Registered No. 03072766

VIRGIN MONEY PERSONAL FINANCIAL SERVICE LIMITED

Annual Report and Accounts

2016

Virgin Money Personal Financial Service Limited

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Company Information

DIRECTORS	Marian Martin Grant Lyall (appointed 4 January 2016, resigned 24 January 2017) Gordon Hull (appointed 6 May 2016, resigned 24 January 2017) Jayne-Anne Gadhia CBE (appointed 28 December 2016) Peter Bole (appointed 31 January 2017)
COMPANY SECRETARY	Katie Marshall
COMPANY NUMBER	03072766
REGISTERED OFFICE	Jubilee House Gosforth Newcastle-upon-Tyne NE3 4PL
INDEPENDENT AUDITORS	PricewaterhouseCoopers LLP Atria One 114 Morrison Street Edinburgh EH3 8EX

Virgin Money Personal Financial Service Limited

Strategic Report

The aim of Virgin Money Personal Finance Service Limited (the "Company") was to provide customers with a range of leading insurance and investment products and other financial services. This includes our stocks and shares Individual Savings Account (ISA) and general insurance policies.

During 2016 the following products were available to our customers:

- Stocks and Shares Individual Savings Account (ISA);
- Travel and Home Insurance;
- Other Insurance (including Pet); and
- Travel Money and International Money Transfer services.

Our business strategy is based on a partnership model. We seek partners who share our commitment to straightforward and transparent products. We leverage their capabilities with the Virgin Money brand and marketing expertise, whilst moderating financial risk. We are pleased with the increasing momentum in our financial services business, although we have more work to do to achieve our full potential.

Investments
We have long term strategic partnerships in place with State Street Global Advisors and International Financial Data Services (IFDS). Together, they provide the Company with a full range of investment management and administration services.

Insurance
The insurance business performed well during the year, mainly driven by travel insurance sales which increased 37% in 2016. We were also proud to provide travel insurance to the UK Invictus Games Team when they competed in Orlando, Florida. The launch of cover for pre-existing medical conditions drove 100,000 incremental sales compared to 2015, with a total of 450,000 sales in 2016.

Our home insurance line is now well established following the re-launch in 2015 with our strategic partner Ageas. In addition to online business, we also generate sales though the Group's mortgage business, and sales increased significantly through this channel during the year.

The Virgin Money Group agreed to end its Life Insurance partnership with Aviva in May 2016. We have identified a new partner and look forward to launching a new life insurance product in 2017.

Other
Our Travel Money and International Money Transfer (IMT) services were launched last year in partnership with Travelex and World First respectively. Over 5,000 customers registered for the IMT service in 2016. With a growing pipeline of customers registering to use our IMT service, we expect to see continued growth and contribution in 2017. We also continue to provide payment services to Virgin Money Giving Limited, a subsidiary in the Virgin Money Group offering a not-for-profit on-line charitable donations service.

Financial Performance

The key performance indicators in 2016 are shown in the table below:

Key Performance Indicators	2016	2015
FTSE All-Share index (at 31 December)	**3,873**	3,444
Funds under management (£m)	**1,047**	945
Income from ISA sales (£m)	**10.0**	9.9
General insurance commission (£m)	**4.2**	2.4
Profit before taxation (£m)	**6.3**	5.6

Total revenue increased by 15% to £14.3 million for the year ended 31 December 2016 (2015: £12.4 million). Profit before taxation increased from £5.6 million to £6.3 million, primarily as a result of an increase in insurance commission.

Investments
Closing funds under management grew by 11% to £1,047 million at 31 December 2016 (2015: £945 million). An increase in income from ISA sales to £10.0 million (2015: £9.9 million) was reflective of the growth in average funds under management over the year.

Investments (continued)
The largest fund, Virgin UK Index Tracking Trust, accounted for 82% of the closing funds under management and was the primary source of investment revenue in 2016, contributing £8.0 million. The performance of this fund is directly linked to the performance of the FTSE All Share index, which experienced significant volatility during 2016. The FTSE All Share ended the year up at 3,873 from 3,444 at the prior year end.

Insurance
Total revenue from insurance commission increased by 75% to £4.2 million during the year (2015: £2.4 million).

