

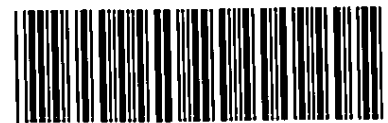
3087587

## **VIRGIN MONEY HOLDINGS (UK) LIMITED**

Annual Report

31 December 2009

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# Virgin Money Holdings (UK) Limited

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# Virgin Money Holdings (UK) Limited

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Registered No 3087587

## **DIRECTORS AND OFFICERS**

### **EXECUTIVE DIRECTORS**

Jayne-Anne Gadhia  
Finlay Williamson

### **NON-EXECUTIVE DIRECTORS**

Sir Brian Pitman  
Colin Keogh  
Patrick McCall  
Gordon McCallum  
Norman McLuskie

### **SECRETARY**

Barry Gerrard

### **AUDITORS**

KPMG LLP  
8 Salisbury Square  
London EC4Y 8BB

### **BANKERS**

Lloyds TSB Bank plc  
City Office  
PO Box 72, Bailey Drive  
Gillingham Business Park  
Gillingham  
Kent, ME8 0LS

### **REGISTERED OFFICE**

Discovery House  
Whiting Road  
Norwich NR4 6EJ

# Virgin Money Holdings (UK) Limited

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## DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2009

### PRINCIPAL ACTIVITIES

The Group's principal activities continue to be the following

- Marketing and direct distribution of personal credit cards under an agreement with Bank of America,
- Provision of Individual Savings Accounts, Personal Equity Plans, Unit Trusts and Pensions, and
- Marketing and direct distribution of general insurance, life insurance and deposit accounts pursuant to agreements with leading financial services companies

### RESULTS AND DIVIDENDS

The profit for the year ended 31 December 2009 amounted to £29.2m (2008 £24.4million). No dividends were declared and paid during the year (2008 £47.4m).

### BUSINESS REVIEW

The Group generated a 46% increase in operating profit in the year. This reflects underlying growth of 16% in income related to credit cards. Income related to the savings & investments business remained in line with 2008 levels, with a FTSE hedging strategy protecting the group from adverse market movements. Operating costs are marginally lower than 2008 levels reflecting the tight control over spending, and overall group profit before tax increased 34% to £36.9 million in the year.

The Group's credit card programme has been a significant driver of profitability in 2009. The Group increased its outstanding balances well above the market average. The Group also maintained a prominent position in best buy tables throughout the year, which helped drive an increase in the Group's market share of new card sales at good credit quality.

The Group remains in the loan market via referral arrangements with leading providers, and also continues to partner with Prepay Technologies Ltd to market and distribute a pre-paid card proposition.

The UK stock market remained turbulent in 2009. First quarter performance of the market was disappointing, ending the period 11% down, but the FTSE then recovered strongly to end the year up 22%. Total funds under management increased by 15% over the year to £2.4bn.

The Group has entered into a five-year sponsorship relationship with the London Marathon, in conjunction with the wider Virgin Group, the first event being in April 2010. To compliment this, on the 25 August 2009 the Group launched a not-for-profit online charity fundraising business, Virgin Money Giving Limited.

During the year the Group terminated its Life and Cancer Insurance contract with Scottish Widows and its Travel Insurance contract with RBSI. New contracts have subsequently been arranged with Friends Provident for the provision of Life Insurance, and with Insure & Go for the provision of Travel Insurance. The new deals commenced in the second half of the year and initial results have been very encouraging. General insurance sales, both new business and renewals, have performed strongly with total commissions earned up 21% from 2008.

Key performance indicators reviewed by management include turnover and profit by business segment, cash flow and Treating Customers Fairly (TCF), the analysis of which is shown above and in note 2.

# Virgin Money Holdings (UK) Limited

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## DIRECTORS' REPORT

### PRINCIPAL RISKS AND UNCERTAINTIES

The Board of Directors is responsible for setting risk management policy and operating parameters. The Group operates a risk management process that captures and reports risks in a visible and continuous manner. The key risks faced by the Group are the UK personal credit market, the value of UK equities and corporate bonds and gilts, reliance on outsourced providers for key services, prevailing UK interest rates.

#### *Operational Risk*

Virgin Money has a comprehensive Operational Risk Management Framework to manage risks related to achieving its business objectives. The Framework involves identifying events and circumstances relevant to the Group's objectives (risks), assessing them in terms of impact and probability, determining a response strategy and monitoring progress.

Proper management of operational risk helps to create and preserve value for stakeholders, enabling us to deal effectively with events that create uncertainty and to respond to them in a manner that reduces both their impact and probability. The Virgin Money Group is also obliged to manage operational risk from a regulatory perspective. The FSA oversee our activities and expect their principles-based regulatory regime to be adhered to. The FSA undertake review visits periodically to monitor standards.

The Operational Risk Management Framework has been built around the principles of the Turnbull and COSO frameworks which are considered the standards by which companies should be regulated and measured. We have adapted the principles in these frameworks to both the size and nature of the Virgin Money business.

#### *Outsourcing Risk*

The Group has agreements with leading financial services companies to provide both products and administrative services, covering the entire product suite. The failure of third parties to whom we have outsourced activities could adversely affect our reputation and financial condition. Virgin Money manages these risks by appropriate due diligence and selection criteria for partners, comprehensive legal agreements setting out clear service level agreements with partners and through the implementation of continuous monitoring programmes, together with regular executive meetings and reporting of key performance indicators.

#### *Regulatory Risk*

The Group is exposed to future changes in regulations to the extent they affect the products and services offered. The Group manages this risk through ongoing monitoring of regulatory developments, analysing the impact on its business and implementing appropriate change in response to those developments.

