

Registered No 3072766

VIRGIN MONEY PERSONAL FINANCIAL SERVICE LIMITED

Annual Report

31 December 2011

WEDNESDAY



\*S1BYLAMP\*

SCT

27/06/2012

#35

COMPANIES HOUSE

# Virgin Money Personal Financial Service Limited

---

## CONTENTS

	<b>Pages</b>
Directors and Officers	1
Directors' Report	2
Independent Auditor's Report	5
Statement of Comprehensive Income	6
Balance Sheet	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	10

# Virgin Money Personal Financial Service Limited

---

## DIRECTORS AND OFFICERS

### EXECUTIVE DIRECTORS

M Parker  
M Watson  
F Williamson

### COMPANY SECRETARY

J Fitzpatrick

### COMPANY NUMBER

3072766

### REGISTERED OFFICE

Discovery House  
Whiting Road  
Norwich  
NR4 6EJ

### AUDITORS

KPMG LLP  
15 Canada Square  
London  
E14 5GL

### BANKERS

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

# Virgin Money Personal Financial Service Limited

---

## DIRECTORS' REPORT

For the year ended 31 December 2011

The directors present their report and the financial statements for the year ended 31 December 2011

### PRINCIPAL ACTIVITIES

The Company's principal activities are the provision of Individual Savings Accounts (ISAs) and the marketing and distribution of general insurance and life insurance policies in the UK. The Company also provides payment services in support of Virgin Money Giving Limited.

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The Company has concentrated on improving the profitability of its protection products comprising general and life insurance. The Company will continue to focus on increasing sales volumes of these products while maintaining margins and retaining existing customers.

Income from ISA funds under management outperformed 2010 despite the FTSE 100 declining over 5% over the course of the year. ISA income was bolstered by an increase in new business and robust retention which together more than offset stock market influences. Income from the Company's insurance business fell over 30%, with Motor and Home new business especially affected by a very competitive and price led market. However sales of travel insurance policies grew very strongly from the previous year with over 550,000 policies sold in 2011.

Key performance indicators reviewed by management include turnover by business segment, market performance and funds under management. The Company continues to face risks in relation to market performance in respect of its ISA product and in relation to consumer demand for its other products.

The Company will continue to focus on sales growth of protection products, on maintaining the competitiveness of its product range and in identifying new distribution opportunities.

Key Performance Indicators	2011	2010
FTSE 100 Index	5,572	5,890
Profit before tax (£000)	2,068	2,764
Funds under management	2.43 billion	2.56 billion

### PRINCIPAL RISKS AND UNCERTAINTIES

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

- **Capital Management** The primary objective of the Company's capital management is to ensure that it maintains appropriate levels of regulatory capital surplus and that capital is structured optimally to support its business and maximise shareholder value.  
The Company manages its capital structure and adjusts it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the 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 2011.
- **Credit risk** the current or prospective loss to earnings and capital (expected and unexpected loss) arising from lending as a result of counterparties defaulting on their obligations due to the Company.
- **Market risk** the risk that changes in the level of interest rates, the value of UK equities, corporate bonds and gilts, the rate of exchange between currencies or the price of securities or other financial contracts will have an adverse impact on the results of operations or financial condition of the Company.
- **Liquidity risk** the risk that the Company is unable to meet its obligations as they fall due.
- **Operational risk** the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risk.
- **Legal risk** the risk of legal sanction, material financial loss or loss to 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.

# Virgin Money Personal Financial Service Limited

---

## DIRECTORS' REPORT

For the year ended 31 December 2011

### PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

- **Regulatory risk** the risk of the Company failing to comply with the legal and regulatory requirements applying to its arrangements and activities with the potential consequences of
  - Customers being unfairly treated or suffering financial or other detriment,
  - Legal or regulatory sanctions,
  - Reputational loss and the associated financial and business impacts,
  - Risks to market confidence or stability, and
  - Virgin Money being used for the purposes of financial crime
- **Outsourcing risk** the risk that a Company fails in its responsibility to oversee and control third parties on which it is reliant for the performance of operational functions which are critical for the performance of regulated, and other critical and important, activities and services on a continuous and satisfactory basis. The Company relies on key partners to manage critical client facing activities and investment management of the unit trusts of which the company is manager. Failure by the partners to meet required standards may place the Company at risk of regulatory sanctions, loss of income or reputational damage. The company performs ongoing monitoring and oversight of its key partners and adherence to required standards is achieved by monitoring of service level agreements, through risk assurance, and internal audit activity undertaken by the company.