Other
Our Travel Money and International Money Transfer commission income products launched in 2015 and have started to contribute to income. We expect to see continued contribution in 2017.

Future Developments
In January 2017, the Company ceased its Stocks and Shares ISA product offering following a decision by the Virgin Money Group to offer all investment products through a fellow group subsidiary, Virgin Money Unit Trust Managers Limited. It is anticipated that during the first quarter of 2017 the existing Stocks and Shares ISA book will be transferred to Virgin Money Unit Trust Managers Limited. The Company intends to continue to grow the insurance business following the enhancements made to the product offerings in 2016.

Principal Risks
The Company is exposed to a variety of risks through its normal operations, including the performance of its underlying funds under management, which are themselves subject to movements in stock and bond markets. The following paragraphs explain the most significant risks and how they are managed.

- **Outsourcing risk:** the risk that the Company fails in its responsibility to oversee and control third parties on which it is reliant for the performance of critical operational functions, including regulated activities. Failure to meet required standards may place the Company at risk of regulatory sanction and could result in loss of income or reputational damage. The Company manages this risk by performing due diligence on all third party providers and, following appointment, by performing regular monitoring of third parties against agreed service levels.

  The Company outsources the administration of its Stocks and Shares ISA business to IFDS. During 2016, IFDS initiated a significant programme of remediation relating to compliance with client assets regulations which will continue into 2017. The Company continues to strengthen its oversight of IFDS and will continue to refine its oversight of key outsourcers in recognition of the reliance on excellent execution from third parties which necessitates more sophisticated approaches.

- **Market risk:** the risk that the Company's income falls due to the impact of stock and bond market movements on funds under management.

- **Compliance risk:** the risk that the Company fails to comply with its regulatory requirements with the potential that the Company:

  - treats customers unfairly, potentially exposing them to financial or other detriment;
  - fails to ensure custody assets and client money are appropriately safeguarded;
  - is subject to legal or regulatory sanction;
  - suffers reputational damage; or
  - is used for the purposes of financial crime.

  The Virgin Money Group Risk function supports the Company to develop policies, deliver training and perform monitoring checks to ensure compliance with regulatory requirements.

- **Operational risk:** the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. A range of indicators covering the Company's operations is reviewed by Management and the Board regularly throughout the year. All key business processes are subject to periodic reviews by the Virgin Money Group's Risk and Internal Audit teams to ensure that appropriate controls are in place and operating effectively.

Principal Risks (continued)

- **Credit risk:** the risk that a counterparty fails to pay the Company monies owed. The Company manages this risk by undertaking due diligence on prospective counterparties and monitoring their position on an ongoing basis.
- **Liquidity risk:** the risk that the Company is unable to meet its obligations as they fall due. The Company's cash position is monitored by Management on a regular basis and liquidity is supported by intercompany facilities if required.
- **Legal risk:** the risk of legal sanction, material financial loss or loss of reputation that the Company may suffer as a result of its failure to comply with the law, inadequately document its contractual arrangements or inadequately assess and implement changes required by forthcoming legislation or emerging case law. The Virgin Money Group Legal function supports the Company in meeting its contractual obligations and assessing legal developments.

The Company is part of the Virgin Money Group. The risks and key performance indicators facing the wider Virgin Money Group are explained in more detail in the consolidated financial statements of Virgin Money Holdings (UK) plc.

This report was approved by the Board on 27 February 2017 and signed on its behalf by:

Peter Bole
Director

Registered No. 03072766

Directors' Report

The Directors present the Annual Report and Accounts for the year ended 31 December 2016. Virgin Money Personal Financial Service Limited's (the "Company") financial statements have been prepared on a solo basis and are consolidated at the Group level in the financial statements of Virgin Money Holdings (UK) plc.

Any reference to "Group" or "Virgin Money Group" within this report and the financial statements mean Virgin Money Holdings (UK) plc and its subsidiaries, including Virgin Money Personal Financial Service Limited.

Strategic Report

The Companies Act 2006 (the "Act") requires the Directors to present a fair review of the business of the Company during the financial year ended 31 December 2016, the position of the Company at the end of the financial year and a description of the principal risks and uncertainties facing the Company.