#### *Liquidity Risk*

The Group's policy is to maintain a balance between continuity of funding and flexibility through the use of bank loans. It is Group policy to ensure that resources are available at all times to enable the Group to meet its liquidity risk obligations.

# Virgin Money Holdings (UK) Limited

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## DIRECTORS' REPORT

### PRINCIPLE RISKS AND UNCERTAINTIES (continued)

#### *Financing and Interest Rate Risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to its bank borrowings although the Group also has exposure to overnight interest rates arising from its cash balances. The Group's policy aims to provide a degree of certainty over future financing costs whilst maintaining flexibility and therefore manages its interest cost using a mix of variable and fixed rate debt. The Group's policy is to cap the rates of interest payable for at least 50% of its borrowing facilities. The primary means to achieve this objective is to cap the rate of interest payable via interest rate swaps.

#### *Credit Risk*

The Group trades only with recognised, credit worthy third parties. It is the Group's policy that all customers 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 Group's exposure to bad debts is not significant.

#### *Stock Market Risk*

The Group aims to provide protection against adverse movements in the UK stock market whilst ensuring that the Group may also benefit from rises in the market. In order to provide this protection the Group uses a limited range of hedging instruments, principally low cost collars, with approved counterparties and within approved limits.

#### *Derivative Financial Instruments*

The Group uses derivative financial instruments selectively for stock market and interest rate risk management purposes as described above. The Group's policy is not to trade in derivatives but to use these instruments in order to hedge anticipated future cash flows. All derivatives are used for the purpose of risk management and accordingly they do not expose the Group to specific market risk as they are matched to identified exposures within the Group. Counterparty credit risk is generally restricted to any hedging gain and is controlled through mark-to-market based credit limits.

### LIKELY FUTURE DEVELOPMENTS AND POST BALANCE SHEET EVENTS

The Group will continue to take consistently good value Virgin branded financial service products, backed by top quality service, to the mass market. The Group will continue to develop, market and distribute a range of financial services products.

On 8 January 2010, the Company announced an Offer for the entire issued and to be issued share capital of Church House Trust Plc. The Company's application to become the controlling shareholder of Church House Trust Plc had been approved by the Financial Services Authority in December 2009. The Offer was declared unconditional in all respects on 27 January 2010 and the acquisition was effective from that date.

### EMPLOYEE INVOLVEMENT

Employees benefit from the success of the business by their inclusion in a performance related bonus scheme and a profit share scheme.

Internal Communications at Virgin Money have continued to utilise a range of media to reinforce the Group's commitment to being a 'staff focussed' employer. Employees are kept informed of developments through a company intranet, emails, all staff meetings and a staff forum.

# Virgin Money Holdings (UK) Limited

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## DIRECTORS' REPORT

### DISABLED EMPLOYEES

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and it is the Group's policy to provide training, career development and promotion to disabled employees wherever appropriate.

### CREDITOR PAYMENT

In respect of all suppliers, it is the Group's policy that all suppliers adhere to an Ethical Purchasing Code of Conduct. This is disclosed when agreeing terms of payment with suppliers and it is the Group's policy to settle payments within 30 days.

### CHARITABLE CONTRIBUTIONS

During the year the Group made various charitable contributions totalling £64,364 (2008: £271,402).

### DIRECTORS AND THEIR INTERESTS

The names of the current directors are listed on page 1.

The following changes have occurred:

M Baxby	Resigned 12 January 2009
R Clifford	Appointed 11 February 2009, Resigned 8 May 2009
G Boyle	Resigned 11 February 2009
D Dyer	Resigned 27 January 2010
F Williamson	Appointed 27 January 2010
N McLuskie	Appointed 27 January 2010
C Keogh	Appointed 27 January 2010
Sir B Pitman	Appointed 23 February 2010

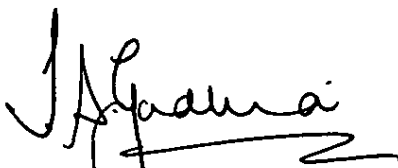
### AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

So far as each director is aware, there is no relevant audit information (that is, information needed by the Group's auditors in connection with preparing their report) of which the Group's auditors are unaware.

Each director has taken all the steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board



J-A Qadhia  
Chief Executive Officer  
23 February 2010

Registered No 3087587

## Virgin Money Holdings (UK) Limited

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### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing 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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 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 judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIRGIN MONEY HOLDINGS (UK) LIMITED**

We have audited the financial statements of Virgin Money Holdings (UK) Limited for the year ended 31 December 2009 set out on pages 9 to 31. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

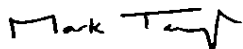
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIRGIN MONEY HOLDINGS (UK) LIMITED

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



**Mark J Taylor (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
8 Salisbury Square  
London EC4Y 8BB

23 February 2010

# Virgin Money Holdings (UK) Limited

## CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 2009

	<i>Notes</i>	<i>2009</i> <i>£000</i>	<i>2008</i> <i>£000</i>
<b>TURNOVER</b>	2	109,501	98,434
Operating costs	3	(71,036)	(72,062)
<b>OPERATING PROFIT</b>	4	38,465	26,372
Income from discontinued operations	9	-	2,846
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION</b>		38,465	29,218
Interest receivable and similar income		12	775
Interest payable and similar charges	8	(1,623)	(2,525)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		36,854	27,468
Tax on profit on ordinary activities	10	(7,702)	(3,099)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		29,152	24,369

All of the amounts above, unless otherwise stated, are in respect of continuing operations

The accounting policies and notes on pages 14 to 31 form an integral part of these financial statements

Under s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss. The profit dealt with in the financial statements of the holding company for the year was £18.4 million (2008 profit £58.8 million)

There were no other recognised gains or losses in the year, other than the profit for the year as reported above. As a result no Statement of Total Recognised Gains & Losses has been provided.

