Annual report and consolidated financial statements

Clydesdale Bank PLC

For the year ended 30 September 2023

Company Number: SC001111

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Contents

Overview

Clydesdale Bank PLC ('the Bank'), together with its subsidiary undertakings (which together comprise 'the Group'), operate under the Clydesdale Bank, Yorkshire Bank and Virgin Money brands. It offers a range of banking services for both retail and business customers through retail stores, lounges, business banking centres, direct and online banking, and brokers. It is the main operating subsidiary of its immediate parent, Virgin Money UK PLC. The results referred to in this annual report and accounts relate to the 12 months up to 30 September 2023.

Certain figures contained in this document, including financial information, may have been subject to rounding adjustments and foreign exchange conversions. Accordingly, in certain instances, the sum or percentage change of the numbers contained in this document may not conform exactly to the total figure given.

The forward-looking statements disclaimer can be found on page 189.

Officers and professional advisers

Board Chair	David Bennett
Senior Independent Non-Executive Director	Tim Wade
Independent Non-Executive Directors	Geeta Gopalan Darren Pope Elena Novokreshchenova
Non-Executive Director	Sara Weller CBE
Executive Director	David Duffy Clifford Abrahams
Group Company Secretary	Lorna McMillan
Registered office	177 Bothwell Street Glasgow G2 7ER
Independent auditors	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY

Strategic report

The Directors of the Bank and its subsidiary undertakings (which together comprise 'the Group') present their Strategic report for the year ended 30 September 2023.

Principal activities

The Group operates a full service UK-focused retail and commercial banking business under the brand names 'Clydesdale Bank', 'Yorkshire Bank' and 'Virgin Money' across its core regional markets (Scotland, North East England, North West England, Yorkshire and the Humber) and selected national markets. The bank is a strong, low risk bank focused on providing residential mortgages, personal and business current accounts, savings, personal loans and credit cards, loans for small and medium businesses, and payment and transaction services.

Business review

Summary balance sheet as at 30 September	**2023 £m**	2022 £m
Customer loans	**72,754**	72,558
Other financial assets	**17,760**	17,544
Other non-financial assets	**1,370**	1,908
Total assets	**91,884**	92,010
Customer deposits	**(66,609)**	(65,360)
Wholesale funding	**(16,680)**	(17,043)
Other liabilities	**(2,906)**	(3,196)
Total liabilities	**(86,195)**	(85,599)
Ordinary shareholders' equity	**(5,095)**	(5,749)
Additional Tier 1 (AT1) equity	**(594)**	(662)
Equity	**(5,689)**	(6,411)
Total liabilities and equity	**(91,884)**	(92,010)

Summary income statement – underlying and statutory basis(1) for the year ended 30 September	**2023 £m**	2022 £m
Net interest income	**1,715**	1,592
Non-interest income	**158**	147
Total operating income	**1,873**	1,739
Total operating and administrative expenses	**(971)**	(914)
Operating profit before impairment losses	**902**	825
Impairment losses on credit exposures	**(309)**	(52)
Underlying profit on ordinary activities before tax	**593**	773
Restructuring charges	**(131)**	(82)
Acquisition accounting unwinds	**(29)**	(35)
Legacy conduct	**(12)**	(8)
Hedge ineffectiveness(2)	**(16)**	13
Other items	**(61)**	(71)
Statutory profit on ordinary activities before tax	**344**	590
Tax expense	**(95)**	(70)
Statutory profit attributable to equity holders	**249**	520

(1) The summary income statement is presented on a statutory and underlying basis. Management exclude certain items from the Group's statutory position to arrive at an underlying performance basis. A reconciliation from the underlying results to the statutory basis is shown on page 5 and rationale for the adjustments is shown on page 182.

(2) Hedge ineffectiveness is now presented as an adjustment to underlying earnings due to the increase in volatility caused by the recent significant changes in interest rates. The comparative periods have been adjusted accordingly. This restatement does not impact the statutory results of the Group

Business review (continued)

The Group has continued to make good progress in 2023 against Virgin Money's digital strategy set out at FY21, with growth in customer numbers and our target segments, and further progress on our efforts to digitise the bank, all while maintaining a robust balance sheet. This has been achieved despite an operating environment which has proved increasingly challenging for the customers we serve. Over the course of the year, UK GDP growth has been low but resilient, while the economy has been impacted by persistently higher inflation, resulting in higher interest rates which are now at levels not seen for nearly 15 years.

Robust balance sheet maintained

We were pleased to deliver lending growth in our target areas during the year, while overall customer lending was stable at £72.8bn. Mortgage balances reduced 1.1% during the period to £57.5bn, as the higher rate environment and wider cost of living pressures tempered purchase activity. Business lending increased 6% overall, as growth in BAU balances offset ongoing reductions in government-backed lending. Unsecured balances continued to perform strongly, growing 6% during the year to £6.5bn. This year, we reduced the pace of growth in Unsecured lending relative to FY22, reflecting a disciplined approach to profitability. We continued to attract new deposits during the year, despite a competitive backdrop, supporting overall deposit growth of 1.9%

Strengthened provision coverage

ECL provisions increased to £617m at FY23 (2022: £457m), resulting in higher aggregate provision coverage of 84bps (2022: 62bps). This was mainly due to a higher modelled ECL, particularly in credit cards, in anticipation of a continued increase in arrears reflecting revised macroeconomic assumptions and credit bureau data. The updated economic outlook showed a slower recovery in the outer years compared to September 2022, whilst updated credit bureau data was also modestly weaker.

Improved statutory operating profit before impairment losses

Our statutory operating profit before impairment losses of £653m (2022: £642m) improved relative to FY22, supported by the combination of the higher rate environment and growth in targeted lending and deposits. The Group has recognised a statutory profit before tax of £344m (2022: £590m). The reduction in statutory profit is primarily driven by higher credit impairment losses, following the low charge last year and higher adjusting items, primarily reflecting restructuring costs in the year.

Underlying operating income of £1,873m (2022: £1,739m) was improved year-on-year, given the higher rate environment and strategic execution, supporting growth relative to FY22. Underlying costs were 6% higher compared to FY22 reflecting gross cost savings from the restructuring programme offset by inflation, investment and temporary higher customer service related costs. Credit impairments of £309m (2022: £52m) were significantly higher year-on-year as explained in the increased provision coverage above.

Robust capital, liquidity and funding position

During 2023, the Group maintained a strong capital position with a CET1 ratio (IFRS 9 transitional basis) of 14.6% (2022: 14.9%) and a total capital ratio of 21.0% (2022: 21.9%). The Group therefore retains a significant CET1 management buffer in excess of its Capital Requirements Directive IV (CRD IV) minimum CET1 requirement of 6.2%.

Funding and liquidity

The Group has maintained a strong funding and liquidity position. The Group's liquidity surplus continues to comfortably exceed both regulatory requirements and our more prudent internal risk appetite metrics, ensuring a substantial buffer in the event of any outflows, with a Liquidity Coverage Ratio (LCR) of 146% as at 30 September 2023 (2022: 140%) based on a monthly rolling average over the previous 12 months. The 12-month average Net stable funding ratio (NSFR) was 136% at 30 September 2023 (2022: 134%).

Outlook

Looking ahead, we will be undertaking a new 3-year investment programme, expected to cost c.£130m. This investment will improve our financial crime prevention capabilities, as well as supporting enhanced data quality work required of Tier 1 banks. While this delays delivery of our previously announced FY24 targets, it is critical we adapt to the fast-evolving environment in order to safeguard the Group and our customers further.

I am confident that the Group is well positioned to navigate the current economic backdrop with good financial momentum, including a strong margin, targeted growth, and a robust balance sheet. We remain focused on investing to digitise the Bank in the near term, which will drive further cost efficiency and improved customer experience, while also investing to improve our overall resilience across the medium term. The combination of these factors will support improved shareholder returns over the coming periods and delivery of our commitment to distribute surplus capital in line with our capital framework.

Strategic report (continued)

Key performance indicators

The Directors do not rely on key performance indicators at the individual subsidiary level. The performance of the Group is included in the Annual Report and Accounts of Virgin Money UK PLC. The business is managed within the Virgin Money UK PLC Group and the results are consistent with the Group's status as a fully integrated and wholly-owned subsidiary of the Virgin Money UK PLC Group. For this reason, the Bank's Directors believe that providing further indicators for the Group itself would not enhance an understanding of the development, performance or position of the Group.

Governance

Our commitment to good governance has continued to underpin our strategic delivery and ensures we continue to challenge our assumptions and risks.

Section 172 statement - In undertaking its duties, the Board continues to be mindful of the need to appropriately balance the interests and expectations of the Group's various stakeholders. In this report, we describe how we have considered and worked with our stakeholders as we seek to achieve our Purpose of Making you happier about money. Details of s.172 compliance can be found on pages 95 to 99.

Reconciliation of statutory to underlying results

The statutory basis presented within this section reflects the Group's results as reported in the financial statements. The underlying basis reflects the Group's financial performance prepared on an underlying basis as presented to the CEO, Executive Leadership Team and Board and exclude certain items that are part of the statutory results. The table below reconciles the statutory results to the underlying results, and full details on the adjusted items to the underlying results are included on page 182:

12 months to 30 Sep 2023	**Statutory results £m**	**Restructuring charges £m**	**Acquisition accounting unwinds £m**	**Legacy conduct £m**	**Hedge ineffectiveness £m**	**Other £m**	**Underlying basis £m**
Net interest income	**1,686**	**-**	**29**	**-**	**-**	**-**	**1,715**
Non-interest income	**140**	**-**	**-**	**-**	**16**	**2**	**158**
Total operating income	**1,826**	**-**	**29**	**-**	**16**	**2**	**1,873**
Total operating and administrative expenses before impairment losses	**(1,173)**	**131**	**-**	**12**	**-**	**59**	**(971)**
Operating profit before impairment losses	**653**	**131**	**29**	**12**	**16**	**61**	**902**
Impairment credit on credit exposures	**(309)**	**-**	**-**	**-**	**-**	**-**	**(309)**
Profit on ordinary activities before tax	**344**	**131**	**29**	**12**	**16**	**61**	**593**

12 months to 30 Sep 2022	**Statutory results £m**	**Restructuring charges £m**	**Acquisition accounting unwinds £m**	**Legacy conduct £m**	**Hedge ineffectiveness[(1)] £m**	**Other £m**	**Restated underlying basis £m**
Net interest income	1,576	-	16	-	-	-	1,592
Non-interest income	135	-	16	-	(13)	9	147
Total operating income	1,711	-	32	-	(13)	9	1,739
Total operating and administrative expenses before impairment losses	(1,069)	82	3	8	-	62	(914)
Operating profit before impairment losses	642	82	35	8	(13)	71	825
Impairment credit on credit exposures	(52)	-	-	-	-	-	(52)
Profit on ordinary activities before tax	590	82	35	8	(13)	71	773

(1) Hedge ineffectiveness is now presented as an adjustment to underlying earnings due to the increase in volatility caused by the recent significant changes in interest rates. The comparative periods have been adjusted accordingly. This restatement does not impact the statutory results of the Group.

The Strategic report was approved by the Board of Directors on 22 November 2023 and was signed on its behalf by:

Clifford Abrahams
Chief Financial Officer

Principal risks and mitigating actions

The Group's principal risks are those which could result in events or circumstances that might threaten the Group's business model, future performance, solvency, liquidity and reputation. The Group's principal risk categories are consistent with those outlined in the Interim Financial Results 2023.

An overview of the Group's principal risks and mitigating actions is set out below:

Principal risks	Key mitigating actions	Future focus
Credit risk is the risk that a retail or business customer or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk needs to be managed through the life cycle of each loan from origination to repayment, write-off or sale. It manifests in the financial instruments and products that the Group offers and in which it invests and can arise in respect of both on- and off-balance sheet exposures.	• The Group applies detailed lending policies, credit strategies and standards which outline the approach to lending, underwriting, concentration limits and product terms. • Credit risk is managed through risk appetite and risk limits reflected in approved credit frameworks, policies and controls. • The Group carries out ongoing monitoring and approval of individual transactions, regular asset quality reviews and independent oversight of credit decisions and portfolios. • Significant portfolio monitoring and assessment of aggregate risks is in place to remain close to any signs of portfolio deterioration, covering areas such as product, industry, geographical concentrations and delinquency trends. • Stress test scenarios are prepared regularly to assess the adequacy of the Group's impairment provisions and the impact on RWAs and capital	• The Group remains focused on continued and timely support for customers experiencing financial difficulty, as well as horizon scanning in relation to expected events and outcomes, given the ever-changing external environment. • The Group will put in place all necessary measures to ensure readiness for any potential economic downturn and consequent customer support.
Financial risk includes capital risk, funding risk, liquidity risk, market risk and pension risk, all of which have the ability to impact the financial performance of the Group, if not managed correctly.	• Funding and liquidity risk is managed in line with Board-approved standards, including the annual Internal Liquidity Adequacy Assessment (ILAA), strategic funding plans and recovery planning. • The Group completes an annual Internal Capital Adequacy Assessment Process (ICAAP) which formally assesses the impact of severe, yet plausible, stress events to ensure that the appropriate level and type of capital underpins the strength of the balance sheet in both normal and stressed conditions. The Group also participates in the BoE annual cyclical scenario (ACS), which tests the resilience of major UK banks to a severe stress scenario. • Board-approved risk appetite measures ensure financial risks are monitored and managed in accordance with internal and regulatory requirements and in support of the Group's strategy. • Market risks (interest rate and foreign exchange risks) are managed in line with established policies and allocation of capital. • Pension risk is overseen by the Asset and Liability Committee (ALCO) and is considered in detail as part of the ICAAP with ongoing reports provided to the Board Risk Committee.	• The Group's focus is to manage the balance sheet through the uncertain economic environment and cost of living crisis. • The economic environment creates interest rate uncertainty, which presents potential for adverse operational impacts, changes to customer behaviour and competitor pressure on margins. • The PRA timeline for implementing Basel 3.1 has been extended. This will be a focus area, as we look to understand potential impacts on capital requirements across, for example, operational and credit risks. • The manner in which climate risk can be incorporated into capital models will be a growing focus of attention. • The growth of digital currencies, particularly any developments in Central Bank Digital Currency, will be assessed for potential impacts on financial disintermediation.

Strategic report (continued)

Principal risks and mitigating actions (continued)

Principal risks	Key mitigating actions	Future focus
Conduct risk is the risk of undertaking business in a way which fails to deliver good customer outcomes and causes customer harm, and may result in regulatory censure, redress costs and/or reputational damage.	• Clearly defined conduct risk policy framework requirements and policies. • Continuing development of a customer- centric culture aligned to the Group's Purpose, to deliver good customer outcomes. • Ongoing reporting of risk appetite measures to the Executive Risk Committee and the Board. • Consideration of conduct risk in product and proposition development. • Risk-based monitoring of compliance with regulation and assessment of customer outcomes.	• The Group remains focused on seeking to ensure that customers remain supported and that current and future products and services meet conduct standards and regulators' expectations. • Development will continue in the Group's capabilities to support customers with good outcomes, including vulnerable customer groups, and in line with the FCA's New Consumer Duty.
Model risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.	• The Group has a model risk policy framework in place to manage and mitigate model risk, which encompasses the end-to-end model life cycle. • The model risk policy standard defines roles and responsibilities in terms of model risk management and is subject to oversight by the Model Governance Committee. • A suitably qualified Independent Model Validation function conducts model validations prior to model implementation, both when a model is changed and on a periodic basis. • The Model Risk Management team has been strengthened, with recruitment of a new Head of Model Risk to enhance our capabilities and to increase focus on key regulatory projects.	• The increased use of Machine Learning creates new risks and opportunities. Our Model RMF is actively considering the risk associated with these models in our policies and incorporating them in our model risk practices in a proportionate way. The future use of models to support climate risk will also be a focus. • The BoE's Supervisory Statement (SS) 1/23 Model Risk Management Principles for Banks, is an important development in the management of model risk. A self-assessment is in progress and a new Model Inventory solution is being developed for 2024. • Model monitoring is an important part of our framework and will support our assessment of any long-term effects from COVID-19 and risks from increased cost of living/inflation.
Strategic and enterprise risk is the risk of significant loss of earnings or damage from decisions or actions that impact the long-term interests of the Group's stakeholders; or from an inability to fund or manage required change projects, or adapt to external developments.	• Strategic and enterprise risk is addressed through the Board-approved five-year Strategic and Financial Plan. • The Group routinely reviews its change portfolio to ensure that investment is directed towards regulatory compliance, resilience of processes and systems, and delivering on our Purpose and strategy. • The Group considers strategic and enterprise risk as part of ongoing risk reporting. The management of identified strategic risks is allocated to members of the Group's Executive Leadership Team by the CEO.	• Continue to enhance strategic risk oversight capability and provide targeted assurance on Group strategy.

Strategic report (continued)

Principal risks and mitigating actions (continued)

Principal risks	Key mitigating actions	Future focus
Operational risk is the risk of loss or customer harm resulting from inadequate or failed internal processes, people and systems or from external events, incorporating the inability to maintain critical services, recover quickly and learn from unexpected/adverse events.	• The Group has an established operational risk framework to identify, manage and mitigate operational risks. • An Operational Resilience framework exists which includes regular testing and enhancements to remain within agreed Important Business Service impact tolerances. • A change management framework is in place to govern the execution and safe delivery of business change. • The Third Party Risk Framework has been enhanced to ensure that supplier relationships are controlled effectively. • Internal and external loss events are categorised using Basel II categories for consistent assessment, monitoring and reporting of risks and events, including themes and remediation action required to prevent reoccurrence. • A framework is in place to ensure risks from individual changes are managed effectively, in line with the Group's risk appetite, with appropriate second-line oversight. • Policies, controls and frameworks are in place to mitigate cyber and information security risks. The Group continues to invest in developing and enhancing its controls and defences, and carries out robust due diligence prior to working with third parties.	• The implementation of a new integrated risk management system will be the catalyst for improvements in risk identification and control assessments, that will enrich data and enable process-driven control monitoring and testing. • The Group will focus on management of resilience risks arising from the increasing change portfolio. It will build on delivery of compliance with resilience regulations this year, which included mapping of Important Business Services and stress testing exercises. • Continued focus of supplier management is required to safeguard the provision, enablement and delivery of critical processes through third parties. • A 3-year programme will commence in 2024 to further our cyber security capabilities, focusing on a centralized control path. • A programme will start in FY24 to reduce complexity of legacy systems, as well as increase stability and effectiveness of funding, gradually over the next 5 years.
Regulatory and compliance risk is the risk of failing to comply with relevant regulatory requirements and changes in the regulatory environment, or failing to manage a constructive relationship with our regulators.	• Clearly defined regulatory and compliance policy framework requirements and policies. • Ongoing reporting of risk appetite measures to the Executive Risk Committee and the Board. • Proactive and coordinated engagement with the Group's key regulators. • Oversight of regulatory and compliance risks and issues in relevant governance bodies. • Continual assessment of evolving regulatory requirements, including regulatory business plans and thematic reviews.	• The Group will continue to respond to regulatory change and associated requirements for system and process developments as these evolve across the banking industry, covering both the prudential and conduct risk agenda. • Prioritisation and development will continue with enhancements to existing regulatory capabilities and systems, and implementation of regulatory changes and new regulatory requirements.
Economic crime risk is the risk that products and services will be used to facilitate financial crime, resulting in harm to customers, the Group, or third parties. This includes money laundering, counter terrorist financing, sanctions, fraud and bribery and corruption.	• Safeguarding our customers and consistent with the Group's Purpose, there is an established financial crime and fraud risk framework, with clearly defined policy statements, standards and RAS measures reported to the Executive Risk Committee and the Board. • Continued monitoring of existing, new and emerging risks and threats as a result of new laws and regulations, industry trends and economic and environmental factors. • Increased resource and capability within the Economic Crime Risk team. • Operation of a framework of risk-based systems and controls, to minimise the extent to which products and services can be used to commit or be subject to financial crime. • The Group has become an approved signatory to the Contingent Reimbursement Model Code and successfully implemented Confirmation of Payee, both supporting better outcomes for our customers.	• Implementing the Group's 3-year c.£130m investment programme in financial crime prevention and cyber defence systems, to strengthen our capabilities and to protect our customers. • Continued enhancement of systems and controls in response to the known threat of economic crime within the UK and the increasingly demanding regulatory expectations. • Monitoring of emerging fraud and financial crime regulation and careful management of any customer interventions. • Maintain focus on improving our operating model and economic crime control environment, with improved payment profiling and targeted interventions to mitigate fraud risks.

Strategic report (continued)

Principal risks and mitigating actions (continued)

Principal risks	Key mitigating actions	Future focus
Climate risk is the risk of exposure to physical and transition risks arising from climate change.	• A climate risk policy framework has been established to identify and manage exposure from climate risk, with roles and responsibilities clearly defined across the Group. • The Group maintains a sensitive sector policy which outlines the Groups appetite to sensitive sectors. • An ESG focused Group-wide data programme supports our improvement of our climate data availability and quality. • A Group-wide Climate Risk Assessment is undertaken to support first line identification of climate-related risk drivers. • Risk appetite measures are in place to monitor physical and transitional climate-related risks. • The Group undertakes scenario analysis to assess possible future climate-related risks and exposures that may impact the Group.	• The Group will continue to develop capability to identify, manage and monitor climate risk. • Continued investment to further develop data capability to inform strategy and support customers' transition to a low carbon economy. • Continued development of models and methodologies to support quantification of climate risk. • We will maintain focus on the Group's net-zero ambitions. • Monitoring of emerging regulation, disclosure standards and market practice.

Emerging and evolving risks

The Group defines emerging and evolving risks to be current or future risks arising from internal or external events, with a material unknown or unpredictable component, and the potential to significantly impact the future performance of the Group or prevent delivery of good outcomes for our customers. Emerging and evolving risks are continually assessed through a horizon scanning process, considering all internal and external factors, with escalation and reporting to the Board.

Emerging and evolving risks are assigned an inherent and residual risk, based on expected impact and time to fully crystallise (from >12 months to 3+ years), in line with the definitions outlined in the RMF. Areas of enhanced risk attention are the uneven macroeconomic outlook, changing regulatory expectations and scrutiny, the ongoing geopolitical uncertainty and accelerated technological change.

Emerging and evolving risks	
Economic and political risk	The tightening of monetary policy could lead to a further slowdown in economic growth and a technical recession in the UK. Economic weakness in the higher rate environment is impacting consumer confidence and has led to subdued housing market activity. These risks, in aggregate, could further impact customer resilience and consequently debt affordability. Geopolitical tensions have increased with ongoing conflict in Ukraine and the outbreak of hostilities in the Middle East. There is an increased risk that events will escalate and although the Group's direct exposures to these areas is very limited, there is the risk of a broader macro shock from conflict. The economic impact to date has fuelled inflationary pressures to the price of goods and services, further contributing to the rising cost of living. Political risks are closely monitored and the forthcoming general election could drive changes to the UK political environment, which could have wide ranging implications for the Group that must be carefully managed. The Group maintains robust capital and liquidity levels, with stress testing against a range of severe but plausible market scenarios performed to understand and mitigate risks to financial resilience.
Regulatory change	Firms remain subject to high levels of oversight and a complex programme of regulatory change from a number of different regulatory bodies. In particular, evolving financial crime regulation and changing expectations of customer interventions, alongside continued technological change, is driving a need for investment to protect our customers and to enhance our resilience and capability in these areas. The regulatory landscape requires ongoing responses, specialist resource and funding to execute multifaceted and large-scale change projects, to ensure compliance. The Group's designation as an Other Systematically Important Institution (O-SII) in December 2022 heightens this risk. The Group works with regulators to ensure it meets its obligations and any implications from upcoming regulatory activity are incorporated into the strategic planning cycle.

Strategic report (continued)

Emerging and evolving risks (continued)

Third-party risk	There are complex and significant dependencies on third-party suppliers, including outsourcing of certain activities, which require effective management of the levels of risk that arise as a result, particularly for key activities that could impact operational resilience. Dependencies on a particular supplier for multiple business capabilities could mean a single failure disrupts multiple aspects of the business. These risks are closely managed and mitigated through our third-party risk management framework.
Technological change	Technological developments such as generative Artificial Intelligence (AI), continue to accelerate and could progress before associated risk and opportunities are fully understood. In turn, the landscape of security threats we must face into is also expanded. Managing and replacing ageing technology platforms at the required volume, pace and scale is complex and needs careful management. Delivery change sustainably and managing execution risk is a priority for the Group. Stable, scalable, and secure technology architecture is essential to ensure our customers are provided with the best level of sustained service, while supporting the bank’s growth strategies and digital ambitions. The Group has a multi-year programme of investment to upgrade propositions across key areas such as financial crime prevention and cyber defence.
Data stewardship	The Group’s digitisation strategy, combined with changing regulatory requirements and technological advancements such as Cloud solutions, places increasing importance on the effective use of quality and timely data. This, combined with a clear governance and ownership structure around data is central to our digital success. Risks and opportunities, including in relation to data ethics need to be fully understood, even more so as we face into rapid AI developments. The Group is developing AI use cases responsibly by mitigating the inherent bias and ethical risks. A comprehensive framework of controls is in place to manage and mitigate data risks, with continued investment into data management capabilities.

Risk report

Risk exists in everything we do, from strategic change initiatives to day-to-day operational activities. Without risk we will never achieve our strategic goals, but when taking risks, we must ensure we do so in an appropriate way.

Risk culture

The Group strives to instil a culture that enables colleagues to meet the requirements of relevant rules, regulations, laws and policies and to build constructive regulatory relationships.

Risk culture is focused on the Group's understanding of the risks it takes, which is key to enabling its strategy to be the UK's best digital bank.

Colleagues are recruited with the core skills, abilities, and attitude required for their role. They are provided with training and development to maintain and develop the required levels of competence.

Culture is shaped by many aspects including: Purpose, Values and Behaviours that set a 'Tone from Above; the Group's and regulatory Codes of Conduct; operating principles; policy management framework; the three lines of defence operating model; and an articulation of risk appetite that aligns to, and supports, strategic objectives.

The Group promotes an environment of effective challenge in which decision making processes stimulate a range of views. Transparency and open dialogue are encouraged to enable colleagues to raise concerns when they feel uncomfortable about actions, practices, or behaviours.

The Group is customer-centric and values open and honest feedback from its customers. This feedback allows colleagues to rectify problems, learn from them and consistently create products and services that meet customer needs in alignment with our Purpose. The Board and senior management are responsible for setting and overseeing the Group's risk culture through their actions, words and oversight activities, and for ensuring any identified areas of weakness are addressed.

The Board Risk Committee retains focus on the assessment of risk culture, with Internal Audit providing an independent view to the Board Audit Committee through a risk and control-related management awareness assessment, assigned to the majority of audits. The outcomes of these assessments are being used in the development of a risk culture framework, to support our existing RMF and processes.

Risk strategy

The Group has a clearly defined risk strategy to manage and mitigate risk in the course of its daily business. The strategy:

- ensures all principal and emerging risks are identified and assessed;
- determines risk tolerance, considering how much risk the Group is willing to take;
- ensures risk appetite is clearly articulated and influences the Group's strategic plan;
- promotes a clearly defined risk culture which emphasises risk management across all areas of the Group while maintaining independent oversight;
- undertakes ongoing analysis of the environment in which the Group operates to proactively address potential risk issues as they arise; and
- supports commercial decisions and people with appropriate risk processes, systems and controls.

Risk appetite

Risk appetite is defined as the level and type of risk the Group is willing to assume within the boundaries of its risk capacity, to achieve its strategic objectives. The RAS articulates the Group's risk appetite to stakeholders and provides a view on the risk-taking activities the Board is comfortable with, guiding decision makers in their strategic and business decisions.

The Risk Appetite Framework sets out the mandatory governance requirements for the creation, management and oversight of the RAS.

The RAS conveys the balance required between risk-taking and the commercial and reputational implications of doing so, promoting good customer outcomes and protecting the Group from excessive exposure. The RAS includes qualitative and quantitative limits which inform strategies, targets, policies, procedures and other controls that collectively ensure the Group remains within the Board's approved appetite.

The Group's RAS is prepared by the Chief Risk Officer, in close cooperation with the Chair of the Board Risk Committee. Consideration is made to the strategic objectives and business model, as well as the environment in which the Group operates. Information on performance against relevant RAS settings, breaches and trends is reported regularly to the Executive Risk Committee and the Board.

Risk report (continued)

Risk policies

The policy management framework is a key component of the Group's RMF, providing structure and governance for the consistent and effective management of policies. In developing the policy management framework, the Group sets the tone that demonstrates the risk culture expected across the organisation. This aligns with the behavioural expectations for all colleagues which form a core part of our performance management approach.

The RMF includes key risk principles for the effective management of all material risks and policies define minimum control requirements, which must be observed across the Group to manage material sources of risk within risk appetite.

Risk management and internal controls

The Board actively monitors the Group's risk management and internal control systems. A review of the effectiveness of those systems has been performed incorporating all material financial, operational and compliance controls, to highlight and address any material movement in the effectiveness of those controls since the last assessment. During the year, the assessment process was updated to use risk control self-assessment data extracted directly from the Group's risk system, to drive a more efficient, simple and data driven process.

Risk management framework

The Group identifies and manages risk in line with the RMF, which is the totality of systems, structures, policies, processes and people that identifies, measures, evaluates, controls, mitigates, evaluates, controls, monitors, and reports all internal and external sources of material risk. The RMF aligns to our Purpose by providing an overarching framework to support the management of risk in a consistent, clear and transparent way.

Risk governance and oversight

The Group has a structured risk governance framework to support the Board of Directors' aim of achieving long-term and sustainable growth through the Group's Purpose of 'Making you Happier about Money'. This includes a number of committees with a specific risk management focus, although all committees consider risk matters in accordance with the Group's RMF. The Group's risk governance structure strengthens risk evaluation and management, while also positioning the Group to manage the changing regulatory environment in an efficient and effective manner. Oversight of the risk governance structure is facilitated by the Board.

During the year, the Group considers the effectiveness of the Executive Committee governance framework in order to ensure it remains fit for purpose and well positioned to respond to an evolving landscape. The following Executive Committees have been established under the authority of the CEO:

Committees	Risk focus
Executive Leadership Team	The Executive Leadership Team supports the CEO in leading the Group to be a strong, customer-focused bank for its stakeholders, by focusing on four strategic priorities: pioneering growth; delighting customers and colleagues; being straightforward and efficient; and being disciplined and acting in a sustainable manner.
Executive Risk Committee	The Executive Risk Committee supports the CEO in respect of risk and control accountabilities and serves to provide leadership focus on key risk issues, including: endorsing the RAS for approval by the Board; overseeing and challenging the enterprise-wide risk performance and control environment of the Group and business units, including the effective use of policy, frameworks and tools; monitoring the status of regulatory relationships, the reputation of the Group in relation to its regulators and the changing state of the regulatory landscape, including the impacts for and readiness of the Group for future changes; monitoring the strength of risk capability and capacity, including risk training and education plans to ensure an effective risk and control framework; and reviewing and endorsing risk policies, frameworks and tools for use across the Group.
Disclosure Committee	The Disclosure Committee is responsible for ensuring the Group complies with its continuous disclosure obligations for exchanges on which it has equity and debt securities listed.
Purpose Council	The Purpose Council oversees and manages the factors that are critical to being a Purpose-led organisation. The Council maintains focus on agreed objectives, outcomes and benefits, and focuses on removing obstacles in the way of being a Purpose-led organisation.
Reward Risk Adjustment Committee	The Reward Risk Adjustment Committee is responsible for considering and providing feedback to the Board Risk Committee and the Remuneration Committee in relation to risk events which may affect awards of variable pay and therefore ensuring that the Group complies with its regulatory requirements in respect of establishing and maintaining a robust risk adjustment process.

Risk report (continued)

Risk governance and oversight (continued)

Committees	Risk focus
The Executive Risk Committee is supported by the following committees:	
Non-Financial Risk Committee	The Non-Financial Risk Committee is responsible for: monitoring and measuring the Group's non-financial risks, including performance of the People, Conduct, Economic Crime, Operational, Cyber, Technology and Data risk appetite statements; assessing compliance with policy statements and standards pertaining to non-financial risk, as well as any relevant regulatory obligations such as Consumer Duty; and monitoring compliance against the Group's risk management framework in relation to non-financial risk.
Credit Risk Committee	The Credit Risk Committee is responsible for ensuring that the credit RMF and associated policies remain effective. The Committee has oversight of the quality, composition and concentrations of the credit risk portfolio and recommends strategies to adjust the portfolio to both address changes in market conditions, changes in portfolio quality and to support opportunities for growth.
Model Governance Committee	The Model Governance Committee supports the Executive Risk Committee and consequently the Board in fulfilling its governance responsibilities for material models and rating systems. The Committee oversees the integration and ongoing use of models across the Group.
The Executive Leadership Team is supported by the following committees:	
Asset and Liability Committee	ALCO is responsible for monitoring the performance of the Group against the Board approved capital and funding plans. The Committee focuses on the Group's financial risks including capital, funding, liquidity and interest rate risk to ensure that the Group's activity complies with regulatory and corporate governance requirements and also delivers Group policy objectives. The impact of pension risk on capital is also assessed by ALCO.
Environment Committee	The Environment Committee oversees the management of environmental and climate change matters, directing resources, investment and activity across the Group. Environmental and climate change matters are a subset of the Group's ESG strategy.
Operating Committee	The Operating Committee is responsible for supporting the CEO in relation to delivery of the operating plan underpinning the Group's Strategic and Financial plan approved by the Board.

Three lines of defence

Effective operation of a three lines of defence model is integral to the Group's approach to risk management and is based on the overriding principle that risk capability must be embedded within the first line of defence teams to be effective. This principle embodies the following concepts:

- risk management responsibilities are clearly understood and adhered to by all colleagues when carrying out their day-to-day activities;
- risk management decisions are made with proactive consideration of the potential risk and impact on customers;
- business areas must self-identify and report management issues, which are captured centrally, showing good levels of risk awareness, management remediation, and promoting a strong risk culture; and
- regular control assessments are undertaken to confirm the effectiveness of the control environment, based on control monitoring and testing, in relation to both the current and emerging and evolving risk profile.

Control is exercised through a clearly defined delegation of authority framework, with communication and escalation channels throughout the Group.

1st Line of Defence

Business Units and associated support functions - Take responsibility for owning, identifying, mitigating and reporting internal and external risks and issues. There is a focus on a strong, well-designed, tested and evidenced control environment.

2nd Line of Defence

Risk Management - Designs and owns the risk methodologies, Risk Management Strategy, RAS, Policy and Risk Management Frameworks, as well as providing oversight, challenge, assurance and advice, with appropriate escalation and reporting.

3rd Line of Defence

Internal Audit - Provides independent assurance over the risk management, governance and internal control processes.

Stress testing

Stress testing is an important and widely recognised risk management tool, used to assess the vulnerability of financial institutions and identify risks under adverse economic scenarios. The Group uses stress testing in strategic, capital and liquidity planning, and to inform risk appetite, risk mitigation and contingency planning.

The Group undertakes stress testing using specific idiosyncratic scenarios and following the Basel Committee principles which utilise, where appropriate, scenarios provided by the BoE.

The Board and senior management are actively involved in the stress testing process, reviewing, challenging and approving all aspects of stress testing, from the consideration of scenarios to be tested, to the outcomes and mitigating actions. The involvement of the Board and senior management is considered essential for the effective operation of stress testing and the manner in which the results inform strategic planning and risk appetite. Reverse stress testing is also undertaken to assess the types of risk that would pose fundamental threats to the viability of the Group's business model.

Principal and emerging and evolving risk categories

In line with the UK Corporate Governance Code requirements, the Board has performed a robust assessment of the Group's principal and emerging and evolving risks, including those that could result in events or circumstances that might threaten the Group's business model, future performance, solvency or liquidity and reputation. In deciding on the classification of principal risks, the Board considered the potential impact and probability of the related events and circumstances and the timescale over which they may occur. In assessing emerging and evolving risks, the Board considered what procedures are in place to identify emerging risks and how they are being managed or mitigated.

The Group's principal and emerging risks are disclosed on pages 6 to 10 of the Strategic report.

Risk report (continued)
Credit risk

Credit risk

At a time of ongoing challenge for the UK economy, our lending portfolios remain well positioned.

A disciplined approach to credit risk management supports the Group's operations and has underpinned its resilience in recently challenging times. Credit risk is the risk that a retail or business borrower or counterparty fails to pay the interest or capital due on a loan, or other financial instrument. Credit risk needs to be managed through the life cycle of each loan from origination to repayment, redemption, write off or sale. Credit risk manifests itself in the financial instruments and products that the Group offers, and in which it invests, and can arise in respect of both on- and off-balance sheet exposures. Close monitoring, clear policies and a disciplined approach to credit risk management support the Group's operations, and have underpinned its resilience in recently challenging times. The emergence of the significant inflationary headwinds and cost of living pressures have the potential to affect customer resilience and debt affordability. The Group has taken a number of steps to support customers through this period of heightened affordability pressure, and ensure that its credit risk framework and associated policies and credit strategies remain effective and appropriate.

Managing credit risk within our asset portfolios

Risk appetite
The Group controls its levels of credit risk by placing limits on the amount of risk it is willing to take in order to achieve its strategic objectives. This approach involves a defined set of quantitative limits in relation to its credit risk concentrations to one borrower, or group of borrowers, and to geographical, product and industry segments. The management of credit risk within the Group is achieved through timely changes to application scorecards and credit strategies, ongoing approval and monitoring of individual transactions, regular asset quality reviews and the independent oversight of credit decisions and portfolios.

The Group maintained a controlled approach to portfolio management and appetite for new lending origination in an increasing inflationary environment, with updates to underwriting lending assessment to reflect the uncertain economic environment and interest rate pressures. The FY24 RAS continues to consider the impact of higher interest rates combined with inflationary headwinds and cost of living pressures, and is focused on supporting customers through this challenging period. Climate risk is an increasingly important component of the broader RMF and we have recognised this through the inclusion of climate risk as a principal risk. The framework has been updated to embed climate risk considerations across various aspects of customer lending and credit risk management practices. Further detail on the identification, measurement and management of climate risk is provided on page 91.

Measurement
The Group uses a range of statistical models, supported by both internal and external data, to measure credit risk exposures. These models underpin the IRB capital calculation for the Mortgage and Business portfolios, and account management activity for all portfolios. Further information on the measurement and calculation of ECL and the Group's approach to the impairment of financial assets can be found on page 18. Political and economic risk is an emerging risk for the Group and includes the future impact on macroeconomic variables, which are used in the calculation of the Group's modelled ECL output. Further detail on the Group's use of macroeconomic variables in the year can be found on pages 39 to 49.

Mitigation
The Group maintains a dynamic approach to credit management and takes appropriate steps if individual issues are identified, or if credit performance has, or is expected to, deteriorate due to borrower, economic or sector-specific weaknesses. The mitigation of credit risk within the Group is achieved through approval and monitoring of automated credit strategies, individual transactions, asset quality, analysis of the performance of the various credit portfolios, and oversight of credit portfolios across the Group. Portfolio monitoring techniques include customer, product, industry, geographic concentrations, and delinquency trends, as well as considering layered risks where customers may have more than one higher risk characteristic. The Group has taken additional steps to update affordability assessments in response to the inflationary and cost of living pressures facing customers. Credit risk mitigation is also supported, in part, by obtaining collateral, and corporate and personal guarantees where appropriate.

The key mitigating measures are described below.

Credit assessment and mitigation
Credit risk is managed in accordance with lending policies, the Group's risk appetite and the RMF. Lending policies and performance against risk appetite are reviewed regularly.

The Group uses a variety of lending criteria when assessing applications for Mortgage and Unsecured customers. The approval process uses credit scorecards, credit strategies and affordability assessments, and involves a review of an applicant's previous credit history using information held by credit reference agencies as well as internal information. Manual underwriting assessments are also used as and when required. The Group also utilises quantitative thresholds, for example debt to income ratios, as well as the ratio of borrowing to collateral. Some of these limits relate to internal approval levels and others are hard limits above which the Group will reject the application.

For residential mortgages, the Group's policy is to accept only within the maximum percentage loan to value (LTV) limit that may be offered subject to loan size and customer income. Product availability may be altered depending on market conditions and outlook. Product types such as BTL and residential interest-only mortgages are controlled by transactional limits covering both LTV and value.

Risk report (continued)
Credit risk (continued)

For business customers, credit risk is further mitigated by focusing on business sectors where the Group has specific expertise, and through limiting exposures on higher value loans and to certain sectors. When making credit decisions for business customers the Group will routinely assess the primary source of repayment, most typically the cash generated by the customer through its normal trading cycle. Secondary sources of repayment are also considered and while not the focus of the lending decision, collateral will be taken when appropriate. The Group seeks to obtain security cover and, where relevant, guarantees from borrowers.

Specialist expertise
Credit quality is managed and monitored by skilled teams including, where required, specialists that provide dedicated support for vulnerable customers experiencing financial or other types of difficulties. These specialists act within agreed delegated authority levels set in accordance with experience and capabilities.

Credit strategy and policy
Credit risks associated with lending are managed through the application of detailed lending policies and standards that outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. For complex credit products and services, the Chief Credit Officer and Credit Risk Committee provide a policy framework that identifies, quantifies and mitigates credit risk. These policies and frameworks are delegated to, and disseminated under, the guidance and control of the Board and senior management, with appropriate oversight through governance committees. Specialist credit teams provide oversight of credit portfolio performance as well as adherence to credit risk policies and standards. Activities include targeted risk-based reviews, providing an assessment of the effectiveness of internal controls and risk management practices. Bespoke assignments are also undertaken in response to emerging risks and regulatory requirements. Independent assurance reviews are regularly undertaken by Internal Audit.

Portfolio oversight
The Group's credit portfolios, and the key benchmarks, behaviours and characteristics that are used to manage portfolios, are regularly monitored, with portfolio monitoring packs provided for review by senior management.

Controls over rating systems
The Group has a Model Risk Management team that sets common minimum standards for risk models and associated rating systems to ensure these are developed and monitored consistently and are of sufficient quality to support business decisions and meet regulatory requirements. The Group performs an annual self-assessment of its rating systems to ensure ongoing CRR compliance.

The Group also utilises other instruments and techniques across its wider balance sheet. These are summarised below:

Derivatives
The Group maintains control limits on net open derivative positions. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where the fair value is positive) and in relation to derivatives, may only be a small fraction of the contract, or notional values associated with instruments outstanding. This credit risk is managed as part of the customer's overall exposure together with potential exposures from market movements.

Master netting agreements
The Group further restricts its exposure to credit losses by entering master netting arrangements with counterparties with whom it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, credit risk associated with the favourable contracts is reduced by a master netting arrangement to the extent that, if any counterparty failed to meet its obligations in accordance with the agreed terms, all amounts with the counterparty are terminated and settled on a net basis. Derivative financial instrument contracts are typically subject to the International Swaps and Derivatives Association (ISDA) master netting agreements, as well as Credit Support Annexes, where relevant, around collateral arrangements attached to those ISDA agreements. Derivative exchange or clearing counterparty agreements exist where contracts are settled via an exchange or clearing house.

Collateral
The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held as security, and other credit enhancements include the following:

Residential mortgages
Residential property is the Group's main source of collateral on mortgage lending and means of mitigating loss in the event of the default risk inherent in its residential mortgage portfolios. All lending activities are supported by an appropriate form of valuation. This valuation is applied using either a physical valuation, or another method that is not reliant on a physical inspection, but utilises data and modelled information, such as desktop, automated valuation model or indexed valuations (subject to policy rules and requirements).

It is the Group's policy to dispose of repossessed properties, with the proceeds used to reduce or repay the outstanding balance. The Group does not occupy repossessed properties for its own business use.

Commercial property
Commercial property is a source of collateral on business lending and means of mitigating loss in the event of default. For commercial loans, collateral comprises first legal charges over freehold, or long leasehold property (including formal Companies House registration where appropriate). All commercial property collateral is subject to an independent, professional valuation when taken and thereafter subject to periodic review in accordance with policy requirements.

Non-property related collateral
In addition to residential and commercial property-based security, the Group also takes other forms of collateral when lending. This collateral can involve obtaining security against the underlying loan through the use of cash collateral and/or netting agreements, both of which reduce the original exposure by the amount of collateral held, subject to volatility and maturity adjustments where applicable. It can also include specific or interlocking guarantees, and loan agreements, which include affirmative and negative covenants and, in some instances, guarantees of counterparty obligations. The Group also provides asset-backed lending in the form of asset and invoice finance. Security for these exposures is held in the form of direct recourse to the underlying asset financed. Generally, the Group does not take possession of collateral it holds as security, or call on other credit enhancements, that would result in recognition of an asset on its balance sheet.

Monitoring
Credit policies and procedures, which are subject to ongoing review, are documented and disseminated in a form that supports the credit operations of the Group.

- *Credit Risk Committee:* has oversight of the quality, composition, and concentrations of the credit risk portfolio. It also determines and approves strategies to adjust the portfolio for changes in market conditions.
- *RAS measures:* Measures are reported monthly to ensure adherence to appetite. A formal annual review is carried out to ensure that the measures accurately reflect the Group's risk appetite, strategy and concerns relative to the wider macro environment. All measures are subject to extensive engagement with the Executive Leadership Team and the Board, and are subject to endorsement from executive governance committees prior to Board approval. Regulatory engagement is also scheduled as appropriate.
- *Risk concentration*: Concentration of risk is managed by counterparty, product, geographical region and industry sector. In addition, single name exposure limits exist to control exposures to a single counterparty. Concentrations are also considered through the RAS process, focusing particularly on the external environment, outlook and comparison against market benchmarks, as well as considering layered risks where customers may have more than one higher risk characteristic.
- *Single large exposure excesses*: Excesses on exposures under the delegated commitment authority of the Transactional Credit Committee are reported to the committee when above defined limits. All excess reports include a proposed route to remediation. Exposures are also managed in accordance with the large exposure reporting requirements of the Capital Requirements Regulation (CRR).
- *Portfolio monitoring*: Continuous monitoring of the portfolio composition and performance is undertaken through monthly reviews.

Forbearance
Forbearance is considered to exist where customers are experiencing, or about to experience, financial difficulty and the Group grants a concession on a non-commercial basis. The Group's forbearance policies and definitions comply with the guidance established by the EBA for financial reporting. Forbearance concessions include the granting of more favourable terms and conditions than those provided at drawdown of the facility, or conditions that would not ordinarily be available to other customers with a similar risk profile. Forbearance parameters are regularly reviewed and refined as necessary to ensure they are consistent with the latest industry guidance and prevailing practice, as well as ensuring that any assessment adequately captures and reflects the most recent customer behaviours and market conditions.

Measuring credit risk within asset portfolios
At each reporting date, the Group assesses financial assets measured at amortised cost, as well as loan commitments and financial guarantees, for impairment. The impairment loss allowance is calculated using an ECL methodology and reflects: (i) an unbiased and probability weighted amount; (ii) the time value of money, which discounts the impairment loss; and (iii) reasonable and supportable information that is available without undue cost or effort about past events, current conditions, and forecasts of future economic conditions.

The Group adopts two approaches in the measurement of credit risk: (i) collectively assessed – where the Group uses a combination of strategies and statistical models that utilise internal and external data to measure the exposure to credit risk within the portfolios (supplemented by management adjustments (MAs) where necessary); and (ii) individually assessed - where a charge is taken to the income statement when an individually assessed provision (IA) has been recognised, or a direct write-off has been applied to an asset balance.

ECL Methodology
ECL methodology is based upon the combination of probability of default (PD), loss given default (LGD) and exposure at default (EAD) estimates that consider a range of factors that impact on credit risk and the level of impairment loss provisioning. The Group uses reasonable and supportable forecasts of future economic conditions in estimating the ECL allowance. The methodology and assumptions used in the ECL calculation are reviewed regularly and updated as necessary.

The calculated model ECL is determined using the following classifications:

Stage	ECL assessment period	Description
1	12 month	An exposure that is not credit-impaired on initial recognition and has not experienced a significant increase in credit risk (SICR) since initial recognition.
2	Lifetime	An exposure that has experienced a SICR since initial recognition, but is not yet deemed to be credit impaired.
3	Lifetime	An exposure that is credit impaired.

A Stage 2 ECL is required where a SICR has been identified, such as a deterioration in the PD since origination. Absent any specific SICR factors, the Group operates a 30 DPD backstop for classification as Stage 2, and 90 DPD for Stage 3. Forborne exposures can be classed as either Stage 2 or Stage 3 depending on the type of forbearance programme that has been applied to the customer. IA provisions are classed as Stage 3. When a loan is deemed uncollectable, and all necessary internal procedures have been completed, it is written off against the related impairment loss. Subsequent recoveries of amounts previously written off reduce the expense in the income statement. Purchased or originated credit-impaired (POCI) financial assets are those that are assessed as being credit-impaired upon initial recognition, and once classified as POCI, remain in Stage 3 until derecognition irrespective of any change in credit quality. The Group regards the date of acquisition as the origination date for purchased portfolios. SICR criteria and triggers are parameters subject to the same governance pathway as the Group's IFRS 9 models, with changes to triggers initially submitted to and endorsed by the Credit Model Technical Forum and formal approval provided by the MGC. The Credit Risk Committee provides oversight on the adequacy of ECL provisioning with reviews and robust challenge of the calculation and management judgement recommendations. This includes the rationale behind the inclusion of MAs. The Boards' Audit Committee provides oversight to the ECL calculation and measurement, with reviews and robust challenge of all calculated outcomes and management judgements.

Further detail on the accounting policy applied to ECLs can be found in note 3.1.1 to the financial statements.

Accounting and regulatory credit loss frameworks
The approach to calculating credit losses differs between the accounting and regulatory frameworks applicable to the Group, with the most significant difference being that the concept of SICR, which moves exposures from a 12-month to a lifetime ECL calculation in the accounting framework, does not exist under the regulatory framework. The approach to staging under IFRS 9 is also not applicable under regulatory credit loss reporting. Both frameworks calculate credit losses under a PD x LGD x EAD approach, with the regulatory IRB approach assessing these in the next 12 months, whereas the accounting framework under IFRS 9 requires these losses to be assessed on a forward-looking view, with a lifetime loss calculated where appropriate. Credit losses are supplemented by MAs, where required, under the accounting framework. Both the accounting and regulatory definitions of default are materially aligned, with default being triggered at 90 DPD, with the exception of the heritage Virgin Money mortgage models, that apply a 180 DPD regulatory default trigger under existing approved permissions. The definition of default will be fully aligned to 90 DPD when the regulatory models are updated in line with the hybrid model adoption, which is anticipated in FY24.

Cure periods
The Group aligns the regulatory cure periods for forborne exposures in its IFRS 9 staging criteria (as Stage 2 or 3) at a minimum period of either 24, or 36 months, depending on the forbearance programme utilised. Where exposures are classified as Stage 2 or 3 as a result of not being in a forbearance programme, these can cure and transfer to the appropriate stage when the relevant staging trigger is no longer applicable (i.e., there is no identifiable SICR or the exposure is no longer considered credit-impaired).

Group credit risk exposures
The Group is exposed to credit risk across all of its financial asset classes, however, its principal exposure to credit risk arises on customer lending balances. Given the relative significance of customer lending exposures to the Group's overall credit risk position, the disclosures that follow are focused principally on customer lending.

The Group is also exposed to credit risk on its other banking and treasury-related activities and holds £11.3bn (2022: £12.2bn) of cash and balances with central banks and £0.7bn (2022: £0.7bn) due from other banks at amortised cost, with a further £6.2bn (2022: £5.1bn) of financial assets at fair value through other comprehensive income (FVOCI). Cash and balances with central banks includes £10.2bn of cash held with the BoE (2022: £11.0bn). Balances with other banks and financial assets at FVOCI are primarily held with senior investment grade counterparties. All other banking and treasury related financial assets are classed as Stage 1 with no material ECL provision held.

Maximum exposure to credit risk on financial assets and credit-related commitments (audited)
The following tables show the levels of concentration of the Group's financial assets and credit-related commitments:

	2023			2022		
	Gross loans and advances to customers £m	**Credit-related commitments £m**	**Total £m**	Gross loans and advances to customers £m	Credit-related commitments £m	Total £m
Mortgages	**57,797**	**2,685**	**60,482**	58,464	4,200	62,664
Unsecured	**6,814**	**11,242**	**18,056**	6,513	11,057	17,570
Business	**8,684**	**4,073**	**12,757**	8,167	4,102	12,269
Total	**73,295**	**18,000**	**91,295**	73,144	19,359	92,503
Impairment provisions on credit exposures(1)	**(612)**	**(5)**	**(617)**	(454)	(3)	(457)
Fair value hedge adjustment	**(492)**	**-**	**(492)**	(941)	-	(941)
Maximum credit risk exposure on lending assets	**72,191**	**17,995**	**90,186**	71,749	19,356	91,105
Cash and balances with central banks			**11,282**			12,221
Financial instruments at FVOCI			**6,184**			5,064
Due from other banks			**661**			656
Other financial assets at fair value			**61**			72
Due from related entities			**-**			4
Derivative financial assets			**135**			342
Maximum credit risk exposure on all financial assets(2)			**108,509**			109,464

(1) The total ECL provision covers both on and off-balance sheet exposures, which are reflected in notes 3.1.1.1 and 3.7 respectively. All tables and ratios that follow are calculated using the combined on- and off-balance sheet ECL, which is consistent for all periods reported.

(2) Unless otherwise noted, the amount that best represents the maximum credit exposure at the reporting date is the carrying value of the financial asset.

Group credit highlights

In addition to the balance sheet position on the previous page, key metrics of relevance are as follows:

Group credit highlights (audited)	2023 £m	2022 £m
Impairment charge/(credit) on credit exposures		
Mortgage lending	**2**	(30)
Unsecured lending	**269**	178
Business lending	**38**	(96)
Total Group impairment charge	**309**	52
Underlying impairment charge(1) to average customer loans (cost of risk)	**0.42%**	0.07%
Key asset quality ratios		
Loans in Stage 2	**8.63%**	7.76%
Loans in Stage 3	**1.47%**	1.41%
Total book coverage(2)	**0.84%**	0.62%
Stage 2 coverage(2)	**6.33%**	4.72%
Stage 3 coverage(2)	**13.93%**	11.24%

(1) Inclusive of gains/losses on assets held at fair value and elements of fraud loss.

(3) Excludes the guaranteed element of government-backed loan schemes.

The total gross lending to customers has remained broadly stable overall with £73.3bn at 30 September 2023 (2022: £73.1bn). The total lending in the Mortgage portfolio reduced to £57.8bn at September 2023 (2022: £58.5bn) with the demand for new lending slightly reduced due to the higher rate environment, stressed affordability pressure and wider cost of living considerations. The underlying Business lending portfolio (excluding the repayments of the government backed loan schemes) has grown to £7.9bn at 30 September 2023 (2022: £7.1bn) with broad based growth across the sector specialisms in our target market segments. The Unsecured lending book has grown to £6.8bn at 30 September 2023 (2022: £6.5bn), mainly driven by credit card growth.

The performance of the portfolio and overall asset quality remains robust, and whilst there are signs of deterioration in some metrics, the proportion of the Stage 2 portfolio not past due, remains high at 94% at September 2023 (2022: 93%). The Group remains focused on reaching good customer outcomes and deploys a range of customer support measures combined with the Group's risk appetite and continued focus on responsible lending.

The impact of significant external economic and geopolitical factors continues to have the potential to impact the short to medium-term performance of the portfolio, with the most significant of these being the cost-of-living pressures.

The selection of appropriate MAs is a major component in determining the Group's ECL; a detailed analysis is shown on page 46.

The Group has recorded a total impairment provision of £617m at 30 September 2023, reflecting a 35% increase from £457m at 30 September 2022, and a corresponding increase in coverage from 62bps to 84bps. Within this, the modelled and IA provision has increased to £541m (2022: £372m) driven by the updated macroeconomic inputs, model calibrations and growth in the Business and Unsecured lending portfolios. MAs have reduced in the period to £76m (2022: £85m). The increase in provision coupled with the individually assessed impairment charge of £142m in the year (2022: £107m) results in a net charge to the income statement of £309m (2022: £52m) and an associated cost of risk of 42bps (2022: 7bps).