The purpose of the Strategic Report is to enable our shareholder to assess how the Directors have performed their duty under section 172 of the Companies Act 2006, namely their duty to promote the success of the Company. The Strategic Report can be found on pages 2-4.

Dividends

On 15 July 2016, an Interim dividend of £18.0 million was declared and paid. By agreement with the parent undertaking, the dividend payable was set-off against loans receivable from the parent undertaking of equivalent value, with no outflow of cash or cash equivalents by the Company.

The transaction contributed to a decrease in loans to the parent undertaking to £7.1 million at 31 December 2016 (2015: £22.3 million) and a reduction in interest receivable on intercompany loans in the year to £0.3 million (2015: £0.5 million).

No dividends were declared by or paid by the Company in 2015.

Directors

The current composition of the Board of Directors together with details of appointments and resignations up to the date of this report are shown on page 1.

Directors' Powers and Indemnities

The Directors of the Company, including former Directors who stepped down during the year, have entered into individual deeds of indemnity with the Company which constituted 'qualifying third party indemnity provisions' for the purposes of the Act. The deeds indemnify the Directors to the maximum extent permitted by law and remain in force for the duration of a Director's period of office and for a period of six years thereafter. The deeds were in force during the whole of the financial year or from the date of appointment for those Directors appointed in 2016. Deeds for existing Directors are available for inspection at Virgin Money's registered office. In addition, the Company had appropriate Directors' and Officers' insurance cover in place throughout 2016.

Going Concern

The Directors are satisfied at the time of approval of the financial statements that the Company has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts. The Company's use of the going concern basis for the preparation of the accounts is discussed in note 1 to the financial statements.

Future Developments

Information about future developments of the Company can be found in the Strategic Report.

Financial Risk Management Objectives and Policies

Information in relation to financial reporting and financial risk management objectives and policies in relation to the use of financial instruments can be found in note 14 to the financial statements.

Virgin Money Personal Financial Service Limited

Directors' Report

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Auditors and disclosure of information to the auditors

So far as every Director is aware at the date of this report, there is no relevant audit information needed in preparation of the auditors' report of which the auditors are not aware. The Directors have taken the steps they need to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditors are also aware of that information.

Following a competitive tender process for the audit of Virgin Money Holdings (UK) plc and its subsidiaries that took place in 2015, the Group's Board recommended that PricewaterhouseCoopers LLP ("PwC") be appointed as auditors for the Virgin Money Group of entities effective for periods ending on or after 1 January 2016. The Company's Board subsequently approved a resolution proposing the appointment of PwC as the Company's auditors.

As a result PricewaterhouseCoopers LLP have been appointed as the auditors of the Company in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board on 27 February 2017 and signed on its behalf by:

KJ Marshall

Katie Marshall
Company Secretary

Registered No. 03072766

Independent Auditors' Report

Independent auditors' report to the members of Virgin Money Personal Financial Service Limited

Report on the financial statements

Our opinion
In our opinion, Virgin Money Personal Financial Service Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other matters on which we are required to report by exception (continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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 an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Gary Shaw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
27 February 2017

Statement of Comprehensive Income

For the year ended 31 December

	Note	**2016 £'000**	2015 £'000
Revenue	2	**14,305**	12,377
Operating expenses	3	**(8,345)**	(7,233)
Operating profit		**5,960**	5,144
Interest receivable on intercompany loans		**319**	456
Profit before taxation		**6,279**	5,600
Taxation	6	**(1,258)**	(1,128)
Profit for the year after tax attributable to owners		**5,021**	4,472
Total comprehensive income for the year attributable to owners		**5,021**	4,472

All profits are from continuing operations.

The accompanying notes form an integral part of these financial statements.

Virgin Money Personal Financial Service Limited

Balance Sheet

As at 31 December

	Note	2016 £'000	2015 £'000
Assets			
Amounts owed by group undertakings	7	**7,096**	22,296
Trade and other receivables	8	**2,245**	987
Cash and cash equivalents	9	**2,267**	2,754
Deferred tax asset	10	**46**	59
Total assets		**11,654**	26,096
Liabilities			
Amounts owed to group undertakings	11	**1,245**	2,515
Trade and other payables	12	**368**	561
Total liabilities		**1,613**	3,076
Equity			
Issued capital	13	**3,000**	3,000
Retained earnings		**7,041**	20,020
Total equity		**10,041**	23,020
Total equity and liabilities		**11,654**	26,096

The accompanying notes form an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 27 February 2017.