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) Limited.

### VIRGIN MONEY GIVING LIMITED

The Company acts as an agent for Virgin Money Giving Limited, a fellow subsidiary undertaking which facilitates the payment of on-line 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.

### DIVIDENDS

Dividends of £Nil were declared and paid during the year (2010: £7.91m). The directors do not recommend a final dividend for the year (2010: £Nil).

### DIRECTORS

The current composition of the Board of Directors together with details of appointments and retirements up to the date of this report is as follows:

M Selby (Appointed 31 August 2011, Resigned 16 February 2012)  
M Parker (Appointed 16 February 2012)  
R Russell (Resigned 31 August 2011)  
M Watson  
F Williamson

### COMPANY SECRETARY

B Gerrard (resigned 16 February 2012)  
J Fitzpatrick (appointed 16 February 2012)

### 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.

# Virgin Money Personal Financial Service Limited

---

## DIRECTORS' REPORT

For the year ended 31 December 2011

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare company financial statements for each financial year. Under that law the directors have elected to prepare the company financial statements in accordance with International Financial Reporting Standards (IFRS) 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 their profit or loss period. In preparing the company 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, and
- state whether they have been prepared in accordance with IFRS as adopted by the EU

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 its 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 group and to prevent and detect fraud and other irregularities.

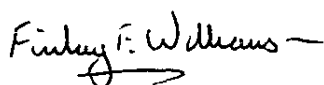
### AUDITORS AND DISCLOSURE OF INFORMATION TO THE AUDITORS

So far as every Director at the date of this report is aware, 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.

### AUDITORS

Under section 487(2) of the Companies Act 2006, KPMG LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the Board on 19 March 2012 and signed on its behalf by



F Williamson  
Director

Registered No. 3072766

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRGIN MONEY PERSONAL FINANCIAL SERVICE LIMITED

We have audited the accompanying financial statements of Virgin Money Personal Financial Service Limited for the year ended 31 December 2011 as set out on pages 6 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU.

The 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 auditor's 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 auditor

As explained more fully in the Directors' Statement of Responsibilities set out on page 4, 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). Those standards require us to comply with the Auditing Practices Board's (APB) 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 website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and its profit for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

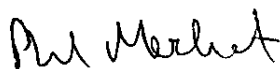
### Opinion on other matters prescribed by the Companies Act 2006

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.

### 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, 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, 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.



Phil Merchant (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

19 March 2012

## Virgin Money Personal Financial Service Limited

### STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
<b>Revenue</b>	2	10,021	11,072
Administrative expenses	3	(7,850)	(8,309)
<b>Operating profit</b>		<b>2,171</b>	<b>2,763</b>
Interest receivable and similar income		138	2
Finance cost	10	(241)	(1)
<b>Profit on ordinary activities before taxation</b>		<b>2,068</b>	<b>2,764</b>
Tax on profit on ordinary activities	6	(37)	(913)
<b>Profit for the year and comprehensive income</b>		<b>2,031</b>	<b>1,851</b>
<b>Attributable to</b>			
Equity holders		<b>2,031</b>	<b>1,851</b>

The accounting policies and notes on pages 10 to 18 form an integral part of these financial statements



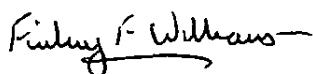
# Virgin Money Personal Financial Service Limited

