Annual Report
& Accounts 2022

VIRGIN MONEY UK

Making you happier about money

Our Purpose guides the way we do business every day, from our Strategy, Values and Behaviours, to the products we offer, the experiences we create and the topics we care about.

These start and end with our customers. These are our Virgin Values:

Heartfelt service
We care and want the best for our customers

Insatiable curiosity
We search for the best ideas, approaches and solutions

Smart disruption
We shake up the things that matter

Red hot relevance
We lead the way today and anticipate tomorrow

Straight up
We work together to make money simpler and easier

Delightfully surprising
We deliver experiences that make people feel happier

Contents

Strategic report

Governance

Risk report

TCFD
(Task Force on Climate-related Financial Disclosures)

Financial statements

Additional information

Our ambition is to be the UK's best digital bank.
This report's format is optimised for on screen viewing.

Who we are

We are Virgin Money

We are the UK's 6th largest bank, with c.6.6m customers, an innovative digital platform and a national network of stores, contact centres and relationship managers.

We are led by our Purpose ...

Making you happier about money

... which informs our strategic ambition ...

To be the UK's best digital bank

... and our key strategic priorities

- Delighted customers and colleagues
- Super straightforward efficiency
- Pioneering growth
- Discipline and sustainability

To deliver improved performance and value for our stakeholders

See pp 3-4 for more on our Purpose

See pp 14-25 for more on our strategy

See pp 26-58 for more on our performance

Scale positions in key UK retail banking markets:

Mortgages

Simplifying mortgages to make homeowners' lives better

c.£58bn of lending

Personal

Helping our customers live and bank in a more rewarding way

c.£6bn of lending

c.£49bn of deposits

Business

Supporting business owners in realising their potential and achieving their dreams

c.£8bn of lending

c.£16bn of deposits

Why Purpose is important to us

Making you happier about money

Our Purpose articulates why Virgin Money exists, what problems we are here to solve, and who we want to be to each person we touch through the work we do.

It shapes our strategy and the activity we undertake. Getting this right will inspire our colleagues, engage our customers and communities, steer decisions at moments of truth and mean it is fully embedded in our culture.

Making you happier about money was co-created by over 2,000 Virgin Money colleagues.

It is long term and enduring. It is not negotiable – we are on the journey to becoming a truly Purpose-led business.

Our Purpose establishes us as a bold, proactive, customer, colleague and community-focused business with a desire to help people feel better about their relationship with money.

Delivering on our Purpose and strategy

We think that the best way to deliver on our Purpose is our strategy to become the UK's best digital bank. In order to deliver this we focus on four strategic priorities:

Delighting customers by delivering outstanding experiences through digital-first interaction; supported by **delighted colleagues** working in a healthy, flexible, digitally-led environment. See p.16 for more.

Pioneering growth. Our unique brand and straightforward, digitally-accessible products with market-defining loyalty rewards help attract and retain digitally-savvy target customers. See p.21 for more.

Super straightforward efficiency. Our bank leverages technology to drive efficiency and effectiveness, enabling us to invest back in our customers and deliver strong financial results. See p.23 for more.

Discipline and sustainability. Building and operating the Bank for the long term, creating positive outcomes for our customers and all our stakeholders on a consistent and sustainable basis. See p.25 for more.

Which will deliver for our stakeholders

Customers
Showing our customers that we care about them and their money as we enable them to manage their money brilliantly by providing data, insights as well as access to exciting and rewarding digital propositions.

Colleagues
Providing meaningful careers, development and an inclusive and ambitious culture, enabled by great digital tools and our flexible A Life More Virgin approach.

Investors
Delivering our strategy to grow profitably and sustainably, drive efficiencies and improve our returns, as well as provide sustainable distributions over time.

Society
Inclusive banking; contributing taxes and enhancing UK banking competition, with a progressive sustainability and ESG agenda. Minimising our carbon footprint and encouraging sustainable choices.

Partners and suppliers
Creating shared value with our strategic partners, and supporting our suppliers with fair payment terms.

Government and regulators
Working with government and regulators to support their objectives for a stable, customer-focused banking system through good customer outcomes, delivering a sustainable business and staying safe and compliant.

Purpose in action

Slyce-ing up the buy now, pay later market

Purpose in action

Slyce, our innovative buy now pay better product, launching in FY23, combines the functionality of a credit card, but with the flexibility of a Buy Now, Pay Later (BNPL) option to suit the lifestyles of our customers. Customers make one consolidated monthly payment across their various purchases so it's easy to keep track. An instalment fee is only payable for 9 and 12 months plans; if paid in 3 or 6 monthly payments, it's fee-free.

See more Purpose in action sections throughout the Strategic Report

When we talk to potential Gen Z customers, they feel underserved within the credit market and lack credit confidence. BNPL is currently an unregulated market where the risk to Gen Z is high as they take on credit they can't afford and then struggle to pay it back. This lack of customer protection and financial education in the market today can prove a slippery slope for a generation who are only just gaining their financial independence.

Putting our Purpose first, we're aiming to solve that problem. We're offering an experience which is more considered, where young people are more protected while being given the freedom to access credit. We're also being proactive in offering financial education to build their financial confidence and resilience, which we know is vital to everyone's personal well-being. We want the nation's young people to feel comfortable and confident in accessing credit. That's why we're aiming to disrupt the market with our new credit proposition, Virgin Money Slyce.

Gen Z (born 1996-2012) close-up

28% want to build their credit score

c.25% already in the workforce

>1/3 get financial advice on TikTok

Safe and simple

Unlike some other propositions in this market, Slyce is a regulated product, with all the protections and safeguards our customers would expect from us.

Co-created with Gen Z

Slyce has been developed in collaboration with Gen Z customers and has been tailored to meet their needs.

Credit confident

Proactive educational information to support customers on how to keep their credit rating in check, prompting more Gen Z'ers to examine their circumstances and be more proactive about their choices.

Gen Z research comments

I think it is better than my current credit card option and better than any buy now, pay later service. Having multiple transactions come out in one payment will be so beneficial for me. Being part of this makes me trust that the app is catering for the needs of its users. It shows innovation and I put trust in innovation that comes from a place of actually trying to understand and serve needs.

Delivering for our stakeholders, led by our Purpose

David Bennett
Board Chair

Despite a tougher economic outlook, Virgin Money has continued to make good strategic progress.

Our Purpose of Making you happier about money drives the strategy at Virgin Money and in 2022 the Group continued to deliver against our strategic priorities.

Dear stakeholder
After exiting all COVID-19 restrictions earlier in the year, the macroeconomic outlook has become more uncertain as the impact of higher inflation on the cost of living has increased. In this volatile environment, the strategy laid out last November remains the right one for Virgin Money. The key elements of execution are significantly within our control, and will leave the Bank increasingly well placed to support our customers and deliver for all our stakeholders.

I've been particularly pleased to see how David and the team have reacted to the operating environment this year. Their continued focus has seen us make considerable progress in line with the Group's Values, delivering strong propositions, support for customers, and improving efficiency. This focus has seen the Group grow lending modestly, with stronger growth across its target segments where we have positive momentum as we enter 2023.

During 2022 the Group has made an encouraging start in executing against our digital transformation, with new digital customer propositions launched, further digitisation of customer journeys and the implementation of A Life More Virgin. Combined with the higher rate environment and benign credit backdrop to date, our strategic delivery has translated into continued positive financial performance, with statutory return on tangible equity (RoTE) finishing at 10.3% (FY21: 10.2%).

The Group's balance sheet remains robust with a defensive lending portfolio and strong capital position. The Group's participation in its inaugural Bank of England (BoE) solvency stress test (SST) exercise in December saw a strong performance in absolute and relative terms.

Our updated capital framework set out in May will provide flexibility to support growth and resilience while offering strong capital distributions through dividends supplemented by buybacks. In total we've announced £267m of capital distributions to shareholders over the course of FY22 and the Board remains committed to returning excess capital to shareholders in the future in line with our framework, and while remaining mindful of macro-economic and political uncertainty.

Our colleagues continue to play a pivotal role in executing our strategy. The Group's implementation of the A Life More Virgin approach to work has given colleagues greater flexibility and seen engagement scores improve significantly to 79% compared to 68% a year ago. As we continue our journey to become a Purpose-led organisation, the benefits for all our stakeholders remain a key focus for the Board.

Over the second half of the year, the economic outlook for the United Kingdom became more uncertain with significantly higher inflation, lower growth and higher unemployment now expected into FY23. Towards the end of the financial year, along with higher interest rates, we saw significant interest rate volatility following government financial announcements, which unsettled a number of markets. However, impacts seen to date at the Bank are limited, and the Group enters this period of economic uncertainty well placed to continue to support customers. We have developed a new cost of living hub on our website, which offers advice and support to customers. Where customers require individual support, we provide that support on a tailored basis, including the ability to restructure facilities or make reduced payments. We have also made changes to our operational teams to prioritise supporting customers who may be in, or approaching difficulty.

As we look out into the second year of the refreshed strategy, despite the uncertain backdrop, the Group will focus on executing its strategy, driving increased efficiency, profitable and sustainable growth, and delivering stronger returns for shareholders. We are one year into a three year programme and recognise there is more to be done, particularly on our customer experience, which will be a key focus in FY23 alongside maintaining strong financial momentum.

Governance

As a Purpose-led organisation, the Values and culture of Virgin Money are very important and embedded in everything we do. We have a significant opportunity as the 6th largest bank in the UK to drive the right outcomes across society and for all our stakeholders.

Last year, the Board signed up to the Net Zero Banking Alliance (NZBA) and I'm delighted the Group has launched the first of its net zero road maps and targets, covering 82% of our lending portfolio, supporting our customers in the transition to a low-carbon economy and limiting the impact of climate change.

The Group has also continued to focus on Diversity and Inclusion. Against the targets set for FY22, we met our target to have at least one Director from an ethnic minority background. At September, women's representation was 29% following Amy Stirling leaving the Board (two female and five male Directors), falling short of our 33% target. Upon Sara Weller joining the Board on 3 October, women's representation improves to 38% as at the date of this report, achieving our targeted level.

This year has represented a remuneration policy year for the Board Remuneration Committee. After significant engagement with stakeholders the Committee has implemented a balanced range of metrics which will support the right outcomes for our colleagues and all stakeholders, further details of which can be found in the Director's remuneration report from pages 120-152. The Board has also continued to focus on stakeholder engagement throughout the year in its decision-making process, with further details available within the s.172 compliance section, on pages 89-99.

Against an ever-evolving backdrop, the Board will continue to thoughtfully expand our skill set, through in-depth training and strengthening its collective experience, particularly in the digital space.

Outlook

In conclusion, there remains more to do, but 2022 has seen the Group make a good start in terms of its digital strategy. Against a less than certain operating environment, our strategy remains the right one and the Group is well positioned as it enters 2023, to deliver strong returns, improved cost efficiency, and profitable growth.

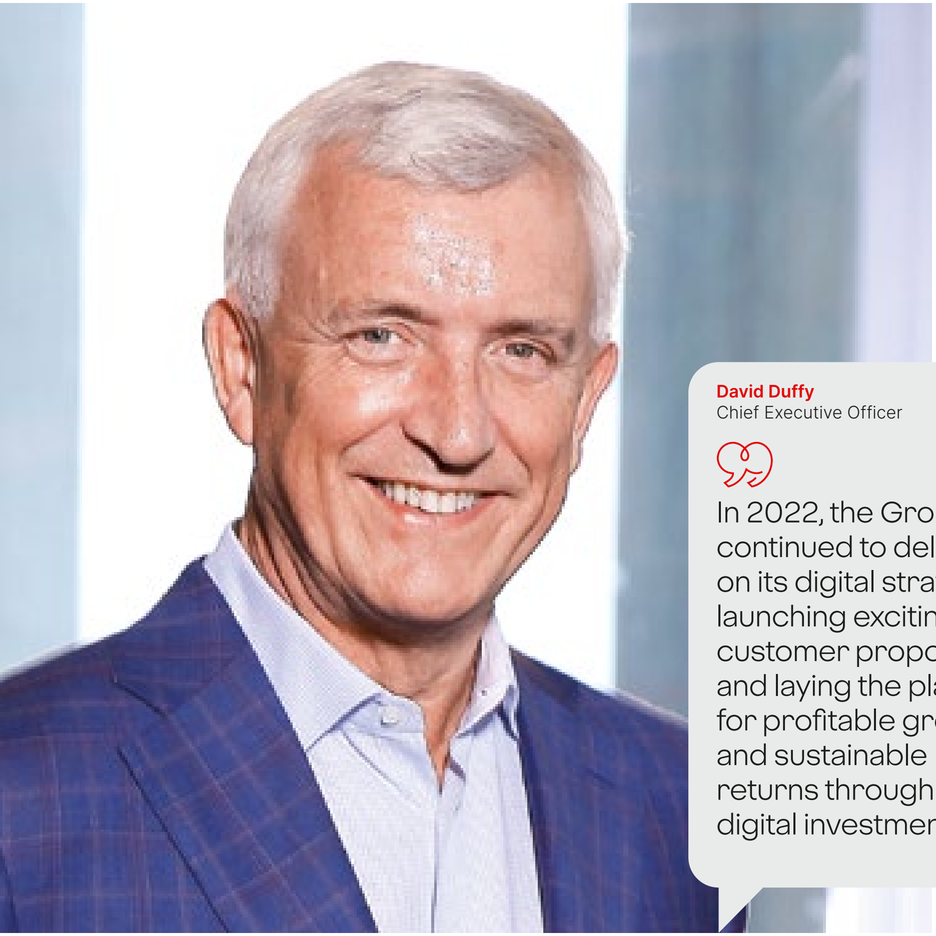
David Bennett
Board Chair
20 November 2022

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 and for stakeholders as we seek to achieve our Purpose of Making you happier about money.

For our Section 172 statement, and more on how the Board has engaged with our stakeholders, please see pages 89-99.

Delivering against our strategy



David Duffy
Chief Executive Officer

In 2022, the Group continued to deliver on its digital strategy, launching exciting new customer propositions and laying the platform for profitable growth and sustainable returns through our digital investment.

We performed strongly in FY22, delivering higher statutory profit, positive financial momentum and increased capital returns, benefitting from higher rates in a more uncertain environment.

Dear stakeholder,
In the first year of delivering our accelerated digital strategy, I'm pleased with how the Group has performed. Virgin Money has made good strategic and financial progress as we drive towards our ambition of becoming the UK's best digital bank. I'd like to thank all our colleagues for their hard work, and customers for their loyalty, as we execute our Purpose-led strategy.

Since we set our targets a year ago, the economic backdrop has changed significantly, with a lower GDP outlook, higher unemployment expectations, and higher cost of living set to impact the economy, although higher interest rates have supported our financial performance. Despite the more difficult near-term backdrop for customers, our strategy remains the right one and I'm confident we are well placed to adapt to recent changes, while we continue to support customers and deliver for all our stakeholders.

Delivering for our stakeholders
While there remains more to deliver, FY22 saw a good start against the strategic agenda we set out a year ago. Our financial performance benefitted from stronger income and resilient asset quality given the higher interest rate trajectory and benign credit environment to date.

Alongside this backdrop, the Group continued to execute against our strategic agenda, which combined with the environment, delivered robust returns as statutory RoTE remained stable at 10.3% (FY21: 10.2%). As a reflection of this performance, including high levels of capital generation, and after setting out our capital framework alongside our Interim results, the Board has announced the distribution of £267m of capital to shareholders through dividends and buybacks.

Our innovative propositions and rewards have been well received in our target segments of Unsecured and BAU Business lending (excluding Government scheme lending). The overall lending book returned to growth this year, with improved momentum in mortgages in H2 as we traded nimbly through a continuing competitive environment. I'm also particularly pleased with the continued growth in our low-cost relationship deposit base which is now 53% of total Group deposits, up from 33% at FY19.

Important digitisation initiatives, which will drive improvements in our customer service and complaints performance through automation of our core customer journeys, have been launched and will continue to deliver greater efficiency into FY23 and beyond. We continue to expand our loyalty and reward programmes, leveraging the unique potential of the Virgin brand and Virgin Red as we prepare to launch our new digital wallet.

We have continued to support colleagues at this more challenging time, with a £1,000 cost of living allowance provided to the majority of colleagues in August. Our A Life More Virgin flexible working model has also continued to be well received, attracting significant positive commentary, and supporting improved colleague engagement scores and a simplified office estate.

Investment case

Virgin Money is well placed to deliver growth and shareholder distributions

	Now	FY24
1. Driving efficiency	> Investing £275m to accelerate digital transformation > Creating a modern tech platform and end-to-end digital customer journeys	> £175m gross savings > 100% of key customer journeys digitised
2. Earnings momentum	> Significant NIM accretion > Costs controlled; low impairments > Statutory RoTE of 10.3% in FY22	> Underlying Cost:income (CIR) <50% > Statutory RoTE: c.11% in FY24, consistent with target of >10%
3. Strong asset quality	> c.80% low-risk mortgages > Unsecured book weighted to affluent customers, diversified Business book weighted to resilient sectors > Robust ECL coverage of 62bps; > pre-pandemic level	> Prudent risk appetite, high quality growth > Balance sheet to evolve gradually
4. Profitable growth	> Developing and delivering exciting new digital propositions > Growth across target areas; current accounts, business and unsecured lending > Well positioned to drive customer acquisition by leveraging brand, loyalty and new propositions	> Maintain mortgage share > Moderated growth in unsecured and business > Relationship deposit growth to optimise funding
5. Capital returns	> Launched capital framework; 30% dividend pay-out supplemented by buybacks > 10p ordinary dividend with £125m of buybacks announced > Strong CET1 ratio of 15.0%; robustly in excess of 13-13.5% target	> Reach target CET1 ratio 13%-13.5% by end FY24 > Ongoing capital generation to support growth and shareholder distributions

Our work to deliver a sustainable future took a significant step forward over the course of the year as we set net zero roadmaps and targets for Mortgages and priority Business sectors. We continue to embed climate and community considerations in everything we do, ensuring we support customers and wider society in the years ahead.

Strong financial momentum

The higher interest rate backdrop, continued benign credit conditions and the execution of our strategy, has seen statutory profit before tax for FY22 strengthen to £595m (FY21: £417m). This has benefited from increased pre-provision profit, continued low impairment charges and lower exceptional costs. Underlying income increased 12% with NIM expanding to 1.85% (FY21: 1.62%) supported by higher interest rates over the course of the year, and strategic actions to grow in higher-yielding product lines, while continuing to optimise our funding mix with higher relationship deposits. Underlying operating costs of £914m increased 1% on the prior year, reflecting inflationary pressures and higher investment, offset in part by efficiency savings.

While not directly exposed to Ukraine, we have seen second-order impacts on the broader UK economy from higher costs, higher interest rates and potential pressure on our customers and asset quality. At present, credit quality indicators remain benign but we remain cautious on the outlook, and stand ready to support customers further if needed. Against this backdrop, impairment charges were muted as provisions taken for COVID-19 impacts were unwound. Despite a modest reduction, we have retained above pre-COVID levels of coverage with a potentially challenging economic outlook in mind, and to reflect worsening macroeconomic forecasts.

Overall lending balances returned to growth in the year finishing up 1% at £72.6bn. We achieved strong growth in our target segments of Unsecured and BAU Business lending, and returned the mortgage book to growth in the second half of the year. Deposit balances reduced 2% to £65.4bn but with relationship deposits increasing by 13%, as we continued to improve the mix of our deposit base and optimise our cost of funds.

The capital generative financial performance of the business, and strong outcomes from our inaugural participation in the BoE's stress testing regime, allowed us to set out our capital framework alongside our Interim results in May. We committed to a sustainable 30% dividend payout level and are recommending a 10p total dividend in respect of FY22, subject to shareholder approval. We also committed to supplementing dividends with buybacks, subject to the Board's assessment of surplus capital, market conditions and regulatory approval.

It was pleasing therefore to commence our inaugural share buyback programme during the year, with a £75m buyback announced in June, which we are delighted to be adding to today, with a £50m extension. Our transitional CET1 ratio at FY22 remains robust at 15.0%, leaving the Group well placed as we enter FY23.

Delivering against our strategic pillars

At FY21 we announced plans to accelerate our digital strategy and have made a good start against this during FY22.

Pioneering Growth

Throughout FY22 we have launched important new propositions that will support our future growth ambitions. These include M-Track and Marketplace in Business, Slyce, new digital travel insurance, and improved cashback and reward offerings for personal customers.

As we continue to focus on digital-led growth in key target segments, we've reported growth in current accounts, underpinned by strong new account sales, record credit card sales and strong customer usage of cashback offers.

Digitally-enabled personal current account (PCA) sales were 131k (FY21: 134k) benefiting from a strong value proposition, with attractive interest rates on offer. Competitive switching propositions from peers impacted on our ability to attract switchers at the levels we had hoped, but we were still able to deliver book growth during the year. Business current account (BCA) sales reported a record year at 33k (FY21: 19k) benefitting from a new fee-free proposition and improved digital onboarding and servicing, along with the roll-out of our innovative M-Track and Marketplace propositions. These strong performances underpinned our 13% growth in relationship deposits.

Unsecured balances recorded strong growth of 14% as we maintained our existing competitive proposition, albeit with tighter underwriting to reflect potential customer affordability challenges from the higher cost of living. We also broadened our customer offerings, developing Slyce to challenge and innovate, with a responsible BNPL proposition aimed at Gen-Z customers (see page 4). In Business, while we continued to see government scheme lending being repaid as expected, with very limited fraud, we also began to grow lending in our BAU franchise (up 2% year-on-year), without relaxing our rigorous underwriting standards.

Mortgage balances were broadly stable during the year, as competition has remained intense. Against this backdrop, we have continued with our strategy to optimise for long-term value, and maintain credit quality. We were pleased to increase our participation in the second half of the year, at improved margins, prior to the pricing volatility that took place towards the end of the financial year. We say more about our Pioneering Growth on pp. 21-22.

Delighting our customers and colleagues

For customers, we have seen expectations around service rise rapidly through the pandemic. During the last year, external factors have had an impact on our service levels, such as the changing rate environment, which has driven higher demand, with more customers requiring support. As a consequence, we recognise that there have been challenges impacting customer service this year, and our metrics for complaints and Smile scores aren't where we want them to be. In the second half of the year, the Group has taken action to address this, adding resources despite a tight labour market. We have a significant opportunity to improve service and we remain convinced that our strategy to invest in our digital model is the right one to deliver a lasting improvement for customers.

During the year the Group has continued to make progress in the end-to-end digitisation of customer journeys, including improved digital on-boarding and servicing experience across Personal and Business, to support better customer outcomes. Following delivery of a suite of chatbots earlier in the year, the Group has now surpassed 1m chatbot conversations with retail customers, with the year to date resolution rate within the chatbot at around two-thirds. As a result, the percentage of customer interactions through calls has reduced from c.70% at FY21 to c.50% as at the end of FY22.

We will further improve our service proposition in FY23, and seek to mitigate the impacts of digitisation on customers who prefer traditional banking channels. Significant investment is underway to enhance, modernise and digitise our customer service offering, which will support an improvement in customer experience and ultimately Smile scores. Furthermore, we have a comprehensive plan to deliver better outcomes for customers as we adopt the FCA's consumer duty. We discuss more on delighting our customers on pp. 16-17.

For colleagues, the launch of our A Life More Virgin colleague proposition and our flexible working model has been very positively received, with colleague engagement scores improving to 79% at FY22 from 68% a year ago. The model has also removed geographical constraints on recruitment, enabling us to recruit more diverse talent. We have also repurposed some of our stores and offices during the year to create Collaboration Hubs which support the transition to a truly flexible approach to work.

Across the organisation we continue to focus on building an inclusive workforce and culture. The initiatives launched during the year are already having an impact as we focus on engaging with communities where we're currently under-represented to develop more diverse talent within Virgin Money. We have delivered improved diversity metrics but have ambitious targets to go further in the coming years. We talk more about delighting our colleagues on pp. 18-20.

Targeting Super Straightforward Efficiency

Our investment continues to focus on driving our three-year transformation programme to deliver a scalable, more efficient digital growth platform. This features the deployment of Agile methodology and tools to increase the pace and delivery of change, at lower cost (see more on this on p.24). Our migration to Cloud-based infrastructure in partnership with Microsoft is set to commence in FY23, enabling us to begin exiting physical data centres. We are now starting to de-commission legacy applications, while building the new applications required to support the Cloud infrastructure. We are deploying Microsoft tools, such as AI and robotics, and rolling out Agile methodology across our new change programmes, launching new Agile tribes and training colleagues. This is delivering new functionality for customers at greater speed, and at an average of c.25% lower unit costs. As we continue to embed A Life More Virgin ways of working, we have continued to rationalise our property footprint, reducing it by 50% to c450k sq ft to align with the simpler needs of a digital bank. We say more about delivering Super Straightforward Efficiency on pp. 23-24.

Delivering Discipline and Sustainability
During the year, we have remained resolutely focused on asset quality and supporting our customers. Across key portfolios, there are currently limited signs of credit concerns and overall arrears remained low during the period.

However, the Group recognises the potential affordability issues that higher living costs will cause for households and is ready to continue to support customers, as was the case throughout the pandemic. The Group has tightened its affordability and underwriting criteria for new customers across all lending categories to account for higher levels of inflation.

Sustainability remained high on our agenda throughout FY22 and we've developed net-zero targets and roadmaps for our priority business sectors. We've continued to support our customers' decarbonisation journeys by providing information through the Sustainable Business Coach and supporting Carbon Audits, as well as providing greener finance through Sustainability-Linked Loans, Greener Mortgages and our new Agri E-Fund. We've received upgrades in ratings from both Sustainalytics and MSCI and have updated our TCFD disclosure in line with regulatory requirements, (see pp. 232-262). Our Community strategy has also continued to drive positive outcomes, including on the Poverty Premium where we've promoted the Turn2Us Benefits Calculator, our cost of living hub, and set up our Customer Care team who will proactively support our most vulnerable customers. Our partnership with the Macmillan cancer charity has also continued to provide practical support for customers in financial difficulty. You can read more on our sustainability work this year within our ESG report on pp. 26-44, and on page 25, where we discuss our strategic priority to deliver Discipline and Sustainability in more detail.

Developing our leadership for a digital world
I have continued to evolve and simplify the Group's Executive Leadership Team this year, ensuring we have the digital skills to deliver our strategy.

Syreeta Brown joined the Group from Citi in November 2021 as Group Chief People and Communications Officer and brings a wealth of experience in cultural transformation, talent development and in building a workforce that is fit for the future. Susan Poot joined the Group from ING bank in January 2022 as Group Chief Risk Officer. Susan has significant experience across a range of risk disciplines covering both retail and wholesale banking.

Finally, Sarah Wilkinson will join the Group in early 2023 from Thomson Reuters, where she is currently Chief Information Officer, and has recently held roles as Chief Executive Officer of NHS Digital and Chief Information Officer of the Home Office. Sarah brings global leadership experience and extensive expertise of delivering change, innovation and digital customer experience, with a strong track record of digital transformation and a prior background in financial services. I would like to take this opportunity to thank Kate Guthrie, Mark Thundercliffe, Helen Page, Fraser Ingram and Fergus Murphy for their contributions to my Leadership Team during their time with the Group, which spanned the acquisition of Virgin Money Holdings and the significant integration and rebrand activity that has laid the platform for our exciting future.

Outlook
Virgin Money is well positioned to deliver a digital-led future of profitable growth, greater cost-efficiency, improved customer service and sustainable shareholder returns as we target our ambition of becoming the UK's best digital bank. I have set out our investment case on page 8. It is encouraging to see our strategy, and an improving rate environment, combining to drive stronger financial performance as we now target a c.11% statutory RoTE in FY24. Having set out our capital framework earlier in the year, we look forward to continuing deliver robust shareholder returns. This will be underpinned by continuing to deliver improvements in our key performance indicators (KPIs) which are set out on page 45.