Gross loans and advances[(1)] ECL and coverage (audited)

2023	Mortgages £m	%	Unsecured – Cards £m	%	Unsecured – Loans and Overdrafts £m	%	Unsecured – Combined £m	%	Business[(2)] £m	%	Total £m	%
Stage 1	54,540	94.3%	4,658	76.5%	398	54.8%	5,056	74.2%	6,293	72.5%	65,889	89.9%
Stage 2 – total	2,704	4.7%	1,321	21.7%	321	44.3%	1,642	24.1%	1,980	22.8%	6,326	8.6%
Stage 2: 0 DPD	2,405	4.2%	1,250	20.5%	316	43.6%	1,566	23.0%	1,951	22.4%	5,922	8.1%
Stage 2: <30 DPD	98	0.2%	37	0.6%	2	0.3%	39	0.6%	14	0.2%	151	0.2%
Stage 2: >30 DPD	201	0.3%	34	0.6%	3	0.4%	37	0.5%	15	0.2%	253	0.3%
Stage 3[(3)]	553	1.0%	109	1.8%	7	0.9%	116	1.7%	411	4.7%	1,080	1.5%
	57,797	100%	6,088	100%	726	100%	6,814	100%	8,684	100%	73,295	100%
ECLs[(4)]												
Stage 1	13	22.6%	42	10.8%	4	12.1%	46	10.9%	30	22.6%	89	14.5%
Stage 2 – total	27	47.9%	294	74.9%	28	73.5%	322	74.8%	51	39.4%	400	64.7%
Stage 2: 0 DPD	23	42.0%	256	65.3%	25	67.1%	281	65.5%	51	39.2%	355	57.6%
Stage 2: <30 DPD	1	1.3%	17	4.3%	1	1.9%	18	4.1%	-	0.2%	19	3.0%
Stage 2: >30 DPD	3	4.6%	21	5.3%	2	4.5%	23	5.2%	-	-	26	4.1%
Stage 3[(3)]	17	29.5%	56	14.3%	5	14.4%	61	14.3%	50	38.0%	128	20.8%
	57	100%	392	100%	37	100%	429	100%	131	100%	617	100%
Coverage												
Stage 1		0.02%		0.98%		1.07%		0.99%		0.49%		0.13%
Stage 2 – total		0.99%		23.16%		8.16%		20.07%		2.66%		6.33%
Stage 2: 0 DPD		0.98%		21.31%		7.56%		18.38%		2.67%		6.02%
Stage 2: <30 DPD		0.74%		48.66%		35.30%		47.94%		1.56%		12.19%
Stage 2: >30 DPD		1.28%		64.90%		56.02%		64.16%		0.95%		10.38%
Stage 3[(3)]		3.03%		54.15%		77.16%		55.57%		19.76%		13.93%
		0.10%		6.88%		4.88%		6.65%		1.60%		0.84%
Undrawn exposures												
Stage 1	2,560	95.4%	10,493	96.2%	280	82.1%	10,773	95.8%	3,453	84.7%	16,786	93.3%
Stage 2	114	4.2%	387	3.6%	60	17.6%	447	4.0%	597	14.7%	*1,158*	6.4%
Stage 3[(3)]	11	0.4%	21	0.2%	1	0.3%	22	0.2%	23	0.6%	*56*	0.3%
	2,685	100%	10,901	100%	341	100%	*11,242*	100%	4,073	100%	18,000	100%

2022	Mortgages £m	%	Unsecured – Cards £m	%	Unsecured – Loans and Overdrafts £m	%	Unsecured – Combined £m	%	Business[(2)] £m	%	Total £m	%
Stage 1	54,791	93.7%	4,712	84.8%	612	64.1%	5,324	81.8%	6,270	76.7%	66,385	90.8%
Stage 2 – total	3,090	5.3%	774	13.9%	335	35.1%	1,109	17.0%	1,524	18.7%	5,723	7.8%
Stage 2: 0 DPD	2,763	4.7%	723	13.0%	327	34.3%	1,050	16.1%	1,497	18.4%	5,310	7.2%
Stage 2: <30 DPD	158	0.3%	27	0.5%	3	0.3%	30	0.5%	9	0.1%	197	0.3%
Stage 2: >30 DPD	169	0.3%	24	0.4%	5	0.5%	29	0.4%	18	0.2%	216	0.3%
Stage 3[(3)]	583	1.0%	72	1.3%	8	0.8%	80	1.2%	373	4.6%	1,036	1.4%
	58,464	100.0%	5,558	100.0%	955	100.0%	6,513	100.0%	8,167	100.0%	73,144	100.0%
ECLs[(4)]												
Stage 1	10	17.9%	57	23.2%	6	15.8%	63	22.2%	12	10.3%	85	18.6%
Stage 2 – total	32	57.1%	156	63.4%	25	65.8%	181	63.7%	55	47.0%	268	58.6%
Stage 2: 0 DPD	28	49.9%	129	52.4%	22	57.9%	151	53.1%	55	47.0%	234	51.2%
Stage 2: <30 DPD	2	3.6%	14	5.7%	1	2.6%	15	5.3%	-	-	17	3.7%
Stage 2: >30 DPD	2	3.6%	13	5.3%	2	5.3%	15	5.3%	-	-	17	3.7%
Stage 3[(3)]	14	25.0%	33	13.4%	7	18.4%	40	14.1%	50	42.7%	104	22.8%
	56	100.0%	246	100.0%	38	100.0%	284	100.0%	117	100.0%	457	100.0%
Coverage												
Stage 1		0.02%		1.29%		1.06%		1.26%		0.22%		0.13%
Stage 2 – total		1.02%		21.94%		7.29%		17.22%		3.75%		4.72%
Stage 2: 0 DPD		1.02%		19.41%		6.41%		15.09%		3.76%		4.43%
Stage 2: <30 DPD		0.81%		57.37%		33.67%		54.48%		3.57%		8.53%
Stage 2: >30 DPD		1.25%		59.03%		52.92%		58.01%		1.47%		8.57%
Stage 3[(3)]		2.28%		50.96%		73.14%		53.51%		19.96%		11.24%
		0.09%		4.81%		3.88%		4.66%		1.59%		0.62%
Undrawn exposures												
Stage 1	4,060	96.7%	10,494	97.8%	288	89.5%	10,782	97.5%	3,612	88.1%	18,454	95.3%
Stage 2	132	3.1%	236	2.2%	33	10.2%	269	2.4%	464	11.3%	*865*	4.5%
Stage 3[(3)]	8	0.2%	5	0.0%	1	0.3%	6	0.1%	26	0.6%	*40*	0.2%
	4,200	100%	10,735	100%	322	100%	11,057	100%	4,102	100%	19,359	100%

(1) Excludes loans designated at fair value through profit or loss (FVTPL), balances due from customers on acceptances, accrued interest and deferred and unamortised fee income.
(2) Business and total coverage ratio excludes the guaranteed element of government-backed loans.
(3) Stage 3 includes POCI for gross loans and advances of £48m for Mortgages and £1m for Unsecured (2022: £56m and £1m respectively); and ECL of (£1m) for Mortgages and (£1m) for Unsecured (2022: (£1m) and (£2m) respectively).
(4) Includes £5m ECL held for the undrawn exposures shown (2022: £3m), of which £1m (2022:1m) is held under Stage 1 and £4m (2022: £2m) under Stage 2.

Stage 2 balances (audited)

There can be a number of reasons that require a financial asset to be subject to a Stage 2 lifetime ECL calculation other than reaching the 30 DPD backstop. The following table highlights the relevant trigger point leading to a financial asset being classed as Stage 2:

			Personal									
	Mortgages		**Cards**		**Loans and Overdrafts**		**Combined**		**Business**		**Total**	
2023	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
PD deterioration	**1,739**	**65%**	**777**	**59%**	**317**	**99%**	**1,094**	**67%**	**1,229**	**62%**	**4,062**	**64%**
Forbearance	**81**	**3%**	**16**	**1%**	**1**	**-**	**17**	**1%**	**281**	**14%**	**379**	**6%**
AFD or Watch List(1)	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**455**	**23%**	**456**	**7%**
> 30 DPD	**201**	**7%**	**34**	**3%**	**3**	**1%**	**37**	**2%**	**15**	**1%**	**253**	**4%**
Other(2)	**682**	**25%**	**494**	**37%**	**-**	**-**	**494**	**30%**	**-**	**-**	**1,176**	**19%**
	2,704	**100%**	**1,321**	**100%**	**321**	**100%**	**1,642**	**100%**	**1,980**	**100%**	**6,326**	**100%**
ECLs												
PD deterioration	**18**	**67%**	**143**	**49%**	**26**	**93%**	**169**	**52%**	**23**	**45%**	**210**	**52%**
Forbearance	**3**	**11%**	**5**	**2%**	**-**	**-**	**5**	**2%**	**14**	**28%**	**22**	**6%**
AFD or Watch List(1)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14**	**27%**	**14**	**4%**
> 30 DPD	**3**	**11%**	**21**	**7%**	**2**	**7%**	**23**	**7%**	**-**	**-**	**26**	**7%**
Other(2)	**3**	**11%**	**125**	**42%**	**-**	**-**	**125**	**39%**	**-**	**-**	**128**	**31%**
	27	**100%**	**294**	**100%**	**28**	**100%**	**322**	**100%**	**51**	**100%**	**400**	**100%**

			Personal									
	Mortgages		Cards		Loans and Overdrafts		Combined		Business		Total	
2022	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD deterioration	2,084	69%	401	52%	329	99%	730	66%	824	55%	3,638	64%
Forbearance	106	3%	9	1%	1	-	10	1%	235	15%	351	6%
AFD or Watch List(1)	6	-	-	-	-	-	-	-	447	29%	453	8%
> 30 DPD	169	5%	24	3%	5	1%	29	3%	18	1%	216	4%
Other(2)	725	23%	340	44%	-	-	340	30%	-	-	1,065	18%
	3,090	100%	774	100%	335	100%	1,109	100%	1,524	100%	5,723	100%
ECLs												
PD deterioration	18	55%	73	47%	23	92%	96	53%	26	47%	140	53%
Forbearance	5	16%	3	2%	-	-	3	2%	12	22%	20	7%
AFD or Watch List(1)	-	-	-	-	-	-	-	-	17	31%	17	6%
> 30 DPD	2	6%	13	8%	2	8%	15	8%	-	-	17	6%
Other(2)	7	23%	67	43%	-	-	67	37%	-	-	74	28%
	32	100%	156	100%	25	100%	181	100%	55	100%	268	100%

(1) Approaching Financial Difficulty (AFD) and Watch markers are early warning indicators of Business customers who may be approaching financial difficulties. If these indicators are not reversed, they may lead to a requirement for more proactive management by the Group.

(2) Other refers primarily to rules using additional credit reference agency data as well a number of smaller value drivers.

Credit risk exposure and ECL, by internal PD rating, by IFRS 9 stage allocation (audited)

The distribution of the Group's credit exposures and ECL by internal PD rating is analysed below:

		Stage 1		Stage 2		Stage 3(1)		Total	
2023		**Lending £m**	**ECL £m**	**Lending £m**	**ECL £m**	**Lending £m**	**ECL £m**	**Lending £m**	**ECL £m**
Mortgages	**PD range**								
Strong	0 – 0.74	**52,612**	**8**	**1,355**	**2**	**-**	**-**	**53,967**	**10**
Good	0.75 – 2.49	**1,540**	**2**	**553**	**3**	**-**	**-**	**2,093**	**5**
Satisfactory	2.50 – 99.99	**388**	**3**	**796**	**22**	**-**	**-**	**1,184**	**25**
Default	100	**-**	**-**	**-**	**-**	**553**	**17**	**553**	**17**
Total		**54,540**	**13**	**2,704**	**27**	**553**	**17**	**57,797**	**57**
Unsecured									
Strong	0 – 2.49	**4,443**	**29**	**123**	**12**	**-**	**-**	**4,566**	**41**
Good	2.50 – 9.99	**607**	**16**	**1,063**	**148**	**-**	**-**	**1,670**	**164**
Satisfactory	10.00 – 99.99	**6**	**1**	**456**	**162**	**-**	**-**	**462**	**163**
Default	100	**-**	**-**	**-**	**-**	**116**	**61**	**116**	**61**
Total		**5,056**	**46**	**1,642**	**322**	**116**	**61**	**6,814**	**429**
Business									
Strong	0 – 0.74	**1,860**	**2**	**158**	**-**	**-**	**-**	**2,018**	**2**
Good	0.75 – 9.99	**4,360**	**27**	**1,441**	**30**	**-**	**-**	**5,801**	**57**
Satisfactory	10.00 – 99.99	**73**	**1**	**381**	**21**	**-**	**-**	**454**	**22**
Default	100	**-**	**-**	**-**	**-**	**411**	**50**	**411**	**50**
Total		**6,293**	**30**	**1,980**	**51**	**411**	**50**	**8,684**	**131**

		Stage 1		Stage 2		Stage 3(1)		Total	
2022		Lending £m	ECL £m	Lending £m	ECL £m	Lending £m	ECL £m	Lending £m	ECL £m
Mortgages	PD range								
Strong	0 – 0.74	52,184	6	1,864	10	-	-	54,048	16
Good	0.75 – 2.49	2,302	2	641	5	-	-	2,943	7
Satisfactory	2.50 – 99.99	305	2	585	17	-	-	890	19
Default	100	-	-	-	-	583	14	583	14
Total		54,791	10	3,090	32	583	14	58,464	56
Unsecured									
Strong	0 – 2.49	4,795	42	413	26	-	-	5,208	68
Good	2.50 – 9.99	524	20	459	72	-	-	983	92
Satisfactory	10.00 – 99.99	5	1	237	83	-	-	242	84
Default	100	-	-	-	-	80	40	80	40
Total		5,324	63	1,109	181	80	40	6,513	284
Business									
Strong(2)	0 – 0.74	4,808	5	719	17	-	-	5,527	22
Good(2)	0.75 – 9.99	1,455	7	749	31	-	-	2,204	38
Satisfactory	10.00 – 99.99	7	-	56	7	-	-	63	7
Default	100	-	-	-	-	373	50	373	50
Total		6,270	12	1,524	55	373	50	8,167	117

(1) Stage 3 includes POCI for gross loans and advances of £48m for Mortgages and £1m for Unsecured (2022: £56m and £1m respectively); and ECL of (£1m) for Mortgages and (£1m) for Unsecured (2022: (£1m) and (£2m) respectively).
(2) The comparatives have been represented in line with the current year presentation.

In terms of the credit quality of the loan commitments and financial guarantee contracts, at least 90% classified as either 'Good' or 'Strong' under the Group's internal PD rating scale with the overall portfolio at 96% (2022: 97%) and the level of default remaining low.

The migration of business lending from the Strong to the Good PD grouping has been predominately driven by the updates to model economic scenarios (MES) received during the year, rather than an observed deterioration in the customer portfolio.

Risk report (continued)
Credit risk (continued)

IFRS 9 Staging (audited)

The following table shows the changes in the loss allowance and gross carrying value of the portfolios. Values are calculated using the individual customer account balances, and the stage allocation is taken as at the end of each month. The monthly position of each account is aggregated to report a net closing position for the period, thereby incorporating all movements an account has made during the year.

	Stage 1		**Stage 2**		**Stage 3(1)**			
2023	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Total gross loans £m**	**Total provisions £m**
Opening balance at 1 October 2022	**66,385**	**85**	**5,723**	**268**	**1,036**	**104**	**73,144**	**457**
Transfers from Stage 1 to Stage 2	**(8,561)**	**(46)**	**8,535**	**414**	**-**	**-**	**(26)**	**368**
Transfers from Stage 2 to Stage 1	**6,077**	**16**	**(6,125)**	**(129)**	**-**	**-**	**(48)**	**(113)**
Transfers to Stage 3	**(96)**	**-**	**(586)**	**(109)**	**686**	**138**	**4**	**29**
Transfers from Stage 3	**121**	**-**	**134**	**8**	**(266)**	**(10)**	**(11)**	**(2)**
Changes to model methodology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased(2)	**20,489**	**57**	**629**	**44**	**161**	**34**	**21,279**	**135**
Repayments and other movements(3)	**(2,990)**	**12**	**(556)**	**(22)**	**140**	**(4)**	**(3,406)**	**(14)**
Repaid or derecognised(3)	**(15,536)**	**(35)**	**(1,428)**	**(74)**	**(490)**	**(127)**	**(17,454)**	**(236)**
Write-offs	**-**	**-**	**-**	**-**	**(187)**	**(187)**	**(187)**	**(187)**
Cash recoveries	**-**	**-**	**-**	**-**		**38**	**-**	**38**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**142**	**-**	**142**
Closing balance at 30 September 2023	**65,889**	**89**	**6,326**	**400**	**1,080**	**128**	**73,295**	**617**

	Stage 1		Stage 2		Stage 3(1)			
2022	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m
Opening balance at 1 October 2021	61,416	111	10,176	302	957	91	72,549	504
Transfers from Stage 1 to Stage 2	(8,287)	(45)	8,227	294	-	-	(60)	249
Transfers from Stage 2 to Stage 1	10,218	27	(10,282)	(145)	-	-	(64)	(118)
Transfers to Stage 3	(91)	-	(562)	(84)	650	101	(3)	17
Transfers from Stage 3	42	-	137	8	(187)	(12)	(8)	(4)
Changes to model methodology	443	1	(442)	(8)	-	-	1	(7)
New assets originated or purchased(2)	22,162	187	2,055	159	187	32	24,404	378
Repayments and other movements(3)	(3,434)	(42)	(155)	(65)	56	(15)	(3,533)	(122)
Repaid or derecognised(3)	(16,084)	(154)	(3,431)	(193)	(498)	(101)	(20,013)	(448)
Write-offs	-	-	-	-	(129)	(129)	(129)	(129)
Cash recoveries	-	-	-	-	-	30	-	30
Individually assessed impairment charge	-	-	-	-	-	107	-	107
Closing balance at 30 September 2022	66,385	85	5,723	268	1,036	104	73,144	457

(1) Stage 3 includes POCI for gross loans and advances of £48m for Mortgages and £1m for Unsecured (2022: £56m and £1m respectively), and ECL of (£1m) for Mortgages and (£1m) for Unsecured (2022: (£1m) and (£2m) respectively). Nil for Business in both periods.

(2) Includes assets where the term has ended, and a new facility has been provided.

(3) 'Repayments' comprises payments made on customer lending which are not yet fully paid at the reporting date and the customer arrangement remains live at that date. 'Repaid' refers to payments made on customer lending which is either fully repaid or derecognised by the reporting date and the customer arrangement is therefore closed at that date.

The IFRS 9 staging movements are driven by a variety of factors at individual product portfolio levels, with further detail provided in the following portfolio performance pages. Overall portfolio activity remains in line with expectations, with the net movements across staging slightly higher than prior year with gross flows in and out of Stage 2 the predominant movement. The increase in write offs has been primarily driven from the credit card portfolio in addition to a small number of individually significant business write offs. The levels of default across the portfolio remain low.
The contractual amount outstanding on loans and advances that were written off during the reporting period or are still subject to enforcement activity was £5.1m (2022: £4.3m). The Group has not purchased any lending assets in the year (2022: none). Further information on staging profile is provided at a portfolio level in the respective portfolio performance section on the following pages.

Mortgage credit performance

The table below presents key information on the asset quality of the Group's Mortgage portfolio and should be read in conjunction with the supplementary data presented in the following pages of this section.

Breakdown of Mortgage portfolio (audited)

2023	Gross lending £m	Modelled & IA ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage %	Average LTV %
Residential – capital repayment	**35,085**	**10**	**5**	**15**	**35,070**	**0.04%**	**54.2%**
Residential – interest only	**7,503**	**8**	**1**	**9**	**7,494**	**0.12%**	**47.0%**
BTL	**15,209**	**7**	**26**	**33**	**15,176**	**0.21%**	**52.8%**
Total Mortgage portfolio	**57,797**	**25**	**32**	**57**	**57,740**	**0.10%**	**52.9%**
2022							
Residential – capital repayment	36,417	13	5	18	36,399	0.05%	54.2%
Residential – interest only	7,041	3	1	4	7,037	0.05%	45.4%
BTL	15,006	6	28	34	14,972	0.22%	52.4%
Total Mortgage portfolio	58,464	22	34	56	58,408	0.09%	52.7%

Mortgage lending has reduced on a net basis to £57.8bn (2022: £58.5bn) with a reduced demand for new lending owing to the higher rate environment, stressed affordability pressure and wider cost of living considerations, being outpaced by repayments and redemptions.

The portfolio continues to evidence solid underlying credit performance, with the majority (98%) of lending not yet past due at the balance sheet date (2022: 98%), and 94% of loans held in Stage 1 (2022: 94%). A significant proportion of the portfolio is rated Strong or Good at the balance sheet date under the Group's internal PD rating scale (97%, consistent with 30 September 2022), and the volume and value of loans in forbearance has reduced to 3,801/£498m from 4,636/£640m, primarily due to customers successfully completing the forbearance reporting probation period and returning to fully performing status.

Stage 3 balances have remained low at 1.0% (2022: 1.0%) and 91% of the portfolio has an LTV of less than 75% (2022: 93%), with the weighted average LTV relatively stable through the year at 52.9% (2022: 52.7%). Further detail on LTV bandings and forbearance measures is provided on the following pages.

The selection of appropriate MAs is a major component in determining the Group's ECL, a detailed analysis of which is shown on page 46. Asset quality metrics for the BTL mortgage book remain robust, but the Group continues to hold a prudent level of provisioning for this customer cohort, with the related MA held stable at £25m (2022: £25m). A £5m MA for economic uncertainty was introduced during the year to reflect the economic circumstances and cost of living pressures such as rising interest rates and inflation which may impact customers. Other small MAs totalling £2m (2022: £4m) have been retained, taking total MAs held to £32m, down from £34m at 30 September 2022.

This has resulted in an impairment charge of £2m in the income statement (2022: credit of £30m) and associated cost of risk of nil bps (2022: (4)bps). The total book coverage has increased in the year to 10bps and is appropriate in the current environment where increased arrears and deterioration are expected to emerge in this portfolio.

Risk report (continued)
Credit risk (continued)

Collateral

The quality of the Group's Mortgage portfolio can be considered in terms of the average LTV of the portfolio and the staging of the portfolio, as set out in the following tables:

Average LTV of Mortgage portfolio by staging (audited)

2023	**Stage 1**			**Stage 2**			**Stage 3**[2]			**Total**		
LTV[1]	**Loans £m**	**%**	**ECL £m**	**Loans £m**	**%**	**ECL £m**	**Loans £m**	**%**	**ECL £m**	**Loans £m**	**%**	**ECL £m**
Less than 50%	**22,680**	**42%**	**4**	**1,551**	**58%**	**5**	**282**	**50%**	**2**	**24,513**	**42%**	**11**
50% to 75%	**26,913**	**49%**	**6**	**1,009**	**37%**	**14**	**203**	**37%**	**4**	**28,125**	**49%**	**24**
76% to 80%	**2,270**	**4%**	**1**	**81**	**3%**	**2**	**22**	**4%**	**1**	**2,373**	**4%**	**4**
81% to 85%	**1,408**	**3%**	**1**	**33**	**1%**	**1**	**13**	**2%**	**1**	**1,454**	**3%**	**3**
86% to 90%	**992**	**2%**	**-**	**23**	**1%**	**-**	**9**	**2%**	**1**	**1,024**	**2%**	**1**
91% to 95%	**236**	**-**	**-**	**3**	**-**	**-**	**11**	**2%**	**1**	**250**	**-**	**1**
96% to 100%	**8**	**-**	**-**	**2**	**-**	**1**	**3**	**1%**	**-**	**13**	**-**	**1**
Greater than 100%	**33**	**-**	**1**	**2**	**-**	**4**	**10**	**2%**	**7**	**45**	**-**	**12**
	54,540	**100%**	**13**	**2,704**	**100%**	**27**	**553**	**100%**	**17**	**57,797**	**100%**	**57**

2022	Stage 1			Stage 2			Stage 3[2]			Total		
LTV[1]	Loans £m	%	ECL £m	Loans £m	%	ECL £m	Loans £m	%	ECL £m	Loans £m	%	ECL £m
Less than 50%	23,069	43%	2	1,659	54%	3	288	49%	2	25,016	43%	7
50% to 75%	27,452	50%	5	1,270	41%	19	242	42%	2	28,964	50%	26
76% to 80%	2,412	4%	1	103	3%	3	17	3%	1	2,532	4%	5
81% to 85%	1,108	2%	1	26	1%	1	11	2%	1	1,145	2%	3
86% to 90%	547	1%	1	25	1%	1	6	1%	-	578	1%	2
91% to 95%	154	-	-	4	-	1	8	1%	1	166	-	2
96% to 100%	16	-	-	-	-	-	3	1%	-	19	-	-
Greater than 100%	33	-	-	3	-	4	8	1%	7	44	-	11
	54,791	100%	10	3,090	100%	32	583	100%	14	58,464	100%	56

(1) LTV of the Mortgage portfolio is defined as Mortgage portfolio weighted by balance. The portfolio is indexed using the MIAC Acadametrics indices at a given date.

(2) Stage 3 includes £48m (2022: £56m) of POCI gross loans and advances and (£1m) ECL (2022: (£1m)).

The Mortgage portfolio remains highly secured with 91.1% of mortgages, by loan value, having an indexed LTV of less than 75% (2022: 92.3%), and an average portfolio LTV of 52.9% (2022: 52.7%).

The total portfolio has reduced by 1.1% with the highest reduction in proportion and value in Stage 2.

Forbearance (audited)

A key indicator of underlying Mortgage portfolio health is the level of loans subject to forbearance measures. Forbearance can occur when a customer experiences financial difficulty. In such circumstances, the Group considers the customer's individual circumstances, uses judgement in assessing whether there has been a SICR, or if an impairment or default event has occurred, and then applies tailored forbearance measures to support the customer in a route to stability. Customers may potentially be subject to more than one forbearance strategy at any one time where this is the most appropriate course of action.

The table below summarises the level of forbearance in respect of the Group's Mortgage portfolio at each balance sheet date. All balances subject to forbearance are classed as either Stage 2 or Stage 3 for ECL purposes.

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
2023	**Number of loans**	**Gross carrying amount £m**	**% of total portfolio**	**Impairment allowance £m**	**Coverage %**
Formal arrangements	**1,027**	**134**	**0.24%**	**5.0**	**3.77%**
Temporary arrangements	**566**	**93**	**0.16%**	**4.5**	**4.82%**
Payment arrangement	**1,194**	**130**	**0.23%**	**1.4**	**1.09%**
Payment holiday	**362**	**45**	**0.08%**	**0.2**	**0.35%**
Interest only conversion	**460**	**76**	**0.13%**	**0.5**	**0.66%**
Term extension	**40**	**3**	**-**	**-**	**0.47%**
Other	**55**	**7**	**0.01%**	**0.3**	**3.69%**
Legal	**97**	**10**	**0.02%**	**0.3**	**2.83%**
Total mortgage forbearance	**3,801**	**498**	**0.87%**	**12.2**	**2.44%**
2022					
Formal arrangements	1,145	137	0.23%	8.6	6.23%
Temporary arrangements	518	82	0.14%	4.4	5.38%
Payment arrangement	1,211	133	0.23%	0.6	0.49%
Payment holiday	381	47	0.08%	0.1	0.27%
Interest only conversion	1,193	225	0.39%	0.8	0.35%
Term extension	66	5	0.01%	-	0.45%
Other	14	1	-	-	0.92%
Legal	108	10	0.02%	0.3	2.42%
Total mortgage forbearance	4,636	640	1.10%	14.8	2.31%

As at 30 September 2023, forbearance totalled £498m (3,801 loans), a decrease from the 30 September 2022 position of £640m (4,636 loans). This level represents 0.87% of total mortgage balances (2022: 1.10%), with the decrease primarily driven by customers successfully completing the forbearance reporting probation period and returning to fully performing status.

When all other avenues of resolution, including forbearance, have been explored, the Group will take steps to repossess and sell underlying collateral. In 2023, there were 55 repossessions of which 4 were voluntary (2022: 73 including 7 voluntary). The Group remains committed to supporting the customer and places good outcomes for them at the centre of this strategy.

IFRS 9 staging (audited)

The Group closely monitors the staging profile of the Mortgage portfolio over time which can be indicative of general trends in book health. Movements in the staging profile of the portfolio in the current and prior year are presented in the tables below.

	Stage 1		**Stage 2**		**Stage 3(1)**			
2023	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Total gross loans £m**	**Total provisions £m**
Opening balance at 1 October 2022	**54,791**	**10**	**3,090**	**32**	**583**	**14**	**58,464**	**56**
Transfers from Stage 1 to Stage 2	**(5,237)**	**(3)**	**5,203**	**63**	**-**	**-**	**(34)**	**60**
Transfers from Stage 2 to Stage 1	**4,827**	**1**	**(4,852)**	**(49)**	**-**	**-**	**(25)**	**(48)**
Transfers to Stage 3	**(58)**	**-**	**(273)**	**(5)**	**328**	**7**	**(3)**	**2**
Transfers from Stage 3	**112**	**-**	**104**	**7**	**(222)**	**(3)**	**(6)**	**4**
Changes to model methodology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased(2)	**8,372**	**2**	**-**	**-**	**-**	**-**	**8,372**	**2**
Repayments and other movements(3)	**(2,366)**	**4**	**(99)**	**(15)**	**(9)**	**3**	**(2,474)**	**(8)**
Repaid or derecognised(3)	**(5,901)**	**(1)**	**(469)**	**(6)**	**(126)**	**(3)**	**(6,496)**	**(10)**
Write-offs	**-**	**-**	**-**	**-**	**(1)**	**(1)**	**(1)**	**(1)**
Cash recoveries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Closing balance at 30 September 2023	**54,540**	**13**	**2,704**	**27**	**553**	**17**	**57,797**	**57**

	Stage 1		Stage 2		Stage 3(1)			
2022	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m
Opening balance at 1 October 2021	50,596	4	7,192	64	653	19	58,441	87
Transfers from Stage 1 to Stage 2	(5,854)	(1)	5,821	55	-	-	(33)	54
Transfers from Stage 2 to Stage 1	8,820	3	(8,851)	(55)	-	-	(31)	(52)
Transfers to Stage 3	(49)	-	(191)	(5)	238	4	(2)	(1)
Transfers from Stage 3	29	-	108	5	(140)	(3)	(3)	2
Changes to model methodology	-	-	-	-	-	-	-	-
New assets originated or purchased(2)	9,971	1	7	-	1	-	9,979	1
Repayments and other movements(3)	(2,484)	4	(154)	(23)	(26)	(3)	(2,664)	(22)
Repaid or derecognised(3)	(6,238)	(1)	(842)	(9)	(142)	(2)	(7,222)	(12)
Write-offs	-	-	-	-	(1)	(1)	(1)	(1)
Cash recoveries	-	-	-	-	-	-	-	-
Individually assessed impairment charge	-	-	-	-	-	-	-	-
Closing balance at 30 September 2022	54,791	10	3,090	32	583	14	58,464	56

(1) Stage 3 includes POCI for gross loans and advances of £48m (2022: £56m) and ECL of (£1m) (2022: (£1m)).
(2) Includes assets where the term has ended, and a new facility has been provided.
(3) 'Repayments' comprises payments made on customer lending which are not yet fully paid at the reporting date and the customer arrangement remains live at that date. 'Repaid' refers to payments made on customer lending which is either fully repaid or derecognised by the reporting date and the customer arrangement is therefore closed at that date.

The Mortgage portfolio continues to evidence strong performance with levels of delinquency and impairment remaining relatively low.

The level of mortgage lending classed as Stage 1 increased from 93.7% in 2022 to 94.3%, with a decrease of assets in Stage 2 from 5.3% to 4.7%. Within the Stage 2 category, 89% of balances are not yet past due at the balance sheet date (2022: 89%). The proportion of mortgages classified as Stage 3 remains modest at 1.0% (2022: 1.0%). The net movements across the stages show reductions, primarily in the Stage 2 and 3 portfolios, driven by a wide variety of factors, but broadly they are all successful outcomes in either restoring customers to fully performing or resuming satisfactory repayment schedules, as the Group is committed to the delivery of good customer outcomes.

Mortgage lending classed as 'Strong' has increased modestly to 93.4% from 92.4% at 30 September 2022, with over 97% (2022: 97%) of the Mortgage portfolio classed as 'Good' or 'Strong.' The sustained quality in the internal PD ratings and high quality of collateral underpinning the book are key factors supporting the provision coverage of 10bps (2022: 7bps).

Unsecured credit performance

The table below presents key information important for understanding the asset quality of the Group's Unsecured lending portfolio and should be read in conjunction with the supplementary data presented in the following pages of this section.

Breakdown of Unsecured credit portfolio (audited)

2023	Gross lending £m	Modelled ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage %
Credit cards	**6,088**	**364**	**28**	**392**	**5,696**	**6.88%**
Personal loans	**699**	**32**	**1**	**33**	**666**	**4.59%**
Overdrafts	**27**	**4**	**-**	**4**	**23**	**11.62%**
Total Unsecured lending portfolio	**6,814**	**400**	**29**	**429**	**6,385**	**6.65%**
2022						
Credit cards	5,558	216	30	246	5,312	4.81%
Personal loans	925	32	2	34	891	3.57%
Overdrafts	30	4	-	4	26	12.57%
Total Unsecured lending portfolio	6,513	252	32	284	6,229	4.66%

Unsecured gross lending balances have increased to £6.8bn (2022: £6.5bn) with underlying growth in the credit card portfolio the primary driver, slightly offset by the personal loan portfolio which continues to contract in line with expectations.

Credit card lending increased circa 10% in the year reflecting resilient demand from existing customers and ongoing new credit card sales as the Group market share steadily grew to circa 8.5% of balances. During the period, in line with the downturn in the broader UK economy, we have seen a migration of customers from Stage 1 to Stage 2 with the value of lending in Stage 2 increasing to £1,321m (2022: £774m). However, the proportion of lending in Stage 1 and Stage 2 not past due remains high at 97.2% (2022: 97.5%).

The level of forbearance concessions agreed in the unsecured portfolio, particularly in credit cards, has increased in line with portfolio arrears, driven by continued portfolio maturation, VMs diversification strategy and the wider economic environment.

The impact of the current macroeconomic scenarios together with a weakening of credit bureau data and early-stage arrears compared to prior year has led to an increase in modelled ECL. This increase in ECL resulted in book coverage increasing to 688bps (2022: 481bps). The value of credit cards written off, net of recoveries, increased to £116m (2022: £79m).

The personal loan portfolio continues to reduce on a managed basis.

The selection of appropriate MAs is a major component in determining the Group's ECL, a detailed analysis of key factors on them is shown on page 46.

Taking the modelled ECL and MA together, the total ECL provision held as at 30 September 2023 is £429m (2022: £284m), which, in addition to a net write off impairment charge of £124m, results in a total impairment charge of £269m (2022: £178m).

Total book coverage of 665bps has increased from 466bps as at 30 September 2022. The increased coverage is appropriate in the current environment where increased arrears and deterioration are expected to emerge in this portfolio.

Forbearance (audited)

The table below summarises the level of forbearance in respect of the Group's Unsecured lending portfolios at each balance sheet date. All balances subject to forbearance are classed as either Stage 2 or Stage 3 for ECL purposes.

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
2023	**Number of loans**	**Gross carrying amount £m**	**% of total portfolio**	**Impairment allowance £m**	**Coverage %**
Credit cards arrangements	**22,206**	**90**	**1.56%**	**41.7**	**46.13%**
Loans arrangements	**467**	**2**	**0.51%**	**0.8**	**40.30%**
Overdraft arrangement	**24**	**-**	**0.02%**	**-**	**11.98%**
Total Unsecured lending forbearance	**22,697**	**92**	**1.42%**	**42.5**	**46.00%**
2022					
Credit cards arrangements	15,872	62	1.19%	24.3	39.47%
Loans arrangements	638	3	0.56%	1.4	40.33%
Overdraft arrangement	56	-	0.04%	-	30.76%
Total Unsecured lending forbearance	16,566	65	1.12%	25.7	39.51%

The volume and value of forbearance has increased, notably on the credit card portfolio, where the Group looks to agree concessions and payment arrangements which are in the best interest of the customers in order to maximise their ability to repay the lending and return to fully performing status.

Forbearance on the Loan and Overdraft portfolios remain modest and in line with the reducing size of the portfolios. The level of impairment coverage on the Unsecured portfolio has increased to 46.0% (2022: 39.5%) primarily as a result of the updated PD and other MES model inputs.

IFRS 9 staging (audited)

The Group closely monitors the staging profile of its Unsecured lending portfolio over time, which can be indicative of general trends in book health. Movements in the staging profile of the portfolio are presented in the tables below.

	Stage 1		Stage 2		Stage 3(1)		Total	
2023	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Total gross loans £m**	**Total provisions £m**
Opening balance at 1 October 2022	**5,324**	**63**	**1,109**	**181**	**80**	**40**	**6,513**	**284**
Transfers from Stage 1 to Stage 2	**(1,621)**	**(39)**	**1,642**	**320**	**-**	**-**	**21**	**281**
Transfers from Stage 2 to Stage 1	**590**	**13**	**(608)**	**(69)**	**-**	**-**	**(18)**	**(56)**
Transfers to Stage 3	**(15)**	**-**	**(179)**	**(100)**	**200**	**121**	**6**	**21**
Transfers from Stage 3	**-**	**-**	**1**	**-**	**(5)**	**(5)**	**(4)**	**(5)**
Changes to model methodology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased(2)	**1,101**	**12**	**1**	**-**	**2**	**2**	**1,104**	**14**
Repayments and other movements(3)	**(97)**	**-**	**(282)**	**2**	**152**	**(6)**	**(227)**	**(4)**
Repaid or derecognised(3)	**(226)**	**(3)**	**(42)**	**(12)**	**(152)**	**(91)**	**(420)**	**(106)**
Write-offs	**-**	**-**	**-**	**-**	**(161)**	**(161)**	**(161)**	**(161)**
Cash recoveries	**-**	**-**	**-**	**-**	**-**	**37**	**-**	**37**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**124**	**-**	**124**
Closing balance at 30 September 2023	**5,056**	**46**	**1,642**	**322**	**116**	**61**	**6,814**	**429**

	Stage 1		Stage 2		Stage 3(1)		Total	
2022	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m
Opening balance at 1 October 2021	5,148	41	553	118	69	35	5,770	194
Transfers from Stage 1 to Stage 2	(1,051)	(31)	1,059	210	-	-	8	179
Transfers from Stage 2 to Stage 1	504	16	(523)	(62)	-	-	(19)	(46)
Transfers to Stage 3	(19)	-	(116)	(69)	139	83	4	14
Transfers from Stage 3	1	-	2	1	(8)	(7)	(5)	(6)
Changes to model methodology	-	-	-	-	-	-	-	-
New assets originated or purchased(2)	1,708	20	11	4	7	5	1,726	29
Repayments and other movements(3)	(508)	26	166	(8)	104	(4)	(238)	14
Repaid or derecognised(3)	(459)	(9)	(43)	(13)	(117)	(72)	(619)	(94)
Write-offs	-	-	-	-	(114)	(114)	(114)	(114)
Cash recoveries	-	-	-	-	-	26	-	26
Individually assessed impairment charge	-	-	-	-	-	88	-	88
Closing balance at 30 September 2022	5,324	63	1,109	181	80	40	6,513	284

(1) Stage 3 includes POCI for gross loans and advances of £1m (2022: £1m) and ECL of (£1m) (2022: (£2m)).
(2) Includes assets where the term has ended, and a new facility has been provided.
(3) ‘Repayments’ comprises payments made on customer lending, which are not yet fully paid at the reporting date and the customer arrangement remains live at that date. ‘Repaid’ refers to payments made on customer lending, which is either fully repaid or derecognised by the reporting date and the customer arrangement is therefore closed at that date.

The individually assessed impairment charge increase from last year is within expectations as the underlying portfolio has deteriorated, in line with the backdrop of a downturn in the broader UK economy. The level of post write off recoveries has increased proportionately and remains robust.

The total ECL held on balance sheet has increased from £284m to £429m with an increase in the modelled ECL being the primary driver. Modelled provision coverage alone is now 589bps (2022: 413bps).

The credit card portfolio is the primary driver of the decrease in the balance of Unsecured lending classed as Stage 1 to 74.2% (2022: 81.8%), with a corresponding increase in assets in Stage 2 from 17.0% to 24.1%. Within the Stage 2 category, 95.4% is not yet past due (2022: 94.7%) but falls into this classification due predominantly to PD deterioration rather than actual delinquency. The proportion classified as Stage 3 increased to 1.7% (2022: 1.2%). The total provision coverage has therefore increased to 665bps (2022: 466bps).

The table below presents key information which is important for understanding the asset quality of the Group's Business lending portfolio and should be read in conjunction with the supplementary data presented in the following pages of this section.

Breakdown of Business credit portfolio (audited)

2023	Gross lending £m	Government[1] £m	Total gross £m	Modelled & IA ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage[2] %
Agriculture	**1,315**	**46**	**1,361**	**4**	**1**	**5**	**1,356**	**0.35%**
Business services	**1,153**	**212**	**1,365**	**38**	**3**	**41**	**1,324**	**3.45%**
Commercial Real Estate	**715**	**4**	**719**	**5**	**1**	**6**	**713**	**0.72%**
Government, health and education	**1,200**	**38**	**1,238**	**9**	**2**	**11**	**1,227**	**0.85%**
Hospitality	**779**	**60**	**839**	**3**	**1**	**4**	**835**	**0.50%**
Manufacturing	**669**	**77**	**746**	**17**	**3**	**20**	**726**	**2.87%**
Resources	**160**	**5**	**165**	**2**	**-**	**2**	**163**	**1.65%**
Retail and wholesale trade	**758**	**145**	**903**	**19**	**2**	**21**	**882**	**2.72%**
Transport and storage	**290**	**32**	**322**	**4**	**-**	**4**	**318**	**1.47%**
Other	**877**	**149**	**1,026**	**15**	**2**	**17**	**1,009**	**1.87%**
Total Business portfolio	**7,916**	**768**	**8,684**	**116**	**15**	**131**	**8,553**	**1.60%**
2022[3]								
Agriculture	1,392	66	1,458	5	1	6	1,452	0.45%
Business services	980	286	1,266	22	3	25	1,241	2.53%
Commercial Real Estate	597	10	607	3	-	3	604	0.54%
Government, health and education	1,008	54	1,062	8	2	10	1,052	0.95%
Hospitality	652	78	730	4	1	5	725	0.80%
Manufacturing	640	109	749	23	3	26	723	3.96%
Resources	133	8	141	3	1	4	137	2.37%
Retail and wholesale trade	696	198	894	15	3	18	876	2.38%
Transport and storage	291	56	347	4	1	5	342	1.44%
Other	721	192	913	12	3	15	898	2.03%
Total Business portfolio	7,110	1,057	8,167	99	18	117	8,050	1.59%

(1) Government includes all lending provided to business customers under UK Government schemes including Bounce back loan scheme (BBLS), Coronavirus business interruption loan scheme (CBILS), Coronavirus large business interruption loan scheme (CLBILS) and Recovery loan scheme (RLS). This excludes £143m (2022: £Nil) of guarantee claim funds received from British Business Bank (BBB)
(2) Coverage ratio excludes the guaranteed element of government-backed loan schemes.
(3) The comparatives have been represented in line with the current year presentation.

Gross Business lending increased to £8.7bn (2022: £8.2bn). The government-guaranteed lending portfolio continues to reduce as borrowers repay balances. Growth remains targeted to sectors and sub sectors where we have well established expertise. The sector mix remained stable with lending to the agriculture, business services and government, health and education sectors continuing to account for almost half of the total book, at 46% (2022: 46%)

Whilst there is some weakening in the pre and early delinquency metrics being monitored, there has been no significant deterioration in asset quality metrics across the portfolio and, as yet, no significant increase in specific provision recognition. Coverage for certain sectors has reduced in the period as previously held provisions have been utilised. A range of external risks have remained prevalent throughout the period including general inflationary pressures, interest rate rises, ongoing supply chain distribution and labour market disruption, as well as wider geopolitical risks.

The proportion of loans in Stage 1 has reduced to 72.5% (2022: 76.7%) with a corresponding increase in the proportion of loans in Stage 2 at 22.8% (2022: 18.7%). Within the Stage 2 category, 98.5% is not past due (2022: 98.2%) and 90% remain rated as 'Strong' or 'Good' (2022: 95%) under the Group's internal PD rating scale. Stage 3 loans remain modest at 4.7% (2022: 4.6%).

The updated MES is the primary driver of a net £17m increase in modelled provisions to £116m. Whilst there have been no material signs of stress across the portfolio, there has been an uptick in corporate insolvencies across the UK market, therefore an economic resilience MA of £15m has been retained. A new Business LGD model was brought into use in the Business ECL calculation during the year. The impact of this had been estimated during development, resulting in a negative MA of £15m being held last year, this has now been fully released. The MA composition is covered in more detail on page 46. The specific provisions held on balance sheet have reduced to £25m (2022: £31m) primarily due to provision utilisation. This results in an overall provision of £131m (2022: £117m) and an impairment charge of £38m (2022: credit of £96m).

Overall, portfolio coverage remains prudent at 160bps (2022: 159bps), reflecting the quality of the portfolio and little evidence of deterioration in asset quality to date.

Forbearance (audited)

Forbearance is considered to exist where customers are experiencing, or are about to experience financial difficulty, and the Group grants a concession on a non-commercial basis. The Group reports business forbearance at a customer level and at a value which incorporates all facilities and the related impairment allowance, irrespective of whether each individual facility is subject to forbearance. Authority to grant forbearance measures for business customers is held by the Group's Strategic Business Services unit and is exercised, where appropriate, based on detailed consideration of the customer's financial position and prospects.

Where a customer is part of a larger group, forbearance is exercised and reported across the Group at the individual entity level. Where modification of the terms and conditions of an exposure meeting the criteria for classification as forbearance results in derecognition of loans and advances from the balance sheet and the recognition of a new exposure, the new exposure will be treated as forborne.

The tables below summarise the total number of arrangements in place and the loan balances and impairment provisions associated with those arrangements. All balances subject to forbearance are classed as either Stage 2 or Stage 3 for ECL purposes.

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
2023	**Number of loans**	**Gross carrying amount £m**	**% of total portfolio**	**Impairment allowance £m**	**Coverage %**
Term extension	**150**	**112**	**1.22%**	**7.9**	**7.08%**
Payment holiday	**88**	**204**	**2.21%**	**30.3**	**14.91%**
Reduction in contracted interest rate	**1**	**-**	**-**	**-**	**-**
Alternative forms of payment	**-**	**-**	**-**	**-**	**-**
Debt forgiveness	**4**	**1**	**0.01%**	**0.4**	**47.66%**
Refinancing	**8**	**2**	**0.02%**	**-**	**1.85%**
Covenant breach/reset/waiver	**40**	**174**	**1.89%**	**6.4**	**3.65%**
Total Business forbearance	**291**	**493**	**5.35%**	**45.0**	**9.14%**

2022					
Term extension	154	118	1.36%	4.9	4.18%
Payment holiday	81	193	2.23%	32.6	16.86%
Reduction in contracted interest rate	2	1	0.01%	-	1.33%
Alternative forms of payment	-	-	-	-	-
Debt forgiveness	2	1	0.01%	0.5	97.05%
Refinancing	9	2	0.02%	0.1	5.14%
Covenant breach/reset/waiver	41	133	1.53%	5.4	4.03%
Total Business forbearance	289	448	5.16%	43.5	9.71%

The number of Business customers reported in receipt of forbearance concessions has remained relatively stable at 291 (2022: 289) with the total customer lending increasing to £493m (2022: £448m). Whilst the forbearance concession may only be applied to one account in the customer's portfolio, in the disclosure above the customer's full lending portfolio is included. Forbearance remains a key support measure for customers in, or about to, experience financial difficulty, and the ability to agree a temporary concession on a non-commercial basis can often be the critical breathing room required to support a return to fully performing status. 13% of forborne customers met exit criteria and returned to performing status in the financial year. Therefore, most forbearance arrangements relate to term extensions allowing customers a longer term to repay obligations in full than initially contracted. As a percentage of the Business portfolio, forborne balances have increased to 5.35% (2022: 5.16%) with impairment coverage slightly reducing 9.14% (2022: 9.71%).

Customers within the forbearance portfolio have £29m of COVID-19 related support loans: £14m CBIL, £4m BBL and £11m RLS. The table includes a portfolio of financial assets at fair value. The gross value of fair value loans subject to forbearance is £0.5m (2022: £4.7m), representing 0.01% of the total business portfolio (2022: 0.05%). The credit risk adjustment on these amounts is now immaterial. (2022: £0.1m).

Risk report (continued)
Credit risk (continued)

IFRS 9 staging (audited)

The Group closely monitors the staging profile of its Business lending portfolio over time, which can be indicative of general trends in book health. Movements in the staging profile of the portfolio are presented in the tables below.

	Stage 1		Stage 2		Stage 3[(3)]			
2023	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Total gross loans £m**	**Total provisions £m**
Opening balance at 1 October 2022	**6,270**	**12**	**1,524**	**55**	**373**	**50**	**8,167**	**117**
Transfers from Stage 1 to Stage 2	**(1,703)**	**(4)**	**1,689**	**31**	**-**	**-**	**(14)**	**27**
Transfers from Stage 2 to Stage 1	**659**	**1**	**(666)**	**(11)**	**-**	**-**	**(7)**	**(10)**
Transfers to Stage 3	**(23)**	**-**	**(134)**	**(4)**	**158**	**10**	**1**	**6**
Transfers from Stage 3	**8**	**-**	**30**	**-**	**(40)**	**(2)**	**(2)**	**(2)**
Changes to model methodology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased[(1)]	**11,017**	**43**	**627**	**44**	**159**	**32**	**11,803**	**119**
Repayments and other movements[(2)]	**(526)**	**8**	**(172)**	**(8)**	**(1)**	**(1)**	**(699)**	**(1)**
Repaid or derecognised[(2)]	**(9,409)**	**(30)**	**(918)**	**(56)**	**(213)**	**(33)**	**(10,540)**	**(119)**
Write-offs	**-**	**-**	**-**	**-**	**(25)**	**(25)**	**(25)**	**(25)**
Cash recoveries	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**18**	**-**	**18**
Closing balance at 30 September 2023	**6,293**	**30**	**1,980**	**51**	**411**	**50**	**8,684**	**131**

	Stage 1		Stage 2		Stage 3			
2022	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m
Opening balance at 1 October 2021	5,672	66	2,431	120	235	37	8,338	223
Transfers from Stage 1 to Stage 2	(1,382)	(13)	1,347	29	-	-	(35)	16
Transfers from Stage 2 to Stage 1	894	8	(908)	(28)	-	-	(14)	(20)
Transfers to Stage 3	(23)	-	(255)	(10)	273	14	(5)	4
Transfers from Stage 3	12	-	28	2	(39)	(2)	1	-
Changes to model methodology	443	1	(443)	(8)	-	-	-	(7)
New assets originated or purchased[(1)]	10,483	166	2,037	155	179	27	12,699	348
Repayments and other movements[(2)]	(442)	(72)	(167)	(34)	(22)	(8)	(631)	(114)
Repaid or derecognised[(2)]	(9,387)	(144)	(2,546)	(171)	(239)	(27)	(12,172)	(342)
Write-offs	-	-	-	-	(14)	(14)	(14)	(14)
Cash recoveries	-	-	-	-	-	4	-	4
Individually assessed impairment charge	-	-	-	-	-	19	-	19
Closing balance at 30 September 2022	6,270	12	1,524	55	373	50	8,167	117

(1) Includes assets where the term has ended, and a new facility has been provided.
(2) 'Repayments' comprises payments made on customer lending which are not yet fully paid at the reporting date and the customer arrangement remains live at that date. 'Repaid' refers to payments made on customer lending which is either fully repaid or derecognised by the reporting date and the customer arrangement is therefore closed at that date.
(3) This excludes £143m (2022: £66m) of guarantee claim funds received from British Business Bank (BBB).

The level of Business lending classed as Stage 1 has decreased to 72.5% (2022: 76.8%), with a corresponding increase in Stage 2 to 22.8% (2022: 18.7%), primarily driven by the revised MES inputs.

The majority (98.5%) of the portfolio in Stage 2 is not past due and is primarily in this category due to the updated MES inputs and PD deterioration in addition to proactive management measures such as early intervention, heightened monitoring, and forbearance concessions. Stage 3 loans have remained relatively stable at 4.7% (2022: 4.6%) and are predominantly Bounce Back Loans.

The proportion of assets classed as 'Strong' has decreased to 23% (2022: 68%) primarily due to the MES and PD changes although the proportion classed as 'Strong' or 'Good' remains robust at 90% (2022: 95%).

Business collateral (audited)

The following table shows collateral held at 30 September 2023. The exposure amount shown is net of credit provisions that have some form of associated collateral and is not the total exposure for each asset class as this is disclosed elsewhere in the credit risk report.
A change was made this year where all collateral values captured have now been capped at the exposure value, which impacts the previously uncapped Other Physical Collateral & Receivables columns. We have also included Immovable Property collateral this year, as an enhancement to last year's table content.

2023	Property £m	Cash £m	Guarantee £m	Netting £m	Debt securities £m	Other physical collateral £m	Receivables £m	Total £m	Exposure £m
Financial assets at amortised cost									
Loans and advances to customers	**5,072**	**11**	**760**	**169**	**-**	**567**	**334**	**6,913**	**7,514**
Of which: Defaulted	**61**	**-**	**182**	**-**	**-**	**-**	**17**	**260**	**267**

2022	Property £m	Cash £m	Guarantee £m	Netting £m	Debt securities £m	Other physical collateral £m	Receivables £m	Total £m	Exposure £m
Financial assets at amortised cost									
Loans and advances to customers	4,843	7	970	237	-	432	379	6,868	7,399
Of which: Defaulted	65	-	127	-	-	1	7	200	211

Lending backed by government guarantees in response to COVID-19 are included within the Guarantee column.

Other credit risks (audited)

Offsetting of financial assets and liabilities

The table below presents information on recognised financial assets and financial liabilities that are offset on the balance sheet under IAS 32, as well as those that are subject to master netting or similar arrangements, irrespective of whether they are offset. The Group reduces exposure to credit risk through central clearing for eligible derivatives, and daily posting of cash collateral on such transactions as detailed in note 3.1.3.2 to the financial statements. The amounts offset on the balance sheet, as shown below, mainly represent derivatives and variation margin collateral with central clearing houses, which meet the criteria for offsetting under IAS 32.

The Group enters into derivatives and repurchase agreements with various counterparties, which are governed by industry-standard master netting agreements. The Group holds and provides collateral in respect of transactions covered by these agreements. The right to offset balances under these master netting agreements only arises in the event of non-payment or default and, as a result, these arrangements do not qualify for offsetting under IAS 32.

Collateral amounts included in the table below are limited to the net balance sheet exposure in order to exclude any over collateralisation. The table excludes financial instruments not subject to offset and that are formally subject to collateral arrangements (e.g. loans and advances). The net amounts presented in the table are not intended to represent the Group's exposure to credit risk, as the Group will use a wide range of strategies to mitigate credit risk in addition to netting and collateral.

Group

	Offsetting recognised on the balance sheet under IAS 32			Netting potential not recognised on the balance sheet		
2023	Gross amounts before offset £m	Amounts offset on balance sheet £m	Net amounts presented on balance sheet £m	Subject to master netting agreements £m	Cash collateral pledged/ received[2] £m	Net amount £m
Derivative assets	2,606	(2,471)	135	(26)	(81)	28
Derivative liabilities	(1,643)	1,353	(290)	26	62	(202)
Net position[1]	963	(1,118)	(155)	-	(19)	(174)
Repurchase agreements	(552)	-	(552)	552	-	-
2022						
Derivative assets	3,340	(2,998)	342	(46)	(182)	114
Derivative liabilities	(1,797)	1,469	(328)	46	32	(250)
Net position[1]	1,543	(1,529)	14	-	(150)	(136)
Repurchase agreements	(703)	-	(703)	703	-	-

(1) The net position is offset against variation margin cash collateral with central clearing houses included within other assets or other liabilities.
(2) Cash collateral amounts not offset under IAS 32 in respect of derivatives with other banks are included within due from and due to other banks. Variation margin cash collateral amounts not offset under IAS 32 in respect of derivatives with central clearing houses are included within other assets and other liabilities.

Offsetting of financial assets and liabilities (continued)

Bank

2023	Offsetting recognised on the balance sheet under IAS 32			Netting potential not recognised on the balance sheet		
	Gross amounts before offset £m	Amounts offset on balance sheet £m	Net amounts presented on balance sheet £m	Subject to master netting agreements £m	Cash collateral pledged/ received[2] £m	Net amount £m
Derivative assets	2,597	(2,471)	126	(19)	(86)	21
Derivative liabilities	(1,515)	1,352	(163)	19	62	(82)
Net position[1]	1,082	(1,119)	(37)	-	(24)	(61)
Repurchase agreements	(552)	-	552	(552)	-	-
2022						
Derivative assets	3,307	(2,998)	310	(43)	(182)	84
Derivative liabilities	(1,661)	1,469	(192)	43	31	(118)
Net position[1]	1,646	(1,529)	118	-	(151)	(34)
Repurchase agreements	(703)	-	(703)	703	-	-

(1) The net position is offset against variation margin cash collateral with central clearing houses included within other assets or other liabilities.
(2) Cash collateral amounts not offset under IAS 32 in respect of derivatives with other banks are included within due from and due to other banks. Variation margin cash collateral amounts not offset under IAS 32 in respect of derivatives with central clearing houses are included within other assets and other liabilities.

Macroeconomic assumptions, scenarios, and weightings
The Group's ECL allowance at 30 September 2023 was £617m (2022: £457m).