Peter Bole
Director

Registered No. 3072766

Statement of Changes in Equity

Attributable to equity holders

	Note	Issued capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016		3,000	20,020	23,020
Total comprehensive income for the year		-	5,021	5,021
Dividends to ordinary shareholders	13	-	(18,000)	(18,000)
Balance at 31 December 2016		**3,000**	**7,041**	**10,041**
Balance at 1 January 2015		3,000	15,548	18,548
Total comprehensive income for the year		-	4,472	4,472
Balance at 31 December 2015		3,000	20,020	23,020

The accompanying notes form an integral part of these financial statements.

Virgin Money Personal Financial Service Limited

Cash Flow Statement

For the year ended 31 December

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Profit before taxation		**6,279**	5,600
(Increase)/Decrease in trading amounts owed by other group undertakings		**(800)**	413
Increase in trade and other receivables		**(1,258)**	(51)
(Decrease)/Increase in amounts owed to group undertakings		**(1,387)**	568
(Decrease)/Increase in trade and other payables		**(193)**	326
Cash generated from operations		**2,641**	6,856
Group relief paid		**(1,128)**	(726)
Net cash from operating activities		**1,513**	6,130
Cash flows from financing activities			
Advances to group undertakings (including interest)		**(2,000)**	(7,359)
Net cash outflows from financing activities		**(2,000)**	(7,359)
Net decrease in cash and cash equivalents		**(487)**	(1,229)
Cash and cash equivalents at 1 January		**2,754**	3,983
Cash and cash equivalents at 31 December	9	**2,267**	2,754

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

Note 1: Accounting Policies

(a) *Reporting entity*

Virgin Money Personal Financial Service Limited is a Company incorporated and registered in England and Wales.

(b) *Basis of preparation*

The financial statements, which should be read in conjunction with the Strategic Report and the Directors' Report, have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, including interpretations issued by the IFRS Interpretations Committee, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements have been prepared under the historical cost convention and are presented in sterling, which is the functional currency of the Company.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(c) *Revenue*

Revenue comprises the fair value for services, net of value added tax, rebates and discounts.

Revenue from the sale of general insurance and life insurance policies is recognised in full on the effective date of commencement or renewal of the related policies to reflect underlying contracts with product providers.

Revenue from sale and management of ISAs is recognised daily based on the average volume of ISA funds under management.

(d) *Interest receivable*

Interest income is recognised as it accrues in the Statement of Comprehensive Income, using the effective interest rate method.

(e) *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(f) *Taxation*

Taxation comprises current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or other comprehensive income.

Current tax is based on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(g) *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

The Company's capital is represented by the issued capital and reserves and these are managed in order that there is sufficient capital to meet the needs of the Company in its operations. The Company has complied with all capital requirements set by the regulators throughout the year.

(h) *Dividends*

Dividends paid on the Company's ordinary shares are recognised as a reduction in equity in the period in which they are approved or paid.

Note 1: Accounting Policies (continued)

(i) *Client money*
The Company holds money on behalf of some clients in accordance with the Client Money Rules of the Financial Conduct Authority. Such monies and the corresponding amounts due to clients are not shown on the face of the balance sheet as the Company is not the beneficial owner.

(j) *Financial Instruments*
The Company has various financial assets such as trade receivables and cash and short-term deposits which arise directly from its operations.

Management determines the classification of its financial instruments at initial recognition. Financial assets can be classified in the following categories:

(1) loans and receivables;
(2) available for sale;
(3) held to maturity; or
(4) financial assets at fair value through profit and loss.

All of the Company's financial assets are classified as loans and receivables. They comprise the amounts owed by group undertakings, trade and other receivables and cash and cash equivalents.

All the Company's financial liabilities are classified as financial liabilities at amortised cost and comprise amounts owed to group undertakings and trade and other payables.