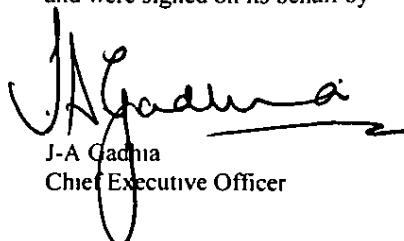
# Virgin Money Holdings (UK) Limited

## CONSOLIDATED BALANCE SHEET at 31 December 2009

	Notes	2009 £000	2008 £000
<b>FIXED ASSETS</b>			
Tangible assets	13	4,066	2,163
		<u>4,066</u>	<u>2,163</u>
<b>CURRENT ASSETS</b>			
Debtors	15	26,983	22,697
Cash at bank and in hand	16	47,225	14,479
		<u>74,208</u>	<u>37,176</u>
<b>CREDITORS amounts falling due within one year</b>	17	(28,821)	(42,694)
<b>NET CURRENT ASSETS / (LIABILITIES)</b>		<u>45,387</u>	<u>(5,518)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>49,453</u>	<u>(3,355)</u>
<b>CREDITORS amounts falling due after more than one year</b>	18	-	(23,668)
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	20	(2,408)	(4,684)
<b>NET ASSETS / (LIABILITIES)</b>		<u><u>47,045</u></u>	<u><u>(31,707)</u></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	22	17	15
Share premium	23	49,599	1
Profit and loss account	23	(2,571)	(31,723)
<b>SHAREHOLDERS' FUNDS / (DEFICIT)</b>	23	<u><u>47,045</u></u>	<u><u>(31,707)</u></u>

The accounting policies and notes on pages 14 to 31 form an integral part of these financial statements

The financial statements on pages 9 to 31 were approved by The Board of Directors on 23 February 2010 and were signed on its behalf by

  
J-A Gadhia  
Chief Executive Officer

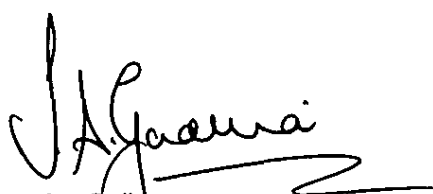
# Virgin Money Holdings (UK) Limited

## COMPANY BALANCE SHEET at 31 December 2009

	Notes	2009 £000	2008 £000
<b>FIXED ASSETS</b>			
Investment in subsidiaries	14	94,820	94,820
		<u>          </u>	<u>          </u>
<b>CURRENT ASSETS</b>			
Debtors	15	12,645	737
Cash at bank and in hand		40,138	931
		<u>          </u>	<u>          </u>
		52,783	1,668
<b>CREDITORS amounts falling due within one year</b>	17	(47,950)	(41,146)
		<u>          </u>	<u>          </u>
<b>NET CURRENT ASSETS / (LIABILITIES)</b>		4,833	(39,478)
		<u>          </u>	<u>          </u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		99,653	55,342
		<u>          </u>	<u>          </u>
<b>CREDITORS amounts falling due after more than one year</b>	18	-	(23,668)
		<u>          </u>	<u>          </u>
<b>NET ASSETS</b>		99,653	31,674
		<u>          </u>	<u>          </u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	22	17	15
Share premium	23	49,599	1
Distributable capital reserve	23	-	-
Profit and loss account	23	50,037	31,658
		<u>          </u>	<u>          </u>
<b>SHAREHOLDERS' FUNDS</b>	23	99,653	31,674
		<u>          </u>	<u>          </u>

The accounting policies and notes on pages 14 to 31 form an integral part of these financial statements

The financial statements on pages 9 to 31 were approved by The Board of Directors on 23 February 2010 and were signed on its behalf by

  
J-A Gadhia  
Chief Executive Officer

# Virgin Money Holdings (UK) Limited

## CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2009

	<i>Notes</i>	<b>2009 £000</b>	<b>2008 £000</b>
<b>CASH INFLOW FROM OPERATING ACTIVITIES</b>	24 (a)	33,381	27,812
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest paid		(1,291)	(2,304)
Interest received		12	775
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		(1,279)	(1,529)
<b>TAXATION</b>			
Taxation paid		(6,526)	(1,460)
		(6,526)	(1,460)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS</b>			
Payments to acquire tangible fixed assets		(3,430)	(615)
Receipts from the sale of intangible fixed assets		-	9,696
<b>NET CASH (OUTFLOW) / INFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS</b>		(3,430)	9,081
<b>NET CASH INFLOW BEFORE FINANCING</b>		22,146	33,904
<b>EQUITY DIVIDEND PAID</b>		-	(47,396)
<b>CASH INFLOW / (OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING</b>		22,146	(13,492)
<b>FINANCING</b>			
Issue of ordinary share capital		49,600	16
Net movement in short term borrowings		(15,000)	5,000
Net movement in long term borrowings		(24,000)	9,000
<b>NET CASH INFLOW FROM FINANCING</b>		10,600	14,016
<b>INCREASE IN CASH</b>		32,746	524