Macroeconomic assumptions

The Group engages Oxford Economics to provide a wide range of future macroeconomic assumptions, which are used in the scenarios over the five-year forecast period, reflecting the best estimate of future conditions under each scenario outcome. The macroeconomic assumptions were provided by Oxford Economics on 1 September 2023 and changes in macroeconomic assumptions between 1 September 2023 and 30 September 2023 have been considered as part of the MAs. The Group has identified the following key macroeconomic drivers as the most significant inputs for IFRS 9 modelling purposes: UK GDP growth, inflation, house prices, base rates, and unemployment rates. The external data provided is assessed and reviewed on a quarterly basis to ensure appropriateness and relevance to the ECL calculation, with more frequent updates provided as and when the circumstances require them. Further adjustments supplement the modelled output when it is considered that not all the risks identified in a product segment have been accurately reflected within the models, or for other situations where it is not possible to provide a modelled outcome.

With UK core inflation remaining stubbornly high and wage inflation causing concern in the Monetary Policy Committee, the Bank of England base rate has been raised to its highest level since before the Global Financial Crisis. Although it is expected that the base rate has now peaked, the impact of the rapid rise in interest rates will not be fully felt until mortgage customers on fixed rate products, that predate the rate rises, remortgage. This will extend the ongoing cost of living crisis for some time to come.

Against this backdrop the Group has continued to assess the possible IFRS 9 economic scenarios to select appropriate forecasts and weightings. The selection of scenarios and the appropriate weighting to use in the IFRS 9 models are considered, debated and decided by ALCO and the Audit Committee. The three scenarios selected, together with the weightings applied, have been updated to reflect the current economic environment and are:

Scenario (audited)	**2023 (%)**	2022 (%)
Upside	**10**	10
Base	**55**	55
Downside	**35**	35

The Group continue to select three scenarios, with the largest weighting applied to the base scenario. The weightings mirror those applied in 2022, while there is a shift in the downside scenario to a less severe option. This is a reflection of the view that, while there is continuing economic upheaval from the cumulative effects of Brexit, the COVID-19 pandemic and Russia's invasion of Ukraine, the peak of inflation is in the past and the Bank of England base rate is unlikely to climb much higher as inflation begins the long journey back to the Bank of England's target rate of 2%, leaving the path forward somewhat clearer.

The key macroeconomic assumptions used in the scenarios are:

	Base (55%)	**Upside (10%)**	**Downside (35%)**
GDP	• Growth limited to sub 1% in all quarters until Q2 2025, but recession is avoided • Overall year on year growth in 2024 forecast at 0.4% with a modest recovery in 2025 of 1.5% • GDP increases to 2.3% in 2026 before falling back to 1.5% in 2027	• Growth of 2.9% in Q1 2024 contributes to year-on-year growth of 3.0% in 2024 • Overall year-on-year growth in 2025 is forecast to fall slightly to 2.6% before climbing back to 3.0% in 2026 • GDP falls back to 1.6% in 2027, moving towards the long run average forecast	• Negative GDP for six consecutive quarters, from Q4 2023, (1.6%), until Q1 2025, (0.5%) resulting in total contraction of 4.1% • Growth remains sluggish over the remaining forecast period, only recovering to pre-contraction levels in Q3 2027, with annual growth of 1.6%
Inflation	• Having peaked at 10.8% in Q4 2022, inflation falls back to 4.6% by Q4 2023 • Remains persistently above the BoE's 2% target throughout 2024 at 3.2% • In Q2 inflation falls below the 2% target and remains so for the remainder of the forecast	• Having peaked at 10.8% in Q4 2022, inflation falls to 4.9% in Q4 2023 • Reverts back to sub 2.0% levels from Q3 2025 for the remainder of the forecast period, going as low as 0.9% in Q2 2026 rising to 1.8% by Q4 2027	• Having peaked at 10.8% in Q4 2022 before declining to 4.1% in Q4 2023 • Inflation continues to fall rapidly, dropping below 2% in Q2 2024 to a low of 0% in Q3 2025 • From Q4 2025 inflation rises steadily each quarter reaching 1.7% in Q3 2027

Macroeconomic assumptions, scenarios, and weightings (continued)

	Base (55%)	Upside (10%)	Downside (35%)
Base rate	• BoE base rate hits 5.5% in Q4 2023 and remains at that level until Q3 2024 • From then on the rate falls steadily at around 0.25% per quarter over the forecast period to 2.1% by Q4 2027	• BoE base rate continues to rise, peaking at 6.5% in Q2 2024 • The rate begins to fall in Q1 2025 and falls steadily by 0.25% per quarter thereafter to 3.6% by Q4 2027	• BoE base rate peaks at 5.2% in Q3 2023 before falling back in Q4 2023 • The rate falls steadily at 0.25% per quarter from Q2 2024 to Q3 2027, tapering to 1.25% in Q4 2027
HPI	• Shows steady decline, reaching a low point in Q3 2025 before rebounding slowly in each quarter after this until the end of the forecast period • Overall Q4 v Q4 year-on-year negative growth of 2.7% in 2023, 7.2% in 2024 and 2.9% in 2025 • Growth in the outer years recovers the value lost since Q3 2023 by the end of 2027	• With the exception of Q4 2023, HPI falls in each quarter until Q2 2025 before reversing and rising in each subsequent quarter • Overall, HPI sees Q4 v Q4 negative growth of 1.3% in 2023, 4.8% in 2024 and 0.9% in 2025 • Returns to positive growth of 6.6% in 2026 and 7.0% in 2027	• Falls steadily and deeply from Q1 2023 to Q2 2026 followed by modest increases in each quarter until the end of the forecast period • Overall, HPI sees a Q4 v Q4 negative growth of 4.7% in 2023, 12.7% in 2024 and 7.6% in 2025 • Modest growth in 2026 of 1.0% followed by 7.5% in 2027 leaves house prices well below the levels seen at the start of the forecast
Unemployment	• Peaks at 4.6% in Q3 2024 and remains there through Q4 2024 • From then, the rate falls back to 3.9% in Q2 2026 where it remains through the remainder of the forecast period	• Peaks in Q3 2023, at 4.3%, before falling back in the following quarter • From then, the rate slowly falls back to 3.7% by Q2 2026, where it remains	• Peaks at 7.0% in Q1 2026 and remains there throughout 2026 • From Q1 2027 the unemployment rate begins to fall slowly, closing the year at 6.7%

Base case – 2023 v 2022 (audited)[(1)]

The following table shows how the Group's base case assumptions in the current year have changed from those used at 30 September 2022:

Year	Assumption	2022 %	2023 %	2024 %	2025 %	2026 %	2027 %
2023	Base rate		**4.7**	**5.4**	**4.5**	**3.5**	**2.5**
	Unemployment		**4.2**	**4.5**	**4.3**	**3.9**	**3.9**
	GDP		**0.5**	**0.4**	**1.5**	**2.3**	**1.5**
	Inflation		**7.6**	**3.2**	**1.5**	**1.0**	**1.7**
	HPI		**(2.7)**	**(7.2)**	**(2.9)**	**4.6**	**7.1**
2022	Base rate	1.4	2.2	1.8	1.8	1.7	
	Unemployment	3.9	4.6	4.4	3.8	3.8	
	GDP	3.6	0.3	2.1	2.7	2.1	
	Inflation	9.4	7.5	0.6	0.7	1.5	
	HPI	6.8	(4.6)	(3.0)	4.4	6.7	

(1) Macroeconomic assumptions provided by Oxford Economics on 1 September 2023 and reported on a calendar year basis unless otherwise stated. The changes in macroeconomic assumptions between 1 September 2023 and 30 September 2023 have been considered as part of the MAs.

The base case macroeconomic estimates and assumptions used at 30 September 2022 reflected the forward-looking view at that time, which recognised the impact of the ongoing war in Ukraine on global fuel costs, which had triggered a spike in UK inflation of over 10% for the first time in decades. The effect was exacerbated by the autumn budget, and the wider impact of the war on global food prices in 2023. Core inflation has remained stubbornly high, compared to the previous forecast, forcing interest rates higher for longer as the Bank of England look to bring inflation back to their long-term target, prolonging the cost-of-living crisis.

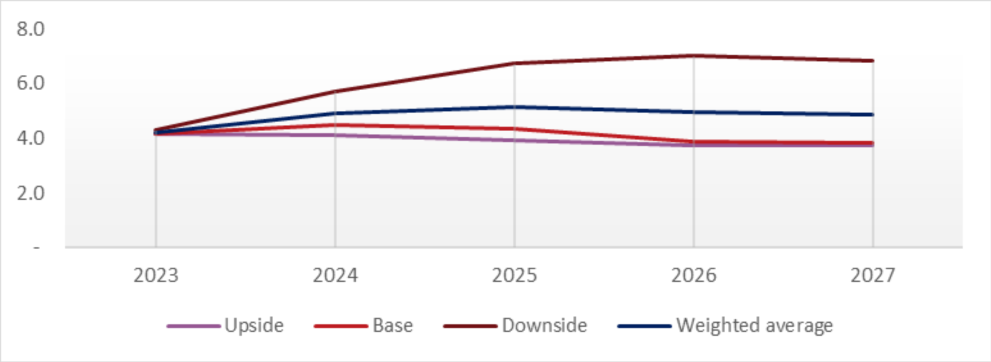
Five-year simple averages for the most sensitive inputs of unemployment, GDP and HPI (audited)

2023	**Unemployment %**	**GDP %**	**HPI %**
Upside	**3.9**	**2.2**	**1.3**
Base	**4.2**	**1.2**	**(0.2)**
Downside	**6.1**	**0.2**	**(3.3)**
2022			
Upside	3.9	3.1	3.3
Base	4.1	2.1	2.0
Downside	6.3	0.4	(3.4)

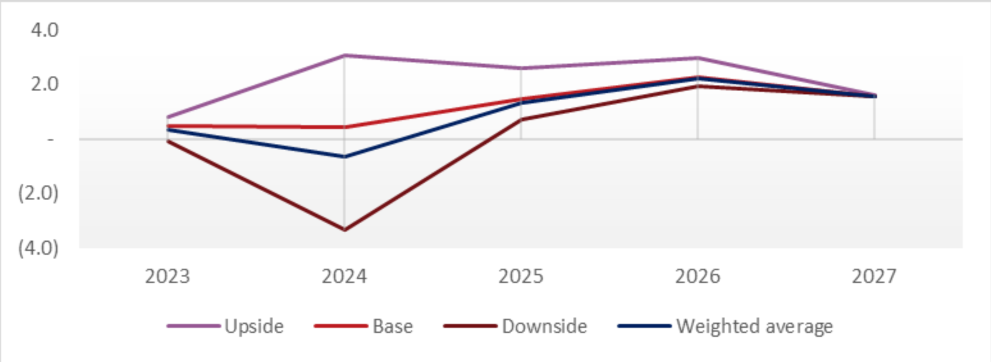
Risk report (continued)
Credit risk (continued)

Graphical illustrations of the above key inputs over the five-year forecast period are:

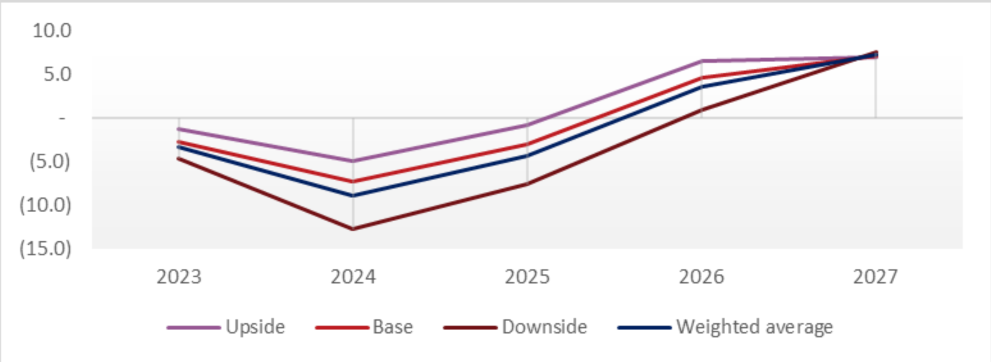
Unemployment – simple average



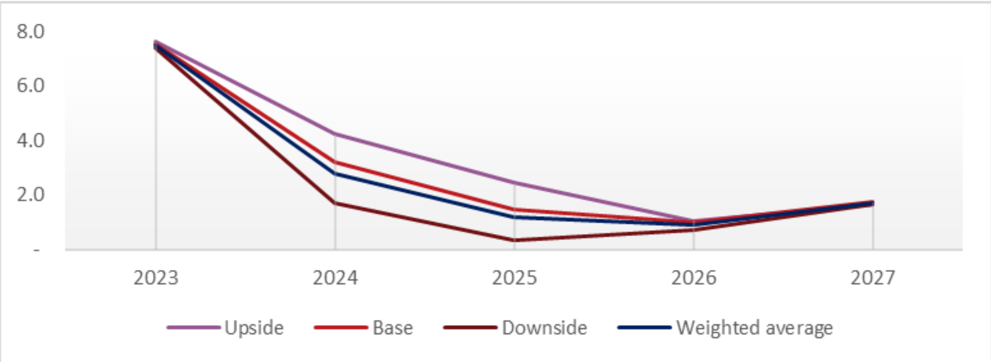
GDP – year-on-year movement



HPI – Q4 v Q4 movement



Inflation – simple average



The full range of the key macroeconomic assumptions is included in the table on page 48.

The use of estimates, judgements, and sensitivity analysis
The following are the main areas where estimates and judgements are applied to the ECL calculation:

The use of estimates

Asset lifetimes
The calculation of the ECL allowance is dependent on the expected life of the Group's portfolios. The Group assumes the remaining contract term as the maximum period to consider credit losses wherever possible. For the Group's credit card and overdraft portfolios, behavioural factors such as observed retention rates and other portfolio level assumptions are taken into consideration in determining the estimated asset life.

Economic scenarios
The calculation of the Group's impairment provision is sensitive to changes in the chosen weightings as highlighted above. The effect on the closing modelled provision of each portfolio as a result of applying a 100% weighting to each of the selected scenarios is shown below:

2023 (audited)	**Probability Weighted(1) £m**	**Upside £m**	**Base £m**	**Downside £m**
Mortgages	**20**	**17**	**18**	**24**
Unsecured of which:	**399**	**382**	**382**	**433**
Cards	**364**	**352(3)**	**350**	**391**
Personal loans and overdrafts(2)	**35**	**30**	**32**	**42**
Business	**91**	**81**	**86**	**107**
Total	**510**	**480**	**486**	**564**

2022 (audited)	Probability Weighted(1) £m	Upside £m	Base £m	Downside £m
Mortgages	15	12	13	23
Unsecured of which:	251	236	237	279
Cards	216	209(3)	208	233
Personal loans and overdrafts(2)	35	27	29	46
Business	53	39	43	97
Total	319	287	293	399

(1) In addition to the probability weighted modelled provision shown in the table, the Group holds £76m relative to MAs (2022: £85m) and £30m of individually assessed provision (2022: £38m).
(2) Salary Finance contributes more that 50% of the combined Personal Loans and overdrafts ECL.
(3) Due to a minor model interaction effect, the 100% ECL for Upside is marginally higher than the Base case.

One of the criteria for moving exposures between stages is the lifetime PD which incorporates macroeconomic factors. As a result, the stage allocation will be different in each scenario and so the probability weighted ECL cannot be recalculated using the scenario ECL provided and the scenario weightings.

Certain asset classes are less sensitive to specific macroeconomic factors, showing lower relative levels of sensitivity. To ensure appropriate levels of ECL, the relative lack of sensitivity is compensated for through the application of MAs, further detail of which can be found on page 46.

Within each portfolio, the following are the macroeconomic inputs that are more sensitive, and therefore more likely to drive the move from Stage 1 to Stage 2 under a stress scenario:

- Mortgages: Unemployment and HPI
- Unsecured: Unemployment
- Business: Unemployment and HPI

In addition to assessing the ECL impact of applying a 100% weighting to each of the three chosen scenarios, the Group has also considered the effect changes to key economic inputs would make to the modelled ECL output.

The Group considers the unemployment rate and HPI as the inputs that would have the most significant impact on ECL and has assessed how these metrics would change ECL across the relevant portfolios, with the reported output assessed against the base case. All changes have been implemented as immediate effects within the first year of the base case scenario, persisting throughout the scenario.

The following table discloses the ECL impact of a 10% increase and decrease in HPI on the Group's Mortgage and Business lending:

(audited)	**2023** **£m**	2022 £m
Mortgages +10%	**(2)**	(1)
Business +10%	**(1)**	(1)
Mortgages -10%	**2**	2
Business -10%	**2**	2

Unemployment is a key input that affects all of the Group's lending categories and the following table highlights the ECL impact of a one percent change in the unemployment rate:

(audited)	**2023** **£m**	2022 £m
Mortgages +1%	**1**	1
Unsecured +1%	**21**	15
Business +1%	**4**	4
Mortgages -1%	**(1)**	(1)
Unsecured -1%	**(21)**	(15)
Business -1%	**(3)**	(3)

While the above sensitivities provide a view of how the ECL would be impacted based on these single changes, such changes would not ordinarily occur in isolation and the economic inputs used are linked within each chosen scenario.

The use of judgement

SICR

Judgement is required in determining the point at which a SICR has occurred, as it is the point at which a 12-month ECL is replaced by a lifetime ECL. The Group has developed a series of triggers that indicate where a SICR has occurred when assessing exposures for the risk of default occurring at each reporting date compared to the risk at origination. There is no single factor that influences this decision, rather a combination of different criteria that enables the Group to make an assessment based on the quantitative and qualitative information available. This assessment includes the impact of forward-looking macroeconomic factors but excludes the existence of any collateral implications.

Indicators of a SICR include deterioration of the residual lifetime PD by set thresholds that are unique to each product portfolio, non-default forbearance programmes, and watch list status. The Group adopts the backstop position that a SICR will have taken place when the financial asset reaches 30 DPD.

The Group does not have a set absolute threshold by which the PD would have to increase by, in establishing that a SICR has occurred, and has implemented an approach with the required SICR threshold trigger varying on a portfolio and product basis according to the origination PD.

The table below illustrates this approach with reference to the Group's Mortgage, Unsecured (credit cards) and Business portfolios. In each case the illustration is of the PD threshold based on a five year full lifetime PD (not the annualised equivalent). The business example reflects the thresholds appropriate for term lending

(audited)		Origination PD	SICR Trigger
Mortgages	Low origination lifetime PD	2.00%	5.69%
	High origination lifetime PD	10.00%	17.69%
Credit cards	Low origination lifetime PD	2.00%	22.34%
	High origination lifetime PD	10.00%	25.52%
Business	Low origination lifetime PD	2.00%	6.03%
	High origination lifetime PD	10.00%	16.70%

Changes to the overall SICR thresholds can also impact staging, driving accounts into higher stages with the resultant impact on the ECL allowance:

(audited)	**2023 £m**	2022 £m
A 10% movement in the mortgage portfolio from Stage 1 to Stage 2(1)	**+13**	+9
A 10% movement in the credit card portfolio from Stage 1 to Stage 2(1)	**+89**	+87
A 10% movement in the business portfolio from Stage 1 to Stage 2(1)	**+10**	+18
A PD stress which increases PDs upwards by 20% for all portfolios	**+131**	+106

Definition of default

The PD of a credit exposure is a key input to the measurement of the ECL allowance. Default under Stage 3 occurs when there is evidence that a customer is experiencing significant financial difficulty, which is likely to affect the ability to repay amounts due.

MAs

At 30 September 2023, £76m of MAs (2022: £85m) are included within the total ECL provision of £617m (2022: £457m).

These are management judgements which impact the ECL provision by increasing (or decreasing) the collectively assessed modelled output where not all of the known risks identified in a particular product segment have been reflected within the models. This also takes into account any time lag between the date the macroeconomic assumptions were received and the reporting date.

The impact of these judgemental adjustments and how they impact the Group's total reported ECL allowance and coverage ratio for each portfolio is:

	Mortgages	Unsecured	Business	Total
2023 (audited)	£m	£m	£m	£m
ECL before judgemental adjustments (A)	**25.2**	**400.2**	**115.5**	**540.9**
Judgemental adjustments:				
To address the cost-of-living crisis	***-***	***-***	***-***	***-***
To address economic resilience	***5.0***	***-***	***15.0***	***20.0***
Impact of new LGD model	***-***	***-***	***-***	***-***
Additional buy-to-let impact	***25.1***	***-***	***-***	***25.1***
Other credit card adjustments	***-***	***27.5***	***-***	***27.5***
Other judgemental adjustments	***1.7***	***1.3***	***0.5***	***3.5***
Total judgemental adjustments (B)	**31.8**	**28.8**	**15.5**	**76.1**
Total reported ECL (A + B)	**57.0**	**429.0**	**131.0**	**617.0**
% of total ECL (B / total reported ECL)	**56%**	**7%**	**12%**	**12%**
Coverage – total	***0.10%***	***6.65%***	***1.60%***	***0.84%***
Coverage – total ex MAs	***0.04%***	***5.87%***	***1.33%***	***0.74%***

MAs (continued)

2022[1] (audited)	Mortgages £m	Unsecured £m	Business £m	Total £m
ECL before judgemental adjustments (A)	21.6	251.5	99.0	372.1
Judgemental adjustments:				
To address the cost-of-living crisis	6.3	20.2	-	26.5
To address economic resilience	-	-	30.0	30.0
Impact of new LGD model	-	-	(15.4)	(15.4)
Additional buy-to-let impact	25.1	-	-	25.1
Other credit card adjustments	-	10.5	-	10.5
Other judgemental adjustments	2.8	1.8	3.3	7.9
Total judgemental adjustments (B)	34.2	32.5	17.9	84.6
Total reported ECL (A + B)	55.8	284.0	116.9	456.7
% of total ECL (B / total reported ECL)	*61%*	*11%*	*15%*	*19%*
Coverage – total	*0.09%*	*4.66%*	*1.59%*	*0.62%*
Coverage – total ex MAs	*0.02%*	*4.13%*	*0.93%*	*0.45%*

(1) The impact of rounding means that the combination of the probability weighted total and individually assessed provision may not fully align to the portfolio sections.

The Group assesses and reviews the need for and quantification of MAs on a quarterly basis, with the CFO recommending the level of MAs to the Boards Audit Committee twice a year at each external reporting period.

In the absence of significant events that might impact ECLs going forward, the Group expects the current level of MAs to materially reduce over the next 18-24 months.

Macroeconomic assumptions (audited)

Annual macroeconomic assumptions used over the five-year forecast period in the scenarios and their weighted averages are as follows:[(1)]

2023

Scenario	VMUK weighting	Economic measure[(2)]	2023 %	2024 %	2025 %	2026 %	2027 %
Upside	10%	Base rate	**4.8**	**6.5**	**6.0**	**5.0**	**4.0**
		Unemployment	**4.2**	**4.1**	**3.9**	**3.8**	**3.7**
		GDP	**0.8**	**3.0**	**2.6**	**3.0**	**1.6**
		Inflation	**7.6**	**4.2**	**2.5**	**1.1**	**1.7**
		HPI	**(1.3)**	**(4.8)**	**(0.9)**	**6.6**	**7.0**
Base	55%	Base rate	**4.7**	**5.4**	**4.5**	**3.5**	**2.5**
		Unemployment	**4.2**	**4.5**	**4.3**	**3.9**	**3.9**
		GDP	**0.5**	**0.4**	**1.5**	**2.3**	**1.5**
		Inflation	**7.6**	**3.2**	**1.5**	**1.0**	**1.7**
		HPI	**(2.7)**	**(7.2)**	**(2.9)**	**4.6**	**7.1**
Downside	35%	Base rate	**4.6**	**4.5**	**3.5**	**2.5**	**1.5**
		Unemployment	**4.3**	**5.7**	**6.7**	**7.0**	**6.8**
		GDP	**(0.1)**	**(3.3)**	**0.7**	**1.9**	**1.6**
		Inflation	**7.4**	**1.7**	**0.4**	**0.7**	**1.7**
		HPI	**(4.7)**	**(12.7)**	**(7.6)**	**1.0**	**7.5**
Weighted average		Base rate	**4.7**	**5.2**	**4.3**	**3.3**	**2.3**
		Unemployment	**4.2**	**4.9**	**5.1**	**5.0**	**4.9**
		GDP	**0.3**	**(0.6)**	**1.3**	**2.2**	**1.6**
		Inflation	**7.5**	**2.8**	**1.2**	**0.9**	**1.7**
		HPI	**(3.3)**	**(8.9)**	**(4.4)**	**3.6**	**7.3**

Macroeconomic assumptions (continued) (audited)

2022

Scenario	VMUK weighting	Economic measure(2)	2022 %	2023 %	2024 %	2025 %	2026 %
Upside	10%	Base rate	1.4	3.0	2.5	2.3	2.3
		Unemployment	3.8	4.2	4.0	3.7	3.6
		GDP	3.9	2.8	3.2	3.4	2.1
		Inflation	9.5	8.5	1.8	0.7	1.3
		HPI	8.3	(2.3)	(1.8)	5.7	6.5
Base	55%	Base rate	1.4	2.2	1.8	1.8	1.7
		Unemployment	3.9	4.6	4.4	3.8	3.8
		GDP	3.6	0.3	2.1	2.7	2.1
		Inflation	9.4	7.5	0.6	0.7	1.5
		HPI	6.8	(4.6)	(3.0)	4.4	6.7
Downside	35%	Base rate	1.3	1.7	0.6	0.5	0.5
		Unemployment	4.0	6.0	7.1	7.3	7.1
		GDP	2.6	(5.6)	0.8	2.1	2.1
		Inflation	9.3	5.0	(1.0)	0.7	1.5
		HPI	3.5	(13.3)	(11.6)	(2.7)	7.4
Weighted average		Base rate	1.4	2.1	1.4	1.4	1.4
		Unemployment	3.9	5.0	5.3	5.0	4.9
		GDP	3.3	(1.5)	1.7	2.5	2.1
		Inflation	9.4	6.7	0.2	0.7	1.5
		HPI	5.8	(7.4)	(5.9)	2.0	6.9

(1) Macroeconomic assumptions provided by Oxford Economics on 1 September 2023 and reported on a calendar year basis unless otherwise stated. The changes in macroeconomic assumptions between 1 September 2023 and 30 September 2023 have been considered as part of the MAs.
(2) The percentages shown for base rate, unemployment and inflation are averages. GDP is the year-on-year movement, with HPI the Q4 v Q4 movement.

Risk report (continued)
Financial risk

Financial risk (continued)

Financial risk covers several categories of risk which impact the way in which the Group can support its customers in a safe and sound manner. They include capital risk, funding risk, liquidity risk, market risk and pension risk.

Risk appetite

The primary objective for the management of financial risks is to control the risk profile within approved risk limits to maintain the confidence of the Group's customers and other stakeholders. Financial risks are also managed to protect current and future earnings from the impact of market volatility. The Group applies a prudent approach to financial risks in order to safeguard the ongoing strength and resilience of the balance sheet. These activities are undertaken in a manner consistent with the Group's obligations under ring-fencing legislation and prudential rules.

Financial risk appetite is approved by the Board, with authority delegated to ALCO for subsequent implementation and monitoring. The Board has established a range of capital risk appetite measures including CET1, leverage and MREL. Measures for funding and liquidity risks consider the structure of the balance sheet, the Group's overall funding profile and compliance with the regulatory LCR and NSFR requirements. Board-approved risk appetite covers both regulatory and internal liquidity requirements and the need to maintain access to liquidity resources sufficient to accommodate outflows of funds in a range of stress scenarios and time periods.

The Group participates in wholesale markets, and uses financial instruments to fund its banking activities and manage the liquidity and market risks arising from these activities. The Group establishes an appetite for these risks based on an overriding principle that the Group will not engage in proprietary risk taking.

The Group's pension risk appetite is a component of the Group-wide RAS framework for the management of balance sheet risks and is considered in the context of potential capital impacts as a result of volatility in the Scheme's valuations and future contributions.

Capital risk

Capital is held by the Group to cover inherent risks in a normal and stressed operating environment, to protect unsecured creditors and investors and to support the Group's strategy of sustainable growth. Capital risk is the risk that the Group has or forecasts insufficient capital and other loss-absorbing debt instruments to operate effectively, this includes meeting minimum regulatory requirements, operating within Board approved risk appetite and supporting its strategic goals.

Mitigation

The Group's capital risk policy provides the framework for the management of capital within the Group. The objectives of the policy are to efficiently and sustainably manage the capital base to optimise shareholder returns while maintaining capital adequacy and ensuring that excessive leverage is not taken, so meeting regulatory requirements and managing the rating agencies' assessments of the Group.

The Group is able to accumulate additional capital through retention of profit over time, which may be increased by: income growth and cost cutting; raising new equity, for example via a rights issue; reducing or cancelling distributions on capital instruments; and raising AT1 and Tier 2 capital. The availability and cost of additional capital is dependent upon market conditions and perceptions at the time. The Group is also able to manage the demands for capital through management actions including adjusting its lending strategy.

Capital optimisation remains a key strategic priority, ensuring the Group manages the quantity and quality of resources efficiently while meeting internal targets, stress testing requirements and maintaining regulatory compliance.

Measurement

The Group manages capital in accordance with prudential rules issued by the PRA and the FCA. Pillar 1 capital requirements are calculated in respect of credit risk, operational risk, market risk, counterparty credit risk and credit valuation adjustments. The capital requirements for credit risk are calculated using the following approaches:

- Retail mortgages: IRB;
- Business lending: FIRB;
- Specialised lending: IRB slotting; and
- All other portfolios: Standardised approach, via either sequential IRB implementation or Permanent Partial Use.

Capital risk (continued)

A rigorous approach is taken to assessing risks that are not adequately covered by Pillar 1. The Group also undertakes analysis of a range of stress scenarios to test the impact on capital arising from severe yet plausible scenarios. These approaches to capital are documented in the Group's ICAAP which is subject to review, challenge and approval by the Board. The outputs from the ICAAP and regulatory stress testing are used to inform minimum capital targets and risk appetite, ensuring survivability above peak-to-trough stress movements.

The Group IRB framework looks at the customer PD along with loss severity (EAD and LGD). The outputs are used in the calculation of RWA, expected loss and IFRS 9 ECL. The IRB parameters and rating assessments are actively embedded in the following day-to-day processes:

- Credit approval – IRB models and parameters are used to assess the customer risk and outputs are used to inform cut-off models that drive the lending decisions;
- Pricing – Outputs and estimates are used in the assessment of new products and portfolio pricing reviews;
- Risk appetite – Parameters are included in the assessment of models and are analysed to inform the Group's risk capacity and appetite; and
- Asset quality – Parameters are monitored to understand the product and segment performance of the Group's portfolios.

Monitoring

The Board approves the capital risk appetite annually, defining minimum levels of capital across a range of capital ratios and measurements. The internal appetite ensures the Group operates above minimum regulatory requirements with reporting conducted through ALCO, Board and Executive Risk Committee. The capital plan, which assesses capital adequacy on a forward-looking basis, is also approved by the Board annually. The annual planning process is supported by rolling forecasting which is reported to ALCO monthly. This ensures that performance trends are reviewed and that there is transparency of the impact on capital ratios, risk appetite and the outlook. As part of the monthly forecasting process, ALCO reviews scenario analysis, considering adverse impacts to economic conditions and modelling sensitivities, including changes to regulation. These processes all support the Group's management of capital and informs the CET1 target operating range of 13.0%-13.5%.

In recent years, the PRA has also taken a thematic interest in the quality of regulatory reporting across the industry, specifically focusing on the completeness, accuracy and timing of regulatory reports. This has resulted in a number of s166 Skilled Person Reviews being commissioned over the governance, controls and processes supporting the regulatory reporting framework. The Group has been subject to such a review and, although no material issues were highlighted, is working on improvements to aspects of its governance and control framework.

Regulatory capital developments

The regulatory landscape for capital is subject to a number of changes, some of which can lead to uncertainty on eventual outcomes. In order to mitigate this risk, the Group actively monitors emerging regulatory change, assesses the impact and puts plans in place to respond.

<u>Designation as an Other Systemically Important Institution (O-SII)</u>

On 29 November 2022 the PRA formally designated the Group as an O-SII. This is not expected to have a material impact on the Group's capital framework and is not currently required to hold a related capital buffer. As part of the O-SII designation the Group will need to comply with BCBS 239 over a 3-year period.

<u>IRB model changes</u>

Following the BoE's announcements in 2020 regarding supervisory and prudential policy measures to address the challenges of COVID-19, the requirements relating to compliance with updates to definition of default and mortgage IRB models were extended. The Group will apply the relevant models after PRA approval and we currently expect models to be implemented in 2024.

Ahead of the Group's implementation of mortgage IRB models (including hybrid PD), a model adjustment has been applied to increase RWAs and expected losses in advance of formal approval of models (see RWA movement commentary on page 56). There has been little movement in this adjustment since the Interim Financial Report was published.

Basel 3.1

Following the publication of final reforms to the Basel III framework in December 2017, the PRA published CP16/22 at the end of November 2022, covering its consultation on the UK implementation of these reforms. There are a number of key amendments to the standardised approaches to credit and operational risks together with the introduction of a new standardised RWA output floor, the latter of which will be introduced gradually over a transition period. There are also amendments to IRB approaches, Credit Valuation Adjustments (CVAs), Credit Risk Mitigation rules and associated reporting and disclosure requirements. Estimates of the impact of these reforms on the Group indicate they will have no material day 1 impact on the capital position, with no constraint from the output floor expected until late in the transition period. Since the publication of CP16/22, the PRA has stated the intention to issue ‘near final’ rules and policy on Operational Risk, Counterparty Credit Risk (CCR), CVA Risk and Market Risk in Quarter 4 of 2023 with the remaining elements of Credit Risk, Output Floor and Reporting and Disclosure requirements to be published in Q2 2024. Further, the PRA has advised the implementation date of the final Basel 3.1 policies will be pushed back by 6 months to 1 July 2025, however the transitional period will be reduced to 4.5 years to ensure full implementation is achieved by 1 January 2030.

Pillar 2A

As part of its Basel 3.1 proposals, the PRA announced its intention to review its Pillar 2A methodologies more fully by 2024. This review could have an impact on the Group which will be assessed when the proposals are published.

Contingent leverage

The PRA published PS 5/23 - Risks from Contingent Leverage in May 2023. The Group is not considered to carry material contingent leverage risk however we have reviewed and updated our policies and processes where relevant. Activity is also ongoing to support new reporting requirements in 2024.

Solvency Stress Test

The Group completed the 2022 ACS exercise in Q2 FY23. The scenario tested the resilience of the UK Banking system to deep simultaneous recessions in the UK and global economies, real income shocks, large falls in asset prices and higher global interest rates, as well as a separate stress of conduct costs. The BOE published results in July 2023, with the Group remaining significantly in excess of its reference rates on both a transitional and non-transitional basis. In October 2023 the BoE confirmed their intention to run a desk-based stress test exercise, rather than an ACS, in 2024; the Group will participate in this exercise as required.

Resolvability Assessment Framework (RAF)

The BoE has introduced a Resolvability Assessment Framework (RAF) to ensure major UK banks can be safely resolved. The Group is required to submit an assessment of its resolvability to the BoE biennially; the first assessment was submitted in October 2021 with disclosures published in June 2022. The BoE concluded that, upon their first assessment as resolution authority of the eight major banks, a major UK bank could enter resolution safely, remaining open and continuing to provide vital banking services to the economy. The Group submitted its recent self assessment to the BoE on the 6 October 2023 which included enhancements relating to feedback received from the BoE as part of the first cycle. A further disclosure from the BoE will occur in June 2024.

Capital resources

The Group's capital resources position as at 30 September 2023 is summarised below:

Regulatory capital[1]	2023 £m	2022 £m
Statutory total equity	**5,689**	6,411
CET1 capital: regulatory adjustments[2]		
Other equity instruments	**(594)**	(662)
Defined benefit pension fund assets	**(333)**	(650)
Prudent valuation adjustment	**(5)**	(5)
Intangible assets	**(162)**	(256)
Goodwill	**(11)**	(11)
Deferred tax asset relying on future profitability	**(369)**	(417)
Cash flow hedge reserve	**(496)**	(699)
AT1 coupon accrual	**(12)**	(13)
Foreseeable dividend on ordinary shares	**(27)**	(106)
Excess expected losses	**(103)**	(100)
IFRS 9 transitional adjustments	**112**	114
Unconsolidated losses arising from joint venture	**(4)**	-
Total regulatory adjustments to CET1	**(2,004)**	(2,805)
Total CET1 capital	**3,685**	3,606
AT1 capital		
AT1 capital instruments	**594**	662
Total AT1 capital	**594**	662
Total Tier 1 capital	**4,279**	4,268
Tier 2 capital		
Subordinated debt	**1,022**	1,020
Total Tier 2 capital	**1,022**	1,020
Total regulatory capital	**5,301**	5,288

(1) Data in the table is reported under CRD IV on a fully loaded basis with IFRS 9 transitional arrangements applied.
(2) A number of regulatory adjustments to CET1 capital are required under CRD IV regulatory capital rules

Capital risk (continued)

Regulatory capital flow of funds[1]	2023 £m	2022 £m
CET1 capital[2]		
CET1 capital at 1 October	**3,606**	3,603
Retained earnings and other reserves (including special purpose entities)	**(345)**	404
Prudent valuation adjustment	**-**	-
Amendment to software asset deduction rules[3]	**-**	(151)
Intangible assets	**94**	103
Deferred tax asset relying on future profitability	**48**	(29)
Defined benefit pension fund assets	**317**	(99)
Movement in AT1 foreseeable distributions	**1**	1
Foreseeable dividend on ordinary shares	**(27)**	(106)
Excess expected losses	**(3)**	(100)
IFRS 9 transitional adjustments	**(2)**	(20)
Unconsolidated losses arising from joint venture	**(4)**	-
Total CET1 capital at 30 September	**3,685**	3,606
AT1 capital		
AT1 capital at 1 October	**662**	672
AT1 instrument issued net of costs	**-**	346
AT1 instrument redeemed	**(68)**	(356)
Total AT1 capital at 30 September	**594**	662
Total Tier 1 capital at 30 September	**4,279**	4,268
Tier 2 capital		
Tier 2 capital at 1 October	**1,020**	1,019
Amortisation of issue costs	**2**	1
Total Tier 2 capital at 30 September	**1,022**	1,020
Total capital at 30 September	**5,301**	5,288

(1) Data in the table is reported under CRD IV on a fully loaded basis with IFRS 9 transitional arrangements applied.
(2) CET1 capital is comprised of shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.
(3) The full deduction treatment for software assets was reinstated by the PRA in January 2022.

The Group's CET1 capital showed an increase of £79m during the year. The Group reported a profit after tax of £249m in the year, which together with reductions in intangible fixed assets and deferred tax balances in the year of £142m and after absorbing other movements, mostly in other reserves, of £86m, led to a net increase in CET1 of £305m. This net capital surplus was used to fund interim dividend payments of £145m, AT1 distributions of £54m, and a foreseeable ordinary dividend of £27m.

In December 2022, the Group redeemed £68m of AT1 securities (note 4.1.2).

Subsequent to the year end, the Group announced its intention to redeem £250m, 7.875% Fixed Rate Reset Callable Notes due 2028 on 14 December 2023.

Risk report (continued)
Financial risk (continued)

Capital risk (continued)

Risk weighted assets

Minimum capital requirements	2023 Exposure £m	2023 RWA £m	2023 Minimum capital requirement £m	2022 Exposure £m	2022 RWA £m	2022 Minimum capital requirement £m
Retail mortgages	**60,354**	**9,072**	**726**	62,545	9,155	732
Business lending	**12,635**	**6,990**	**559**	11,957	6,194	496
Other retail lending	**17,586**	**4,819**	**385**	17,408	4,817	385
Other lending	**18,322**	**364**	**29**	18,160	272	22
Other[(1)]	**587**	**662**	**54**	578	623	50
Total credit risk	**109,484**	**21,907**	**1,753**	110,648	21,061	1,685
Credit valuation adjustment		**278**	**22**		258	21
Operational risk		**2,841**	**227**		2,624	210
Counterparty credit risk		**146**	**12**		185	15
Total	**109,484**	**25,172**	**2,014**	110,648	24,128	1,931

(1) The items included in the Other exposure class that attract a capital charge include items in the course of collection, fixed assets, prepayments, other debtors and deferred tax assets that are not deducted.

RWA movements	2023 IRB RWA £m	2023 STD RWA £m	2023 Non-credit risk RWA[(2)] £m	2023 Total £m	2023 Minimum capital requirement £m	2022 IRB RWA £m	2022 STD RWA £m	2022 Non-credit risk RWA[(2)] £m	2022 Total £m	2022 Minimum capital requirement £m
Opening RWA	**14,941**	**6,120**	**3,067**	**24,128**	**1,931**	15,698	5,822	2,674	24,194	1,934
Asset size	**60**	**129**	**-**	**189**	**15**	267	574	-	841	68
Asset quality	**(1,011)**	**124**	**-**	**(887)**	**(71)**	(960)	4	-	(956)	(75)
Model updates[(1)]	**1,486**	**-**	**-**	**1,486**	**119**	(64)	-	-	(64)	(5)
Methodology and policy	**-**	**5**	**-**	**5**	**-**	-	(160)	-	(160)	(13)
Other	**-**	**53**	**198**	**251**	**20**	-	(120)	393	273	22
Closing RWA	**15,476**	**6,431**	**3,265**	**25,172**	**2,014**	14,941	6,120	3,067	24,128	1,931

(1) Model updates include MAs.
(2) Other RWA includes operational risk, credit valuation adjustment and counterparty credit risk.

RWA increased c.£1bn to £25.2bn primarily due to the impact of higher lending, the new hybrid model related MAs and increased other non-credit RWAs.

There are a number of offsetting movements between asset quality and model updates. Asset quality movements predominantly reflect the impact from the introduction of new customer data on the incumbent rating system (£0.9bn reduction in RWA), however this is fully offset within model updates where this impact is temporary pending the implementation of the new hybrid models. Model updates also include the hybrid model MA of £0.4bn. In addition to model changes, asset quality includes a £0.2bn reduction in RWA from HPI movements although there is a similar increase relating to risk weights associated with new Business lending.

Other RWA movements of £251m are mainly due to an operational risk RWA uplift of £217m due to a higher three-year average income position in commercial and retail banking compared to the FY22 three-year average. The remainder is predominantly a combination of movements within credit valuation adjustment and counterparty credit risk.

Capital risk (continued)

IFRS 9 transitional arrangements

The table below shows a comparison of capital resources, requirements and ratios with and without the application of transitional arrangements for IFRS 9.

	2023 (£m)	
Available capital (amounts)	**IFRS 9 Transitional basis**	**IFRS 9 Fully loaded basis**
CET1 capital	**3,685**	**3,573**
Tier 1 capital	**4,279**	**4,167**
Total capital	**5,301**	**5,189**
RWA (amounts)		
Total RWA	**25,172**	**25,083**
Capital ratios		
CET1 (as a percentage of RWA)	**14.6%**	**14.2%**
Tier 1 (as a percentage of RWA)	**17.0%**	**16.6%**
Total capital (as a percentage of RWA)	**21.1%**	**20.7%**
Leverage ratio		
Leverage ratio total exposure measure	**86,545**	**86,434**
UK leverage ratio	**4.9%**	**4.8%**

Transitional arrangements in CRR mean the regulatory capital impact of ECL is being phased in over time. Following the CRR Quick Fix amendments package, which applied from 27 June 2020, relevant provisions raised from 1 January 2020 through to 2024 have a CET1 add-back percentage of 50% in 2023, reducing to 25% in 2024.

At 30 September 2023, £112m of IFRS 9 transitional adjustments (2022: £114m) have been applied to the Group's capital position in accordance with CRR: £3m of static and £109m of dynamic adjustments (2022: £7m static and £107m dynamic).

Capital requirements

The Group measures the amount of capital it is required to hold by applying CRD IV as implemented in the UK by the PRA. The table below summarises the amount of capital in relation to RWA the Group is currently required to hold, excluding any PRA buffer.

	2023	
Minimum Requirements	**CET1**	**Total Capital**
Pillar 1[(1)]	**4.5%**	**8.0%**
Pillar 2A	**1.7%**	**3.0%**
Total Capital Requirement	**6.2%**	**11.0%**
Capital conservation buffer	**2.5%**	**2.5%**
UK countercyclical capital buffer	**2.0%**	**2.0%**
Total (excluding PRA buffer)[(2)]	**10.7%**	**15.5%**

(1) The minimum amount of total capital under Pillar 1 of the regulatory framework is determined as 8% of RWA, of which at least 4.5% of RWA is required to be covered by CET1 capital.
(2) The Group may be subject to a PRA buffer as set by the PRA but is not permitted to disclose the level of any buffer.

The Group continues to maintain a significant surplus above its capital requirements. At September the Group maintained CET1 capital in excess of its requirements equal to 4.0% of RWAs (equivalent to £999m).

The PRA sets a Group specific Pillar 2A requirement for risks which are not captured within the Pillar 1 requirement. Together Pillar 1 and Pillar 2A represent the Group's Total Capital Requirement or TCR, which is the minimum requirement which must be met at all times.

Capital risk (continued)

In October 2022 the PRA communicated an update to the Group's Pillar 2A requirement setting it as 2.97% of RWAs, of which 1.67% must be met with CET1 capital (30 September 2022: £744m, of which £419m had to be met with CET1 capital). In line with previous guidance this requirement has been set as a percentage of RWAs, rather than the fixed nominal Pillar 2A requirements set during 2020 and 2021 in response to COVID-19. Applying this updated requirement in September 2023 resulted in a modest increase in total capital requirements of £4m and CET1 requirements of £2m. At 30 September 2023 this resulted in a TCR of 10.97% of RWAs (equivalent to £2,761m) of which 6.2% must be met with CET1 capital (equivalent to £1,533m)

The regulatory capital buffer framework is intended to ensure firms maintain a sufficient amount of capital above their regulatory minimum in order to withstand periods of stress and mitigate against firm specific and systemic risks. The UK has implemented the provisions on capital buffers outlined in CRD IV which introduced a combined capital buffer. This includes a Capital Conservation Buffer, a Countercyclical Capital Buffer (CCyB) and where applicable a Global Systemically Important Institution (G-SII) Buffer or an O-SII Buffer.

The Group's CCyB reflects an exposure weighted average of the CCyB rates applicable in the geographies the Group operates in. Currently this reflects only the UK. As had been previously announced, the CCyB rate increased in the year to 1% in December 2022, rising to 2% in July 2023 to align with its guidance for the CCyB rate under standard risk conditions. The FPC has noted the considerable uncertainties in relation to the economic outlook and will continue to monitor the situation and stands ready to vary the UK CCyB rate – in either direction – in line with the evolution of economic conditions, underlying vulnerabilities and the overall risk environment.

The Group has been designated as an O-SII, but is not required to hold a related capital buffer.

MREL

Under the Bank Recovery and Resolution Directive the Group is required to hold additional loss-absorbing instruments to support an effective resolution. The MREL establishes a minimum amount of equity and eligible debt to recapitalise the Bank. An analysis of the Group's current MREL position is provided below:

MREL position	**2023 £m**	2022 £m
Total capital resources[(1)(2)]	**5,301**	5,288
Eligible senior unsecured securities issued by Clydesdale Bank PLC[(2)]	**2,707**	2,423
Total MREL resources	**8,008**	7,711
Risk-weighted assets	**25,172**	24,128
Total MREL resources available as a percentage of risk-weighted assets	**31.8%**	32.0%
UK leverage exposure measure[(3)]	**86,545**	85,921
Total MREL resources available as a percentage of UK leverage exposure measure[(3)]	**9.3%**	9.0%

(1) The capital position reflects the application of the transitional arrangements for IFRS9.
(2) Includes MREL instrument maturity adjustments, the add-back of regulatory amortisation and the deduction of instruments with less than one year to maturity.
(3) The comparative figures include a restatement to qualifying central bank claims which have been adjusted to exclude encumbered note cover and payments system collateral balances.

Clydesdale Bank PLC is a material subsidiary of VMUK and as such the BoE in its capacity as the UK Resolution Authority can set an 'Internal MREL'. The Group's internal MREL is set equal to the greater of two times its Total Capital Requirement (TCR) or two times the UK leverage ratio requirement. The Group also has a LAC requirement equal to MREL plus any applicable buffers.

As at 30 September 2023, the Group's leverage based LAC requirement of 7.7% of leverage exposures (or 26.6% when expressed as a percentage of RWAs) was greater than the RWA based LAC requirement of 26.4% of RWAs, meaning the leverage measure is the binding requirement.

MREL resources were £8.0bn (2022: £7.7bn), equivalent to 9.3% of leverage exposures (2022: 9.0%) or 31.8% when expressed as a percentage of RWAs (2022: 32.0%). This provides prudent headroom of £1.3bn or 1.5% above the binding LAC requirement of 7.7% of leverage exposures, or 5.2% above the binding LAC requirement of 26.6% when expressed as a percentage of RWAs.

Dividend

The Board has recommended a final dividend for the financial year ended 30 September 2023 of 0.21p per share.

Capital risk (continued)

Leverage

Leverage ratio	2023 £m	2022 £m
Total Tier 1 capital for the leverage ratio		
Total CET1 capital	**3,685**	3,606
AT1 capital	**594**	662
Total Tier 1 capital	**4,279**	4,268
Exposures for the leverage ratio		
Total assets	**91,884**	92,010
Adjustment for off-balance sheet items	**2,999**	3,204
Adjustment for derivative financial instruments(1)	**706**	522
Adjustment for securities financing transactions	**2,261**	2,974
Adjustment for qualifying central bank claims(2)	**(9,052)**	(9,792)
Other adjustments(1)	**(2,253)**	(2,997)
UK leverage ratio exposure(3)	**86,545**	85,921
UK leverage ratio(3)	**4.9%**	5.0%
Average UK leverage ratio exposure(4)	**86,202**	86,078
Average UK leverage ratio(4)	**4.9%**	4.9%

(1) The comparative figures include a reclassification between adjustment for derivative financial instruments and regulatory deductions and other adjustments in relation to the cash variation margin.

(2) The comparative figures include a restatement to qualifying central bank claims which have been adjusted to exclude encumbered note cover and payments system collateral balances.

(3) The UK leverage ratio and exposure measure are calculated after applying the IFRS 9 transitional arrangements of the CRR.

(4) The average leverage exposure measure is based on the daily average of on-balance sheet items and month-end average of off-balance sheet and capital items over the quarter (1 July 2023 to 30 September 2023).

The UK leverage ratio framework is relevant to PRA regulated banks and building societies with consolidated retail deposits equal to or greater than £50bn. The Group exceeds this threshold and accordingly the average UK leverage ratio exposure and average UK leverage ratio are disclosed.

The PRA simplified the leverage framework from 1 January 2022 with UK banks now subject to a single UK leverage ratio exposure measure. The CRD IV leverage ratio is no longer applicable to UK banks.

The leverage ratio is monitored monthly against a Board-approved RAS, with the responsibility for managing the ratio delegated to ALCO.

The leverage ratio is the ratio of Tier 1 capital to total exposures, defined as:

- capital: Tier 1 capital defined on an IFRS 9 transitional basis; and
- exposures: total on- and off-balance sheet exposures (subject to credit conversion factors) as defined in the delegated act amending CRR article 429 (Calculation of the Leverage Ratio), which includes deductions applied to Tier 1 capital.

Other regulatory adjustments consist of adjustments that are required under PRA regulations to be deducted from Tier 1 capital. The removal of these from the exposure measure ensures consistency is maintained between the capital and exposure components of the ratio.

The Group's UK leverage ratio of 4.9% (2022: 5.0%) exceeds the UK minimum ratio of 3.25%.

Funding and liquidity risk

Funding risk occurs when the Group is unable to raise or maintain funds of sufficient quantity and quality to support the delivery of the business plan or sustain lending commitments. Prudent funding risk management reduces the likelihood of liquidity risks occurring, increases the stability of funding sources, minimises concentration risks and ensures future balance sheet growth is sustainable.

Liquidity risk occurs when the Group is unable to meet its current and future financial obligations as they fall due or at acceptable cost, or when the Group reduces liquidity resources below internal or regulatory stress requirements.

Exposures

The Group is predominantly funded by Personal and Business customers. Customer funding is supported by the Group's ongoing wholesale funding programmes, medium-term secured funding issuance (e.g. the Group's securitisation programmes), Regulated Covered Bonds and unsecured medium-term notes. The Group has also drawn against the BoE TFSME, which was introduced to support the UK through COVID-19.

Funding risk exposures arise from an unsustainable or undiversified funding base, for example, a reliance on short-term wholesale deposits. The risk may result in deviation from funding strategy, negatively impact market or customer perception, increase the acquisition cost of new funds or reduce lending capacity, thereby adversely impacting financial performance and stability.

The Group's primary liquidity risk exposure arises through the redemption of retail deposits where customers have the ability to withdraw funds with limited or no notice. Exposure also arises from the refinancing of customer and wholesale funding at maturity and the requirement to fund new and existing committed lending obligations including mortgage pipeline and credit card facilities.

Measurement

Funding and liquidity risks are subject to a range of measures contained within the Group's RAS which reflect both regulatory requirements, as a minimum, and the Group's own view on risk sensitivities. The Group RAS is supported by a series of limits agreed by ALCO. These measures provide a short- and long-term view of risks under both normal and stressed conditions. The measures focus on: cash outflows and inflows under stress; concentration risks; refinancing risks; asset encumbrance; and the quantum, diversity and operational capability of mitigating actions.

The Group's funding plan establishes an acceptable level of funding risk which is approved by the Board and is consistent with risk appetite and the Group's strategic objectives. The development of the Group's funding plan is informed by the requirements of the Group's financial risk policies. A series of metrics are used across the Group to measure risk exposures, including funding ratios, limits to concentration risk and maximum levels of encumbrance.

Liquidity is managed in accordance with the ILAAP, which is approved by the Board. Liquidity risk exposures are subject to assessment under both regulatory and internal requirements. The volume and quality of the Group's liquid asset portfolio is defined through a series of stress tests across a range of time horizons and stress conditions. The High-Quality Liquid Asset (HQLA) requirement is quantified as the outflow of funds under a series of stress scenarios less the impact of inflows from assets. Stress cash outflow assumptions have been established for individual liquidity risk drivers across idiosyncratic and market-wide stresses.

The Treasury function is responsible for the development and execution of strategy subject to oversight from the Risk function and review at ALCO. The Group continues to maintain its strong funding and liquidity position and seeks to achieve an appropriate balance between profitability, liquidity risk and balance sheet optimisation.

Monitoring

Liquidity is monitored and measured daily by the Group, with reporting conducted through ALCO and the Executive Risk Committee. In a stress situation or in adverse conditions, the level of monitoring and reporting is increased commensurate with the nature of the stress event.

Monitoring and control processes are in place against internal and regulatory liquidity requirements. The Group monitors a range of market and internal early warning indicators on a routine basis for early signs of liquidity risk in the market or specific to the Group. These indicators cover a mixture of quantitative and qualitative measures including daily variation of customer balances, measurement against stress requirements and monitoring of the macroeconomic environment.

Funding and liquidity risk (continued)

Mitigation

The Group holds a portfolio of HQLA that can be utilised to raise funding in times of stress. The size of the HQLA portfolio is calibrated based on a view of potential outflows under both systemic and idiosyncratic stress events. The Group has several sources of funding which are well-diversified in terms of the type of instrument and product, counterparty, term structure and market. Wholesale funding is used to support balance sheet growth, lengthen the contractual tenor of funding and diversify funding sources. These funding programmes are a source of strength for the Group and leverage the Group's high-quality mortgage book as collateral for secured funding. In addition, the Group can use the repo market for managing cash flows and bilateral relationships to generate funds and can also participate in BoE operations through the Sterling Monetary Framework (SMF).

As a participant in the BoE SMF, the Group had access to funding via TFSME. TFSME was launched in April 2020 to provide cost-effective funds to banks to support additional lending to the real economy and incentivise lending to SMEs during a period of economic disruption caused by COVID-19.

The funding plan includes an assessment of the Group's capacity for raising funds across a wide range of primary funding sources, thereby mitigating funding risk. Refinancing risks are carefully managed and are subject to controls overseen by ALCO. The Group's funding plan includes TFSME repayment profiles designed to manage refinancing risk within a suitably prudent time frame.

The Group recovery plan has been established for management of an escalated liquidity requirement, if the Group experiences either restricted access to wholesale funding or a significant increase in the withdrawal of funds. The plan identifies triggers for escalation, assesses capacity, details the actions required, allocates the key tasks to individuals, provides a time frame and defines the governance framework to manage the action plan and return the balance sheet structure within appetite.

The Group operates a Funds Transfer Pricing system, a key purpose of which is to ensure that liquidity risk and funding costs are factors in the pricing of loans and deposits.

Sources of funding (audited)

The table below provides an overview of the Group's sources of funding as at 30 September 2023:

	2023 £m	2022 £m
Total assets	**91,884**	92,010
Less: other liabilities(1)	**(6,293)**	(6,332)
Funding requirement	**85,591**	85,678
Funded by:		
Customer deposits	**66,827**	65,434
Debt securities in issue	**6,155**	5,347
Due to other banks	**6,920**	8,486
of which:		
Secured loans	***6,291***	*7,230*
Securities sold under agreements to repurchase	***552***	*1,205*
Transaction balances with other banks	***-***	*1*
Deposits with other banks	***77***	*50*
Equity	**5,689**	6,411
Total funding	**85,591**	85,678

(1) Other liabilities include derivative financial instruments, amounts due to related entities, deferred tax liabilities, provisions for liabilities and charges, and other liabilities as per the balance sheet line item.