Looking forward, we will continue to focus our efforts on improving customer experience and driving digitisation through the Bank, as we embed an Agile approach. We are excited about the upcoming launch of our digital wallet, bringing together many of the elements we've worked on, which over time will also enable us to deliver a single, unified app. We have a unique brand, and access to a complementary set of partner companies in the Virgin Group. The potential to deepen the relationship with Virgin Red offers exciting possibilities for our customers to earn and spend Virgin points.

We will continue to develop our digital wallet during FY23, combining many of these unique features with instalment credit, loyalty and payment capabilities. The Strategic Priorities section of this report across pp. 14-25 says more about our strategic intentions and what you will see from us in FY23 and beyond.

The macroeconomic outlook has become more uncertain over the course of the year. Following a positive recovery in expectations post-COVID, recent events have seen forecasts deteriorate. As we enter a more volatile environment, with higher inflation and rates, we are carefully monitoring for any impacts. We enter this phase with a prudently underwritten loan book, robust coverage, and a defensive asset mix. We are ready and able to continue supporting the customers, colleagues and communities we serve.

Overall, we have the right strategy and are executing on the key components that will underpin our delivery of improved returns and profitable growth over the coming years, as we fulfil our Purpose of Making you happier about money.

David Duffy
Chief Executive Officer
20 November 2022

Business model

Creating value for stakeholders

What we do and where

We are the UK's 6th largest bank serving c.6.6m customers in the retail and small and medium-sized business banking markets

Mortgages
For homeowners and landlords, and working with intermediaries

Personal banking
Offering rewarding current accounts and savings, credit cards and insurance

Business banking
Helping small and medium businesses save and grow

Supporting society
Contributing to the greater good

Key sources of value

Highly recognised brand
The power of the Virgin brand which resonates with customers

Digital platform
Developing a modern, open banking ready platform

Full-service capability
Able to serve customers in all markets

People with purpose
Our colleagues, empowered by A Life More Virgin

Valuable relationships
With customers, suppliers, strategic partners, regulators and our investors

Driven by our operating model

We secure funding and capital from these sources (liabilities) ...

Customers place their trust in us to keep their deposited money safe ...

... we conduct maturity transformation to turn short-term liabilities into long-term assets ...

... to deliver customer lending (assets) and other services

Personal
Customer deposits

Business
Customer deposits

Investors
Wholesale funding/capital

We support our customers through bringing together our capabilities across:

Banking operations
Payments, service, operations and technology

Risk management
Keeping our Bank safe and within our prudent risk appetite

Governance and oversight
As a Tier 1 bank we adhere to stringent regulations

Resilience and security
Ensuring resilient IT, protecting the Bank and our customers

Sustainability
Embedded into all our business practices and being a long-term force for good

Mortgages

Unsecured lending

Business lending

Liabilities cost us interest
-£

Assets earn us interest and fees
+£

How we make money

Income — Interest and fees earned minus interest paid ...

Credit losses — ... minus the costs of taking risks and incurring losses

Operating costs — ... minus the costs of running our Bank

Tax — ... minus tax

Profit — ... leaves us with profits or newly generated equity and capital

... to enable further business investment and growth as well as supporting capital returns

And delivering for our stakeholders

Customers
Rewarded, satisfied happy customers

Colleagues
Engaged colleagues able to give their best

Investors
Earning strong, sustainable returns

Society
Supporting society with positive outcomes

Partners and suppliers
Growing with our partners in supportive relationships

Government and regulators
Contributing tax and to safe, sustainable banking competition

What makes us different?

Purpose
Making you happier about money

Values
The Virgin Group's unique Values

Brand
A powerful, non-banking brand

Innovation
New digital products and working with partners

Market position
Scale positions with room to grow

Adapting to a changing environment

Impact areas

1. Uncertain economic and political backdrop

What we are seeing

The BoE is now forecasting that the UK economy will enter a recession from Q4 2022, with the economic contraction expected to last into 2024, before the UK enters a period of weak growth.

Inflation is expected to remain elevated into 2023, resulting in a higher cost of living across the UK population. GDP is expected to decline, while unemployment is forecast to increase from the current low level. House prices are anticipated to fall following a strong period of growth through the pandemic. Policy responses to the current backdrop and political uncertainty may drive additional volatility, as was seen with the impact of recent UK fiscal measures on financial markets and the interest rate outlook.

-0.5%
2023 OE base case GDP forecast

6.0%
2023 OE base case CPI forecast

Our response

We have reflected updated economics through our International Financial Reporting Standards (IFRS) 9 models and updated our post model adjustments (PMAs).

The Group has tightened affordability criteria and underwriting standards in order to reflect higher living costs and the impact of inflation. The Group has also maintained a coverage ratio of 62bps, which remains above pre-pandemic levels. We are continuing to monitor each portfolio closely for any leading signs of affordability stress.

2. Customer behaviour

What we are seeing

Despite the full easing of COVID-19 restrictions, customers continue to trend towards using online channels. Against a tougher backdrop customers are focused on value for money products.

Expectations of the customer experience from banks continue to rise with an increasing proportion of customers looking for a strong customer interface and great service. Clear terms and innovative features, that provide good value and reward loyalty, are increasingly valued by customers. As higher inflation and interest rates increasingly impact consumers and businesses, customers are expected to focus more on ensuring they get good value from the products and services they use.

13%
Relationship deposit growth in FY22

c.650k
Cashback users across PCAs and Credit Cards

Our response

We continue to build new digital propositions and are enhancing and automating key customer journeys.

We have launched a series of differentiated, simple products that reward customers' loyalty. Our Brighter Money Bundles, cashback offers, credit card instalments and M-Track for Business all give customers innovative features and clear propositions. We have also ensured our linked saver product offers our PCA customers good value. We're continually refreshing and improving functionality and service for customers. By automating our delivery and growing call centre capacity we aim to drive a significant improvement in our customer experience in FY23.

3. Competitive backdrop

What we are seeing

Mortgage competition remains strong with spreads still materially below pandemic-level highs. New entrants and Fintechs continue to be digitally focused and high street banks continue to offer cash incentives to encourage PCA switching.

Excess liquidity is being deployed into mortgages by large UK banks, which has put pressure on spreads, although there have been recent signs of an easing in pressure, prior to the recent spike in interest rates following the Autumn mini-budget. New entrants, including digital-only Fintechs, continue to target specific customer segments, but without a full relationship offering.

131k
VM-branded new PCA sales in FY22

8%
VM share of cards market

Our response

We continue to develop best-in-class propositions and experiences to target strong growth in our key segments.

We are focused on deepening customer relationships and launching new propositions to target above-market growth in the Unsecured and Business markets. In Mortgages, we remain focused on balancing volume and price carefully while we develop our straight-through processing capability. We also continue to successfully target strong growth in relationship deposits, optimising our cost of funds and delivering improved operational and digital efficiency.

Impact areas

4. Accelerating digital adoption

What we are seeing

Technological disruption continues to accelerate in the UK banking market, with investment in digital infrastructure becoming essential.

Customer preference for digital channels requires a shift away from legacy technology and service platforms, towards digital, self-service models. The pandemic has increased the availability and pace of change of digital services within wider society, providing additional customer pressure to match the experiences provided by Fintechs and non-banking players, particularly in areas such as payments.

c.2.5m
VM mobile app users

67%
VM PCA digital adoption in FY22

Our response

We are increasing our investment in digital by accelerating our digital strategy, supporting our ability to grow, be more efficient and more agile.

Investing in improved technology, automation and digital propositions will allow us to deliver superior customer outcomes and generate benefits from efficient servicing. Reducing costs through adopting Agile methodology, and applying digital technology will drive capacity for further reinvestment in new propositions, which we will be able to rapidly build and deploy. We're focused on automating key customer journeys, accelerating the pace of change, and increasing our use of cloud capability across the Bank.

5. Sustainability agenda

What we are seeing

Sustainability is becoming an increasingly important factor for all stakeholders, with banks playing a crucial role in delivering sustainable finance and inclusion.

Stakeholder expectations for all companies to support and enable better environmental and societal impacts is increasing. Investors are increasingly taking steps to incorporate ESG factors into their investment decisions. Climate-related prudential and regulatory focus, such as governmental policy on the transition to a low-carbon economy, adds to the growing need to demonstrate progress beyond good financial performance.

82%
Lending covered by Net Zero targets

12%
Reduction in Scope 1 and 2 emissions

Our response

We continue to execute on our ESG strategy to support a sustainable future and enhance our ESG disclosure, providing more insight for stakeholders.

We have recently committed to Net Zero and have developed clear targets and road maps to deliver this, supported by robust KPIs. During the year, we launched several propositions to drive positive environmental and societal impact, including greener mortgages and the Agri E Fund. We will target support for businesses and mortgage customers as they transition to Net Zero. Please refer to our TCFD report on p.232, and expanded information on progress against our ESG priorities on pp.26-40.

6. Regulatory developments

What we are seeing

The regulatory landscape continues to evolve at pace to ensure the stability of the banking system and support positive outcomes for customers.

The regulatory outlook continues to evolve with major UK banks subject to ongoing monitoring and oversight from the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). As the landscape changes, banks are required to respond to ongoing prudential and conduct-driven initiatives, as well as climate stress testing, reviews and other projects. Ongoing evolution of longer-term capital requirements, ensuring fair treatment of customers and stress testing remain areas of regulatory focus for the sector.

First
participation in SST

15.0%
Transitional CET1 ratio

Our response

We have invested significantly in our stress testing capabilities, while ensuring continued compliance in other areas of regulatory focus.

The Group remains focused on ensuring that current and future customer products and services meet conduct standards and regulatory expectations, including working closely with partner administered products to meet FCA market rules. We were pleased to have performed resiliently in our inaugural PRA SST, and will participate in the ACS in 2023. We continue to maintain prudent buffers above all regulatory requirements and internal risk appetite metrics, across capital, funding and liquidity. We also remain focused on operational resilience.

Strategic priorities

Delivering our strategy to drive value creation

Our strategic priorities remain the right ones to deliver for our stakeholders in a dynamic environment.

Executing our plans to digitise the Bank
Since launching our strategy for the enlarged Group at our Capital Markets Day in June 2019, the environment has changed significantly. As a result of COVID-19, the pace of digital change has accelerated rapidly, customer expectations have increased, and digital competition has intensified.

At FY21, after a comprehensive review of the Group's strategy, considering the external environment and requirements for sustainable competitive advantage, the Board decided to accelerate the next stage of our development, with an ambition to become the UK's best digital bank. Aligned to our strategic ambition, our strategy will support profitable growth through innovative, digital propositions and targeted efficiency improvements. The programme aims to deliver (i) improved customer experience, reflected in higher Group Smile scores; (ii) an efficient and motivated workforce, with higher colleague engagement; and (iii) a rationalised physical footprint alongside a modernised, more automated platform, reflected in a lower cost:income ratio.

During FY22, the Board reviewed the strategy and initial progress against it, concluding that it remained the right approach for the current environment, and that the Group should continue to focus on its execution. To support our ambitions, adopting Agile methodology across the Group will become a key enabler for our successful delivery.

Our strategic ambition to become the UK's best digital bank drives our strategic priorities. Delivering these objectives will enable the Group to become an efficient, growth-oriented bank that offers differentiated customer experiences and unique rewards, delivers sustainable double-digit returns for shareholders, and is a force for good in society.

David Duffy
Chief Executive Officer

> Our strategy to accelerate our digital transformation remains the right one. We've had a good year of delivery and are focused on implementing further positive changes for our customers.

Launching a digital wallet

Collaborating with our strategic partners, including Global Payments and Mastercard, we will launch a digital wallet. Over time, the wallet will offer integrated payments, BNPL capability and the potential for customers to earn and utilise Virgin points. It will offer the potential to reach the wider addressable market of all Virgin Group customers and UK adults.

Our Purpose

Making you happier about money ...

... drives our strategic priorities ...

Delighted customers and colleagues

See pages 16 to 20

Pioneering growth

See pages 21 to 22

Super straightforward efficiency

See pages 23 to 24

Discipline and sustainability

See page 25

... and our long-term vision for each priority ...

with short-term actions to accelerate our progress towards our ambition of becoming the UK's best digital bank

Delighting customers by delivering outstanding experiences through digital-first interaction, supported by **delighted colleagues** working in a healthy, flexible, digital environment

- Automate, digitise and improve the key digital customer journeys and pain points
- Be known for our Purpose, our unique colleague proposition and disruptive culture

Pioneering growth. Our unique brand and straightforward, digitally-accessible products with market-defining rewards help attract and retain digitally-savvy target customers

- Develop and deliver exciting new digital propositions
- Build best-in-class digital customer experiences and rewards offerings

Super straightforward efficiency. We are automating the Bank to drive efficiency and effectiveness, enabling us to deepen our relationships with customers and deliver strong financial results

Investing £275m to:

- Deliver £175m of gross savings, to reinvest in growth and absorb inflation
- Rationalise property footprint including stores and offices
- Enable future productivity and implement Agile

Discipline and sustainability. Our strategy ensures we are here for the long term, and creates positive outcomes for all our stakeholders in a consistent and sustainable way

- Maintain a strongly capitalised and resilient balance sheet, to deliver strong profitability and returns
- Sustainable business generating positive outcomes for our customers, shareholders, and society

... with aligned sustainability goals

Open doors

Work with customers, colleagues and communities to encourage sustainable practices and economic activity that creates shared prosperity.

See pages 36 to 38

Build a brighter future

Deliver innovative products and services that help our customers make a positive impact on society and the environment.

See pages 33 to 35

Put our (carbon) foot down

Reduce the negative impacts of our operations, suppliers and partners on society and the environment.

See pages 30 to 32

Straight-up ESG

Align our strategic goals to ESG and embed them in all areas of the business with robust targets, tracking and disclosures.

See pages 39 to 40

Delighted customers and colleagues

Customers

We will delight our customers by delivering outstanding customer experiences through digital-first interaction.

Group Smile score

2022	46%
2021	51%
2020	54%

Complaints per 1,000 accounts

2022	4.2
2021	3.7
2020	3.5

What have we achieved in FY22?

The pandemic has rapidly shifted customer preferences and expectations, with customers increasingly seeking the ability to buy products and service their accounts using digital and mobile channels. Sixty per cent of the UK population used a mobile app for banking in the last 12 months.

This is the rationale behind the strategic shift towards digital-led banking that we set out in our accelerated digital strategy at FY21. FY22 saw some challenges given the changing backdrop, with some customers reacting to the transition. We want to provide outstanding digital customer experiences for all customers, including those who may not yet be able to bank digitally. We set out a three-year programme of change and investment, recognising that achieving our ambitions would take time and substantial effort. This programme will deliver more uniform and consistent service regardless of channel or systems as we bring customers one Virgin Money branded, digital-led experience.

As we go through this transition, a key focus for the Group is delivering improved Smile scores, better customer satisfaction and lower complaints. Our metrics aren't yet where we want them to be, but our strategy will ultimately drive significant improvements for all customers. We have taken important steps this year, however we still have more to do.

Over the course of the year, environmental challenges and operational issues have impacted on customer service levels at times. We've seen elevated levels of customer demand driven by multiple base rate changes, prompting higher levels of activity as customers check the implications or make changes. The Group has responded by taking steps to bolster existing resources, but this was in the context of difficult conditions, with a key factor being a tightening market for recruitment, making it more difficult to ensure we had sufficient resources to meet spikes in demand.

The significant change programme we have embarked upon remains the right one and is already starting to show benefits. Our investment in upgrading customer servicing systems and platforms saw several major milestones successfully completed during the year. These include the transfer of all credit card customers onto one platform, and consolidating all new PCA sales via one platform.

Our strategy is also delivering upgrades to key customer functionality, to modernise and digitise our customer service offering. This includes implementing Confirmation of Payee technology and deploying chatbots in the service journey to help customers self-serve. Our chatbots have now serviced over 1m customer interactions since being deployed in February, with 64% of those needing no colleague intervention to resolve them.

For new customers, we have made significant progress in the year, launching exciting and rewarding propositions, with new digital onboarding and sales journeys. We say more about these new propositions in our Pioneering growth section (see pp.21-22). The new customers we are attracting through these digital-led propositions are showing strong engagement and customer satisfaction, with PCA customers who have joined us since the rebrand to Virgin Money showing very high relationship net promoter scores (NPS) of +54, above industry norms.

We were pleased to be awarded Best Current Account Provider by Moneyfacts. Business customers have also enjoyed an improved onboarding experience, reflected in a c.20%pt higher Smile score for new onboarding journeys (40%), and supporting improved sales conversions.

Fergus Murphy
Chief Customer Experience Officer

We see a significant opportunity to drive improved service for all customers by making the transition to a digital bank and delivering our Purpose of Making you happier about money.

Strategic priorities

Delighted customers and colleagues continued

However, we have found that some customers going through these changes can find moving to a new and improved service temporarily challenging, as it changes a process or application they were used to. This causes some dissatisfaction at first, which reduces over time as customers adapt to the change and start enjoying the new features, and as we continue to improve them based on customer feedback. Customers impacted by changes are a key focus of the new Customer Experience Agile tribe we created towards the end of FY22. This tribe is empowered to work collaboratively across functions to make significant improvements to the customer experience (see p.24 for more on Agile). In order to support customers in making the transition, we are also creating a Customer Care proposition to provide additional support as customers adopt digital banking. This includes a Customer Care Hub, specifically focusing on more vulnerable customers.

During FY22, as we've delivered the automation of key processes, we have improved our level of digitisation across all customer journeys from 27% to 43%. We have also identified and prioritised the key actions that will drive the biggest improvement in customer service, to address our customers' top frustrations. Over half of customer complaints received are linked to three key customer journeys and actions are underway to improve these. We have also mobilised significant resources to drive a reduction in our complaints pipeline. We're confident that the steps taken will deliver a meaningful reduction from the 4.2 complaints per thousand accounts we have today (FY21: 3.7). This will be further supported by improvements we are making to online servicing and a new consolidated complaints handling process. With these changes in place, we are confident complaints volumes will reduce in FY23.

What will we achieve in the coming years?

We remain convinced that moving to a digital-led customer proposition is the best way to delight customers in the medium term, but recognise we have work to do to fulfil that, and to ensure all customers are supported. We know most customers want swift, digital self-service solutions for their banking needs. Digital solutions can reduce the cost to serve and manage peaks in demand, enabling our colleagues to focus on more complex customer needs, while customers self-serve for more straightforward requirements.

In FY23, we will continue to develop new propositions and service enhancements, to drive improvements in our Smile scores. Our focus is on attracting digitally-engaged customers, but also on continuing to support existing customers, promoting the benefits of digital adoption for faster and easier self-service.

We are on the cusp of some significant technology deliveries that will further improve customer service in 2023. Our new mortgage platform will start to go live during the first-half year, improving the customer experience and giving our operation much greater ability to digitally manage the mortgage process, and react rapidly to changing pricing dynamics in the market. The new platform from Capita, will be one of the most up-to-date in the industry.

Our adoption of Agile will be an important enabler of the changes that will be delivered across our customer-facing technology and processes. Delivering great customer service is a key target for the new Customer Experience tribe. Key changes will be delivered through short iterative sprints, responding to emerging customer needs more rapidly.

Finally in FY23, we will also expand our use of technology to solve customer service challenges. While chatbots have been deployed into the customer journey, a key focus will be their continued optimisation to drive improved levels of resolution, and ensure customers get what they need, first time, as often as possible. Where that isn't possible, we will also ensure enough skilled colleagues are available to help.

Our strategy remains the right one and we are making major improvements in our customer service, with more to come by FY24. We are aiming for 80% of customer interactions to be digital (FY22: c.50%), with 80% of queries resolved at first contact. PCA digital adoption has improved since we began targeting this in 2019, from 51% to 67% (FY21: 62%) reflecting strong progress towards our target of greater than 80% by FY24. Finally, we are aiming for 100% of acquisition journeys to be digitised by FY24; we start from a strong position with the vast majority digitised as of today. Added together, this should see an improvement in our KPI, the Group Smile score, for which we are targeting an improvement to 60% by FY24 (FY22: 46%).

Purpose in action

Adopting the FCA's Consumer Duty

The new Consumer Duty landed 27 July setting higher standards for firms, to drive better outcomes for customers. This is a programme with Purpose at its core – we're not treating this as a compliance programme; this is about data-led decision making based on the relentless pursuit of delivering good customer outcomes. Purpose and Consumer Duty go hand in hand. Making you happier about money will be the driving force for delivering good outcomes in our unique Virgin Money style.

We have a comprehensive plan, which is integrated into our strategic agenda, to deliver products and services for customers that will add value and meet their needs. Our first phase of work will ensure, as a business we are prioritising the changes that really matter for our customers and that we have better action-driving, outcomes-orientated metrics shaping future prioritisation, investment and remuneration decisions. Our ambition is to create an agile culture where we continuously 'review, learn and adapt' in our relentless pursuit of making our customers happier about money.

Find out more here
www.fca.org.uk/firms/consumer-duty

Strategic priorities

Delighted customers and colleagues continued

Colleagues

Our customers will be supported by delighted colleagues working in a healthy, flexible, digitally-led environment.

Colleague engagement

Senior gender diversity

Our Purpose of Making you happier about money extends to our colleague population. We want our colleagues to feel engaged and enthusiastic about the work that they do, without which we could never deliver the best experience for our customers.

#Futureofwork

This year we progressed #ALifeMoreVirgin, our revolutionary approach to how, where, and when colleagues work. More than just a decision about whether people should be office or home based, it is a fundamental assessment of how people should work in a more flexible, technology-enabled future. We asked colleagues and members of the public what they would want from the future of work. Flexibility was the answer. We also had useful inputs into how to best meet the needs of colleagues at different stages of their lives, address caring responsibilities, and enable physical and mental well-being.

The result was #ALifeMoreVirgin

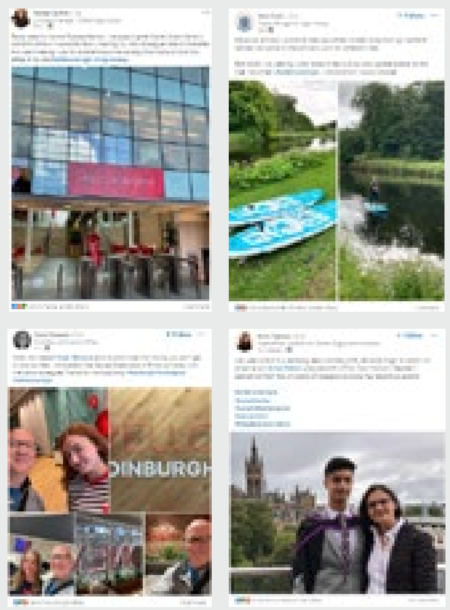
- Truly flexible approach allowing teams and colleagues to establish the rhythm that best suits their lives.
- Locationless hiring allowing us access to wider talent pools.
- Gender neutral parental leave inclusively supporting new parents and families.
- Wellbeing days in addition to annual leave to specifically encourage colleagues to look after themselves physically, mentally and emotionally.

Colleagues have really loved #ALifeMoreVirgin, showing up on social channels to role model the new behaviours. It is no coincidence that colleague engagement scores have increased (see below) but we're also seeing great results with reduced attrition and attraction of new talent.

We have been repurposing some of our stores and offices during the year to create Collaboration Hubs. Recognising that the benefit of being together is the creation and sharing of ideas, we're remodelling our estate to provide a place for people to chat, collaborate and come together. Similarly, our stores are more than a place to complete a transaction, they are spaces where people come to meet friends and business contacts, share ideas, and even hear music and poetry.

Colleague engagement

We take colleague engagement very seriously and provide a number of ways for our colleagues to engage with both the Executive Leadership Team, the Board and each other. This includes regular interactive events with the Executive Leadership Team, quarterly results-based live QA sessions, and 'Board Jams' where our Non-Executive Directors are available to discuss a range of topics with employees.



The engagement seems to work. This year, four in five colleagues took the time to share their views with us in our annual myVoice survey, the highest response rate we've seen since 2019. The questions are also a good indicator of inclusiveness and psychological safety in our culture, and give us reasons to feel proud. We've seen improvements in all categories, with our overall sustainable engagement score (our key metric for understanding employee sentiment) now sitting at 79% – 11 points up from last year's survey.

We also supported colleagues with a one-off cost of living allowance, see the Purpose pop-out on page 20 for more details, as well as pay rises reflective of the current economic backdrop.

Strategic priorities

Delighted customers and colleagues continued

Syreeta Brown
Group Chief People and Communications Officer

The past 12 months have both stimulated and accelerated our thinking on how we build an increasingly inclusive workforce and culture.

Building an inclusive workforce and culture

We work with two key priorities:

1. create and sustain a diverse workforce at all levels of our organisation; and
2. nurture an inclusive culture that instils a sense of safety and belonging in us all.

Creating and sustaining a diverse workforce at all levels of our organisation

We have delivered some impactful initiatives this year to advance talent from different backgrounds. Most notably, we have seen excellent results from our career sponsorship programme for colleagues from an ethnic minority background, with 50% of colleagues receiving a promotion or new role following participation in the programme.

Externally, the introduction of #ALifeMoreVirgin has removed geographical boundaries and constraints on recruiting for many roles and this has enabled us to attract and recruit more diverse talent. We have seen a 34% increase in applications for our roles overall and we have recruited more colleagues from under-represented backgrounds, particularly those who are from ethnic minorities, those who identify as part of the LGBTQ+ community, and people who have a disability.

Our commitments under the Women in Finance and the Race at Work Charters reflect our belief that capturing and reporting data is key to support progress against our bold aspirations. While we have made good progress against the gender and LGBTQ+ representation targets we set ourselves in 2021, which are set out in the table on the right, we have made less progress against our ethnicity representation targets, both remain an ongoing area of focus for us. The table on page 20 reflects the composition of our workforce as of 30 September 2022. On gender pay, our mean pay gap was 28.5%. For more detail, see our 2022 gender pay gap report: https://www.virginmoneyukplc.com/our-people/diversity-and-inclusion/gender/

Some of the activities we have undertaken to advance us towards our representation objectives are highlighted below.

Recruiting and engaging with communities where we are currently under-represented:

> With particular focus on the Black community, we have partnered with multiple specialist organisations to help and promote our opportunities as well as partnering on joint initiatives during Black History Month.
> Our Disability Confident Leadership status has continued over 2022, and we have continued to work with disability partners, who support us with advice and guidance, alongside actively promoting vacancies in this community through leveraging specialist job boards.
> We proactively advertise our jobs within the LGBTQ+ community of targeted jobsites and we remain partners with Stonewall, contributing to their annual workplace equality index.

Developing under-represented talent within Virgin Money:

> Our second Career Sponsorship Programme has launched with Enable (our network for those with disabilities or caring responsibilities) and we have 22 colleagues being actively sponsored to help progress and develop their careers with us.
> Recognising the impact the menopause can have on careers, we have trained 30 colleagues to be menopause champions and support people leaders and colleagues, with three Menopause Masterclasses scheduled for Autumn covering HRT, Nutrition and Resilience & Stress Management.
> For our second year we have run the Springboard programme for female talent moving into leadership roles, with 21 colleagues completing this for 2022.

Progress against our targets

	FY 2022	2023 target	2025 targets	2030 targets
Gender Snr Management*	46%	45-55% senior gender diversity	45-55% senior gender diversity	45-55% at top pay quartile
Ethnicity Snr Management*	7%	14% of senior colleagues	10% Group wide	14% at top pay quartile
LGBTQ+ all colleagues**	4%	–	4% Group wide	5% at top pay quartile
Disability all colleagues**	5%	–	8% Group wide	10% at top pay quartile

* as per our definition of senior management used for Women in Finance submissions L0-2
** based on colleague disclosure

Strategic priorities

Delighted customers and colleagues continued

Nurturing an inclusive culture that instils a sense of safety and belonging in us all
Through creating strong internal dialogue and leadership accountability for Diversity, Equity and Inclusion (DE&I) as a key organisational priority, we have made significant progress in respect of nurturing an inclusive culture.