## BALANCE SHEET As at 31 December 2011

	Notes	2011 £'000	2010 £'000	1 Jan 2010 £'000
<b>Assets</b>				
Amounts owed by group undertakings		7,398	3,259	7,910
Trade and other receivables	8	633	793	744
Cash at bank	12	799	2,443	792
<b>Total current assets</b>		<b>8,830</b>	<b>6,495</b>	<b>9,446</b>
Deferred tax asset	7	1,882	1,882	2,791
<b>Total non current assets</b>		<b>1,882</b>	<b>1,882</b>	<b>2,791</b>
<b>Total assets</b>		<b>10,712</b>	<b>8,377</b>	<b>12,237</b>
<b>Equity</b>				
Issued capital	11	3,000	3,000	3,000
Distributable capital reserve		-	-	2,909
Retained earnings		4,798	2,767	5,917
<b>Total equity</b>		<b>7,798</b>	<b>5,767</b>	<b>11,826</b>
<b>Liabilities</b>				
Amounts owed to group undertakings		37	301	120
Trade and other payables	9	1,046	309	291
<b>Total current liabilities</b>		<b>1,083</b>	<b>610</b>	<b>411</b>
Other non-current liabilities	10	1,831	2,000	-
<b>Total non current liabilities</b>		<b>1,831</b>	<b>2,000</b>	<b>-</b>
<b>Total liabilities</b>		<b>2,914</b>	<b>2,610</b>	<b>411</b>
<b>Total equity and liabilities</b>		<b>10,712</b>	<b>8,377</b>	<b>12,237</b>

The accounting policies and notes on pages 10 to 18 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 19 March 2012



F Williamson  
Director

## Virgin Money Personal Financial Service Limited

### STATEMENT OF CHANGES IN EQUITY As at 31 December 2011

	Ordinary share capital £'000	Retained earnings £'000	Distributable capital reserve £ 000	Total equity £ 000
Balance at 1 January 2010	3,000	5,917	2,909	11,826
Profit and total comprehensive income for the year	-	1,851	-	1,851
Transfer between reserves	-	2,909	(2,909)	-
Dividends	-	(7,910)	-	(7,910)
Balance at 31 December 2010	3,000	2,767	-	5,767
Balance at 1 January 2011	3,000	2,767	-	5,767
Profit and total comprehensive income for the year	-	2,031	-	2,031
Balance at 31 December 2011	3,000	4,798	-	7,798

The accounting policies and notes on pages 10 to 18 form an integral part of these financial statements

## Virgin Money Personal Financial Service Limited

### STATEMENT OF CASH FLOWS For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
<b>Cash flows from operating activities</b>			
Operating profit for the year		2,171	2,763
Decrease in trade and other receivables		160	(50)
Decrease in amounts due from group undertakings		(1,209)	4,650
Increase in trade and other payables		327	2,016
Increase in accruals and deferred income		-	-
Cash generated from operations		1,449	9,379
Finance income		7	2
Finance cost		-	(1)
Income taxes paid		-	-
<b>Net cash from operating activities</b>		<b>1,456</b>	<b>9,380</b>
<b>Cash flows from financing activities</b>			
Increase in amounts due to group undertakings		(3,100)	181
Dividends paid		-	(7,910)
<b>Net cash from financing activities</b>		<b>(3,100)</b>	<b>(7,729)</b>
Net decrease in cash and cash equivalents		(1,644)	1,651
Cash and cash equivalents at 1 January		2,443	792
<b>Cash and cash equivalents at 31 December</b>	12	<b>799</b>	<b>2,443</b>

The accounting policies and notes on pages 10 to 18 form an integral part of these financial statements

# Virgin Money Personal Financial Service Limited

---

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 1 ACCOUNTING POLICIES

#### 1.1 *Reporting Entity*

Virgin Money Personal Financial Service Limited is a company incorporated in the UK and registered in England and Wales

#### 1.2 *Basis of preparation*

The financial statements, which should be read in conjunction with the Directors' Report, have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. These are the Company's first financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the company is provided in note 1.8.

The financial statements have been prepared under the historical cost convention.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS Balance Sheet at 1 January 2010 for the purposes of transition to IFRS, unless otherwise indicated.