The Group's funding objective is to prudently manage the sources and tenor of funds in order to provide a sound base from which to support sustainable lending. At 30 September 2023, the Group had a funding requirement of £85,591m (2022: £85,678m) with the majority being used to support loans and advances to customers.

Funding and liquidity risk (continued)

Customer deposits

The majority of the Group's funding requirement was met by customer deposits of £66,827m (2022: £65,434m). Customer deposits comprise interest-bearing deposits, term deposits and non-interest-bearing demand deposits from a range of sources including Personal and Business customers.

Debt securities in issue

Growth in customer deposits has been supported by an increase in debt securities to £6,155m (2022: £5,347m). The wholesale funding has been primarily driven by issuance from our covered bond and medium-term note programmes.

Equity

Equity of £5,689m (2022: £6,411m) was also used to meet the Group's funding requirement. Equity comprises ordinary share capital, retained earnings, other equity investments and a number of other reserves. For full details on equity refer to note 4.1 within the consolidated financial statements.

Liquid assets

The quantity and quality of the Group's liquid assets are calibrated to the Board's view of liquidity risk appetite and remain at a prudent level above regulatory requirements.

The LCR (based on a monthly rolling average over the previous 12 months) increased from 140% to 146% during the year and remains comfortably above regulatory and internal risk appetite.

	Average	
LCR	**2023 £m**	2022 £m
Eligible liquidity buffer	**13,798**	11,503
Net stress outflows	**9,424**	8,222
Surplus	**4,374**	3,281
LCR	**146%**	140%

The liquid asset portfolio provides a buffer against sudden and potentially sharp outflows of funds. Liquid assets must therefore be high-quality so they can be realised for cash and cannot be encumbered for any other purpose (e.g. to provide collateral for payments systems). The liquid asset portfolio is primarily comprised of cash at the BoE, UK Government securities (Gilts) and listed securities (e.g. bonds issued by supra-nationals and AAA-rated covered bonds).

The volume and quality of the Group's liquid asset portfolio is defined through a series of internal stress tests across a range of time horizons and stress conditions. The key risk driver assumptions applied to the scenarios are:

Liquidity risk driver	Internal stress assumption
Retail funding	Severe unexpected withdrawal of retail deposits by customers arising from redemption or refinancing risk. No additional deposit inflows are assumed.
Wholesale funding	Limited opportunity to refinance wholesale contractual maturities. Full outflow of secured and unsecured funding during the refinancing period, with no reinvestment of funding.
Off-balance sheet	Cash outflows during the period of stress as a result of off-balance sheet commitments such as mortgage pipeline, undrawn credit card facilities and collateral commitments. Lending outflows, over and above contractual obligations, are honoured as the Group preserves ongoing viability.
Intra-day	Other participants in the payment system withhold or delay payments or customers increase transactions resulting in reduced liquidity.
Liquid assets	The liquidity portfolio value is reduced, reflecting stressed market conditions.

The Group monitors the movements in its credit ratings and the related requirement to post collateral for payment systems and clearing houses. These figures are not considered material compared to the volume of unencumbered liquid assets.

As at 30 September 2023, the Group held eligible liquid assets well in excess of 100% of net stress outflows and Pillar 2 liquidity requirements, as defined through internal risk appetite.

Funding and liquidity risk (continued)

Liquid asset portfolio[1] (audited)	2023 £m	2022 £m	Change %	Average 2023 £m	Average 2022 £m
Level 1					
Cash and balances with central banks	**8,940**	9,795	**(8.7)**	**9,604**	7,632
UK Government treasury bills and gilts	**1,655**	512	**223.2**	**1,182**	905
Other debt securities	**3,153**	2,827	**11.5**	**2,782**	2,993
Total level 1	**13,748**	13,134	**4.7**	**13,568**	11,530
Level 2[2]	**471**	117	**302.8**	**327**	32
Total LCR eligible assets	**14,219**	13,251	**7.3**	**13,895**	11,562

(1) Excludes encumbered assets.
(2) Includes Level 2A and Level 2B.

The liquid asset portfolio is marked to market and fully hedged from an interest, inflation and foreign exchange risk perspective. All fair value movements are therefore recognised in CET1 via the income statement (market risk) or FVOCI reserve (credit risk). The IRRBB stress testing framework includes limits to manage the stressed credit spread risk arising from hedging the fixed rate securities in the Group's liquid asset portfolio. This ensures the composition of the total portfolio is controlled and the exposure will not exceed internal appetite or the amount of capital allocated.

The NSFR was implemented by the PRA on 1 January 2022 based on Basel standards. During the year, the Group has been comfortably in excess of regulatory and internal requirements. The 12-month average NSFR as at 30 September 2023 is 136% (2022: 134%).

Encumbered assets

The Group manages the level of asset encumbrance to ensure appropriate volumes of assets are maintained to support future planned and potential stressed funding requirements. The Group RAS includes an internal limit for levels of encumbrance. Reasons for asset encumbrance include, among others, supporting the Group's secured funding programmes to provide stable term funding to the Group, the posting of assets in respect of drawings under the TFSME scheme, use of assets as collateral for payments systems in order to support customer transactional activity and providing security for the Group's issuance of Scottish bank notes.

Risk report (continued)
Financial risk (continued)

Funding and liquidity risk (continued)

Encumbered assets by asset category (audited)

2023	Assets encumbered with non Central Bank counterparties: Covered Bonds £m	Securitisations £m	Other £m	Total £m	Other assets: Positioned at the Central Bank (including encumbered) £m	Assets not positioned at the Central Bank: Readily available for encumbrance £m	Other assets capable of being encumbered £m	Cannot be encumbered £m	Total £m	Total £m
Loans and advances to customers	**5,944**	**3,807**	**-**	**9,751**	**17,770**	**24,995**	**17,458**	**2,276**	**62,499**	**72,250**
Cash and balances with central banks	**-**	**-**	**-**	**-**	**2,797**	**8,485**	**-**	**-**	**11,282**	**11,282**
Due from other banks	**97**	**262**	**282**	**641**	**-**	**-**	**12**	**8**	**20**	**661**
Derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**135**	**135**	**135**
Financial instruments at FVOCI	**-**	**-**	**1,404**	**1,404**	**-**	**4,780**	**-**	**-**	**4,780**	**6,184**
Other assets	**-**	**-**	**14**	**14**	**-**	**-**	**186**	**1,172**	**1,358**	**1,372**
Total assets	**6,041**	**4,069**	**1,700**	**11,810**	**20,567**	**38,260**	**17,656**	**3,591**	**80,074**	**91,884**

2022	Assets encumbered with non Central Bank counterparties: Covered Bonds £m	Securitisations £m	Other £m	Total £m	Other assets: Positioned at the Central Bank (including encumbered) £m	Assets not positioned at the Central Bank: Readily available for encumbrance £m	Other assets capable of being encumbered £m	Cannot be encumbered £m	Total £m	Total £m
Loans and advances to customers	4,268	4,620	-	8,888	14,879	28,648	17,051	2,353	62,931	71,819
Cash and balances with central banks	-	-	-	-	2,879	9,342	-	-	12,221	12,221
Due from other banks	67	305	269	641	-	-	15	-	15	656
Derivatives	-	-	-	-	-	-	-	342	342	342
Financial instruments at FVOCI	-	-	1,535	1,535	-	3,529	-	-	3,529	5,064
Other assets	-	-	40	40	-	-	216	1,652	1,868	1,908
Total assets	4,335	4,925	1,844	11,104	17,758	41,519	17,282	4,347	80,906	92,010

Funding and liquidity risk (continued)

Cash and balances with central banks of £11,282m, as per note 3.1.1.2, include: £1,971m of assets that are encumbered to support the issuance of Scottish bank notes (excluding notes not in circulation) and to support payments systems; £275m of mandatory central bank deposits; and £84m excluded from LCR to cover operating expenses.

Financial assets at FVOCI of £6,184m, as per note 3.1.2, include: £1,404m of encumbered UK government treasury bills and gilts, £197m of which is encumbered to support Operational Continuity in Resolution.

The Group's total non-central bank asset encumbrance increased by £706m to £11,810m as at 30 September 2023. This was primarily due to an increase in encumbered mortgages, supporting Covered Bond funding.

Assets and liabilities by maturity (audited)

The following tables represent a breakdown of the Group's balance sheet, according to the contractual maturity of the assets and liabilities. Many of the longer-term monetary assets are variable rate products, with behavioural maturities shorter than the contractual terms. The majority of customer deposits are repayable on demand or at short notice on a contractual basis, with behavioural maturities typically longer than their contractual maturity. Accordingly, this information is not relied upon by the Group in its management of interest rate risk. The Group has disclosed certain term facilities within loans and advances to customers with a revolving element at the maturity of the facility as this best reflects their contractual maturity.

Group	Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specified maturity(1)	Total
30 September 2023	£m	£m	£m	£m	£m	£m	£m
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	748	2,766	945	6,448	55,608	5,676	72,191
Cash and balances with central banks	10,193	-	-	-	-	1,089	11,282
Due from other banks	394	267	-	-	-	-	661
At FVOCI	-	506	712	2,196	2,770	-	6,184
At FVTPL							
Loans and advances to customers	-	1	-	16	42	-	59
Derivatives	3	92	10	25	5	-	135
Other	-	-	-	-	-	2	2
Due from related entities	-	-	-	-	-	-	-
Other assets	-	4	149	1	1	1,215	1,370
Total assets	**11,338**	**3,636**	**1,816**	**8,686**	**58,426**	**7,982**	**91,884**
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	40,567	4,368	15,195	6,697	-	-	66,827
Debt securities in issue	-	173	703	5,279	-	-	6,155
Due to other banks	77	393	550	5,900	-	-	6,920
At FVTPL							
Derivatives	2	22	45	196	25	-	290
Due to related entities	45	268	739	2,553	-	-	3,605
Other liabilities	1,675	66	114	49	114	380	2,398
Total liabilities	**42,366**	**5,290**	**17,346**	**20,674**	**139**	**380**	**86,195**
Off balance sheet items							
Financial guarantees	-	12	18	9	40	-	79
Other credit commitments	17,921	-	-	-	-	-	17,921
Total off-balance sheet items	**17,921**	**12**	**18**	**9**	**40**	**-**	**18,000**

(1) The no specified maturity within loans and advances to customers relates to credit cards.

Funding and liquidity risk (continued)

Group 30 September 2022	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity[1] £m	Total £m
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	764	2,378	1,017	7,241	55,053	5,296	71,749
Cash and balances with central banks	11,015	-	-	-	-	1,206	12,221
Due from other banks	575	81	-	-	-	-	656
At FVOCI	-	620	602	1,917	1,925	-	5,064
At FVTPL							
Loans and advances to customers	-	2	1	21	46	-	70
Derivatives	2	46	71	190	33	-	342
Other financial assets at fair value	-	-	-	-	-	2	2
Due from related entities	-	4	-	-	-	-	4
Other assets	-	7	150	1	1	1,743	1,902
Total assets	12,356	3,138	1,841	9,370	57,058	8,247	92,010
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	48,750	3,786	10,209	2,689	-	-	65,434
Debt securities in issue	-	466	599	3,974	308	-	5,347
Due to other banks	51	285	250	7,900	-	-	8,486
At FVTPL							
Derivatives	3	9	29	253	33	-	327
Due to related entities	55	19	448	2,688	-	-	3,210
Other liabilities	1,822	135	134	54	59	591	2,795
Total liabilities	50,681	4,700	11,669	17,558	400	591	85,599
Off balance sheet items							
Financial guarantees	-	33	23	12	44	-	112
Other credit commitments	19,247	-	-	-	-	-	19,247
Total off-balance sheet items	19,247	33	23	12	44		19,359

(1) The no specified maturity within loans and advances to customers relates to credit cards.

Risk report (continued)
Financial risk (continued)

Funding and liquidity risk (continued)

Assets and liabilities by maturity (continued)

Bank 30 September 2023	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity[1] £m	Total £m
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	**748**	**2,755**	**938**	**6,318**	**54,968**	**5,676**	**71,403**
Cash and balances with central banks	**10,193**	**-**	**-**	**-**	**-**	**1,089**	**11,282**
Due from other banks	**27**	**267**	**-**	**-**	**-**	**-**	**294**
At FVOCI	**-**	**506**	**712**	**2,196**	**2,770**	**-**	**6,184**
At FVTPL							
Loans and advances to customers	**-**	**1**	**-**	**16**	**42**	**-**	**59**
Derivatives	**3**	**92**	**9**	**17**	**5**	**-**	**126**
Other	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Due from related entities	**791**	**19**	**20**	**65**	**-**	**69**	**964**
Other assets	**-**	**4**	**146**	**1**	**1**	**1,250**	**1,402**
Total assets	**11,762**	**3,644**	**1,825**	**8,613**	**57,786**	**8,085**	**91,715**
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	**40,567**	**4,368**	**15,195**	**6,697**	**-**	**-**	**66,827**
Debt securities in issue	**-**	**8**	**614**	**3,930**	**-**	**-**	**4,552**
Due to other banks	**77**	**393**	**550**	**5,900**	**-**	**-**	**6,920**
At FVTPL							
Derivatives	**2**	**22**	**45**	**69**	**25**	**-**	**163**
Due to related entities	**313**	**257**	**897**	**3,741**	**-**	**-**	**5,208**
Other liabilities	**1,675**	**68**	**111**	**48**	**114**	**380**	**2,396**
Total liabilities	**42,634**	**5,116**	**17,412**	**20,385**	**139**	**380**	**86,066**
Off balance sheet items							
Financial guarantees	**-**	**12**	**18**	**9**	**40**	**-**	**79**
Other credit commitments	**17,892**	**-**	**-**	**-**	**-**	**-**	**17,892**
Total off-balance sheet items	**17,892**	**12**	**18**	**9**	**40**	**-**	**17,971**

(1) The no specified maturity within loans and advances to customers relates to credit cards.

Funding and liquidity risk (continued)

Assets and liabilities by maturity (continued)

Bank 30 September 2022	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity[(1)] £m	Total £m
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	764	2,363	1,006	7,125	54,288	5,296	70,842
Cash and balances with central banks	11,015	-	-	-	-	1,206	12,221
Due from other banks	268	-	-	-	-	-	268
At FVOCI	-	620	602	1,917	1,925	-	5,064
At FVTPL							
Loans and advances to customers	-	2	1	21	46	-	70
Derivatives	2	14	71	190	33	-	310
Other	-	-	-	-	-	1	1
Due from related entities	868	11	169	-	-	49	1,097
Other assets	-	8	153	1	1	1,778	1,941
Total assets	12,917	3,018	2,002	9,254	56,293	8,330	91,814
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	48,750	3,786	10,209	2,689	-	-	65,434
Debt securities in issue	-	4	13	3,611	-	-	3,628
Due to other banks	51	285	250	7,900	-	-	8,486
At FVTPL							
Derivatives	3	9	29	118	33	-	192
Due to related entities	546	93	591	3,637	74	-	4,941
Other liabilities	1,822	134	127	54	59	590	2,786
Total liabilities	51,172	4,311	11,219	18,009	166	590	85,467
Off balance sheet items							
Financial guarantees	-	33	23	12	44	-	112
Other credit commitments	19,204	-	-	-	-	-	19,204
Total off-balance sheet items	19,204	33	23	12	44		19,316

(1) The no specified maturity within loans and advances to customers relates to credit cards.

Risk report (continued)
Financial risk (continued)

Funding and liquidity risk (continued)

Cash flows payable under financial liabilities by contractual maturity (audited)

Group 2023	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified Maturity £m	Total £m
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	**40,567**	**4,627**	**15,404**	**6,874**	**-**	**-**	**67,472**
Debt securities in issue	**-**	**213**	**909**	**5,996**	**-**	**-**	**7,118**
Due to other banks	**77**	**399**	**837**	**6,304**	**-**	**-**	**7,617**
At FVTPL							
Trading derivatives	**-**	**16**	**29**	**37**	**8**	**-**	**90**
Hedging derivatives							
Contractual amounts payable	**-**	**65**	**556**	**1,668**	**-**	**-**	**2,289**
Contractual amounts receivable	**-**	**(21)**	**(463)**	**(1,500)**	**-**	**-**	**(1,984)**
Due to related entities	**45**	**297**	**836**	**3,041**	**-**	**-**	**4,219**
Other liabilities	**1,675**	**66**	**114**	**49**	**114**	**380**	**2,398**
Total liabilities	**42,364**	**5,662**	**18,222**	**22,469**	**122**	**380**	**89,219**

Group 2022	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified Maturity £m	Total £m
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	48,750	3,801	10,291	2,732	-	-	65,574
Debt securities in issue	-	488	764	4,627	315	-	6,194
Due to other banks	51	288	492	8,793	-	-	9,624
At FVTPL							
Trading derivatives	-	12	40	63	14	-	129
Hedging derivatives							
Contractual amounts payable	-	21	557	1,720	-	-	2,298
Contractual amounts receivable	-	(6)	(459)	(1,477)	-	-	(1,942)
Due to related entities	55	33	531	3,238	-	-	3,857
Other liabilities	1,822	135	134	54	59	591	2,795
Total liabilities	50,678	4,772	12,350	19,750	388	591	88,529

Funding and liquidity risk (continued)

Cash flows payable under financial liabilities by contractual maturity (continued)

Bank 2023	**Call £m**	**3 months or less £m**	**3 to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**No specified maturity £m**	**Total £m**
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	**40,567**	**4,627**	**15,404**	**6,874**	**-**	**-**	**67,472**
Debt securities in issue	**-**	**34**	**750**	**4,296**	**-**	**-**	**5,080**
Due to other banks	**77**	**399**	**837**	**6,304**	**-**	**-**	**7,617**
At FVTPL							
Trading derivatives	**-**	**16**	**29**	**37**	**8**	**-**	**90**
Hedging derivatives							
Contractual amounts payable	**-**	**37**	**502**	**567**	**-**	**-**	**1,106**
Contractual amounts receivable	**-**	**(20)**	**(453)**	**(514)**	**-**	**-**	**(987)**
Due to related entities	**313**	**283**	**1,040**	**4,390**	**-**	**-**	**6,026**
Other liabilities	**1,675**	**68**	**111**	**48**	**114**	**380**	**2,396**
Total liabilities	**42,632**	**5,444**	**18,220**	**22,002**	**122**	**380**	**88,800**

Bank 2022	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity £m	Total £m
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	48,750	3,801	10,291	2,732	-	-	65,574
Debt securities in issue	-	16	127	3,967	-	-	4,110
Due to other banks	51	288	492	8,793	-	-	9,624
At FVTPL							
Trading derivatives	-	12	40	63	14	-	129
Hedging derivatives							
Contractual amounts payable	-	2	501	520	-	-	1,023
Contractual amounts receivable	-	(6)	(448)	(466)	-	-	(920)
Due to related entities	546	111	714	4,343	76	-	5,790
Other liabilities	1,822	134	127	54	59	590	2,786
Total liabilities	51,169	4,358	11,844	20,006	149	590	88,116

The balances in the cash flow tables above do not agree directly to the balances in the balance sheets or the assets and liabilities by maturity tables presented above, as the tables incorporate all cash flows, on an undiscounted basis, related to both principal and future coupon payments.

Funding and liquidity risk (continued)

Analysis of debt securities in issue by residual maturity

The table below shows the residual maturity of the Group’s debt securities in issue:

	3 months or less £m	**3 to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**Total 2023 £m**	Total 2022 £m
Covered bonds	**8**	**614**	**3,793**	**-**	**4,415**	3,467
Securitisation	**165**	**89**	**1,486**	**-**	**1,740**	1,880
Total debt securities in issue	**173**	**703**	**5,279**	**-**	**6,155**	5,347

External credit ratings

The Group’s long-term credit ratings are summarised below:

	Outlook as at	**As at**	
	30 Sep 2023(1)	**30 Sep 2023**	30 Sep 2022
Virgin Money UK PLC			
Moody’s	**Stable**	**Baa1**	Baa1
Fitch	**Positive**	**BBB+**	BBB+
Standard & Poor’s	**Stable**	**BBB-**	BBB-
Clydesdale Bank PLC			
Moody's(2)	**Stable**	**A3**	A3
Fitch	**Positive**	**A-**	A-
Standard & Poor's	**Stable**	**A-**	A-

(1) For detailed background on the latest credit opinion by Standard & Poor’s, Fitch and Moody’s, please refer to the respective rating agency website.
(2) Long-term deposit rating.

In June 2023, Fitch revised the outlook on the Group’s Long-Term Issuer Default Rating to Positive from Stable reflecting Fitch’s expectation of a structural improvement in profitability due to higher interest rates, contained credit impairment charges and further cost efficiency improvements. It also reflects the Group’s improving risk profile, notwithstanding the tougher operating environment.

As at 22 November 2023, there have been no other changes to the Group’s long-term credit ratings or outlooks since the report date.

Market risk

Market risk is the risk of loss associated with adverse changes in the value of assets and liabilities held by the Group as a result of movements in market factors such as foreign exchange risk, interest rates (duration risk), customer behaviour (optionality risk), and the movement in rate spreads across types of assets or liabilities (basis risk and credit spread risk). The Group's balance sheet is predominantly UK-based and is denominated in GBP, therefore foreign exchange is not a material risk for the Group. Any non-GBP denominated funding issuances and any foreign currency securities purchased are cross-currency swapped to sterling for the term of the instrument.

Exposures

The Group does not have a trading book and therefore is only exposed to non-traded market risk. Market risk principally arises through Interest Rate Risk in the Banking Book (IRRBB), small foreign exchange exposure and the management of assets to support our liquidity requirements, including Credit Spread Risk in the Banking Book (CSRBB). It comprises the sensitivity of the Group's current and future NII and economic value to movements in market interest rates. The major contributors to interest rate risk are:

- the mismatch, or duration, between repricing dates of interest-bearing assets and liabilities;
- basis risk or assets and liabilities repricing to different reference rates, for example, customer asset and liability products repricing against BoE base rate and Sterling Over Night Indexed Average (SONIA); and
- customer optionality, for example, the right to repay borrowing in advance of contractual maturity dates.

The focus of the Group's activity is to provide high-quality banking services to its customers. These services include the provision of foreign exchange, interest rate and commodity derivative products to enable customers to manage risks within their businesses. As a result of these activities, the Group may be exposed to forms of market risk that would arise from movements in the price on these products. These risks are monitored daily and are not a material component of the Group's risk profile. Controls and mitigation include the hedging of these products and the use of natural offsets, in line with Group policies.

Measurement

IRRBB is measured, monitored, and managed from both an internal risk appetite and an external regulatory perspective. The RMF incorporates both market valuation and earnings-based approaches. In accordance with the Group IRRBB policy, risk measurement techniques include: basis point sensitivity, NII sensitivity, value at risk (VaR), changes in the economic value of equity (EVE), interest rate risk stress testing, and scenario analysis.

The key features of the market risk management measurement approach are:

- basis point sensitivity analysis is performed daily and compares the potential impact of a one basis point (0.01%) change on the present value of all future cash flows;
- NII sensitivity assesses changes to earnings over a 12-month time horizon as a result of interest rate movements and changes to customer behaviour;
- VaR is measured on a statistical basis using a 99% confidence level based on daily rate movements over a ten-year history set with a one-year holding period;
- EVE is measured in line with the PRA Rulebook with all six interest rate shock scenarios assessed on a quarterly basis, including customer optionality stresses. Reporting is performed including and excluding equity;
- static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing);
- dynamic balance sheet (i.e. a balance sheet incorporating future business expectations, adjusted for the relevant scenario in a consistent manner);
- run-off balance sheet (i.e. existing assets and liabilities not replaced as they mature, except to the extent necessary to fund the remaining balance sheet);
- investment term for capital is modelled with a benchmark term agreed by ALCO;
- investment term for core non-interest-bearing assets and liabilities is modelled on a behavioural basis with a benchmark term agreed by ALCO;
- assumptions covering the behavioural life of products and customer behaviour for optionality are reviewed and approved by ALCO;
- structural hedging, used to reduce earnings volatility, is based on analysis approved by ALCO and Board;

Market risk (continued)

- CSRBB is assessed through VaR applied to the Group's liquid asset buffer portfolio. CSRBB is measured at a 99% confidence level based on daily spread movements over a ten-year history set with a three-month holding period.
- Foreign exchange risk is assessed based on the absolute exposure to each currency; and
- IRRBB is fully integrated in the Group's ICAAP.

Mitigation

Market risks are overseen by ALCO with delegation for day-to-day management given to Treasury. Treasury uses a number of techniques and products to manage market risks including interest rate swaps, cash flow netting and foreign exchange derivatives.

The Group uses derivative financial instruments to manage its exposures within approved limits and not for speculative purposes. The Group elects to apply hedge accounting for the majority of its risk management activity that uses derivatives. Certain derivatives are designated as either fair value hedge or cash flow hedge:

Fair value hedges – the Group hedges part of its existing interest rate risk, resulting from potential movements in the fair value of fixed rate assets and liabilities. The fair value of these swaps is disclosed within note 3.1.3.2 to the Group's consolidated financial statements. There were no transactions for which fair value hedge accounting had to be discontinued in the year.

Cash flow hedges – the Group hedges a portion of the variability in future cash flows attributable to interest rate risk. The interest risk arises from variable interest rate assets and liabilities which are hedged using interest rate swaps. There were no transactions for which cash flow hedge accounting had to be discontinued in the year as a result of the highly probable cash flows no longer being expected to occur. The fair value of derivatives is disclosed within note 3.1.3.2 to the Group's consolidated financial statements.

Monitoring

Parameters and assumptions of models that are used in market risk monitoring are reviewed and updated on at least an annual basis. Material changes require the approval of ALCO. Oversight of market risk is conducted by the Group's Financial Risk team which is independent of the Treasury function. The Board and Executive Risk Committee, through ALCO's oversight, monitor risk to ensure it remains within approved policy limits and Board requirements.

	Group			
	Duration risk		**Credit spread**	
	2023	2022	**2023**	2022
Value at Risk (audited)	**£m**	£m	**£m**	£m
As at 30 September	**27**	17	**62**	41
Average value during the year	**16**	19	**55**	48
Minimum value during the year	**4**	14	**44**	41
Maximum value during the year	**28**	27	**62**	52

Net interest income (audited)

Earnings sensitivity measures calculate the change in NII over a 12-month period resulting from an instantaneous and parallel change in interest rates. +/-25 basis point shocks and +/-100 basis point shocks represents the primary NII sensitivity assessed internally, though a range of scenarios are assessed on a monthly basis.

	2023	2022
12 months NII sensitivity	**£m**	£m
+25 basis point parallel shift	**11**	18
+100 basis point parallel shift	**42**	66
-25 basis point parallel shift	**(11)**	5
-100 basis point parallel shift	**(45)**	(35)

The sensitivities disclosed reflect the expected mechanical response to a movement in rates and represent a prudent outcome. The sensitivities are indicative only and should not be viewed as a forecast.

Risk report (continued)
Financial risk (continued)

Market risk (continued)

Net interest income (audited) (continued)

The key assumptions and limitations are outlined below:

- the sensitivities are calculated based on a static balance sheet and it is assumed there is no change to margins on reinvestment of maturing fixed rate products;
- there are no changes to basis spreads with the rate change passed on in full to all interest rate bases;
- administered rate products receive a rate pass on in line with internal scenario specific pass on assumptions. Any rate reduction in a rate fall scenario is subject to product floors with the assumption customer rates would not go negative;
- additional commercial pricing responses and management actions are not included; and
- while in practice hedging strategy would be reviewed in light of changing market conditions, the sensitivities assume no changes over the 12-month period.

Market risk linkage to the balance sheet (audited)

The following table shows the Group's principal market risks, linked to the balance sheet assets and liabilities:

	2023 £m	2022 £m	**Interest rate duration**	**Optionality**	**Basis**	**Credit Spread**	**Foreign Exchange**
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	**72,191**	71,749	●	●	●		●
Cash and balances with central banks	**11,282**	12,221	●		●		
Due from other banks	**661**	656	●		●		●
At FVOCI	**6,184**	5,064	●		●	●	●
At FVTPL							
Loans and advances to customers	**59**	70	●	●	●		●
Derivatives	**135**	342	●		●		●
Other	**2**	2	●				●
Other assets	**1,370**	1,906	●				●
Total assets	**91,884**	92,010					
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	**66,827**	65,434	●	●	●		●
Debt securities in issue	**6,155**	5,347	●		●		●
Due to other banks	**6,920**	8,486	●		●		●
At FVTPL							
Derivatives	**290**	327	●		●		●
Other liabilities	**6,003**	6,005	●				●
Total liabilities	**86,195**	85,599					

Financial risk (continued)

Market risk (continued)

Repricing periods of assets and liabilities by asset/liability category

The following table shows the repricing periods of the Group's assets and liabilities as assessed by the Group. This repricing takes account of behavioural assumptions where material and the Group's policy to hedge capital in accordance with a benchmark term agreed by ALCO.

Group 2023	Overnight £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Non-interest bearing £m	Total £m
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	7,745	8,132	12,381	43,151	1,321	(539)	72,191
Cash and balances with central banks	9,903	35	105	140	-	1,099	11,282
Due from other banks	626	-	-	-	-	35	661
At FVOCI	1,635	475	568	881	2,440	185	6,184
At FVTPL							
Loans and advances to customers	-	2	5	23	29	-	59
Derivatives	-	-	-	-	-	135	135
Due from related entities	-	-	-	-	-	-	-
Other assets	14	20	59	314	157	808	1,372
Total assets	19,923	8,664	13,118	44,509	3,947	1,723	91,884
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	7,935	16,096	18,254	23,085	1,229	228	66,827
Debt securities in issue	4,184	-	-	2,089	-	(118)	6,155
Due to other banks	6,783	10	33	-	-	94	6,920
At FVTPL							
Derivatives	-	-	-	-	-	290	290
Due to related entities	-	250	748	2,772	-	(165)	3,605
Other liabilities	1,249	85	255	340	-	469	2,398
Equity	-	166	748	3,007	1,329	439	5,689
Total liabilities and equity	20,151	16,607	20,038	31,293	2,558	1,237	91,884
Notional value of derivatives managing interest rate sensitivity	5,417	1,655	8,595	(14,136)	(1,531)	-	-
Total interest rate gap	5,189	(6,288)	1,675	(920)	(142)	486	-
Cumulative interest rate gap	5,189	(1,099)	576	(344)	(486)	-	-

Market risk (continued)

Repricing periods of assets and liabilities by asset/liability category (continued)

Group 2022	**Overnight £m**	**3 months or less £m**	**3 to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**Non-interest bearing £m**	**Total £m**
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	7,293	8,796	13,234	41,514	1,699	(787)	71,749
Cash and balances with central banks	10,765	12	37	196	-	1,211	12,221
Due from other banks	656	-	-	-	-	-	656
At FVOCI	1,265	525	320	1,159	1,733	62	5,064
At FVTPL							
Loans and advances to customers	-	30	4	16	20	-	70
Derivatives	-	-	-	-	-	342	342
Due from related entities	4	-	-	-	-	-	4
Other assets	40	38	113	604	-	1,109	1,904
Total assets	20,023	9,401	13,708	43,489	3,452	1,937	92,010
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	7,026	18,725	13,449	26,077	-	157	65,434
Debt securities in issue	3,606	191	-	1,663	-	(113)	5,347
Due to other banks	8,438	12	-	-	-	36	8,486
At FVTPL							
Derivatives	-	-	-	-	-	327	327
Due to related entities	-	-	432	3,023	-	(245)	3,210
Other liabilities	1,717	-	-	-	-	1,078	2,795
Equity	-	264	573	3,306	350	1,918	6,411
Total liabilities and equity	20,787	19,192	14,454	34,069	350	3,158	92,010
Notional value of derivatives managing interest rate sensitivity	16,448	(359)	(239)	(12,146)	(3,704)	-	-
Total interest rate gap	15,684	(10,150)	(985)	(2,726)	(602)	(1,221)	-
Cumulative interest rate gap	15,684	5,534	4,549	1,823	1,221	-	-

Market risk (continued)

Repricing periods of assets and liabilities by asset/liability category (continued)

Bank 2023	**Overnight £m**	**3 months or less £m**	**3 to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**Non-interest bearing £m**	**Total £m**
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	7,745	7,160	12,381	43,151	1,321	(355)	71,403
Cash and balances with central banks	9,903	35	105	140	-	1,099	11,282
Due from other banks	267	-	-	-	-	27	294
At FVOCI	1,635	475	568	881	2,440	185	6,184
At FVTPL							
Loans and advances to customers	-	2	5	23	29	-	59
Derivatives	-	-	-	-	-	126	126
Due from related entities	-	972	-	-	-	(8)	964
Other assets	14	20	59	314	157	839	1,403
Total assets	19,564	8,664	13,118	44,509	3,947	1,913	91,715
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	7,935	16,096	18,254	23,085	1,229	228	66,827
Debt securities in issue	2,450	-	-	2,089	-	13	4,552
Due to other banks	6,783	10	33	-	-	94	6,920
At FVTPL							
Derivatives	-	-	-	-	-	163	163
Due to related entities	1,954	250	748	2,772	-	(516)	5,208
Other liabilities	1,249	85	255	340	-	467	2,396
Equity	-	166	748	3,007	1,329	399	5,649
Total liabilities and equity	20,371	16,607	20,038	31,293	2,558	848	91,715
Notional value of derivatives managing interest rate	5,417	1,655	8,595	(14,136)	(1,531)	-	-
Total interest rate gap	4,610	(6,288)	1,675	(920)	(142)	1,065	-
Cumulative interest rate gap	4,610	(1,678)	(3)	(923)	(1,065)	-	-

Risk report (continued)
Financial risk (continued)

Market risk (continued)

Repricing periods of assets and liabilities by asset/liability category (continued)

Bank 2022	**Overnight £m**	**3 months or less £m**	**3 to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**Non-interest bearing £m**	**Total £m**
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	7,293	7,877	13,234	41,514	1,699	(775)	70,842
Cash and balances with central banks	10,765	12	37	196	-	1,211	12,221
Due from other banks	268	-	-	-	-	-	268
At FVOCI	1,265	525	320	1,159	1,733	62	5,064
At FVTPL							
Loans and advances to customers	-	30	4	16	20	-	70
Derivatives	-	-	-	-	-	310	310
Due from related entities	-	1,109	-	-	-	(12)	1,097
Other assets	40	38	113	604	-	1,097	1,892
Investment in related entities	-	-	-	-	-	50	50
Total assets	19,631	9,591	13,708	43,489	3,452	1,943	91,814
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	7,026	18,725	13,449	26,077	-	157	65,434
Debt securities in issue	1,950	-	-	1,663	-	15	3,628
Due to other banks	8,438	12	-	-	-	36	8,486
At FVTPL							
Derivatives	-	-	-	-	-	192	192
Due to related entities	1,656	191	432	3,023	-	(361)	4,941
Other liabilities	1,717	-	-	-	-	1,069	2,786
Equity	-	264	573	3,306	350	1,854	6,347
Total liabilities and equity	20,787	19,192	14,454	34,069	350	2,962	91,814
Notional value of derivatives managing interest rate	16,448	(359)	(239)	(12,146)	(3,704)	-	-
Total interest rate gap	15,292	(9,960)	(985)	(2,726)	(602)	(1,019)	-
Cumulative interest rate gap	15,292	5,332	4,347	1,621	1,019	-	-

Market risk (continued)

LIBOR replacement

All regulatory milestones in relation to LIBOR cessation have been met and there are no conduct issues to note.

Loans with an aggregate value of c. £0.9m with a small number of customers remain on 3-month GBP synthetic LIBOR. This temporary reference rate is due to cease at the end of March 2024.

There are no remaining USD LIBOR exposures. Post 31 March 2024, there will be no LIBOR exposure (in any currency) on the Group's balance sheet.

Financial instruments linked to IBOR benchmark rates are summarised below:

Amounts referencing IBOR rates (audited)

30 September 2023	**Non derivative financial assets - carrying value[(1)] £m**	**Non derivative financial liabilities - carrying value £m**	**Derivatives - nominal amount[(2)] £m**
GBP LIBOR	**1**	**-**	**-**
Other[(3)]	**179**	**-**	**-**
Total	**180**	**-**	**-**

30 September 2022	Non derivative financial assets - carrying value[(1)] £m	Non derivative financial liabilities - carrying value £m	Derivatives - nominal amount[(2)] £m
GBP LIBOR	94	-	67
Other[(3)]	164	-	-
Total	258	-	67

(1) Gross carrying amount excluding allowances for ECLs.

(2) The IBOR exposures for derivative nominal amounts include undrawn loan commitments shown as GBP LIBOR. This is materially the case although some facilities allow drawdowns in a number of different currencies.

(3) Comprises financial instruments referencing EURIBOR, which is not subject to benchmark reform (2022: £127m).

Pension risk

The Group operates a defined benefit pension scheme, the Yorkshire and Clydesdale Bank Pension Scheme (the Scheme). The Bank is the Scheme's principal employer and there are no other participating employers. The Scheme was closed to future accrual on 1 August 2017 for most members. A small number of members remain on a defined benefit accruals basis subject to certain conditions.

Under a defined benefit pension scheme, the economic benefit an employee receives in retirement is determined by factors such as salary and length of service but is not tied to the employee's or the employer's contributions, or the performance of the scheme's assets. A defined benefit pension scheme is exposed to market risk drivers such as interest rate risk, inflation risk, equity risk, as well as risks pertaining to the life expectancy of scheme members (longevity risk) and to changes in the legislation and regulatory requirements.

Pension risk is the risk that, at any point in time, the value of the Scheme's assets is not enough to meet the Scheme's estimated liabilities. This risk will continue to exist until the Scheme is formally wound up, either if all the liabilities are transferred to a third party (for example an insurer) or once all individual member benefits have been honoured. Pension risk can negatively impact the Group's capital position.

The Group also supports a defined contribution scheme. Defined contribution schemes do not give rise to pension risk, as the employer has no legal or constructive obligation to make further contributions if the defined contribution scheme's assets are insufficient to pay all member benefits. Risks, including market, investment performance and longevity risks are borne by the employee rather than the Group.

Risk appetite

The Group's pension risk appetite is a component of the Group-wide framework for the management of balance sheet risks.

Pension risk may adversely impact the Group's capital position. The Group is required to hold capital against it and may be required to make further contributions. Consequently, pension risk is considered in the context of potential capital impacts to the Group, due to changes in the valuations of the Scheme's liabilities and assets.

Liabilities

The defined benefit obligation is a series of future cash flows, with relatively long duration. It is estimated by independent actuaries using the projected unit credit method. The actual cost of the Scheme can only be known after the Scheme is formally wound up.

On an IAS 19 basis, the defined benefit obligation present value is calculated by discounting the series of future cash flow estimates using a discount rate linked to yields of high-quality corporate bonds, of a duration aligned to that of the Scheme's liabilities. The cash flows and valuation are primarily sensitive to changes in corporate bond credit spreads, long-term inflation rates and the life expectancy of members. There is a risk that the value of the Scheme's liabilities is higher than that of its assets. In particular:

- an increase in the discount rate corresponds to a decrease in liabilities;
- an increase in long-term expected inflation corresponds to an increase in liabilities; and
- an increase in life expectancy corresponds to an increase in liabilities.

The impact of these actuarial assumptions on valuations will also depend on investment and de-risking decisions (including interest rate, inflation rate and longevity hedging) made by the Trustee, as well as by the inflationary caps within the terms of the Scheme. Nevertheless, material changes to the key actuarial assumptions or changes to the methodology by which they are derived may lead to volatility in the Group's IAS 19 position. In line with pensions legislation, a formal actuarial valuation (Triennial Valuation) of the Scheme's assets and liabilities takes place at least every three years by independent actuaries.

More information on the Scheme's defined benefit obligations is shown within note 3.3 of the Group's consolidated financial statements. The present value of the liabilities was £2,284m as at 30 September 2023 (2022: £2,216m).

Pension risk (continued)

Assets

The Scheme's assets are held separately from the Group's assets and are administered by a board of trustees (the Trustee). The Trustee has fiduciary responsibilities to the Scheme's members and governs investments according to a Statement of Investment Principles (SIP). The SIP is reviewed and agreed by the Trustee on a regular basis, with the Group consulted on any proposed changes. The SIP sets out the Scheme objectives and the path to meet these objectives and is drafted in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it). This results in the Scheme holding an appropriate mix of assets to better match future pension obligations.

There is a risk that the value of the Scheme's assets is lower than the present value of its liabilities. In particular, asset total returns lower than the discount rate used in the calculation of the present value of the defined benefit obligations may have an adverse impact on the Group's IAS 19 position.

The split of Scheme assets is shown within note 3.3 of the Group's consolidated financial statements. The fair value of the assets was £2,796m as at 30 September 2023 (2022: £3,216m).

Within the Scheme's matching assets there is a Liability Driven Investment (LDI) portfolio, which consists of both physical assets and derivatives. The Scheme uses a bespoke, segregated strategy which reflects, as far as possible, the specifics of the Scheme's liabilities in terms of exposure to movements in interest rates and inflation. As at 30 September 2023, the LDI portfolio was valued at £1,038m (2022: £968m).

LDI portfolios are commonly used by defined benefit pension schemes to better match their assets to their liabilities, while retaining their allocations to return-seeking assets. For example, falling interest rates or rising inflation would typically increase the value of a scheme's liabilities but the value of the LDI portfolio would also increase commensurably, hence reducing the scheme's funding level volatility. LDI utilises financial instruments, including derivatives, which require the scheme to provide collateral to counterparties. This generates additional liquidity risks and requirements as these collateral demands can change over periods when rates change. The general trend since LDI strategies were first introduced has been long-term interest rates falling. However, when interest rates rise instead of fall, more collateral is required to be posted for the same level of interest rate and inflation protection to be maintained. Therefore, the scheme needs to ensure that it has sufficient liquidity to meet any such obligation.

As at 30 September 2023, the scheme is still estimated to have substantial collateral headroom to meet further rises in interest rates of more than 10% (2022: 3%).

During the period, the Group and Trustee to the Scheme agreed to cease their previous contingent security arrangement. Subsequently, the Group has granted a £75m uncommitted facility to the Scheme as an additional contingency against future short-term liquidity challenges resulting from unexpected market turbulence. As at 30 September 2023 the amount drawn under the facility was £Nil.

Exposure

The Group's defined benefit pension scheme affects its regulatory capital in two ways:

- CET1 capital – an IAS 19 surplus increases the Group's balance sheet assets and reserves. However, any such amount is not recognised for the purposes of determining CET1 capital. An IAS 19 deficit on the other hand, which increases balance sheet liabilities and reduces reserves, is recognised for regulatory capital purposes, and so will decrease CET1 capital.
- Pillar 2A capital – the Group is also required to determine the level of capital required to be held under Pillar 2A for pension obligation risk as part of the annual ICAAP process. This requirement forms part of the Group's regulatory Total Capital Requirement.

Mitigation

The Trustee and Group have a common view of the Scheme's long-term strategic aims, encapsulated by an agreed de-risking journey plan. Within the journey plan, several core principles have been established, including a long-term self-sufficiency funding target (i.e. the point in time when the Scheme would no longer need to call on the Bank for additional funding) with assumptions as to how this target is expected to be managed, monitored and met. Potential actions to address deviations in the actual funding level relative to the journey plan have also been considered.

Risk report (continued)
Financial risk (continued)

Pension risk (continued)

In addition to the Scheme being closed to new members and essentially closed to future accrual, additional measures have been implemented by the Group and Trustee with the specific aim of reducing risks. This includes hedging against interest rate and inflation risk. Moreover, on 6 April 2023, the Scheme executed a longevity swap transaction to manage longevity risk in relation to c. £1,600m of pensioner liabilities. Cost-effective options to further reduce risk within the Scheme will continue to be assessed.

Monitoring

Information on the Scheme's current valuations, asset holdings and discount and inflation rate assumptions are presented to ALCO. This also includes monitoring of the performance of the LDI portfolio as well as of the collateral headroom. The impact of the Scheme on the Group is also subject to risk oversight from the Risk function. In addition, semi-annual pension risk updates are provided to the Board Risk Committee.

Performance of the Scheme's asset portfolio against the various risk metrics is monitored by the Scheme investment adviser, and reported to the Investment Sub Committee, which includes Group representation, and Trustee Board on a quarterly basis.

The Scheme's de-risking plan has delivered resilience to stress-testing and continued improvements in Group and Trustee valuations. The IAS 19 position continues to be assessed in the Group's ICAAP and regulatory stress testing processes.

The Triennial Valuation with effective date 30 September 2022 has concluded and showed a funding surplus. Consequently, no further contributions from the Group will be required and there is no capital impact. The effective date of the Scheme's next Triennial Valuation is 30 September 2025.

Risk report (continued)
Model risk

The Group's definition of a model is a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into output that generates or supports decisions that impact customers directly or indirectly. This model definition also includes input data that is quantitative and/or qualitative in nature or expert judgement-based, and output that is quantitative or qualitative.

The use of models invariably presents model risk, which is defined as the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk increases with greater model complexity, higher uncertainty around inputs and assumptions, broader use, and larger potential impact. If left unmitigated, model risk can lead to poor decision making, misreporting or a failure to identify risks. In turn, these factors could result in financial and reputational losses, as well as having a detrimental impact on customers or lead to the deterioration of the prudential position, non-compliance with required regulations, or to qualitative limitations such as the imposition of restrictions to business activities.

Risk appetite

In delivering its strategic objectives, the Group accepts that a level of loss may arise from model error. The Board establishes the extent of its willingness, or otherwise, to accept results from using models and key controls are in place to support the performance of models. Key controls are in place to support the performance of models.

The Group's appetite for model risk is defined and articulated in the Group RAS. Model risk is a principal risk and RAS metrics focus on model effectiveness and the outcomes of validations on the Group's most material models. Model risk appetite is reported regularly to Executive Risk Committee, Board Risk Committee and the Model Governance Committee (MGC). The escalation of material model issues from MGC can be made to Executive and Board Risk Committees.

Exposures

To enable senior management to gauge and manage model risk, each model is classified according to materiality.

The Group assesses model materiality using criteria of coverage, risk impact and complexity to define the level of risks associated with the model's use, purpose and strategic importance, adopting the relevant regulating rules and guidance (e.g. Supervisory Statement SS11/13 Internal Ratings Based (IRB) approaches and the CRR). A model's assessed materiality level determines its approval path through governance and the degree, frequency and depth of review and validation expected.

The Group's model inventory contains information on all models and associated exposures. The inventory supports the prioritisation of business activities and informs senior management of the status of models, with a particular focus on those models that can generate higher risk or have a greater impact.

Measurement

The Board delegates authority to MGC to ensure that model risk is being managed through the model risk management policy standard. Model risk is measured through regular model monitoring to Board Risk Committee and MGC and the level of model risk is assessed through RAS reporting.

The Chief Risk Officer has been identified as the appropriate Senior Management Function role, in line with the requirements set out in the Model Risk Management Policy Standard.

Mitigation

The Group has a model risk policy framework in place to manage and mitigate model risk, which encompasses the end-to-end model life cycle. The model risk management policy standard defines model risk management roles and responsibilities. Specifically, it sets out that the model owner has the responsibility of attesting to the compliance of the model risk management policy standard requirements on an annual basis, including that the model has been built in line with the policy, is implemented correctly and is used as intended or advising of exemptions. An annual attestation on IRB models is provided to the regulator.

The Model Risk Management function conducts independent model validations prior to model implementation, when a new model is developed or changed, and on a periodic basis. The function assists with identifying model weaknesses or deficiencies and raises mitigating actions. If significant model deficiencies and/or errors are identified during the validation process, the relevant model approval authority will consider whether the use of models should be limited.

Monitoring

Model monitoring functions perform periodic monitoring of model performance to ensure parameter estimates and model constructs remain fit for purpose and to ensure model assumptions remain valid. The frequency of model monitoring is commensurate with the nature and materiality of the models and risks, with due consideration given to model complexity, in line with the relevant monitoring frameworks.

MGC is the primary model approval authority and body responsible for overseeing the framework used to manage model risk.

Regulatory and compliance risk

Regulatory and compliance risk is the risk of failing to comply with relevant regulatory requirements and changes in the regulatory environment or failing to manage a constructive relationship with our regulators, by not keeping them informed of relevant issues, not responding effectively to information requests or not meeting regulatory deadlines.

Risk appetite
The Group has no appetite for actions which result in breaches of regulation or for inaction to address systemic process and control failures leading to material non-compliance. The Group seeks to ensure that all mandatory requirements are prioritised for implementation within the required timescales with due consideration for mitigation of potential customer harm. The Group has an open dialogue with regulators, escalating all issues of which they would reasonably expect to be made aware.

Exposures
The Group remains exposed to regulatory and compliance risk from ongoing and new regulatory developments. This is expected to persist as consumer and regulatory expectations continue to rise, and as the regulatory environment responds to external factors, including macroeconomic conditions and associated cost of living pressures.

Measurement
Regulatory and compliance risks are measured against a defined set of Board-approved risk appetite metrics relating to the status of regulatory compliance and regulatory implementations. Thresholds are set and form part of the Board-approved RAS.

Mitigation
The following controls and procedures help to mitigate regulatory and compliance risk:

- clearly defined regulatory and compliance policy framework requirements, associated policies and Board-approved RAS;
- ongoing development, maintenance and reporting of risk appetite measures for regulatory and compliance risk to the Executive Risk Committee, the Board Risk Committee and the Board;
- maintenance of proactive and coordinated engagement with the Group’s key regulators;
- continual assessment of evolving regulatory requirements, including regulatory business plans and thematic reviews;
- oversight of regulatory and compliance risks and issues in relevant governance bodies;
- consideration of regulatory requirements in product and proposition development;
- operation of the new Consumer Duty framework, and oversight of remaining implementation requirements for 31 July 2024;
- ongoing review and tracking of known regulatory and compliance issues and remediation actions being taken; and
- a risk-based monitoring framework, designed to monitor compliance with regulation and assess customer outcomes.

Monitoring
Regulatory and compliance risk is considered by all three lines of defence as part of their oversight and monitoring activities. A risk assurance plan, approved by the Board Risk Committee on an annual basis, independently assesses areas of the control framework underpinning compliance with relevant laws and regulations.

Conduct risk

Conduct risk is the risk of undertaking business in a way which fails to deliver good customer outcomes and causes customer harm, and may result in regulatory censure, redress costs and/or reputational damage.

Risk appetite
The Group is committed to delivering good outcomes for its customers, including its vulnerable customers and has a low appetite for conduct risk.

Exposures
The Group remains exposed to conduct risk in the course of its provision of services and products to customers, including those risks arising as the Group and its customers adapt to an increasingly digital world, and as customer vulnerabilities, expectations and behaviours evolve alongside the external environment and economic conditions. The FCA's new Consumer Duty, sets a higher standard for conduct and the level of expectation in delivering good outcomes to our customers, which has been introduced into the bank's risk and operating framework.

Measurement
Conduct risks are measured against a defined set of Board-approved risk appetite metrics, with an emphasis on delivering good customer outcomes.

Mitigation
The following controls and procedures help to mitigate conduct risk:

- clearly defined conduct risk policy framework requirements, associated policies and Board- approved RAS;
- ongoing development, maintenance and reporting of conduct risk appetite measures to the Executive Risk Committee, the Board Risk Committee and the Board;
- operation of the new Consumer Duty framework, and oversight of remaining implementation requirements for 31 July 2024;
- consideration of conduct risk in product and proposition development;
- regular management review of conduct reporting, centred on core product areas and aligned to relevant businesses;
- analysis of customer experience data and complaint handling;
- continuing development of a customer-centric culture aligned to the Group's Purpose;
- ongoing review and tracking of known conduct issues and remediation actions being taken; and
- a risk-based monitoring framework, designed to monitor compliance with regulation and assess customer outcomes.

Monitoring
All three lines of defence consider conduct risk as part of their oversight and monitoring activities. A risk assurance plan, approved annually by the Board Risk Committee, independently assesses the control framework underpinning the Group's conduct risk management and the delivery of good customer outcomes.

Risk report (continued)
Operational risk

Operational risk is the risk of loss or customer harm resulting from inadequate or failed internal processes, people and systems or from external events, incorporating the inability to maintain critical services, recover quickly and learn from unexpected/adverse events.

It is a core component of the RMF and is embedded in day-to-day business activities focused on enabling operational efficiencies. Requirements and responsibilities are set out in the operational risk policy statement and supporting operational risk framework policy standard that seeks to

identify, assess, mitigate, monitor, and report the operational risks, events and issues that could impact the achievement of business objectives or impact core business processes.

Business units are responsible for the day-to-day management of operational risk, with oversight from the Risk function, and independent assurance activities undertaken by Internal Audit. A new Non-Financial Risk Committee has been established to provide oversight of the Group's non-financial risks, risk appetite, policy compliance and RMF and to better support the Executive Risk Committee.

Operational resilience is an outcome that benefits from the effective management of operational risk. Activities this year have seen the identification and mapping of our Important Business Services and setting of impact tolerances. Ongoing work will further refine mapping activity and stress testing requirements.

Risk Appetite
The Group is prepared to tolerate a level of operational risk exposure within agreed thresholds and limits. A level of resilience risk from internal and external events is tolerated, however, immediate steps are taken to minimise customer disruption through recovery within defined timelines.

Exposures
Operational risks arise from day-to-day business activities, which may result in direct or indirect losses and could adversely impact the Group's financial performance, levels of customer care or reputation. The Group strives to deliver operational efficiency in the implementation of its objectives and accepts that a level of loss may arise from operational failure. Implementing key controls and monitoring ensures that risks are managed, and losses remain within acceptable limits.

The Group's exposure to operational risk is impacted through the need to engage with innovative, dynamic third parties; deliver new products and services; and make effective use of reliable data in a changing external environment, to deliver on the Group's strategic objectives. Alongside ongoing risk and control monitoring, operational and resilience risk oversight is focused on the following key areas:

Risk category	
Change risk	The risks associated with a failure to execute and deliver change that could result in an inability to meet our strategic objectives, including failing to meet our customer, regulator, colleague, or shareholder expectations, at a Group and local management level. *How this risk is managed* - The Group uses a single integrated change governance framework which covers all levels of change management to ensure appropriate oversight and decision making across the change portfolio. As part of this, a centralised view of significant and material change is maintained. This approach ensures that the risks of individual changes are managed effectively and that change is prioritised to minimise the overall risks to the organisation in line with risk appetite.
Third-party risk	The risks associated with ensuring the Group's outsourced and offshoring arrangements are controlled more effectively, including the risk of failure to service existing and new customers; the potential cessation of specific activities; the risk of personally identifiable information or Group sensitive data being exposed or exploited; and the risk of financial, reputational and regulatory censure if the third party enters into any illegal or unethical activities. *How this risk is managed* - The Group continues to enhance its third-party RMF and oversight approach, with ongoing performance management and assurance undertaken, to ensure that supplier relationships are controlled effectively.

Operational risk (continued)

Risk category	
Cyber and information security risk	The risks arising from inadequate internal and external information and cyber security, where failures impact the confidentiality, integrity and availability of electronic data. *How this risk is managed* – We maintain robust cyber and information security policies, and controls are in place and operating, with assurance carried out as a matter of course. This includes threat intelligence, education and awareness, and assurance of controls within the Group and our third parties. Our Security Operations Centre provides 24/7 monitoring and alerting in order that any security threats are quickly detected and addressed.
Physical and personal security risk	The risk to the safety and protection of colleagues, customers and physical assets arising from unauthorised access to buildings, theft, robbery, intimidation, blackmail, sabotage, terrorism and other physical security risks. *How this risk is managed* – Physical and personal security standards are managed by the Group's Property & Procurement team. Controls are in place to protect physical assets, as well as the security of colleagues and customers.
IT resilience risk	The Group's ability to adapt to disruptions while maintaining continuous operations on critical processes and safeguarding technology in the face of adverse events, chronic disruptions or incremental changes. The Group recognises the significant regulatory focus on resilience with increased reliance on digital banking, remote working, and use of third-party and cloud solutions. *How this risk is managed* – The Group is well placed to respond to new regulations and standards and develops technology with resilience inbuilt as a principle. A programme of continuous monitoring and maintenance of the currency of the technology estates, alongside disaster recovery testing, helps to minimise the likelihood of system failure. The Group maintains and tests critical end-to-end business recovery and contingency plans in the event that there is a system outage.
Payment creation, execution and settlement risk	The risk that transactions are not conducted in line with the instructions and parameters of a customer's payment, trading, clearing, settlement scheme or business requirements. This could lead to delays, inaccuracies, duplicates, failures or rejections as well as system-based restrictions and errors. The payments industry is planning for significant changes to infrastructure and processing protocols over the next 12-24 months, due to the implementation of ISO20022, Real-Time Gross Settlement Renewal and New Payments Architecture. *How this risk is managed* – The payment risk framework outlines key scheme rules, regulations and compliance requirements alongside the risk-based approach to assurance oversight, control testing and change management, to ensure payment risk is managed within appetite and impact to customers is minimised. All three lines of defence are actively involved in changes being made.
Data management	Data underpins decision making at all levels of the organisation. Poor-quality data can lead to loss, customer disruption, potential misrepresentation in regulatory reporting, non-compliance with Data GDPR and unnecessary rework. *How this risk is managed* – The Group has a data management framework governing the creation, storage, distribution, usage and retirement of data, aligned with data management industry standards and GDPR requirements.
People risk	People risk is defined as the risk of not having sufficiently skilled and motivated colleagues who are clear on their responsibilities and accountabilities and who behave in an ethical way. This could lead to inappropriate decision making that is detrimental to customers, colleagues or shareholders and could ultimately lead to regulatory sanction. *How this risk is managed* – The Group has a range of RAS metrics in place which help to measure and report people risk. Operational controls are designed to mitigate the risks associated throughout each element of the colleague life cycle. Group-wide systems provide tools and online guidance to all colleagues to support them in discharging their accountabilities.