# Virgin Money Holdings (UK) Limited

## CONSOLIDATED CASH FLOW STATEMENT (continued) for the year ended 31 December 2009

	<i>Notes</i>	<i>2009</i> <i>£000</i>	<i>2008</i> <i>£000</i>
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b>			
Increase in cash		32,746	524
Cash outflow / (inflow) from decrease / (increase) in debt and lease financing		39,000	(14,000)
Change in net debt arising from cash flows	24 (b)	71,746	(13,476)
Rolled up loan interest	24 (b)	8	162
Amortised loan issue costs	24 (b)	(340)	(382)
<b>MOVEMENT IN NET DFBT</b>		<b>71,414</b>	<b>(13,697)</b>
<b>NET DEBT AT 1 JANUARY</b>	24 (b)	<b>(24,189)</b>	<b>(10,492)</b>
<b>NET FUNDS / (NET DEBT) AT 31 DECEMBER</b>	24 (b)	<b>47,225</b>	<b>(24,189)</b>

## Virgin Money Holdings (UK) Limited

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### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

#### **1 ACCOUNTING POLICIES**

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements

##### ***Basis of preparation***

The financial statements have been prepared under the historical cost convention of accounting and in accordance with applicable accounting standards

The principal accounting policies are set out below. These have been applied consistently during the year.

##### ***Basis of Consolidation***

The Group financial statements consolidate the financial statements of Virgin Money Holdings (UK) Limited and all its subsidiary undertakings drawn up to 31 December each year.

##### ***Turnover***

Turnover is stated net of value added tax.

Turnover is recognised to reflect underlying contracts with product providers, being from the date credit cards issued in the UK are activated, loans are drawn down or general and life insurance policies are on risk. Additional turnover from credit cards is recognised daily based on the risk-adjusted return of the total card portfolio.

Turnover from sales of Individual Savings Accounts (ISAs) is recognised daily based on the average value of ISA funds under management. Deposit account and other income is recognised as earned. Management fees are recognised daily based on the value of the funds. Gains and losses arising on derivative instruments taken out to manage exposures to stock market fluctuations are recognised on a settled basis.

##### ***Taxation***

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, except as otherwise required by FRS19, where transactions or events that result in an obligation to pay more or right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

##### ***Investments in subsidiary undertakings***

Investments in subsidiary undertakings are stated at cost less any impairment.

## Virgin Money Holdings (UK) Limited

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### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

#### 1. ACCOUNTING POLICIES (continued)

##### *Leases*

Rentals payable under operating leases are charged in the profit and loss account as they fall due under the contract

##### *Fixed assets and depreciation*

The cost of fixed assets is their purchase cost plus incidental costs of acquisition. Depreciation is provided on a straight-line basis in order to write off the cost of fixed assets, less their appropriate residual value, over their estimated useful lives. Depreciation is charged from the date assets are brought into use in order to write off the cost of the assets over the following periods

Leasehold improvements	5 years
Computer hardware	4 years
Computer software	3 years
Office equipment	5 years

##### *Classification of financial instruments issued by the Group*

The financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group, and
- where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds

##### *Derivatives*

The Group uses various derivative financial instruments to manage its exposures to stock market and interest rate risks. Gains and losses and associated costs are recognised in the profit and loss account in the period in which the hedged transaction is closed

##### *Dividends on shares presented within shareholders' funds*

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

##### *Cash*

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

##### *Foreign currency translation*

Transactions denominated in foreign currencies are translated into the local currency at the rate of exchange ruling on the date of the transaction

Monetary assets and liabilities denominated in a foreign currency are re-translated at the exchange rate ruling on the balance sheet date

##### *Pensions*

The Company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme

# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

### 2 TURNOVER AND SEGMENTAL ANALYSIS

Turnover, which is net of value added tax, is attributable to the sale and management of Personal Equity Plans, pensions, authorised unit trusts, deposit and Individual Savings Accounts and the marketing of other financial service products. Turnover is derived in the United Kingdom and relates to trade with third parties and continuing operations.

	2009 £000	2008 £000
Turnover		
Investment business	26,294	26,272
Protection business	5,488	4,791
Credit card business	76,318	65,574
Other	1,401	1,797
	<u>109,501</u>	<u>98,434</u>
Profit before taxation		
Investment and Protection business*	9,245	7,012
Credit business	31,428	22,065
Other	(3,819)	(1,609)
	<u>36,854</u>	<u>27,468</u>
Net assets / (liabilities)		
Investment and Protection business*	8,545	10,089
Credit business	(10,775)	1,534
Other	49,275	(43,330)
	<u>47,045</u>	<u>(31,707)</u>

\* The Company's subsidiary, Virgin Money Personal Financial Service Limited, operates both an Investment and a Protection business and it is not possible to split the profit before taxation or the net liabilities.

### 3. OPERATING COSTS

	2009 £000	2008 £000
Staff costs (Note 6)	17,081	17,301
Depreciation of owned fixed assets	1,507	1,177
Other operating charges	52,448	53,584
	<u>71,036</u>	<u>72,062</u>

Other operating charges reflects, cost of goods sold in the credit card members shop, payments to third parties as part of co-branded card programmes, marketing costs, royalty payments for use of the Virgin trademark and all other administration expenses.

# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

### 4. OPERATING PROFIT

	2009 £000	2008 £000
Operating profit is stated after charging		
Auditors' remuneration		
- fees payable for the audit of company's annual accounts	18	27
- audit of financial statements of subsidiaries pursuant to legislation	106	115
- audit of unit trust financial statements	110	75
- other services	27	20
	<u>261</u>	<u>237</u>
Operating lease rentals		
- land and buildings	656	669
- plant and machinery	23	117
	<u>679</u>	<u>786</u>
Loss on disposal of fixed assets	<u>21</u>	<u>39</u>

All amounts payable to the auditors have been charged to Virgin Money Management Services Limited, a subsidiary undertaking

### 5. DIRECTORS' EMOLUMENTS

	2009 £000	2008 £000
Emoluments	979	1,807
Contributions to money purchase pension schemes	83	61
	<u>1,062</u>	<u>1,868</u>

No emoluments were paid to non-executive directors (2008 £Nil)

Retirement benefits are accruing to two directors (2008 three) under a money purchase pension scheme

The highest paid director received emoluments of £609,000 (2008 £1,014,828) and contributions to money purchase pension schemes of £52,500 (2008 £31,667)

Previous directors of subsidiaries within the group who resigned in 2007 are among the beneficiaries of a long-term incentive scheme (see note 20.2). The final amount due under this scheme of £2,009,000 (2008 £2,009,000) was paid in March 2009 of which £724,018 (2008 £724,018) was paid to former directors of the Company. The scheme is now closed. No current directors benefited from participation in this long-term incentive scheme.

A new share based Long Term Incentive Scheme was introduced in June 2008 for employees at senior management level and above. Details of the new scheme are described in note 21.

## Virgin Money Holdings (UK) Limited

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

#### 6. EMPLOYEE INFORMATION

	2009 £000	2008 £000
Wages and salary costs	14,537	14,609
Social security costs	1,556	1,845
Pension costs	988	847
	<u>17,081</u>	<u>17,301</u>

The average number of persons employed during the year was made up as follows

	2009 No	2008 No
Administration	71	54
IT	58	62
Finance & Risk	30	23
Marketing & Strategy	70	65
	<u>229</u>	<u>204</u>

The Company did not directly employ any staff during the year

#### 7. OTHER FINANCIAL COMMITMENTS

At 31 December 2009 the Group had annual commitments under non-cancellable operating leases as set out below

<i>Group</i>	2009 £000	2008 £000
<i>Land and buildings</i>		
Operating leases which expire		
Within one year	-	168
In two to five years	328	304
In over five years	488	329
	<u>816</u>	<u>801</u>
<b>Equipment</b>		
Operating leases which expire		
Within one year	-	19
	<u>-</u>	<u>19</u>
	<u>816</u>	<u>820</u>

The Company has no operating lease commitments

## Virgin Money Holdings (UK) Limited

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

#### 8. INTEREST PAYABLE AND SIMILAR CHARGES

	2009 £000	2008 £000
Interest on bank loans	1,101	1,977
Other interest and charges	182	165
Debt issue costs written off in the year	340	383
	<u>1,623</u>	<u>2,525</u>

#### 9 AUSTRALIA BUSINESS

On 8 November 2005, the Group disposed of certain of its rights under contract to a related group company. Following this disposal, all cash flows received from Westpac Banking Corporation are passed onto that related group company.

The disposal on 8 November 2005 resulted in a net profit of £2,781,000 which was recognised in the profit and loss account. In addition, profit of £993,726 relating to the fair value of the Group's rights to future income under the term of the contract to May 2008 was deferred, and was recognised over the period from November 2005 to May 2008, being the relevant period over which the cash flows under the contract arose. The amount recognised in 2008 amounted to £151,000.

On 2 April 2008, the Group and Westpac Banking Corporation agreed to terminate the card referral agreement. Under the terms of the termination, Westpac Banking Corporation retains sole legal and beneficial title and interest in the existing Australian card portfolio. This did not impact on the Group's right to receive further income of £2,846,300 which was due under a separate agreement with a related group company. This was based on the performance of the Australia card business in the period from November 2005 to April 2008 and was received on 2 April 2008.

No further amounts have been recognised or were due in 2009.

## Virgin Money Holdings (UK) Limited

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

#### 10 TAXATION

	2009 £000	2008 £000
Corporation tax	7,702	4,082
Current tax charge	7,702	4,082
Deferred tax asset (recognised) / utilised in the year	-	(983)
Tax charge	7,702	3,099

Group relief is taken where available and is paid for in full at the current standard rate of corporation tax

#### Factors affecting the tax charge for the year

The current tax charge for the period is lower than the effective standard rate of corporation tax in the UK of 28% and was also lower than the effective standard rate of corporation tax in the UK of 28.5% in 2008. The differences are set out below.

	2009 £000	2008 £000
Profit on ordinary activities before tax	36,854	27,468
Profit above multiplied by the effective standard rate of corporation tax	10,319	7,828
Tax losses utilised	(2,544)	(3,848)
Depreciation in excess of capital allowances	336	259
Disallowed expenses	123	247
Non-taxable income	-	(28)
Difference in tax rates	-	(70)
Other timing differences	(532)	(306)
Capital gain	14,728	-
Group relief surrendered at nil cost	(14,728)	-
Current tax charge for the year	7,702	4,082

## Virgin Money Holdings (UK) Limited

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

#### 11. DEFERRED TAX

A deferred tax asset of £2,791,251 (2008 £2,791,251) has been recognised in the financial statements in respect of losses to be utilised against profits expected to be earned in the future. The deferred tax asset, which has not been included in the financial statements in accordance with the accounting policy, has primarily arisen due to losses incurred in previous years and is represented by

<i>Group</i>	<i>2009</i> <i>£000</i>	<i>2008</i> <i>£000</i>
Losses for tax purposes carried forward	11,137	13,682
Accelerated capital allowances in advance of depreciation	2,661	2,325
Other short term timing differences	758	1,291
Tax losses recognised as a deferred tax asset (see note 15)	(2,791)	(2,791)
Deferred tax asset (not recognised)	<u>11,765</u>	<u>14,507</u>
	<i>£000</i>	
Deferred tax asset (not recognised) at 1 January 2009	14,507	
Current year utilisation	(2,742)	
Deferred tax asset (not recognised) at 31 December 2009	<u>11,765</u>	
 <i>Company</i>		
Losses for tax purposes carried forward	7,382	7,382
Deferred tax asset (not recognised)	<u>7,382</u>	<u>7,382</u>