#### 1.3 *Revenue*

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

Revenue is recognised in full on effective date of commencement or renewal of the related policies to reflect underlying contracts with product providers, being from the date general insurance and life assurance policies are on risk. Revenue from sales of Individual Savings Accounts (ISA's) is recognised daily based on the average volume of ISA funds under management.

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Commission relates to the sale of insurance products in which 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.

#### 1.4 *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.

#### 1.5 *Taxation*

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

Current tax is the expected tax payable or receivable 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.

# Virgin Money Personal Financial Service Limited

---

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 1 ACCOUNTING POLICIES (CONTINUED)

#### 1.6 *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.

#### 1.7 *Dividends*

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

#### 1.8 *Client Money*

The Company holds money on behalf of some clients in accordance with the Client Money Rules of the Financial Services 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 beneficially entitled thereto.

#### 1.9 *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.

##### **Taxation and deferred tax assets**

Taxation is inherently judgemental and involves estimation techniques to assess the liability in terms of possible outcomes.

The assessment of the recoverability or otherwise of deferred tax assets is based mainly on the premise that the Company will generate sufficient profits in the future to realise the deferred tax assets. This is reviewed at each reporting date.

#### 1.10 *Accounting developments*

The following new standards, amendments to standards or interpretations are mandatory for the first time for financial years during 2011 and have been endorsed for adoption by the EU, but have no material financial impact on the Company. These are applicable from 1 January 2011 unless otherwise stated.

- a) Amendment to IAS 24, Related party disclosures,
- b) Amendment to IFRIC 14, IAS 19 – Prepayments of a minimum funding requirement,
- c) Amendment to IAS 32 Financial instruments. Presentation on classification of rights issues,
- d) Amendment to IFRS 1, First time adoption of IFRS,
- e) Annual improvements 2010, and
- f) IFRIC 19, Extinguishing financial liabilities with equity instruments

# Virgin Money Personal Financial Service Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 1 ACCOUNTING POLICIES (CONTINUED)

#### 1.11 *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 standards or interpretations during 2011

The following new standards, amendments to standards or interpretations that are relevant to the Group have been issued and have been endorsed by the EU but are not effective for financial years beginning 1 January 2011

- a) Amendment to IAS 32 Financial Instruments Presentation on Offsetting financial assets and financial liabilities, and
- b) Amendment to IFRS 7, Financial Instruments Disclosures on derecognition

The following new standards, amendments to standards or interpretations that are relevant to the Company have been issued but are not effective for financial years beginning 1 January 2011 and have not been endorsed by the EU

- a) IFRS 9, Financial instruments,
- b) IFRS 10, Consolidated financial statements,
- c) IFRS 11, Joint arrangements,
- d) IFRS 12, Disclosures of interests in other entities,
- e) IFRS 13, Fair value measurement,
- f) IAS 27, Separate financial statements,
- g) IAS 28, Investments in associates and joint ventures,
- h) Amendment to IAS 1, Presentation of financial statements, on other comprehensive income (OCI),
- i) Amendment to IAS 12, 'Income taxes on deferred tax,
- j) Amendments to IFRS 1, 'First time adoption' on hyperinflation and fixed dates, and
- k) IAS 19 (revised 2011), Employee benefits

### 2 REVENUE

Revenue is attributable to the sale and management of ISAs, the sale of general insurance policies, the sale of life insurance policies and the marketing of other financial services products. All revenue arose within the United Kingdom

An analysis of revenue by class of business is as follows

	2011 £'000	2010 £ 000
Income from ISA sales	7,253	6,760
General insurance commission	2,493	3,777
Life insurance commission	213	216
Deposit account and other income	62	319
	<u>10,021</u>	<u>11,072</u>

# Virgin Money Personal Financial Service Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 3 OPERATING COSTS

	2011 £'000	2010 £'000
Recharges from fellow subsidiary undertakings	6,245	6,984
Investment expenses	415	370
Other operating charges	1,190	955
	<u>7,850</u>	<u>8,309</u>

Other operating charges reflect third party expenses, royalty payments for use of the Virgin trademark and other administration expenses

#### Auditor's remuneration

	2011 £'000	2010 £'000
Audit of these financial statements	21	17
Other services pursuant to legislation	13	8
All other services	24	-
	<u>58</u>	<u>25</u>

### 4 DIRECTORS' EMOLUMENTS

The directors are employed by Virgin Money Management Services Limited, a fellow subsidiary undertaking, and their emoluments are disclosed within the financial statements of that 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.