Operational risk (continued)

Measurement

Material operational risk events are identified, reviewed and escalated in line with criteria set out in the RMF. Root cause analysis is undertaken and action plans are implemented.

Losses may result from both internal and external events and are categorised using risk categories aligned to Basel II. The Basel II categories are used to ensure that data can be reported externally and compared with other industry data. Due to the nature of risk events, losses and recoveries can take time to crystallise and therefore may be restated for prior or subsequent financial years.

Operational risk losses

The majority of losses relate to two Basel categories: 'External fraud' and 'Execution, delivery and process management.' The volume of External fraud losses accounted for over 95% of the total. This category's higher volume of low-value events relates mainly to card fraud and online scams and is in line with the industry. 'Execution, delivery and process management' volumes are as expected and reflect the daily volume of transactions and customer interactions.

The table below outlines the operational risk losses by Basel category.

	% of total volume		% of total losses	
Operational risk losses by Basel category(1)(2)	**2023**	2022	**2023**	2022
Business disruption and system failures	**0.1%**	0.8%	**0.1%**	0.6%
Clients, products and business practices	**0.8%**	1.0%	**1.2%**	4.1%
Damage to physical assets(	**0.4%**	0.8%	**0.2%**	1.1%
Execution, delivery and process management	**2.6%**	2.9%	**3.4%**	3.9%
External fraud	**96.1%**	94.3%	**95.1%**	90.2%
Internal fraud	**0.0%**	0.2%	**0.0%**	0.1%

(1) Losses greater than or equal to £5,000, excluding unexpected losses (e.g. PPI).

(2) Figures may not match those presented in 2022, as historical loss amounts can change due to recoveries made.

Mitigation

In delivering its strategic objectives, the Group strives for operational efficiency and accepts a level of loss may arise from operational failure. Implementing key controls and monitoring, with appropriate escalation and governance, ensures operational risks are managed, and losses remain within acceptable limits. We operate robust controls over all significant operational risks and ensure these are sufficient to prevent material disruption of our service to customers and/or our business.

Monitoring

The Group has identified, assessed and monitored all key operational and resilience risks across the noted Basel II categories, including undertaking an assessment of control effectiveness, monitoring trends in key risk indicators and escalating events, in accordance with policy requirements. The Risk function performs oversight of the Group's business planning process, including analysis of industry trends or forward-looking threats that could lead to material impact on our ability to deliver on the strategic objectives or result in a significant impact on assessment of operational risk capital. It also performs ongoing oversight of the Group's management of operational risk, including risk and control assessment, issues and risk events.

Stress testing

The Group develops and maintains a suite of operational risk scenarios using internal and external data. These scenarios provide insights into the stresses the business could be subject to given extreme circumstances. Scenarios cover all material operational risks including execution of change, failures in core processes or execution risk from a third party. Scenarios are owned by senior management custodians with review and challenge provided by the Risk function, Executive Risk Committee and Board Risk Committee, as part of the ICAAP process. Management actions are agreed and monitored and linked with business resilience and continuity testing where appropriate.

Economic crime risk

Economic crime risk is the risk that the Group's products and services will be used to facilitate financial crime and fraud against the Group, its customers or third parties.

Risk Appetite
Economic crime risk is measured and reported against a defined suite of metrics within the Group RAS. In particular:

Anti-money laundering and counter terrorist financing
The Group applies a risk-based approach model which sets out the types of customer it has no risk appetite to onboard, as well as customers with whom the Group is prohibited from entering into or maintaining a relationship with. During onboarding and throughout the customer relationship, financial crime risk is assessed and used to apply an appropriate level of due diligence.

Sanctions and embargoes
The Group has no appetite for non-compliance with the legal and regulatory obligations relating to sanctions and embargoes.

Bribery and corruption
The Group does not tolerate the direct or indirect offer, payment, solicitation or acceptance of bribes in any form.

External fraud
The application of the Group's Board-approved fraud RMF seeks to manage customer disruption and fraud exposure and keep fraud losses within an acceptable risk appetite.

Internal fraud
The Group has no appetite for internal fraud.

Exposures
Economic crime risks are inherent in doing business in the financial services industry and may arise from failure to:

- meet legal and regulatory requirements; and
- maintain effective systems and controls to prevent the risk that the Group might be used to further financial crime.

Measurement
All economic crime standards are reflected in the Group policy and supporting technical standards, the content of which is provided by the Economic Crime Risk team and updated as appropriate. Financial crime and fraud-related risk appetite metrics are monitored and reported to the Board on a monthly basis.

Mitigation
The Group has the following controls and procedures to support mitigation:

- a clearly defined economic crime risk policy statement (with supporting technical standards) and RAS signed off by the Board;
- ongoing development, maintenance and reporting of risk appetite measures for economic crime risk to the Executive Risk Committee and the Board;
- key performance metrics relative to critical financial crime systems are kept under review and presented through governance to assess ongoing effectiveness;
- consideration of economic crime risk in the context of product and proposition development and associated appropriate governance;
- investment to maintain compliance and progress with key implementations;
- ongoing assessment of evolving regulatory policy requirements and ensuring the Group responds accordingly; and
- regular oversight and review of systems, controls, higher risk activities and customers takes place as part of a formal oversight plan.

Monitoring
The three lines of defence play a key role in managing economic crime risk. This includes operational monitoring activities such as: financial crime screening and due diligence; fraud detection and customer support processes; independent oversight and risk monitoring of risk appetite and the effectiveness of the financial crime control framework; governance and standard setting; training; and reporting to the competent authorities, as well as through internal governance fora, such as Executive Risk Committee and the Board.

Risk report (continued)
Strategic and enterprise risk

Strategic and enterprise risk is the risk of significant loss of earnings, or damage arising from decisions or actions that impact the long-term interests of the Group's stakeholders or from an inability to adapt to external developments. Strategic risk can arise if the Group designs or implements an inappropriate strategic plan, designs an appropriate plan but fails to implement it, or implements the strategic plan as intended, however fails to take account of a change in external circumstances.

Strategic risk also includes the inability to respond effectively to cultural, structural and regulatory change and the failure to establish and execute a compelling digital strategy or increase organisational capability in support of this. It considers the risk of being an inefficient, high-cost, uninspiring or uncompetitive provider of products and services.

Enterprise risk includes managing and implementing effective governance and reporting and maintaining external relations to promote the brand and support the Group's ability to successfully achieve strategic goals.

Risk appetite

The risk position for strategic and enterprise risk, referenced in the Group's RAS, takes account of the fact that the Group will need to take an acceptable level of risk to successfully grow the business and will need to implement transformational changes to the operating model and supporting frameworks to achieve this. There is, however, a requirement to pursue these goals in a controlled and prudent manner given the potential downside in financial, reputational, conduct and broader risk implications.

Exposures

Inflationary pressures in the UK are contributing to a cost of living crisis, which alongside low economic growth, could impact customer resilience and consequently debt affordability. These risks in aggregate put pressure on the strategic plan and the Group's ability to grow. The Group has considered this uncertainty and potential challenges as part of the FY24 Strategic and Financial Plan risk assessment and planning process.

In addition, the Group operates in an increasingly competitive environment, with the pace of change and complexity posing risks to strategic initiatives. Shareholder expectations, customer behaviours and colleague sentiment continue to evolve, increasing the importance of being able to respond appropriately.

The Group is also exposed to execution risk as a result of ongoing transformation activity.

Measurement

The Group's RAS represents a 'risk envelope' against which chosen strategies and financial plans are assessed and within which chosen strategies must operate. The RAS, along with the associated RAF, is a key means of controlling strategic risk. The RAF comprises an extensive system of measures, thresholds and other controls, which together ensure that the Group operates within the Board's approved appetite for strategic risk.

Mitigation

The Group undertakes thorough and regular monitoring of emerging and crystallised strategic risks, including developments in the external geo-political environment, to ensure it is best placed to proactively respond to changes as and when required. Robust contingency plans are in place to ensure the impact of any changes on strategic initiatives is captured.

The Group continues to develop and embed its sustainability agenda. This includes increased due diligence activity in relation to the lending decisions being undertaken, and social interaction to promote inclusion and diversity in the communities in which the Group operates.

The Risk function undertakes regular risk oversight activity, placing customers' interests at the centre of all aspects of change. Our Purpose of Making you happier about money underpins this activity. The planning process for FY24 projects is overseen by the Risk function to ensure a balanced portfolio within the funding available.

Monitoring

A range of financial and non-financial metrics, including RoTE, lending growth, NIM, and others, are KPIs used to monitor performance relative to strategic objectives. They are continually monitored against the Strategic and Financial Plan by the Board and Executive Leadership Team, who react to deviations from targets and modify strategy accordingly.

A formal assessment of the Group's Strategic and Financial Plan, reviewing the Group's current and potential strategic risks, and the impact of strategic decisions and objectives on the Group's risk profile, was undertaken during the year. The findings are reported to the Board Risk Committee and the Board annually.

Climate risk

Climate risk is the exposures to physical and transition risks arising from climate change.

Risk appetite
The Group accepts a level of climate risk in conducting its business. The Group has developed initial capability to assess a range of physical and transition risks within the credit portfolio in addition to running scenario analyses which have been incorporated into RAS. However, the Group is still evolving its approach, building new tools and exploring data solutions to support climate risk assessment. The decisions made today could impact climate risk for years to come and it is in this forward-looking context that risk appetite and policies are being developed.

Exposures
Physical risks arise from longer-term changes in the climate and weather-related events e.g., rising average temperatures, heatwaves, droughts, floods, storms, sea-level rise, coastal erosion and subsidence. They can potentially result in large financial losses in respect of the Group's own properties or disrupt operations as well as impairing asset values and the financial position of borrowers or key third-party suppliers.

Transition risks arise from the adjustment towards a low-carbon economy and could lead to changes in appetite, strategy, policy, technology, and sentiment. These changes could prompt a reassessment of the value of a large range of assets and create increased financial exposures for the Group as the costs and opportunities arising from climate change become apparent.

Reputation risks may also arise from a failure to meet changing and more demanding societal, investor or regulatory expectations.

Measurement
The Group has developed core climate change scenario analysis capability to enhance our ability to identify climate-related risks and opportunities, and to assess the resilience of our business model.

Working with specialist third-party data providers the Group has developed capability to identify a range of physical and transitional climate-related risks within the Group's lending portfolio, which is assessed on a periodic basis. The Group will continue to develop its data as climate risk methodologies and risk management practices evolve.

Mitigation
There is a specific climate risk policy framework which outlines the Group's approach to the identification, management and monitoring of climate risk. The framework clearly defines and documents roles and responsibilities across the Group.

Monitoring
Climate risk is monitored and reported on a regular basis in Executive and Board Committees. The Environment Committee oversees the management of Environmental and Climate Change matters across the Group and is chaired and sponsored by the Chief Financial Officer.

Periodic monitoring of metrics is measured against the climate policy framework (including RAS) and strategic Group objectives. The Risk function provides oversight of the Group's development of processes and systems which are established to monitor and mitigate climate risk.

Report of the Directors

The Directors of the Bank and its subsidiary undertakings (which together comprise the 'Group') submit their report and consolidated financial statements for the year ended 30 September 2023.

Statement of corporate governance arrangements
The Board of Directors ('the Board') strives to ensure good standards of corporate governance are maintained. The Group is part of the Virgin Money UK PLC Group where Virgin Money UK PLC, as a premium listed holding company, applies the 2018 UK Corporate Governance Code ('the Code'). As a wholly-owned subsidiary, the Bank is not required to comply with the Code, but looks to apply similar governance arrangements to those described in the Governance report within the Virgin Money UK PLC Annual Report and Accounts. The Group has therefore adopted its own governance arrangements, which are considered more appropriate in the context of the Group's situation than existing recognised codes for private companies. Set out below are the overarching principles which the Group believes are appropriate to ensure effective decision-making to promote the Group's long-term success, and how these principles have been applied during the financial year ended 30 September 2023.

Principle One – Purpose and Leadership – "An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose"
The Board's role is to provide leadership of the Group and to set its strategy, ensuring the necessary resources, policies and procedures are in place for the Group to meet its strategic priorities and to monitor and measure performance against them. The Board establishes and maintains an effective risk management and internal control framework and determines the nature and extent of the risks the Group is willing to take to achieve its long-term strategic ambition through the approval of the Group's risk appetite. The Board is responsible for setting the Group's Purpose, values and behaviours and under the leadership of the Board Chair, establishes the Group's culture regularly assessing and monitoring alignment with the Group's Purpose and values which are aligned to those described in the Virgin Money UK PLC Annual Report and Accounts. The Board is the principal decision-making body for matters of Group-wide strategic, financial, risk, regulatory, cultural, governance or reputational significance.

Our Purpose – Making you happier about money – guides our strategy and the Board is committed to putting it at the heart of everything Virgin Money does as a business and an employer, ensuring that the Board's own decisions are Purpose-led. Throughout the year, the Board has been closely engaged on the progress made in embedding the FCA's new Consumer Duty requirements, which came into effect in July 2023. Our Purpose is synonymous with providing good customer outcomes, and at Virgin Money we've adopted the new Consumer Duty by taking a Purpose focused, data-led decision-making approach ensuring the Consumer Duty weaves throughout everything we do from the conversations we have with customers, to the products we design, the policies we operate and the suppliers we work with. During the year the Board closely monitored the implementation of Consumer Duty with the Board Risk Committee overseeing related risks. At the start of the implementation programme in 2022 the Board appointed Non-Executive Director Elena Novokreshchenova as Consumer Duty Champion who worked with the Board Chair, Chief Executive Officer and Chief Operating Officer to ensure the topic received focus in Board and senior stakeholder discussions in addition to providing support to management and attending and reporting back on industry forums on the subject. A further key focus area for the Board has been building an inclusive and equitable culture driven by our Purpose, which involved the Board supporting the five-year People vision and strategy, agreeing the Workforce Engagement Programme for the year, and updating the updated Board Diversity & Inclusion Policy and targets.

Principle Two – Board Composition – "Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution"
As at 30 September 2023, the Board comprised the Board Chair, two Executive Directors, four independent Non-Executive Directors, and one Non-Executive Director appointed by Virgin Enterprises Limited. The Board reviews the structure, size and composition of the Board and Board Committees on at least an annual basis including the balance of skills, knowledge, experience and diversity and the Board considers its current size and composition is appropriate to the Group's circumstances. The Virgin Money UK PLC Group Board Diversity and Inclusion Policy, which applies to the Group, ensures that an inclusive process is followed when recruiting Board members which includes ensuring that the selection process is based on the principles of fairness and respect, that all appointments are made on the basis of individual competence and merit measured against objective selection criteria and that when recruiting Board members due regard is given to the benefits of diversity and inclusion. The Board is committed to ensuring that its membership is representative of the diverse societies and communities it operates in. Recruitment of Board members will consider candidates from a wide pool including women, people from a minority ethnic background, those with a disability in addition to drawing on other differences and experiences such as knowledge and skills; age; educational, professional and socio-economic background; and cognitive and personal strengths. The Board firmly believes that creating and sustaining a diverse workforce at all levels in Virgin Money and building a fully inclusive culture is critical to the Group's long-term sustainable success, to foster decision making that represents the broadest set of views and perspectives and to mitigate the risk of 'group think'.

Statement of corporate governance arrangements (continued)

A review of the performance of the Board, its Committees, the Board Chair and of individual Directors takes place annually. The annual evaluation is an opportunity to identify ways to improve the efficiency of the Board by maximising strengths and highlighting areas for development as part of the Board's commitment to continuously improve its performance. The 2023 review was externally facilitated by Korn Ferry (UK) Limited who was appointed following a selection process overseen by the Governance and Nomination Committee. Korn Ferry sought the views of Directors on a range of topics including Board composition and dynamics; succession planning; governance and information; Board responsibilities and overall mandate; and strategy and direction. As part of the review, Directors were asked to reflect on the role and effectiveness of each of the principal Board committees in supporting the Board to discharge its duties. All Directors were also subject to an individual effectiveness review. The Senior Independent Non-Executive Director leads the review of the Board Chair's performance involving all Non-Executive Directors and taking into account the views of Executive Directors. The Board Chair, with the support of the Governance and Nomination Committee leads the Board in acting on the results of the performance review and by putting in place an action plan to improve Board effectiveness.

Principle Three – Director Responsibilities – "The Board and individual directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision-making and independent challenge"

The Directors assume ultimate responsibility for all matters, and along with senior management are committed to maintaining a robust control framework as the foundation for the delivery of good governance, including the effective management of delegation through the corporate governance framework. Policies are also in place in relation to potential conflicts of interest which may arise. All Directors are provided with sufficient resources to undertake their duties and have access to the advice of the Group Company Secretary in relation to the discharge of their duties and matters of governance. In appropriate circumstances, Directors may obtain, at the Group's expense, independent professional advice where they judge it necessary to discharge their responsibilities as Directors.

The Board is supported by its committees which are the Audit Committee, Governance and Nomination Committee, Remuneration Committee and Risk Committee ('Committees'). The Committees make recommendations on matters delegated to them and are managed in the same way meetings of the Board are managed, with open debate encouraged, and adequate time provided for members to consider proposals which are put forward. The Board Chair and each Board Committee Chair is responsible, with support from the Group Company Secretary, for the provision to each meeting of accurate and timely information.

The Board Chair is responsible for leading the development and of the Board taking into account a range of factors including the output of the annual Board performance review and the evaluation of each Director's own performance. During the year collective Board training topics reflected the areas of focus for the Board and included externally facilitated sessions to test how the Group would respond to a resolution scenario in relation to the BoE's Resolvability Assessment Framework including the Board and senior management responsibilities; a session focusing cybersecurity capabilities and industry standards; and an incident management exercise focusing on a cyberattack. Internally facilitated training included a session focusing on the new Financial Conduct Authority (FCA) Consumer Duty requirements and the work to embed the duty across the Group and additionally Directors undertook the same online 'Professional Passport' training as colleagues which in 2023 covered topics such as the Code of Conduct; ESG; anti-bribery, fighting fraud, financial crime & tax evasion; vulnerable customers; and the Group's whistleblowing programme. Committee specific training is agreed with committee chairs as needed. The Board Chair ensures that each new Director receives a formal induction tailored to their individual requirements, skills and experience which the Group Company Secretary coordinates. The aim of the induction plan is to bring Virgin Money and its strategic journey to life and to equip the new Director with the knowledge necessary to perform their role. Additionally, a Director taking on a senior management function role as prescribed under the Senior Managers and Certification Regime undertakes a full and formally documented handover of responsibilities with the outgoing role holder and induction is also tailored if any new or serving Director is taking on a specific Board role such as a committee Chair.

Principle Four– Risk management and internal control – "The Board should promote the long-term sustainable success of the company by establishing oversight for the identification and mitigation of risks"

The Board, through delegated authority assigned to the Risk Committee and the Audit Committee, assumes responsibility for the Group's systems of internal control. The internal control framework is designed to facilitate effective and efficient operations, ensure a high quality of internal and external reporting, and ensure compliance with applicable laws and regulations. The Directors and management are committed to maintaining a robust control framework as the foundation for the delivery of effective risk management. A review of the effectiveness of key controls is regularly undertaken across the Group, providing an assessment and statement on the effectiveness of the Group's control environment. The effectiveness of the risk management and internal control systems is reviewed regularly by the Risk Committee and the Audit Committee. The Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures. The Audit Committee assists the Board in discharging its responsibilities with regard to external and internal audit activities and controls including reviewing audit reports, internal controls and risk management systems.

Statement of corporate governance arrangements (continued)

The Board confirms that throughout the year ended 30 September 2023 and up to the date of approval of this Annual Report and Accounts, there have been rigorous processes in place to identify, evaluate and manage the principal and emerging risks faced by the Group, including those that would threaten its business model, future performance, solvency or liquidity, the likelihood of a risk occurring and the costs of control in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the Financial Reporting Council (FRC).

Principle Five– Stakeholder engagement – "Directors should foster effective stakeholder relationships aligned to the company's purposes. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and have regard to that discussion when taking decisions"
Detailed information on how the Group engages with its stakeholders, and the Board's involvement in overseeing this engagement is set out in the s.172(1) statement on pages 95 to 99.

Profits and appropriations

The Group made a profit before tax for the year ended 30 September 2023 of £344m (2022: £590m). The profit attributable to the shareholders for the year ended 30 September 2023 amounted to £195m (2022: £460m). Interim dividends totalling 1.17p (2022: 2.83p) per ordinary share amounting to £145m (2022: £353m) were paid by the Bank in respect of the year ended 30 September 2023. A final dividend in respect of the year ended 30 September 2023 of 0.21p (2022: 0.83p) per ordinary share in the Bank is subject to the Virgin Money UK PLC shareholders approving the Virgin Money UK PLC dividend at the 2024 Annual General Meeting (AGM). These financial statements do not reflect the recommended dividend. The Group's strategic highlights and business developments are set out in the Strategic report.

Future developments and financial risk management objectives and policies

Information regarding future developments and financial risk management objectives and policies of the Group in relation to the use of financial instruments that would otherwise be required to be disclosed in the Report of the Directors, and which is incorporated into this report by reference, can be found in the Strategic report and the Risk report.

Directors and Directors' interests

The current Directors are shown on page 2.

Directors who are not full-time employees of the Group or a related body corporate are appointed in accordance with the Articles of Association and may be eligible for reappointment thereafter. No Directors retired during the year.

Directors' interests
No Director had any interest in the shares of the Bank or its subsidiaries at any time during the year.

Directors' indemnities

The Directors have each entered into individual deeds of access, insurance and indemnity with the Group which, amongst other things and subject to certain exceptions, indemnify the Directors to the maximum extent permitted by law and regulation against liabilities to a person other than the Bank or an associated company that they may incur as an officer of the Bank and any other subsidiary of the Group. Each such provision constitutes a 'third party indemnity provision' and a 'qualifying indemnity provision' for the purposes of section 234 to 236 of the Companies Act 2006. These provisions are in force for the benefit of the Directors at the date of this Report, and during the financial year to which this Report relates. Such deeds are available for inspection at the Bank's registered office.

The Group has an insurance policy in place for the benefit of all trustees, colleagues, Directors, officers, members and partners of the Bank while acting in the capacity of a trustee or administrator of employee benefit or pension plans. This policy therefore indemnifies the Directors, trustees and administrators of the occupational pension schemes operated by the Group, against liability incurred by them in connection with the management and administration of the pension schemes. This insurance policy constitutes a 'pension scheme indemnity provision' and a 'qualifying indemnity provision' for the purposes of section 235 to 236 of the Companies Act 2006. These provisions are in force for the benefit of the Directors of Trustee Companies at the date of this Report, and during the financial year to which this Report relates. Such policy is available for inspection at the Group's registered office.

In addition, the Group had appropriate Directors' and Officers' Liability Insurance cover in place throughout the financial year.

Colleagues

Policies and practices in respect of colleague issues are managed on a consistent basis across the Group.

Stakeholder engagement and s.172(1) statement

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide a section 172(1) statement, describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Group, under section 172. Further relevant information in this regard is also contained within the S.172 statement, Strategic report and the Directors' report in the Virgin Money UK PLC Annual Report and Accounts.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), this statement also provides details of how the Directors have engaged with and had regard to the interest of key stakeholders.

The Bank is a subsidiary of Virgin Money UK PLC, and as such follows many of the processes and practices of this company, which are further referenced in this statement where relevant.

Our stakeholders
The Board is responsible for leading stakeholder engagement, ensuring that the Group fulfils its obligations to those impacted by the business. The Group's key stakeholders are set out below along with some examples of how the Group engages with them.

Customers
The Group is committed to delivering outstanding customer experiences and to making positive changes every day for its customers, making them feel happier about money.

The Board is kept updated on customer-related matters through the regular reports it receives from the Executive Leadership Team and other senior managers including the reports from the Chief Executive Officer, Managing Director, Business and Commercial and Chief Operating Officer at each Board meeting. Reports include data on Smile Score, our key customer experience metric, the Net Promoter Score customer loyalty measure, customer retention and attraction and complaint volumes and resolution. Additional insight is provided from industry body data, external surveys and research. All of these information sources enable the Board to gain an in-depth understanding of customer expectations, behaviour and feedback, therefore informing future decision making. The Board's awareness of matters impacting customers is also informed by insight from Directors' broader external experience and board appointments including positions held with industry bodies such as the Chief Executive Officer's appointment as Senior Independent Director of UK Finance Limited, the Board Chair's role at The Department for Work & Pensions and Sara Weller's role as Chair of the Money and Pensions Service board.

In March, Board meeting agenda time was allocated to looking in more detail at how Virgin Money's customer proposition is being evolved, aligned to our digital bank strategy, to deliver more rewarding modern money experiences for customers. Directors heard how the outputs from research on customer expectations and preferences has helped shape the areas of focus and given clear direction on how the customer proposition and communications platform will be developed. In June the Board heard from the Head of Business Banking on how the Business Bank strategy is progressing including how a combination of digital and human support is solving real business needs.

During the year the Board has been particularly focused on the continued macroeconomic pressures and the rising cost of living challenges faced by customers and has considered how Virgin Money can best provide support. Reports from the Chief Risk Officer on credit risk and asset quality give insight on customer pressure points. The Board has heard how industry and political feedback has been taken into account when putting in place customer support measures.

The Board has also been kept informed of progress in embedding the new FCA Consumer Duty, ensuring Virgin Money provides customers with products and services that meet their needs and offer fair value.

Stakeholder engagement and s.172(1) statement (continued)

Outcomes following engagement with customers

> Ensured that customers have access to additional support to help manage cost of living challenges including signing up to the Government's new Mortgage Charter; reviewing and improving savings rates with proactive customer contact to encourage customers to move to a higher interest paying product; access to the cost of living hub and the Turn2Us Benefits Calculator on the Virgin Money website; and partnering with Youtility to help customers save money on their bills.

> Approved the plans to implement the new Consumer Duty across the Bank's products and services and undertook a deep dive to understand how outcomes testing and price and fair value assessments will operate going forward to ensure ongoing protection for customers.

> Ensured the strategic and financial planning process, and ongoing Board reporting, considers lead indicators about customer behaviour given the ongoing economic volatility and the uncertain outlook.

> Launched and enhanced products and services aimed at helping customers make a positive impact on society and the environment including the Green Mortgage Reward offer, Sustainable Business Coach app and the Agri E Fund.

> Launched the new conversational virtual assistant, Redi providing 24/7 customer support.

> Significantly reduced onboarding journey timescales and manual processing for business customers.

> Launched Virgin Money Investments giving customers access to a new digital platform with a range of straightforward investment products.

> Renewed the Bank's commitment to Cash Access UK providing access to cash and basic banking services in hubs across the UK.

Colleagues

Colleagues who feel engaged and enthusiastic about the work they do are critical to delivering the best experience for our customers. The Group wants its colleagues to feel engaged and motivated by the work they do and the Board and its committees have various channels by which it keeps itself engaged with colleagues views and sentiments.

The Workforce Engagement Programme provides regular opportunities for interactive communication between Directors and colleagues throughout the year and is designed to involve colleagues working at all levels and in all functions across Virgin Money. At the start of each Board meeting there is an opportunity for Directors to report back on key messages from any recent workforce engagement events to ensure that, as appropriate, colleague views are taken into account during Board discussions and decision making. The Chief Executive Officer and members of the executive Leadership Team also report on key messages from colleague sessions they host whether at an enterprise or local level. The Board keeps the effectiveness of the Workforce Engagement Programme under review and continues to evolve it in line with the broader operating rhythm. For example, in 2023 more in-person sessions were introduced in colleague hubs.

The annual MyVoice colleague engagement survey and Pulse checks are rich sources of insight into colleague engagement and sentiment. The Group Chief People and Communication Officer reviews the results with the Board which considers the key themes from the survey responses and provides input to the action to be taken to capitalise on strengths and to address areas of opportunity. As an example, feedback has helped shape how the colleague proposition A Life More Virgin (ALMV) (which we reported on the FY22 Annual Report and Accounts) has evolved, the support given to colleagues and the steps we are taking to build a diverse and inclusive culture. The Board considered the outputs of a ten-week colleague listening programme in which over 2,500 colleagues participated sharing their feedback on how ALMV is working for them, their teams and the customer we serve with highlights being that generally colleagues feel more energised, productive and empowered with financial, mental and physical well-being improving.

The Board considered how cost of living pressures are also impacting colleagues through feedback from workforce engagement sessions, colleague surveys and from people leaders and heard about the action being taken to provide colleagues with access to information and support.

Stakeholder engagement and s.172(1) statement (continued)

Colleagues (continued)
Creating and sustaining a diverse workforce and ensuring colleagues feel included while at work is a key priority for Virgin Money. The Group's DE&I strategy sets out a series of practical ways to ensure colleagues feel included and drive delivery of the representation targets the Group has set to help evolve culture, mindsets and behaviours. The launch of our new careers site has created a more distinctive, engaging employer brand attracting talent from across diverse candidate segments. Progress against our targets and other lead indicators are monitored by the Board on a regular basis. The Group's six active colleague inclusion networks provide an accessible way to assist colleagues in finding their sense of belonging at work.

Non-Executive Directors attended Purpose Council meetings as an additional way of understanding how Purpose is being embedded across Virgin Money. Purposeful People and Purposeful Team nominations and awards enable brilliant Purpose-centric achievements to be recognised and the Board holds spotlight sessions with award winners to hear first-hand about how they have used Purpose to make a difference for customers, communities or fellow colleagues. As an example, one team had used colleague feedback to improve the experience when a new colleague joins Virgin Money. The annual PurposeFest is an additional way that colleagues can feedback on how Purpose is being embedded in their local areas which the Purpose Council then considers in developing the go-forward Purpose plan.

The Board and its committees also received regular updates on matters impacting colleagues, for example from the Group Chief People and Communications Officer on the evolution and effectiveness of the Workforce Engagement Programme and from the Chief Operating Officer on the colleague impact of store closures.

Internal Audit also continues to report to the Board on the findings of regular Culture Assessments carried out in business units.

Outcomes following engagement with colleagues

> Having heard feedback from the ALMV colleague listening programme, a guide was created for all colleagues and people leaders to use for reviewing team rhythms to help find the right balance between delivering for our customers and business, and the individual needs of our colleagues.

> The new Career Journey Framework was launched to which the bonus scheme was also aligned; other colleague policies were refreshed and simplified.

> The Remuneration Committee supported a 10% pay increase for the majority of colleagues for 2023 set against increasing cost of living pressures and economic uncertainty.

> The Board approved the revised People strategy which, among its deliverables, seeks to attract a more representative and skilled workforce.

Investors
The Bank is a wholly owned subsidiary of Virgin Money UK PLC. The Directors, who are the same for both the Group and Virgin Money UK PLC, ensure that the strategy, priorities, processes and practices of the Group are fully aligned where required to those of Virgin Money UK PLC, ensuring that the interests of Virgin Money UK PLC as the Bank's sole shareholder are duly acknowledged. Further information in respect of the relationship of Virgin Money UK PLC with its shareholders is included within the Strategic report within the Virgin Money UK Annual Report and Accounts for 2023.

Society
The Group's ambition is to be a positive force for good in society and to demonstrate that commitment through everything it does.

As part of our ESG strategy, the Group works with customers, colleagues and communities to encourage sustainable practices and economic activity that creates shared prosperity. The Group's charity partnership with MacMillan continued throughout the year in addition to colleague fundraising activity supporting charities locally.

The Board and management actively encourage and fully support our community work and colleagues can make use of two volunteering days, in addition to volunteering in their own time, to give something back to their communities or charities close to their heart.

The Board is kept updated through periodic reports on progress with the ESG strategy and on specific initiatives. You can read more in the ESG section of the Strategic Report in the Virgin Money UK PLC Annual Report and Accounts.

Stakeholder engagement and s.172(1) statement (continued)

Society (continued)
In partnership with Macmillan, we worked to encourage more people living with or impacted by a cancer diagnosis to access support including through the Macmillan Guides, Macmillan Neighbours and local charity champions. Following three inspiring years with Macmillan in November 2023 we announced that our next charity partner will be Mind in partnership with the Scottish Association for Mental Health (SAMH), providing new opportunities for colleagues to draw on their skills and experience to be a force for good in society.

In 2023, we formed a new partnership with the Good Things Foundation to help tackle digital poverty and Virgin Money was the first bank in the UK to sign up to the innovative National Databank Programme providing people from low income households or suffering data poverty with access to free sim cards.

The Virgin Money Foundation recently celebrated the graduation of the second cohort from the Young Change Makers, the Fellowship Programme which supports young people aged between 18 and 26 from across the Northeast and the Northwest of England, and Yorkshire and the Humber, who are passionate about changing society for the better.

The Group remains committed to tackling the poverty premium. The poverty premium is the extra cost those on low incomes pay to access essential services including utilities, credit and insurance. Around 14 million people in the UK pay a Poverty Premium. Working in Partnership with Turn2us, we have helped almost 29,000 people check their eligibility for welfare benefits and tax credits and over £1.7m in funds has been identified as a result. The charity estimates that those who use the calculator and find out they are entitled to unclaimed benefits go on to receive an average of £5,300 in additional funds each year.

Outcomes following engagement with our communities

> The Board approved the FY23 ESG strategy and targets and was updated on the progress made on these targets throughout the year.

> The Virgin Money Foundation achieved funding milestones of over £10m to organisations based in the Northeast of England and over £1m to organisations in and around Glasgow. The Foundation also provided a one-off 10% increase on Community Anchors' Fund and Community Anchors' Glasgow Fund grants awarded or drawn down during 2022 in response to the increasing cost of living.

> The Foundation's Colleagues in the Community fund continued to provide grants of up to £500 to charities and community organisations which colleagues support through volunteering activity.

> The Foundation revamped its website, considering user experience, accessibility, design and stories.

Government and regulators
The Board values the open, transparent and supportive relationship it has with each of its regulators as well as Government bodies.

The Group maintains a regular dialogue with the supervisory teams at the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) and meetings are held throughout the year between them and individual Board members, the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and other members of the Executive Leadership Team on specific topics. During the year, the PRA and FCA both joined meetings of the Board to speak about the outcome of regulatory reviews, regulatory expectations of Virgin Money as a systemically important bank and regulatory priorities for the coming period. The Board is kept updated between meetings on key discussion topics and points of feedback from the meetings that members of the executive and senior management teams have with the PRA and FCA to ensure there is a regular flow of up-to-date information.

Key regulatory engagement and representation with the PRA and FCA throughout the year featured topics such as: confirmation that Virgin Money's tax strategy remains robust and effective; submission of the Bank of England (BoE) 2022 Annual Cyclical Scenario (ACS) stress test results and consideration of related capital elements, including share buyback activity; completion of Virgin Money's first Internal Capital Adequacy Assessment Process (ICAAP) and capital plan as systemically important firm; ongoing activity related to the Resolvability Assessment Framework, including Executive Leadership Team fire-drill exercises and capability enhancements in advance of the next self-assessment submission. Consideration was also given to Consumer Duty, operational resilience, treatment of vulnerable customers, and ongoing enhancements to Virgin Money's financial crime capabilities.

Stakeholder engagement and s.172(1) statement

Government and regulators (continued)
Engagement with UK Finance throughout the year included matters such as: support for customers following several increases to the BoE base rate, in addition to related Purpose-led activity around interest rate pass-through on savings; input provided in response to the BoE's consultation on the case for a retail central bank digital currency; access to cash arrangements with Cash Access UK Limited; and concluding elements of the Business Banking Resolution Service.

Outcomes following engagement with government and regulators

> Recognising the increased regulatory expectations for the Bank as a Tier 1 bank, the Board and committees ensured agendas were focused on priority areas and that additional time was allowed for fulsome discussions on a range of topics including FCA Consumer Duty, the Periodic Summary Assessment letter and on the change and transformation programmes to deliver the capability expected by the regulators.

> Action plans were produced to respond to regulatory reviews and the Board was kept updated on progress.

> Changes were made to Virgin Money interest-paying products reflective of the increase in the BoE base rate.

> The second Resolvability Assessment Framework self-assessment was approved taking into account BoE feedback on the first assessment.

> The ICAAP and the BoE's ACS stress test exercise were completed reflective of regulatory expectations.

Partners and suppliers
The Group is able to deliver its strategy and serve its customers with the support of its partners and suppliers.

Usually Directors do not interact directly with the Group's partners and suppliers, however they receive reports and updates from management which allows them to oversee supplier relationships and to keep up to date on developments.

Following a successful external audit tender process last year, the Board has been kept abreast of the transition between Ernst and Young LLP, the outgoing External Auditor, and PricewaterhouseCoopers LLP (PwC) who, subject to shareholder approval at the 2024 Annual General Meeting, took over as External Auditor on 1 October 2023.

The Group's Modern Slavery Statement was refreshed and independently risk assessed by PwC; going forward management will continue to work with our Supplier Relationship Management team to ensure existing and emerging modern slavery risks in our supply chain are monitored.

Through briefings and regular updates, Board members enhanced their understanding of how suppliers can deliver key actions that will help drive the Group's ESG strategy and targets to achieve net zero operations.

Updates were received on our partnership with Virgin Red and from other Virgin companies. Board members were also engaged on how other Virgin companies have been gaining strong commercial momentum despite consumer concerns around inflation and cost of living pressures.

Outcomes following engagement with partners and suppliers

> Approved the Modern Slavery Statement available on the Group's website at virginmoneyukplc.com.

> Successfully launched the new Virgin Money Investments proposition with our joint venture partner abrdn, along with the new FinTech partner and investment platform provider FNZ.

> Supported the recommendation to retain Goldman Sachs and appoint JPMorgan as the corporate brokers following a robust selection process.

> Relaunched the partnership with the insurtech partner Hood Group delivering a digitised travel insurance proposition.

> Approved a service agreement with E.Surv Limited to ensure there is one single panel and valuation supplier over the next three years.

> Expanded the Levelling Upstarts programme giving Business customers the opportunity to partner with MBA and master's students from leading universities through digital workshops to address barriers to productivity.

Report of the Directors (continued)

Equality of employment opportunities

It is the policy of the Group to promote equality of employment opportunities by giving full and fair consideration to applications from people with disabilities. If existing colleagues become disabled, every effort is made to retain them within the workforce wherever reasonable and practicable. The Group also endeavours to provide equal opportunities in the training, promotion and general career development of disabled colleagues.

Additional information can be found in the Strategic report section of the Virgin Money UK PLC Annual Report and Accounts.

Political donations

No political donations were made during the year (2022: £Nil).

Management of risk

Risk and capital related disclosures for the Group are included within the Strategic report and Risk report. The information contained within these disclosures has not been audited by the Group's external auditor, except where labelled accordingly.

Risk and capital related disclosures for Virgin Money UK PLC can be found in the Virgin Money UK PLC Pillar 3 Report, www.virginmoneyukplc.com/investor-relations/results-and-reporting/financial-results/ and also within the Risk report section of the Virgin Money UK PLC Annual Report and Accounts.

Significant contracts

Details of related party transactions are set out in note 5.3 of the consolidated financial statements.

Share capital

Information about share capital is shown in note 4.1 of the consolidated financial statements.

Research and development activities

The Group does not undertake formal research and development activities although it does invest in new platforms and products in each of its business lines in the ordinary course of business. In addition to new products and services the Group also invests in internally generated intangible assets including software and computer systems. Further details can be found in note 3.2 of the consolidated financial statements.

Going concern

The Group's Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that the Group has the resources to continue in business for the foreseeable future.

The Group's use of the going concern basis for preparation of the accounts is discussed in note 1.3 of the Group's consolidated financial statements.

Events after the balance sheet date

There have been no significant events between 30 September 2023 and the date of approval of the annual report and consolidated financial statements which would require a change to or additional disclosure in the financial statements.

Auditors

In accordance with section 485 of the Companies Act 2006, a resolution to appoint PricewaterhouseCoopers LLP, and to authorise the Directors to agree their remuneration, will be proposed at the next Annual General Meeting.

The Directors who were members of the Board at the time of approving the Report of the Directors are listed on page 2. Having made enquiries of fellow Directors and of the Group's auditor, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's auditor is unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditor is aware of that information.

By order of the Board

Lorna McMillan
Group Company Secretary
22 November 2023

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Bank financial statements in accordance with UK-adopted International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006. 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 Group and the Bank and of the profit or loss of the Group and the Bank for that period.

The Group financial statements have also been prepared with regard to the FCA's Disclosure Guidance and Transparency Rules.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Bank financial position and financial performance;
- state whether UK adopted IASs in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Bank and/or the Group will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Bank and enable them to ensure that the Group and Bank financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report and Directors' report that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website.

<u>Directors' responsibility statement (DTR 4.1)</u>

The directors confirm, to the best of their knowledge:

- that the consolidated financial statements, prepared in accordance with UK adopted IASs, give a true and fair view of the assets, liabilities, financial position and profit of the Bank and undertakings included in the consolidation taken as a whole;
- that the Annual Report and Accounts, including the Strategic report, includes a fair review of the development and performance of the business and the position of the Bank and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- that they consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Bank's position, performance, business model and strategy.

Lorna McMillan
Group Company Secretary
22 November 2023

Independent auditor’s report to the members of Clydesdale Bank PLC

Opinion

In our opinion:

- Clydesdale Bank PLC’s Group financial statements and parent company financial statements (the ‘financial statements’) give a true and fair view of the state of the Group’s and of the parent company’s affairs as at 30 September 2023 and of the Group’s profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Clydesdale Bank PLC (the ‘parent company’) and its subsidiaries (collectively the ‘Group’) for the year ended 30 September 2023 which comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2023	Balance sheet as at 30 September 2023
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Cash flow statement for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 6.2 to the financial statements including material accounting policy information
Consolidated statement of cash flows for the year then ended	Information identified as “audited” within the Risk report
Related notes 1.1 to 5.6 to the financial statements, including material accounting policy information	
Information identified as “audited” within the Risk report	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor’s report to the members of Clydesdale Bank PLC (continued)

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors’ assessment of the Group and parent company’s ability to continue to adopt the going concern basis of accounting included:

- We obtained management’s going concern assessment for the Group, including forecasts for the going concern period covering at least 12 months from the date of signing this audit opinion.
- We evaluated the long-term forecasts with reference to the directors’ historical forecasting accuracy and performed stress testing to consider the reasonableness of the trading volume and yield assumptions and considered how management initiatives and investments could impact the Group’s cost base.
- We used economic specialists to assess the forecast's macroeconomic assumptions through benchmarking to institutional, HM Treasury, and Bank of England forecasts.
- Management has modelled adverse scenarios in order to incorporate unexpected changes to forecasted liquidity and capital positions of the Group. We reviewed these scenarios, including a consideration of the Group’s operational resilience, to identify whether they indicated significant issues that might impact the Group’s ability to continue as a going concern.
- We evaluated the results of management’s stress testing, including reverse stress testing, to assess the economic assumptions and their impact on the Group’s solvency and liquidity.
- We compared previous periods’ budgeted financial information with historical actual results, in order to form a view on the reliability of management’s forecasting process.
- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- We reviewed regulatory correspondence and committee and board meeting minutes to identify events or conditions that may impact the Group’s ability to continue as a going concern.
- We reviewed the Group’s going concern disclosures included in the Annual Report in order to assess whether the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company’s ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group’s ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the Group and parent company.
Key audit matters	• Impairment of loans • Revenue recognition – Effective interest rate method accounting
Materiality	• Overall Group materiality of £29m which represents 5% of the profit before tax adjusted for non-recurring costs.

Climate change

Stakeholders are increasingly interested in how climate change will impact Clydesdale Bank plc. The Group has determined that the most significant future impacts from climate change on their operations will be from will be from physical and transitional risks and has concluded that these are medium to longer term in nature. These risks are explained on page 91 in the Risk report which forms part of the ‘Other information’, rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

In planning and performing our audit we assessed the potential impacts of climate change on the Group’s business and any consequential material impact on its financial statements.

As explained in note 1.5 to the Annual Report and Accounts, the Group has made an assessment of the observable effect of the identified physical and transitional risks on the Group’s lending portfolio, as well as other assets such as the deferred tax asset and the pension assets held by the Group’s defined benefit pension scheme. Whilst the effects of climate change represent a source of material uncertainty, the effects on estimates and judgements related to financial reporting arise in the longer term. The financial statements cannot capture all possible future outcomes as these are not yet known and the degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

Our audit effort in considering climate change on the financial statements was focused on evaluating management’s assessment of the impact of climate risk, physical and transitional, and ensuring that the effects of material climate risks disclosed in note 1.5 have been appropriately reflected in the areas of judgement and estimation where relevant. We also challenged the Directors’ considerations of climate change in their assessment of going concern and associated disclosures.

The Group has explained in Critical accounting estimates and judgement note 1.5 the articulation of how climate change has been reflected in the financial statements including how this aligns with their commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050. Significant judgements and estimates relating to climate change are also included in note 1.5. These disclosures explain that risks are still developing, and the degree of certainty of these changes means that they cannot be taken into account when determining financial statement impact.

Based on our work we have considered the impact of climate change on the financial statements to impact certain key audit matters. Details of our procedures and findings are included in our explanation of key audit matters below

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of loans **Consolidated balance sheet impairment of loans - £617m (2022: £457m)** **Consolidated income statement charge - £309m (2022: £52m credit)** **Please refer to page 15 (Credit risk report) and note 3.1.1.1 (Impairment provisions on credit exposures note).** There is uncertainty in estimating expected credit losses (ECL), and management are required to make highly subjective judgements which have a material impact on the financial statements. This calculation is usually complex and higher inflation and interest rates experienced in recent times have increased the uncertainty and complexity. Prior to the last two years, the current economic conditions had not been experienced for many years, which creates modelling difficulties due to the existing models having been developed with data relating to different economic conditions. As a result there is a need for management to exercise judgement and perform assessments to consider whether these risks are appropriately captured through models or should be captured through the recording of post model adjustments and overlays	We developed a detailed understanding of the Group's accounting policies to ensure they remained compliant with the requirements of IFRS 9. We assessed the appropriateness of the Group's staging criteria including the application of qualitative watch list backstops and their logical application through the modelled environment. We reperformed staging on all portfolios that we determined to be of a higher risk. This was done by independently replicating the staging models and re-running the results in our own environment. We assessed the assumptions and performed testing over inputs and formulae used in a risk-based sample of ECL models with involvement of our internal credit modelling specialists. This included assessing the appropriateness of model design and the calculations used, an assessment of model performance and recalculating Probability of Default, Loss Given Default and Exposure at Default for a risk-based sample of portfolios. We also considered whether models appropriately capture the risks of high inflation and high interest rates as models were developed using historic experience when high inflation and high interest conditions were not prevalent.	We communicated that we were satisfied that ECL provisions were reasonable and in compliance with the requirements of IFRS 9. We communicated that our independent testing of models and underlying modelling assumptions resulted in only minor differences that were considered to be immaterial in the aggregate. We also communicated that our challenge of the forecast macroeconomic variables and the base, downside and upside scenarios, together with weightings adopted by management concluded that they were reasonable. The risk not captured by the economic scenarios was appropriately addressed through overlays. Our testing of recorded overlays confirmed they had been accurately recorded, and we were satisfied that their use was complete and appropriate. We communicated that management's climate risk assessment is appropriate and makes the necessary considerations in respect of the physical and transition risks and their impact on ECL and related disclosures.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Key matters that could result in material misstatement in respect of the measurement of ECL include the: - Allocation of assets to stage 1, 2, or 3 using criteria in accordance with IFRS 9; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Completeness and accuracy of data used to calculate the ECL; - Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios, particularly those influenced by current economic conditions; - Completeness and valuation of post model adjustments and overlays including those required to address current economic conditions; - Measurements of individually assessed provisions, including the assessment of multiple scenarios, collateral valuations and workout strategies; and - Adequacy of the financial statement disclosures made for judgements on significant increase in credit risk, multiple economic scenarios and assessment of overlays.	We performed testing over completeness and accuracy of data used in the ECL models and calculation by reconciling, and performing sample tests of key data fields used in the model, to source data and corroborative evidence. We independently recalculated risk ratings for a sample of performing and non-performing business loans and compared to the Group's determinations. We assessed the base case and alternative economic scenarios adopted by management utilising economic specialists. We challenged the probability weightings ascribed to the scenarios and compared them to other scenarios from a variety of external sources. With the assistance of economic specialists, we assessed whether forecast macroeconomic variables were appropriate loan loss provision drivers, and that the forecast variables were reasonable in the context of current economic conditions. We performed testing of model overlays, including those required to ensure the overall ECL fully reflects the risks contained within the current economic environment. With our credit modelling specialists, we assessed the completeness of these adjustments and any other potential post model adjustments, their appropriateness by considering the data, judgements and methodology for these adjustments. With the support of our valuation specialists, we recalculated ECL provisions for a sample of individually assessed loans including comparing to alternative scenarios and challenging probability weightings assigned. We also assessed a sample of individual loans classified as performing loans within higher risk sectors, where no specific provision was held to determine whether their stage classification was appropriate. We obtained management's assessment of climate risk and its impact on the recognition of ECL. We engaged our specialists to assess the completeness of the risks in management's risk assessment and the appropriateness of the conclusions made in respect of estimated amounts in respect of physical and transition risks and the timing of crystallisation of those risks. We also performed procedures on completeness and accuracy of data used in management's risk assessment. Our procedures included a series of 'stand-back' analyses, including industry benchmarking, internal consistency checks and analytical review. We assessed the adequacy and appropriateness of disclosures made within the financial statements, including those in respect of the impact of current economic conditions for significant increase in credit risk, multiple economic scenarios and overlays.	We communicated that management's climate risk assessment is appropriate and makes the necessary considerations in respect of the physical and transition risks and their impact on ECL and related disclosures. Our assessment of the overall provision balance through peer benchmarking and analysis of key indicators, such as the ratio of provisions to loan balances, indicated the provisions recorded captured the continued uncertainty in the overall economic environment as at year end. We communicated that the provisions for all portfolios are considered reasonable. We communicated that we are satisfied with the accuracy and adequacy of the disclosures made.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition – effective interest rate method **Total interest income: £3,830m (2022: £2,215m)** **Total EIR adjustments on balance sheet: Mortgage EIR: £209m, Cards EIR: £259m (2022: £201m and £285m)** **Please refer to note 2.1 Net Interest Income for the Group's disclosures in relation to EIR.** The Group records income on financial instruments under the effective interest rate ('EIR') method. As set out in note 2.1, the most material adjustments to interest income under EIR accounting are made in respect of the Group's mortgage and credit card portfolios. The EIR method spreads the income statement recognition of income and expense cash flows that are, in substance, integral to the overall yield of the financial instrument over its modelled life. For both secured and unsecured lending the Group calculates EIR adjustments based on forecast future cash flows. Following the Group's acquisition of Virgin Money Holdings (UK) PLC on 15 October 2018, fair value adjustments are also recorded on acquired portfolios and amortised through interest income over the projected behavioural lives of the financial instruments. As a result, the unwinding of the fair value adjustment recorded on acquisition is connected to the EIR calculation and its key assumptions. This adds additional complexity to the calculation of amounts recognised in the income statement under EIR accounting. EIR adjustments are sensitive to judgements about the expected behavioural lives and future yields of the product portfolios to which they relate. The complexity of calculations, the degree of management judgement in respect of forecast future cash flows (particularly in the context of uncertain future consumer behaviours and the impact of ongoing economic volatility) and the sensitivity of the amounts recognised in the financial statements to key assumptions are material to the financial statements.	We assessed the Group's EIR accounting policy and the estimation methodology for compliance with the accounting standards. We gained an understanding of the key processes, controls, assumptions and judgements used within the Group's EIR calculations. We also assessed the inclusion or exclusion of key streams of income and expenditure within the Group's EIR calculations. We compared the forecasts of customer behaviours and balance attrition rates to recent experience and historical trends within the associated lending portfolios. With respect to the amortisation of the fair value adjustments relating to the acquired portfolios, we assessed the key assumptions adopted by management for consistency and appropriateness against the assumptions used in the Group's EIR calculations, including the estimation of expected future lives. We performed an independent assessment by developing a reasonable range of forecast future outcomes using the Group's historical experience, our understanding of the industry, and our professional judgement. We assessed management's EIR adjustments against this range. We performed data integrity testing on the key sources of information used within the EIR calculations. We engaged modelling specialists to review management's means of data extraction as well as the appropriateness and consistency of the EIR calculators where required. We assessed the accuracy of the financial statement disclosures reported in respect of the key estimates within the EIR calculations, and their sensitivity to reasonable alternative assumptions. We compared the Group's EIR adjustments against peer benchmarks and our own expectations at a standback level to support our conclusions.	We communicated our observations on management's key assumptions. We noted the risk of changes in future customer behaviour, particularly as a result of UK economic volatility and the likely impacts on consumer spend and repayment. We considered the EIR adjustments and overlays recorded by management in respect of these risks to be within a reasonable range of outcomes. As a result of our audit challenge and validation management made adjustments to EIR in balance sheet and income. Following these adjustments, we communicated that we were satisfied that in the aggregate the reported EIR adjustments made to income were in compliance with the requirements of IFRS 9, the assumptions made are cautious, and that the EIR adjustments themselves reported as at 30 September 2023 were reasonable. We also noted that the unwind of the fair value adjustments recorded by management were materially consistent in comparison to the customer behaviour assumptions used within the Group's EIR calculations.

Independent auditor's report to the members of Clydesdale Bank PLC (continued)

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £29m (2022: £37m), which is 5% of the profit before tax of the Group of £344m (2022: £590m), adjusted for non-recurring restructuring, impairment and acquisition accounting costs. We believe removing these non-recurring charges reflects the most useful measure for users of the financial statements. For the prior year audit, materiality figures for the Group were based on equity given the uncertain economic environment, and the historic performance of the Group. In the current year, the Group has continued to report sustained levels of profitability, therefore we have reverted to a profit-based materiality measure.

We determined materiality for the Parent Company to be £29m (2022: £37m), which is 0.5% (2022: 0.6%) of equity of the Parent Company. We believe this reflects the most useful measure for users of the financial statements as the Parent Company's primary purpose is to act as a holding company with investments in the Group's subsidiaries, not to generate operating profits and therefore a profit based measure is not relevant.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £22m (2022: £27.7m). We have set performance materiality at this percentage due to previous experience as auditors of the Group, from which we concluded that there is a lower expectation of material financial statement inaccuracies due to the effective control environment and nature of audit differences resulting from our prior and current year work. Our approach is consistent with the prior year.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.4m (2022: £1.8m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors’ report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors’ responsibilities statement set out on page 101, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and parent company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report to the members of Clydesdale Bank PLC (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance matters.

- We also reviewed correspondence between the Group and UK regulatory bodies; reviewed minutes of the Board and Executive Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's risk management framework (RMF) and internal control processes.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved inquiries of internal and external legal counsel, executive management, internal audit, and focused testing, as referred to in the Key Audit Matters section above. We utilised forensic accounting specialists in the design of certain key procedures.

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders

- The Group operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation of the NAB Group Audit Committee, we were appointed as external auditor at the AGM on 31 January 2005 to audit the financial statements for the year ending 30 September 2005 of the National Australia Bank Group of companies, which at the time included Clydesdale Bank PLC. The period of total uninterrupted engagement as auditors of Clydesdale Bank PLC including previous renewals and reappointments, is 19 years, covering the years ending 30 September 2005 to 30 September 2023.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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 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.

Ernst & Young LLP

Andrew Bates (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 November 2023

Financial Statements
Consolidated income statement

For the year ended 30 September	Note	**2023** £m	2022 £m
Interest income		**3,830**	2,215
Other similar interest		**3**	2
Interest expense and similar charges		**(2,147)**	(641)
Net interest income	2.1	**1,686**	1,576
Gains less losses on financial instruments at fair value		**(17)**	(22)
Other operating income		**157**	157
Non-interest income	2.2	**140**	135
Total operating income		**1,826**	1,711
Operating and administrative expenses before impairment losses	2.3	**(1,173)**	(1,069)
Operating profit before impairment losses		**653**	642
Impairment losses on credit exposures	3.1.1.1	**(309)**	(52)
Profit on ordinary activities before tax		**344**	590
Tax expense	2.4	**(95)**	(70)
Profit for the year		**249**	520
Attributable to:			
Ordinary shareholders		**195**	460
Other equity holders		**54**	60
Profit for the year		**249**	520

All items dealt with in arriving at the profit before tax for each year relate to continuing activities.