Loans and Receivables and Financial Liabilities at amortised cost
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, whose recoverability is based solely on the credit risk of the counterparty and where the Company has no intention of trading the loan. Both loans and receivables and financial liabilities are initially recognised at fair value including direct and incremental transaction costs. Subsequent recognition is at amortised cost using the effective interest rate method less any provision for impairment.

(k) *Accruals and deferred income*
Accrued expenses are amounts the Company is due to pay to third parties in the normal course of business. Deferred income represents amounts received in advance of the Company providing services, which will be recognised in the Statement of Comprehensive Income when the services have been provided.

(l) *Accounting 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, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed below:

Revenue from the sale of general insurance and life insurance policies
Revenue earned on the sale of general insurance and life insurance products is recognised as commission revenue. Management have assessed the terms of the contract, and consider that the Company acts as an agent in the transaction rather than as principal. Management considered the following factors:

- the Company does not bear any underwriting risk in respect of the policies sold;
- the Company does not set underwriting criteria; and,
- the Company does not collect the premium income from the customer or deal with the administrative requirements in connection with the products sold.

Taxation and deferred tax assets
The determination of the Company's provision for income tax, deferred tax assets and liabilities and potential tax liabilities involves estimates and judgements on certain matters, for which the ultimate outcome may be uncertain. This is reviewed at each reporting date by the Directors.

(m) *Accounting developments*
There are no new standards, amendments to standards or interpretations that are mandatory for the first time for financial years beginning on 1 January 2016 and have been endorsed for adoption by the EU which have a material impact on the Company.

Note 1: Accounting Policies (continued)

(n) *Standards interpretations and amendments to published standards that are not yet effective and the early adoption of standards*

The Company has not early adopted any published standards not yet effective in the year

IFRS 15 'Revenue from Contracts with Customers'

The Company has identified that IFRS 15 'Revenue from Contracts with Customers', which is effective from 1 January 2018, will impact on its financial reporting when adopted.

The Company has reviewed the requirements of the standard to determine its effect on current recognition policies applied to its revenue streams. The review has identified that the timing of recognition for insurance commissions received from product providers that relate to the renewal of policies by policyholders may need to be accelerated, by requiring alignment of the timing of revenue recognition with the satisfaction of the Company's performance obligations under its contracts with those providers. These performance obligations are materially satisfied on introduction of the policyholder to the provider on the effective date of commencement of the initial policy. Under the Company's existing accounting policy (see (c) above), renewal commissions are recognised at the date of renewal of the related policy.

On adoption of IFRS 15, the Company will be required to recognise renewal commission revenue at the date of commencement of the initial policy in circumstances where it is expected that a policyholder will renew that policy one or more times. The Company will set this expectation by assessing whether it is highly probable that any revenue recognised on this basis will not be reversed in future periods (when uncertainties on the actual level of renewals is resolved), as required under the standard. At the date of commencement on new/initial policies, the Company will be required to:

- assess the likelihood of policyholders renewing their policy one or more times over the life of the Company's contracts with product providers; and
- estimate the monetary value of the gross premiums payable by policyholders at each renewal, as the gross premiums determine the value of commissions payable to the Company.

The outcome of the above will be utilised to calculate the expected value of commission revenue recognised on the date of commencement of new policies for future renewal of those policies. The expected impact on revenue and retained earnings arising on transition has not yet been quantified and will be dependent on the number of new policies sold and actual and estimated renewal rates in the year of transition.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments', which is effective from 1 January 2018, replaces the existing standard for recognition and measurement standard for financial instruments. The standard revises the measurement categories for financial assets, replaces the 'incurred loss' approach to impairment losses with an expected credit loss methodology and introduces new disclosure requirements. The Company is reviewing the requirements of the new standard to determine its effect on financial reporting of its financial instruments.

No other new standards, amendments to standards or interpretations which have been published, but are not yet effective are expected to have a material impact on the Company.

Note 2: Revenue

Revenue is primarily attributable to two activities, being management fees generated from the sale and management of stocks and shares ISAs and commissions from the sale or renewal of general insurance and life insurance policies. All revenue is derived from the UK.