Reasons to feel proud

- We have worked hard to improve the colleague data we hold to be able to better understand the composition of our workforce to put the appropriate plans in place to support colleagues. Our declaration rates have risen considerably in the past year to 80%; a strong and positive indicator of trust in the psychological contract we have with our colleagues.
- In our myVoice survey we're able to gather sustained engagement scores for specific colleague segments. Overall as a business, 84% of colleagues agreed that they feel a sense of belonging working at Virgin Money.
- This year we achieved our Women in Finance target of 45% female representation in the most senior three levels of our organisation. We now need to sustain this level of representation.
- We are delighted that we have already achieved our 2025 target for LGBTQ+ representation, which is great progress for us. We have also received a Gold award from Stonewall that recognised the progress we, and in particular, our network Vibrant have done in this space.

Our ambition for 2023 is to leverage our A Life More Virgin colleague proposition even further to attract and recruit new colleagues from under-represented backgrounds, identify new impactful ways of advancing the talent we have, and nurturing a safe and inclusive culture for all.

Purpose in action

Supporting our colleagues
In line with our Purpose, we reviewed the situation for colleagues through the year as inflation rose and the impact of an increased cost of living started to bite, especially for those on lower incomes. We announced a one-off payment of £1,000 for 80% of our colleagues, and increased the base salary to £20,000.

Current year vs previous year actuals

	2022		2021		2022
	Female (number/%)	Male (number/%)	Female (number/%)	Male (number/%)	Ethnic diversity(2)
Board	2 (29%)	5 (71%)	3 (33%)	6 (67%)	14%
Senior management(1)	29 (48%)	32 (52%)	31 (43%)	41 (57%)	7%
All colleagues	4,408 (58%)	3,178 (42%)	4,581 (58%)	3,276 (42%)	6%

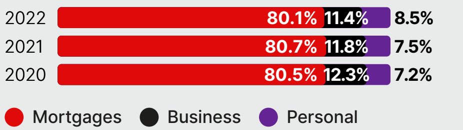
(1) Senior management excludes Executive Directors.

(2) Colleagues from an ethnic background as a percentage of colleagues who have shared details of their ethnicity. 76% of colleagues have shared this information.

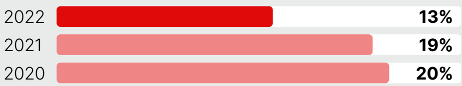
Pioneering growth

Our unique brand and straightforward, digitally-accessible products with market defining loyalty rewards help attract and retain digitally-savvy target customers.

Balance sheet mix



Relationship deposits growth per annum



What have we achieved in 2022?

In FY22, our focus has been delivering value for our customers through developing digitally-accessible products, attractive propositions and market-defining rewards that deepen customer relationships, build loyalty and drive future profitable growth.

This has been achieved through our award-winning PCA featuring offers from across the Virgin Group and cashback incentives. We have also developed our digital only, fee-free BCA alongside compelling customer propositions in our M-Track and Marketplace offerings (see Purpose in action on page 22). We have launched new digital travel and business insurance, and continued with our ongoing commitment to innovation in the Unsecured market with several new propositions, including Slyce, our buy now pay better offering (see page 4).

The PCA market remains competitive with a number of competitors offering cash incentives to switchers, putting pressure on our own switching performance during the year. Against this backdrop, we are confident our unique brand position will help us attract customers and build lasting relationships. Our innovative product-set and digital agility has helped us respond to the changing environment, ensuring the products we offer remain relevant. Our refreshed current account propositions have epitomised this, whether through adapting our Virgin Reward programme to give customers 20,000 Virgin Points to switch (equivalent to a flight to New York), or more recently, utilising our cashback functionality to provide switching customers with 25% cashback on up to £160 of supermarket and fuel spend. This culminated in us winning the 'Best Current Account Provider of the Year' at the Moneyfacts Awards 2022. Customers have reacted positively and, alongside our competitive linked saver account, we have seen over 250k new PCA sales since the launch of the new, rebranded PCA proposition in late 2020.

It is pleasing to achieve c.6% net growth in BCAs during the year despite a reduction in the number of small businesses operating in the UK. Mirroring the success in our PCA, we have seen c.33k BCA sales in FY22, a c.70% increase on FY21. Underpinning this performance is an attractive proposition, including cashback on debit card transactions, access to M-Track, our free forecasting and insight tool, and Marketplace, our digital solutions hub, both of which are designed to help customers better control and enhance their businesses. This was further supported by the expansion of digital onboarding, which has significantly improved our customer conversion ratios from interest to purchase.

Collectively, our progress on PCA and BCA sales has driven a 13% increase in our relationship deposit balances in FY22. Relationship deposits are now 53% of deposits (from c.33% in FY19), which has further optimised our cost of funding and supported the successful expansion of our net interest margin, as rates have risen.

We have now delivered cashback functionality across our BCA, PCA and credit card portfolios. BCA customers are automatically enrolled and can earn cashback on spend when using their debit card. The PCA and credit card cashback proposition has been well received with c.160k PCA customers signing up since launch in February while credit card cashback sign-ups now total c.500k (FY21: c.230k). Over £1m has been returned to customers since launch across PCA and cards, and any cashback earned on either product is visible across both mobile apps, providing further flexibility to our customers.

In mortgages, balances remained stable over the course of the year, recovering in the second half to finish at £58.2bn. Against a competitive backdrop, we have continued to expand our broker network, giving an additional 4.2k brokers access to our Clydesdale product set. We have also continued to develop our digital straight-through processing capability ahead of commencing launch in FY23.

Hugh Chater
Chief Commercial Officer

We want to leverage the power of the Virgin brand using brilliant digital propositions and compelling rewards programme to tap into the wider Virgin Group ecosystem, foster new relationships and make even more customers happier about money.

Strategic priorities

Pioneering growth continued

In the Unsecured market, we are pleased to have introduced Slyce, our innovative digital BNPL proposition. This is aimed at a younger and underserved demographic with limited credit profiles and restricted access to financial opportunities and will support customers to build their credit profile in a sustainable way. We have a c.40k customer waitlist registered for the proposition. It follows on from our launch of Instalment Credit in early FY22, allowing cards customers to repay purchases over fixed periods.

The credit card book has outperformed the market, growing c.21% in the past 12 months compared to a market that was up c.10%. This has been supported by a record year for new accounts, which were c.50% higher than FY21, with c.630k opened. The vast majority of these are digitally originated and we have tightened underwriting to ensure we attract prime, affluent customers with strong credit quality.

We've made significant progress during the year in the development of our digital wallet. This will mark the first step in an exciting journey to leverage our unique position in the Virgin ecosystem and drive pioneering, Purpose-led customer acquisition.

In Business, business-as-usual (BAU lending) balances grew c.2% in the year supported by an improved proposition and strong pipeline conversion, particularly in the second half. This was against a subdued market backdrop and an overall c.3% reduction in Business lending driven by the expected run-off of government scheme balances.

Additionally, our Insurance business launched a new digital travel and commercial insurance proposition in FY22, broadening our innovative digital product set and creating further opportunities for growth in other operating income.

What will we achieve in the coming years?

We will continue to target profitable growth on both sides of our balance sheet, and particularly in our target segments – Unsecured, BAU Business and relationship deposits. This will be supported by further digital proposition development, while we also leverage our investment in the propositions launched to date.

We are mindful of the more uncertain economic environment and will moderate our growth ambitions in FY23, but over time, the Group is focused on delivering growth in Unsecured and expanding our Business lending further. In Mortgages, we will grow and seek to maintain our market share in the medium term, supported by our investment in our new digital platform, which will go live across FY23. Our focus on sustainable lending remains strong and we will continue our roll-out of greener Mortgage propositions, embed our Sustainable Business Coach and increase our lending to sustainability changemakers.

The Group continues to target growth in digitally-originated lower-cost current accounts and relationship deposits, and will be driven by a market-defining, Virgin-branded rewards proposition that benefits loyal customers. Key to this will be the ongoing development and roll-out of a full digital wallet proposition in FY23, offering instant issuance, BNPL, and the ability to pay via the customer's bank account or accumulated Virgin points.

In FY23 we will also expand the range of offers available through Marketplace for businesses, launch new digital home insurance, and launch a refreshed Virgin Money Investments proposition with competitive products and a suite of upgrades to our platforms.

Purpose in action

M-Track and Marketplace

Understanding the challenges small businesses face, and how we can help solve them has been at the heart of our M-Track and Marketplace developments. Over 200 hours of customer research revealed small business owners are time poor and find it hard to juggle the growing multitude of digital apps and platforms they use to understand the performance of their business and be able to plan for the future. M-Track helps business customers feel happier about their money, by giving them a personalised dashboard connecting this fragmented data, empowering them to view their overall financial health, saving them time and giving them control. Through the cash flow and forecasting tool, they can also use this data to predict and plan for the future.

Where M-Track reveals new opportunities, Marketplace is where those opportunities can be met. These financial and non-financial products and services offered through Virgin Money and via best-in-class digital providers have been purposefully curated to solve real challenges our customers face. We'll continue to listen to our customers and evolve the offering to ensure we're helping small business customers feel happier about money and run their businesses successfully.

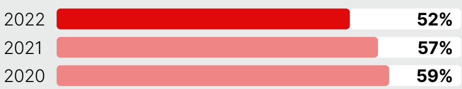
Find out more here
https://uk.virginmoney.com/business/ways-of-banking/m-track/

Super straightforward efficiency

Our Bank leverages technology to drive efficiency and effectiveness, enabling us to reinvest in our customer service and deliver strong financial results.

Gross annualised cost savings (£m)

Underlying cost:income ratio



What have we achieved in 2022?

At FY21 we set out our plans to accelerate our digital strategy in line with our strategic ambition to become the UK's best digital bank. A key component of this was to further improve the cost-efficiency and productivity of the Group by investing in greater digitisation of our operations. We targeted delivery of approximately £175m of additional cost savings by FY24, enabled by c.£275m of restructuring investment.

Over the past year, it has become clear that inflation has been higher and more enduring than was expected at the time of setting out our plans. We had expected to reinvest around 50% of our cost savings in growth initiatives and to cover inflation. Against this updated backdrop, we will focus on ensuring we deliver an efficient platform capable of supporting our growth ambitions, whilst absorbing the impact of higher inflation and investment.

We remain committed to delivering the £175m of cost savings and have made good progress during the year, delivering £69m of annualised run rate savings by year end. Restructuring charges of £82m in FY22 reflects that we have moved some initiatives into FY23 to focus on supporting customers and we now expect to spend the majority of the balance of the c.£275m investment in FY23, reflecting the updated phasing of initiatives.

Savings to date have been delivered by a mix of streamlining our property with square footage halved from c.900k sq ft to c.450k sq ft and further digitisation and sourcing savings. The Group has now automated and digitised 43% of key customer journeys, from 27% at FY21.

We have also made progress as we launch initiatives to digitise our technology platforms in partnership with Microsoft, adopting modern, cost-effective, secure, cloud-enabled technology solutions. A move to Agile change methodology will allow us to deliver digital and data efficiency solutions faster, at an average of c.25% lower unit costs, and support the automation of key customer processes. These programmes will enabling a reduction in data centres, mainframe usage and the simplification of our IT estate over time. We have also adopted a single Microsoft security platform for managing security incidents and events.

We have initiated programmes to simplify our core bank systems with all retail credit cards now on the same platform, and the Bank's retail credit decisioning and financial crime platforms consolidated onto single providers. We are building new cloud-ready applications and beginning to decommission legacy applications, with 16% of those designated for retirement decommissioned to date.

All of this improvement in our back-office systems and processes has been achieved while also investing in the development of new propositions for customers (see Pioneering Growth on pp.21-22), and investing in updating our mortgage processing platform in partnership with Capita.

What will we achieve in the coming years?

We have also begun the process of implementing Agile methodology at an enterprise level, as outlined on page 24.

FY23 will see further progress on our journey towards becoming a digital bank, as we implement effective technology systems to support cost efficiency and strong customer service, and enable the delivery of new digital propositions.

Our key priority will be the development of the digital wallet proposition, which over time will allow us to begin the process of consolidating customer mobile apps into a single, unified app, providing a better customer experience via an improved interface. This will also provide opportunities to better leverage data as we move to a unified payments infrastructure.

Clifford Abrahams
Chief Financial Officer

By investing in building an effective, scalable digital-led business with efficient processes, systems and architecture, this will enable us to provide a better experience for customers.

Strategic priorities

Super straightforward efficiency continued

We will complete the implementation of our Mortgage re-platforming with Capita, offering a single modern, digital platform for intermediaries and customers under one brand, and a consolidated end-to-end mortgage journey, offering straight-through processing. We are also investigating opportunities to automate the conveyancing process, which will improve the house buying customer experience.

The Group's core banking platforms will continue to be simplified, removing duplicate processes and enabling us to reduce our reliance on expensive legacy mainframes.

We will support the Group's drive to improve complaints performance with an automated, consolidated complaints management system.

In the medium term, we will exit four of our six data centres, while moving c.75% of applications to the cloud, offering modernised, simplified delivery, and state of the art efficiency. Alongside completing the implementation of Agile methodology (see feature below), we will move to a Cloud-based development platform, enabling faster and cheaper delivery of change, further supporting the rapid deployment of new customer features.

Our programme of digitisation will also support more flexible working for colleagues and a low cost IT support model. The implementation of the A Life More Virgin model, allowing fully remote working, will support further reductions in our property footprint. These changes will also deliver a further reduction in the Group's scope 1 & 2 greenhouse gas (GHG) emissions as the we deliver lower operational emissions in the future (see pp.30-32).

Our initiatives will enable continued delivery against our cost savings target of c.£175m by FY24, and we expect to spend a significant proportion of the remainder of the c.£275m restructuring costs in FY23. We continue to plan to reinvest cost savings in further digital initiatives and customer propositions, and to absorb cost inflation.

Alongside our growth ambitions, we believe that delivering this greater efficiency will support sustainable value creation for shareholders and an enhanced competitive position, delivering an underlying cost:income ratio of less than 50% by FY24 and enabling us to compete effectively in a rapidly changing digital marketplace.

Purpose in action

Agile delivers our Purpose
We believe the adoption of Agile ways of working will be a key success factor in helping us put our Purpose into practice. This year, we started our journey with the creation of an initial set of Agile 'tribes', so selected because we think they're the best to help us hone our model, while – at the same time – delivering some big wins that leave our customers feeling happier about money.

We'll then use the lessons from this first implementation phase to help shape the full roll-out of Agile across Virgin Money, which will run into 2024. Everyone within Virgin Money will have a role to play in our new Agile organisation, either because they'll be working within an Agile team, supporting one, or helping bring new Agile-led propositions to our customers.

The Agile vision
Is that we'll do more, faster and with bold and better quality customer outcomes as a priority.

According to the Boston Consulting Group, once implemented Agile can bring about a 2-4 times faster speed of delivery, more user centric change driving 10-20%pt increases in customers' satisfaction, up to 25% more colleague engagement and more than double digit efficiency on impacted operational costs. Given this, and the fast-changing digital environment, the imperative to move to Agile ways of working is clear.

Purpose will drive the delivery of Agile, aligned to our strategy and priorities, and reshape our culture, behaviour and leaderships towards empowerment, alignment and autonomy. It will develop our talent and build in-house bench strength, with persistent Agile squads working on business challenges, delivering continually, rather than coming together for projects and disbanding. Delivery will focus on business and customer outcomes rather than traditional management by RAG metrics, underpinned by frequent, open communication. Agile is also aligned to the more digital-first technology ecosystem we are building, enabling better, faster change within a controlled environment.

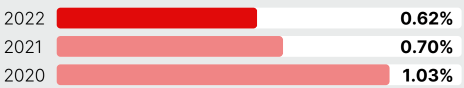
What have we done so far?
We have made considerable progress already and have launched our first Agile transition state at the end of FY22. This means we have four Agile 'tribes' in place and fully operational, working on customer experience, personal banking, finance, and consolidating our customer apps. Within that there are 15 Agile 'squads' with around 200 colleagues operating within these on a persistent basis. We have aligned internal talent already working on these initiatives while upskilling on key skills and leveraging external capabilities. Over 30 colleagues have achieved external Agile accreditation, while the remainder have been through an intensive Agile bootcamp. We have also provided coaching to our senior leaders on Agile methodology, rationale and behaviours, so that they can support the cultural change required to embed Agile.

What will we do in FY23?
Starting with an initially limited number of Agile tribes allows us to test, learn and evolve and keep delivery risk low, while projects commenced under existing change methodology move through to completion. In FY23 we will stand up a further c.10 tribes, focusing on areas from payments to colleague digitisation and cloud enablement, each aligned to our strategic direction. These tribes will learn from the initial tribes, and will ensure learning is shared across the Agile ecosystem. In time we will move the vast majority of change into Agile, iterating and learning as we go. In addition to driving delivery of our Purpose, strategy and priorities and reshaping our culture, this will help us to drive down the cost and speed of change from 13 weeks to our target end state of 6 weeks or below in FY24.

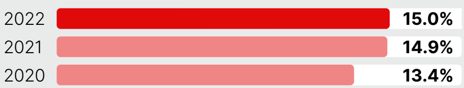
Discipline and sustainability

Building and operating the Bank for the long term, creating positive outcomes for our customers and all our stakeholders on a consistent and sustainable basis.

Provision coverage ratio



CET1 ratio



What have we achieved in 2022?

Against the backdrop of a more uncertain UK economy, credit quality has remained robust throughout the year, with our key portfolios performing well. We recognise the potential pressure on our customers in light of higher levels of inflation and increased interest rates, and have enhanced the resources available to customers if they are in need of support. The Group has also prudently tightened its affordability and underwriting standards for new customers across key lending categories to incorporate higher living costs.

VMUK has also updated the economic scenarios being used in its IFRS9 models from our third-party provider Oxford Economics. A more uncertain macro outlook and updated weightings has led to modelled and individually assessed expected credit loss (ECL) increasing to £372m (FY21: £297m). This was offset by lower PMAs, which reduced to £85m (FY21: £207m) following the release of all PMAs relating to the COVID-19 pandemic, partly offset by new affordability and cost of living PMAs.

Coverage remains robust with an overall provision coverage level of 0.62% at FY22 (FY21: 0.70%), remaining above pre-pandemic levels (FY19: 0.50%). The FY22 impairment charge was £52m (FY21: £131m release) with an associated cost of risk of 7bps (FY21: (18)bps).

The Group remains well capitalised at 15.0% CET1 following strong capital generation in FY22, reflecting growth in underlying profit and lower RWAs. The strength of the Group's capital position, and confidence in our strategy, meant the Group announced its capital framework, and an inaugural interim dividend of 2.5p per share in May. In June, we commenced an initial £75m share buyback programme, which is now almost complete.

Given our strong capital position at FY22, the share buyback programme has been extended with an additional £50m repurchase confirmed. Finally, the Board has recommended a further dividend of 7.5p per share at FY22 to be paid in FY23, subject to shareholder approval, taking the total for the year to 10.0p.

Notwithstanding the uncertain economic and political environment, we were pleased to receive an in-year upgrade from Moody's to the Group's long-term issuer rating. This is now Baa1, from Baa2, and was driven by the Group's strong capital position, sound funding and liquidity position, and robust asset quality. Additionally, we were pleased to receive ESG ratings upgrades from both Sustainalytics, now 18.1 and rated 'low risk', and MSCI, now 'AA' and at 'Leader' status in our peer group, further evidencing the progress the Group has made on its sustainability journey.

We maintain disciplined funding and liquidity positions, with a LCR of 138% (FY21: 149%), remaining comfortably above regulatory requirements and more prudent internal risk appetite metrics, and a LDR of 111% (FY21: 108%), primarily reflecting the optimisation of overall funding balances across the year.

We have made important progress in our journey towards a sustainable future by defining our Commercial net-zero targets and road maps for Mortgages and priority Business sectors which together cover 82% of the lending portfolio. We have continued to develop and launch important green products and services such as our Greener mortgage product range, the Agri E-fund and our Sustainable Business Coach. Our work on the Poverty Premium has identified benefits and grant entitlement of >£1.1m for the >5k users that completed the survey.

What will we achieve in the coming years?

We remain committed to delivering cost-efficient, profitable and sustainable growth, and continued capital generation to support sustainable distributions. The economic environment remains uncertain, however our investment in digital will support us in mitigating risks, and ensure we continue to offer our customers attractive Purpose-led propositions, underpinned by strong underwriting. This enables us to target profitable growth in our lending, while we continue to optimise our funding. We will maintain a strongly capitalised and resilient balance sheet and will continue to operate within risk appetite.

In line with our NZBA commitments, we will focus on developing net-zero road maps and targets for our less carbon intensive sectors and operational emissions. We will also further embed climate risk across the business with enhancements to our stress testing, credit decisioning, policies and frameworks. We will refresh our community engagement strategy, leverage our partnership with Virgin Start-up and ensure we work towards understanding how we eliminate the Poverty Premium for our customers.

Finally, as we execute our accelerated digital strategy, we will remain disciplined in our compliance and maintain robust operations, processes and controls that deliver good customer outcomes, a sustainable business model and keep our customers' money and data safe.

Significant progress in our ESG strategy …

… with particular focus on developing road maps and targets to net zero and supporting our customers through the challenges of cost of living increases and rising energy prices.

We've made strong progress this year in embedding our climate strategy across the Group, including extensive work to calculate our financed emissions, enabling us to set out clear (initial) road maps and targets towards our net zero commitment, as outlined on pages 233-244.

Our Environment Committee – comprised of key Executive Leadership Team members and their senior reports – has provided strong governance and direction in development of the plans, and also in ensuring they're embedded within business strategy over the coming years.

Our Task Force on Climate-related Financial Disclosures are consistent with the TCFD's 2017 Recommendations and Recommended Disclosures across all four TCFD pillars and are compliant with the UK Listing Rule 9.8.6R(8) requirement. We have assigned clear accountabilities for climate across the Group, in accordance with regulatory expectations. This is a critical point in the Group's action towards net zero: we recognise the significant influence climate will have on our business and that of our customers and are committed to supporting the UK's transition to a low carbon economy.

From a societal perspective, it's been a tough year for many with the cost of living increasing and rising energy prices. We've continued to focus on how best to support our customers, launching our cost of living hub which signposts helpful tools and resources, and responding quickly to the war in Ukraine, offering in-store account opening to refugees alongside our donation to the Disasters Emergency Committee (DEC).

The reporting and governance landscape for ESG is developing rapidly and becoming an important focus of corporate reporting. The UK Government has announced that International Sustainability Standards Board (ISSB) standards will inform the UK's Sustainability Disclosure Requirements, providing an important step towards a globally consistent baseline for sustainability disclosures.

Virgin Money participated in the ISSB consultation process for Exposure Drafts 1 & 2 and welcomes the development of sustainability standards to provide a consistent and comparable framework for disclosures.

Through our horizon scanning working group, we maintain a watching brief over emerging regulations including ISSB, the Taskforce on Nature-related Financial Disclosures (TNFD), Modern Slavery legislation, the FCA's Guidance on Fair Treatment of Vulnerable Customers and Consumer Duty regulations.

2022 was the year we launched A Life More Virgin – applying our Purpose of Making you happier about money to the future world of work. We have a bold ambition to transform what it means to work in Virgin Money, saying goodbye to traditional conventions and creating a healthier, more flexible work-life balance.

We are confident that our ESG strategy – focused around four key goals – is the right one for the current environment. The goals, alongside our climate strategy, are ensuring we're making good progress across all areas of the sustainability agenda, positively contributing to the United Nations Sustainable Development Goals (UN SDGs)(1) and working with our stakeholders to realise the ambitions of the Paris Climate Agreement(2) and to support society's low-carbon transition.

(1) UN SDGs are a set of 17 interlinked global goals intended to be achieved by 2030.

(2) Legally binding international treaty to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

Strong foundations for a sustainable future

Guided by our Purpose of **Making you happier about money**, we seek to drive social and environmental impact through everything we do.

Goals	Strategic priorities	ESG principles	2030 aspirations	SDG alignment
1 Put our (carbon) foot down	Super straightforward efficiency	Reduce the negative impacts of our operations, suppliers and partners on society and the environment.	Net-zero operational and supplier carbon emissions.	12 Responsible consumption and production; 13 Climate action
2 Build a brighter future	Pioneering growth	Deliver innovative products and services that help our customers make a positive impact on society and the environment.	At least halving our carbon emissions across everything we finance.	7 Affordable and clean energy; 8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 13 Climate action
3 Open doors	Delighted customers and colleagues	Work with customers, colleagues and communities to encourage sustainable practices and economic activity that creates shared prosperity.	**Customer:** No Virgin Money customers paying a poverty premium. **Colleague:** Sponsor diverse talent at every level and achieve a diverse top-quartile of the organisation (gender, ethnicity, disability, LGBTQ+).	1 No poverty; 5 Gender equality; 8 Decent work and economic growth; 10 Reduced inequalities
4 Straight-up ESG	Discipline and sustainability	Align our strategic goals to ESG and embed them in all areas of the business with robust targets, tracking and disclosures.	Variable remuneration linked to ESG progress.	16 Peace, justice and strong institutions

What we've done – Achievements

Goal 1 – Put our (Carbon) foot down

- Achieved 12% reduction in Scope 1 and Scope 2 location based emissions
- Zero waste to landfill since 2014
- 100% of electricity generated from renewable sources
- Refurbishment of property estate to introduce collaboration spaces
- Property estate enhancements to install LED lighting, energy efficient heating, ventilation and air conditioning and upgrade boilers
- Received responses from 94 of our top 100 suppliers in the Carbon Disclosure Project (CDP) climate survey
- Reduced emissions from business travel by 30% on 2019 baseline and engaged colleagues to capture commuting data
- Ongoing programme of work to reduce resource consumption in our banking operations

Goal 2 – Build a brighter future

- Science-based targets set for 82% of customer lending portfolio
- Partnership for Carbon Accounting Financials (PCAF) data quality score for Mortgages improved to 3.5
- Sustainable Business Coach embedded in all annual reviews where borrowing is >£2.5m
- 5.3% of lending is to sustainability changemakers
- Climate risk survey integrated in business credit applications
- £200m Agri E Fund launched
- £224m lending to energy and environment customers
- Net-zero report published to educate farming businesses
- Continued roll-out of greener mortgages
- Launched green reward incentive offering £250 cashback to existing customers taking additional borrowing for energy efficiency measures

Goal 3 – Open doors

- Turn2us benefits calculator social media campaign
- Cost of living customer hub
- Financial well-being resources and payment of £1,000 for 80% of colleagues
- Macmillan Guides and customer referrals programme launched
- Colleague cancer guide. Over £309k colleague fundraising for Macmillan
- Bespoke account opening for Ukrainian refugees and donation to DEC
- Virgin Money Foundation grants totalling >£1.07m to 102 charities working in local communities
- >160,000 children participated in Make £5 Grow scheme since launch
- c.40% colleagues involved in our six employee-run diversity and inclusion networks
- Career Ready social mobility programme piloted

Goal 4 – Straight-up ESG

- Compliance with TCFD's 2017 Recommendations and Recommended Disclosures and UK Listing Rule 9.8.6R(8) requirement
- Uplifted to 'Leader' status in MSCI ratings report and 'Low Risk' in Sustainalytics, following enhanced ESG disclosures
- Climate strategy agreed. Climate risk elevated to a principal risk and climate risk assessment conducted
- Climate stress testing completed
- Modern Slavery risk assessment completed
- Materiality assessment undertaken to confirm ESG priorities of our stakeholders
- ESG training delivered across the Group

What's next – FY23–25 focus

Goal 1 – Put our (Carbon) foot down

- Develop net zero road maps and targets for operational and supplier emissions
- Ongoing reduction in Scope 1 and 2 emissions: 10% for FY23
- Integrate ESG considerations into our sourcing and supplier management framework and processes
- Collaborate with third parties; identifying ways of working together to deliver our climate aspirations

Goal 2 – Build a brighter future

- Complete remaining science-based targets road maps including sector-specific actions to reduce emissions
- Continue roll-out of existing 'greener' products and development of new product set across Mortgages and Business
- Increase portfolio ESG score for sustainability changemakers by 10%
- Cross-sector collaboration to drive action and investment in low-carbon heating and energy efficiency
- Develop green hub for business and mortgage customers