The notes on pages 119 to 180 form an integral part of these financial statements.

Financial Statements
Consolidated statement of comprehensive income

For the year ended 30 September	Note	**2023**	2022
		£m	£m
Profit for the year		**249**	520
Items that may be reclassified to the income statement			
Change in cash flow hedge reserve			
(Losses)/gains during the year		**(268)**	962
Transfers to the income statement		**(12)**	(13)
Taxation thereon - deferred tax credit/(charge)		**77**	(260)
	4.1.3	**(203)**	689
Change in FVOCI reserve			
(Losses)/gains during the year		**(50)**	15
Transfers to the income statement		**(1)**	(4)
Taxation thereon - deferred tax credit/(charge)		**14**	(1)
		(37)	10
Total items that may be reclassified to the income statement		**(240)**	699
Items that will not be reclassified to the income statement			
Change in defined benefit pension plan	3.3	**(544)**	122
Taxation thereon - deferred tax credit/(charge)		**188**	(50)
Taxation thereon - current tax credit		**1**	6
Total items that will not be reclassified to the income statement		**(355)**	78
Other comprehensive (losses)/income, net of tax		**(595)**	777
Total comprehensive (losses)/income for the year, net of tax		**(346)**	1,297
Attributable to:			
Ordinary shareholders		**(400)**	1,237
Other equity holders		**54**	60
Total comprehensive (losses)/income for the year, net of tax		**(346)**	1,297

The notes on pages 119 to 180 form an integral part of these financial statements.

Financial Statements
Balance sheets

As at 30 September	Note	Group 2023 £m	Group 2022 £m	Bank 2023 £m	Bank 2022 £m
Assets					
Financial instruments	3.1				
At amortised cost	3.1.1				
Loans and advances to customers	3.1.1.1	**72,191**	71,749	**71,403**	70,842
Cash and balances with central banks	3.1.1.2	**11,282**	12,221	**11,282**	12,221
Due from other banks		**661**	656	**294**	268
At FVOCI	3.1.2	**6,184**	5,064	**6,184**	5,064
At FVTPL	3.1.3				
Loans and advances to customers	3.1.3.1	**59**	70	**59**	70
Derivatives	3.1.3.2	**135**	342	**126**	310
Other	3.1.3.3	**2**	2	**1**	1
Due from related entities	5.3	**-**	4	**964**	1,097
Intangible assets and goodwill	3.2	**173**	267	**173**	267
Deferred tax	2.4	**296**	256	**290**	250
Defined benefit pension assets	3.3	**512**	1,000	**512**	1,000
Other assets	1.7, 3.4	**389**	379	**427**	424
Total assets		**91,884**	92,010	**91,715**	91,814
Liabilities					
Financial instruments	3.1				
At amortised cost	3.1.1				
Customer deposits	3.1.1.3	**66,827**	65,434	**66,827**	65,434
Debt securities in issue	3.1.1.4	**6,155**	5,347	**4,552**	3,628
Due to other banks	3.1.1.5	**6,920**	8,486	**6,920**	8,486
At FVTPL	3.1.3				
Derivatives	3.1.3.2	**290**	327	**163**	192
Due to related entities	5.3	**3,605**	3,210	**5,208**	4,941
Deferred tax	2.4	**179**	350	**179**	350
Provisions for liabilities and charges	3.7	**69**	50	**69**	50
Other liabilities	1.7, 3.5	**2,150**	2,395	**2,148**	2,386
Total liabilities		**86,195**	85,599	**86,066**	85,467
Equity					
Share capital and share premium	4.1.1	**2,792**	2,792	**2,792**	2,792
Other equity instruments	4.1.2	**594**	662	**594**	662
Other reserves	4.1.3	**503**	743	**504**	747
Retained earnings		**1,800**	2,214	**1,759**	2,146
Total equity		**5,689**	6,411	**5,649**	6,347
Total liabilities and equity		**91,884**	92,010	**91,715**	91,814

The Bank made a profit of £274m (2022: £562m) during the year.

The notes on pages 119 to 180 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 22 November 2023 and were signed on its behalf by:

David Duffy
Chief Executive Officer

Clifford Abrahams
Chief Financial Officer

Company name: Clydesdale Bank PLC, Company number: SC001111

Statements of changes in equity

Group

	Share capital and share premium	Other equity instruments	Other reserves: FVOCI reserve	Other reserves: Cash flow hedge reserve	Retained earnings	Total equity
Note	4.1.1	4.1.2	4.1.3	4.1.3		
	£m	£m	£m	£m	£m	£m
As at 1 October 2021	2,792	672	34	10	2,074	5,582
Profit for the year	-	-	-	-	520	520
Other comprehensive income, net of tax	-	-	10	689	78	777
Total comprehensive income for the year	-	-	10	689	598	1,297
AT1 distributions paid	-	-	-	-	(60)	(60)
Dividends paid to ordinary shareholders	-	-	-	-	(367)	(367)
Settlement of Virgin Money Holdings (UK) Limited share awards	-	-	-	-	(3)	(3)
AT1 issuance	-	346	-	-	-	346
AT1 redemption	-	(356)	-	-	(28)	(384)
As at 30 September 2022	2,792	662	44	699	2,214	6,411
Profit for the year	-	-	-	-	249	249
Other comprehensive losses, net of tax	-	-	(37)	(203)	(355)	(595)
Total comprehensive losses for the year	-	-	(37)	(203)	(106)	(346)
AT1 distributions paid	-	-	-	-	(54)	(54)
Dividends paid to ordinary shareholders	-	-	-	-	(248)	(248)
Settlement of Virgin Money Holdings (UK) Limited share awards	-	-	-	-	(2)	(2)
AT1 redemption	-	(68)	-	-	(4)	(72)
At 30 September 2023	**2,792**	**594**	**7**	**496**	**1,800**	**5,689**

The notes on pages 119 to 180 form an integral part of these financial statements.

Financial Statements
Statements of changes in equity

Bank

	Share capital and share premium	Other equity instruments	Other reserves: FVOCI reserve	Other reserves: Cash flow hedge reserve	Retained earnings	Total equity
Note	4.1.1	4.1.2	4.1.3	4.1.3		
	£m	£m	£m	£m	£m	£m
As at 1 October 2021	2,792	672	34	19	1,961	5,478
Profit for the year	-	-	-	-	562	562
Other comprehensive income, net of tax	-	-	10	684	78	772
Total comprehensive profit for the year	-	-	10	684	640	1,334
AT1 distribution paid	-	-	-	-	(60)	(60)
Dividends paid to ordinary shareholders	-	-	-	-	(367)	(367)
AT1 issuance	-	346	-	-	-	346
AT1 redemption	-	(356)	-	-	(28)	(384)
At 30 September 2022	2,792	662	44	703	2,146	6,347
Profit for the year	-	-	-	-	274	274
Other comprehensive losses, net of tax	-	-	(37)	(206)	(355)	(598)
Total comprehensive losses for the year	-	-	(37)	(206)	(81)	(324)
AT1 distribution paid	-	-	-	-	(54)	(54)
Dividends paid to ordinary shareholders	-	-	-	-	(248)	(248)
AT1 redemption	-	(68)	-	-	(4)	(72)
At 30 September 2023	**2,792**	**594**	**7**	**497**	**1,759**	**5,649**

The notes on pages 119 to 180 form an integral part of these financial statements.

Financial statements
Statement of cash flows

For the year ended 30 September		Group		Bank	
		2023	2022	**2023**	2022
	Notes	**£m**	£m	**£m**	£m
Operating activities					
Profit on ordinary activities before tax		**344**	590	**370**	628
Adjustments for:					
Non-cash or non-operating items included in profit before tax	5.2	**(1,203)**	(1,306)	**(1,197)**	(1,268)
Changes in operating assets	5.2	**(551)**	1,213	**(677)**	1,183
Changes in operating liabilities	5.2	**284**	(240)	**294**	(330)
Payments for short-term and low value leases	3.6	**(3)**	(2)	**(3)**	(2)
Interest received		**3,300**	2,112	**3,298**	2,099
Interest paid		**(1,173)**	(378)	**(1,477)**	(492)
Tax paid including group relief		**(50)**	(59)	**(37)**	(57)
Net cash provided by operating activities		**948**	1,930	**571**	1,761
Cash flows from investing activities					
Interest received		**232**	47	**244**	47
Proceeds from sale and maturity of financial instruments at FVOCI		**1,868**	673	**1,868**	673
Purchase of financial assets at FVOCI		**(2,950)**	(2,019)	**(2,950)**	(2,019)
Purchase of shares in UTM previously held in Virgin Money Holdings (UK) Limited		**-**	(4)	**-**	-
Proceeds from sale of property, plant and equipment		**1**	1	**1**	1
Purchase of shares issued by UTM		-	-	**-**	(4)
Purchase of property, plant and equipment		**(9)**	(13)	**(9)**	(13)
Purchase and development of intangible assets		**(11)**	(53)	**(11)**	(53)
Net cash used in investing activities		**(869)**	(1,368)	**(857)**	(1,368)
Cash flows from financing activities					
Interest paid		**(743)**	(246)	**(770)**	(246)
Repayment of principal portion of lease liabilities	3.6	**(24)**	(26)	**(24)**	(26)
Redemption and principal repayment on RMBS and covered bonds	3.1.1.4	**(1,012)**	(1,264)	**-**	-
Redemption of AT1 securities		**(72)**	(384)	**(72)**	(384)
Proceeds from issuance of AT1 securities		**-**	347	**-**	347
Issuance of RMBS and covered bonds	3.1.1.4	**1,826**	2,480	**926**	1,780
Amounts drawn down under the TFSME		**-**	2,550	**-**	2,550
Amounts repaid under the TFSME		**(1,000)**	-	**(1,000)**	-
Amounts repaid under the TFS		**-**	(1,244)	**-**	(1,244)
Net decrease in amounts due from related entities		**7**	1	**138**	2
Net increase/(decrease) in amounts due to related entities		**297**	9	**468**	(121)
Ordinary dividends paid	4.1.1	**(248)**	(367)	**(248)**	(367)
AT1 distributions	4.1.2	**(54)**	(60)	**(54)**	(60)
Net cash (used in)/provided by financing activities		**(1,023)**	1,796	**(636)**	2,231
Net (decrease)/increase in cash and cash equivalents		**(944)**	2,358	**(922)**	2,624
Cash and cash equivalents at the beginning of the year		**12,611**	10,253	**12,223**	9,599
Cash and cash equivalents at the end of the year	5.4	**11,667**	12,611	**11,301**	12,223

Dividends received of £25m (2022: £70m) are included in the Bank's operational cash flows.

Statement of cash flows (continued)

Movements in liabilities arising from financing activities

Group		**Term funding schemes(1)**	**Debt securities in issue**	**Intercompany loans**	**Lease liabilities**	**Total**
	Notes	3.1.1.5	3.1.1.4	5.3	3.6	
		£m	**£m**	**£m**	**£m**	**£m**
At 1 October 2021		5,896	4,241	3,450	154	13,741
Cash flows:						
Issuances		-	2,480	-	-	2,480
Drawdowns		2,550	-	31	-	2,581
Redemptions		-	(1,264)	-	-	(1,264)
Repayment		(1,244)	-	(54)	(26)	(1,324)
Non-cash flows:						
Fair value and other associated adjustments		-	(121)	-	-	(121)
Additions to right-of-use asset in exchange for increased lease liabilities		-	-	-	4	4
Remeasurement		-	-	-	(4)	(4)
Movement in accrued interest		28	9	-	4	41
Unrealised foreign exchange movements		-	5	22	-	27
Unamortised costs		-	(3)	5	-	2
Other movements		-	-	(244)	-	(244)
At 30 September 2022		7,230	5,347	3,210	132	15,919
Cash flows:						
Issuances		-	1,826	747	-	2,573
Redemptions		-	(1,012)	(432)	-	(1,444)
Repayment		(1,000)	-	(18)	(24)	(1,042)
Tax paid		-	-	-	(1)	(1)
Non-cash flows:						
Fair value and other associated adjustments		-	(15)	77	-	62
Additions to right-of-use asset in exchange for increased lease liabilities		-	-	-	76	76
Remeasurement		-	-	-	(6)	(6)
Movement in accrued interest		61	12	14	3	90
Unamortised costs		-	(3)	3	-	-
Other movements		-	-	4	-	4
At 30 September 2023		**6,291**	**6,155**	**3,605**	**180**	**16,231**

(1) This includes amounts drawn under the TFS and TFSME.

The notes on pages 119 to 180 form an integral part of these financial statements.

Financial statements
Statement of cash flows (continued)

Movements in liabilities arising from financing activities

Bank		Term funding schemes[1]	Debt securities in issue	Intercompany loans	Lease liabilities	Total
	Notes	3.1.1.5	3.1.1.4	5.3	3.6	
		£m	£m	£m		£m
At 1 October 2021		5,896	1,822	5,485	154	13,357
Cash flows:						
Issuances		-	1,780	1,401	-	3,181
Drawdowns		2,550	-	92	-	2,642
Redemptions		-	-	(1,591)	-	(1,591)
Repayments		(1,244)	-	(24)	(26)	(1,294)
Non-cash flows						
Additions to right-of-use asset in exchange for increased lease liabilities		-	-	-	4	4
Remeasurement/disposal		-	-	-	(4)	(4)
Movement in accrued interest		28	7	(4)	4	35
Unrealised foreign exchange movements		-	22	-	-	22
Unamortised costs		-	(3)	6	-	3
Other movements		-	-	(424)	-	(424)
1 October 2022		7,230	3,628	4,941	132	15,931
Cash flows:						
Issuances		-	926	1,673	-	2,599
Redemptions		-	-	(965)	-	(965)
Repayments		(1,000)	-	(240)	(24)	(1,264)
Tax paid		-	-	-	(1)	(1)
Non-cash flows						
Additions to right-of-use asset in exchange for increased lease liabilities		-	-	-	76	76
Remeasurement/disposal		-	-	-	(6)	(6)
Movement in accrued interest		61	6	1	4	72
Unrealised foreign exchange movements		-	(8)	-	-	(8)
Unamortised costs		-	-	(2)	-	(2)
Other movements		-	-	(200)	-	(200)
At 30 September 2023		**6,291**	**4,552**	**5,208**	**181**	**16,232**

(1) This includes amounts drawn under the TFS and TFSME.

The notes on pages 119 to 180 form an integral part of these financial statements.

Notes to the consolidated financial statements
Section 1: Basis of preparation

Overview

This section sets out the Group's accounting policies that relate to the consolidated financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. This section also highlights newly adopted accounting standards, amendments and interpretations which are relevant to the Group. Where relevant, we explain how these changes are expected to impact the financial position and performance of the Group.

The Group has adopted the UK Finance Code for Financial Reporting Disclosure and has prepared the 2023 Annual Report and Accounts in compliance with the Code.

1.1 General information

The Bank is incorporated in the United Kingdom under the Companies Act and registered in Scotland. The consolidated financial statements comprise the Bank and its controlled entities, together the 'Group'.

The Bank's immediate and ultimate parent is Virgin Money UK PLC, a company registered in England and Wales. Virgin Money UK PLC also heads the largest and smallest group in which the results of the Group are consolidated. The financial statements of Virgin Money UK PLC may be obtained from Virgin Money UK PLC's registered office at Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

1.2 Basis of accounting

The consolidated financial statements, which should be read in conjunction with the Strategic report and the Directors' report, have been prepared in accordance with UK adopted IASs.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value through profit or loss and other comprehensive income. Fair value is defined in note 3.1.4.

1.3 Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report. In addition, the Risk report includes the Group's risk management objectives and the objectives, policies and processes for managing its capital.

In assessing the Group's going concern position as at 30 September 2023, the Directors have considered a number of factors, including the current balance sheet position (which reflected the Group's consideration of the potential impact of climate-related risks), the Group's strategic and financial plan, taking account of possible changes in trading performance and funding retention, and stress testing and scenario analysis. The assessment concluded that the Group has sufficient capital and liquidity for at least the next 12 months. The Group's capital ratios and its total capital resources are comfortably in excess of PRA requirements and internal stress testing indicates the Group can withstand severe economic and competitive stresses.

As a result of the assessment, the Directors have a reasonable expectation that the Bank and the Group have adequate resources to continue in operational existence for the foreseeable future and that the Group is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

1.4 Basis of consolidation

Controlled entities are all entities (including structured entities) to which the Bank is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An assessment of control is performed if there are indicators that control may have changed.

Controlled entities are consolidated from the date on which control is established by the Group until the date that control ceases. The acquisition method of accounting is used to account for business combinations other than those under common control. A non-controlling interest is recognised by the Group in respect of any portion of the total assets less total liabilities of an acquired entity or entities that is not owned by the Group. Balances and transactions between entities within the Group and any unrealised gains and losses arising from those transactions are eliminated in full upon consolidation.

The consolidated financial statements have been prepared using uniform accounting policies.

1.5 Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

The Group considers the most significant use of accounting estimates and judgements relate to the following areas:

Area	Estimates	Judgements	Further detail
Impairment provisions on credit exposures	Asset lifetimes Economic scenarios	SICR Definition of default PMAs	Credit risk section of Risk report and note 3.1.1.1
EIR	Product life Post promotion attrition and yield	Standard variable rate Macroeconomic factors Model risk reserve (MRR)	Note 2.1
Deferred tax		Period for the recoverability of deferred tax assets	Note 2.4
Retirement benefit obligations	Discount rate Inflation assumptions Mortality assumptions		Note 3.3

Critical accounting estimates and judgements related to climate-related risks

In addition, management has also considered and reflected on the potential impact of climate-related risks on the Group's financial position and performance.

This involved undertaking an assessment over the Group's assets (both financial and non-financial) and evaluating whether the observable effects of physical and transition risk of climate change would have a material impact on the Group's financial position and performance in the current year. It is widely accepted that the effects of climate change in the UK will not be significant in the short term and that the inherent risks and uncertainties in quantifying the effect of climate change in the financial statements are considerable and more likely to impact in the medium to longer term.

The Group's customer lending is the most significant financial asset class exposed to the potential impact of climate-related risks, primarily through ECL implications, the ability of the customer to meet their contractual payments and the potential for a fall in collateral values. Given the challenges associated with modelling specific climate projections, the Group's IFRS 9 scenarios do not make explicit and objective assumptions about climate change impacts for which the associated probability can be derived within the existing methodology. Instead, the Group's base forecast, and therefore the scenarios, incorporate the short to medium-term (five-year horizon) impact of the domestic and global economy on demand for fossil fuel and thus emissions. Consequently we consider that as a UK-based bank with no significant lending outside of the UK, the potential for material ECLs to emerge as a result of climate change in the short term is negligible.

1.5 Critical accounting estimates and judgements (continued)

Other non-financial assets that may be impacted include the Group's deferred tax asset and the pension assets held by the Group's defined benefit pension scheme. The Group assesses the recoverability of deferred tax assets over a six-year corporate planning time horizon which incorporates all aspects of the Group's future performance and expectations. The Trustee of the defined benefit pension scheme is responsible for all investment decisions, and these are made in accordance with a SIP which incorporates climate change considerations. In addition, by necessity, the investment decisions made by the Trustees are normally medium to long term in nature to match the related pension obligations. The majority of the scheme assets held at 30 September 2023 are in lower risk government and corporate bonds, with the remaining investments in secure income alternatives, property and renewables. As its funding position has improved it has disinvested from some of the asset classes that were more exposed to climate risks (such as public equity), but the Scheme is increasingly holding a larger proportion of longer dated assets to better match its liabilities. The Trustee is therefore very focused on the sustainability of these assets.

Overall, while the effects of climate change represent a source of significant uncertainty, the Group does not consider there to be a material impact on its estimates and judgements from physical and transition risks of climate change in these financial statements.

1.6 New accounting standards and interpretations

The Group adopted the following International Accounting Standards Board (IASB) pronouncements in the current financial year, which have been endorsed for use in the UK by the UK Endorsement Board (UKEB), and are not considered to have a material impact for the Group:

- Amendments to IAS 16 'Property, plant and equipment': proceeds before intended use. This was issued in May 2020 (applicable for accounting periods beginning on or after 1 January 2022) and received endorsement for use in the UK in April 2022. The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- Amendments to IAS 37 'Provisions, contingent liabilities and contingent assets': onerous contracts - cost of fulfilling a contract. This was issued in May 2020 (applicable for accounting periods beginning on or after 1 January 2022) and received endorsement for use in the UK in April 2022. The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.
- Amendments to IFRS 3 'Business combinations'. This was issued in May 2020 and received endorsement for use in the UK in April 2022. The amendments update IFRS 3 to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination and applies to those business combinations for which the acquisition date is on or after the start of the first annual reporting period beginning on or after 1 January 2022.
- Annual improvements 2018-2020. This was issued in May 2020 (applicable for accounting periods beginning on or after 1 January 2022) and received endorsement for use in the UK in April 2022. The annual improvements package includes the following minor amendments to: (i) IFRS 1 'First-time adoption of IFRS' – Subsidiary as a first-time adopter; (ii) IFRS 9 'Financial instruments' – Fees in the '10%' test for derecognition of financial liabilities; (iii) IFRS 16 'Leases' – Lease incentives; and (iv) IAS 41 'Agriculture' – Taxation in fair value measurements.
- International tax reform - Pillar Two model rules: Amendments to IAS 12. This was issued in May 2023 (additional disclosure requirements are applicable for accounting periods beginning on or after 1 January 2023, although some paragraphs were for immediate application) and received endorsement for use in the UK in July 2023. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the implementation of the OECD Pillar Two model rules, together with targeted disclosure requirements for affected entities. As mandated, the Group applied the temporary exemption on adoption and has neither recognised nor disclosed information about deferred tax assets and liabilities related to Pillar Two income taxes.

During the year, the Group also early adopted Amendments to IAS 1 'Presentation of financial statements' and IFRS Practice Statement 2 'Making materiality judgements' which was issued by the IASB in February 2021 (applicable for accounting periods beginning on or after 1 January 2023 with early adoption permitted) and endorsed for use in the UK by the UKEB in November 2022.

The amendments require entities to disclose their material accounting policy information rather than their significant accounting policies. As part of this, the IASB has amended IFRS Practice Statement 2 'Making materiality judgements' by adding guidance and examples of circumstances to help entities determine when accounting policy information is material and, therefore, needs to be disclosed.

1.6 New accounting standards and interpretations (continued)

The Group has assessed the requirements of the amendments and concluded that the disclosure of certain accounting policies included within the 2022 Annual Report and Accounts would no longer be necessary. Consequently, while the Group continues to apply these policies, the following accounting policy wording has been omitted by early adopting the amendments:

- basis of consolidation: joint ventures (JVs);
- foreign exchange: functional and presentation currency/transactions and balances;
- property, plant and equipment;
- operating and administrative expenses before impairment losses;
- taxation: income tax/current tax;
- intangibles and goodwill: capitalised software/goodwill/impairment;
- retirement benefits: defined contribution scheme;
- provisions;
- other liabilities: deferred grants;
- leases: as lessee/as sub-lessor;
- equity: equity/dividends;
- equity based compensation;
- contingent liabilities; and
- investment in controlled entities (this policy relates to the Company financial statements).

New accounting standards and interpretations not yet adopted
The IASB has issued a number of other minor amendments to IFRSs that are not mandatory for the current reporting year and have not been early adopted by the Group. These amendments are not expected to have a material impact for the Group.

1.7 Other accounting policy and presentational changes

The following changes took place during the year:

Investment property
IAS 40 'Investment property' allows an entity to select either the fair value model or the cost model for subsequent measurement of investment property. The Group has a historic policy of fair value measurement for investment property but has not held any on its balance sheet for several years prior to the current year.

During the year, the Group has classified £43m of lease right-of-use assets as investment property on initial recognition where there is surplus space which will be sub-let under an operating lease. The Group has also transferred freehold land and buildings with a value of £9m to investment property where there was a change in use. Investment property balances are included within other assets on the balance sheet (note 3.4).

From 1 October 2022 investment property has been recognised at cost, less accumulated depreciation and impairment. The holding of investment property is not a central element of the Group's overarching business model or strategy; it is an incidental consequence of surplus estate arising from changes in operational requirements. Considering the relative materiality and nature of investment property balances, the Group has determined that changing the accounting policy for investment property to align to the measurement basis, which is applied to the Group's other property related assets under IFRS 16 'Leases' and IAS 16 'Property, plant and equipment', will provide greater relevance and consistency to users of the financial statements. This policy change has no impact on prior years.

Expected credit losses

During the year, a new Business LGD model was brought into use in the Group's ECL calculation. The development of this model was at an advanced stage in the prior year, to the extent that a negative management adjustment of £15m was incorporated into the ECL figure. The introduction of the new model allowed this negative management adjustment to be removed in the current year. Further detail can be found in the credit risk section within the Risk report, pages 33 and 46.

Presentational change

Other assets and other liabilities have been restated in the prior year in line with the current year presentation. The balance sheet line items for property, plant and equipment, investments in controlled entities and associates, and current tax have been removed and the balances assumed into the other assets and other liabilities line items. This is a presentational change to align with peers and is not considered to be a material change in disclosure. The table below reflects the impact of these changes on the balances at 30 September 2022:

	Other assets		Other liabilities	
	Group £m	Bank £m	Group £m	Bank £m
Original balance	168	160	2,388	2,386
Property, plant and equipment	211	211	-	-
Investments in controlled entities and associates	-	50	-	-
Current tax	-	3	7	-
Restated balance	379	424	2,395	2,386

Section 2: Results for the year

2.1 Net interest income

Accounting policy

Interest income is recognised using the effective interest method which discounts the estimated future cash payments or receipts, at the effective interest rate, over the expected life of the financial instrument to the gross carrying amount of the non-credit impaired financial asset. Interest expense is recognised using the same effective interest method on the amortised cost of the financial liability.

When calculating the EIR, cash flows are estimated considering all contractual terms of the financial instrument (e.g. prepayment, call and similar options) excluding future credit losses. The calculation includes all amounts paid or received that are an integral part of the EIR such as transaction costs and all other premiums or discounts. Where it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments) are used.

Loan origination and commitment fees are recognised within the EIR calculation. Fees in relation to the non-utilisation of a commitment are recognised as revenue upon expiry of the agreed commitment period.

Interest income on financial assets in Stages 1 and 2 is recognised on the gross carrying value of the financial asset using the original EIR. Once a financial asset or group of similar financial assets has been categorised as credit-impaired (Stage 3), interest income is recognised on the net carrying value (which is after deducting the ECL allowance from the gross lending) using the asset's original EIR. Interest income for POCI financial assets is calculated using the credit-adjusted EIR applied to the amortised cost of the financial asset from initial recognition. The Group recognises and presents the reversal of ECLs following the curing of a credit impaired financial asset as a reversal of impairment losses. The Group's policy on ECLs can be found in note 3.1.1.

Interest income includes finance lease income, which is recognised at a constant periodic rate of return on the net investment.

Interest income and interest expense on hedged assets and liabilities and financial assets and liabilities designated as FVTPL are also recognised as part of NII.

Interest income and interest expense on derivatives economically hedging interest bearing financial assets or liabilities (but not designated as hedging instruments) and other financial assets and liabilities held at FVTPL (either mandatory or by election) are presented as other similar interest within NII.

Critical accounting estimates and judgements

EIR

The EIR is determined at initial recognition based upon the Group's best estimate of the future cash flows of the financial instrument over its expected life. Where these estimates are subsequently revised, a present value adjustment to the carrying value of the asset is recognised in profit or loss. Such adjustments can introduce income statement volatility and consequently the EIR method is a source of estimation uncertainty.

The Group considers that significant judgement is exercised over the mortgage and credit card portfolios. Due to the inherent judgement and estimation uncertainty that exists in determining the EIR adjustment, an MRR is held to mitigate this uncertainty.

The Group assesses the quantification of the EIR adjustment, including the MRR, on a quarterly basis with the CFO making recommendations to the Board Audit Committee twice a year at each external reporting period.

Mortgages

For mortgage products the main accounting estimates and judgements when assessing the cash flows are the product life (including assumptions based on observed historic customer behaviour when in a standard variable rate (SVR) period) and the applicable SVR. As at 30 September 2023, a total EIR adjustment of £209m (2022: £201m) has been recognised for mortgages. This represented 0.4% (2022: 0.3%) of the balance sheet carrying value of gross loans and advances to customers for mortgage lending. The net impact of the mortgage EIR adjustments on the income statement in the year represented 0.5% of gross customer interest income for mortgages (2022: (0.7)%).

Product life

This primarily involves assumptions of customer behaviour when a fixed rate product comes to an end and reverts to the Group's SVR. The current assumptions indicate that 89% (2022: 85%) of customers will have fully repaid or switched to a new product within two months of reverting to SVR.

SVR

Changes to the BoE base rate have an impact on the SVR charged to customers and consequently on the Group's interest income. The Group historically passes base rate changes through to the SVR in full but, on occasion, may choose not to do so.

2.1 Net interest income (continued)

Critical accounting estimates and judgements (continued)

The significant accounting estimates above are monitored on an ongoing basis to ensure they remain appropriate based on recent, observable customer behaviour, market data (such as market derived base rate forecasts) and take account of the competitive environment in which the Group operates. The Group also considers potential changes to future customer behaviour as a result of macroeconomic factors. There continues to be increased uncertainty in purchase and switching activity as a result of actual and anticipated base rate rises. The Group has taken this into account when determining the EIR modelling assumptions.

Sensitivity analysis
As noted above, the calculation of the Group's EIR adjustment is sensitive to changes in product life and SVR assumptions. There are inter-dependencies between the assumptions which add to the complexity of the judgements the Group has to make. This means that no single factor is likely to move independently of others, however, the sensitivities disclosed below assume all other assumptions remain unchanged.

Sensitivity impact on the mortgage EIR adjustment	**2023 (£m)**	2022 (£m)
+/- 1 month change to the timing of customer repayments, redemptions and product transfers	**21 / (18)**	16 / (13)
50bps increase to the BoE base rate not passed through to the Group's SVR	**(42)**	(46)

Credit cards
An EIR adjustment arises on credit card products that have a low introductory rate, followed by a higher reversionary rate in future years when the promotional period expires. However, receipt of such interest income depends on the customer staying with the Group beyond promotional expiry and therefore significant judgement is involved in forecasting customer behaviour and estimating the future cash flows. Key behavioural assumptions include an estimation of the utilisation of available credit, transaction and repayment activity and the retention of the customer balance after the end of a promotional period. As at 30 September 2023, a total EIR adjustment of £259m (2022: £285m) has been recognised for credit cards. This represented 4.5% (2022: 5.5%) of the balance sheet carrying value of gross loans and advances to customers for credit cards The impact of the net credit card EIR adjustments on the income statement was a charge in the year representing (6.2)% of gross customer interest income for credit cards (2022: a credit representing 3.3% of gross customer interest income for credit cards).

Expected cash flows are estimated based on historical experience of similar products and are consistent with those used in product pricing models. The Group reviews and adjusts assumptions where necessary on an ongoing basis, using the most recent observable customer behaviour and market data. The Group also considers potential future changes to customer behaviour as a result of macroeconomic factors.

Post-promotional yield
The yield on a credit card following the post-promotional period is a significant estimate within the EIR assumptions. Yield is a function of the Interest Bearing Balance (IBB) and the APR charged to customers. IBB is impacted by customer behaviour and while there is evidence to support the expected IBB following the post-promotional period, there is inherent risk that this data may differ in the future. If the IBB differs to the Group's estimate it can have a material impact on the revised future cash flows. Based on recent experience, the Group has applied an average IBB of 55% (2022: 55%) following the end of the promotional period.

2.1 Net interest income (continued)

Critical accounting estimates and judgements (continued)

Post-promotional attrition

The level of repayment in the post-promotional period is a key sensitivity within the EIR assumptions. There is evidence to support the expected behaviour of customers after the end of promotional periods, however there is inherent risk that this data may not be indicative of actual future behaviour. If the proportion of customers who repay their balance post-promotion differs to the Group's estimate it can have a material impact on the revised future cash flows. Based on recent experience, the Group has applied a long run average attrition rate of 1.5% per month (2022: 1.5% per month) following the end of the promotional period.

Macroeconomic factors

When determining assumptions, the Group has considered the impact to customers of inflationary pressures including high energy and utility costs and the recent base rate rises. As a result, temporary adjustments have been made to assumptions. Post promotional IBB has been decreased to 50% for 18 months and balance attrition has been increased to reflect customer reaction to the high-rate environment for 18 months. If, however, the stress period was to increase to 30 months, the Group estimates it would result in a negative present value adjustment of approximately £19m, which would be recognised in the income statement.

Sensitivity analysis

As noted above, the calculation of the Group's EIR adjustment for credit cards is sensitive to changes in post-promotional yield and post-promotional attrition. There are inter-dependencies between the key assumptions which add to the complexity of the judgements the Group has to make. This means that no single factor is likely to move independently of others, however, the sensitivities disclosed below assume all other assumptions remain unchanged.

Sensitivity impact on the credit card EIR adjustment	**2023 £m**	2022 £m
+/- 5 ppts change to post-promotional IBB assumption(1) (9.1% relative increase/decrease)	**25 / (26)**	34 / (28)
+/- 0.5 ppts change to post-promotional monthly balance attrition rate (33% relative increase/decrease)	**(7) / 7**	(20) / 23

(1) Where the IBB assumption is already equal to or less than 50% IBB, no further adjustment has been made on the basis this already represents a downside economic stress.

2.1 Net interest income (continued)

	2023 £m	2022 £m
Interest income		
Loans and advances to customers	**3,150**	2,095
Loans and advances to other banks	**435**	70
Financial assets at FVOCI	**245**	50
Total interest income	**3,830**	2,215
Other similar interest		
Financial assets at FVTPL	**3**	5
Derivatives economically hedging interest bearing assets	**-**	(3)
Total other similar interest	**3**	2
Less: interest expense and similar charges		
Customer deposits	**(1,233)**	(342)
Debt securities in issue	**(395)**	(99)
Due to other banks	**(372)**	(70)
Due to related entities	**(143)**	(128)
Other interest expense	**(4)**	(2)
Total interest expense and similar charges	**(2,147)**	(641)
Net interest income	**1,686**	1,576

Net interest income includes a charge of £29m (2022: £16m) in relation to acquisition accounting unwinds as shown in the reconciliation of statutory to underlying results table on page 5.

2.2 Non-interest income

Accounting policy
Gains less losses on financial instruments at fair value
This includes fair value gains and losses from three distinct activities:

- Derivatives classified as held for trading - the full change in fair value of trading derivatives is recognised inclusive of interest income and interest expense arising on those derivatives except when economically hedging other assets and liabilities at fair value as outlined in note 2.1.
- Other financial assets designated at FVTPL - these relate principally to the Group's fixed interest rate loan portfolio (note 3.1.3.1), which were designated at inception as FVTPL. The fair value of these loans is derived from the future loan cash flows using appropriate discount rates and includes adjustments for credit risk and credit losses.
- Hedged assets, liabilities and derivatives designated in hedge relationships - fair value movements are recognised on both the hedged item and hedging derivative in a fair value hedge relationship, the net of which represents hedge ineffectiveness, and hedge ineffectiveness on cash flow hedge relationships (note 3.1.3.2).

Fees and commissions
Fees and commissions receivable which are not an integral part of the EIR are recognised as income as the Group fulfils its performance obligations. The Group's principal performance obligations arising from contracts with customers are in respect of current accounts, debit cards and credit cards. The Group provides the service and consequently generates the fee and commission income monthly, with amounts recognised in income on this basis. Costs incurred to generate this income are charged to fees and commissions expense as they are incurred.

2.2 Non-interest income (continued)

	2023 £m	2022 £m
Gains less losses on financial instruments at fair value		
Held for trading derivatives	**2**	6
Financial assets at fair value[1]	**-**	(21)
Ineffectiveness arising from fair value hedges (note 3.1.3.2)	**29**	43
Amounts recycled to profit and loss from cash flow hedges[2] (note 3.1.3.2)	**2**	(4)
Ineffectiveness arising from cash flow hedges (note 3.1.3.2)	**(50)**	(46)
	(17)	(22)
Other operating income		
Net fee and commission income	**128**	134
Margin on foreign exchange derivative brokerage	**19**	19
Gains on disposal of FVOCI assets	**1**	4
Share of JV loss after tax	**-**	(4)
Other income	**9**	4
	157	157
Total non-interest income	**140**	135

(1) Included within financial assets at fair value is a credit risk gain on loans and advances at fair value of £Nil (2022: £1m gain), and a fair value gain on equity investments of £Nil (2022: £Nil).
(2) In respect of terminated hedges

The Group's unrecognised share of losses of JVs for the year was £6m (2022: £8m). For loss making entities, subsequent profits earned are not recognised until previously unrecognised losses are extinguished. On a cumulative basis, the Group's unrecognised share of losses net of unrecognised profits of JVs is £15m (2022: £9m).

Non-interest income includes the following fee and commission income disaggregated by income type:

	2023 £m	2022 £m
Current account and debit card fees	**100**	102
Credit cards	**63**	52
Insurance, protection and investments	**7**	8
Other fees[1]	**16**	26
Total fee and commission income	**186**	188
Total fee and commission expense	**(58)**	(54)
Net fee and commission income	**128**	134

(1) Other fees include mortgages, invoice and asset finance and ATM fees.

2.3 Operating expenses

	2023 £m	2022 £m
Staff costs	**432**	435
Property and infrastructure	**74**	38
Technology and communications	**130**	119
Corporate and professional services	**240**	135
Depreciation, amortisation and impairment	**116**	179
Other expenses	**181**	163
Total operating and administrative expenses	**1,173**	1,069

2.3 Operating expenses (continued)

Staff costs comprise the following items:

	2023	2022
	£m	£m
Salaries and wages	**275**	254
Social security costs	**32**	30
Defined contribution pension expense	**56**	50
Defined benefit pension credit (note 3.3)	**(50)**	(24)
Compensation costs	**313**	310
Equity based compensation[(1)]	**6**	4
Bonus awards	**22**	27
Performance costs	**28**	31
Redundancy and restructuring	**7**	3
Temporary staff costs	**24**	13
Other[(2)]	**60**	78
Other staff costs	**91**	94
Total staff costs	**432**	435

(1) Includes National Insurance on equity based compensation.
(2) Includes a one-off cost of living allowance of £Nil (2022: £7m).

Phase 2 of the ongoing Pension Increase Exchange (PIE) exercise completed in FY22, and the third and final phase is due to complete in the final quarter of calendar year 2023. The defined benefit pension credit in the current year therefore includes no impact (2022: £10m credit) arising from the PIE exercise. A PIE gives members the option to exchange future increases on their pensions for a one-off uplift to their current pension.

The average number of FTE employees of the Group during the year was made up as follows:

	2023	2022
	Number	Number
Managers[(1)]	**3,436**	2,574
Clerical staff	**3,730**	4,292
	7,166	6,866

(1) Includes a combination of managers with and without staff responsibilities.

The average monthly number of employees was 8,110 (2022: 7,829). All staff are contracted employees of the Group and its subsidiary undertakings. The average figures above do not include contractors.

Auditor's remuneration included within other operating and administrative expenses:

	2023	2022
	£'000	£'000
Fees payable to the Bank's auditor for the audit of the Bank's financial statements	**4,601**	4,327
Fees payable to the Bank's auditor for the audit of the Bank's subsidiaries[(1)]	**185**	237
Total audit fees	**4,786**	4,564
Audit related assurance services	**318**	30
Other assurance services	**276**	1,877
Total non-audit fees	**594**	1,907
Fees payable to the Bank's auditor in respect of associated pension schemes	**126**	107
Total fees payable to the Bank's auditor	**5,506**	6,578

(1) Includes the audit of the Group's structured entities

Non-audit fees of £1m (2022: £2m) were paid to the auditor during the year for services including UN PRB and the second Payment Services Directive assurance, the review of the Interim Financial Report, PRA Written Auditor Reporting, comfort letters for the global medium-term note and covered bond programmes, client money reviews and profit attestations.

Out of pocket expenses of £26k (2022: £13k) were borne by the Group during the year.

2.4 Taxation

Accounting policy

Deferred tax assets and liabilities are recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

A deferred tax asset is recognised for unused tax losses and unused tax credits only if it is probable that future taxable amounts will arise against which those temporary differences and losses may be utilised.

Critical accounting estimates and judgements
In arriving at the Group's deferred tax asset balance of £296m (2022: £256m), significant judgement is exercised on the component of deferred tax assets that relate to tax losses carried forward of £375m (2022: £417m).

Consistent with prior years, deferred tax assets are recognised to the extent that they are expected to be utilised over six years from the balance sheet date. Gross losses of £83m are not forecast to reverse within this period and have been derecognised (2022: £Nil). If instead of six years the period were five years or seven years, the recognised deferred tax asset would decrease to £251m or increase to £316m respectively, with the latter being full recognition of all losses. If Group profit forecasts were 10% lower than anticipated, the deferred tax asset would be £271m. If Group profit forecasts were 10% higher than anticipated, the deferred tax asset would be £316m. All tax assets arising will be used within the UK.

	2023	2022
	£m	£m
Current tax		
Current year	**29**	81
Adjustment in respect of prior years	**(2)**	5
	27	86
Deferred tax		
Current year	**71**	(10)
Adjustment in respect of prior years	**(3)**	(6)
	68	(16)
Tax expense for the year	**95**	70

2.4 Taxation (continued)

The tax assessed for the year differs from that arising from applying the standard rate of corporation tax in the UK of 22% (2022: 19%). 22% is the average standard rate for the full financial year, comprising 19% to 1 April 2023 then 25% to 30 September 2023. A reconciliation from the expense implied by the standard rate to the actual tax expense is as follows:

	2023	2022
	£m	£m
Profit on ordinary activities before tax	**344**	590
Tax expense based on the standard rate of corporation tax in the UK of 22% (2022: 19%)	**76**	112
Effects of:		
Disallowable expenses	**3**	3
Deferred tax assets derecognised/(recognised)	**19**	(83)
Banking surcharge	**5**	28
Impact of rate changes	**9**	22
AT1 distribution	**(12)**	(11)
Adjustments in respect of prior years	**(5)**	(1)
Tax expense for the year	**95**	70

In February 2022 legislation was enacted to reduce the banking surcharge from 8% to 3%, and to increase the threshold below which it is not chargeable to £100m (previously £25m). The impact on deferred tax was reflected in the large rate change charge for the year ended 30 September 2022. The changes are effective for current tax from 1 April 2023 resulting in an average tax rate for the year of 22% (comprising 19% for the six months to 1 April 2023 then 25% to 30 September 2023).

The Group's effective tax rate is 28% (2022: 12%). The primary driver of this is the derecognition of losses following a reduction in forecast profits over the corporate planning horizon, and a fall in the cash flow hedge reserve due to market conditions.

The current period rate change charge of £9m arises mainly in relation to the defined benefit pension scheme, where current period amounts that are recognised in the income statement are reflected at 22%, while the deferred tax liability on the ultimate accounting surplus is measured at 35%.

The Group has recognised deferred tax in relation to the following items in the balance sheet, income statement, and statement of other comprehensive income:

Movement in deferred tax asset/(liability)

Group	Acquisition accounting adjustments	Cash flow hedge reserve	Gains on financial instruments at FVOCI	Tax losses carried forward	Capital allowances	Pension spreading	Other temporary differences	Total deferred tax assets	Defined benefit pension scheme surplus	Total deferred tax liabilities
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 October 2021	(10)	(9)	(15)	385	124	5	17	497	(296)	(296)
Income statement credit/(charge)	2	2	-	32	(13)	-	2	25	(9)	(9)
Other comprehensive income charge	-	(260)	(1)	-	-	(5)	-	(266)	(45)	(45)
At 30 September 2022	(8)	(267)	(16)	417	111	-	19	256	(350)	(350)
Income statement credit/(charge)	2	1	-	(42)	(8)	-	(4)	(51)	(17)	(17)
Other comprehensive income charge	-	77	14	-	-	-	-	91	188	188
At 30 September 2023	**(6)**	**(189)**	**(2)**	**375**	**103**	**-**	**15**	**296**	**(179)**	**(179)**

Bank	Acquisition accounting adjustments	Cash flow hedge reserve	Gains on financial instruments at FVOCI	Tax losses carried forward	Capital allowances	Pension spreading	Other temporary differences	Total deferred tax asset	Defined benefit pension scheme surplus	Total deferred tax liabilities
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 October 2021	(10)	(9)	(15)	382	120	5	20	493	(296)	(296)
Income statement credit/(charge)	2	-	-	35	(14)	-	(1)	22	(9)	(9)
Other comprehensive income charge	-	(259)	(1)	-	-	(5)	-	(265)	(45)	(45)
At 30 September 2022	(8)	(268)	(16)	417	106	-	19	250	(350)	(350)
Income statement credit/(charge)	2	1	-	(42)	(8)	-	(5)	(52)	(17)	(17)
Other comprehensive income credit/(charge)	-	78	14	-	-	-	-	92	188	188
At 30 September 2023	**(6)**	**(189)**	**(2)**	**375**	**98**	**-**	**14**	**290**	**(179)**	**(179)**

Other temporary differences include the IFRS 9 transitional adjustment of £9m and equity based compensation of £5m (2022: £11m and £6m respectively).

Notes to the consolidated financial statements (continued)
Section 3: Assets and liabilities

2.4 Taxation (continued)

The deferred tax assets and liabilities detailed above arise primarily in the Bank which has a right to offset current tax assets against current tax liabilities and is party to a Group Payment Arrangement for payments of tax to HMRC. Therefore, in accordance with IAS 12, deferred tax assets and deferred tax liabilities have also been offset in this year where they relate to payments of income tax to this tax authority.

The Group has unrecognised deferred tax assets of £21m (2022: £Nil) (£83m gross loss valued at the mainstream rate of 25%) representing tax losses whose use is not forecast within the foreseeable future.

On 22 November 2023 the Chancellor announced that the authorised surplus payments charge will be reduced from 35% to 25% from 6 April 2024. If this measure had been enacted on the balance sheet date the deferred tax liability in respect of the defined benefit pension surplus would have reduced from £179m to £!28m.

Notes to the consolidated financial statements (continued)
Section 3: Assets and liabilities

3.1 Financial instruments

Accounting policy

Recognition and derecognition
Financial instruments are recognised when the Group becomes party to the contractual provisions of the instrument. Purchases and sales of financial assets classified within FVTPL or FVOCI are recognised on trade date.

The Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers the right to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Financial liabilities are derecognised when the Group has discharged its obligation to the contract, or the contract is cancelled or expires.

Note 3.1.4 contains information on the valuation techniques and methodologies applied to financial instruments and their classification within the fair value hierarchy.

Classification and measurement
The Group measures a financial asset or liability on initial recognition at its fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability (with the exception of financial assets or liabilities at FVTPL, where transaction costs are recognised directly in the income statement as they are incurred).

Subsequent accounting for a financial asset is determined by the classification of the asset depending on the underlying business model and contractual cash flow characteristics. This results in classification within one of the following categories: (i) amortised cost (note 3.1.1); (ii) FVOCI (note 3.1.2); or (iii) FVTPL (note 3.1.3).

Repurchase agreements
Securities sold subject to sale and repurchase agreements (‘repo’) are retained in their respective balance sheet categories. The associated liabilities are included in amounts due to other banks based upon the counterparties to the transactions. The difference between the sale and repurchase price of repos is treated as interest and accrued over the life of the agreements using the effective interest method.

Offsetting
This can only occur, and the net amount be presented on the balance sheet, when the Group currently has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Presentation of risk, offsetting and maturity disclosures
Certain disclosures required under IFRS 7 ‘Financial instruments: disclosures’ and IAS 1 ‘Presentation of financial statements’ have been included within the audited sections of the Risk report. Where information is marked as audited, it is incorporated into these financial statements by this cross reference, and it is covered by the Independent auditor’s report.

3.1.1 Financial instruments at amortised cost

Accounting policy

A financial asset is measured at amortised cost when: (1) the asset is held within a business model whose objective is achieved by collecting contractual cash flows; and (2) the contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding.

All financial liabilities are measured at amortised cost, except for financial liabilities at FVTPL. Such liabilities include derivative contracts, other than those which are financial guarantee contracts or designated and effective hedging instruments.

Financial assets classified at amortised cost are subject to expected credit loss (ECL) impairment requirements.

At each reporting date, the Group assesses financial assets measured at amortised cost, as well as loan commitments and financial guarantees not measured at FVTPL, for impairment. The impairment loss allowance is calculated using an ECL methodology and reflects: (i) an unbiased and probability weighted amount; (ii) the time value of money which discounts the impairment loss; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECL methodology is based upon the combination of PD, LGD and EAD estimates that consider a range of factors that impact on credit risk and consequently the level of impairment loss provisioning. The Group uses reasonable and supportable forecasts of future economic conditions in estimating the ECL allowance. The methodology and assumptions used in the ECL calculation are reviewed regularly and updated as necessary. ECLs are assessed either collectively or individually.

The Group's impairment policy for debt instruments at FVOCI is included in note 3.1.2. The impact of the ECL methodology on amounts due from other banks balances held at amortised cost is immaterial. ECLs relating to loan commitments and financial guarantees can be found in note 3.7.

SICR assessment and staging
The ECL is calculated as either 12-month (Stage 1) or lifetime depending on whether the financial asset has suffered a SICR since origination (Stage 2) or has otherwise become credit impaired (Stage 3) as at the reporting date. The Group uses a PD threshold curve (distinct for each portfolio) to assess for a SICR in addition to the 30 DPD and 90 DPD backstops for recognising Stage 2 and Stage 3 ECLs respectively.

Financial assets can move between stages when the relevant staging criteria are no longer satisfied subject to certain restrictions for forborne assets. If the level of impairment loss reduces in a subsequent year, the previously recognised impairment loss allowance is reversed and recognised in the income statement.

POCI financial assets are those which are credit impaired upon initial recognition (being the point at which the asset was either purchased or originated). Once a financial asset is classified as POCI, it remains as such until derecognition irrespective of its credit quality at each reporting date. POCI financial assets are disclosed separately from those financial assets in Stage 3. The Group regards the date of acquisition as the origination date for purchased portfolios.

The Group has not made use of the low credit risk option under IFRS 9 for loans and advances at amortised cost.

Regardless of the calculation basis, the Group generates a modelled ECL allowance at the individual financial instrument level. The modelled ECL output can be supplemented by management adjustments (MAs) where appropriate.

Write-offs and recoveries
When there is no reasonable expectation of recovery for a loan, it is written off against the related provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment charge in the income statement.

Critical accounting estimates and judgements
ECL methodology requires the Group to apply estimates and exercise judgement when calculating an impairment allowance for credit exposures.

Further information on the chosen scenarios, macroeconomic assumptions, and scenario weightings used in the ECL calculation, including the use of MAs together with sensitivity analysis, is contained in the credit risk section of the Risk report on pages 39 to 49.

3.1.1.1 Loans and advances to customers

Accounting policy

Loans and advances to customers arise when the Group provides money directly to a customer and includes mortgages, term lending, overdrafts, credit card lending, lease finance and invoice financing. They are recognised initially at fair value and are subsequently measured at amortised cost, using the effective interest method and adjusted for ECLs. They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

Leases entered into by the Group as lessor, where the Group transfers substantially all the risks and rewards of ownership to the lessee, are classified as finance leases. The leased asset is not held on the Group balance sheet; instead, a finance lease is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Interest income is recognised in interest receivable, allocated to accounting years to reflect a constant periodic rate of return.

	Group		Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Gross loans and advances to customers	**73,295**	73,144	**72,504**	72,234
Impairment provisions on credit exposures(1)	**(612)**	(454)	**(609)**	(451)
Fair value hedge adjustment	**(492)**	(941)	**(492)**	(941)
	72,191	71,749	**71,403**	70,842

(1) ECLs on off-balance sheet exposures of £5m (2022: £3m) are presented as part of the provisions for liabilities and charges balance (note 3.7)

The Group and Bank have a portfolio of fair valued business loans of £59m (2022: £70m) which are classified separately as financial assets at FVTPL (note 3.1.3.1). Combined with the above, this is equivalent to total loans and advances to customers of £72,250m (2022: £71,819m) in respect of Group and £71,462m (2022: £70,912m) in respect of Bank.

The fair value hedge adjustment represents an offset to the fair value movement on hedging derivatives transacted to manage the interest rate risk inherent in the Group's fixed rate mortgage portfolio.

The Group and Bank have transferred a proportion of mortgages to the securitisation and covered bond programmes (note 3.1.5).

Lease finance

The Group leases a variety of assets to third parties under finance lease arrangements, including vehicles and general plant and machinery. The cost of assets acquired by the Group during the year for the purpose of letting under finance leases and hire purchase contracts amounted to £71m (2022: £46m) and £557m (2022: £405m) respectively.

Finance lease receivables are presented in the statement of financial position within loans and advances to customers. The maturity analysis of lease receivables, including the undiscounted lease payments to be received, is as follows:

Gross investment in finance lease and hire purchase receivables	**2023**	2022
	£m	£m
Less than 1 year	**373**	269
1-2 years	**223**	170
2-3 years	**158**	117
3-4 years	**95**	66
4-5 years	**59**	46
More than 5 years	**31**	24
	939	692
Unearned finance income	**(83)**	(45)
Net investment in finance lease and hire purchase receivables	**856**	647

Finance income recognised on the net investment in the lease was £38m (2022: £21m) and is included in interest income (note 2.1).

Impairment provisions on credit exposures

	Group		Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Opening balance	**454**	496	**451**	493
ECL charge for the year(1)	**307**	57	**307**	57
Amounts written off	**(187)**	(129)	**(187)**	(129)
Recoveries of amounts written off in previous years	**38**	30	**38**	30
Closing balance	**612**	454	**609**	451

(1) The £309m charge (2022: £52m) for impairment losses on credit exposures shown in the income statement also includes a £2m charge (2022: £5m credit) in respect of off-balance sheet ECLs which are presented as part of the provisions for liabilities and charges balance (note 3.7).

Notes to the consolidated financial statements (continued)
Section 3: Assets and liabilities (continued)
3.1.1.2 Cash and balances with central banks

Accounting policy

Cash and balances with central banks are measured at amortised cost, using the effective interest method and are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership. These balances form part of the Group's treasury-related activities and are mostly short term in nature and repayable on demand or within a short timescale, generally three months.

The impact of the ECL impairment requirements (note 3.1.1) on the Group's cash and balances with central banks is immaterial.

	Group and Bank	
	2023	2022
	£m	£m
Cash assets	**1,089**	1,206
Balances with central banks (including EU payment systems)	**10,193**	11,015
	11,282	12,221
Less mandatory deposits with central banks[1]	**(275)**	(266)
Included in cash and cash equivalents (note 5.4)	**11,007**	11,955

(1) Mandatory deposits are not available for use in the Group's day-to-day business and are non-interest bearing.

3.1.1.3 Customer deposits

	Group and Bank	
	2023	2022
	£m	£m
Interest bearing demand deposits	**39,292**	46,457
Term deposits	**22,775**	13,951
Non-interest bearing demand deposits	**4,542**	4,952
	66,609	65,360
Accrued interest	**218**	74
	66,827	65,434

3.1.1.4 Debt securities in issue

Accounting policy

Debt securities comprise short and long-term debt issued by the Group including medium-term notes, subordinated debt, covered bonds and RMBS notes.

Debt securities are initially recognised at fair value, being the issue proceeds, net of transaction costs incurred. These instruments are subsequently measured at amortised cost using the effective interest method resulting in premiums, discounts and associated issuance costs being recognised in the income statement over the life of the instrument.

Where relevant, fair value hedge adjustments have been applied.

The breakdown of debt securities in issue is shown below:

2023

Group	**Securitisation**	**Covered bonds**	**Total**
	£m	**£m**	**£m**
Debt securities	**1,729**	**4,392**	**6,121**
Accrued interest	**11**	**23**	**34**
	1,740	**4,415**	**6,155**

2022

Group	Securitisation	Covered bonds	Total
	£m	£m	£m
Debt securities	1,875	3,450	5,325
Accrued interest	5	17	22
	1,880	3,467	5,347

2023

Bank	**Covered bonds**	**Total**
	£m	**£m**
Total debt securities	**4,529**	**4,529**
Accrued interest	**23**	**23**
	4,552	**4,552**

2022

Bank	Covered bonds	Total
	£m	£m
Debt securities	3,611	3,611
Accrued interest	17	17
	3,628	3,628

Key movements in the year are shown in the tables below(1). Full details of all notes in issue can be found at https://www.virginmoneyukplc.com/investor-relations/debt-investors/

Group

	2023				2022			
	Issuances		**Redemptions**		Issuances		Redemptions	
	Denomination	**£m**	**Denomination**	**£m**	Denomination	£m	Denomination	£m
Securitisation	**GBP**	**900**	**USD, GBP**	**1,012**	GBP	700	USD, GBP	1,264
Covered bonds	**EUR, GBP**	**926**		**-**	EUR, GBP	1,780		-
		1,826		**1,012**		2,480		1,264

Bank

	2023				2022			
	Issuances		**Redemptions**		Issuances		Redemptions	
	Denomination	**£m**	**Denomination**	**£m**	Denomination	£m	Denomination	£m
Covered bonds	**EUR, GBP**	**926**		**-**	EUR, GBP	1,780		-

(1) Other movements relate to foreign exchange, hedging adjustments and the capitalisation and amortisation of issuance costs.