#### 12. DIVIDENDS

No dividends were declared and paid in the year (2008 £47,396,495)

## Virgin Money Holdings (UK) Limited

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

#### 13. TANGIBLE FIXED ASSETS

	<i>Leasehold improvements</i>	<i>Computer Hardware</i>	<i>Computer Software</i>	<i>Office equipment</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost					
At 1 January 2009	1,864	4,497	3,908	631	10,900
Additions	486	405	2,415	124	3,430
Disposals	(225)	(32)	-	(3)	(260)
At 31 December 2009	2,125	4,870	6,323	752	14,070
Depreciation					
At 1 January 2009	997	3,693	3,525	522	8,737
Charge for the year	316	453	699	39	1,507
Disposals	(208)	(29)	-	(3)	(240)
At 31 December 2009	1,105	4,117	4,224	558	10,004
Net book value at 31 December 2009	1,020	753	2,099	194	4,066
Net book value at 31 December 2008	867	804	383	109	2,163

The Company has no tangible fixed assets on its own account

#### 14. INVESTMENTS

##### *Group*

The Group has no investments

##### *Company*

The Company's principal subsidiary undertakings as at 31 December 2009, all of which are included in the consolidated financial statements, are set out below. All non-dormant subsidiary undertakings provide financial services products and all subsidiaries are 100% owned directly or indirectly and incorporated in England and Wales.

##### *Trading Subsidiaries*

Virgin Money Personal Financial Service Limited  
Virgin Money Unit Trust Managers Limited  
Virgin Money Management Services Limited  
Virgin Money Limited  
Virgin Money Giving Limited

##### *Dormant Subsidiaries*

Challenger (Norwich) Limited  
Virgin Card Limited (indirectly held)  
Virgin Money Nominees Limited (indirectly held)

# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

### 15. DEBTORS

	2009 £000	2008 £000
<i>Group</i>		
Trade debtors	17,927	16,983
Deferred tax asset (see note 11)	2,791	2,791
Amounts owed from related parties	2,718	143
Other debtors	60	9
Prepayments and accrued income	3,487	2,771
	<u>26,983</u>	<u>22,697</u>
<i>Company</i>		
Trade debtors	6,198	-
Amounts owed from related parties	1,603	-
Other debtors	-	737
Group relief	2,574	-
Prepayments and accrued income	2,270	-
	<u>12,645</u>	<u>737</u>

### 16. CASH

The Company's subsidiaries, Virgin Money Unit Trust Managers Limited and Virgin Money Personal Financial Service Limited are regulated by the Financial Services Authority and the Group's cash balance includes an amount used to cover their regulatory capital requirements

### 17. CREDITORS amounts falling due within one year

	2009 £000	2008 £000
<i>Group</i>		
Bank loans (see note 18)	-	15,000
Trade creditors	5,313	5,520
Other taxes and social security costs	1,507	710
Corporation tax payable	3,848	2,672
Other creditors	3,252	3,354
Accruals and deferred income	14,901	15,438
	<u>28,821</u>	<u>42,694</u>
<i>Company</i>		
Amounts owed to subsidiary undertakings	47,846	26,117
Bank loans (see note 18)	-	15,000
Other creditors	99	26
Accruals and deferred income	5	3
	<u>47,950</u>	<u>41,146</u>

## Virgin Money Holdings (UK) Limited

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

#### 18. CREDITORS: amounts falling due after more than one year

##### *Group and Company*

Interest payable on loans in the year was £1.1 million (2008 - £2.0 million). The loans comprise

	<i>Repayment date</i>	<i>Interest Rates</i>	<i>2009 £000</i>	<i>2008 £000</i>
Term bank loan	22 November 2009	60 bp above LIBOR	-	15,000
Revolving bank loan	22 May 2011	60 bp above LIBOR	-	24,008
				<u>39,008</u>
Less: Amounts due for settlement within 12 months			-	(15,000)
Less: Deferred loan issue costs amortised over life of facility			-	(340)
				<u>23,668</u>

On 22 May 2006, the Company entered into a Term Loan and Revolving Loan agreement ('the Facilities'). The Facilities comprised a £35 million term loan and a £35 million revolving credit facility. Whilst the term loan was repaid in full in November 2009 under the terms of the loan agreement, the revolving loan remains available until May 2011. The Facilities are secured against the assets of Virgin Money Holdings (UK) Limited, Virgin Money Limited and Virgin Money Management Services Limited and carry interest at a variable margin of between 0.60% and 1.25% over LIBOR, plus mandatory costs. The applicable margin varies according to the ratio of consolidated net debt to EBITDA for each relevant period.

The Facilities are subject to two financial covenants, which are tested quarterly.

A condition of the Facilities requires the Company to hedge the interest rate liabilities of not less than 50% of the utilised commitments. On 22 August 2006 the Company entered into an interest rate swap to cap the rate of interest that it would pay on £25 million of the Facilities. The amount hedged under the swap reduces over time in line with the Facility repayment schedule, the amount hedged as at 31 December 2009 being £20m. The fair value of the hedge as at 31 December 2009 is disclosed in note 19.

## Virgin Money Holdings (UK) Limited

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### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

#### 19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise derivatives, bank loans and trade payables

Derivative financial instruments represent interest rate swaps and FTSE put and call options. The main purpose of the other financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits which arise directly from its operations.