Goal 3 – Open doors

- Enhance Macmillan customer communications, extend colleague training and Guides population
- Distribute free mobile data to those unable to afford it and experiencing data poverty
- Mobilise Customer care team
- Introduce Vulnerable customer disclosure tool
- Ongoing collaboration with taskforce to tackle poverty premium, define industry baseline and VMUK internal index
- Continue roll-out of career sponsorship programmes across our inclusion networks and launch new careers site with focus on increasing attraction of under-represented talent
- VMF/VMUK alignment around purposeful grants and opportunities for collaboration
- Relaunch Make £5 Grow programme. Include financial education to tighten link to our Purpose. Partner with Virgin Start-up and Money and Pension Services to reach more pupils

Goal 4 – Straight-up ESG

- Continue enhancement of ESG disclosures
- Ongoing embedding of climate risk throughout the business, to enable delivery of net-zero plans
- Horizon-scanning and impact assessment of ESG-related emerging regulation (ISSB, TNFD, Modern Slavery)
- Compliance with FCA Guidance on Fair Treatment of Vulnerable Customers and Consumer Duty
- Enhance climate-related data collection and monitoring
- Modern Slavery action planning and delivery
- Ongoing ESG training
- Tracking enhanced ESG scorecard in the 2022 long-term incentive plan (LTIP)
- Further development of data capability to enhance external TCFD disclosures

Materiality assessment

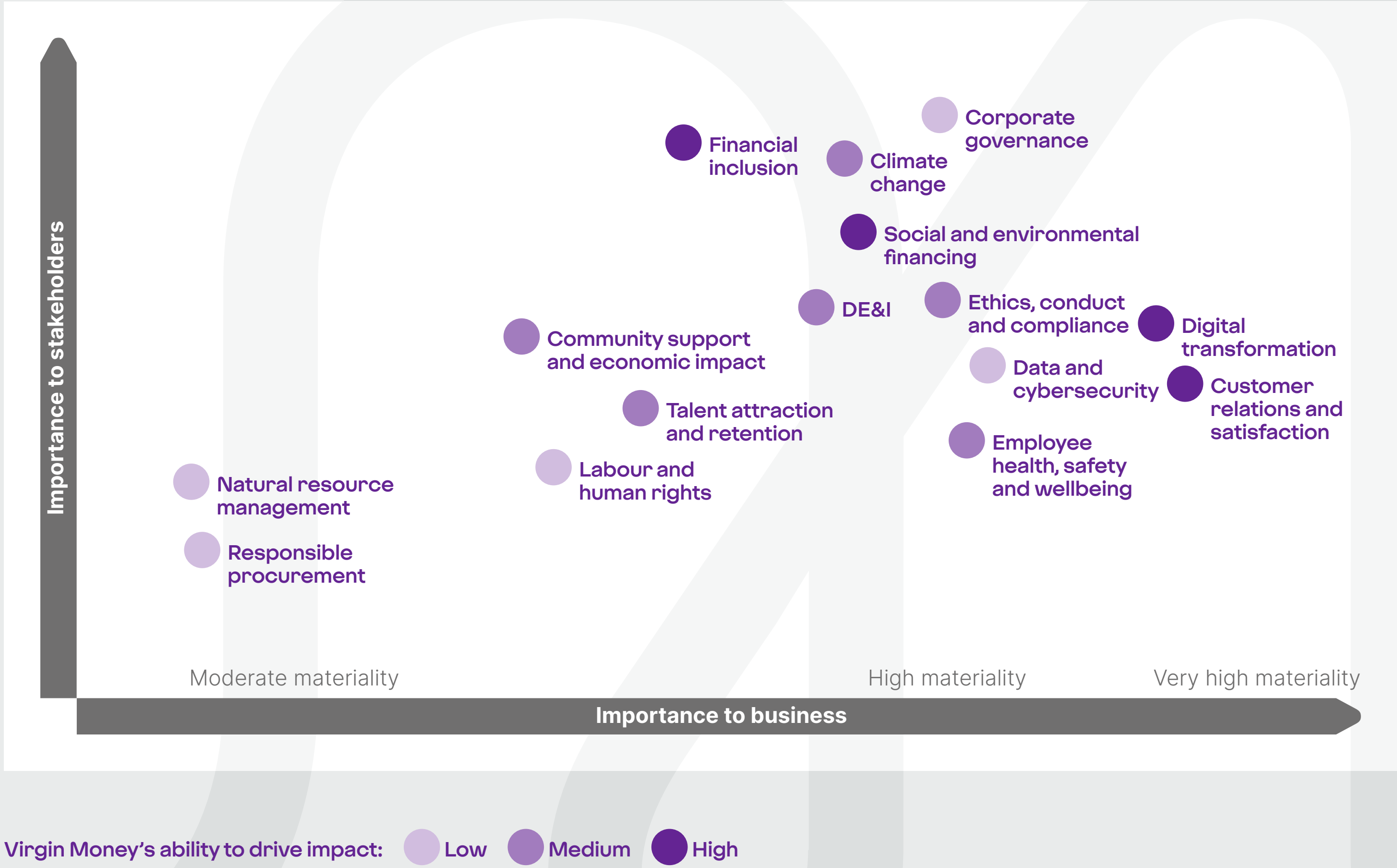
In order to ensure we are responding to the priorities of our customers, colleagues and communities, we commissioned Corporate Citizenship to conduct a materiality assessment to seek input from a range of stakeholders, the results of which reaffirmed that the strategic priorities we're focused on are indeed those they consider most important.

The assessment focused on double materiality: to understand (i) financially material sustainability risks to our business and (ii) impact of our business activities on society and the environment. We're pleased that the results show that our current strategy is aligned with the material issues identified, including a significant increase in the materiality of climate change and digital transformation.

Ethics, governance and data/cybersecurity are still considered high materiality and are something that the business already focuses on and takes very seriously. Overall, we were delighted that stakeholders acknowledged the significant progress we've made in our approach to sustainability since 2019.

The report also flagged that as our digital transformation progresses, we must proactively address the unintended consequences on accessibility and vulnerable customers; something the business is already considering carefully in its planning. Financial inclusion is an integral part of our internal processes (financial inclusion panel, vulnerable customer steering group, consumer duty requirements) alongside more direct engagement with our customers (basic bank account, cost of living hub, financial well-being resources and promotion of the benefits calculator); evidencing the positive steps we're taking to embed across the business.

Emerging events affecting the risk profile – subject to ongoing assessment and change



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Put our (carbon) foot down

Reduce the negative impacts of our operations, suppliers and partners on society and the environment.

Sustainable Development Goal (SDG) alignment

12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Ensure sustainable consumption and production patterns
13 CLIMATE ACTION	Take urgent action to combat climate change and its impacts

Approach

We've continued to deliver reductions within Scope 1 and 2 operational emissions and are developing an enhanced view of our Scope 3 impacts: work that will continue into next year. We're excited that as part of our long-term strategy, we're creating a workplace that best supports the needs of our colleagues, that enables our digital strategy, and helps us meet our commitment to reduce the Bank's carbon footprint.

We are working hard to collect the data which enables us to accurately assess and manage our carbon-related assets and exposures. While progress has been made, we are still in the early stages of our journey and will continue to work to enhance our climate-related reporting in order to set formal operational 2030 targets within the next 12 months.

Key achievements in 2022

We view our operational emissions (Scope 1, 2 and 3) through three lenses: property, colleagues and suppliers.

Property

With the support of our long-standing relationship with Cushman & Wakefield, our property strategy execution is well underway. We have consolidated our Gosforth offices into a smaller set of vibrant spaces and continue to implement energy efficient initiatives across all our properties, which in FY22 has included installation of LED lighting, upgrading boilers and replacing heating, ventilation and air conditioning with efficient alternatives. In September we switched to more energy efficient mechanical and electrical assets.

We remain in a strong position with 100% of our electricity being generated from renewable sources[1]. The Bank has used 100% green electricity since 2013 and extended this to include a solely 100% green gas product[2] from April 2021, resulting in a significant reduction in Scope 1 market-based[3] emissions when compared with FY21. We estimate the savings in FY22 from all our initiatives to be 3,692 tCO2e when measuring our Scope 1 & Scope 2 location based and Scope 3 emissions. We are well on the way to achieving our overall goal to reduce location-based[4] energy consumption by 50% in FY25.

Colleagues

The introduction of A Life More Virgin gives our colleagues choice and flexibility in where, when and how we work. We've updated our Travel Policy to ensure greater consideration of environmental impact when making travel plans and have collected data which reflects that our

(1) Where Virgin Money are responsible for the supply rather than a third-party landlord or property owner.

(2) We purchase a renewable gas guarantee of origin backed Green Gas Plus product.

(3) Calculated as the electricity that companies have purposefully chosen to purchase. It derives emission factors from contractual instruments, which include any type of contract between two parties for the sale and purchase of energy bundled with attributes about the energy generation, or for unbundled attribute claims.

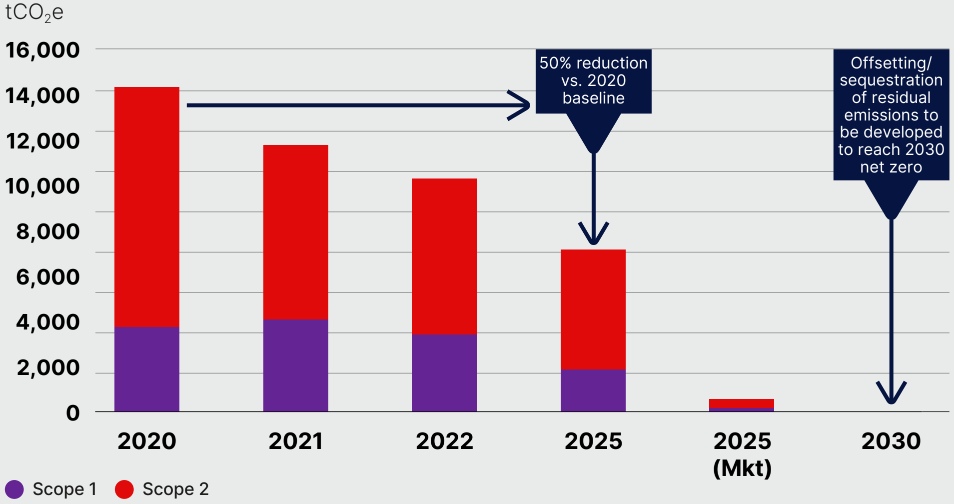
(4) Calculated using the average emissions intensity of the grids on which energy consumption occurs, using mostly grid-average emission factor data.

1 Put our (carbon) foot down continued

Greenhouse Gas (GHG) emissions report

The chart shows a reduction in GHG emissions on a location[1] basis from 2020 to 2025. 2025(Mkt) represents the target GHG emissions measured on a market[2] basis in 2025.

Operational emissions road map



business travel and commuting has remained significantly below pre-COVID-19 levels.

We are working on our methodology for calculating GHG data for employee commuting and homeworking for inclusion next year and have surveyed colleagues to gather data. We know that we have more work to do to establish the full picture for colleague-based emissions and build out our future approach.

In June, we launched our Colleague Carbon Challenge, a chance for our carbon-conscious colleagues to highlight their individual actions, lifestyle habits and the choices they're making – big or small – to reduce their carbon footprint.

The winners are awarded an annual subscription that, through our partnership with Carbon Neutral Britain, offsets 1.25 tonnes of CO_2 emissions each month for a whole year.

Suppliers

We are educating our supplier base around our strategy to reduce our carbon footprint and net zero ambitions. We continue to gather data on our suppliers' carbon emissions and plans to transition to a low-carbon economy.

We have delivered training to our community of supplier relationship managers (SRMs) on the CDP Supplier Programme and have engaged our top 100 suppliers. We're delighted that 94 of our top 100 suppliers have completed the survey, which will help inform our road map to net zero in supplier emissions by 2030.

Operations

Through our ongoing programme to reduce resource consumption we've revised delivery schedules and restructured our ordering processes to make fewer deliveries, minimised mileage through more efficient stock management and signed up to the Royal Mail's Economy service. We continue to review all packaging, seeking reusable instead of single source items where removal isn't an option. And we've achieved a 40% reduction in paper usage since FY20.

Key challenges and what's next

Throughout FY23 we will finalise the science-based targets for our operational and supplier emissions and publish our road maps and key deliverables, giving us a clear strategy to track progress against the Group's climate-related goals and aspirations.

Property

Our property strategy sets out a clear path to reduce our overall location-based energy consumption by 50% in FY25 from where we started in FY20. Our key focus in FY23 will be to enhance our data capture and analysis in order to set baselines and targets for all Scope 3 emissions. Reliable ESG data is critical to defining plans and tracking progress but is difficult to obtain, so we are investigating how we can automate GHG reporting and ensure data is reported in the same format and in real time.

Alongside our in-house energy efficiency measures, we are reliant on the grid becoming greener to continue reducing location-based emissions out to 2030. We will strive to maintain our low levels of market-based emissions through ongoing sourcing of green electricity and biogas. We understand that, in time, offsetting could need to be used as a lever to reach the Group's target and this will form part of the continued work on our operational road maps in FY23 and beyond.

Once finished, our new head office in Bothwell Street will be one of Glasgow's largest, most environmentally-friendly buildings. Powered by 100% renewable energy with zero-carbon emissions, the combination of building design, quality specification and intelligent technology will deliver a highly energy efficient building, projected to receive an A rating for EPC, and expected to be the highest rated and most efficient EPC rating for a city centre office in Glasgow.

Colleagues

It's vital that colleagues understand the role they play in helping the Group reach their net zero aspirations and feel involved, educated and empowered.

We are refreshing our colleague sustainability hub and providing educational content and links alongside Bank-wide training on ESG. And we will continue to engage with colleagues to drive carbon reduction in business travel across cars, flights, rail and hotel stays.

Suppliers

We will continue to participate in the CDP Supplier Programme. We will analyse the data from the 2022 CDP climate survey to identify opportunities to collaborate, leverage knowledge and experience, and explore how we can encourage suppliers to make greener choices, supporting our climate aspiration to be net zero in supplier emissions by 2030.

(1) Calculated using the average emissions intensity of the grids on which energy consumption occurs, using mostly grid-average emission factor data.

(2) Calculated as the electricity that companies have purposefully chosen to purchase. It derives emission factors from contractual instruments, which include any type of contract between two parties for the sale and purchase of energy bundled with attributes about the energy generation, or for unbundled attribute claims.

Environmental, social and governance

1 Put our (carbon) foot down continued

Progress against aspirations and targets

	Actual 2021 (last year)	Actual 2022 (this year)[1]	2022 target	Future targets
Scope 1 emissions location-based (tCO_2e)[2]	4,066	**3,395***	-10% (met)	2023: -10% to 3,015t 2025: -50% to 1,850t
Scope 2 emissions location-based (tCO_2e)[3]	7,678	**6,891***	-10% (met)	2023: -10% to 6,190t 2025: -50% to 5,300t
Scope 3 emissions (tCO_2e)[4]	3,953	**1,719**	n/a	Under development
Total Scope 1, 2 (location-based) and 3 emissions (tCO_2e)	15,697	**12,005**	n/a	Under development
Market-based Scope 1 emissions (tCO_2e)	3,245	**748***	-80% (not met)(5)	2023: -10% to 673t
Market-based Scope 2 emissions (tCO_2e)	908	**989***	n/a	Under development
Total Scope 1, 2 (market-based) and 3 emissions (tCO_2e)	8,106	**3,456**	n/a	Under development
Energy (gas and electric) – measured by MWh	55,017	**47,473**	-5% (met)	2023: -10% to 42,700 2025: -50% to 30,000
Water consumption – measured by m^3 volume	85,787	**41,765**	-2% (met)	2023: -10% to 37,600m^3 2025: -50% to 45,000m^3 (met)
Intensity ratio: location-based CO_2e emissions per FTE (Scope 1 and 2) (tonnes/FTE)	1.54	**1.48***	n/a	
Intensity ratio: market-based CO_2e emissions per FTE (Scope 1 and 2) (tonnes/FTE)	0.53	**0.25**	n/a	

(1) The reporting period for GHG emissions for the Group is from 1 July 2021 to 30 June 2022. The corresponding reporting period for 2021 ran from 1 July 2020 to 30 June 2021.

(2) Generated from the gas and oil used in all buildings where the Group operates; emissions generated from Group-owned and leased vehicles used for business travel,and fugitive emissions arising from the use of air conditioning and chiller/refrigeration plant to service the Group's property portfolio.

(3) Generated from the use of electricity in all buildings from which the Group operates.

(4) Relates to business travel undertaken by all colleagues using rail, private vehicles, hired vehicles, contracted taxi services, air travel, waste, water and paper.

(5) The Market-based Scope 1 emissions reduction target was not met this year (achieved 77%), despite the Group's reduction in energy consumption. This is due principally to an increase in the UK Government's emissions factor, which is used in the calculation.

(6) Data marked with an * included within the KPMG independent limited assurance review.

Operations

We have an ongoing programme of activity to further reduce our paper usage as we employ more digital solutions, and recognising the need to retain customer choice, we will be launching our 'Customer Care' programme, designed to support potentially vulnerable customers through the digital transition.

The Group GHG reporting is undertaken in line with our obligations under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, and the UK's recently released Streamlined Energy and Carbon Reporting regulations. GHG emissions are reported in accordance with the GHG Protocol, which sets a global standard for how to measure, manage and report emissions. Scope 1 and 2 location-based emissions for the past 12 months are 12% less than the prior year on a combined basis.

Key factors driving lower emissions have been the reduction in the Group's property footprint and the reduction from initiatives including manufacturing and engineering (M&E) upgrades.

The Group reports GHG emissions in accordance with the operational control approach, to define our boundary of responsibility. In line with our Environmental Reporting Criteria, the Group reports on all significant sources of GHG emissions from our business that are under our operational control. Our Environmental Reporting Criteria, which informs our annual GHG emissions reporting, can be found on the Group website: https://www.virginmoneyukplc.com/corporate-sustainability/esg-hub/

The only estimated emissions in the GHG emissions data relate to business travel where data for all individuals was not available and energy consumed in properties where the landlord controls the supply and recharges the Group via a service charge arrangement, or where actual meter readings were not available before year end. In these instances, an average rate per kWh has been used. The reporting period for GHG emissions for the Group is from 1 July 2021 through to 30 June. 2022.

Independent limited assurance

The Group engaged KPMG LLP to undertake an independent limited assurance engagement over the selected information highlighted in this report with a * using the assurance standards ISAE (UK) 3000 and ISAE 3410. KPMG has issued an unqualified opinion over the selected information. KPMG's full assurance report is available on the Group website: https://www.virginmoneyukplc.com/corporate-sustainability/esg-hub/

2

Build a brighter future

Deliver products and services that help our customers make a positive impact on society and the environment.

SDG alignment

7 AFFORDABLE AND CLEAN ENERGY	Ensure access to affordable, reliable, sustainable and modern energy for all
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
13 CLIMATE ACTION	Take urgent action to combat climate change and its impacts

Approach

Throughout the year, we have focused on outlining our approach to halving our financed emissions by 2030 and the development of road maps and targets to net zero by 2050, in line with our NZBA commitment. We've continued to embed climate risk and sustainability across our business processes and customer proposition and launched new products to support businesses in their transition to low carbon.

We know that the scale of change needed is dependent on a combination of industry initiatives, government policy and regulation, consumer behaviour change, and what lenders can do to support through their products and services, and we've incorporated our thinking around all these factors into our plans. Along with the rest of the banking sector, we recognise the many challenges associated with data availability and quality and are collaborating with others to share best practice in this space.

Reducing the negative environmental impact of our customer lending starts with comprehensive measurement of our financed emissions. We have a very low exposure to oil and gas (0.2% of lending) and a robust sensitive sectors policy in place. With the majority of our customer lending in Mortgages (80%), we have focused on this alongside our priority business sectors (agriculture, surface transport, shipping, and oil and gas) and adopted a detailed science-based approach to help guide the creation of road maps and KPIs to track our progress. You can read more on our plans to net zero and the approach we've taken to calculate our financed emissions on pages 232 onwards of our TCFD report.

Key achievements in 2022

Managing our business in a sustainable, climate-friendly way supports our long-term growth and resilience. We recognise there is significant further work required to deliver net zero by 2050, but the progress made in 2022 sets the foundation for future delivery through embedded governance, enhanced capabilities, and rigorous climate analysis across the Group.

Greener products and services for customers

As a bank, we have a key role in the fight against climate change and we are committed to empowering and educating customers, providing appropriate solutions to support them to reduce their emissions and invest in a more sustainable future. Insight from Business, including Agriculture, and Mortgage customers has informed our proposition development, and directed where the Group can add value through thought leadership.

Environmental, social and governance

② Build a brighter future continued

Last year we launched our greener mortgages and now we're delivering further on our ESG commitments by helping our existing customers with the green reward. The green reward scheme is a simple cashback reward scheme available to our existing Virgin Money mortgage customers. We want to encourage them to make sustainable choices that reduce their impact on the environment, so we're offering cashback when they take additional borrowing to make green home improvements. We've actively participated in sector collaboration to identify affordable and accessible solutions for customers to alleviate the pressure of rising energy costs. Through our partnership with Carbon Neutral Britain, our greener mortgage product funds environmental projects around the world and offsets the equivalent of 12 months of emissions from one UK home for every mortgage which completes.

In February, we conducted a survey with our Agricultural customers to gain a better understanding of their awareness of ESG and get a sense of the readiness of the sector to invest in a more sustainable future. The results informed the development and publication of our net zero report, co-authored by Carbon Metrics, which provides background to climate change specifically relating to agriculture, and suggestions on how farmers can adapt and plan their own journey towards net zero. We launched our £200m Agri E Fund, which can be used for investment in emission-reducing initiatives which aid productivity, subsidy schemes or supply chain initiatives, and the sequestration of greenhouse gases from the atmosphere, and will also encourage the uptake of carbon audits[(1)], which are becoming increasingly important in agriculture's supply chains.

We've now delivered a total of £224m in energy and environment financing to progress the UK's energy transition, including a wide range of projects.

At the end of FY21 we launched our Sustainable Business Coach app, designed to help businesses be more sustainable by identifying their high priority ESG goals, measuring their progress against these goals and offering guidance on improving their environmental, social and governance (ESG) credentials. Built on the methodology to create the Future-Fit Business Benchmark, the Sustainable Business Coach app has been embedded in annual review process since April for all Business exposures over £2.5m, with any facilities borrowing over £5m completed during the rest of the year. We have made the app available to any business worldwide, not just for Virgin Money business customers, as we understand the potential the app has to accelerate behavioural change.

We're incredibly proud of our sustainability-linked loan offering. Virgin Money is the first bank in Europe to offer sustainability-linked loans in commercial banking using an objective science-based methodology, supporting businesses of all sizes whose core activities help others become more socially and environmentally friendly.

We have set a target where, by FY27, 10% of all business finance will be to "sustainability changemakers"[(2)] and this measured 5.3% at FY22.

Pages 233-244 contain more detailed explanation of the approach taken to develop baselines and the actions/initiatives and targets that we have identified as the key levers to achieve our net zero commitment by 2050.

(1) A carbon audit produces a comprehensive report on a farm's carbon outputs, highlighting inefficiencies, and ways to do things differently, both to reduce costs and carbon emissions.

(2) Sustainability Changemakers are defined as businesses whose core activities are enabling consumers or other businesses to operate in a more economically and environmentally sustainable way.

Life Moments and the Future-Fit Foundation

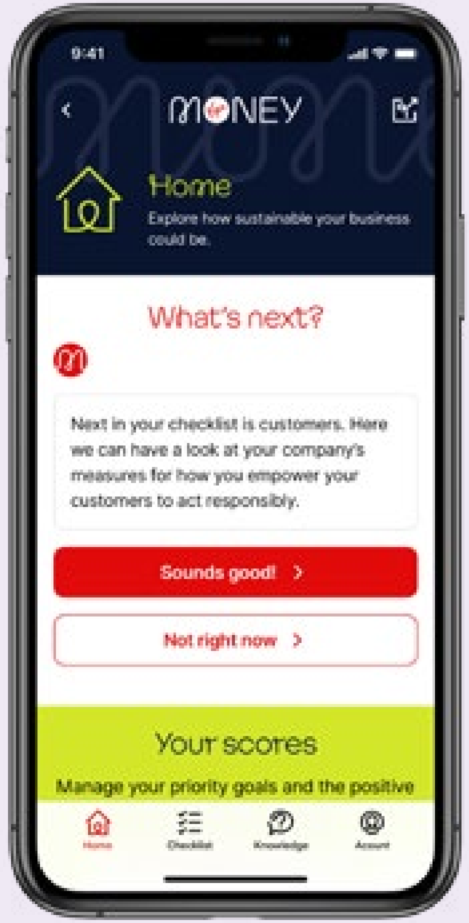
Virgin Money partnered with Life Moments and the Future-Fit Foundation to develop the Sustainable Business Coach app. Freely available to any business, the app was launched in October 2021 and combines the insight, expertise and purpose of the three organisations, to deliver an easily accessible, simple-to-use benchmarking tool.

Future-Fit's Business Benchmark, whose methodology the coach has adapted, is built on systems science, delivering the technical expertise and knowledge of what it takes to drive a future-fit society, using credible and robust third-party resources. Using their digital coaching platform, Life Moments took the technical output and built it into a simple-to-use, engaging app, accessible to any business, not just Virgin Money customers.

The three businesses recognised that working together fulfilled their ambition to enhance understanding of social and environmental challenges across the business community, and then do something to actively support development and delivery of plans which reduce their impact on society and the environment.

To date, the app has been accessed by c.1,000 businesses, providing a sustainability score and suggested actions that businesses can take to reduce their impact.

Into the next financial year, we'll look to enhance some of the functionality as we continue to embed this as part of our ambition to progress social and environmental considerations.



Future-Fit Foundation

Life Moments PLAY LIFE BETTER

(2) Build a brighter future continued

Progress against aspirations and targets

Targets	FY21 actual	FY22 target	FY22 actual	Future targets
MORTGAGES				
Greener mortgages	n/a	50% increase every year in value of new greener mortgage lending	**Target met**	50% increase every year in value of new greener mortgage lending
Percentage of portfolio EPC C+ rated	n/a	n/a		FY25 42%, FY30 >50%
BUSINESS				
Sustainability Changemakers lending(1)	3.7% of book	5% of book	**5.3% of book**	10% of all business lending by FY27
Portfolio ESG score(2)	n/a	n/a	**52%**	10% increase per annum FY22 base
Energy and Environment team lending	£167m	n/a	**£224m**	£500m balance by FY25

(1) Sustainability Changemakers are defined as businesses whose core activities are enabling consumers or other businesses to operate in a more economically and environmentally sustainable way.

(2) Portfolio ESG score is the average score received by Virgin Money customers through Sustainable Business Coach assessment. Responses are self-certified.

Key challenges and what's next

Through next year, we'll continue to define our science-based targets and road map actions for the remaining business sectors, as described within our TCFD report. We are realistic; we know we have a long journey ahead. Our success also depends on the wider economy and, along with the rest of the banking sector, a reliance on many external influences and dependencies as mentioned previously.

We have big ambitions and strong foundations in place across the business enabling us to deliver change. We will focus on sectors of the market that are best placed to transition to net zero today and further develop propositions to support the decarbonisation of customers' homes and businesses. We will continue to evolve our Sustainable Business Coach, exploring possible enhancements to encourage engagement and accelerate behavioural change.

Recognising that every customer and property journey to net zero is unique, we will partner with 'green experts' to grow knowledge, drive material change and deliver digital customer tools and individual pathways to net zero.

Our focus in the residential space will be centred upon a 'fabric first' approach, educating customers to understand the alternative low-carbon solutions and positively changing consumer attitudes towards greening their homes. Initial activities will therefore focus on encouraging customers to make fabric first, no regret improvements. Expanding our greener proposition, including a retrofit product to help customers improve the energy efficiency of their existing home, making homes immediately more efficient, will reduce the cost to run for our customers and improve the EPC rating.