3.1.1.5 Due to other banks

	Group and Bank	
	2023	2022
	£m	£m
Secured loans	**6,291**	7,230
Securities sold under agreements to repurchase(1)	**552**	1,205
Transaction balances with other banks	**-**	1
Deposits from other banks	**77**	50
	6,920	8,486

(1) The underlying securities sold under agreements to repurchase have a carrying value of £1,047m (2022: £1,873m) and relate to internally held debt securities, backed by mortgage assets, issued from the Group's securitisation programmes (note 3.1.5).

Secured loans comprise amounts drawn under the TFSME scheme (including accrued interest).

3.1.2 Financial assets at fair value through other comprehensive income

Accounting policy

A financial asset is measured at FVOCI when: (i) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (ii) the contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding unless the financial asset is designated at FVTPL on initial recognition. An option for equity investments that are not held for trading can be taken to classify them at FVOCI where an irrevocable election is made at initial recognition. This is available for each separate investment, and the Group has not exercised this option for any equity investments.

Interest income and impairment gains and losses on FVOCI assets are measured in the same manner as for assets measured at amortised cost and recognised in the income statement, with all other gains or losses recognised in other comprehensive income as a separate component of equity in the year in which they arise. Gains and losses arising from changes in fair value are included as a separate component of equity until sale, when the cumulative gain or loss is transferred to the income statement. For all FVOCI assets, the gain or loss is calculated with reference to the gross carrying amount.

Debt instruments at FVOCI are subject to the same impairment criteria as amortised cost financial assets (note 3.1.1), with the ECL element recognised directly in the income statement. As the financial asset is FVOCI, the change in its value includes the ECL element, with the remaining fair value change recognised in other comprehensive income. Any reversal of the ECL is recorded in the income statement up to the value recognised previously.

A low credit risk option is available which allows entities not to assess whether there has been a significant increase in credit risk since initial recognition where the financial asset is deemed as being of low credit risk at the reporting date. The result of exercising the low credit risk exemption is that the financial assets are classed under Stage 1 with a 12-month ECL calculation applied.

The Group exercises the low credit risk option for debt instruments classified as FVOCI, recognising the high credit quality of the instruments. Consequently, no material ECL provision is held for these financial assets.

Financial assets at FVOCI consists of £6,184m of listed securities (2022: £5,064m).

Note 3.1.4 contains further information on the valuation methodology applied to financial instruments at FVOCI at 30 September 2023 and their classification within the fair value hierarchy. Details of the credit quality of financial assets is provided in the Risk report.

3.1.3 Financial assets at fair value through profit or loss

Accounting policy
A financial asset is measured at FVTPL if it: (i) does not fall into one of the business models for amortised cost (note 3.1.1) or FVOCI (note 3.1.2); (ii) is specifically designated as FVTPL on initial recognition in order to eliminate or significantly reduce a measurement mismatch; or (iii) is classified as held for trading.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling in the near term, forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Associated gains and losses are recognised in the income statement as they arise (note 2.2).

Derivatives

The Group uses derivative financial instruments to manage exposure to interest rate, contractually specified inflation and foreign currency risk. Interest rate risk arises primarily due to the mismatch, or duration, between repricing dates of interest-bearing assets and liabilities, or basis risk from assets and liabilities repricing to different reference rates. Contractually specified inflation risk arises from financial instruments whose cash flows are linked to an inflation index. Currency risk arises when assets and liabilities are not denominated in the functional currency of the entity. Derivatives are recognised on the balance sheet at fair value on trade date and are measured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The notional amount of a derivative contract is not recorded on the balance sheet but is disclosed as part of this note.

Netting
Derivative assets and liabilities are offset against collateral received and paid respectively, and the net amount in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis. Amounts offset on the balance sheet represent the Group's centrally cleared derivative financial instruments and collateral paid to/from central clearing houses, which meet the criteria for offsetting under IAS 32.

Hedge accounting
The Group elects to apply hedge accounting for the majority of its risk management activity that uses derivatives. This results in greater alignment in the timing of recognition of gains and losses on hedged items and hedging instruments and therefore reduces income statement volatility. The Group does not have a trading book, however derivatives that do not meet the hedging criteria, or for which hedge accounting is not applied, are classified as held for trading.

The Group has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. The method of recognising the fair value gain or loss on a derivative depends on whether it is designated as a hedging instrument and the nature of the item being hedged. Certain derivatives are designated as either hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (a cash flow hedge); or hedges of the fair value of recognised assets or liabilities or firm commitments (a fair value hedge).

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. Specifically, the separate component of equity (note 4.1) is adjusted to the lesser of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the expected future cash flows on the hedged item from the inception of the hedge. Any remaining gain or loss on the hedging instrument is recognised in the income statement. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge is discontinued or no longer meets the criteria for hedge accounting, any cumulative gain or loss remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. This movement in the fair value of the hedged item is made as an adjustment to the carrying value of the hedged asset or liability.

Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement over the remaining life of the asset or liability.

Derivatives held for trading
Changes in value of held for trading derivatives are immediately recognised in the income statement (note 2.2).

3.1.3.1 Loans and advances to customers

Included in financial assets at FVTPL is a historical portfolio of loans. Interest rate risk associated with these loans is managed using interest rate derivative contracts and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans is £59m (2022: £70m). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £1m (2022: £1m); the change for the current year is £Nil (2022: decrease of £1m), of which £Nil (2022: £1m) has been recognised in the income statement.

3.1.3.2 Derivatives

The tables below analyse derivatives between those designated as hedging instruments and those classified as held for trading:

	Group		Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Fair value of derivative financial assets				
Designated as hedging instruments	**96**	277	**87**	245
Designated as held for trading	**39**	65	**39**	65
	135	342	**126**	310
Fair value of derivative financial liabilities				
Designated as hedging instruments	**204**	201	**77**	66
Designated as held for trading	**86**	126	**86**	126
	290	327	**163**	192

Cash collateral totalling £267m (2022: £241m) has been pledged and £33m has been received (2022: £38m) in respect of derivatives with other banks. These amounts are included within due from and due to other banks respectively. Net collateral received from clearing houses, which did not meet offsetting criteria, totalled £116m (2022: £149m) and is included within other assets and other liabilities.

The derivative financial instruments held by the Group are further analysed below. The notional contract amount is the amount from which the cash flows are derived and does not represent the principal amounts at risk relating to these contracts.

3.1.3.2 Derivative financial instruments (continued)

Group	2023 Notional contract amount £m	2023 Fair value of assets £m	2023 Fair value of liabilities £m	2022 Notional contract amount £m	2022 Fair value of assets £m	2022 Fair value of liabilities £m
Derivatives designated as hedging instruments						
Cash flow hedges						
Interest rate swaps (gross)	**51,185**	**1,295**	**545**	35,753	1,988	930
Less: net settled interest rate swaps(1)	**(49,888)**	**(1,222)**	**(531)**	(33,188)	(1,803)	(900)
Interest rate swaps (net)(2)	**1,297**	**73**	**14**	2,565	185	30
Fair value hedges						
Interest rate swaps (gross)(3)	**19,203**	**1,219**	**862**	16,600	1,201	636
Less: net settled interest rate swaps(1)	**(18,113)**	**(1,206)**	**(820)**	(14,611)	(1,144)	(570)
Interest rate swaps (net)(2)	**1,090**	**13**	**42**	1,989	57	66
Cross currency swaps(2)	**2,350**	**10**	**148**	2,113	35	105
	3,440	**23**	**190**	4,102	92	171
Total derivatives designated as hedging instruments	**4,737**	**96**	**204**	6,667	277	201
Derivatives designated as held for trading						
Foreign exchange rate related contracts						
Spot and forward foreign exchange(2)	**654**	**7**	**9**	599	26	20
Options(2)	**-**	**-**	**-**	1	-	-
	654	**7**	**9**	600	26	20
Interest rate related contracts						
Interest rate swaps (gross)	**1,910**	**47**	**50**	1,411	52	66
Less: net settled interest rate swaps(1)	**(753)**	**(43)**	**(1)**	(665)	(50)	-
Interest rate swaps (net)(2)	**1,157**	**4**	**49**	746	2	66
Swaptions(2)	**10**	**-**	**1**	10	-	2
Options(2)	**1,067**	**16**	**16**	501	16	17
	2,234	**20**	**66**	1,257	18	85
Commodity related contracts	**167**	**12**	**11**	199	21	21
Total derivatives designated as held for trading	**3,055**	**39**	**86**	2,056	65	126

(1) Presented within other assets and other liabilities.

(2) Presented within derivative financial instruments.

(3) Includes inflation and interest rate risk related swaps detailed in the summary of hedging instruments in designated hedging relationships table on page 143.

3.1.3.2 Derivative financial instruments (continued)

Bank	2023 Notional contract amount £m	2023 Fair value of assets £m	2023 Fair value of liabilities £m	2022 Notional contract amount £m	2022 Fair value of assets £m	2022 Fair value of liabilities £m
Derivatives designated as hedging instruments						
Cash flow hedges						
Interest rate swaps (gross)	**51,185**	**1,295**	**545**	35,753	1,988	930
Less: net settled interest rate swaps(1)	**(49,888)**	**(1,222)**	**(531)**	(33,188)	(1,803)	(900)
Interest rate swaps (net)(2)	**1,297**	**73**	**14**	2,565	185	30
Fair value hedges						
Interest rate swaps (gross)(3)	**18,503**	**1,218**	**821**	15,900	1,201	572
Less: net settled interest rate swaps(1)	**(18,113)**	**(1,206)**	**(820)**	(14,611)	(1,144)	(570)
Interest rate swaps (net)(2)	**390**	**12**	**1**	1,289	57	2
Cross currency swaps(2)	**961**	**2**	**62**	958	3	34
Total derivatives designated as hedging instruments	**2,648**	**87**	**77**	4,812	245	66
Derivatives designated as held for trading						
Foreign exchange rate related contracts						
Spot and forward foreign exchange(2)	**654**	**7**	**9**	599	26	20
Options(2)	**-**	**-**	**-**	1	-	-
	654	**7**	**9**	600	26	20
Interest rate related contracts						
Interest rate swaps (gross)	**1,910**	**47**	**50**	1,411	52	66
Less: net settled interest rate swaps(1)	**(753)**	**(43)**	**(1)**	(665)	(50)	-
Interest rate swaps (net)(2)	**1,157**	**4**	**49**	746	2	66
Swaptions(2)	**10**	**-**	**1**	10	-	2
Options(2)	**1,067**	**16**	**16**	501	16	17
	2,234	**20**	**66**	1,257	18	85
Commodity related contracts	**167**	**12**	**11**	199	21	21
Total derivatives designated as held for trading	**3,055**	**39**	**86**	2,056	65	126

(1) Presented within other assets.
(2) Presented within derivative financial instruments.
(3) Includes inflation and interest rate risk related swaps detailed in the summary of hedging instruments in designated hedging relationships table on page 143.

Hedge accounting

The hedging strategy of the Group is divided into micro hedges, where the hedged item is a distinctly identifiable asset or liability, and portfolio hedges, where the hedged item is a homogeneous portfolio of assets or liabilities.

In some hedge accounting relationships, the Group designates risk components of hedged items as follows:

- Benchmark interest rate risk as a component of interest rate risk, such as the SONIA component.
- Exchange rate risk for foreign currency financial assets and financial liabilities.
- Inflation risk where it is a contractually specified component of a debt instrument.
- Components of cash flows of hedged items, for example cash flows linked to benchmark rates such as SONIA.

Other risks such as credit risk and liquidity risk are managed by the Group but are not included in the hedge accounting relationship. Changes in the designated risk component usually account for the largest portion of the overall change in fair value or cash flows of the hedged item.

Portfolio cash flow hedges

The Group applies macro cash flow hedge accounting to a portion of its floating rate financial assets and liabilities. The hedged cash flows are a group of forecast transactions that result in cash flow variability from resetting of interest rates, reinvestment of financial assets, or refinancing and rollovers of financial liabilities. This cash flow variability can arise on recognised assets or liabilities or highly probable forecast transactions. The hedged items are designated as the gross asset or liability positions allocated to time buckets based on projected repricing and interest profiles. The Group aims to maintain a position where the principal amount of the hedged items is greater than or equal to the notional amount of the corresponding interest rate swaps used as the hedging instruments. The hedge accounting relationship is reassessed on a monthly basis with the composition of hedging instruments and hedged items changing frequently in line with the underlying risk exposures. If necessary, the hedge relationships are de-designated and redesignated based on the effectiveness test results.

3.1.3.2 Derivative financial instruments (continued)

Portfolio fair value hedges
The Group applies macro fair value hedging to a portion of its fixed rate mortgages. The Group determines hedged items by identifying portfolios of homogeneous loans based on their contractual maturity and other risk characteristics. Loans within the identified portfolios are allocated to repricing time buckets based on expected, rather than contractual, repricing dates. The hedging instruments are designated to those repricing time buckets. Hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed loans due to the hedged risk against the fair value movements of the derivatives.

The aggregated fair value changes in the hedged loans are recognised on the Group's balance sheet as an asset. At the end of every month, in order to minimise the ineffectiveness from early repayments and accommodate new exposures, the Group voluntarily de-designates the hedge relationships and redesignates them as new hedges. Fair value hedging of fixed rate deposits was discontinued in 2020, and the hedge adjustment recognised on the Group's balance sheet is amortised to profit and loss over the life of the hedged item.

Micro fair value hedges
The Group uses this hedging strategy on GBP, inflation or foreign currency denominated fixed rate assets held at FVOCI and GBP and foreign currency denominated fixed rate debt issuances by the Group. Where assets and liabilities are exposed to multiple risk components, for example interest rate and foreign currency risk, these components are simultaneously designated as hedged risks within the same hedge relationship.

Hedge ineffectiveness
Hedge ineffectiveness can arise from:

- mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences;
- differences in timing of cash flows of hedged items and hedging instruments;
- changes in expected timings and amounts of forecast future cash flows; and
- derivatives used as hedging instruments having a non-zero fair value at the time of designation.

Additionally, for portfolio fair value hedges of the Group's fixed rate mortgage portfolio, ineffectiveness also arises from the difference between forecast and actual repayments (i.e. prepayment risk).

The Group has no remaining hedge relationships exposed to LIBOR and as no uncertainty remains regarding interest rate benchmark reform, the Group no longer applies the reliefs provided by 'Interest Rate Benchmark Reform - Phase 1 and Phase 2 amendments' to hedge accounting. Further detail on the Group's approach to managing the risk of LIBOR replacement, including derivatives designated as held for trading that have not yet transitioned, is provided on page 79.

3.1.3.2 Derivative financial instruments (continued)

Summary of hedging instruments in designated hedge relationships

In the table below, the Group sets out the accumulated adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year:

Group	2023				2022			
		Carrying amount				Carrying amount		
	Notional contract amount £m	Assets £m	Liabilities £m	Change in fair value of hedging instrument in the year used for ineffectiveness measurement(2) £m	Notional Contract Amount £m	Assets £m	Liabilities £m	Change in fair value of hedging Instrument in the year used for Ineffectiveness measurement(2) £m
CASH FLOW HEDGES								
Interest rate risk								
Interest rate swaps(1)	**51,185**	**1,295**	**545**	**(318)**	35,753	1,988	930	916
Total derivatives designated as cash flow hedges	**51,185**	**1,295**	**545**	**(318)**	35,753	1,988	930	916
FAIR VALUE HEDGES								
Interest rate risk								
Interest rate swaps(1)	**17,683**	**983**	**257**	**(368)**	16,150	1,059	361	1,052
Inflation and interest rate risk								
Inflation linked interest rate swaps(1)	**1,520**	**236**	**606**	**43**	450	142	275	96
Foreign exchange and interest rate risk								
Cross currency swaps	**2,350**	**10**	**148**	**(58)**	2,113	35	105	6
Total derivatives designated as fair value hedges	**21,553**	**1,229**	**1,011**	**(383)**	18,713	1,236	741	1,154

Bank	2023				2022			
		Carrying amount				Carrying amount		
	Notional contract amount £m	Assets £m	Liabilities £m	Change in fair value of hedging Instrument in the year used for Ineffectiveness measurement(2) £m	Notional contract amount £m	Assets £m	Liabilities £m	Change in fair value of hedging Instrument in the year used for Ineffectiveness measurement(2) £m
CASH FLOW HEDGES								
Interest rate risk								
Interest rate swaps(1)	**51,185**	**1,295**	**545**	**(318)**	35,753	1,988	930	916
Total derivatives designated as cash flow hedges	**51,185**	**1,295**	**545**	**(318)**	35,753	1,988	930	916
FAIR VALUE HEDGES								
Interest rate risk								
Interest rate swaps(1)	**16,983**	**983**	**215**	**(391)**	15,450	1,059	297	1,168
Inflation and interest rate risk								
Inflation linked interest rate swaps(1)	**1,520**	**236**	**606**	**43**	450	142	275	96
Foreign exchange and interest rate risk								
Cross currency swaps	**961**	**2**	**62**	**(20)**	958	3	34	(1)
Total derivatives designated as fair value hedges	**19,464**	**1,221**	**883**	**(368)**	16,858	1,204	606	1,263

(1) As shown in the total derivatives contracts table on pages 140 - 141 , for centrally cleared derivatives, where the IAS 32 'Financial instruments: presentation' netting criteria is met, the derivative balances are offset within other assets. For all other derivatives, the derivative balances are presented within derivative financial instruments.

(2) Changes in fair value of cash flow hedging instruments are recognised in other comprehensive income. Changes in fair value of fair value hedging instruments are recognised in the income statement in non-interest income.

3.1.3.2 Derivative financial instruments (continued)

Summary of hedged items in designated hedge relationships

In the table below, the Group sets out the accumulated adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

Group	2023			2022		
		Cash flow hedge reserve			Cash flow hedge reserve	
	Change in fair value of hedged item in the year used for ineffectiveness measurement £m	Continuing hedges £m	Discontinued hedges £m	Change in fair value of hedged item in the year used for ineffectiveness measurement £m	Continuing hedges £m	Discontinued hedges £m
CASH FLOW HEDGES						
Interest rate risk						
Gross floating rate assets and gross floating rate liabilities(1)	**268**	**625**	**59**	(962)	979	(14)
Total	**268**	**625**	**59**	(962)	979	(14)

Group	2023				2022			
	Carrying amount of hedged items				Carrying amount of hedged items			
	Assets £m	Liabilities £m	Accumulated hedge adjustment on the hedged item £m	Change in fair value of hedged items in the year used for ineffectiveness measurement £m	Assets £m	Liabilities £m	Accumulated hedge adjustment on the hedged item £m	Change in fair value of hedged items in the year used for ineffectiveness measurement £m
FAIR VALUE HEDGES								
Interest rate risk								
Fixed rate mortgages(3)	**10,864**	**-**	**(492)**	**426**	9,520	-	(941)	(779)
Fixed rate customer deposits(4)	**-**	**-**	**-**	**-**	-	-	(2)	-
Fixed rate FVOCI debt instruments(5)	**2,692**	**-**	**(568)**	**92**	2,443	-	(613)	(629)
Fixed rate issuances(2)	**-**	**(2,810)**	**239**	**(120)**	-	(2,385)	358	385
Inflation and interest rate risk								
Fixed rate FVOCI debt instruments(5)	**1,116**	**-**	**(92)**	**(43)**	589	-	(105)	(96)
Foreign exchange and interest rate risk								
Fixed rate currency FVOCI debt instruments(5)	**64**	**-**	**(2)**	**1**	76	-	(3)	(3)
Fixed rate currency issuances(2)	**-**	**(2,156)**	**140**	**56**	-	(1,955)	83	11
Total	**14,736**	**(4,966)**	**(775)**	**412**	12,628	(4,340)	(1,223)	(1,111)

(1) Highly probable future cash flows arising from loans and advances to customers, due to customers and debt securities in issue.

(2) Hedged item is recorded in debt securities in issue and related party transactions.

(3) Hedged item and the cumulative fair value changes are recorded in loans and advances to customers.

(4) Hedge relationship was discontinued in 2020. The fair value adjustment taken will be amortised over the remaining life of the hedged items, and is recorded customer deposits.

(5) Hedged item is recorded in financial assets at FVOCI.

3.1.3.2 Derivative financial instruments (continued)

Summary of hedged items in designated hedge relationships (continued)

Bank	2023			2022		
		Cash flow hedge reserve			Cash flow hedge reserve	
	Change in fair value of hedged item in the year used for ineffectiveness measurement £m	Continuing hedges £m	Discontinued hedges £m	Change in fair value of hedged item in the year used for ineffectiveness measurement £m	Continuing hedges £m	Discontinued hedges £m
CASH FLOW HEDGES						
Interest rate risk						
Gross floating rate assets and gross floating rate liabilities[1]	**269**	**624**	**61**	(962)	979	(8)
Total	**269**	**624**	**61**	(962)	979	(8)

Bank	2023				2022			
	Carrying amount of hedged items		Accumulated hedge adjustment on the hedged item	Change in fair value of hedged items in the year used for ineffectiveness measurement	Carrying amount of hedged items		Accumulated hedge adjustment on the hedged item	Change in fair value of hedged items in the year used for ineffectiveness measurement
	Assets £m	Liabilities £m	£m	£m	Assets £m	Liabilities £m	£m	£m
FAIR VALUE HEDGES								
Interest rate risk								
Fixed rate mortgages[3]	**10,864**	**-**	**(492)**	**426**	9,520	-	(941)	(779)
Fixed rate customer deposits[4]	**-**	**-**	**-**	**-**	-	-	(2)	-
Fixed rate FVOCI debt instruments[5]	**2,692**	**-**	**(568)**	**92**	2,443	-	(613)	(629)
Fixed rate issuances[2]	**-**	**(2,151)**	**188**	**(96)**	-	(1,749)	284	268
Inflation and interest rate risk								
Fixed rate FVOCI debt instruments[5]	**1,116**	**-**	**(92)**	**(43)**	589	-	(105)	(96)
Foreign exchange and interest rate risk								
Fixed rate currency FVOCI debt instruments[5]	**64**	**-**	**(2)**	**1**	76	-	(3)	(3)
Fixed rate currency issuances[2]	**-**	**(856)**	**54**	**18**	-	(849)	33	8
Total	**14,736**	**(3,007)**	**(912)**	**398**	12,628	(2,598)	(1,347)	(1,231)

(1) Highly probable future cash flows arising from loans and advances to customers, due to customers and debt securities in issue.

(2) Hedged item is recorded in debt securities in issue and related party transactions.

(3) Hedged item and the cumulative fair value changes are recorded in loans and advances to customers.

(4) Hedge relationship was discontinued in the prior year. The fair value adjustment taken will be amortised over the remaining life of the hedged items, and is recorded in customer deposits.

(5) Hedged item is recorded in financial assets at FVOCI.

3.1.3.2 Derivative financial instruments (continued)

Group	2023				2022			
			Reclassified into income statement as				Reclassified into income statement as	
	Hedge ineffectiveness recognised in income statement(1) £m	Effective portion recognised in other comprehensive income £m	Net interest income £m	Non-interest income £m	Hedge ineffectiveness recognised in income statement(1) £m	Effective portion recognised in other comprehensive income £m	Net interest income £m	Non-interest income £m
CASH FLOW HEDGES								
Interest rate risk								
Gross floating rate assets and gross floating rate liabilities	**(50)**	**(268)**	**10**	**2**	(46)	962	17	(4)
Total (losses)/gains on cash flow hedges	**(50)**	**(268)**	**10**	**2**	(46)	962	17	(4)

Group	Hedge ineffectiveness recognised in income	
	2023 £m	2022 £m
FAIR VALUE HEDGES		
Interest rate risk		
Fixed rate mortgages	**30**	33
Fixed rate FVOCI debt instruments	**3**	(2)
Fixed rate issuances	**(3)**	(2)
Inflation and interest rate risk		
Fixed rate FVOCI debt instruments	**-**	-
Foreign exchange and interest rate risk		
Fixed rate currency FVOCI debt instruments	**-**	(1)
Fixed rate currency issuances	**(1)**	15
Total losses on fair value hedges(1)	**29**	43

(1) Recognised in gains less losses on financial assets at fair value.

3.1.3.2 Derivative financial instruments (continued)

Bank	2023				2022			
	Hedge ineffectiveness recognised in income statement(1) £m	Effective portion recognised in other comprehensive income £m	Reclassified into Income statement as: Net interest income £m	Reclassified into Income statement as: Non-interest income £m	Hedge ineffectiveness recognised in income statement(1) £m	Effective portion recognised in other comprehensive income £m	Reclassified into Income statement as: Net interest income £m	Reclassified into Income statement as: Non-interest income £m
CASH FLOW HEDGES								
Interest rate risk								
Gross floating rate assets and gross floating rate liabilities	**(50)**	**(269)**	**10**	**6**	(46)	962	19	-
Total (losses)/gains on cash flow hedges	**(50)**	**(269)**	**10**	**6**	(46)	962	19	-

Bank	Hedge ineffectiveness recognised in income 2023 £m	Hedge ineffectiveness recognised in income 2022 £m
FAIR VALUE HEDGES		
Interest rate risk		
Fixed rate mortgages	**31**	33
Fixed rate FVOCI debt instruments	**3**	(2)
Fixed rate issuances	**(4)**	(3)
Inflation and interest rate risk		
Fixed rate FVOCI debt instruments	**-**	-
Foreign exchange and interest rate risk		
Fixed rate currency FVOCI debt instruments	**-**	(1)
Fixed rate currency issuances	**(1)**	5
Total losses on fair value hedges(1)	**29**	32

(1) Recognised in gains less losses on financial assets at fair value.

3.1.3.3 Other

Included in other financial assets is £2m (2022: £2m) of unlisted securities.

3.1.4 Fair value of financial instruments

Accounting Policy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.

When available, the Group measures the fair value of a financial instrument using quoted prices in an active market for that instrument. Where no such active market exists for the particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions where possible, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. In doing so, fair value is estimated using a valuation technique that makes maximum possible use of market inputs and that places minimal possible reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, which represents the fair value of the consideration paid or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits or losses on the transaction date.

In certain limited circumstances, the Group applies the fair value measurement option to financial assets including loans and advances where the inherent market risks (principally interest rate and option risk) are individually hedged using appropriate interest rate derivatives. The loan is designated as being carried at FVTPL to offset the movements in the fair value of the derivative within the income statement and therefore avoid an accounting mismatch. When a loan is held at fair value, a statistical-based calculation is used to estimate credit losses attributable to adverse movements in credit risk on the assets held. This adjustment to the credit quality of the asset is then applied to the carrying amount of the loan to arrive at fair value and recognised in the income statement.

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value measurement hierarchy is as follows:

- Level 1 - quoted prices (unadjusted) in active markets for an identical financial asset or liability.
- Level 2 - inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 - inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

For the purpose of reporting movements between levels of the fair value hierarchy, transfers are recognised at the beginning of the reporting year in which they occur.

3.1.4 Fair value of financial instruments (continued)

(a) Fair value of financial instruments recognised at amortised cost

The tables show a comparison of the carrying amounts of financial assets and liabilities measured at amortised cost, as reported on the balance sheet, and their fair values, where these are not approximately equal.

There are various limitations inherent in this fair value disclosure, particularly where prices are derived from unobservable inputs, due to some financial instruments not being traded in an active market. The methodologies and assumptions used in the fair value estimates are therefore described in the notes to the tables. The difference between carrying value and fair value is relevant in a trading environment, but is not relevant to assets such as loans and advances.

Group

	2023		2022	
	Carrying value	**Fair value**	Carrying value	Fair value
Financial assets	**£m**	**£m**	£m	£m
Loans and advances to customers(1)	**72,191**	**71,611**	71,749	69,275
Financial liabilities				
Customer deposits(2)	**66,827**	**66,625**	65,434	65,069
Debt securities in issue(2)	**6,155**	**6,191**	5,347	5,359
Due to other banks(2)	**6,920**	**6,940**	8,486	8,469
Due to related entities(2)	**3,605**	**3,699**	3,210	3,292

Bank	**2023**		2022	
	Carrying value	**Fair value**	Carrying value	Fair value
Financial assets	**£m**	**£m**	£m	£m
Loans and advances to customers(1)	**71,403**	**70,816**	70,842	68,397
Financial liabilities				
Customer deposits(2)	**66,827**	**66,625**	65,434	65,069
Debt securities in issue(2)	**4,552**	**4,442**	3,628	3,481
Due to other banks(2)	**6,920**	**6,940**	8,486	8,469
Due to related entities(2)	**5,208**	**5,302**	4,941	5,023

(1) Loans and advances to customers are categorised as Level 3 in the fair value hierarchy with the exception of £1,085m (2022: £1,098m) of overdrafts which are categorised as Level 2.
(2) Categorised as Level 2 in the fair value hierarchy.

The Group and Bank's fair values disclosed for financial instruments at amortised cost are based on the following methodologies and assumptions:

(a) *Loans and advances to customers* - determined by firstly segregating them into portfolios which have similar characteristics. Contractual cash flows are then adjusted for ECLs and expectations of customer behaviour based on observed historic data. The cash flows are then discounted at a weighted average cost of capital (appropriate to the portfolio) to arrive at an estimate of their fair value.

(b) *Customer deposits* - determined using a replacement cost method which assumes alternative funding is raised in the most advantageous market. The contractual cash flows have been discounted using a funding curve with credit spreads reflecting the tenor of each deposit.

(c) *Debt securities in issue* - taken directly from quoted market prices where available or determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

(d) *Due to other banks* – determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

(e) *Due to related entities* - derived from quoted market prices of the related debt security in issue by Virgin Money UK PLC after accounting for differences in credit spread. All other amounts due from related entities are redeemable at call and therefore carrying value approximates fair value.

3.1.4 Fair value of financial instruments (continued)

(b) Fair value of financial instruments recognised at fair value

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, using the fair value hierarchy described above.

Group	2023				2022			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Held at FVOCI	**6,184**	**-**	**-**	**6,184**	5,064	-	-	5,064
Loans and advances to customers	**-**	**59**	**-**	**59**	-	70	-	70
Other	**-**	**-**	**2**	**2**	-	-	2	2
Derivatives	**-**	**135**	**-**	**135**	-	342	-	342
Total financial assets at fair value	**6,184**	**194**	**2**	**6,380**	5,064	412	2	5,478
Financial liabilities								
Derivatives	**-**	**290**	**-**	**290**	-	327	-	327
Total financial liabilities at fair value	**-**	**290**	**-**	**290**	-	327	-	327

Bank	2023				2022			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Held at FVOCI	**6,184**	**-**	**-**	**6,184**	5,064	-	-	5,064
Loans and advances to customers	**-**	**59**	**-**	**59**	-	70	-	70
Other	**-**	**-**	**1**	**1**	-	-	1	1
Derivatives	**-**	**126**	**-**	**126**	-	310	-	310
Total financial assets at fair value	**6,184**	**185**	**1**	**6,370**	5,064	380	1	5,445
Financial liabilities								
Derivatives	**-**	**163**	**-**	**163**	-	192	-	192
Total financial liabilities at fair value	**-**	**163**	**-**	**163**	-	192	-	192

There were no transfers between Level 1 and 2 in the current or prior year for either the Group or the Bank.

The Group and Bank's valuations for financial instruments that are measured subsequent to initial recognition at fair value are based on the following methodologies and assumptions:

(a) *Held at FVOCI* – based on quoted closing market prices.

(b) *Loans and advances to customers* – derived from data or valuation techniques based upon observable market data and non-observable inputs as appropriate to the nature and type of the underlying instrument.

(c) *Other (Level 3)* – represents unlisted debt and equity investments for which the Group's share of the net asset value or the transaction price respectively is considered the best representation of the exit price and is the Group's best estimate of fair value.

(d) *Derivative financial assets and liabilities* – includes foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, and are obtained from discounted cash flow models or option pricing models as appropriate.

3.1.4 Fair value of financial instruments (continued)

(c) Fair value of financial instruments recognised on the balance sheet at fair value (continued)

Level 3 movements analysis:	**2023**		2022	
Group	**Financial assets at FVTPL £m**	**Derivative financial assets £m**	Financial assets at FVTPL £m	Derivative financial assets £m
Balance at the beginning of year	**2**	**-**	2	1
Fair value gains recognised[1]				
In profit or loss - unrealised	**-**	**-**	-	(1)
Balance at the end of the year	**2**	**-**	2	-

Level 3 movements analysis:	**2023**		2022	
Bank	**Financial assets at FVTPL £m**	**Derivative financial assets £m**	Financial assets at FVTPL £m	Derivative financial assets £m
Balance at the beginning and end of the year	**1**	**-**	1	-

(1) Net gains or losses were recorded in non-interest income.

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

The Group and Bank has limited exposure to Level 3 fair value measurements. If all risks inherent in the valuations were to crystallise in their entirety, total assets would reduce by £2m for Group and £1m for Bank which would be recognised directly in the income statement.

Notes to the consolidated financial statements (continued)
Section 3: Assets and liabilities (continued)
3.1.5 Securitisation and covered bond programmes

Accounting policy
The Group sponsors the formation of structured entities, primarily for the purpose of facilitation of asset securitisation and covered bond transactions, the full details of which can be found in note 6.2 to the Bank financial statements. The Group has no shareholding in these entities, but is exposed, or has rights, to variable returns and has the ability to affect those returns. The entities are consolidated in the Group's financial statements in accordance with note 1.4.

Securitisation
The Group has securitised a portion of its retail mortgage loan portfolio under master trust securitisation programmes. The securitised mortgage loans have been assigned at principal value to bankruptcy remote structured entities. The securitised debt holders have no recourse to the Group other than the principal and interest (including fees) generated from the securitised mortgage loan portfolio.

The externally held securitised notes in issue are included within debt securities in issue (note 3.1.1.4). There are a number of notes held internally by the Group which are used as collateral for repurchases and similar transactions or for credit enhancement purposes.

Covered bond
A subset of the Group's retail mortgage loan portfolio has been ring-fenced and assigned to a bankruptcy remote limited liability partnership, Eagle Place Covered Bonds LLP, to provide a guarantee for the obligations payable on the covered bonds issued by the Group.

The covered bond partnership is consolidated with the mortgage loans retained on the Group balance sheet and the covered bonds issued included within debt securities in issue (note 3.1.1.4). The covered bond holders have dual recourse: firstly, to the bond issuer on an unsecured basis; and secondly, to the LLP under the Covered Bond Guarantee secured against the mortgage loans.

Under both the securitisation and covered bond programmes, the mortgage loans do not qualify for derecognition because the Group remains exposed to the majority of the risks and rewards of the mortgage loan portfolio, principally the associated credit risk. The Group continues to service the mortgage loans in return for an administration fee and is also entitled to any residual income after all payment obligations due under the terms of the programmes and senior programme expenses have been met. A deemed loan liability is recognised in the programme sponsor for the proceeds of the funding transaction.

Significant restrictions
Where the Group uses its financial assets to raise finance through securitisation and the sale of securities subject to repurchase agreements, the assets become encumbered and are not available for transfer around the Group.

3.1.5 Securitisation and covered bond programmes (continued)

The assets and liabilities in relation to securitisation and covered bonds in issue at 30 September are as follows (excluding accrued interest):

Group	2023		2022	
	Loans and advances securitised	**Notes in issue**	Loans and advances securitised	Notes in issue
	£m	**£m**	£m	£m
Securitisation programmes				
Lanark	**3,743**	**2,967**	3,776	2,768
Lannraig	**1,620**	**1,090**	768	622
Gosforth 2018-1	**-**	**-**	872	745
	5,363	**4,057**	5,416	4,135
Less held by the Group		**(2,328)**		(2,260)
		1,729		1,875
Covered bond programmes				
Clydesdale Bank PLC (formerly Virgin Money PLC)	**7,575**	**4,392**	6,739	3,450

Bank	2023		2022	
	Loans and advances securitised	**Notes in issue**	Loans and advances securitised	Notes in issue
	£m	**£m**	£m	£m
Covered bond programmes				
Clydesdale Bank PLC (formerly Virgin Money PLC)	**7,575**	**4,529**	6,739	3,611

The carrying amounts of covered bonds differ between Group and Bank due to fair value hedging adjustments which form part of the Group but not the Bank. Further information on the liabilities relating to the Group's securitisation and covered bond programmes can be found in note 3.1.1.4.

The Bank securitises mortgages which includes those originated by Yorkshire Bank Home Loans Limited (YBHL), a subsidiary of the Bank. A legal sale agreement between the Bank and YBHL has been put in place to ensure that the titles of such mortgages are transferred to the Bank prior to the completion of any securitisation transaction and these mortgages are included in the securitised asset balances disclosed in the table above and are recognised on the Bank balance sheet.

The fair values of financial assets and associated liabilities relating to the securitisation programmes were £5,311m and £1,749m respectively (2022: £5,235m and £1,878m) where the counterparty to the liabilities has recourse only to the financial assets.

There were no events during the year that resulted in any Group or Bank transferred financial assets being derecognised.

The Group and Bank have contractual and non-contractual arrangements which may require them to provide financial support as follows:

Securitisation programmes
The Group and Bank provide credit support to the structured entities via reserve funds, which are partly funded through subordinated debt arrangements and by holding junior notes. Exposures are shown in the table below:

	Group and Bank	
	2023	2022
	£m	£m
Beneficial interest held	**1,137**	1,239
Subordinated loans	**75**	42
Junior notes held	**853**	978
	2,065	2,259

3.1.5 Securitisation and covered bond programmes (continued)

Looking forward through future reporting years there are a number of date-based options on the notes issued by the structured entities which could be actioned by them as issuer. These could require the Bank, as sponsor, to provide additional liquidity support.

Covered bond programme
The nominal level of over-collateralisation was £2,670m (2022: £3,127m) in the Clydesdale Bank PLC (formerly Virgin Money PLC) programme. From time to time the obligations of the Group to provide over-collateralisation may increase due to the formal requirements of the programme.

Under all programmes, the Group has an obligation to repurchase mortgage exposures if certain mortgage loans no longer meet the programme criteria.

3.2 Intangible assets and goodwill

Group	Capitalised software	Goodwill	Core deposit intangible	Total
	£m	£m	£m	£m
Cost				
At 1 October 2021	1,043	11	6	1,060
Additions	53	-	-	53
Write-off	(28)	-	-	(28)
Disposal	(8)	-	-	(8)
At 30 September 2022	1,060	11	6	1,077
Additions	**11**	**-**	**-**	**11**
Write-off	**(45)**	**-**	**-**	**(45)**
Disposal	**(714)**	**-**	**-**	**(714)**
At 30 September 2023	**312**	**11**	**6**	**329**
Accumulated amortisation and impairment				
At 1 October 2021	684	-	3	687
Charge for the year	81	-	3	84
Impairment	47	-	-	47
Disposal	(8)	-	-	(8)
At 30 September 2022	804	-	6	810
Charge for the year	**60**	**-**	**-**	**60**
Disposal	**(714)**	**-**	**-**	**(714)**
At 30 September 2023	**150**	**-**	**6**	**156**
Net book value				
At 30 September 2023	**162**	**11**	**-**	**173**
At 30 September 2022	256	11	-	267

3.2 Intangible assets and goodwill (continued)

Bank	Capitalised software £m	Goodwill £m	Core deposit intangible £m	Total £m
Cost				
At 1 October 2021	1,114	11	6	1,131
Additions	53	-	-	53
Write-off	(28)	-	-	(28)
At 30 September 2022	1,139	11	6	1,156
Additions	**11**	**-**	**-**	**11**
Write-off	**(45)**	**-**	**-**	**(45)**
Disposals	**(714)**	**-**	**-**	**(714)**
At 30 September 2023	**391**	**11**	**6**	**408**
Accumulated amortisation and impairment				
At 1 October 2021	755	-	3	758
Charge for the year	81	-	3	84
Impairment	47	-	-	47
At 30 September 2022	883	-	6	889
Charge for the year	**60**	**-**	**-**	**60**
Disposals	**(714)**	**-**	**-**	**(714)**
At 30 September 2023	**229**	**-**	**6**	**235**
Net book value				
At 30 September 2023	**162**	**11**	**-**	**173**
At 30 September 2022	256	11	-	267

In both FY22 and FY23 all software additions in both Group and Bank form part of internally generated software projects.

A write-off charge of £45m (2022: £28m) was recognised in relation to the Group's mortgage digitisation programme. Following an assessment of the progress of the project to upgrade the mortgage platform and challenges identified during testing, we now anticipate a significant deferral and redesign as we implement the upgraded capability.

£714m of fully amortised assets were disposed of during the year following a data cleanse exercise conducted on the Group's intangible asset registers ahead of a migration to a single asset register in FY24.

3.3 Retirement benefit obligations

Accounting policy

Defined benefit pension scheme

A liability or asset is recognised on the balance sheet in respect of the defined benefit scheme and is measured as the difference between the present value of the defined benefit obligation less the fair value of the defined benefit scheme assets at the reporting date. The present value of the defined benefit obligation for the scheme is discounted by high-quality corporate bond rates that have maturity dates approximating to the terms of the defined benefit obligation. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme. In assessing whether a surplus is recoverable, the Group considers its current right to obtain a refund or a reduction in future contributions and does not anticipate any future acts by other parties that could change the amount of the surplus that may ultimately be recovered.

Pension expense attributable to the Group's defined benefit scheme comprises current service cost, past service cost resulting from a scheme amendment or curtailment, net interest on the net defined benefit obligation/asset, gains or losses on settlement and administrative costs incurred. Where actuarial remeasurements arise, the Group recognises such amounts directly in equity through the statement of comprehensive income in the year in which they occur. Actuarial remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in actuarial assumptions.

The Group's principal trading subsidiary, Clydesdale Bank PLC, is the sponsoring employer of the Yorkshire and Clydesdale Bank Pension Scheme, a defined benefit pension scheme, which was closed to future benefit accrual for the majority of current employees on 1 August 2017.

The following table summarises the present value of the defined benefit obligation and fair value of plan assets for the Scheme as at 30 September:

Group and Bank	2023 £m	2022 £m
Active members' defined benefit obligation	**(4)**	(9)
Deferred members' defined benefit obligation	**(988)**	(987)
Pensioner and dependant members' defined benefit obligations	**(1,292)**	(1,220)
Total defined benefit obligation	**(2,284)**	(2,216)
Fair value of Scheme assets	**2,796**	3,216
Net defined benefit pension asset	**512**	1,000
Post-retirement medical benefits obligations(1)	**(2)**	(2)

(1) Post-retirement medical benefits obligations are included within other liabilities (note 3.5).

The Group's pension arrangements

The current version of the Scheme was established under trust on 30 September 2009 with the assets held in a Trustee administered fund. The Trustee is responsible for the operation and governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, sets out the framework for funding defined benefit occupational pension plans in the UK.

The Group has implemented several reforms to the Scheme to manage the obligation. It closed the Scheme to new members in 2004 and since April 2006 has provided benefits accruing on a career average revalued earnings basis. On 1 August 2017, the Scheme was closed to future benefit accrual for the majority of current employees, with both affected and new employees' future pension benefits being provided through the Group's existing defined contribution scheme, 'My Retirement'. The income statement charge for this is separately disclosed in note 2.3.

The Group also provides post-retirement healthcare under a defined benefit scheme for some pensioners and their dependant relatives for which provision has been made on a basis consistent with the methodology applied to the defined benefit pension scheme. This is a closed scheme and the provision will be utilised over the life of the remaining scheme members. The obligation in respect of this scheme was £2m at 30 September 2023 (2022: £2m) and is included within other liabilities in note 3.5.

Notes to the consolidated financial statements (continued)
Section 3: Assets and liabilities (continued)

3.3 Retirement benefit obligations (continued)

Scheme valuations
There are a number of means of measuring liabilities in the defined benefit schemes, with the ultimate aim of the Trustee being that the Scheme is 100% funded on an agreed self-sufficiency basis (which is where the Scheme is essentially self-funded and does not need to call on the Group for any additional funding). The two bases used by the Group to value its obligations are: (i) an IAS 19 accounting basis; and (ii) a Trustee's Technical Provision basis.

(i) IAS 19 accounting basis

The valuations of the Scheme assets and obligations are calculated on an accounting basis in accordance with the applicable accounting standard IAS 19 which provides the basis for the accounting framework and methodology for entries in the income statement, balance sheet and capital reporting. The principal purpose of this valuation is to allow comparison of pension obligations between companies. The obligation under an accounting valuation can be higher or lower than those under a Trustee's Technical Provision valuation.

The rate used to discount the obligation on an IAS 19 basis is a key driver of any potential volatility and is based on yields on AA rated high-quality corporate bonds, regardless of how the Trustee of the Scheme invests the assets. The accounting valuation under IAS 19 can therefore move adversely because of low rates and narrowing credit spreads which are not fully matched by the Scheme assets. Inflation is another key source of volatility and arises as a result of member benefits having an element of index linking, which causes the obligation to increase in line with rises in long-term inflation assumptions. In practice however, over the long term, the relationship between interest and inflation rates tends to be negatively correlated resulting in a degree of risk offset.

(ii) Trustee's Technical Provision basis

This valuation basis reflects how much money the Trustee considers is required now in order to provide for the promised benefits as they come up for payment in the future. The Trustee is responsible for ensuring that the calculation is conducted prudently on an actuarial basis, considering factors including the Scheme's investment strategy and the relative financial strength of the sponsoring employer.

A key aspect of this valuation is the investment strategy the Trustee proposes to follow as part of the policy for meeting the Scheme's obligations. Because there are no guarantees about investment returns over long periods, legislation requires the Trustee to consider carefully how much of their expected future investment returns it would be prudent for them to account for in advance.

On 6 April 2023, the Scheme entered into a longevity swap transaction with Pacific Life Re International Limited and Zurich Assurance Ltd to manage longevity risk in relation to c.£1.6bn of pensioner liabilities. The arrangement provides long term protection to the Scheme against costs resulting from pensioners or their dependants living longer than currently expected, enhancing security for Scheme members and reducing risk for the Group. The fair value of the hedge instrument at 30 September 2023 was £Nil.

During 2023 the Trustee concluded the latest triennial valuation for the Scheme, which was conducted in accordance with Scheme data and market conditions as at 30 September 2022. The valuation resulted in an improvement in the Scheme's funding position, with a reported surplus of £256m ((previously a surplus of £144m based on Scheme data and market conditions as at 30 September 2019) and a technical provisions funding level of 109% (previously 103%). As the 2022 valuation outcome was a funding surplus, a deficit recovery plan is not required and the Group is not required to make any additional contributions to the Scheme other than the ongoing funding of the Scheme's administrative expenses.

The next triennial valuation will be conducted in the year ending 30 September 2026 based on Scheme data and market conditions as at 30 September 2025.

Scheme assets are not subject to the same valuation differences as Scheme obligations and are consistently valued at current market value.

3.3 Retirement benefit obligations (continued)

IAS 19 position

The Scheme movements in the year are as follows:

Group and Bank

	2023				2022			
	Present value of obligation	**Fair value of plan assets**	**Total**	**Cumulative impact in other comprehensive income**	Present value of obligation	Fair value of plan assets	Total	Cumulative impact in other comprehensive income
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Balance sheet surplus at 1 October	**(2,216)**	**3,216**	**1,000**		(3,789)	4,636	847	
				(126)				(248)
(Charges)/credits								
Past service credit	**-**	**-**	**-**		9	-	9	
Interest (expense)/income	**(117)**	**172**	**55**		(84)	104	20	
Administrative costs	**-**	**(5)**	**(5)**		-	(5)	(5)	
Total (charge)/credit recognised in the consolidated income statement (note 2.3)	**(117)**	**167**	**50**		(75)	99	24	
Remeasurements								
Return on Scheme assets greater than discount rate	**-**	**(470)**	**(470)**	**(470)**	-	(1,393)	(1,393)	(1,393)
Actuarial:								
Loss - experience adjustments	**(151)**	**-**	**(151)**	**(151)**	(16)	-	(16)	(16)
Gain - demographic assumptions	**(27)**	**-**	**(27)**	**(27)**	36	-	36	36
Gain - financial assumptions	**104**	**-**	**104**	**104**	1,495	-	1,495	1,495
Remeasurement (losses)/gains recognised in other comprehensive income	**(74)**	**(470)**	**(544)**	**(544)**	1,515	(1,393)	122	122
Contributions and payments	**-**	**6**	**6**					
Employer contributions					-	7	7	
Disbursements	**123**	**(123)**	**-**		133	(133)	-	
	123	**(117)**	**6**		133	(126)	7	
Balance sheet surplus at 30 September	**(2,284)**	**2,796**	**512**		(2,216)	3,216	1,000	
				(670)				(126)

In July 2021, the Trustees communicated a Pension Increase Exchange (PIE) exercise to members. A PIE gives members the option to exchange future increases on their pensions for a one-off uplift to their current pension. The exercise is being undertaken in three phases and is due to complete later in calendar year 2023. The defined benefit pension credit in the current year therefore includes no impact (2022: £10m credit) arising from the PIE exercise; any past service credit arising is not expected to be material and will be recognised when the exercise concludes in FY24.

Notes to the consolidated financial statements (continued)
Section 3: Assets and liabilities (continued)

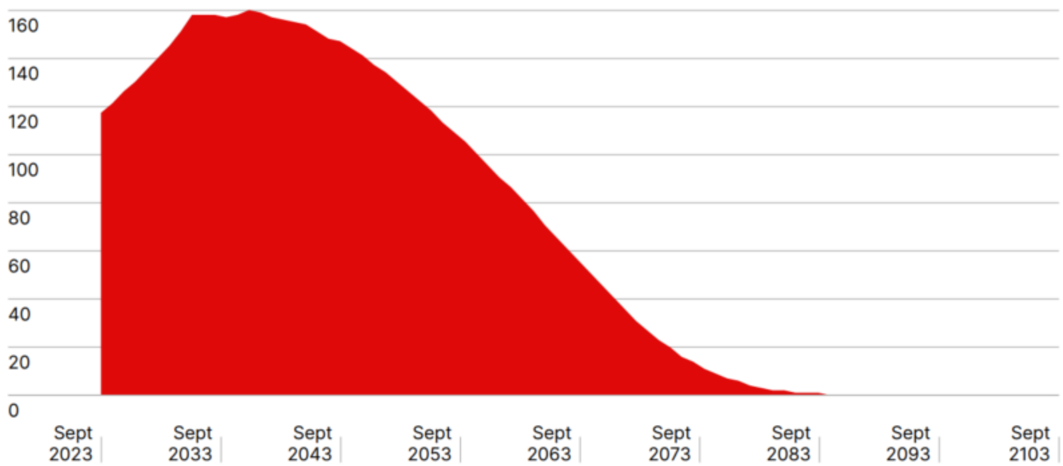
3.3 Retirement benefit obligations (continued)

The expected contributions and benefit payments for the year ending 30 September 2024 are £6m (2023: £10m) and £115m (2023: £118m) respectively.

During the year, the Group and Trustee to the Scheme ceased their previous contingent security arrangement, subsequently the Group has granted a £75m uncommitted liquidity facility to the Scheme as an additional contingency against future short-term liquidity challenges resulting from unexpected market turbulence. As at 30 September 2023 the amount drawn under the facility was £Nil.

Maturity of Scheme liabilities
The estimated maturity period of Scheme obligations on an IAS 19 accounting basis is as follows:

Annual Pension Scheme liability cash flows - £m



The discounted mean term of the defined benefit obligation at 30 September 2023 is 13 years (2022: 14 years).

Scheme assets
In order to meet the obligations of the Scheme, the Trustee invests in a diverse portfolio of assets, with the level and volatility of asset returns being a key factor in the overall investment strategy. The investment portfolio is subject also to a range of risks typical of the types of assets held, such as: equity risk; credit risk on bonds; currency risk; interest rate and inflation risk; and exposure to the property market. The Trustee's investment strategy (including physical assets and derivatives) seeks to reduce the Scheme's exposure to these risks. In managing interest rate and inflation risks, the investment strategy seeks to hold portfolios of matching assets (including derivatives) that enable the Scheme's assets to better match movements in the value of liabilities due to changes in interest rates and inflation.

As at 30 September 2023, the interest rate and inflation rate hedge ratios were 90% and 90% respectively (2022: 97% and 95%) of the obligation when measured on a self-sufficiency basis. This strategy reflects the Scheme's obligation profile and the Trustee's and the Group's attitude to risk. The Trustee monitors the investment objectives and asset allocation policy on a regular basis.

The Trustee's investment strategy involves two main categories of investments:

- Matching assets – a range of investments that provide a match to changes in obligation values.
- Return seeking assets – a range of investments designed to provide specific, planned and consistent returns.

3.3 Retirement benefit obligations (continued)

The major categories of plan assets for the Scheme, stated at fair value, are as follows:

	2023				2022			
	Quoted £m	**Unquoted £m**	**Total £m**	**%**	Quoted £m	Unquoted £m	Total £m	%
Bonds								
Fixed government	**558**	**-**	**558**		350	-	350	
Index-linked government	**824**	**-**	**824**		1,314	-	1,314	
Global sovereign	**84**	**-**	**84**		90	2	92	
Corporate and other	**924**	**-**	**924**		781	37	818	
	2,390	**-**	**2,390**	**85%**	2,535	39	2,574	80%
Equities(1)								
Global equities	**-**	**-**	**-**		-	137	137	
Emerging market equities	**-**	**-**	**-**		-	14	14	
UK equities	**-**	**-**	**-**		-	7	7	
	-	**-**	**-**	**-%**	-	158	158	5%
Other								
Alternative credit investments(2)	**-**	**352**	**352**		-	874	874	
Derivatives(3)	**-**	**30**	**30**		-	(83)	(83)	
Repurchase agreements	**-**	**(383)**	**(383)**		-	(803)	(803)	
Property	**-**	**47**	**47**		-	59	59	
Renewables	**-**	**238**	**238**		-	194	194	
Cash	**-**	**122**	**122**		-	243	243	
	-	**406**	**406**	**15%**	-	484	484	15%
Total Scheme assets	**2,390**	**406**	**2,796**	**100%**	2,535	681	3,216	100%

(1) Equity investments are classified as unquoted, reflecting the nature of the funds in which the scheme invests directly. The underlying investments in these funds are, however, mostly quoted.

(2) Alternative credit investments includes both secured income alternatives and alternative credit which were presented separately in the prior year.

(3) Derivative financial instruments are used to modify the profile of the assets of the Scheme to better match the Scheme's liabilities. Derivative holdings may lead to increased or decreased exposures to the physical asset categories disclosed above.

The nature of the Scheme assets held has remained broadly consistent year on year, with the exception of equities and certain alternative credit assets (principally hedge equity and hedge multi strategy assets) which the Trustee made a conscious decision to sell out of as part of its de-risking strategy and to raise further liquidity for collateral purposes.

At 30 September 2023, the Scheme had employer-related investments within the meaning of Section 40 (2) of the Pensions Act 1995 totalling £1m (2022: £2m).

3.3 Retirement benefit obligations (continued)

Actuarial assumptions

The following assumptions were used in arriving at the IAS 19 defined benefit obligation:

	2023	2022
	% p.a.	% p.a.
Financial assumptions		
Discount rate	**5.65**	5.45
Inflation (RPI)	**3.30**	3.58
Inflation (CPI)	**2.70**	2.94
Career average revalued earnings revaluations:		
Pre-31 March 2012 benefits (RPI)	**3.30**	3.58
Post-31 March 2012 benefits (CPI capped at 5% per annum)	**2.66**	2.90
Pension increases (capped at 2.5% per annum)	**2.14**	2.21
Pension increases (capped at 5% per annum)	**3.15**	3.37
Rate of increase for pensions in deferment	**2.66**	2.91

	2023	2022
	Years	Years
Demographic assumptions		
Post retirement mortality:		
Current pensioners at 60 - male	**27.2**	27.0
Current pensioners at 60 - female	**29.4**	29.3
Future pensioners at 60 - male	**28.3**	28.0
Future pensioners at 60 - female	**30.4**	30.4

3.3 Retirement benefit obligations (continued)

Critical accounting estimates and judgements

The value of the Group's defined benefit pension scheme requires management to make several assumptions. The key areas of estimation uncertainty in these assumptions are:

discount rate: this is set with reference to market yields at the end of the reporting year on high-quality corporate bonds in the currency and with a term consistent with the Scheme's obligations. The average duration of the Scheme's obligations is approximately 13 years. The market for bonds with a similar duration is illiquid and, as a result, significant management judgement is required to determine an appropriate yield curve on which to base the discount rate.

inflation: this is set with reference to market expectations of the RPI measure of inflation for a term consistent with the Scheme's obligations, based on data published by the BoE. Other measures of inflation (such as CPI, or inflation measures subject to an annual cap) are derived from this assumption.

mortality: the cost of the benefits payable by the Scheme will also depend upon the life expectancy of the members. The assumptions for mortality rates are based on standard mortality tables (as adjusted to reflect the characteristics of Scheme members) which allow for future improvements in life expectancies.