An analysis of revenue by class of business is as follows:

	2016 £'000	2015 £'000
Income from ISA sales	**9,965**	9,941
Insurance commission	**4,174**	2,416
Other income	**166**	20
Revenue	**14,305**	12,377

Note 3: Operating Expenses

	2016 £'000	2015 £'000
Recharges from fellow subsidiary undertakings	**5,506**	4,911
Investment expenses	**809**	683
Other operating charges	**2,030**	1,639
Operating expenses	**8,345**	7,233

Other operating charges reflect third party expenses, licence fees for use of the Virgin trademark and other administration expenses.

Auditors' remuneration

	2016 £'000	2015 £'000
Fees payable to the Company's auditors' for the audit of the Company's accounts	**19**	18

Fees paid to the Company's auditors, PricewaterhouseCoopers LLP (2015: KPMG LLP), for services other than the statutory audit of the Company are not disclosed in these accounts. Instead they are disclosed in the consolidated accounts of the Company's parent, Virgin Money Holdings (UK) plc.

Note 4: Directors' Remuneration

All employees are employed by Virgin Money plc. The Directors' remuneration is accounted for within the financial statements of Virgin Money Holdings (UK) plc, the Company's parent, and Virgin Money plc, another Group Company.

None of the Directors were remunerated primarily for their services to Virgin Money Personal Financial Service Limited, and it is not possible to determine the proportion of remuneration that relates to this Company.

Note 5: Employee Information

The Company did not directly employ any staff during the year. The services of individuals were obtained in exchange for payments to other Group companies.

Notes to the Financial Statements

Note 6: Taxation

	2016 £'000	2015 £'000
Current tax		
Group relief payable	**(1,245)**	(1,121)
Adjustments in respect of prior years	**-**	(7)
Current tax charge	**(1,245)**	(1,128)
Deferred tax		
Reversal of temporary differences	**(11)**	(13)
Reduction in UK corporation tax rate	**(2)**	-
Adjustments in respect of prior years	**-**	13
Deferred tax charge	**(13)**	-
Tax charge	**(1,258)**	(1,128)

Tax Reconciliation

The tax on the Company's profit before tax differs from that which would arise using the standard weighted average rate of UK corporation tax of 20% (2015: 20.25%) as follows:

	2016 £'000	2015 £'000
Profit before taxation	**6,279**	5,600
Tax charge at effective corporation tax rate of 20% (2015: 20.25%)	**(1,256)**	(1,134)
Factors affecting (charge):		
UK corporation tax rate change	**(2)**	-
Adjustments in respect of prior years	**-**	6
Total tax charge	**(1,258)**	(1,128)

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

Note 7: Amounts owed by Group Undertakings

	2016 £'000	2015 £'000
Loans to the parent undertaking	**7,096**	22,296

Loan balances with the parent undertaking have a fixed maturity of 30 December 2018. Interest is accrued on these balances at a margin of 1.5% plus 3 Month Sterling Libor, and has been since October 2015. Prior to this, interest was accrued on these balances at a margin of 2% plus 6 Month Sterling Libor.

The decrease in the loan balance with the parent undertaking compared to the prior year reflects the set-off of the Interim dividend paid by the Company against the loan balance, as disclosed in note 13.

Note 8: Trade and Other Receivables

	2016 £'000	2015 £'000
Trade debtors	**1,245**	987
Other debtors	**1,000**	-
Trade and other receivables	**2,245**	987

Note 9: Cash and Cash Equivalents

	2016 £'000	2015 £'000
Bank balances	**2,267**	2,754
Cash and cash equivalents in the cash flow statement	**2,267**	2,754

The Company administers money on behalf of some clients in accordance with the Client Money Rules of the Financial Conduct Authority. Such monies and the corresponding amounts due to clients are not shown on the face of the balance sheet as the Company is not the beneficial owner.

The lowest external rating of the three rating agencies, Moody's, Standard & Poor's Rating Services and Fitch Rating, is used to assess the credit quality of cash and cash equivalents. This is set out in the table below:

Credit quality of cash and cash equivalents	2016 £'000	2015 £'000
A rating (2015: A rating)	**2,267**	2,754

Note 10: Deferred Tax Asset

Based on their interpretation of the timing and level of reversal of existing taxable temporary differences, in line with relevant accounting standards, the Directors conclude that a net deferred tax asset of £46,000 (2015: £59,000) should be recognised at the balance sheet date.