We aim to extend our 'greener' proposition to all energy efficient properties rated (EPC A/B) and create a 'green hub' with interactive tools and content to educate colleagues and customers on the benefits of low-carbon heating.

Climate must become part of everything we do and upskilling our colleagues will embed a culture of sustainable business and equip them with the ability to understand their role in delivering on net zero by 2050.

Commercial

APEM Group is a leading global environmental consultancy working across multiple industries with clients who want to minimise their impact on the planet. Their acquisition of GoBe, a leading offshore wind consultancy, was funded through a substantial sustainability-linked loan package from Virgin Money. APEM have built sustainability at the heart of their business and, as ESG is such a key area of focus for all their stakeholders, they are committed to working with suppliers who share the same values and are looking at innovative ways to solve climate challenges.

3

Open doors

Work with customers, colleagues and communities to encourage sustainable practices and economic activity that creates shared prosperity.

SDG alignment

1 NO POVERTY	End poverty in all its forms everywhere
5 GENDER EQUALITY	Achieve gender equality and empower all women and girls
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
10 REDUCED INEQUALITIES	Reduce inequality within and among countries

Approach

Our Purpose of Making you happier about money drives us to think more about our impact on society and the environment, putting what we know about money to better use for those who need it most. You can find lots more information about how we engage sustainably with our customers and colleagues in the Delighted colleagues and customers section and throughout this whole report; some of the key highlights are below.

Key achievements in 2022

Customers

We have continued to embed our approach to financial inclusion and vulnerable customers and, as part of our 'Money on your mind' website offering, we've launched a new cost of living hub which supports customers with money-saving suggestions, budgeting tools and links to external resources.

We have embedded the Turn2Us benefits calculator on our website, helping people assess what they are entitled to and how to claim and, through our targeted social media campaigns, we've received over 650,000 social media views, generating 5,250 bespoke reports, confirming or uplifting benefits and grants entitlement of £1.12m, delivering the true definition of our Purpose.

The cross-sector poverty premium task force, chaired by David Duffy, has expanded to cover cost of living more broadly. We are working with the Smart Data Foundry on a national measure that identifies and quantifies the impact of poverty premiums across our collective consumer bases so that we can better identify drivers and develop solutions.

Colleagues

At Virgin Money, the freedom to be your true self means everything to us. Our six inclusion networks, each with an executive sponsor, play a big part in leading the way on this.

22 colleagues signed up to our career sponsorship programme within our Embrace and Enable networks, designed to support ethnic minority colleagues to grow within their role and develop their career. Colleagues received tailored support over a 12-month period to support their personal and professional development to reach their career aspirations, with 11 colleagues going on to secure a new role within the Group.

Environmental, social and governance

3 Open doors continued

We have set ourselves challenging representation targets and have made good progress, but recognise the need for continued action – see pages 18-20.

As part of our 2022 UN Principles of Responsible Banking report, alongside our continued focus on climate and environmental impact, we're including updates on the progress we've made this year to address SDG5 Gender Diversity and SDG10 Reduced Inequalities.

We've provided access to a broad range of well-being support, including 'My Money' webinars, and our menopause coffee chats have been well attended by a hugely diverse colleague audience, with further support available through our partnership with Henpicked.

More information on our plans into next year, as well as our 2022 gender pay gap report, can be found on our corporate website https://www.virginmoneyukplc.com/our-people/diversity-and-inclusion/

Communities

We are proud of our charity partnership with Macmillan, and leading from the top, David Duffy and 96 colleagues took on the Macmillion Challenge, walking an amazing 25 million steps and raising over £25,000 in vital funds for Macmillan Cancer Support.

Through this and a range of colleague fundraising activities we've raised £309,000 and are setting pace ahead of our target of £500k by FY23. In addition to this, we have made additional sponsorship and donations of £215,000.

David Duffy Macmillion steps

The Group's donation to the Virgin Money Foundation has enabled the Foundation to award 102 grants totalling more than £1.07million through its four grant programmes (Community Anchors, Young Changemakers, Leading the Way and Colleagues in the Community).

Since the launch of our flagship schools programme – Make £5 Grow – more than 160,000 children have participated. Aligned to the new financial education framework, and with new online resources and videos made available this year, the programme enables children to have the real-life experience of starting a small business.

We're delighted that our STEM[1] Outreach programme, part of our 'Aspire' network, took the award for Most Inspirational Maths Employer at the North East STEM Awards.

Key challenges and what's next

Customers

We will launch our dedicated Customer Care team comprised of Virgin Money colleagues who are trained to support those most impacted by our transition to a more digital proposition. The team will be proactively contacting customers who are not digitally enabled or have been identified as vulnerable, with the aim of better understanding their needs and ensuring appropriate support and solutions are available prior to change taking place.

We've teamed up with National Data Bank and Good Things Foundation and will be supporting the distribution of free mobile data to those unable to afford it and experiencing data poverty. The service will be available in several of our stores.

We will continue to work towards our aspiration that by 2030 no Virgin Money customer is paying a poverty premium. We'll start by looking internally at potential triggers within our customer base. Then, with our partners, start to implement solutions to help customers avoid energy, credit and payment-related premiums. We've also commissioned the Centre for Social Justice to research how the cost of living crisis may be disproportionately impacting vulnerable customers already paying the poverty premium.

£309k
colleague fundraising for Macmillan

160,000
children participated in Make £5 Grow

95%
of colleagues say they can be themselves at work

Eligibility for
£1.12m
additional benefits through the Turn2us benefits calculator

c.40%
of colleagues engaged in our 6 inclusion networks

VMF distributed
>£1.07m
in grants to 102 beneficiaries

(1) Science, Technology, Engineering and Maths.

Environmental, social and governance

3 Open doors continued

Purpose in action

The Virgin Money Foundation funds the work of community anchor organisations who play a vital, practical role in reducing the impact of poverty in their neighbourhoods. With grants of up to £30,000 available, the funding typically supports organisations working in communities based in the top 20% of the UK Government Indices of Multiple Deprivation (IMD).

Sunderland-based Back on the Map has been working with local people to transform the neighbourhood. It provides good quality housing, reduces social isolation, tackles poverty challenges around food, fuel and digital exclusion and increases residents' confidence and skills to train/apply for jobs and build financial resilience. Funding from VMF helps Back on the Map run its important community services and develop more social enterprises to transform empty shops in the high street. These include a Community Pantry, a Men's Shed, a Social Kitchen plus providing welfare advice and guidance, debt management courses and IT buddies to help manage finances online.

Progress against aspirations and targets

Actual 2021	Actual 2022	2023 target/expectation	Future targets	2030 aspiration
Partnered with Fair by Design Established data-driven approach Catalysed cross-sector collaboration Developed pilot method on energy payment premiums	**Partnered with Smart Data Foundry on development of a national measure** **Continued engagement through x-industry task force** **Executed benefits calculator social media campaign: Turn2Us**	Develop an internal measure of poverty premium Evolve our work with Smart Data Foundry and Fair by Design Elevate our external voice on the poverty premium agenda Enhance our activities to achieve 2025 and 2050 goals	2025 targets: 1. Poverty premium quantified across current account customer base. 2. Engagement pilots delivered to boost incomes and reduce poverty premiums.	No customer paying a poverty premium
42% senior gender diversity(1) 5% overall ethnic diversity	**46% senior gender diversity(1)** **6% overall ethnic diversity**	45-55% senior gender diversity(1) 14% senior colleague ethnicity(1)	2025 targets(1): Senior gender diversity(1): 45–55% Overall diversity: Ethnicity – 10% LGBTQ+ – 4% Disability – 8%	Sponsor diverse talent at every level and achieve a fully diverse top-quartile of the organisation: 2030 targets (top-quartile)(1): Gender: 45–55% Ethnicity – 14% LGBTQ+ – 5% Disability – 10%

2025 Targets

(1) as per our definition of senior management used for Women in Finance submissions L0-2

(2) These targets are set with reference to the Census and Office of National Statistics data, in order to ensure we are representative of the UK and therefore remain under constant review as census data changes.

Colleagues
Our commitment to create a more representative workforce at Virgin Money will continue in FY23. As we look to the future, our goal will be to work intentionally and at pace to ensure we develop a workforce which reflects the customers we serve, and the future skills required in our organisation. Setting the right cultural conditions will enable us to create a more diverse and inclusive working environment for all colleagues.

We've done some great work on social mobility in 2022 which we plan to extend in FY23, giving more young adults, and those starting their careers, the opportunity to grow their skills within the financial services sector.

We'll continue our partnership with Career Ready, a national social mobility charity to provide Glasgow-based students with mentoring and a four-week paid internship within our business banking team.

Communities
Our charity partnership with Macmillan continues throughout the year, including World's Biggest Coffee Morning, Last Hour's Pay, Macmillan March and the Mighty Hikes series. We're taking Macmillan Guides digital: extending the reach for both online and offline customers and training more new Guides to support customers impacted by cancer.

We are refreshing our approach to grant funding through the Virgin Money Foundation, including a stronger alignment to our Purpose and increased colleague engagement opportunities.

We'll continue to support pupils and channel their entrepreneurial spirit with the recent relaunch of our Make £5 Grow schools programme, with newly-available, enhanced online lesson content and video stories of five entrepreneurial role models from diverse backgrounds, sourced through our relationship with Virgin Start-up.

virgin money foundation

4

Straight-up ESG

Align our strategic goals to ESG and embed them in all areas of the business with robust targets, tracking and disclosures.

SDG alignment

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Approach

Straight-up ESG is about sustainability principles being at the heart of what we do, informing our future strategy as well as identifying the tools, systems, skills and data needed to deliver our commitments. As we've evolved our ESG and climate strategy this year, we've upskilled staff, recruited into new roles and enhanced our governance; putting us in a strong position to deliver against our four goals and net zero road maps in the coming years.

Key achievements in 2022

Governance

In FY21 we established the Environment Committee, with responsibility for directing the Group's environmental strategy, overseeing investment and embedding environmental delivery into our activities. Throughout the year, the committee has provided valued guidance as we've developed our road maps and targets to net zero, and is an integral part of our ESG governance.

Quarterly updates to the Board on ESG progress have provided opportunity for continued education and awareness of our ESG and climate strategy and robust challenge of our approach. The Board has reviewed and approved our net zero road maps and targets, with ESG-related discussions largely focusing on 'Build a brighter future' given the development of net zero plans.

Our ESG working group met monthly throughout the year, bringing together representatives from across the business to track delivery against our four goals, break down barriers and build momentum. We have embedded ESG criteria into our business case process and strategic planning and, as we implement Agile methodology across the Group, we will continue to identify opportunities for positive social and environmental impact through change delivery.

Task Force on Climate-related Financial Disclosures (TCFD)

As one of the UK's largest banks we have an important role to play in facilitating the UK's transition to a low carbon economy, and we've made significant progress in analysis of our internal and external risks and opportunities, informing the creation of net zero road maps and targets across our priority sectors.

We have elevated climate risk to principal risk status, which has subsequently led to us refreshing our credit policies and frameworks and development of a new standalone climate risk policy statement. In response to regulatory requirements, we have defined climate roles and responsibilities throughout the organisation, and completed our first climate stress testing.

We are compliant with the TCFD recommendations and have outlined our headline compliance statement on pages 41-43 alongside our more detailed response to the framework within the TCFD section on pages 233-244, including an explanation of areas of future focus in FY23 and beyond.

Disclosure
Our updated UN Principles of Responsible Banking report on pages 332 details the progress we've made against the identified priority areas, which this year also includes our focus on SDG5 Gender Equality and SDG10 Reduced Inequalities. We maintain a watching brief over emerging trends and future expectations of ESG and sustainability reporting requirements, and have responded to ISSB's consultation on the General Requirements of Sustainability-related Financial Information.

Through enhanced disclosures and launch of the ESG hub, we've had a positive response from ratings agencies, including an upgrade from Sustainalytics in the Group's ESG rating score to 18.1 (from 25.7), moving Virgin Money to 'Low Risk' (from 'Medium Risk'), and MSCI upgrading our score to 'AA' from 'A', which now places us in the 'Leader' category.

Modern Slavery
We commissioned PWC to conduct a risk assessment of our Modern Slavery processes and approach across the Group, with the results highlighting clear examples of proactive risk management alongside a number of opportunities to move towards best practice, which we will work on through FY23.

Training
Throughout the year, we've invested in a range of training and awareness-building activities: from a climate-specific insight session facilitated by PWC with the Executive Leadership Team, through inclusion in our new colleague welcome meetings, as part of our annual compliance training, and regular internal colleague communications, including a Board Jam session hosted by two of our Non-Executive Directors.

Targets and KPIs
Since 2020, LTIP performance measures have included an ESG scorecard incorporating a carbon emissions target alongside measures for colleague engagement and leadership diversity. As we've further developed our climate strategy and outlined road maps and targets to net zero across our priority sectors, we have enhanced the climate-related measures.

The ESG scorecard contributes a 15% weighting to the overall FY22 LTIP, and the table below includes the metrics we will use to measure and track the Group's performance, achieving our 2030 aspiration of linking variable remuneration to ESG progress. The Remuneration Committee will determine outcomes against the scorecard based on an assessment of performance against these measures alongside progress towards the Group's 2030 ESG aspirations.

We have also refreshed the ESG targets within Leadership Team Performance Scorecards for FY23, reflecting the alignment between our climate, sustainability and business plans.

Key challenges and what's next
As outlined in the TCFD 'Future focus' table on page 41, we will use the outputs from the climate risk assessment to further embed across the Group, developing propositions, expanding our operational risk oversight and developing our scenario analysis capability.

We recognise the critical dependency we have – along with the wider banking sector – on sourcing quality data in order to deliver our plans and to inform how we can best support our customers with the right products, services and resources. We'll continue to engage with industry bodies and peers around the wider economic environment and the collective challenges we all face in the transition to a low carbon economy.

Throughout next year we will continue to deliver our ESG data project, focused on enhancing our systems, processes and infrastructure to ensure we are collecting the data needed to track and report on our progress to net zero.

As we further develop our road maps and targets to net-zero across remaining business sectors and our operational and supplier base, we'll seek input and challenge from the Board directly and through the various governance forums: enabling us to ensure we continue to do the right things for our customers, our business, our shareholders and wider society.

We maintain a watching brief on emerging regulatory requirements across the sustainability agenda, including ISSB and TNFD, the FCA Guidance on Fair Treatment of Vulnerable Customers, Consumer Duty, and Modern Slavery legislation.

And in accordance with our Purpose, we are committed to ensuring our people have the necessary training and access to resources which enable them to support our customers through these challenging economic times.

Variable remuneration linked to ESG progress
Demonstrating progress against the Group's short, medium and long term targets for:

1. Senior colleague gender representation[(1)(2)]	Our ESG scorecard tracks our progress in creating a sustainable future and the inclusion of an ESG scorecard within our LTIP ensures that Executive Director remuneration is aligned with the Group's aspiration to drive positive social and environmental impact through everything we do.
2. Senior colleague ethnic minority representation[(1)(2)]	
3. Group-wide ethnic minority representation[(1)]	
4. Carbon emissions, Scope 1 and 2	
5. Net zero plan delivery (financed emissions reduction)	
6. Colleague engagement	

(1) As a percentage of the population declared.
(2) L0-3 population.

Our TCFD summary

We are pleased to present our second Task Force on Climate-related Financial Disclosures (TCFD) report, set out on pages 231 to 262. The disclosures are consistent with the TCFD's 2017 Recommendations and Recommended Disclosures across all four TCFD pillars and are compliant with the UK Listing Rule 9.8.6R(8) requirements.

The Group remains committed to improving its climate risk management capabilities and overcoming current data limitations, which will enable continued progress in the depth of analysis and the level of integration and insight provided, particularly across the following areas:

- *(Strategy) Financial planning* – as data availability improves, we will undertake more detailed analysis to quantify expected financial impacts of climate-related risks and opportunities, considering different geographies, sectors or industries;
- *(Strategy) Scenario analysis* – we will develop more detailed forward-looking modelling, as physical and transition risk data limitations are overcome, to better inform our understanding of implications for strategic and financial planning; and,
- *(Metrics and Targets) Scope 3 emissions* – we will continue to enhance financed emissions calculations and increase in the coverage of loans on balance sheet. We will also work to overcome challenges quantifying emissions arising in the operational value chain and set science-based targets (SBTs) to guide emissions reductions against our 2030 net-zero operational and supplier emissions target.

TCFD recommendations and recommended disclosures	Location	Summary	Future focus
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the business, strategy and financial planning where such information is material.			
a) Climate-related risks and opportunities the organisation has identified over the short, medium and long term.	Pages 236 to 240	> Time horizons have been defined for internal climate risk assessments, which also consider financial and strategic planning cycles. > Detailed portfolio and customer assessments performed to identify material risks and opportunities. > Climate-related risks and opportunities identified and used to inform our detailed climate strategy, which includes SBTs guiding emissions reductions for our portfolios.	> Further develop innovative propositions to support the decarbonisation of customers' homes and businesses. > Invest in enhancing our climate-related data, which can be used to inform strategy and support customers' transition to a low carbon economy. > Continue work to understand and quantify climate-related risks and opportunities over the medium and long term.
b) The impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Pages 240 to 241	> Disclosure of emissions and SBTs, with interim targets to provide a pathway which guides our transition to net zero. > Delivered innovative green products and services to help our customers decarbonise, such as the green mortgage and Agri E Fund.	> Continue to embed climate-related risks and opportunities into financial and strategic planning, across different time horizons. > Enhance disclosures to show climate-related impacts to financial performance (revenues and costs) and to financial position (assets and liabilities), also building in a view of capital expenditure and capital allocation requirements over time.
c) The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Pages 242 to 244	> The Group has undertaken an inaugural scenario analysis (CBES aligned) exercise to identify climate-related risks and opportunities and assess the resilience of our business model. > Transition plans developed, which build in climate-related risks and opportunities and consider necessary strategic changes that may be required to support our transition plans.	> Continue enhancing scenario analysis and interrogating outputs, to assess financial impacts and implications for strategic planning, including delivery of our net-zero commitments. > Continue to develop transition plans, as data coverage, quality and carbon planning capabilities improve, and further enhance reporting against our 2030 targets.

Our TCFD summary

TCFD recommendations and recommended disclosures	Location	Summary	Future focus
Governance: Disclose the organisation's governance around climate-related risks and opportunities.			
a) Describe the board's oversight of climate-related risks and opportunities.	Pages 245 to 246	> Quarterly Board-level updates on ESG-related topics, including net-zero planning, ESG data project and ESG Goals updates, submitted via Board's' Audit Committee to the Board. > Board engaged throughout the year and formally approved the net-zero aligned SBTs and transition plans, including emissions reductions pathways and decarbonisation levers. > Climate risk appetite metrics approved by Board's' Risk Committee and by Board. > Refreshed Board sub-committee and Board charters to ensure appropriate reference to climate-related risks.	> Continue to review frequency and content of climate-related updates to the Board. > Enhance climate risk training and consider involvement of specialist climate advisors on an invitational basis. > Review and challenge of outputs from climate scenario analysis and stress testing, considering strategic and financial implications. > Further increase engagement on product proposition and customer engagement strategies.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	Pages 246 to 247	> Established a Sustainability team and further enhanced resource within the Climate Risk team. > Reallocation of climate change financial risk accountabilities under the SMR, in view of the Group's organisational structure. > Executive level Environment Committee established in FY21 was made permanent in the year and sat monthly, with support from a number of climate-focused working groups. > Quarterly climate updates to Executive and Board level committees in the year, in addition two extraordinary sessions to Board's Risk Committee.	> LTIP scorecards to evolve once financed emissions baselines are established across the portfolio. > Continue to enhance reporting against the Group's transition plans, climate-related commitments and targets. > Enhance the suite of climate-related management information which is reported through Executive and Board level committees.
Risk management: Disclose how the organisation identifies, assesses, and manages climate-related risks.			
a) Describe the organisation's processes for identifying and assessing climate-related risks.	Pages 248 to 249	> Climate risk was elevated to a principal risk which is supported by a specific climate risk policy framework, and an assessment of how other principal risks are impacted. > Climate-related physical and transitional data capability has been improved to better understand the Group's climate risk exposure. > Regulatory stress testing and scenario planning carried out in the year to assess climate risk implications.	> The Group will continue to develop and embed climate change risk management capabilities across end-to-end business processes. > Enhanced analysis to understand risks to transition plan delivery. > Continue to address challenges to source climate-related data which is sufficiently granular, and use this to understand the impact of physical and transition risks. > Build on internal physical risk metric reporting to develop formal targets for disclosure.

Our TCFD summary

TCFD recommendations and recommended disclosures	Location	Summary	Future focus
b) Describe the organisation's processes for managing climate-related risks.	Page 250	> Specialist 2nd Line climate risk resource in place, carrying out activity to manage, measure and mitigate risk exposures. > Established risk appetite metrics to monitor physical and transition risk, which are reported monthly through Executive and Board level governance. > Climate risk embedded within the RMF and our three lines of defence model.	> Policy enhancements to further embed climate risk within credit decisioning frameworks. > Ongoing development of climate risk assessment methodologies and tools. > Use outputs from the climate assessment to further embed climate risk across the Group, draw out further operational risk and expand our climate policy.
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Page 249	> Climate risk training provided to business lending teams. > Business lending credit assessment processes enhanced. > Climate risk embedded into credit decisioning frameworks.	> Continue to assess delivery of our net-zero plans, ensuring material dependencies, assumptions and risks are called out. > Climate risk updates have been made to policies, processes and controls, and remain under review as our climate risk management capabilities develop.
Metrics and targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.			
a) The metrics used to assess climate related risks and opportunities in line with its strategy and risk management process.	Pages 251 to 262	> SBTs agreed and tracked, with interim targets reported in line with NZBA commitments. > A range of commercial targets across the business and mortgage portfolios are in place. > Climate-related metrics embedded within Group and Leadership Team Performance Scorecards, which includes the LTIP.	> Continue to develop internal climate modelling capabilities, including the use of internal carbon pricing, to determine impacts to balance sheet transformation, investment decisions and our transition plans. > As data matures, further embed climate-related performance metrics into remuneration policies.
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks.	Pages 251 to 262	> Extended the scope of financed emissions calculations and enhanced the methodology and data score. Calculations cover the Mortgage portfolio and 4 priority sectors of the Business portfolio. > Disclosure of Scope 1, 2 and 3 emissions arising from our operational footprint, with reductions in the year and enhanced coverage with incorporation of WFH emissions. > Financed emissions calculations risk assessed and validated through governance fora.	> Build on progress engaging suppliers through the CDP Programme and address challenges to quantify Scope 3 operational value chain emissions. > Continue to enhance Scope 3 financed emissions calculations and expand coverage across the remainder of our lending portfolio. > Remain close to emerging regulatory standards and guidance, to assess the need for industry-specific GHG efficiency ratios.
c) The targets used to manage climate-related risks and opportunities and performance against targets.	Pages 251 to 262	> Emissions and SBTs set and validated for c.82% of the loan book, with interim 2030 targets, that guide to our net-zero 2050 commitment > Operational targets in place and met for reducing energy, waste and water consumption. > Targets in place and met for our total location and market-based emissions.	> Quantify transition plan progress towards the interim and final SBTs declared. > Close data gaps to enable progress against the 2030 net zero operational and supplier emissions aspiration to be quantified. > Continue to develop accurate and relevant KPIs, which are reported through Executive and Board level committees, to gauge progress against climate-related targets and commitment.

We remain committed to continuing to evolve our approach to climate-related financial disclosures, in line with market practice and regulatory guidance. In our next TCFD report, we aim to more fully implement guidance released by TCFD in October 2021, including the Annex titled 'Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures' (2021 TCFD Annex) which supersedes the 2017 Annex of the same name (2017 TCFD Annex).

Non-financial reporting information

As we develop more comprehensive disclosures in line with emerging recommendations and principles, we continue to comply with the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006.

Reporting requirement	Policies and standards which govern our approach	Risk management and additional information	Page
Environmental matters	Environmental and Social Policy Climate Change Policy Sensitive Sector Statement Responsible Lending Policy*	Environmental, social and governance How we manage risk TCFD Stakeholder engagement Climate risk	26–40 59–66 231–262 89–99 239, 248–250
Colleagues	Code of Conduct Health & Safety Policy Physical & Personal Security Policy* Whistleblowing Policy Fit and Proper Diversity and Inclusion Policy	Colleagues Environmental, social and governance How we manage risk People risk Governance Conduct risk	18–20 26–40 59–66 66, 117, 229 67–158 66, 116, 224, 345
Human rights	Modern Slavery Statement Data Privacy Policy Supplier Code of Conduct Information Security Policy	Environmental, social and governance Governance Regulatory and compliance risk Technology risk Risk Committee report	26–40 67–158 64, 116, 223 65, 117, 226 113–118
Social matters	Open Doors Policy Political Involvement, Communications and Donations Policy	Colleagues Environmental, social and governance Stakeholder engagement Director's report How we manage risk Risk Committee report Credit risk Financial crime and fraud risk Strategic and enterprise risk	36–38 26–40 89–99 153–158 59–66 113–118 165–198 65, 117, 227 65, 117, 228
Anti-corruption and anti-bribery	Anti-Bribery & Corruption Policy Anti-Money Laundering and Counter Terrorism Financing Policy Fraud and Cyber-Enabled Crime Policy Sanctions and Embargoes Policy	How we manage risk Risk Committee report Technology risk Financial crime and fraud risk	59–66 117–122 65, 117, 226 65, 117, 227
Policy embedding due diligence and outcomes		How we manage risk Risk report	59–66 161–230
Description of principal risks and impact on business activity		How we manage risk Risk report	59–66 161–230
Description of the business model		We are Virgin Money How we generate value	2–3 11–13
Non-financial KPIs		Our strategic priorities Environmental, social and governance Commercial reviews CFO review	14–25 26–40 46–49 50–58

* internal policies

KPIs

Measuring strategic delivery

Total active relationship customer accounts

2022	3.6m
2021*	3.3m

* As at October 2021 due to availability of source data

Digital primacy

2022	56%
H1 22†	51%

† New metric; as at March 2022 due to availability of source data

Target lending segment asset growth

2022	7%
2021	(3.3)%
2020	1%

Gross annualised cost savings

FY22	£69m
FY22-FY24	£175m

Customer complaints per 1k accounts

2022	4.2
2021	3.7
2020	3.5

Colleague engagement

2022	79%
2021	68%
2020	79%

Group Smile score

2022	46%
2021	51%
2020	54%

See our ESG and sustainability metrics in the ESG report, pages 26-40

For full definitions of these KPIs, please see pages 344-352

Key financial targets

Statutory RoTE

c.11% by FY24;
consistent with previous target of >10%

2022	10.3%
2021	10.2%
2020	(6.2)%

Underlying cost:income ratio

<50% by FY24;
expect to be c.50% in FY23

2022	52%
2021	57%
2020	59%

Announced shareholder distributions

30% dividend payout ratio
supplemented by buybacks, subject to approval

Total payout level, including announced buybacks

2022	57%
2021	4%
2020	0%

KPIs

- Included directly as Rem metric
- Included indirectly in Rem metrics
- Financial KPI
- Non-financial KPI

Our strategic priorities

- Delighted customers and colleagues
- Pioneering growth
- Super straightforward efficiency
- Discipline and sustainability

Commercial review

Returning to net asset growth

Mortgages

Story of the year
During FY22, the value of gross new lending in the mortgage market continued to grow, supporting an increase in UK house prices. Remortgage demand has also been strong, particularly during the second half of the year as consumers focused on managing mortgage costs in a rising interest rate environment, alongside higher living costs.