The table below sets out the sensitivity and impact on the balance sheet surplus position of the Scheme, the defined benefit obligation and pension cost to changes in the key actuarial assumptions:

Assumption change		Balance sheet surplus £m	Obligation £m	Pension cost £m
Discount rate	+ 0.25%	(18)	(70)	-
	- 0.25%	17	74	-
Inflation	+ 0.25%	9	42	-
	- 0.25%	(6)	(43)	-
Life expectancy	+1 year	(22)	50	(1)
	-1 year	22	(50)	1

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated.

3.4 Other assets

	Group		Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Property, plant and equipment	**184**	211	**184**	211
Investment properties	**40**	-	**40**	-
Finance sub-leases	**2**	2	**2**	3
Investment in controlled entities (note 6.2)	**-**	-	**32**	33
Investment in associates (note 6.2)	**10**	10	**18**	17
Prepayments	**59**	66	**59**	66
Other receivables	**66**	85	**66**	85
Current tax	**22**	-	**18**	3
Other	**6**	5	**8**	6
	389	379	**427**	424

The prior year balance of £379m for Group and £424m for Bank has been restated from the original £168m for Group and £160m for Bank by the addition of the property, plant and equipment of £211m for both Group and Bank, investment in controlled entities and associates of £50m for Bank and current tax of £3m for Bank (note 1.7). This includes right-of-use assets of £115m (2022: £113m) (note 3.6).

The Group classified £43m of lease right-of-use assets as investment property on initial recognition this year as there is surplus space which will be sub-let under an operating lease. Also in the year, freehold land and buildings with a carrying value of £9m were transferred from property, plant and equipment to investment properties following a change in use (note 1.7). Subsequently, an impairment of £6m was recognised in respect of these freehold land and buildings based on the fair value confirmed by an independent professional valuation by Royal Institution of Chartered Surveyors registered valuers. The Group estimated the fair value of the leased right-of-use investment property assets at 30 September 2023 using income based fair value techniques and available market data, an independent valuation was not obtained. The estimated fair value approximates the carrying value.

No material rental income from investment property was received in the year, with the majority of assets currently being marketed for rental.

3.5 Other liabilities

	Group		Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Notes in circulation	**1,675**	1,822	**1,675**	1,822
Accruals and deferred income	**61**	70	**59**	67
Current tax	**-**	7	**-**	-
Other	**414**	496	**414**	497
	2,150	2,395	**2,148**	2,386

The prior year balance of £2,395m for Group has been restated from the original £2,388m by the addition of the current tax balance of £7m (note 1.7).

3.6 Lessee accounting

a) Amounts recognised in the income statement

The income statement includes the following amounts related to leases:	Group and Bank	
	2023	2022
	£m	£m
Interest expense and similar charges		
Interest expense	**(4)**	(2)
Other operating income		
Income from operating sub-leases where the Group is a lessor	**1**	1
Operating and administrative expenses		
Depreciation and impairment of right-of-use assets	**(26)**	(26)
Expense relating to short-term leases	**(2)**	(1)
Expense relating to leases of low-value assets that are not short-term leases	**(1)**	(1)
Amounts recognised in the income statement	**(32)**	(29)

Total leasing cash outflow in the year was £27m for Group and Bank (2022: £28m).

b) Amounts recognised on the balance sheet

Right-of-use assets

	Group		Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
As at 1 October	**113**	135	**113**	134
Additions	**76**	4	**76**	5
Remeasurements	**(4)**	1	**(4)**	1
Disposals	**(1)**	(1)	**(1)**	(1)
Depreciation and impairment	**(31)**	(26)	**(31)**	(26)
As at 30 September	**153**	113	**153**	113
Of which:				
Property, plant and equipment (note 3.4)	**115**	113	**115**	113
Investment property (note 3.4)	**38**	-	**38**	-

In February 2023, the Group announced plans for the closure of six leased office properties. Following the announcement, the associated right-of-use assets were assessed for impairment. An impairment charge of £3m has been recognised within operating and administrative expenses.

In July 2023, the Group announced plans for the closure of 39 stores, of which 34 were leasehold properties. Following the announcement, the associated right-of-use assets were assessed for impairment. Where it is expected that the Group can sub-lease the property, the recoverable amount was determined based on expected sub-lease income. Where the Group does not expect to be able to generate any cash inflows beyond the closure date, the value-in-use was determined to be £Nil. An impairment charge of £7m has been recognised within operating and administrative expenses. In addition to the impairment charge relating to the right-of-use assets, a provision has been recognised for other costs associated with the closures (note 3.7).

In the prior year, 19 surplus properties were impaired following a reduction in estimated value-in-use, resulting in an impairment charge of £4m. In addition, an impairment of £5m was recognised in relation to right-of-use assets for office estate where no further economic benefit was expected following exit.

3.6 Lessee accounting (continued)

Sub-leases
Future undiscounted minimum payments receivable in respect of sub-leased assets at 30 September were as follows:

	Group and Bank	
	2023	2022
	£m	£m
Operating leases	**3**	1
Finance leases	**2**	3
	5	4

Lease liabilities	Group and Bank	
	2023	2022
	£m	£m
Lease liabilities[1]	**180**	132

(1) Lease liabilities are presented within other liabilities (note 3.5) on the balance sheet.

Future undiscounted minimum payments under lease liabilities at 30 September were as follows:

	Group and Bank	
	2023	2022
Amounts falling due	**£m**	£m
Within 1 year	**22**	22
Between 1 and 5 years	**63**	60
Over 5 years	**142**	66
	227	148

c) Lease commitments not recognised on the balance sheet

In addition to the lease liabilities recognised on the balance sheet, the Group also has lease commitments relating to leases which have not yet commenced at the balance sheet date. Future undiscounted minimum payments on leases which are yet to commence were as follows:

	Group and Bank	
	2023	2022
Amounts falling due	**£m**	£m
Within 1 year	**-**	4
Between 1 and 5 years	**1**	22
Over 5 years	**5**	99
	6	125

d) Leased investment property

Right-of-use asset additions shown in 3.6(b) above include £43m of assets classified as investment property (2022: £Nil). Depreciation charges of £1m were recognised in the year (2022: £Nil) and a £4m impairment charge was also recognised (2022: £Nil) relating to leased investment property floors. The leased investment property balance at 30 September 2023 was £38m (2022: £Nil).

3.7 Provisions for liabilities and charges

Group and Bank	Employee related costs provision £m	Customer related provision £m	Property provision £m	Off-balance sheet ECL provisions[1] £m	Total £m
As at 1 October 2021	22	19	55	8	104
Charge/(credit) to the income statement	2	8	-	(5)	5
Utilised	(17)	(14)	(28)	-	(59)
As at 30 September 2022	7	13	27	3	50
Charge to the income statement	7	-	24	2	33
Utilised	(6)	(3)	(5)	-	(14)
As at 30 September 2023	**8**	**10**	**46**	**5**	**69**

(1) The Group's ECL accounting policy can be found in note 3.1.1.

Employee related costs provision

This includes provision for staff redundancies and for NIC on equity based compensation. During the year, provisions of £7m (2022: £2m) were raised relating to staff redundancy costs.

Customer related provision

This relates to customer matters, legal proceedings, and claims arising in the ordinary course of the Group's business. A number of these matters are now reaching a conclusion and the risk that the final amount required to settle the Group's potential liabilities in these matters being materially more than the remaining provision is now considered to be low.

Property provision

This includes costs for stores and office closures. During the year, provisions of £24m (2022: £Nil) were raised.

4.1 Equity

4.1.1 Share capital and share premium

	2023	2022
	£m	£m
Share capital	**1,243**	1,243
Share premium	**1,549**	1,549
Share capital and share premium	**2,792**	2,792

Group and Bank	**2023 Number of shares**	2022 Number of shares	**2023 £m**	2022 £m
Ordinary shares of £0.10 each – authorised, allotted, called up and fully paid				
Opening and closing ordinary share capital	**12,431,538,208**	12,431,538,208	**1,243**	1,243

The holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders of the Bank. All shares in issue at 30 September 2023 rank equally with regard to the Bank's residual assets.

The following dividends were declared in the current and prior periods:

- A final dividend in respect of the year ended 30 September 2021 and interim dividends in respect of the year ended 30 September 2022 totalling 0.12p and 2.83p per ordinary share, amounting to £14m and £353m respectively were paid by the Bank in the year to September 2022.
- Interim dividends totalling 1.17p per ordinary share amounting to £145m were paid by the Bank in respect of the year ended 30 September 2023. A final dividend in respect of the year ended 30 September 2022 of 0.83p per ordinary share in the Bank, amounting to £103m, was paid in March 2023.

A final dividend in respect of the year ended 30 September 2023 of 0.21p per ordinary share in the Bank, to be paid in March 2024 is subject to approval of the Virgin Money UK PLC shareholders approving the Virgin Money UK PLC dividend at the 2024 AGM. These financial statements do not reflect the recommended dividend.

Share premium represents the aggregate of all amounts that have ever been paid above par value to the Bank when it has issued ordinary shares.

A description of the other equity categories included within the statements of changes in equity, and significant movements during the year, is provided below.

4.1.2 Other equity instruments

Other equity instruments comprises AT1 capital which consists of the following Perpetual Contingent Convertible Notes which were issued to Virgin Money UK PLC:

	2023		2022	
Group and Bank	**Carrying value £m**	**Nominal value £m**	Carrying value £m	Nominal value £m
Perpetual securities (fixed 8% up to the first reset date) issued on 8 February 2016 with an optional redemption on 8 December 2022.	**-**	**-**	68	73
Perpetual securities (fixed 9.25% up to the first reset date) issued on 13 March 2019 with an optional redemption on 8 June 2024.	**247**	**250**	247	250
Perpetual securities (fixed 8.25% up to the first reset date) issued on 17 June 2022 with an optional redemption on 17 June 2027.	**347**	**350**	347	350
	594	**600**	662	673

On 8 December 2022, perpetual securities (fixed 8% up to the first reset date) issued on 8 February 2016 totalling £68m were redeemed.

The issuances are treated as equity instruments in accordance with IAS 32 'Financial instruments: presentation' with the proceeds included in equity, net of transaction costs, which is the difference between the nominal and carrying values.

AT1 distributions of £54m were paid in the year (2022: £60m).

4.1 Equity (continued)

4.1.3 Other reserves

FVOCI reserve

The FVOCI reserve records the unrealised gains and losses arising from changes in the fair value of financial assets at FVOCI. The movements in this reserve are detailed in the consolidated statement of comprehensive income.

Cash flow hedge reserve

The cash flow hedge reserve represents the effective portion of cumulative post-tax gains and losses on derivatives designated as cash flow hedging instruments that will be recycled to the income statement when the hedged items affect profit or loss.

	Group		Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
At 1 October	**699**	10	**703**	19
Amounts recognised in other comprehensive income:				
Cash flow hedge – interest rate risk				
Effective portion of changes in fair value of interest rate swaps	**(268)**	962	**(269)**	962
Amounts transferred to the income statement	**(12)**	(13)	**(15)**	(19)
Taxation	**77**	(260)	**78**	(259)
At 30 September	**496**	699	**497**	703

4.2 Pillar 3 disclosures

UK Capital Requirements Regulation

Pillar 3 disclosure requirements are set out within the Disclosure (CRR) part of the PRA rulebook. The disclosures required under the PRA framework are substantially equivalent to those required by Part Eight of the EU CRR. The consolidated disclosures of Virgin Money UK PLC, for the 2023 financial year, will be issued concurrently with the Annual Report and Accounts and can be found at www.virginmoneyukplc.com/investor-relations/results-and-reporting/annual-reports/

Section 5: Other notes

5.1 Contingent liabilities and commitments

Accounting policy

Financial guarantees
The Group provides guarantees in the normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party and are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. The rating of the Group as a guarantee provider enhances the marketability of the paper issued by the counterparty in these circumstances.

The ECL requirements as described in note 3.1.1 apply to loan commitments and financial guarantee contracts, with the ECL allowance held as part of the provisions for liabilities and charges balance (note 3.7).

The table below sets out the amounts of financial guarantees and commitments which are not recorded on the balance sheet. Financial guarantees and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The amounts do not represent the amounts at risk at the balance sheet date but the amounts that would be at risk should the contracts be fully drawn upon and the customer default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

	Group		Bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Financial guarantees				
Guarantees and assets pledged as collateral security:				
Due in less than 3 months	**12**	33	**12**	33
Due between 3 months and 1 year	**18**	23	**18**	23
Due between 1 year and 3 years	**8**	9	**8**	9
Due between 3 years and 5 years	**1**	3	**1**	3
Due after 5 years	**40**	44	**40**	44
	79	112	**79**	112
Other credit commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**17,921**	19,247	**17,892**	19,204

Capital commitments

The Group had future capital expenditure which had been contracted for, but not provided for, at 30 September 2023 of £0.1m (2022: £0.4m).

Other contingent liabilities

Conduct risk related matters and legal claims

There continues to be uncertainty with judgement required in determining the quantum of conduct risk related liabilities, with note 3.7 reflecting the Group's current position where a provision can be reliably estimated. Until all matters are resolved the final amount required to settle the Group's potential liabilities for conduct related matters remains uncertain.

The Group will continue to reassess the adequacy of provisions for these matters and the assumptions underlying the calculations at each reporting date based upon experience and other relevant factors at that time.

The Group's subsidiary, Clydesdale Bank PLC, along with its former parent company, National Australia Bank Limited, is a defendant in nine separate claims (comprising 904 individual claimants) co-ordinated by the claims management company, RGL Management Limited, in connection with (i) the payment of break costs and (ii) the composition of fixed interest rates, both, in respect of historic tailored business loans. The cases involving four individual claimants (being the first and fourth claims) are currently being heard before His Majesty's High Court of Justice, with the hearing scheduled to conclude on 20 December 2023. The remaining claims are currently stayed by agreement and court order. Clydesdale Bank PLC is robustly defending all such claims. No provision has been made in these financial statements in respect of the current claims, nor any other claims of a similar nature which may be brought by other claimants.

The Group is named in and is defending a number of other legal claims arising in the ordinary course of business. No material adverse impact on the financial position of the Group is expected to arise from the ultimate resolution of these legal actions.

5.2 Equity based compensation

The equity settled share based payment charge for the year is £5m (2022: £5m).

Virgin Money UK PLC awards

The Group issues awards to employees under the following share plans:

Plan	Eligible employees	Nature of award	Vesting conditions(1)	Grant dates(2)
Deferred Equity Plan (DEP)(3)	Selected employees	Conditional rights to shares	Continuing employment or leaving in certain limited circumstances	2017, 2018, 2019, 2020, 2021 and 2022
Long Term Incentive Plan (LTIP)	Selected senior employees	Conditional rights to shares	Continuing employment or leaving in certain limited circumstances and achievement of delivery of the Group's strategic goals and growth in shareholder value	2017, 2018, 2019, 2020, 2021 and 2022

(1) All awards are subject to vesting conditions and therefore may or may not vest.

(2) The year in which grants have been made under the relevant plan.

(3) Grants made under the DEP are made the year following the financial year to which they relate.

Further detail on each plan is provided below:

DEP

Under the plan, employees are awarded conditional rights to Virgin Money UK PLC shares. The shares are subject to forfeiture conditions including forfeiture as a result of resignation, termination by the Group or failure to meet compliance requirements. Awards include:

- the upfront and deferred elements of bonus awards where required to comply with the PRA Remuneration Code or the Group's deferral policy; and
- buyout of equity from previous employment.

LTIP

Under the plan, employees are awarded conditional rights to Virgin Money UK PLC shares. The shares are subject to forfeiture conditions including forfeiture as a result of resignation, termination by the Group or failure to meet compliance requirements. The performance conditions of the plan must be met over a three-year performance period. The measures reflect a balanced approach between financial and non-financial performance and are aligned to the Group's strategic goals. Measures, relative weightings and the quantum for assessing performance are outlined in the Directors' remuneration report section of the Virgin Money UK PLC Annual Report and Accounts.

5.2 Equity based compensation (continued)

Awards/rights made during the year:

Plan	Number outstanding at 1 October 2022	Number awarded	Number forfeited	Number released	**Number outstanding at 30 September 2023**	**Average fair value of awards at grant pence**
DEP						
2016 Commencement	1,310	-	-	(1,310)	**-**	266.03p
2017 Bonus	2,120	-	-	(2,120)	**-**	313.20p
2018 Bonus	136,520	-	-	(34,129)	**102,391**	192.35p
2019 Bonus	79,160	-	-	(18,388)	**60,772**	174.50p
2019 Commencement	8,046	-	-	(5,195)	**2,851**	174.50p
2020 Commencement	9,600	-	-	(5,908)	**3,692**	135.40p
2021 Commencement	107,747	-	-	(64,315)	**43,432**	142.70p
2022 Bonus	-	1,289,482	-	(1,109,992)	**179,490**	176.75p
2023 Commencement	-	567,651	-	(110,384)	**457,267**	158.95p
LTIP						
2017 LTIP	269,629	-	-	(125,918)	**143,711**	313.20p
2018 LTIP	2,000,311	-	-	(620,091)	**1,380,220**	190.47p
2019 LTIP	6,941,307	-	(4,721,502)	(694,962)	**1,524,843**	174.50p
2020 LTIP	8,359,759	-	(274,998)	-	**8,084,761**	135.40p
2021 LTIP	6,487,823	-	(531,566)	-	**5,956,257**	172.65p
2022 LTIP	-	7,265,385	(365,233)	-	**6,900,152**	176.75p

Determination of grant date fair values

Where awards are subject to only non-market performance conditions the grant date fair value of the awards has been taken as the middle market share price value on the day immediately preceding the grant. An estimate is made of the number of awards expected to vest in order to determine the overall share based payment charge to be recognised over the vesting period. Where awards contain market performance conditions, these are incorporated into the calculation of grant date fair value using Monte Carlo simulation pricing models. During the year, awards were granted under the LTIP on 9 December 2022 and under the DEP on 9 December 2022 and 20 June 2023, based on the middle market share price on the day immediately preceding the grant.

5.3 Related party transactions

	Group		Bank	
Amounts due from related entities	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Loans and advances	**-**	-	**883**	1,037
Other receivables	**-**	4	**81**	60
Total amounts due from related entities	**-**	4	**964**	1,097
Interest income on the above amounts was as follows:				
Interest income	**-**	-	**33**	13
Total interest income from related entities	**-**	-	**33**	13

Amounts due to related entities	Group		Bank	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Deposits	**40**	50	**301**	541
Other payables	**5**	5	**1,347**	1,245
Medium-term notes	**2,608**	2,242	**2,608**	2,242
Subordinated debt	**952**	913	**952**	913
Total amounts due to related entities	**3,605**	3,210	**5,208**	4,941
Interest expense on the above amounts was as follows (note 2.1):				
Interest expense to related entities	**143**	128	**279**	172
Total interest expense	**143**	128	**279**	172

These are all classified at amortised cost and, for IFRS 9 purposes, held under Stage 1. The impact of the ECL requirements under IFRS 9 on these financial assets is immaterial.

Medium-term notes comprise dated, unsecured loans and are issued to Virgin Money UK PLC. These securities will, in the event of the winding-up of the issuer, be subordinated to the claims of the depositors and all other creditors of the issuer, other than creditors whose claims rank junior to the claims of the medium-term note liabilities, including those of subordinated debt holders. The debt is employed in the general business of the Bank.

Subordinated debt comprises dated, unsecured loan capital and is issued to Virgin Money UK PLC. These debts will, in the event of the winding-up of the issuer, be subordinated to the claims of the depositors and all other creditors of the issuer, other than creditors whose claims rank junior to the claims of the holders of the subordinated liabilities. The debt is employed in the general business of the Bank.

Other transactions with related entities	Group		Bank	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Other income				
Non-interest income received	**4**	1	**43**	85
Other expenses				
Other expenses	**21**	18	**21**	17
Equity				
Ordinary dividends paid	**248**	367	**248**	367
AT1 distributions	**54**	60	**54**	60
Total dividends to related entities	**302**	427	**302**	427

5.3 Related party transactions (continued)

In addition to the above, the Group also undertakes activity with the following entities which are considered to be related party transactions:

Yorkshire and Clydesdale Bank Pension Scheme
The Group provides banking services to the Scheme, with customer deposits of £7m (2022: £12m). Pension contributions of £7m were made to the Scheme in the year (2022: £7m).

During the year the Group and Trustee to the Scheme ceased their previous contingent security arrangement, subsequently the Group has granted a £75m uncommitted liquidity facility to the Scheme as an additional contingency against future short-term liquidity challenges resulting from unexpected market turbulence. As at 30 September 2023, the amount drawn under the facility was £Nil. There is also a £7m BACS facility held for the Scheme in relation to payments to the Scheme's members (2022: £7m). As at 30 September 2023, the amount drawn on the facility was £Nil (2022: £Nil).

JVs and associates
The Group holds investments in JVs of £10m (2022: £10m). The total share of profit for the year was £Nil (2022: loss of £4m). In addition, the Group had the following transactions with JV entities during the period:

- Salary Finance - the Group provides Salary Finance with a revolving credit facility funding line, of which the current gross lending balance was £290m (2022: £318m) and the undrawn facility was £60m (2022: £32m). The facility is held under Stage 2 for credit risk purposes (2022: Stage 2), with an ECL allowance of £22m (2022: £19m) held against the lending. An impairment charge of £3m (2022: £19m) was recognised in the year. The lending made via Salary Finance continues to be held as part of the Group's Unsecured lending portfolio and consists of personal lending to Salary Finance customers. During the year, the number of customers not maintaining scheduled loan repayments has reduced slightly with no material change to the ECL allowance held from that at September 2022. Additionally, the Group received £16m (2022: £10m) of interest income from Salary Finance in the year and holds deposits of £10m (2022: £10m). Board approval is in place for this facility up until December 2025 with £350m being the approved limit; and
- UTM - the Group provides banking services to UTM which has resulted in amounts due of £3m (2022: £4m). Additionally, the Group received £9m of recharge income in the year (2022: £7m) from UTM in accordance with a Service Level Agreement in respect of resourcing, infrastructure and marketing. During the year, the Group provided no additional funding to UTM (2022: £4m). The Group has also paid consortium relief to UTM of £1m (2022: £Nil) for losses surrendered from UTM in respect of FY21 and FY22. During the year, the Group provided UTM with a 30 day notice account with customer deposits of £17m (2022: £Nil) which resulted in interest of £0.5m being paid to UTM (2022: £Nil). The Group also provided UTM with five term deposit accounts during the year. £16m was originally held in deposit, however these matured in September 2023 (2022: £Nil).

Other related party transactions with Virgin Group[(1)]
The Group has related party transactions with other Virgin Group companies:

- The Group incurs credit card commissions and air mile charges with Virgin Atlantic Airways Limited (VAA) in respect of an agreement between the two parties. Amounts payable to VAA totalled £2m (2022: £1m) and expenses of £17m were incurred in the year (2022: £16m).
- The Group incurs charges and receives commissions concerning the cashback incentive scheme with Virgin Red Limited in relation to the credit card and PCA portfolio. Amounts receivable totalled £0.2m (2022: £0.1m), amounts payable totalled £0.1m (2022: £1m) and during the year this resulted in expenses of £0.5m (2022: £3m) along with income of £0.4m (2022: £0.5m).
- The Group has an arrangement with Virgin Start Up Limited to host a series of events, podcasts and videos and other digital content. During the year this resulted in amounts payable of £0.1m (2022: £Nil) and expenses of £0.4m (2022: £0.5m).

(1) All companies are incorporated in England and Wales.

Charities
The Group provides banking services to The Virgin Money Foundation ('the Foundation') which has resulted in customer deposits of £1m (2022: £1m). The Group has made donations of £1m in the year (2022: £1m) to the Foundation to enable it to pursue its charitable objectives. The Group has also provided a number of support services to the Foundation on a pro bono basis, including use of facilities and employee time. The estimated gift in kind for support services provided during the year was £0.5m (2022: £0.4m).

5.3 Related party transactions (continued)

Compensation of key management personnel (KMP)

KMP comprises Directors of the Bank and members of the Executive Leadership Team.

	2023	2022
	£m	£m
Salaries and short-term benefits	**9**	9
Equity based compensation[(1)]	**3**	3
	12	12

(1) The expense recognised in the year is in accordance with IFRS 2 'Equity based compensations', including associated employers' NIC.

Directors' emoluments

Total emoluments of all Directors for the year ended 30 September 2023 were £5m (2022: £5m).

Total emoluments disclosed do not include the value of shares or share rights awarded under long term incentive schemes in accordance with Schedule 5 paragraph 1(3)(a) of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

None of the Directors were members of the Group's defined contribution or defined benefit pension schemes during 2023 (2022: none).

None of the Directors hold share options and none were exercised during the year (2022: none).

Disclosures in respect of the highest paid Director

	2023	2022
	£m	£m
Aggregate remuneration[(1)]	**2**	2

(1) Aggregate remuneration includes amounts paid for the 2023 financial year and amounts received during the year in relation to the 2018 and 2019 LTIP awards. LTIP figures in the single figure table for Executive Directors' 2023 remuneration in the Remuneration report relate to the 2019 LTIP award in respect of the 2020-2022 LTIP performance period cycle.

The highest paid Director does not hold any share options, nor were they a member of any pension plan during 2023, nor 2022.

Transactions with KMP

KMP, their close family members and any entities controlled or significantly influenced by the KMP have undertaken the following transactions with the Group in the normal course of business. The transactions were made on the same terms and conditions as applicable to other Group employees, or on normal commercial terms.

Transactions with KMP

	2023	2022
	£m	£m
Loans and advances	**1**	1
Deposits	**1**	1

No provisions have been recognised in respect of loans provided to KMP (2022: £Nil). There were no debts written off or forgiven during the year to 30 September 2023 (2022: £Nil). Included in the above are five (2022: five) loans totalling £0.6m (2022: £0.3m) made to Directors. In addition to the above, there are guarantees of £Nil (2022: £Nil) made to Directors and their related parties.

5.4 Notes to the statement of cash flows

	Group 2023 £m	Group 2022 £m	Bank 2023 £m	Bank 2022 £m
Adjustments included in profit before tax				
Interest receivable	**(3,833)**	(2,217)	**(3,826)**	(2,204)
Interest payable	**2,147**	641	**2,150**	652
Depreciation, amortisation and impairment (note 2.3)	**116**	179	**116**	179
Derivative financial instruments fair value movements	**17**	22	**14**	28
Impairment losses on credit exposures (note 3.1.1.1)	**309**	52	**309**	52
Net charge in respect of provisions for liabilities and charges	**31**	-	**31**	-
Equity based compensation (note 5.2)	**5**	4	**6**	-
Costs recharged to parent entity	**(3)**	14	**(6)**	24
Impairment of investment in subsidiaries	**-**	-	**2**	6
Gain on disposal of FVOCI assets (note 2.2)	**(1)**	(4)	**(1)**	(4)
Other non-cash movements(1)	**9**	3	**8**	(1)
	(1,203)	(1,306)	**(1,197)**	(1,268)
Changes in operating assets				
Net (increase)/decrease in:				
Balances with supervisory central banks	**-**	(3)	**-**	(3)
Derivative financial instruments	**(270)**	1,847	**(273)**	1,875
Financial assets at FVTPL	**11**	56	**11**	43
Loans and advances to customers	**(306)**	(713)	**(429)**	(758)
Defined benefit pension assets	**(7)**	(7)	**(7)**	(7)
Other assets	**21**	33	**21**	33
	(551)	1,213	**(677)**	1,183
Changes in operating liabilities				
Net increase/(decrease) in:				
Due to other banks	**(627)**	1,233	**(627)**	1,233
Derivative financial instruments	**(37)**	119	**(29)**	32
Customer deposits	**1,249**	(1,510)	**1,249**	(1,510)
Provisions for liabilities and charges	**(14)**	(50)	**(14)**	(52)
Other liabilities	**(287)**	(32)	**(285)**	(33)
	284	(240)	**294**	(330)

(1) Included within other non-cash movements is a net credit in respect of defined benefit pension schemes of £49m (2022: £24m) (note 2.3) and the share of post-tax losses of associates and joint ventures of £Nil (2022: £4m).

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition. This includes cash and liquid assets and amounts due from other banks (to the extent less than 90 days).

Cash and balances with central banks (less mandatory deposits)	**11,007**	11,955	**11,007**	11,955
Due from other banks	**660**	656	**294**	268
	11,667	12,611	**11,301**	12,223

5.5 Segment information

The Group's operating segments are operating units engaged in providing different products or services and whose operating results and overall performance are regularly reviewed by the Group's Chief Operating Decision Maker, the Executive Leadership Team.

The Group operates under four commercial lines: Mortgages, Unsecured, Business, and Deposits, which are reported through the Chief Commercial Officer. At this point in time, the business continues to be reported to the Group's Chief Operating Decision Maker as a single segment and decisions made on the performance of the Group on that basis. Segmental information will therefore continue to be presented on this single segment basis.

Summary income statement

	2023	2022
	£m	£m
Net interest income	**1,686**	1,576
Non-interest income	**140**	135
Total operating income	**1,826**	1,711
Operating and administrative expenses	**(1,173)**	(1,069)
Impairment losses on credit exposures	**(309)**	(52)
Segment profit before tax	**344**	590
Average interest earning assets	**89,810**	86,275

The Group has no operations outside the UK and therefore no secondary geographical area information is presented. The Group is not reliant on a single customer. Liabilities are managed on a centralised basis.

5.6 Post-balance sheet events

There have been no significant events between 30 September 2023 and the date of approval of the Annual Report and Accounts which would require a change to or additional disclosure in the financial statements.

Section 6: Notes to the Bank financial statements

6.1 Bank income statement

No individual income statement is presented for the Bank, as permitted by Section 408 of the Companies Act 2006.

6.2 Bank investments in controlled entities

Accounting policy

The Bank's investments in controlled entities are valued at cost or valuation less any provision for impairment. Such investments are reviewed annually for potential evidence of impairment, or more frequently when there are indications that impairment may have occurred. Losses relating to impairment in the value of shares in controlled entities are recognised in the income statement.

	Bank	
	2023	2022
	£m	£m
At 30 September	**50**	50

The table below represents the wholly-owned subsidiary undertakings of the Group and Bank as at 30 September 2023:

Wholly-owned subsidiary undertakings	Nature of business	Class of share held	Proportion held	Country of incorporation	Registered office	Financial year end
Direct holdings						
CGF No. 9 Limited	Leasing	Ordinary	100%	Scotland	177 Bothwell Street, Glasgow, G2 7ER	30 September
Clydesdale Bank Asset Finance Limited	Leasing	Ordinary	100%	Scotland	177 Bothwell Street, Glasgow, G2 7ER	30 September
CYB Intermediaries Limited	Insurance intermediary	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
St Vincent (Equities) Limited	Investment company	Ordinary	100%	Scotland	177 Bothwell Street, Glasgow, G2 7ER	30 September
Virgin Money Holdings (UK) Limited	Intermediate holding company	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Yorkshire Bank Home Loans Limited	Mortgage finance	Ordinary	100%	England	20 Merrion Way, Leeds, Yorkshire, LS2 8NZ	30 September
C.B. Nominees Limited	Dormant	Limited by guarantee	100%	Scotland	177 Bothwell Street, Glasgow, G2 7ER	30 September
CYB SSP Trustee Limited	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Yorkshire Bank Limited	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Northern Rock Limited	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September

6.2 Bank investments in controlled entities (continued)

Indirect holdings						
Virgin Money Giving Limited	Non-trading company	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	31 March
Virgin Money Management Services Limited	Non-trading company	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	31 March
Virgin Money Personal Financial Service Limited	Insurance intermediary	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Virgin Money Limited	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September

Interest in charitable foundations

The Group has an interest in The Virgin Money Foundation, a charitable foundation registered in England as a company limited by guarantee. The Bank acts as guarantor for £1 and is also a donor.

Impairment in Virgin Money Holdings (UK) Limited

An impairment test on the carrying value of the Bank's investment in Virgin Money Holdings (UK) Limited has been undertaken during the year, resulting in an impairment charge of £2m as at 30 September 2023 (2022: £6m). For the purposes of the impairment test, the carrying value of the Bank's investment is compared to the net asset value (as a proxy for fair value) of the companies in the Virgin Money Holdings (UK) Group. The recoverable amount of Virgin Money Holdings (UK) Limited is £22m as at 30 September 2023 (2022: £22m).

6.2 Bank investments in controlled entities (continued)

The Bank also has an interest in a number of structured entities:

Other controlled entities as at 30 September 2023	Nature of business	Country of incorporation	Registered office	Financial year end
Eagle Place Covered Bonds LLP	Acquisition of mortgage loans	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Gosforth Funding 2017-1 PLC (in liquidation)	Issuer of securitised notes	England	10 Fleet Place, London, EC4M 7RB	30 September
Gosforth Funding 2018-1 PLC	Issuer of securitised notes	England	Eighth Floor, 100 Bishopsgate, London, EC2N 4AG	30 September
Gosforth Holdings 2017-1 Limited (in liquidation)	Holding company	England	10 Fleet Place, London, EC4M 7RB	30 September
Gosforth Holdings 2018-1 Limited	Holding company	England	Eighth Floor, 100 Bishopsgate, London, EC2N 4AG	30 September
Gosforth Mortgages Trustee 2018-1 Limited	Trust	England	Eighth Floor, 100 Bishopsgate, London, EC2N 4AG	30 September
Lanark Funding Limited	Funding company	England	Suite 2, Seventh Floor, 50 Broadway, London, SW1H 0DB	30 September
Lanark Holdings Limited	Holding company	England	Suite 2, Seventh Floor, 50 Broadway, London, SW1H 0DB	30 September
Lanark Master Issuer PLC	Issuer of securitised notes	England	Suite 2, Seventh Floor, 50 Broadway, London, SW1H 0DB	30 September
Lanark Trustees Limited	Mortgages trustee	England	Suite 2, Seventh Floor, 50 Broadway, London, SW1H 0DB	30 September
Lannraig Funding Limited	Funding company	England	1 Bartholomew Lane, London, EC2N 2AX	30 September
Lannraig Holdings Limited	Holding company	England	1 Bartholomew Lane, London, EC2N 2AX	30 September
Lannraig Master Issuer PLC	Issuer of securitised notes	England	1 Bartholomew Lane, London, EC2N 2AX	30 September
Lannraig Trustees Limited	Mortgages trustee	Jersey	44 Esplanade, St Helier, Jersey, JE4 9WG Channel Islands	30 September
Red Grey Square Funding LLP	Security provider	England	1 Bartholomew Lane, London, EC2N 2AX	30 September

6.2 Bank investments in controlled entities (continued)

Details of the Group's interests in consolidated structured entities associated with securitisation and covered bond arrangements are set out in note 3.1.5.

The Group also has a participating interest in the following undertakings as either an associate (A) or a joint venture (JV):

Name of undertaking	**Status**	**% of share class held by immediate parent company (or by the Group where this varies)**	**Registered office address and principal place of business**	**Financial year end**
Eagle Place Covered Bonds Finance Limited(1)	A	20%	1 Bartholomew Lane, London, EC2N 2AX	31 December
Salary Finance Loans Limited	JV	50%	Scale Space, 58 Wood Lane, London, W12 7RZ	31 December
Virgin Money Unit Trust Managers Limited(2)	JV	50% (plus one share)	Jubilee House, Gosforth, Newcastle Upon Tyne, NE3 4PL	31 December

(1) Eagle Place Covered Bonds Finance Limited is a dormant company within the Group's covered bond programme.

(2) Virgin Money Unit Trust Managers Limited owns 100% of the share capital of Virgin Money Nominees Limited and Virgin Money Trustee Limited, both dormant companies registered at Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

Investments in JVs are recognised in the consolidated financial statements within other assets and accounted for using the equity method. The undertakings above are incorporated in the UK.

Further details on the JV arrangements are provided in note 5.3.

Measuring financial performance - glossary

Financial performance measures

As highlighted in the Strategic report and the Risk report, the Group utilises a range of performance measures to assess the Group's performance. These can be grouped under the following headings: asset quality; and capital optimisation. The performance measures used are a combination of alternative and regulatory performance measures, with the type of performance measure used dependent on the component elements and source of what is being measured.

Alternative performance measures (A)
These are used when the basis of the calculation is derived from a non-GAAP measure – also referred to as APMs. Where a performance measure refers to an 'underlying' metric, the detail on how this measure is arrived at, along with management's reasoning for excluding the item from the Group's current underlying performance rationale, can be found on page 182, directly following this section. These adjustments to the Group's statutory results made by management are designed to provide a more meaningful underlying basis.

Regulatory performance measures (R)
These are used when the basis of the calculation is required and specified by the Group's regulators. Examples of this would be the leverage ratio and the Tier 1 ratio.

Descriptions of the performance measures used, including the basis of calculation where appropriate, are set out below:

Asset quality:

Term	Type	Definition
Impairment charge to average customer loans **(cost of risk)**	A	Impairment losses on credit exposures plus credit risk adjustment on fair value loans to average customer loans (defined as loans and advances to customers, other financial assets at fair value and due from customers on acceptances).
Total provision to customer loans	A	Total impairment provision on credit exposures as a percentage of total customer loans at a given date.
Indexed loan to value **(LTV)** of the mortgage portfolio	A	LTV of the mortgage portfolio is defined as mortgage portfolio weighted by balance. The portfolio is indexed using the MIAC Acadametrics indices at a given date.

Capital optimisation:

Term		Definition
Common Equity Tier 1 **(CET1)** ratio	R	CET1 capital divided by RWAs at a given date.
Tier 1 ratio	R	Tier 1 capital as a percentage of RWAs.
Total capital ratio	R	Total capital resources divided by RWAs at a given date.
CRD IV Leverage ratio	R	This is a regulatory standard ratio proposed by Basel III as a supplementary measure to the risk based capital requirements. It is intended to constrain the build-up of excess leverage in the banking sector and is calculated by dividing Tier 1 capital resources by a defined measure of on- and off-balance sheet items plus derivatives.
UK leverage ratio	R	The Group's leverage ratio on a modified basis, excluding qualifying central bank claims from the exposure measure in accordance with the policy statement issued by the PRA in October 2017.
Liquidity coverage ratio **(LCR)**	R	Measures the surplus (or deficit) of the Bank's high-quality liquid assets relative to weighted net stressed cash outflows over a 30 day period. It assesses whether the Bank has sufficient liquid assets to withstand a short-term liquidity stress based on cash outflow assumptions provided by regulators.
Minimum requirement for own funds and eligible liabilities **(MREL)** ratio	R	Total capital resources less ineligible AT1 and Tier 2 instruments at the year end of £5,301m (2022: £5,288m) plus senior unsecured securities issued by Clydesdale Bank PLC with greater than one year to maturity at the year end of £2,707m (2022: £2,423m) divided by RWAs at the period end of £25,172m (2022: £24,128m).
Net stable funding ratio **(NSFR)**	R	The total amount of available stable funding divided by the total amount of required stable funding, expressed as a percentage. The Group monitors the NSFR based on its own interpretations of current guidance available for CRD IV NSFR reporting. Therefore, the reported NSFR may change over time with regulatory developments. Due to possible differences in interpretation of the rules, the Group's ratio may not be directly comparable with those of other financial institutions.

Measuring financial performance - glossary (continued)

Underlying adjustments to the statutory view of performance

Management exclude certain items from the Group's statutory position to arrive at an underlying performance basis. Management's approach to underlying adjustments is aligned to the European Securities and Markets Authority (ESMA) guidelines on APMs and recommendations are subject to review and agreement by the Virgin Money Board Audit Committee. Additional detail on these items is provided below to help understand their exclusion from underlying performance.

Item	**2023 £m**	2022 £m	Reason for exclusion from the Group's current underlying performance
Restructuring charges	**(131)**	(82)	These costs relate to the Group's Digital-First strategy. The Group expects to incur c.£275m of restructuring charges across FY22-24.
Acquisition accounting unwinds	**(29)**	(35)	This consists of the unwind of the IFRS 3 fair value adjustments created on the acquisition of Virgin Money Holdings (UK) PLC in October 2018. These represent either one-off adjustments or are the scheduled reversals of the accounting adjustments that arose following the fair value exercise required by IFRS 3. These will continue to be underlying adjustments until the remaining amounts have been fully reversed.
Legacy conduct	**(12)**	(8)	These costs are historical in nature and are not indicative of the Group's current practices.
Hedge ineffectiveness(1)	**(16)**	13	The result of hedge accounting and fair value movements on derivatives in economic hedges to the extent they either do not meet the criteria for hedge accounting or give rise to hedge ineffectiveness. These items are often volatile, driven by accounting requirements and not generally considered as a component of the core financial result.
Other:			
UTM transition costs	**(2)**	(9)	These costs relate to UTM's transformation costs, principally for the build of a new platform for administration and servicing.
Internally developed software adjustments	**(47)**	(62)	These costs relate to the write-off of WIP and intangible asset balances held on the balance sheet as a result of a reassessment of the Group's practices on capitalisation against the backdrop of the move to an Agile project delivery in FY22, and in FY23 the write-off charge is in relation to the Group's mortgage digitisation programme. Following an assessment of the progress of the project to upgrade the mortgage platform and challenges identified during testing, we now anticipate a significant deferral and redesign as we implement the upgraded capability.
Property, plant and equipment, and investment property adjustments	**(12)**	-	£6m of these costs relate to a data cleanse exercise conducted on the Group's fixed asset registers ahead of the migration to a single fixed asset register in FY24 and a £6m reduction in the valuation of an investment property due to changes in market conditions.
Total other	**(61)**	(71)	
Total underlying adjustments	**(249)**	(183)	

(1) Hedge ineffectiveness is now presented as an adjustment to underlying earnings due to the increase in volatility caused by the recent significant changes in interest rates. The comparative periods have been adjusted accordingly.

Main Glossary

Term	Definition
Additional Tier 1 **(AT1)**	Securities that are considered AT1 capital in the context of CRD IV.
Agile	Agile working is about bringing people, processes, connectivity and technology, time and place together to find the most appropriate and effective way of working.
arrears	A customer is in arrears (or in a state of delinquency) when they fail to adhere to their contractual payment obligations resulting in an outstanding loan that is unpaid or overdue. When a customer is in arrears, the total outstanding loans on which payments are overdue are said to be delinquent.
Bank	Clydesdale Bank PLC.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2004.
Basel III	Reforms issued by the BCBS in December 2017 with subsequent revision.
Basel 3.1	An updated version of the Basel III reforms of the regulatory framework issued by the BCBS in December 2017. These are being implemented in the UK by the PRA from 1 July 2025.
basis points **(bps)**	One hundredth of a percent (0.01%); meaning that 100 bps is equal to 1%. This term is commonly used in describing interest rate movements.
Board	Refers to the Virgin Money UK PLC Board or the Clydesdale Bank PLC Board as appropriate.
Bounce back loan scheme	A scheme implemented by the UK Government to provide financial support to businesses across the UK that were losing revenue, and seeing their cash flow disrupted as a result of COVID-19, enabling them to benefit from £50,000 or less in finance.
Business lending	Lending to non-retail customers, including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
carrying value (also referred to as carrying amount)	The value of an asset or a liability in the balance sheet based on either amortised cost or fair value principles.
cash and cash equivalents	For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and non-mandatory deposits with central banks and amounts due from other banks with a maturity of less than three months.
Code	The 2018 UK Corporate Governance Code
collateral	The assets of a borrower that are used as security against a loan facility.
Common Equity Tier 1 capital **(CET1)**	The highest quality form of regulatory capital that comprises total shareholders' equity and related non-controlling interests, less goodwill and intangible assets and certain other regulatory adjustments.
Company	Clydesdale Bank PLC.
Coronavirus business interruption loan scheme	A scheme implemented by the UK Government to provide financial support to smaller businesses across the UK that were losing revenue, and seeing their cash flow disrupted, as a result of COVID-19.
Coronavirus large business interruption loan scheme	A scheme implemented by the UK Government to provide financial support to mid-sized and larger businesses across the UK that were suffering disruption to their cash flow due to lost or deferred revenues as a result of COVID-19.
counterparty	The other party that participates in a financial transaction, with every transaction requiring a counterparty in order for the transaction to complete.
coverage ratio	Impairment allowance as at the year end shown as a percentage of gross loans and advances as at the year end.
covered bonds	A corporate bond with primary recourse to the institution and secondary recourse to a pool of assets that act as security for the bonds on issuer default. Covered bonds remain on the issuer's balance sheet and are a source of term funding for the Group.
CRD IV	Capital Requirements Directive (EU) 2013/36 revised by Directive (EU) 2019/878, as implemented in the UK by PRA Policy Statement 22/21 and incorporated into the PRA Rulebook from 1 January 2022.
Credit impaired financial asset	A financial asset that is in default or has an individually assessed provision. This is also referred to as a 'Stage 3' impairment loss and subject to a lifetime ECL calculation. The Group considers 90 DPD as a backstop in determining whether a financial asset is credit impaired.
Credit risk mitigation	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set-off or netting.

Main Glossary (continued)

CRR	Capital Requirements Regulation (EU) 575/2013, revised by Regulation (EU) 2019/876, as implemented in the UK by PRA Policy Statement 22/21 and incorporated into the PRA Rulebook from 1 January 2022.
customer deposits	Money deposited by individuals and corporate entities that are not credit institutions, and can be either interest bearing, non-interest bearing or term deposits.
days past due **(DPD)**	The number of days a facility has borrowing in excess of an agreed or expired limit or, where facilities are subject to a regular repayment schedule, contractual payments are not fully up to date.
default	A customer is in default when either they are more than 90 DPD on a credit obligation to the Group, or are considered unlikely to pay their credit obligations in full without recourse to actions such as realisation of security (if held).
delinquency	See 'arrears'
Demerger	The demerger of the Group from NAB which took effect on 8 February 2016 pursuant to which all of the issued share capital of CYB Investments Limited was transferred to Virgin Money UK PLC (formerly CYBG PLC) by NAB in consideration for the issue and transfer of Virgin Money UK PLC (formerly CYBG PLC) shares to NAB in part for the benefit of NAB (which NAB subsequently sold pursuant to the Company's IPO) and in part for the benefit of NAB shareholders under a scheme of arrangement under part 5.1 of the Australian Corporations Act.
derivative	A financial instrument that is a contract or agreement whose value is related to the value of an underlying instrument, reference rate or index.
effective interest rate **(EIR)**	The rate used to calculate interest income or expense under the effective interest method.
encumbered assets	Assets that have been pledged as security, collateral or legally 'ring-fenced' in some other way which prevents those assets being transferred, pledged, sold or otherwise disposed.
exposure	A claim, contingent claim or position which carries a risk of financial loss.
exposure at default **(EAD)**	The estimate of the amount that the customer will owe at the time of default.
fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.
forbearance	The term generally applied to the facilities provided or changes to facilities provided to assist borrowers who are experiencing, or are about to experience, a period of financial stress.
full time equivalent **(FTE)**	The standardised method of measurement that represents the number of hours worked by all Virgin Money employees, both full time and part time (excluding contractors or long-term absences).
Group	Clydesdale Bank PLC and its controlled entities.
hedge ineffectiveness	Represents the extent to which the income statement is impacted by changes in fair value or cash flows of hedging instruments not being fully offset by changes in fair value or cash flows of hedged items.
IFRS 9	The financial instrument accounting standard which was adopted by the Group with effect from 1 October 2018.
IFRS 9 transitional adjustments-dynamic	That part of the transitional adjustments on regulatory capital arising from the increase in impairment provisions (on non-credit impaired exposures) from the date of initial adoption of IFRS 9 to the reporting date.
IFRS 9 transitional adjustments-static	That part of the transitional adjustments on regulatory capital arising from the increase in impairment provisions on initial adoption of IFRS 9 from those calculated under IAS 39.
impairment allowances	An ECL provision held on the balance sheet for financial assets calculated in accordance with IFRS 9. The impairment allowance is calculated as either a 12-month or a lifetime ECL.
impairment losses	The ECLs calculated in accordance with IFRS 9 and recognised in the income statement with the carrying value of the financial asset reduced by creating an impairment allowance. Impairment losses are calculated as either a 12-month or lifetime ECL.
Internal Capital Adequacy Assessment Process **(ICAAP)**	The Group's assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
Internal Liquidity Adequacy Assessment Process **(ILAAP)**	The Group's assessment and management of balance sheet risks relating to funding and liquidity.
Internal Ratings-Based approach **(IRB)**	A method of calculating credit risk capital requirements using internal, rather than supervisory, estimates of risk parameters.
investment grade	The highest possible range of credit ratings, from 'AAA' to 'BBB', as measured by external credit rating agencies.
Level 1 fair value measurements	Financial instruments whose fair value is derived from unadjusted quoted prices for identical instruments in active markets.
Level 2 fair value measurements	Financial instruments whose fair value is derived from quoted prices for similar instruments in active markets and financial instruments valued using models where all significant inputs are observable.

Main Glossary (continued)

Level 3 fair value measurements	Financial instruments whose fair value is derived from valuation techniques where one or more significant inputs are unobservable.
Lifetime ECL	The ECL calculation performed on financial assets where a SICR since origination has been identified. This can be either a 'Stage 2' or 'Stage 3' impairment loss depending on whether the financial asset is credit impaired.
Listing Rules	Regulations applicable to any company listed on a UK stock exchange, subject to the oversight of the UK Listing Authority (UKLA). The Listing Rules set out mandatory standards for any company wishing to list its shares or securities for sale to the public.
loan to value ratio (LTV)	A ratio that expresses the amount of a loan as a percentage of the value of the property on which it is secured.
loss-absorbing capacity (LAC) requirement	The required level of MREL resources that the Group is required to hold to meet its MREL requirement and applicable capital buffers set by the BoE.
loss given default (LGD)	The estimate of the loss that the Group will suffer if the customer defaults (incorporating the effect of any collateral held).
Low-carbon economy	An economy based on energy sources that produce low levels of greenhouse gas emissions.
medium-term notes	Debt instruments issued by corporates, including financial institutions, across a range of maturities.
Minimum Requirement for Own Funds and Eligible Liabilities **(MREL)**	A minimum requirement for institutions to maintain equity and eligible debt liabilities, to help ensure that if an institution fails the resolution authority can use these financial resources to absorb losses and recapitalise the continuing business.
net interest income **(NII)**	The amount of interest received or receivable on assets, net of interest paid or payable on liabilities.
Net zero	Negating the amount of greenhouse gases produced by human activity.
Personal lending	Lending to individuals rather than institutions excluding mortgage lending which is reported separately.
probability of default **(PD)**	The probability that a customer will default over either the next 12 months or lifetime of the account.
Recovery loan scheme **(RLS)**	A scheme implemented by the UK Government to provide financial support to small and medium-sized businesses across the UK to promote growth and investment following the disruption caused by COVID-19.
regulatory capital	The capital which the Group holds, determined in accordance with rules established by the PRA.
relationship deposits	Current account and linked savings balances.
residential mortgage-backed securities **(RMBS)**	Securities that represent interests in groups or pools of underlying mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and principal).
ring-fencing	A regime of rules which require banks to change the way that they are structured by separating retail banking services from investment and international banking. This is to ensure the economy and taxpayers are protected in the event of any future financial crises.
risk appetite	The level and types of risk the Group is willing to assume within the boundaries of its risk capacity to achieve its strategic objectives.
risk-weighted assets **(RWA)**	On and off balance sheet assets of the Group are allocated a risk weighting based on the amount of capital required to support the asset.
sale and repurchase agreement **(repo)**	A short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or a reverse repo.
Scheme	The Group's defined benefit pension scheme, the Yorkshire and Clydesdale Bank Pension Scheme.
secured lending	Lending in which the borrower pledges some asset (e.g. property) as collateral for the lending.
securitisation	The practice of pooling similar types of contractual debt and packaging the cash flows from the financial asset into securities that can be sold to institutional investors in debt capital markets. It provides the Group with a source of secured funding that can achieve a reduction in funding costs by offering typically 'AAA' rated securities secured by the underlying financial asset.
significant increase in credit risk **(SICR)**	The assessment performed on financial assets at the reporting date to determine whether a 12-month or lifetime ECL calculation is required. Qualitative and quantitative triggers are assessed in determining whether there has been a SICR since origination. The Group considers 30 DPD as a backstop in determining whether a SICR since origination has occurred.

Main Glossary (continued)

specific impairment provision	A specific provision relates to a specific loan, and represents the estimated shortfall between the carrying value of the asset and the estimated future cash flows, including the estimated realisable value of securities after meeting securities realisation costs.
standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the own funds or liquidity which a bank holds.
structured entity	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). An SE may take the form of a corporation, trust, partnership or unincorporated entity. SEs are often created with legal arrangements that impose strict limits on the activities of the SE. May also be referred to as an SPV.
subordinated debt	Liabilities which rank after the claims of other creditors of the issuer in the event of insolvency or liquidation.
Term Funding Scheme (TFS)	A scheme launched in 2016 by the BoE to allow banks and building societies to borrow from the BoE at rates close to base rate. This is designed to increase lending to businesses by lowering interest rates and increasing access to credit.
Tier 1 capital	A measure of a bank's financial strength defined by CRD IV. It captures CET1 capital plus other Tier 1 securities (as defined by CRD IV) in issue, subject to deductions.
Tier 2 capital	A component of regulatory capital, including qualifying subordinated debt, eligible collective impairment allowances and other Tier 2 securities as defined by CRD IV.
unsecured lending	Lending in which the borrower pledges no assets as collateral for the lending (such as credit cards and current account overdrafts).
value at risk (VaR)	A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

Abbreviations

ACS	Annual cyclical scenario
AFD	Approaching financial difficulty
AGM	Annual General Meeting
ALCO	Assets and Liability Committee
ALMV	A Life More Virgin
APM	Alternative Performance Measure
AT1	Additional Tier 1
ATM	Automated teller machine
BAU	Business as usual
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
bps	Basis points
BTL	Buy-to-let
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1 Capital
CPI	Consumer Price Index
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSRBB	Credit spread risk in the banking book
DE&I	Diversity, equity and inclusion
DEP	Deferred Equity Plan
DPD	Days past due
DTR	Disclosure Guidance and Transparency Rules
EAD	Exposure at default
EBA	European Banking Authority
ECL	Expected credit loss
EIR	Effective interest rate
ESG	Environmental, Social and Governance
FIRB	Foundation internal ratings based
FPC	Financial Policy Committee
FRC	Financial Reporting Council
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
G-SII	Global Systemically Important Institution
GDP	Gross Domestic Product
GAAP	Generally Accepted Accounting Principles
GDPR	General Data Protection Regulation
HMRC	His Majesty's Revenue and Customs
HPI	House Price Index
HQLA	High-Quality Liquid Asset
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBOR	Inter Bank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standard
ILAAP	Internal Liquidity Adequacy Assessment Process
IRB	Internal ratings-based
IRRBB	Interest rate risk in the banking book
ISA	International Standards on Auditing
ISDA	International Swaps and Derivatives Association
JV	Joint venture
KMP	Key management personnel
LAC	Loss-absorbing capacity
LCR	Liquidity coverage ratio
LGD	Loss given default
LIBOR	London Interbank Offered Rate
LTIP	Long-term incentive plan
LTV	Loan to value
MGC	Model Governance Committee
NII	Net interest income
NSFR	Net stable funding ratio
O-SII	Other Systemically Important Institution
PSD2	Payment Services Directive 2
PD	Probability of Default
PIE	Pension Increase Exchange
POCI	Purchased or originated credit impaired
PRA	Prudential Regulation Authority
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
RLS	Recovery loan scheme
RMBS	Residential mortgage-backed securities
RMF	Risk Management Framework
RPI	Retail Price Index
RWA	Risk-weighted asset
SICR	Significant increase in credit risk
SIP	Statement of Investment Principles
SME	Small or medium-sized enterprises
SMF	Sterling Monetary Framework
SONIA	Sterling Overnight Index Average
SST	Solvency Stress Test
STIP	Short-term incentive plan
TFSME	Term Funding Scheme with additional incentives for SMEs
UTM	Virgin Money Unit Trust Managers Limited
VAA	Virgin Atlantic Airways Limited
VaR	Value at Risk
VIU	Value-in-use
WIP	Work-in-progress
YBHL	Yorkshire Bank Home Loans Limited

Other information
Country by Country Reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of the European Union's CRD IV. The purpose of the Regulations is to provide clarity on the source of the Group's income and the locations of its operations.

The vast majority of entities that are consolidated within the Group’s financial statements are UK registered entities. The activities of the Group are described in the Strategic report.

	2023 UK
Average FTE employees (number)	**7,166**
Total operating income (£m)	**1,826**
Profit before tax (£m)	**344**
Corporation tax paid (£m)	**45**
Public subsidies received (£m)	**-**
Return on assets (%)	**0.27%**

The only other non-UK registered entity of the Group is a Trustee company that is part of the Group’s securitisation vehicles (Lanark and Lannraig). Lannraig Trustees Limited is registered in Jersey. This entity plays a part in the overall securitisation process by having the beneficial interest in certain mortgage assets assigned to it. This entity has no assets or liabilities recognised in its financial statements with the securitisation activity taking place in other UK registered entities of the structures. This entity does not undertake any external economic activity and has no employees. The results of this entity as well as those of the entire Lanark and Lannraig securitisation structures are consolidated in the financial statements of the Group.

Website www.virginmoneyukplc.com/investor-relations/results-and-reporting/annual-reports/.

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Forward-looking statements

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