**	**1,638.7**	**29,878.1**	**31,517.7**	**31,670.9**
Deposits from banks	**-**	**1,016.5**	**-**	**1,016.5**	**1,016.5**
Customer deposits	**-**	**27,205.6**	**-**	**27,205.6**	**27,128.4**
Debt securities in issue	**2,940.2**	**-**	**-**	**2,940.2**	**2,948.2**
Other liabilities – trade payables and accrued interest	**-**	**187.5**	**-**	**187.5**	**187.5**
Total financial liabilities at fair value	**2,940.2**	**28,409.6**	**-**	**31,349.8**	**31,280.6**

[1] Amounts shown in respect of loans and advances to customers include fair value adjustments of portfolio hedging.

Note 16: Fair value of financial assets and liabilities (continued)

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
At 31 December 2015					
Cash and balances at central banks	-	888.6	-	888.6	888.6
Loans and advances to banks	-	614.5	-	614.5	614.5
Loans and advances to customers[1]	-	-	27,243.2	27,243.2	27,109.0
Debt securities classified as loans and receivables	1.2	-	-	1.2	1.1
Available-for-sale financial assets			1.3	1.3	1.3
Other assets – trade debtors and accrued income	-	14.6	-	14.6	14.6
Total financial assets at fair value	1.2	1,517.7	27,244.5	28,763.4	28,629.1
Deposits from banks	-	1,298.7	-	1,298.7	1,298.7
Customer deposits	-	25,162.5	-	25,162.5	25,144.9
Debt securities in issue	2,032.1	-	-	2,032.1	2,039.4
Other liabilities – trade payables and accrued interest	-	155.1	-	155.1	155.1
Total financial liabilities at fair value	2,032.1	26,616.3	-	28,648.4	28,638.1

[1] Amounts shown in respect of loans and advances to customers include fair value adjustments of portfolio hedging.

Fair value hierarchy

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

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

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

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

There is no significant change to what was disclosed in the 31 December 2015 Annual Report and Accounts in respect of the valuation methodology (techniques and inputs) applied for calculations of fair values in the tables above.

Note 16: Fair value of financial assets and liabilities (continued)

Fair value of financial assets and liabilities recognised at fair value

The following table summarises the fair values of those financial assets and liabilities recognised at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised. The accounting policy in the 31 December 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 Group'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.

30 June 2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Derivative financial instruments	**-**	**158.7**	**-**	**158.7**
Available-for-sale financial assets	**1,039.0**	**-**	**7.4**	**1,046.4**
Financial liabilities				
Derivative financial instruments	**-**	**398.8**	**-**	**398.8**

31 December 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Derivative financial instruments	-	82.3	-	82.3
Available-for-sale financial assets	1,233.3	59.0	3.3	1,295.6
Financial liabilities				
Derivative financial instruments	-	156.0	-	156.0

Level 1 Valuations

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

Level 2 Valuations

The fair values of derivative 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 securities are calculated using valuation techniques, including discounted cash flow models.

Level 3 valuations

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

The level 3 valuation of £3.3 million at 31 December 2015 represented the Group’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.

Note 16: Fair value of financial assets and liabilities (continued)

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 Group 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 17: Related party transactions

Full details of the Group's related party transactions for the year to 31 December 2015 can be found in note 37 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.

Note 18: Events after the balance sheet date

There have been no significant events between 30 June 2016 and the date of approval of the condensed consolidated half-year financial statements which would require a change to or additional disclosure in the financial statements apart from the following:

As disclosed in note 9, on 25 July 2016, the Group declared an interim dividend of 1.6 pence per Ordinary Share. The dividend will be paid on 23 September 2016.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that these condensed half-year financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

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

By order of the Board,

Jayne-Anne Gadhia, CBE
Chief Executive
25 July 2016

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

Report on the Virgin Money Holdings (UK) plc condensed consolidated interim financial statements

Our conclusion

We have reviewed the condensed consolidated interim financial statements (the "interim financial statements") in the half-year results of Virgin Money Holdings (UK) 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 condensed consolidated balance sheet as at 30 June 2016;
- the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated cash flow statement for the period then ended;
- the condensed consolidated 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 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 Group 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 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 half-year results in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the 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 Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

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

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and 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.

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

We have read the other information contained in the 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.

Analyst and investor call

An analyst and investor call will be held as follows:

Date: Tuesday 26 July 2016

Time: 9.30am

Dial: +44 20 3059 8125

Webcast: http://uk.virginmoney.com/virgin/investor-relations/results-and-presentations

An operator will assist you in joining the call.

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NOTES TO EDITORS

About Virgin Money

- Virgin Money offers savings, mortgages, credit cards, current accounts, currency services, pensions, investments and protection products to customers across the UK
- Virgin Money's business ambition is to make 'everyone better off' – this philosophy underpins our approach to business by offering good value to customers, treating employees well, making a positive contribution to society and delivering a profit to shareholders
- Virgin Money is the official sponsor of the London Marathon, the biggest annual one-day fundraising event in the world. Virgin Money has helped London Marathon runners raise over £315 million, including funds raised through Virgin Money Giving the not-for-profit online fundraising service, since 2010.

Note: all figures in this News Release are unaudited.

Virgin Money Holdings (UK) plc - Registered in England and Wales (Company No. 03087587).
Registered Office - Jubilee House, Gosforth, Newcastle upon Tyne NE3 4PL.