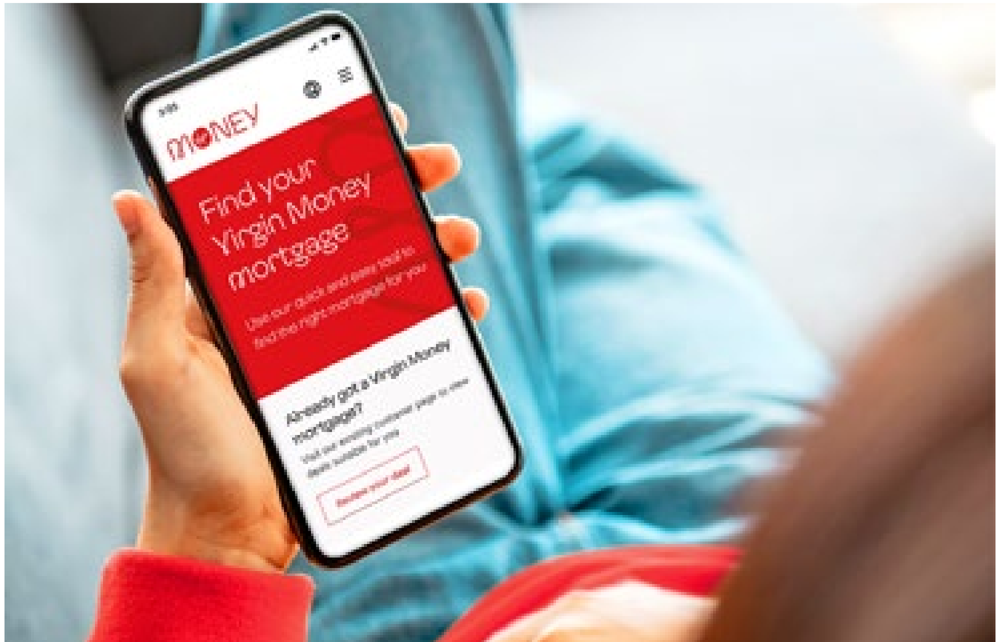
Throughout the financial year, competition has remained intense as large high street lenders continue to deploy surplus liquidity within their ring-fenced banks into the mortgage market, seeking to grow balances. During the final quarter of the year, lenders had begun to rebuild margins towards more sustainable levels, although increased volatility in swap rates added further pressure to margins. Against this backdrop, the Group has continued with its strategy to optimise for long-term value in Mortgages.

Gross lending for the year was £9.5bn (FY21: £10.1bn) and balances remained broadly stable at £58.2bn (FY21: £58.1bn), a market share of c.3.6%. We continued to be selective in our pricing, focusing on margin over volumes, and looking to grow in key segments such as BTL and first time buyers that offer higher risk adjusted returns. Retention continues to be an important component of our lending, as the Group delivered a retention rate of 73% (FY21: 75%).

As we continued to trade for value, we have made progress executing our optimisation strategy and expanding our distribution capability further. As a result, an additional 4.2k brokers registered with our Clydesdale brand after it went live with mortgage clubs. These brokers submitted c.£1.2bn of applications during the year.

During FY22 we also updated our policy to support large loans and have been working hard to improve overall efficiency. This has included the introduction of enhancements to our service for customers, in preparation for the launch of our new digital mortgage platform.

Asset quality remains strong with three-month plus arrears well below the industry average. The mortgage book is weighted towards owner occupied (74%) with an average LTV of 53% and only 0.4% of balances greater than 90% LTV. In the second half of the year, we updated the cost of living calculation used in our affordability assessment to account for increased pressure on consumers from higher levels of inflation.



Looking ahead
We expect a combination of higher interest rates, and a more uncertain macroeconomic environment will dampen purchase demand in the housing market. However, the continued shortage of housing supply will protect prices in the short term. As the pressure from higher mortgage rates persists into FY23 we expect elevated levels of remortgage activity and a focus on longer-term fixed rates as consumers look to manage costs.

We recognise mortgage rates have increased considerably recently and we continue to work hard to ensure all customers who are up to date with their mortgage payments are offered a product transfer. Our prudent approach to underwriting gives us confidence from a customer affordability perspective, however we remain on hand to support customers that show signs of financial difficulty.

From a pricing perspective, we expect margins to begin to rebuild towards more sustainable levels as lenders continue to implement price changes and swaps stabilise. Areas of specialism such as specialist BTL and first time buyers have held stronger margins and these underserved areas present opportunities for disruption.

As such, our strategy to optimise for value remains appropriate and we will continue to look to grow and participate more actively in segments of the market offering better risk-adjusted returns as we seek to maintain our share of the market in the medium term.

We expect our partnership with Capita to deliver our new digital front-end platform and further improvements to the customer experience during H1 2023. We also plan to expand our direct capability through greater digital integration and in-app functionality.

Finally having set our Net Zero plans for mortgages, we will expand our greener mortgage proposition further, including a retrofitting products to support customers as they improve the energy efficiency of their homes.

Unsecured

Story of the year
The market for unsecured credit has continued to grow through FY22 and has now recovered to its level from August 2020, prior to the second COVID-19 lockdown. Credit card industry balances have increased significantly during the second half of the year, with credit card spending at a historically high level and card sales ahead of pre-pandemic levels.

Against this market backdrop, we have continued to deliver our strategy of high quality growth in Unsecured lending. Our credit card book grew £0.9bn (21%) in FY22, outpacing the market, and driving our share up to 8.3% (from 7.4% at FY21). Our personal loan and overdraft portfolio reduced by £0.2bn (-14%) during the year, as new personal lending sales were removed from the market, in line with our strategy to focus this proposition on instalment-based finance within the credit card portfolio.

We have continued to be an active market participant in the prime section of the credit card market, remaining amongst the top lenders in the debt consolidation space, albeit with tightened underwriting criteria in the second half of the year in response to the rising cost of living. The year-on-year increase in customer spending has been visible across most sectors. This has further supported our growth in balances, particularly in our Virgin Atlantic cards segment, which is more geared to travel expenditure.

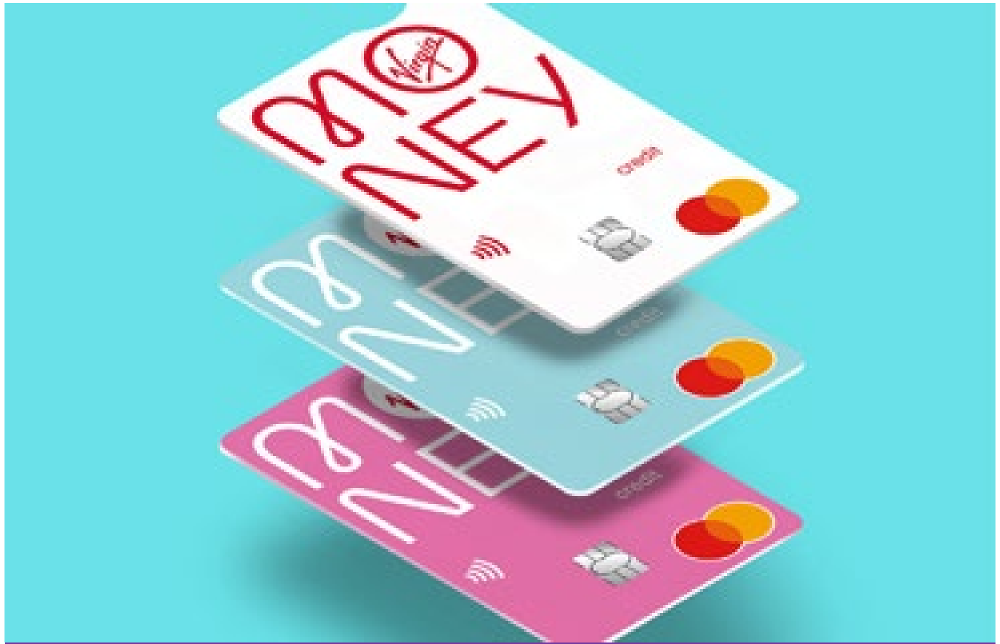
We have continued to develop our propositions further, successfully taking a greater share of our existing sectors, while adapting to customer demand for new and innovative payment and unsecured credit solutions.

During the year, we launched the ability for credit card customers to benefit from instalment repayment capabilities, fully underwritten within our prudent affordability criteria. Our app-based cashback proposition also continues to gain momentum, giving customers access to cashback of up to 35% across a range of retailers.

Our credit card customers are increasingly digitally-engaged, with c.92% of active customers registered for the card mobile app and with c.99% of all service interactions now executed digitally. Following the migration of heritage CYB card customers to our Global Payments platform during the year, all of our debit and credit card customers are now serviced on a single platform, which will support new digital propositions in the future.

We recognise the potential pressure on consumers in light of high levels of inflation and a more uncertain economic outlook. We have enhanced our capabilities to offer customers support if challenging circumstances arise. During the second half of the year, we also tightened underwriting standards to account for cost of living increases in our affordability assessment, alongside a stressed view of product usage.

Credit card 30-day plus arrears remain low and stable at 1.3% (FY21: 1.1%) and our personal loan book continues to perform well with 90-day plus arrears of 0.6% (FY21: 0.6%). During the year, Salary Finance Loans Limited (Salary Finance) balances were moved to stage 2 for credit risk purposes, with an ECL allowance of £19m (see page 184 for further details).



Looking ahead
We continue to target growth in Unsecured lending in line with our strategy, although at a slower pace than in FY22. We will target growth prudently, within our existing conservative risk appetite. This includes an ambition to grow our credit card market share in existing segments, while also expanding our market share in segments where we have historically been less active.

Having launched Slyce, our innovative 'buy now pay better' product (see p.4), we see opportunities to appeal to newer, younger customers with a product offering that goes beyond the limited propositions currently on offer in the market.

We also see opportunities for measured growth through attracting a small volume of customers with historic adverse credit, but stronger incomes, greater home ownership levels and lower indebtedness relative to our existing prime portfolio.

We continue to make good progress developing our digital wallet, in partnership with Global Payments. This will combine product features, such as instalment credit, payment functionality and other Virgin Money products and services, while fully embedding the Virgin Red loyalty scheme, allowing customers to earn and spend Virgin points through the wallet. The delivery of the first iteration of the wallet is well progressed with expanded functionality expected during FY23.

Commercial review

Business

Story of the year
Over the course of the financial year, the key focus for businesses has been managing through the after-effects of the pandemic, and more recently, navigating higher input prices and consumer sentiment amid a more uncertain economic outlook. Towards the end of the year activity levels had improved, although the changing backdrop could impact Business lending volumes in the near term.

We have made strong strategic progress during the year, including the launch of our fee-free BCA (M Account), providing customers with cashback and a range of rewards, supported by our new digital onboarding. We were pleased that three of our BCAs were recognised with a five star rating in the Moneyfacts Awards this year, demonstrating the strength of our proposition.

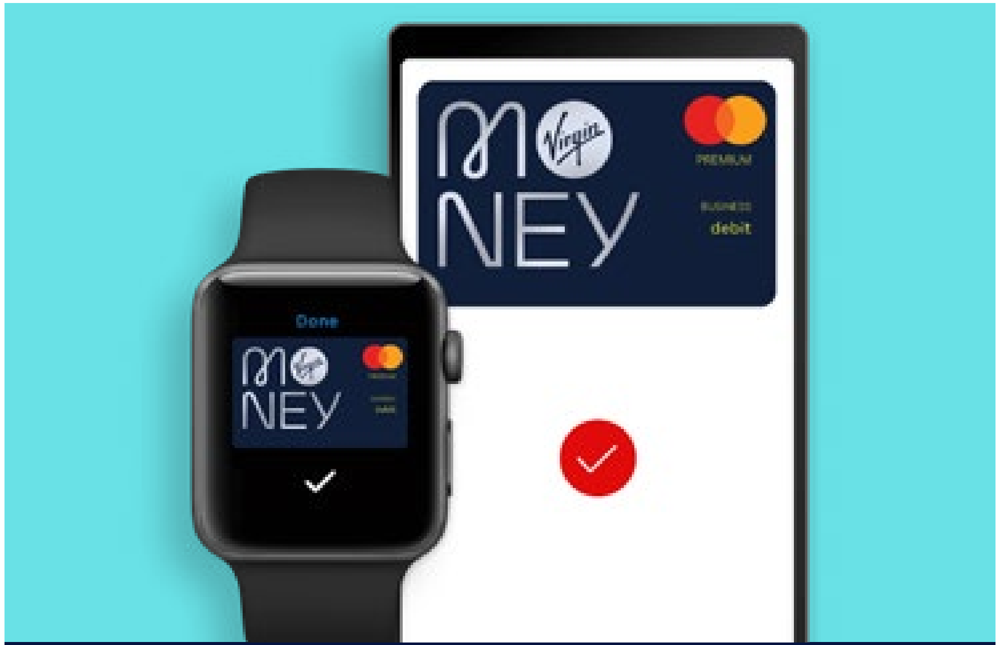
This has supported a c.70% increase in new BCA sales year-on-year, and a 10% growth in BCA balances in the same period, with consecutive periods of net inflows since the launch of the new BCA.

Our M-account now also offers businesses access to other propositions that were rolled out during the year, including M-Track and Marketplace. The M-Track digital dashboard provides customers with insights and forecasting, connecting key tools to collate business data in one place, helping customers understand their business health through a customisable dashboard and data driven insight.

Marketplace is a digital hub for accessing Virgin Money and partner products, providing innovative Fintech solutions for our Business customers, including expense and tax management, invoice financing and HR services.

Overall Business lending balances have been impacted this year by the repayment of lending advanced via the government guaranteed schemes. These balances reduced during the year from £1.3bn to £1.0bn and will continue to amortise over the coming years, albeit potentially at a slower pace. Claims for defaults from customers have been paid in full by HM Treasury and incidences of fraud are very low. Outside of government schemes, we have continued to support our customers with our business lending expertise. There has been a return to growth for 'business as usual' lending with a 14% increase in drawdowns H2 vs H1 and a growing pipeline of new business, which has roughly doubled since the same time last year.

Asset quality in all segments of the BAU book has remained strong during the year; 90+ days past due (DPD) levels (excluding government lending) reduced from 0.36% in FY21 to 0.17% at FY22. We recognise the economic outlook is more uncertain now, and we will continue to support customers with our business lending expertise, using our relationship model to offer support and advice. We remain defensively positioned with a lending portfolio that is diversified across a number of different sectors and with our top 20 customers only comprising 7% of the book.



Looking ahead
We will continue to invest in our propositions, supporting our aims to increase new customer acquisition, improve service levels, and provide customers with innovative products and functionality. This will support our position as a simplified business bank with core digital-only banking for less complex small or medium sized enterprises (SMEs) and a sector focused on corporate lending proposition for complex businesses.

During FY23, we will refresh our existing propositions, including our BCA, as we target further growth in relationship deposits and Business Marketplace offers for businesses.

We will also add new functionality, including FX through our Business Internet Banking and continue to invest in origination journeys, including new lending.

While we do expect some dampening of demand for business lending in the near term given the less certain economic outlook, we are targeting further growth in Business lending in the period to FY24, supported by the strength of our propositions and expanding pipeline.

We will target growth in areas where we have specialist knowledge and deep relationships, while remaining close to existing customers in order to ensure they are able to navigate any uncertainties that lie ahead.

Commercial review

Current accounts and Personal deposits

Story of the year

The market for retail deposits has remained strong throughout the year, despite the removal of lockdown restrictions and the impact of rising inflation which has increased living costs. This is reflected across the market, with UK household deposits showing significant growth. Market household deposit balances of £1.9tn are 3% higher than they were a year ago.

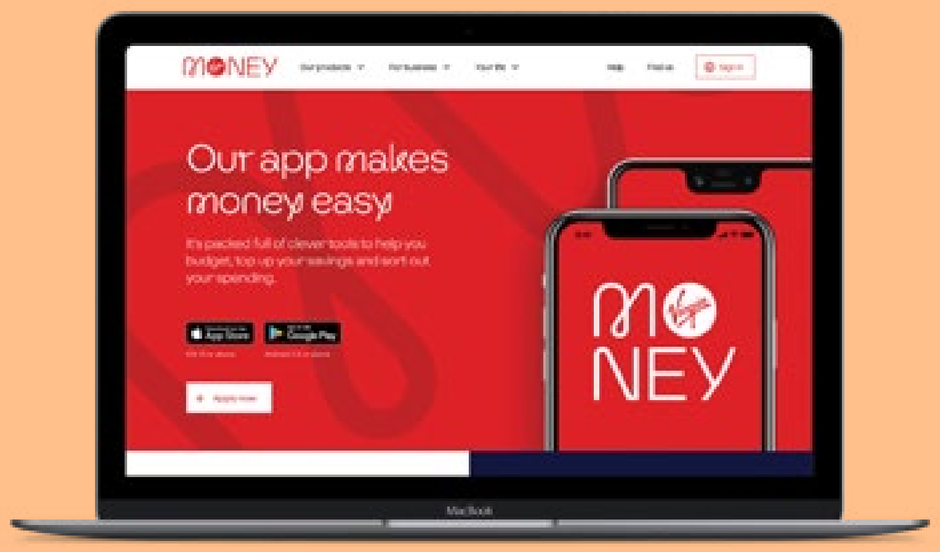
The current account market remains competitive with a number of competitors offering cash incentives and the addition of new entrants into the market. Rising rates have also resulted in notable growth in demand for fixed-term deposits. Instant access rates have increased in response to rising rates but surplus liquidity in the market has tempered the scale of rate changes to date across the sector.

During FY22, we have continued with our strategy of rebalancing the deposit mix by growing relationship deposits, driving digitisation and disrupting the deposit market with the development of innovative digital product and servicing propositions, supported by market-defining rewards.

We further developed the level of digitisation in our core offering during the year with the launch of mobile onboarding for PCA customers and full digital servicing. As a result, the level of PCA digital adoption improved during the year from 62% at FY21 to 67%.

We remain focused on becoming a disruptive choice for customers and we were pleased to win the 'Best Current Account Provider of the Year' award by customers at the Moneyfacts Awards 2022. Our Brighter Money Bundles campaign continues to provide customers with innovative incentives and ongoing loyalty rewards. This includes our new rewards proposition in partnership with Virgin Red that opens up Virgin Group offers, allowing customers to earn and spend Virgin points, as well as merchant-funded cashback offers.

Overall Group relationship deposit balances grew significantly over the year, up 13% to £34.6bn. Relationship deposits are now 53% of total customer deposits, up from 33% at FY19. Within that, Personal relationship deposits have grown by 16% this year. The growth in these lower-cost balances has given us the opportunity to reduce the Group's reliance on traditionally more expensive, price-led term deposit funding in the secondary savings and business market. These balances reduced over the year by 9% to £13.7bn overall, although increased during the second half of the year as we looked to increase our participation given it remained attractive to do so with customer rates below the rate of swaps.



Looking ahead

Given the sharp increases in living costs and the uncertain economic outlook, we remain cautious around the additional deposit balances that were built during the pandemic, which have persisted.

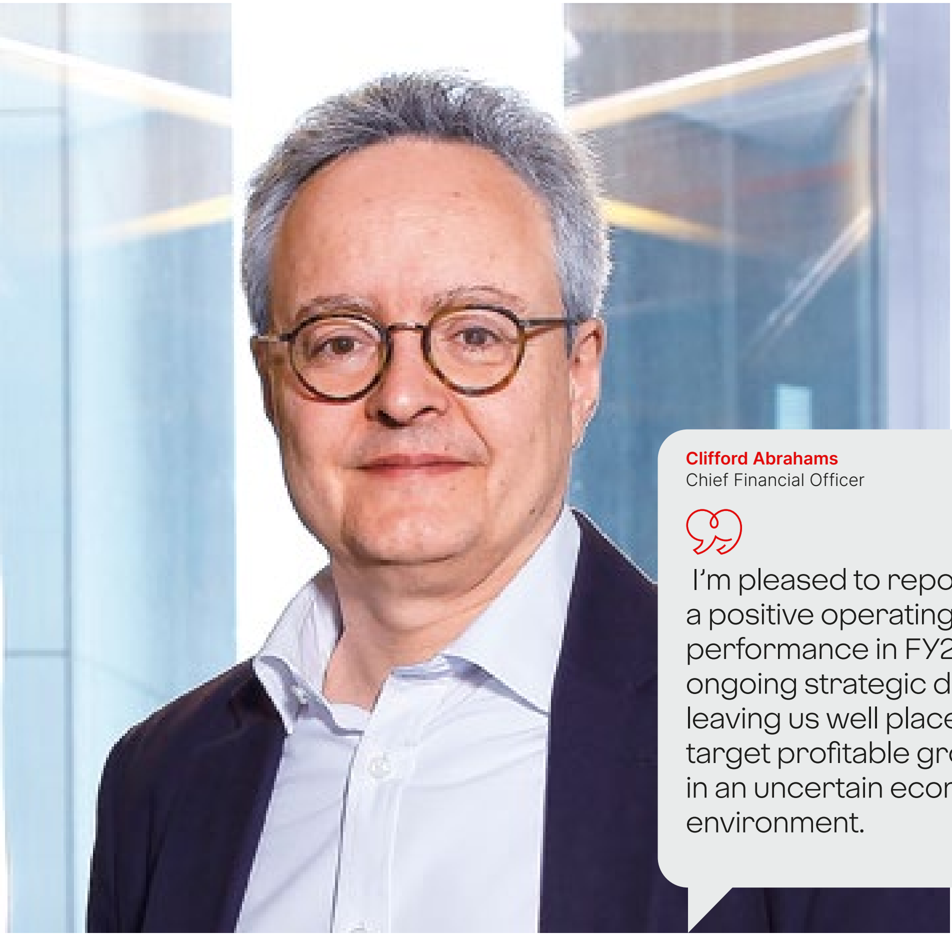
As a result, we expect the level of competition in the PCA market to remain strong and additional competitive intensity in the market for term funding. As bank base rates are expected to rise further, we also expect the level of pass through to administered rate deposits to increase.

We will continue with our longer-term strategy to increase the proportion and volume of our relationship deposits in order to optimise the mix of our deposit base, although we expect this to be at a slower pace than we have been able to deliver in FY22. We will also continue to participate in the market for term funding where it remains attractive to do so from a pricing perspective.

We will continue to evolve our proposition, leveraging rewards and the Virgin Red loyalty scheme and will continue to develop the mobile app in order to drive further automation and digitisation. We expect these measures will increase our mix of primary banked customers and deliver a positive customer experience, reducing customer complaints and aligning to our Purpose of making our customers feel happier about money.

Chief Financial Officer's review

Building momentum in strategic and financial delivery



Clifford Abrahams
Chief Financial Officer

I'm pleased to report a positive operating performance in FY22 and ongoing strategic delivery, leaving us well placed to target profitable growth in an uncertain economic environment.

2022 has been an important year as we returned to balance sheet growth and delivered improved momentum in financial performance, aided by the higher interest rate environment.

CFO review contents

Review of the year

The Group has made good progress during FY22 as we've launched new and innovative digital propositions and continued to digitise the Bank. A stronger rate environment and benign credit backdrop, combined with our strategic delivery has driven good financial momentum, enabling a statutory RoTE of 10.3%, in line with FY21.

The combination of our resilient balance sheet, digital transformation and customer propositions leave us well placed to drive profitable growth, despite the uncertain economic outlook.

Pre-provision profit was significantly stronger at £841m (2021: £670m), with a strong improvement in income and broadly stable costs. NIM improved to 1.85% (2021: 1.62%), supported by rising base rates and a strong deposit performance, while non-interest income improved 2% to £163m as improving underlying momentum offset adverse one-off and fair value movements. Taken together, total income improved 12% compared to a year ago. Underlying operating costs were 1% higher compared to FY21 reflecting ongoing cost reduction offset by digital development costs, inflation, as well as the one-off cost of living allowance paid during the year.

The Group recognised an impairment charge of £52m (2021: £131m credit) or 7bps for FY22, below through the cycle levels, driven by prudent IFRS 9 scenario weightings that incorporate a conservative economic outlook and updated PMAs. There are currently limited signs of credit concerns across our key portfolios and our arrears performance remains low and stable. We continue to monitor our customers closely for signs of financial difficulty and remain on hand to support customers.

Financial highlights

Statutory profit before tax
£595m
2021: £417m

Underlying profit before tax
£789m
2021: £801m

Statutory RoTE
10.3%
2021: 10.2%

NIM
1.85%
2021: 1.62%

Underlying CIR
52%
2021: 57%

Cost of risk
7bps
2021: (18)bps

CET1 ratio
15.0%
2021: 14.9%

Loan growth
0.8%
2021: (0.6)%

Relationship deposit growth
+13.2%
2021: +19.2%

Basis of preparation note

Statutory basis: The statutory results are set out at the end of this section on page 58.

Underlying basis: The results are adjusted to provide a management view of the Group's performance. A reconciliation from the underlying results to the statutory basis is shown on page 58 and rationale for the adjustments is shown on page 353.

During the second half of the year, we tightened affordability and underwriting criteria to account for the more uncertain economic outlook and rising living costs. Provision coverage levels remain robust at 62bps (2021: 70bps), above pre-pandemic levels.

Given the more normalised impairment charge during the year, underlying RoTE was down relative to last year at 13.5% (2021: 17.8%), while statutory RoTE was stable at 10.3% (2021: 10.2%) after adjusting for items including restructuring spend, relating to the Group's digital investment, and intangible asset write-offs.

We were pleased to deliver lending growth during the year, as overall customer lending finished c.1% higher relative to FY21 at £72.6bn. Unsecured balances performed strongly throughout the year growing 14% as the combination of the resilience of our book and strong digital propositions allowed us to continue to take market share. Mortgage balances were broadly stable during the period at £58.2bn as we continued to prioritise margin over volume. Business lending balances reduced c.3% overall, as growth in BAU balances was offset by expected reductions in government-backed lending.

Deposit balances reduced c.2% to £65.4bn as we continued to focus on improving the mix of our deposit base. Over the course of FY22, there was a 13% increase in lower-cost relationship deposits, now comprising 53% of overall deposits (2021: 46%), helping to underpin the Group's NIM performance.

Capital remained strong in the period, with the transitional CET1 ratio of 15.0% (2021: 14.9%), with significant tangible net asset value (TNAV) accretion over the year, to 383p (2021: 290p). We were pleased to outline our capital framework alongside our Interim results following our strong performance in the SST.

In line with our capital framework, the Board has declared a 10p dividend for the year and has announced a £50m share buyback, adding to the £75m share buyback that commenced in June.

I am confident that we will continue to demonstrate strategic and financial momentum during FY23, following a strong performance this year. We recognise the economic environment is uncertain and the potential affordability issues that will cause for households and we will continue to prioritise our customers as we did during the pandemic.

Underlying income

	2022 £m	2021 £m	Change
Underlying net interest income	**1,592**	1,412	13%
Underlying non-interest income	**163**	160	2%
Total underlying operating income	**1,755**	1,572	12%
NIM	**1.85%**	1.62%	23bps
Average interest-earning assets	**86,275**	86,947	(1)%

NII and NIM

Net interest income (NII) increased by £180m or 13% relative to FY21, driven by an expansion of the Group's NIM as it continued to benefit from higher rates and optimisation of the deposit base. Asset yields increased 34bps compared to FY21 with higher swap income the primary contributor, reflecting the rising base rate environment through the year. Given the ongoing competitive pressure on new and retained mortgage spreads, average balances reduced over the course of the year, as the Group remained selective in terms of its participation, while the average yield also declined c.9bps; together, this contributed to lower mortgage interest income. In Business, interest income increased by £33m in the year, despite lower average balances, as the yield of the book improved, given the lower mix of lower-yielding government-backed lending. In Unsecured, interest income increased by £24m in the year, driven by significant growth in average balances, owing mainly to growth in the credit card book. Elsewhere, the average yield on the Group's liquid assets increased 70bps reflecting the higher rate environment across the financial year.

The balance of the Group's structural hedge was maintained at c.£32bn throughout the year. This represents an increase from c.£26bn at the end of FY21, following a review of deposit behaviour.

During the year, the Group generated £286m of total gross income from the structural hedge, benefitting from ongoing hedge re-investment at higher prevailing interest rates.