	2016 £'000	2015 £'000
Accelerated capital allowances	**46**	59
Total deferred tax assets	**46**	59

Note 11: Amounts owed to Group Undertakings

	2016 £'000	2015 £'000
Trading amounts owed to group undertakings	**-**	1,387
Group relief payable	**1,245**	1,128
Amounts owed to group undertakings	**1,245**	2,515

Note 12: Trade and Other Payables

	2016 £'000	2015 £'000
Trade creditors	**4**	4
Accruals and deferred income	**358**	523
Other creditors	**6**	34
Trade and other payables	**368**	561

Note 13: Issued Capital

Share Capital	**Shares**	**2016 £'000**	Shares	2015 £'000
Allotted, called up and fully paid ordinary shares of £1 each	**3,000,100**	**3,000**	3,000,100	3,000

Dividends

On 15 July 2016, an Interim dividend of £18,000,000 was declared and paid. By agreement with the parent undertaking, the dividend payable was set-off against loans receivable from the parent undertaking of equivalent value, with no outflow of cash or cash equivalents by the Company.

No dividends were declared by or paid by the Company in 2015.

Note 14: Risk Management and Monitoring

The main risks arising from the Company's financial instruments are credit risk, market risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks which are summarised below:

Credit Risk
The Company trades only with recognised, credit worthy third parties. It is the Company's policy that all counterparties who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. No receivable balances are past due nor impaired.

With respect to credit risk arising from other financial assets of the Company, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with the maximum exposure equal to the carrying amount of these instruments. No significant transactions occur outside of the UK and the carrying amount of financial assets represents the maximum credit exposure.

Market Risk
Market risk is the risk that the value of, or net income arising from, the Company's assets and liabilities changes as a result of changes to interest rates, or following a movement in the stock market. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising return. The Company is not exposed to any significant currency risk.

The cash and cash equivalents held expose the Company to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. No sensitivity analysis has been performed on interest income as any changes in the interest rates would not have a material impact on the reported result.

Liquidity Risk
Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's short term liquidity requirements are supported by a facility with Virgin Money Holdings (UK) plc. Overall liquidity of the Virgin Money Group is managed centrally. Details can be found in Virgin Money Group annual report and accounts.

Fair Values
The fair values of financial assets and liabilities approximate to their carrying values, and are classified as level 2 valuations as they are derived from observable inputs.

Trade and Other Receivables/Payables
For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Note 15: Related Party Transactions

	Transaction value year ended 31 December		Balance outstanding as at 31 December	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Licence fees payable to Virgin Enterprises Limited	**140**	126	**13**	10
Amounts owed by parent undertaking	**319**	456	**6,296**	22,296
Amounts owed by other group undertakings	**-**	-	**800**	-
Amounts owed to parent undertaking	**5,506**	-	**1,245**	1,128
Amounts owed to other group undertakings	**-**	4,911	**-**	1,387

The Company incurs licence fees for the use of the Virgin trademark to Virgin Enterprises Limited.

The Company acts as an agent for Virgin Money Giving Limited (also a subsidiary of Virgin Money Holdings (UK) plc), undertaking activities which facilitate the payment of online donations to UK charities. Charitable donations and the associated gift aid are held in client money designated trust accounts and paid directly to the charities. No income is received for this service. The Company complies with the Payment Card Industry Data Security Standard.

No transactions with Directors or Key Management Personnel occurred during the year (2015: None).

Note 16: 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 ongoing management expenses. Each deposit taking institution contributes in proportion to its share of total protected deposits.

The Company has paid levies of £224,579 (2015: £270,000) with respect to levies for Scheme Year 2016/2017 and additional amounts invoiced for 2015/2016 in relation to its investment business.

Note 17: Ultimate Parent Company

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

Virgin Money Holdings (UK) plc is the largest and smallest group in which the financial statements of the Company are consolidated. The consolidated financial statements of Virgin Money Holdings (UK) plc may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

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

Note 18: Subsequent Events

There have been no material events after the reporting period requiring disclosure between 31 December 2016 and the signing of these accounts.