The main risks arising from the Group'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.

##### *Market risk*

Market risk includes interest rate risk and currency risk.

##### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect the future cash flows or fair values of financial instruments.

The Group's exposure to risk of changes in market interest rates relates primarily to its bank borrowings. The Group has exposure to overnight and short-term interest rates arising from its cash balances.

The Group's policy is to manage its interest cost using a mix of variable and fixed rate debt and to cap the rates of interest payable for at least 50% of its borrowings. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to agreed upon notional principal amounts. The interest rate swaps also set the minimum rate of interest payable, effectively ensuring the rates of interest payable operate within a known and narrow range. At 31 December 2009, after taking into account the effect of interest rate swaps, 100% of the Group's borrowings are at capped rates of interest (2008: 64%).

##### *Foreign Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's primary operations are in United Kingdom and hence the Group is not significantly impacted by currency risk.

##### *Credit Risk*

The Group trades only with recognised, credit worthy third parties. It is the Group's policy that all customers 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 Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 15. No significant transactions occur outside of the UK. In addition, there are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and certain derivative financial instruments, the Group's exposure to credit risk arises from default of the counterparty, with the maximum exposure equal to the carrying amount of these instruments.

## Virgin Money Holdings (UK) Limited

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

#### 19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### *Liquidity Risk*

The Group's policy is to maintain a balance between continuity of funding and flexibility through the use of bank loans. It is Group policy to ensure that resources are available at all times to enable the Group to meet its liquidity risk obligations.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and related party borrowings.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Year ended 31 December 2009	On demand £ 000	Less than 3 months £ 000	3 to 12 months £ 000	1 to 5 years £ 000	Total £ 000
Interest loans and borrowings	-	-	-	-	-
Trade and other payables	-	8,393	17,928	2,500	28,821
	-	8,393	17,928	2,500	28,821

##### *Capital Management*

The primary objective of the Group's capital management is to ensure that it maintains appropriate levels of regulatory capital surplus and that capital is structured optimally in order to support its business and maximise shareholder value.

The Group manages its capital structure and adjusts it, in light of changes in economic conditions. To maintain or adjust the capital structure the Group may adjust any dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objective policies and processes during the year ended 31 December 2009.

##### *Fair Values*

Derivative financial instruments are not recognised in the consolidated financial statements. As at 31 December 2009 the Group held two FTSE 100 hedges with a combined value of £2,003,584 (2008 £9,413,061) and an interest rate swap with a liability value of £781,326 (2008 £995,716).

## Virgin Money Holdings (UK) Limited

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

#### 20 PROVISIONS FOR LIABILITIES AND CHARGES

	2009 £000	2008 £000
<i>Group</i>		
UK Card Reward Scheme	2,408	2,675
Long Term Incentive Scheme	-	2,009
	<u>2,408</u>	<u>4,684</u>

The Company has no provisions for liabilities and charges

#### 20.1 UK CARD REWARD SCHEME

	<i>Reward Scheme Provision £000</i>
At 1 January 2009	2,675
Redemptions	(267)
At 31 December 2009	<u>2,408</u>

The Credit Card Members Shop Reward Points Scheme provision is based upon the estimated redemption cost of the points which are expected to be redeemed at some point in the future. Members Shop Points ceased to be issued on retail transactions made using the Virgin Credit Card after 1 August 2007, however any existing points that had been accumulated up to that date are still available to redeem. The timing of the redemption and ultimate payment is entirely dependent upon the actions of the reward scheme members.

#### 20.2 LONG TERM INCENTIVE SCHEME

Provision has been made for amounts payable to former directors and other former members of the senior management team under a long term incentive scheme. The remaining liability was paid in full in March 2009.

	<i>Long Term Incentive Scheme £000</i>
At 1 January 2009	2,009
Paid in year (see note 5)	(2,009)
At 31 December 2009	<u>-</u>

## Virgin Money Holdings (UK) Limited

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

#### 21 EMPLOYEE SHARE SCHEME

The share based Long Term Incentive Scheme was introduced in June 2008. Under this scheme the board can provide certain Virgin Money employees with the opportunity to subscribe for A Ordinary shares in the Company at nominal value. Shares are generally offered to employees at senior management level and above.

The number of A Ordinary shares issued in June 2008 was 1,388,438 with a nominal value of £0.01 and a fair value of £0.01. All shares vest equally over a three year period to March 2011. No shares were sold or forfeited during the year.

No expenses were incurred or recognised, along with any associated liabilities, during the year arising from share based payments.

Share options are granted under a service condition. Such conditions are not taken into account in the grant date fair value measurement of the services received.

The assumptions used in the fair value calculation at measurement date were as follows:

	2009	2008
Weighted average share price	£0.01	£0.01
Expected volatility	50%	50%
Option life	3 Years	3 Years
Risk-free interest rate (based on national government bonds)	2.63%	2.50%

#### 22. SHARE CAPITAL

Class	2009			2008		
	Authorised	Allotted, called up & fully paid	Allotted, called up & fully paid	Authorised	Allotted, called up & fully paid	Allotted, called up & fully paid
	2009 £	2009 No	2009 £	2008 £	2008 No	2008 £
Ordinary shares of 0.1p each	15,972	15,971,562	15,972	13,492	13,491,562	13,492
A Ordinary shares of 0.1p each	1,388	1,388,438	1,388	1,388	1,388,438	1,388
B Ordinary shares of 0.1p each	120	-	-	120	-	-
	<u>17,480</u>	<u>17,360,000</u>	<u>17,360</u>	<u>15,000</u>	<u>14,880,000</u>	<u>14,880</u>

On 24 December 2009 the company issued 2,480,000 0.1p ordinary shares for consideration of £49,600,000.