Liability rates increased at a slower rate than asset yields, increasing 14bps relative to FY21. During the year, the Group continued to optimise its mix of deposits, reducing traditionally more expensive term deposits and increasing current account balances. This growth was driven by a strong performance in new PCA sales through the Brighter Money Bundles campaign, the relaunch of our BCA, and further supported by higher average balances as customers saved more during the period of COVID-19 restrictions. Wholesale funding costs increased in the year, driven by an increase in average balances following issuance throughout the year.

Non-interest income

Non-interest income increased by £3m or 2% relative to FY21, to £163m, as growth in other operating income offset fair value and one-off movements. The key drivers of the improvement in other operating income included increased Unsecured and Business fee income from higher customer transaction levels following the removal of COVID-19 restrictions during the year. Mortgage fee income was broadly stable during the period. One-off movements in the year were driven by the non-repeat of equity valuation gains in the debt restructuring unit recognised in FY21 (£16m) and fair value volatility due to hedge ineffectiveness movements.

Average balance sheet	2022 Average balance £m	2022 Interest income/(expense) £m	2022 Average yield/(rate) %	2021 Average balance £m	2021 Interest income/(expense) £m	2021 Average yield/(rate) %
Interest earning assets						
Mortgages	**57,996**	**1,272**	**2.19**	58,426	1,332	2.28
Unsecured lending	**6,100**	**407**	**6.67**	5,407	383	7.09
Business lending[1]	**8,263**	**331**	**4.00**	8,801	298	3.38
Liquid assets	**13,059**	**117**	**0.90**	12,827	26	0.20
Due from other banks	**853**	**2**	**0.22**	1,482	–	(0.02)
Swap income/other	**–**	**104**	**n/a**	–	(87)	n/a
Other interest earning assets	**4**	**–**	**n/a**	4	–	n/a
Total average interest earning assets	**86,275**	**2,233**	**2.59**	86,947	1,952	2.25
Total average non-interest earning assets	**3,229**			3,590		
Total average assets	**89,504**			90,537		
Interest bearing liabilities						
Current accounts	**15,829**	**(46)**	**(0.29)**	14,516	(14)	(0.09)
Savings accounts	**30,895**	**(147)**	**(0.48)**	30,242	(123)	(0.41)
Term deposits	**12,894**	**(149)**	**(1.16)**	18,259	(223)	(1.22)
Wholesale funding	**16,169**	**(296)**	**(1.83)**	13,591	(176)	(1.30)
Other interest bearing liabilities	**145**	**(3)**	**n/a**	164	(4)	n/a
Total average interest bearing liabilities	**75,932**	**(641)**	**(0.84)**	76,772	(540)	(0.70)
Total average non-interest bearing liabilities	**7,903**			8,414		
Total average liabilities	**83,835**			85,186		
Total average equity	**5,669**			5,351		
Total average liabilities and average equity	**89,504**			90,537		
Net interest income		**1,592**	**1.85**		1,412	1.62

(1) Includes loans designated at fair value through profit or loss (FVTPL).

Underlying costs

For the year ended 30 September	2022 £m	2021 £m	Change
Staff costs	**375**	348	8%
Property and infrastructure	**42**	43	(2)%
Technology and communications	**116**	113	3%
Corporate and professional services	**114**	101	13%
Depreciation, amortisation and impairment	**116**	155	(25)%
Other expenses	**151**	142	6%
Total underlying operating and administrative expenses	**914**	902	1%
Underlying CIR	**52%**	57%	(5)%pts

Underlying operating expenses increased 1% relative to FY21 to £914m, while the underlying CIR improved 5%pts to 52%. This performance was driven by the continued delivery of savings from the Group's digitisation programme, which were more than offset by additional costs from higher inflation and targeted growth, ongoing digital development spend, and one-off costs relating to our colleague cost of living allowance, which was paid during the year.

Staff costs increased during the period by 8%, as the impact of wage increases, bonuses, the employee cost of living allowance and higher resources working on digital initiatives offset savings from a lower average headcount and a pension credit. Depreciation and amortisation reduced by 25% in the year, primarily as a result of changes to D&A practices made at the end of the last financial year, reflecting costs that are no longer capitalised and additional changes made in FY22 as the Group adopts Agile methodology. The increase in Corporate and professional services spend reflects the impact of higher change investment, while the increase in Other expenses primarily reflects higher digital development and growth related spend.

Impairments

As at 30 September 2022	Credit provisions £m	Gross lending £bn	Coverage ratio bps	Net cost of risk bps	% of loans in Stage 2	% of loans in Stage 3
Mortgages	**56**	**58.5**	**9**	**(5)**	**5.3**	**1.0**
Unsecured:	**284**	**6.5**	**466**	**322**	**17.3**	**1.2**
of which credit cards	***246***	***5.5***	***481***	***347***	***13.9***	***1.3***
of which personal loans and overdrafts	***38***	***1.0***	***388***	***161***	***34.9***	***0.9***
Business	**117**	**8.1**	**159**[1]	**(112)**	**18.7**	**4.6**
Total	**457**	**73.1**	**62**	**7**	**7.8**	**1.4**
of which stage 2	***268***	***5.7***	***472***			
of which stage 3	***104***	***1.0***	***1,124***			

(1) Government-guaranteed element of loan balances excluded for the purpose of calculating the Business and total coverage ratio.

As at 30 September 2021	Credit provisions £m	Gross lending £bn	Coverage ratio bps	Net cost of risk bps	% of loans in Stage 2	% of loans in Stage 3
Mortgages	87	58.5	15	(7)	12.3%	1.1%
Unsecured:	194	5.8	380	(64)	9.7%	1.2%
of which credit cards	*160*	*4.7*	*379*	*5*	*10.7%*	*1.3%*
of which personal loans and overdrafts	*34*	*1.1*	*386*	*(386)*	*5.0%*	*1.1%*
Business	223	8.3	306[1]	(62)	29.2%	2.8%
Total	504	72.6	70	(18)	14.1%	1.3%
of which stage 2	*302*	*10.2*	*302*			
of which stage 3	*91*	*1.0*	*959*			

(1) Government-guaranteed element of loan balances excluded for the purpose of calculating the Business and total coverage ratio.

During the year, the Group maintained robust credit quality across its portfolios, with very few significant provisions given low volume of borrowers flowing into default. Following an ECL credit in the income statement in 2021, there was a charge of £52m during the year, equivalent to a cost of risk of 7bps. Overall credit provisions remain robust at £457m (2021: £504m) with the aggregate coverage level at 62bps (2021: 70bps).

During the fourth quarter of the financial year, the Group refreshed the macroeconomic scenarios used for IFRS 9 modelling, provided by Oxford Economics in early September, incorporating a weaker UK economic outlook. The weighted economic scenarios used at Q4 were prudently selected and incorporated a 10% weighting to the upside scenario, 55% to the base scenario and 35% to the downside scenario. The weighted economic scenario includes a contraction in GDP in 2023 of 1.5%, peak average unemployment of 5.3% in 2024 and a 7.4%/5.9% annual HPI contraction in 2023/2024, followed by a recovery in the outer years.

The Group applied expert credit risk judgement through PMAs to supplement the modelled provision to account for factors that the models cannot incorporate. The overall size of the PMAs at FY22 was £85m, reflecting a significant reduction from FY21 (£207m). The movement in PMAs during the year was primarily driven by the release of COVID-19 related judgemental PMAs across the portfolios, offset slightly by the introduction of a c.£27m cost of living PMA for Mortgage and Unsecured customers and a £30m economic resilience PMA for Business customers, recognising that the Business portfolio continues to face into an uncertain economic environment.

Credit quality has remained robust with loans classified as stage 2 reducing from 14% of the portfolio at FY21 to 8% at FY22, primarily as the removal of COVID-19-linked PMAs in the retail portfolio saw customers return to stage 1. In line with the overall reduction in provisions outlined above, the provision coverage level has reduced but remains appropriate for the underlying level of risk.

In Mortgages, the coverage ratio of 9bps (2021: 15bps) is deemed appropriate for the conservative loan book and remains ahead of pre-pandemic levels. Our Unsecured lending book coverage ratio of 466bps (2021: 380bps) includes 481bps of coverage for our high-quality credit card portfolio and 388bps of coverage for our smaller personal loans and overdrafts book. Arrears levels remain modest across the portfolio, with c.99% in each of the personal loans and cards portfolios in either stage 1 or stage 2 not past due. The increase in the percentage of balances in stage 2 to 17.3% (2021: 9.7%) is primarily due to the movement of all personal loans made via the Salary Finance JV into Stage 2, following an increased number of customers entering into financial difficulty during the year.

In Business, the coverage ratio of 159bps (2021: 306bps) reflects a 147bps reduction in the year. There has been little evidence of deterioration in asset quality to date, with the level of specific provisions continuing to be low. Total balances in either stage 1 or stage 2 not past due represents c.95% of the portfolio. The reduction in the percentage of balances in stage 2 to 18.7% (2021: 29.2%) is primarily as a result of changes applied to the significant increase in credit risk (SICR) criteria, which resulted in these customers migrating back to stage 1.

Adjusting items and statutory profit

	2022 £m	2021 £m
Underlying profit on ordinary activities before tax	**789**	801
Adjusting items		
– Restructuring charges	**(82)**	(146)
– Acquisition accounting unwinds	**(35)**	(88)
– Legacy conduct costs	**(8)**	(76)
– Other items	**(69)**	(74)
Statutory profit on ordinary activities before tax	**595**	417
Tax (expense)/credit	**(58)**	57
Statutory profit for the year	**537**	474
Underlying RoTE	**13.5%**	17.8%
Statutory RoTE	**10.3%**	10.2%
TNAV per share	**383.0p**	289.8p

Overview
The Group made a statutory profit before tax of £595m after deducting £194m of adjusting items (2021: £384m).

TNAV per share increased 93.2p in FY22 to 383.0p. The key drivers of the increase were +38.3p of earnings and +47.7p of positive cash flow hedge reserve movements, given the rate environment.

Restructuring charges
Restructuring charges totalled £82m in the year, driven by charges related to the Group's digital investment. This included c.£60m related to the delivery of IT changes and c.£17m related to closure of stores, changes to the operating model and property footprint. The Group continues to expect to incur a total of c.£275m of restructuring costs to implement its digital strategy across FY22-24, with the majority now expected to be incurred in FY23.

Acquisition accounting unwinds
The Group recognised fair value accounting adjustments at the time of the Virgin Money acquisition that unwind through the income statement over the remaining life of the related assets and liabilities. £35m was reflected in FY22 and the Group expects a further c.£30m of total acquisition accounting unwind charges over the next three years.

Legacy conduct
Charges of £8m were incurred in FY22 relating to legal proceedings and legacy claims arising in the ordinary course of the Group's business.

Other items
Other items include a c.£60m charge recognised in the year following a reassessment of the Group's capitalisation practices, against the backdrop of the move to Agile project delivery and following the completion of the annual impairment review of intangible assets.

Taxation
On a statutory basis, there was a £58m tax charge during the year. This included an overall deferred tax credit reflecting additional historical losses recognised in the year, which offset a deferred tax charge reflecting the impact of the enactment of the reduction in the banking surcharge from 8% to 3%, and the increase in the threshold below which it is not chargeable, to £100m (previously £25m).

Balance sheet

As at 30 September	2022	2021	Change
Mortgages	**58,155**	58,104	0.1%
Unsecured	**6,163**	5,415	13.8%
Business[1]	**8,247**	8,477	(2.7)%
Total customer lending	**72,565**	71,996	0.8%
Relationship deposits[2]	**34,649**	30,596	13.2%
Non-linked savings	**17,048**	21,285	(19.9)%
Term deposits	**13,663**	14,989	(8.8)%
Total customer deposits	**65,360**	66,870	(2.3)%
Wholesale funding	**17,012**	13,596	25.1%
of which TFS	**–**	*1,244*	*(100)%*
of which TFSME	***7,200***	*4,650*	*54.8%*
Loan to deposit ratio (LDR)	**111%**	108%	3%pts
Liquidity coverage ratio (LCR)	**138%**	151%	(13)%pts

(1) Of which, £963m government lending (2021: £1,318m).

(2) Current account and linked savings balances.

Customer lending and deposits

At an aggregate level, Group lending increased by 0.8% to £72.6bn. The increase was primarily driven by growth in Unsecured and non-government guaranteed Business lending, while Mortgage balances remained stable. Total customer deposits reduced by 2.3% to £65.4bn reflecting changes to the overall mix of customer and wholesale funding balances, with growth in PCA and Relationship deposits offset by lower non-linked term deposits and non-linked savings.

Mortgage balances were broadly stable at £58.2bn as the Group prioritised margin over volume growth in a competitive environment, in line with the longer-term strategy. Overall housing demand remained strong throughout the year, while pricing remained competitive.

During the final quarter of the year, mortgage spreads had begun to recover as increases in customer rates outpaced changes in swap rates, however heightened volatility towards the end of the financial year resulted in further pressure on mortgage margins.

Business lending reduced overall by 2.7% during the year to £8.2bn. This was mainly driven by government-guaranteed lending, which reduced by c.27% to £1.0bn following the closure of the schemes last year and as businesses made repayments. Non-government business lending increased by c.2% in the year to £7.3bn, supported by a growing pipeline of new business through the year.

Unsecured balances grew by 13.8% in the year to £6.2bn, driven by a strong performance in the credit cards where balances increased by c.21% in the year to £5.2bn. This performance was supported by strong new credit card sales and a recovery in consumer spending, as the Group increased its market share of balances during the year by 0.9% to 8.3%. During the year, the Group observed customer behavioural activity outperforming assumptions, resulting in the card EIR asset performing as expected.

Personal loans and overdraft balances reduced c.14% during the year to £1.0bn in line with the Group's strategy to reduce its participation in this market.

The Group's strategy to optimise its overall funding mix drove a 2% reduction in customer deposits during the year to £65.4bn. The Group also continued to improve its mix of customer deposits, as relationship balances grew 13%, supported by strong customer propositions, while non-linked savings and non-linked term deposits reduced by 20% and 9% respectively.

Wholesale funding and liquidity

The Group maintains a robust funding and liquidity position. The Group's LDR increased 3%pts in the year to 111% (2021: 108%), primarily as a result of the continued reduction in more expensive term deposits. The Group's LCR of 138% (2021: 151%) 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.

The Group made further drawings of £2.6bn from the BoE's Term Funding Scheme with additional incentives for small or medium-sized enterprises (TFSME) early in the year ahead of its closure, taking the total outstanding amount to £7.2bn, while at the same time repaying its remaining £1.2bn of TFS drawings. The incremental TFSME drawings, along with successful residential mortgage-backed securities (RMBS) and Covered Bond transactions during the year, meant wholesale funding increased to £17.0bn (FY21: £13.6bn), offsetting the reduction in term deposits.

Capital

	2022	2021	Change
CET1 ratio (IFRS 9 transitional)	**15.0%**	14.9%	0.1%pts
CET1 ratio (IFRS 9 fully loaded)	**14.6%**	14.4%	0.2%pts
Total capital ratio	**22.0%**	22.0%	-%pts
MREL ratio	**32.1%**	31.9%	0.2%pts
UK leverage ratio	**5.1%**	5.2%	(0.1)%pts
RWAs (£m)	**24,148**	24,232	(0.3)%
of which Mortgages (£m)	***9,155***	*10,010*	*(8.5)%*
of which Unsecured (£m)	***4,817***	*4,311*	*11.7%*
of which Business (£m)	***6,196***	*6,040*	*2.6%*

Unless where stated, data in the table shows the capital position on a Capital Requirements Directive (CRD) IV 'fully loaded' basis with International Financial Reporting Standard (IFRS) 9 transitional adjustments applied.

Overview

During 2022, the Group maintained a strong capital position with a CET1 ratio (IFRS 9 transitional basis) of 15.0% (2021: 14.9%) and a total capital ratio of 22.0% (2021: 22.0%). During the year, the Group announced its updated capital framework including a 30% full year dividend payout level, supplemented with buybacks subject to ongoing assessment of surplus capital, market conditions and regulatory approval. In line with the updated capital framework, the movement in the CET1 ratio during the year included a 58bps impact from the proposed full year dividend of 10p in line with the dividend policy and 31bps impact from the initial £75m share buyback. Excluding shareholder distributions, capital generation was underpinned by ongoing profitability and lower RWAs.

Capital requirements

As at 30 September 2022, the Group's Pillar 2A requirement had a CET1 element of 1.7%. Overall, the Group's CRD IV minimum CET1 capital requirement (or maximum distributable amount threshold) as at the end of FY22 was 8.7%. The Group's capital framework assumes the Countercyclical buffer returns to 2%.

CET1 capital

The Group's transitional CET1 ratio increased by 12bps over the year. Total underlying capital generation of 195bps was driven by 226bps of underlying profit, offset by 4bps from higher RWAs (excluding the impact to RWAs from intangible asset relief changes) and 27bps of AT1 distributions and related costs. Adjusting items consumed c.40bps while there was 58bps of accrual for expected dividends and 31bps from the £75m share buyback. The removal of the CRR II software benefit consumed a further 53bps. The announcement of an additional £50m share buyback will reduce CET1 resources in Q1 2023.

RWAs

Overall, RWAs reduced by 0.3% during FY22 to £24.1bn. To date, RWA pro-cyclicality has remained low, although the risk still remains, with the timing of any increase uncertain. In Mortgages, RWAs reduced by £0.9bn as probability of default (PD) recalibrations and stronger HPI more than offset growth in balances and other movements. In Business, RWAs increased by £0.2bn mainly as a result of higher customer balances, excluding government-backed balances that carry a 0% risk weight. In Unsecured, RWAs increased by £0.5bn in line with the increase in customer lending during the financial year. Non-credit RWAs were £3.1bn as at FY22 (2021: £2.7bn). In H1 2023, the Group expects a c.£1bn-1.5bn increase from the implementation of hybrid model changes.

Robust capital position in the face of economic uncertainty

While credit provisions have reduced to £457m (2021: £504m) reflecting the robust credit performance and removal of COVID-19-related PMAs, the Group maintains a strong level of coverage to manage the impact of a weaker economy, and subsequent increase in credit losses. In addition, the Group also retained a significant CET1 management buffer of £1.5bn in excess of its CRD IV regulatory requirement as at FY22, providing further potential loss-absorbing capacity.

MREL

The Group's Minimum Requirements for Own Funds and Eligible Liabilities (MREL) ratio increased from 31.9% to 32.1% during the year, comfortably exceeding its 2022 end-state MREL requirement of 24.9% of RWAs.

CET1 capital movements[(1)]	2022
Opening CET1 ratio	**14.9%**
Capital generated (bps)	**226**
RWA growth (bps)	**(4)**
AT1 distributions (bps)	**(27)**
Underlying capital generated (bps)	**195**
Restructuring charges (bps)	**(25)**
Acquisition accounting unwind (bps)	**(10)**
Conduct (bps)	**(3)**
Foreseeable ordinary dividends (bps)	**(58)**
Share buyback	**(31)**
Other (bps)	**(3)**
Reversal of intangible asset relief (bps)	**(53)**
Net capital generated (bps)	**12**
Closing CET1 ratio	**15.0%**

(1) This table shows the capital position on a CRD IV 'fully loaded' basis with IFRS 9 transitional adjustments applied.

FY23 outlook

In FY23, we anticipate full year NIM to be 185-190bps, reflecting the benefit of the current rate environment, structural hedge reinvestment and deposit pricing, offset by ongoing competitive pricing pressures, particularly in Mortgages, higher wholesale funding costs and higher liquidity requirements, as a consequence of increased market volatility.

The Group now expects to deliver a CIR of around 50% in FY23. The Group continues to expect to incur c.£275m of restructuring charges between FY22-24, reflecting its ongoing digitisation programme, with the majority of the remaining c.£190m expected to be incurred in FY23.

Guidance

FY23 outlook

NIM
185-190bps

Underlying costs
c.50% CIR

Cost of risk
Normalise around the through-the-cycle level of c.30-35bps

Restructuring costs
c.£275m across FY22-FY24, with the majority in FY23

Dividend
30% dividend payout supplemented with buybacks

Medium-term outlook

Statutory RoTE
c.11% in FY24, consistent with target of >10%

Growth
Targeting growth in Unsecured and Business (non-government), maintaining Mortgage market share

Income
Mix-driven NIM expansion

Gross savings
Gross cost savings of c.£175m by FY24 generate headroom to absorb inflation and re-investment

Underlying costs
Underlying CIR to be <50%

The Group now expects its cost of risk for FY23 to normalise around its through the cycle average of c.30-35bps.

Consistent with our strategy to diversify the balance sheet, we anticipate growth in overall lending in FY23, with more moderate growth in Unsecured and Business (non-government) relative to FY22, and modest growth in Mortgages.

The Group expects to issue £1.5bn-2.5bn of secured issuance in FY23 subject to deposit flows and relative cost, while MREL issuance is expected to be broadly limited to maintaining the current surplus to regulatory requirements.

During H122, the Group announced its long-term CET1 target range of 13-13.5%. During FY23, the Group expects to operate above 14%, given the level of macroeconomic uncertainty. This includes the anticipated impact of implementing mortgage hybrid models, which is currently anticipated to increase RWAs by c.£1bn-1.5bn in H123.

In line with the Company's capital framework and dividend policy, which was outlined alongside H122 results, the Board is today announcing a £50m extension of the Group's existing buyback programme. Given the timing of this year's stress test results, the Group does not expect to announce further buybacks until Q423.

Medium-term outlook
In the medium term the Group's digital acceleration will support the delivery of valuable and differentiated propositions to drive profitable growth. The Group will continue to target diversification on both sides of the balance sheet, delivering growth in Unsecured and Business lending, while maintaining our mortgage market share. We continue to target strong growth in new PCA and BCA customer numbers, improving the overall cost of funds.

We continue to expect our strategy to digitise the Bank to deliver around £175m of gross cost savings over the period FY22-24, generating headroom to absorb inflation and reinvestment. We have made good progress to date with savings driven by reductions in headcount and property, third party spend and savings from digitisation. Given the uncertain economic environment that has resulted in persistent high levels of inflation, alongside our strategy to grow the balance sheet, the Group continues to target a CIR rather than a nominal cost target and expects to achieve an underlying CIR of <50% by FY24.

Following the full recognition of historical losses, the Group expects its effective tax rate to be maintained in the mid 20%s from FY23 based on enacted legislation.

Overall, the Group now expects to deliver a c.11% statutory RoTE by FY24 and is well placed to deliver strong, profitable growth through the acceleration of our digital strategy.

In order to support its FY24 RoTE target, the Group anticipates returning to its 13-13.5% CET1 target range by FY24, assuming no material change in the economic outlook. The Group will target a 30% full year dividend payout level and will supplement dividends with buybacks, subject to an ongoing assessment of surplus capital, market conditions and regulatory approval.

Clifford Abrahams
Chief Financial Officer
20 November 2022

Summary income statement – statutory basis

For the year ended 30 September	2022 £m	2021 £m
Net interest income	**1,576**	1,357
Non-interest income	**140**	132
Total operating income	**1,716**	1,489
Operating and administrative expenses	**(1,069)**	(1,203)
Operating profit before impairment losses	**647**	286
Impairment (losses)/credit on credit exposures	**(52)**	131
Statutory profit on ordinary activities before tax	**595**	417
Tax (expense)/credit	**(58)**	57
Statutory profit after tax	**537**	474

The Group has recognised a statutory profit before tax of £595m (2021: £417m). The increase in statutory profit is driven by higher income and lower statutory costs, offset slightly by our impairment performance, given the scale of the writeback recognised last year. The Group continues to expect that the difference between underlying and statutory profit will reduce over time as we deliver our strategy and the exceptional charges reduce.

Performance measures(1)

	2022	2021	Change
Profitability			
RoTE	**10.3%**	10.2%	0.1%pts
CIR	**62%**	81%	19%pts
Return on assets	**0.60%**	0.52%	0.08%pts
Basic earnings per share (EPS)	**32.4p**	27.3p	5.1p

(1) For a definition of each of the performance measures, refer to 'Measuring the Group's performance' on pages 344 to 352.

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 as presented to the CEO, Executive Leadership Team and Board and excludes 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 353.

2022 income statement	Statutory results £m	Restructuring charges £m	Acquisition accounting unwinds £m	Legacy conduct £m	Other £m	Underlying basis £m
Net interest income	**1,576**	**–**	**16**	**–**	**–**	**1,592**
Non-interest income	**140**	**–**	**16**	**–**	**7**	**163**
Total operating income	**1,716**	**–**	**32**	**–**	**7**	**1,755**
Total operating and administrative expenses before impairment losses	**(1,069)**	**82**	**3**	**8**	**62**	**(914)**
Operating profit before impairment losses	**647**	**82**	**35**	**8**	**69**	**841**
Impairment losses on credit exposures	**(52)**	**–**	**–**	**–**	**–**	**(52)**
Profit on ordinary activities before tax	**595**	**82**	**35**	**8**	**69**	**789**
Financial performance measures						
RoTE	**10.3%**	**1.4%**	**0.6%**	**0.1%**	**1.1%**	**13.5%**
CIR	**62.3%**	**(4.4)%**	**(1.8)%**	**(0.4)%**	**(3.6)%**	**52.1%**
Basic EPS	**32.4p**	**4.2p**	**1.8p**	**0.4p**	**3.6p**	**42.4p**

2021 income statement	Statutory results £m	Restructuring charges £m	Acquisition accounting unwinds £m	Legacy conduct £m	Other £m	Underlying basis £m
Net interest income	1,357	–	55	–	–	1,412
Non-interest income	132	–	23	–	5	160
Total operating income	1,489	–	78	–	5	1,572
Total operating and administrative expenses before impairment losses	(1,203)	146	10	76	69	(902)
Operating profit before impairment losses	286	146	88	76	74	670
Impairment credit on credit exposures	131	–	–	–	–	131
Profit on ordinary activities before tax	417	146	88	76	74	801
Financial performance measures						
RoTE	10.2%	2.9%	1.7%	1.5%	1.5%	17.8%
CIR	80.8%	(8.9)%	(5.4)%	(4.6)%	(4.5)%	57.4%
Basic EPS	27.3p	7.8p	4.7p	4.1p	4.0p	47.9p

Remaining on the front foot

Susan Poot
Chief Risk Officer

Data driven risk management enables innovation, profitable growth and better outcomes for our customers.

Ensuring the Group remains well-positioned to support our customers through the cost of living crisis, while oversighting the delivery of our strategy to be the UK's best digital bank.

Our approach to risk

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.

The Group manages risk using a single Risk Management Framework (RMF), which helps the Group control risk by:

- supporting decision making, planning and prioritisation through providing a greater understanding of business activity and volatility;
- providing a consistent approach to risk management activities including clear roles and responsibilities, insightful reporting and appropriate oversight; and
- supporting delivery of all strategies including sustainability and growth.

The RMF applies to all areas of the Group and is the responsibility of the Board. It is approved formally on an annual basis and is subject to ongoing review to ensure that it remains fit for purpose.

Risk performance is measured through Risk Appetite Statement (RAS) metrics and risk assessments, supported by lessons learned activities. Risks to future performance are considered through stress testing and scenario analysis, with ongoing monitoring.

Our Purpose and Values play a big part in our risk culture by setting out what we want to do and how we want to do it. Personal accountability is at the heart of this and is enabled through the risk management accountability model and formal delegation framework, which supports us in making risk-based decisions.

Emerging risks

The Group considers an emerging risk to be any risk which has a material unknown and unpredictable component, with the potential to significantly impact the future performance of the Group or result in customer harm. The Group's emerging risks are continually reassessed and reviewed through a horizon scanning process, with escalation and reporting to the Board. The horizon scanning process considers fully all relevant internal and external factors and is designed to capture those risks which are current but have not yet fully crystallised, as well as those which are expected to crystallise in future periods.

Key 2022 developments

During the year, Risk undertook initiatives to upgrade risk systems and data capabilities, to underpin prudent and sustainable growth, in support of our ambition to be the UK's best digital bank.