### 5 EMPLOYEE INFORMATION

The Company did not directly employ any staff during the year. The services of individuals were obtained in exchange for payments made to Virgin Money Management Services Limited, a fellow subsidiary undertaking.

### 6 TAXATION

	2011 £'000	2010 £'000
<b>Current tax</b>		
Corporation tax	37	4
Total current tax	<u>37</u>	<u>4</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(139)	780
Utilisation of tax losses	-	-
Effect of decreased tax rate on opening asset	139	129
Total deferred tax	<u>-</u>	<u>909</u>
Total tax expense in comprehensive income	<u>37</u>	<u>913</u>

Group relief is taken where available and is paid for in full

# Virgin Money Personal Financial Service Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 6 TAXATION (CONTINUED)

#### Tax Reconciliation

	2011 £'000	2010 £ 000
Profit for the period	2,068	2,764
Tax using the effective corporation tax rate of 26.5% (2010: 28%)	548	774
Effects of		
Disallowed expenses	-	1
Change in deferred tax asset due to change in tax rate	139	129
Losses deemed not recoverable	-	9
Utilisation of tax losses	(650)	-
Total current tax	37	913

### 7 DEFERRED TAX ASSETS

Deferred tax asset is attributable to the following:

	Assets	
	2011 £'000	2010 £ 000
Losses	1,882	1,882
	1,882	1,882

The deferred taxation asset not recognised in the financial statements, in accordance with the Company's accounting policy, are as follows

	2011 £'000	2010 £ 000
Unrecognised losses	180	865
Unrecognised capital allowances	135	146
Unrecognised deferred taxation asset	315	1,011

Movement in temporary differences in the year

	Balance at 1 Jan 2010 £ 000	Recognised in income £'000	Balance at 31 Dec 2010 £ 000	Recognised in income £ 000	Balance at 31 Dec 2011 £'000
Capital allowances	-	-	-	-	-
Losses	2,791	(909)	1,882	-	1,882
	2,791	(909)	1,882	-	1,882



# Virgin Money Personal Financial Service Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 8 TRADE AND OTHER RECEIVABLES

	2011 £'000	2010 £ 000	1 Jan 2010 £ 000
Trade debtors	633	793	744
	<b>633</b>	<b>793</b>	<b>744</b>

The Company's exposure to credit risk and impairment losses related to trade and other receivables is disclosed in note 13

### 9 TRADE AND OTHER PAYABLES

	2011 £'000	2010 £ 000	1 Jan 2010 £ 000
Trade creditors	217	58	-
Accruals	461	232	267
Other creditors	368	19	24
	<b>1,046</b>	<b>309</b>	<b>291</b>

The Company's exposure to liquidity risk related to trade and other payables is disclosed in note 13

### 10 OTHER NON-CURRENT LIABILITIES

In December 2010 the Company entered into a new partnership agreement with Capita in respect of Home and Motor insurance business and terminated the existing relationship with RBSi. Under the terms of the agreement the existing customer base would be transferred to Capita as policies reached their annual renewal dates. Capita advanced the Company £2 million reflecting forecast renewal income to be earned up to 2016. Interest accrues on the advance at a rate equivalent to 15% p.a. and renewal income earned from transferred policies is used to pay down the loan balance. The interest expense on the balance during 2011 was £241,000 (2010: £Nil).

### 11 CAPITAL AND RESERVES

Share Capital	2011		2010	
	Shares	£'000	Shares	£'000
Allotted, called up and fully paid ordinary shares of £1 each	3,000,100	3,000	3,000,100	3,000

#### Dividends

The following dividends were declared and paid by the Company

	2011 £'000	2010 £'000
Dividends paid on ordinary shares	-	7,910

#### Distributable Capital Reserve

A distributable capital reserve was created on a court approved capital reduction in 2005. The directors have made a number of transfers, the final one being in 2010, from this capital reserve to the profit and loss account.