# Virgin Money Holdings (UK) Limited

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

### 23. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<i>Share Capital</i>	<i>Share Premium</i>	<i>Distributable Capital Reserve</i>	<i>Profit &amp; Loss</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Group</b>					
At 1 January	15	1	-	(31,723)	(31,707)
Profit for the year	-	-	-	29,152	29,152
Equity shares issued in year	2	49,598	-	-	49,600
At 31 December	17	49,599	-	(2,571)	47,045
<b>Company</b>					
At 1 January	15	1	-	31,658	31,674
Profit for the year	-	-	-	18,379	18,379
Equity shares issued in year	2	49,598	-	-	49,600
At 31 December	17	49,599	-	50,037	99,653

### 24. NOTES TO THE CASH FLOW STATEMENT

a) Reconciliation of operating profit to net cash inflow from operating activities	2009 £000	2008 £000
Operating profit	38,465	26,372
Income from discontinued operations	-	2,846
Depreciation and amortisation	1,506	1,177
Loss on disposal of fixed assets	21	39
Increase in operating debtors and prepayments	(4,286)	(5,236)
Increase in operating creditors and accruals	(49)	4,700
(Decrease) / increase in other provisions	(2,276)	(2,086)
Net cash inflow from operating activities	33,381	27,812

b) Analysis of net debt	<i>At 1 January 2009 £000</i>	<i>Cash flow £000</i>	<i>Other Movements £000</i>	<i>At 31 December 2009 £000</i>
Cash at bank and in hand	14,479	32,746	-	47,225
Bank loans due in one year (note 18)	(15,000)	15,000	-	-
Bank loans due after one year (note 19)	(24,000)	24,000	-	-
Rolled up interest on bank loans (note 19)	(8)	-	8	-
Amortised loan issue costs (note 19)	340	-	(340)	-
	(24,189)	71,746	(332)	47,225

The non-cash movements relate to interest accrued and the amount of issue costs recognised in the year

## Virgin Money Holdings (UK) Limited

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

#### 25. RELATED PARTY TRANSACTIONS

In accordance with the exemption provided in FRS 8 paragraph 3(c) the Company does not disclose transactions with related parties that are part of the Virgin Money Holdings (UK) Limited Group

The Group incurred licence fees of £1,164,629 (2008 £1,065,405) to Virgin Enterprises Limited The amount payable at the end of the year was £167,642 (2008 payable £283,538)

The Group incurred credit card commissions and air mile charges of £7,417,002 (2008 £6,682,084) to Virgin Atlantic Airways Limited, in which the ultimate shareholder of the Group has an interest The balance outstanding at the end of the year was £1,928,592 (2008 £1,536,774)

The Group incurred payments of £Nil (2008 £551,208) to Virgin Money Australia Pty Limited, in which the ultimate shareholder of the Group has an interest The payments were in relation to a cash flow agreement as described in note 9 The balance receivable at the end of the year was £Nil (2008 £Nil)

The Group incurred group relief charges of £Nil (2008 £1,169,785) to Virgin Management Limited The balance repayable at the end of the year was £950,523 (2008 £1,169,785)

The Group incurred annual research fees of £230,000 (2008 £Nil) to Virgin Insight Limited The amount payable at the end of the year was £Nil (2008 £Nil)

The Group incurred credit card point of sale discount fees of £103,875 (2008 £100,474) to Virgin Holidays Limited The balance outstanding at the end of the year was £29,854 (2008 £84,308)

#### 26. CAPITAL COMMITMENTS

The Group had capital commitments of £8,100 (2008 £128,700) at the balance sheet date

#### 27. PENSION COMMITMENTS

The Group operates a defined contribution pension scheme, which pays into the Virgin Stakeholder Pension, for its directors and employees The assets of the scheme are held separately from those of the Company in an independently administered fund The Group made contributions of £988,260 during the year (2008 £847,196) There were no unpaid contributions outstanding at the year-end (2008 £Nil)

#### 28. POST BALANCE SHEET EVENTS

On 8 January 2010, the Company announced an Offer for the entire issued and to be issued share capital of Church House Trust Plc The Company's application to become the controlling shareholder of Church House Trust Plc had been approved by the Financial Services Authority in December 2009 The Offer was declared unconditional in all respects on 27 January 2010 and the acquisition was effective from that date

As a condition of the Offer, arrangements were put in place for the disposal by Church House Trust Plc of its two subsidiary undertakings, Church House Investments Limited and Church House Consultants Limited These disposals were completed by the date the Offer was declared unconditional

The consideration for the acquisition comprised the following

	£'000
Cash paid on completion	8,457
Loan Notes issued on completion (collateralised in cash)	1,931
Deferred Contingent Consideration (satisfied by the issue of Contingent Loan Notes collateralised in cash)	2,100
	<hr/>
	12,488
	<hr/>

## Virgin Money Holdings (UK) Limited

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### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2009

#### **29. ULTIMATE CONTROLLING PARTY**

The Company's immediate parent undertaking is Virgin Financial Services UK Holdings Limited, a company incorporated in the United Kingdom. The Company's ultimate controlling party is Virgin Group Holdings Limited, a company incorporated in the British Virgin Islands.

The smallest and largest group in which the results of the Company are consolidated are that of Virgin Financial Services UK Holdings. The consolidated financial statements of Virgin Financial Services UK Holdings Limited may be obtained from Companies House, Crown Way, Cardiff, CF4 3UZ.