# Virgin Money Personal Financial Service Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 12 CASH AND CASH EQUIVALENTS

	2011 £'000	2010 £'000
Bank balances	799	2,443
Cash and cash equivalents in the statement of cash flows	799	2,443

The Company is regulated by the Financial Services Authority and generally does not require its cash balance to be used to cover its regulatory capital requirements

The credit quality of cash and cash equivalents by reference to credit ratings is set out in the table below

	2011 £'000	2010 £'000	1 Jan 2010 £'000
A1	799	2,443	792

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 13

### 13 FINANCIAL INSTRUMENTS

The Company's principal financial instruments comprise trade receivables and payables

The Company has various financial assets such as trade receivables and cash and short-term deposits which arise directly from its operations

#### *Financial Instruments*

Financial assets can be classified in the following categories: loans and receivables, available for sale, held to maturity or financial assets at fair value through profit and loss. Management determines the classification of its financial instruments at initial recognition.

All the Company's financial assets are classified as loans and receivables and comprise the amounts due by group undertakings, amounts owed by related 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, amounts owed to related 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 customer 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 method, less any provision for impairment.

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.

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.

# Virgin Money Personal Financial Service Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 13 FINANCIAL INSTRUMENTS (CONTINUED)

#### *Liquidity Risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset

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 the Company's immediate parent undertaking. Overall liquidity of the Virgin Money Holdings (UK) Limited Group is managed centrally

#### *Market Risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return

#### *Currency Risk*

The Company is not exposed to currency risk

#### *Interest Rate 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

#### *Fair Values*

There are no differences between the carrying amounts and fair values of financial assets and liabilities

#### *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. All other receivables/payables are discounted to determine fair value

### 14 RELATED PARTY TRANSACTIONS

	Transaction value Year ended		Balance outstanding As at		
	31 December		31 December		1 January
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2010 £'000
Licence Fees payable to Virgin Enterprises Ltd	109	133	7	10	21
Recharges and trading balances with group undertakings	6,245	6,984	904	(301)	(102)
Interest and loan balances with group undertakings	134	-	6,457	3,259	7,910

### 15 SUBSEQUENT EVENTS

There have been no material events after the reporting period requiring disclosure between 31 December 2011 and the signing of accounts

## Virgin Money Personal Financial Service Limited

---

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

#### 16 FINANCIAL SERVICES COMPENSATION SCHEME

The Financial Services Compensation Scheme (FSCS) is the UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation if a firm is unable, or likely to be unable, to pay claims against it. This is usually because it has stopped trading or has been declared in default.

The FSCS covers business conducted by firms authorised by the Financial Services Authority (FSA), the independent watchdog set up by government to regulate financial services in the UK and protect the rights of consumers.

The FSCS is funded by the financial services industry. Every firm authorised by the FSA is obliged to pay an annual levy, which goes towards the FSCS running costs and the compensation payments made.

For the year to 31 December 2011 the Company has paid or made provision for levies covering Scheme Years 2011/2012 in relation to its investment business.

The Company's provision does not include levies for further scheme years.

#### 17 ULTIMATE PARENT COMPANY

The company is a subsidiary of Virgin Money Holdings (UK) Limited, which is incorporated in Great Britain.

Virgin Money Holdings (UK) Limited 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) Limited may be obtained from Companies House, Crown Way, Cardiff, CF4 3UZ.

The Company's direct and ultimate controlling party is Virgin Money Holdings (UK) Limited, a company incorporated in Great Britain.

#### 18 EXPLANATION OF TRANSITION TO IFRS

As stated in note 1, these are the Company's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2011, the comparative information presented in these financial statements for the year ended 31 December 2010 and in the preparation of an opening IFRS statement of financial position at 1 January 2010 (the Company's date of transition).

In preparing its opening IFRS statement of financial position, the Company has not had to adjust amounts reported previously in financial statements prepared in accordance with UK GAAP (previous GAAP).