Risk appetite has been reviewed in conjunction with the Group's strategic plan, ensuring an appropriate balance between supporting growth objectives and operating within acceptable risk levels given the uncertain economic environment.

Risk has overseen the Group's Agile implementation plan, adapting change risk practices, to support the accelerated response to evolving customer needs.

Modelling capabilities continued to be developed, with a Risk Analytics Centre of Excellence being established, to strengthen model development activity and increase focus on key regulatory projects.

Risk is overseeing key regulatory developments including Consumer Duty, ACS and Resolution and Recovery Planning, and maintaining an open dialogue with regulators on progress.

Continued investment in financial crime and fraud systems, including the implementation of Confirmation of Payee capabilities for our customers.

Enhancements to climate-related data management capabilities have been supported, alongside our inaugural climate scenario analysis exercise and evaluations of physical and transitional risks across our lending portfolios.

Emerging 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, and are subject to regular review across senior governance fora. Amendments have been made to the emerging risk classifications reported in the Group's 2021 Annual Report & Accounts, to reflect the evolving risk landscape.

Risk trend since 2021 ∧ Increase > Unchanged ∨ Decrease

External emerging risks

1 Economic risk
∧

Inflationary pressures in the UK are contributing towards a cost of living crisis which, combined with low economic growth, presents risks to the Group's strategic plan and ability to grow. In aggregate, these risks could impact customer resilience and consequently debt affordability.

Mitigating actions
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.

Credit policies and risk appetite have been tightened to reflect the weak economic outlook and to de-risk new business. Portfolios are monitored closely to identify customers and sectors experiencing financial difficulty, with procedures in place to provide support and to ensure credit risk is managed appropriately.

Links to:
Credit risk
Financial risk
Strategic and enterprise risk

2 Potential for Scottish independence
∧

UK political risks, in particular those linked to the potential for a Scottish independence referendum, could have wide-ranging financial, operational and regulatory impacts for the Group.

Mitigating actions
Domestic political risks are closely monitored, with detailed planning and risk assessments carried out to ensure preparedness for a range of outcomes.

Links to:
Credit risk
Financial risk
Operational and resilience risk
Strategic and enterprise risk

3 Geopolitical tensions
∧

Geopolitical tensions, including the war in Ukraine, are creating volatility within domestic and global markets, leading to wide-ranging impacts affecting global trade, consumer confidence and financial crime.

Mitigating actions
Detailed portfolio reviews and controls are in place to monitor and mitigate second order impacts from market volatility, to manage disruption across funding markets and to ensure compliance with sanctions requirements.

Links to:
Credit risk
Financial risk
Financial crime and fraud risk

Risk trend since 2021 ∧ Increase > Unchanged ∨ Decrease

External emerging risks

4 Regulatory change >	The Group remains subject to high levels of oversight and an evolving programme of change from regulatory bodies, across areas such as operational resilience, capital models, climate and Consumer Duty.	**Mitigating actions** The Group continues to monitor emerging regulatory initiatives and works with regulators to ensure it meets all obligations. Identified implications of upcoming regulatory activity are incorporated into the strategic planning cycle.	**Links to:** Financial risk Regulatory and compliance risk Operational and resilience risk Financial crime and fraud risk Strategic and enterprise risk
5 ESG risk ∧	Uncertainties around the exact nature and impact of climate change on the Group's strategy, performance and operating model continue to evolve alongside government policy, developments in climate science and technology advances. There are risks associated to the changing regulatory, societal, political and reputational scrutiny on how companies report the impact of their activities on the environment and on the social challenges to which company business models must respond.	**Mitigating actions** The Group continues to enhance its approach to ESG, adapting its operations and strategy considering risks and opportunities, in line with its Purpose-led strategy.	**Links to:** Climate risk Credit risk Financial risk Operational and resilience risk Strategic and enterprise risk
6 Third-party risk >	The Group's accelerated digitisation strategy could lead to complex and significant dependencies on third-party services required to maintain day-to-day operations without interruption, which could create vulnerabilities if not managed and affect the Group's ability to support our customers and meet regulatory expectations.	**Mitigating actions** Impact assessments for important business services are carried out to evaluate operational resilience and to identify and mitigate third-party dependency risks.	**Links to:** Operational and resilience risk

Risk trend since 2021 ∧ Increase > Unchanged ∨ Decrease

Internal emerging risks

7 >	Technological change	The rapid pace of technological change, coupled with changing customer requirements, creates increasing demands on systems resilience and our people. This could be heightened by the Group's accelerated digital strategy, as new service propositions and products are launched.	**Mitigating actions** The Group continues to invest in its technology infrastructure to ensure risks are managed, in support of its accelerated digital strategy.	**Links to:** Operational and resilience risk; Financial crime and fraud risk; Technology and cyber risk
8 >	Change risk	The Group manages a range of complex change programmes which are required to support delivery of strategic priorities and regulatory obligations and can be subject to heightened execution risk given time and resource constraints. Failure to deliver key change projects could have wide-ranging impacts.	**Mitigating actions** Delivery of change sustainably, efficiently and in an agile way is a priority for the Group.	**Links to:** Operational and resilience risk; Financial crime and fraud risk; Technology and cyber risk; Strategic and enterprise risk
9 >	Data stewardship	The Group's accelerated digitisation strategy, combined with changing regulatory requirements and technological advancements such as Cloud solutions, places increasing importance on the effective and ethical use of data. Data is integral to the Group's operations and delivery of strategy, and significant risks could arise if data is misused, incomplete, absent or not protected.	**Mitigating actions** The Group has a comprehensive framework of controls in place to manage and mitigate data risks, with continued investment into data management capabilities.	**Links to:** Regulatory and compliance risk; Operational and resilience risk; Technology and cyber risk
10 >	Changing skills and talent attraction	Skill shortages continue to affect the Group's ability to attract, develop and retain talent in certain sectors, with the backdrop of a highly competitive labour market and internal cost pressures adding to challenges. The Group's success is dependent on attracting and retaining skilled and highly performing personnel.	**Mitigating actions** Detailed resource planning and close monitoring of staff wellbeing and attrition levels are in place and we have introduced our A Life More Virgin model to help support colleagues and to strengthen our proposition in the market.	**Links to:** People risk

Principal risks

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 broadly the same as those outlined in the Annual Report and Accounts 2021, with the exception of climate risk, which has been reclassified from a cross-cutting risk to a principal risk due to its increasing relevance and materiality to the Group's risk profile. Operational resilience is now included within Operational and resilience risk. Technology risk has been renamed Technology and cyber risk, to recognise not only the risks involved with maintaining the Group's technology processes and infrastructure, but also the growing risk surrounding cyber security.

An overview of the Group's principal risks and mitigating actions is set out overleaf, while further information on all of the Group's principal risks can be found on pages 159 to 230 of the Risk report.

Key

Trend

- ⋀ Heightened
- > Stable

Credit risk ⋀

The risk that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk 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.

Mitigating actions

- The Group applies detailed lending policies 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 and policies.
- The Group carries out ongoing monitoring and approval of individual transactions, regular asset quality reviews and independent oversight of credit decisions and portfolios.
- Portfolio monitoring techniques cover such areas 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 RWA and capital.

Future focus

- The Group remains focused on continued and timely support for customers and 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 ⋀

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.

Mitigating actions

- 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 participated in the BoE SST for the first time in December 2021.
- Board-approved risk appetite measures ensure funding and liquidity levels 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.

Future focus

- The Group's focus is to manage the balance sheet through the uncertain economic environment with the cost of living crisis and the UK's economic recovery from COVID-19, as well as managing residual disruption created by the UK's exit from the EU.
- 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, with a consultation paper due towards the end of 2022. 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.

Regulatory and compliance risk

The risk of failing to comply with relevant laws and regulation or not keeping the regulators informed of relevant issues or responding effectively to regulatory requests, leading to regulatory sanction.

Mitigating actions

- Clearly defined regulatory and compliance policy statements and standards are in place, supporting both regulatory and customer expectations.
- There is ongoing reporting and development of regulatory and compliance risk appetite measures to the Executive Risk Committee and the Board.
- There is ongoing proactive and coordinated engagement with key regulators.
- Formal monitoring of compliance is managed through focused oversight and regular reporting to the Executive Risk Committee and Board Risk Committee.

Future focus

- The Group will continue to respond to regulatory change and associated requirements for systems and processes across the banking industry as a whole. It will seek to comply with all regulations as they evolve, and as customer expectations continue to develop.
- The Group will continue its implementations of major regulatory changes, including the new Consumer Duty rules.

Model risk

The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.

Mitigating actions

- 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 (MGC). Examples of how the Board is kept informed on model risk include the RAS, reports from the Chief Risk Officer and model monitoring reports.
- 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.

Future focus

- 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 Consultation Paper (CP) 6/22 Model Risk Management Principles for Banks, is an important development in the management of model risk in UK financial institutions which we are monitoring closely.
- 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.

Operational and resilience risk

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.

Mitigating actions

- 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.

Future focus

- Current practices will be developed and enhanced in preparation for the implementation of a new risk management system, 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.
- Enhancements to the change management framework will be required for introduction of Agile methodology.

Financial crime and fraud risk

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.

Mitigating actions

- 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 risk appetite 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.
- 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.

Future focus

- The Group will continue to develop its capabilities to mitigate financial crime in an external environment where digitisation is increasing quickly and threats continue to evolve.
- Supporting our digitisation strategy, investment will continue in the Group's financial crime and fraud prevention systems.

Technology and cyber risk

The risk of loss resulting from inadequate or failed information technology processes through strategy, design, build or run components internally or externally provisioned. It includes IT Resilience as well as Cyber and Information Security.

Mitigating actions

- The Group has a data management framework governing the creation, storage, distribution, usage and retirement of data.
- The payment risk framework outlines key scheme rules, regulations and compliance requirements to ensure that payment risk is managed within appetite.
- The Board-approved security strategy focuses on the management of cyber risk, exposure and manipulation of confidential data and identity and access management.
- These risks are managed through a number of controls that align to the industry-recognised National Institute of Standards and Technology Framework.
- IT resilience is addressed by a programme of continuous monitoring over the currency of technology estate and disaster recovery. Furthermore, critical end-to-end business recovery and contingency plans are maintained and tested.

Future focus

- The move to an Azure Cloud platform to host technology supports the delivery of our strategy to simplify our IT estate. A programme of work is underway to move services to Azure, reduce the number of data centres and review core banking systems. To support this, the Group has built and is implementing a Cloud Control Framework.
- The ability to deliver new and enhanced digital services using agile development and cloud technologies will come into focus as we strive to bring innovation and disruption to the banking sector.

Strategic and enterprise risk

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 adapt to external developments, including potential execution risk as a result of transformation activity.

Mitigating actions

- 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 meeting our growth plans and Digital-First 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.

Future focus

- The Group will continue to develop and embed its sustainability agenda in managing environmental, climate, social and governance-related risks.
- Regular oversight will be performed on workstreams that are focused on supporting the Group's digital-led strategy, placing customers' interests at the centre of all aspects of change.

Conduct risk

The risk of undertaking business in a way that is contrary to the interests of customers, resulting in customer harm, regulatory censure, redress costs and reputational damage.

Mitigating actions

- Delivering good outcomes for our customers and consistent with the Group's Purpose, there is an overarching conduct risk framework, with clearly defined policy statements and standards.
- There is ongoing reporting and development of conduct risk appetite measures to the Executive Risk Committee and the Board.
- The Group continually assesses evolving conduct regulations, customer expectations, and product and proposition development to ensure it continues to put the customer first.
- A risk-based monitoring framework is in place which monitors compliance with regulation and assesses customer outcomes.

Future focus

- 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 impacted by the current macroeconomic environment and vulnerable customer groups more generally, and in response to the FCA's final rules and guidance for Consumer Duty.

People risk

The risk of not having sufficiently skilled and motivated colleagues, who are clear on their responsibilities and accountabilities and behave in an ethical way.

Mitigating actions

- A new framework has been introduced – A Life More Virgin – which sets out policies to enhance our colleague proposition focused on well-being and colleague retention.
- Roles, responsibilities and performance expectations are defined in role profiles and expanded through objective setting and ongoing performance management. The Group's cultural framework has a clearly defined Purpose, with Values, Behaviours and a Code of Conduct, that form the foundation of the performance management framework.
- The quality and continuity of the Group's leadership is reviewed and assessed through succession planning and talent management activity.

Future focus

- We will closely monitor the potential impacts of the cost of living crisis on colleague wellbeing.
- Embedding the Group's Purpose remains a priority as it empowers our colleagues to provide better customer service and hold higher standards of conduct.
- The Group's focus on creating a unique colleague proposition through A Life More Virgin continues, positioning us as an employer of choice and driving colleague engagement and retention.
- The Group's Remuneration Committee continues to explore remuneration design to balance incentivisation and motivation with appropriate risk management.

Climate risk

The risk of exposure to physical and transition risks arising from climate change.

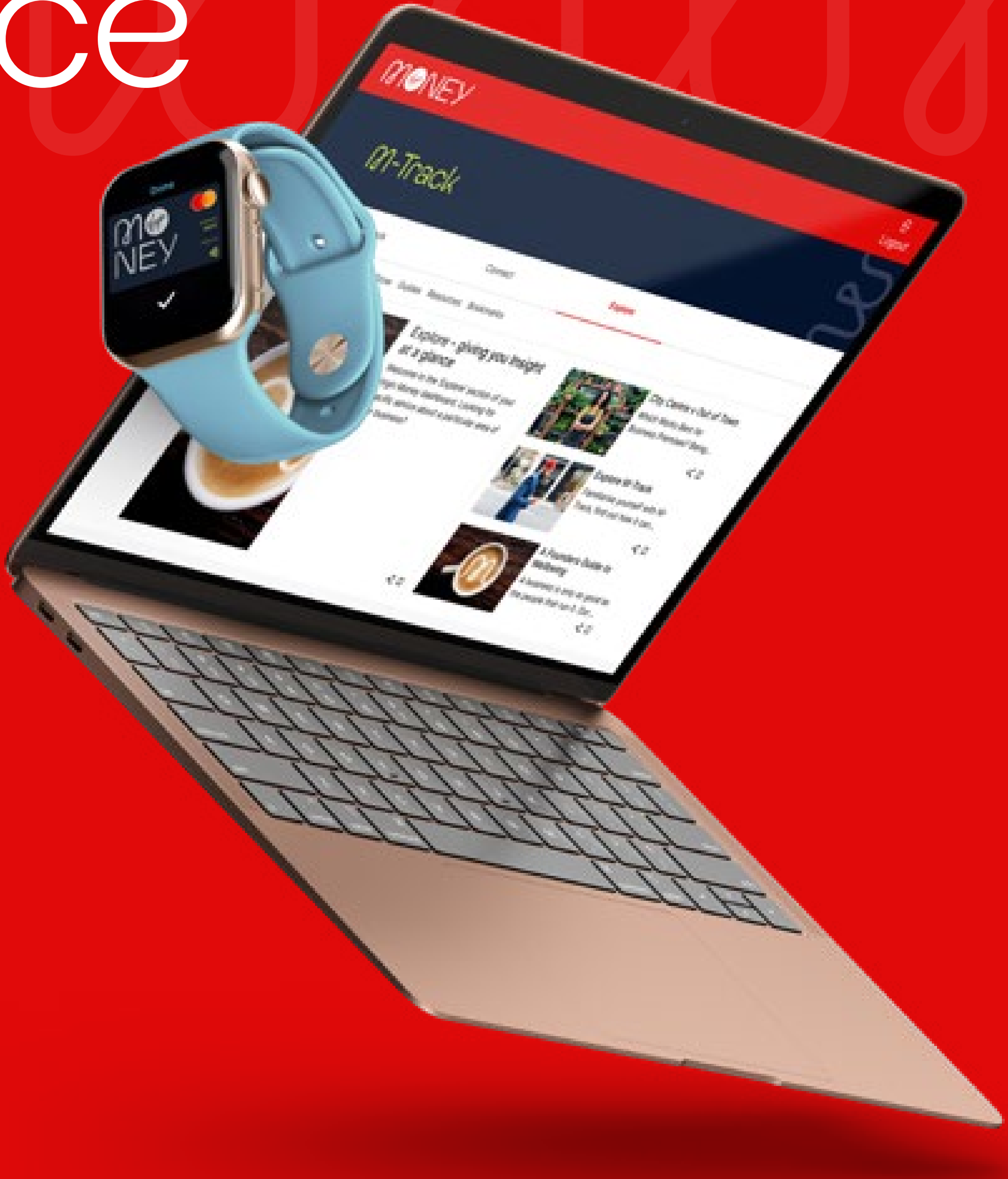
Mitigating actions

- 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.
- 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 continues to develop and embed its sustainability agenda in managing environmental and climate-related risks.

Future focus

- The Group will continue to develop capability to identify, manage and monitor climate risk.
- Investment to further develop data capability to inform strategy and support customers' transition to a low carbon economy will be required
- We will maintain focus on the Group's net-zero ambitions.

Governance



Board Chair's introduction

David Bennett
Board Chair

We are committed to putting our Purpose at the heart of everything we do as a business and an employer, beginning in the Boardroom.

Introduction

I am pleased to present this Governance report for 2022.

In this report we set out the composition of our Board and the Executive Leadership Team, describe how the corporate governance framework operates and how it supports our strategy. The Board remains focused on good governance being central to its decision making and how Virgin Money generates sustainable returns for shareholders and value for broader stakeholders over the long term.

We are Purpose-driven

Our Purpose – Making you happier about money – guides our strategy and the Board and I are committed to putting it at the heart of everything we do as a business and as an employer. Purpose is embedded throughout our corporate governance framework including through Board discussion and challenge on how business decisions are Purpose-led. You can read more about how Purpose is driving our strategy on page 3 and about the Board's involvement in our Governance Spotlights on page 87 and 88.

Board oversight of strategy

Following the announcement in November 2021 of our plans to accelerate our Digital-First strategy and of our refreshed growth, investment and efficiency targets, the Board has spent significant time overseeing the execution of that strategy, including the delivery of new propositions, the development of our digital wallet and efficiency and agility improvements alongside other priorities. The key areas of Board focus during the year are set out on page 85 and 86 the Board's continued involvement in the strategy review process is described on page 87.

Listening and responding to our stakeholders

Purpose drives everything we do at Virgin Money and when making decisions the Board pays close attention to the outcomes for customers, colleagues and our communities, in addition to wider stakeholders and never more so has this been the case than as we look into an uncertain economic environment which will undoubtedly be a challenging period for many. The Board places great importance on listening to our stakeholders and considering their interests during Board discussions and decision making, and examples of how the Board has done this during the year are given on pages 89 to 99.

The full easing of the restrictions in place during the COVID-19 pandemic and the opening of our collaboration hubs at our principal offices gave the Board the opportunity to review its operating rhythm.

We have agreed to adopt a hybrid approach and to meet for in-person meetings around three times during the year and continue to hold meetings digitally at other times. We have found that following this routine makes our time together as productive and efficient as possible. When we met in-person at our Newcastle office in May, the Board and I were pleased to have the opportunity to meet informally with colleagues based there and we hope to reintroduce more in-person touch points during FY23, including through our formal Workforce Engagement Programme. Following the easing of restrictions, I was pleased to host a physical Annual General Meeting (AGM) in London in February 2023.

Board changes

Amy Stirling, the Representative Director of Virgin Enterprises Limited (Virgin) (appointed under the terms of a Trade Mark Licence Agreement between the Company and Virgin) left the Board on 5 May 2022 followed by Paul Coby on 30 June 2022. I'd like to thank Amy and Paul for their contribution to the Board during their time as Directors. We announced on 9 September 2022 that Sara Weller would be appointed Virgin's new Representative Director and Sara joined the Board on 3 October 2022. We continue to keep the composition, skills and experience of the Board under review as described on page 101 of the Governance and Nomination Committee report.

Improving diversity and inclusion through succession planning

The development of a diverse and inclusive organisation is central to our people strategy driven by our Purpose. The Board firmly believes that having a truly diverse workforce that reflects the communities and customers Virgin Money serves is fundamental to the Group's long-term sustainable success. Strong succession planning remains a key focus in helping ensure the continuation of a well-balanced and diverse Board taking into account the business' immediate and longer-term requirements. Further details on the Board's approach to its own succession arrangements and in relation to Executive Leadership Team succession and talent management are described in the Governance and Nomination Committee report on page 103 which also explains our approach to diversity and inclusion.

Board evaluation

Following the approach in FY21, a second internal evaluation of the Board's effectiveness was undertaken this year. The process, key themes arising, and actions agreed following the evaluation are described on pages 104 and 105. The Board has agreed that the FY23 evaluation will be externally facilitated by an independent third party and appointed Korn Ferry (UK) Limited to conduct the review which began in October 2022.

UK Corporate Governance Code

The Company's statement of compliance with the UK Corporate Governance Code 2018 can be found on page 73.

Looking ahead

As Board Chair I will continue to ensure that the Board and Executive Leadership Team focus on delivering on our strategic commitments for the benefit of all of our stakeholders and the communities we serve.

Finally, I would like to thank all of my Board colleagues for their contributions during the year.

David Bennett
Board Chair
20 November 2022

Our Board in 2022

Board and Committee composition and attendance at scheduled meetings from 1 October 2021 to 30 September 2022[1]

Board member	Board	Governance and Nomination Committee	Audit Committee	Risk Committee	Remuneration Committee	Independent
David Bennett (Board Chair)	10/10	6/6	–	–	6/6	(on appointment)
Executive Directors						
Clifford Abrahams	10/10	–	–	–	–	No
David Duffy	10/10	–	–	–	–	No
Non-Executive Directors						
Paul Coby[2]	7/8[4]	4/4	3/4[4]	5/6[4]	3/4[4]	Yes
Geeta Gopalan	10/10	6/6	6/6	7/7	6/6	Yes
Elena Novokreshchenova	10/10	6/6	6/6	7/7	6/6	Yes
Darren Pope	10/10	6/6	6/6	7/7	6/6	Yes
Amy Stirling[3]	6/6	4/4	–	–	–	No
Tim Wade	10/10	6/6	6/6	7/7	6/6	Yes

(1) Data is based on scheduled meetings from 1 October 2021 to 30 September 2022 only. Additional ad hoc meetings of the Board and Board Committees also took place during the year.

(2) Paul Coby stepped down from the Board on 30 June 2022.

(3) Amy Stirling stepped down from the Board on 5 May 2022.

(4) Unable to attend the meeting due to an external unavoidable commitment.

(5) The skills and experience graph reflects the composition of the Board as at 30 September 2022. Only direct or practical career experience is reported – the majority of Non-Executive Directors have indirect experience, for example gained from other Board positions, across all categories. The skills matrix is reviewed annually by the Governance and Nomination Committee.

Non-Executive Directors' skills and experience[5]

Our Board in 2022

Board composition as at 30 September 2022
The charts on the right illustrate the Board composition as at 30 September 2022. When measured against the targets in the Board Diversity and Inclusion Policy (Policy) which applied for FY22, we met our target to have at least one Director from an ethnic minority background on the Board. Women's representation on the Board was 28.6% (based on two female Directors and five male Directors), which, following Amy Stirling leaving the Board during the year, falls short of our 33% target. Upon Sara Weller joining the Board on 3 October 2022, women's representation improves to 37.5% as at the date of this report, achieving the 2022 target.

Further details of the Board's approach to diversity and inclusion and our revised Policy and targets to apply for FY23 are set out on page 103 of the Governance and Nomination Committee report.

Director tenure
As at the date of this report, all Directors have a tenure not exceeding nine years[(6)]. Each Director's date of joining the Group is included in their biography on pages 74 to 78.

(6) In the case of Geeta Gopalan and Darren Pope tenure is calculated relative to the date they each joined the Board of Virgin Money Holdings (UK) PLC (now Virgin Money Holdings Limited). Virgin Money UK PLC (formerly CYBG PLC) acquired Virgin Money Holdings (UK) PLC on 15 October 2018.

Reporting table on gender identity or sex as at 30 September 2022

	Number of Board members	Percentage of Board members	Number of senior positions of the Board (CEO, CFO, SID and Chair)	Principal Board Committees			
				Governance and Nomination Committee	Audit Committee	Risk Committee	Remuneration Committee
Men	5	71.4%	4	3	2	2	3
Women	2	28.6%	0	2	2	2	2
Not specified/ prefer not to say	0	0%	0	0	0	0	0

Reporting table on ethnic background as at 30 September 2022

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Principal Board Committees			
				Governance and Nomination Committee	Audit Committee	Risk Committee	Remuneration Committee
White British or other White	6	85.7%	4	4	3	3	4
Asian/Asian British	1	14.3%	0	1	1	1	1
Black/African/ Caribbean/ Black British	0	0%	0	0	0	0	0
Mixed/Multiple ethnic groups	0	0%	0	0	0	0	0
Other ethnic group, including Arab	0	0%	0	0	0	0	0
Not specified/ prefer not to say	0	0%	0	0	0	0	0

Board members were asked to report on their gender identity and ethnicity in their responses to information sought to support the annual review by the Governance and Nomination Committee of the structure, size and composition of the Board.

The UK Corporate Governance Code 2018

Our compliance with the Code

The UK Corporate Governance Code 2018 (Code) applied to Virgin Money for the financial year ended 30 September 2022. The Code is available at www.frc.org.uk. The Board confirms that the Company applied the principles and complied with all relevant provisions of the Code throughout the year except for provision 36 which requires that the Remuneration Committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares. Under the Group's Executive Director remuneration policy which applied during the year, a significant proportion of variable pay is delivered in shares over a seven-year time frame with no acceleration on departure. Upon the vesting of shares at the end of the deferral period, a regulatory holding period is applied as required. Therefore, for the FY22 year it is the Board's view that the Company complied with best practice and the spirit of the Code provision 36 in all material respects. The Group has implemented a formal policy for post-employment shareholding requirements under its new Directors' remuneration policy, with effect from 1 October 2022 and has therefore complied with the Code provision 36 since that date. Details of the Group's shareholding policy and post-employment shareholding requirements are set out in the Directors' remuneration report on page 134. The Directors' remuneration policy is subject to shareholder approval at the 2023 AGM.

The Governance section of this Annual Report & Accounts provides details of how we have applied the principles and related provisions of the Code during the reporting period. We have aligned this section with the five sections of the Code.

Our Board of Directors

Committee membership

AUDIT Audit Committee

GOV Governance and Nomination Committee

REM Remuneration Committee

RISK Risk Committee

Chair

Board Chair

David Bennett
Board Chair

GOV REM

Joined the Group
October 2015 and became Board Chair in May 2020.

Skills, experience and contribution

> Deep experience gained over 35 years in retail banking and financial services.

> Extensive experience in strategic planning and implementation.

> Significant board governance experience including at chair level.

> Credibility with stakeholders.

> Strong leadership qualities.

David is an experienced Board Chair and Non-Executive Director. He brings extensive experience of retail banking, strategy, risk management, corporate activity and organisation, operational and structural change gained from his long career in financial services. He has the governance expertise and external insight required to lead an effective Board which is critical to the long-term success of the Group. Prior to becoming Board Chair in 2020, David had been Deputy Board Chair since 2015 and therefore has the experience of the Group and track record needed to support the Board and executive in delivering the medium and longer-term strategy. His extensive business career includes time as Group Finance Director of Alliance & Leicester plc for six years before becoming its Group Chief Executive. Following the acquisition of Alliance & Leicester plc by Banco Santander he was Executive Director on the Board of Abbey National plc. He was formerly Chairman of Homeserve Membership Limited and Together Financial Services Limited, was a Non-Executive Director on the Board of Bank of Ireland (UK) PLC, Chairman of Ashmore Group PLC and has significant Non-Executive Director experience in listed environments which has included easyJet plc and CMC Markets PLC.

External appointments
Chairman of Allfunds Group plc, Non-Executive Director of PayPal (Europe) S.a.r.l. et Cie, S.C.A. and Non-Executive Board member of The Department for Work & Pensions.

Executive Directors

David Duffy
Executive Director and Chief Executive Officer

Joined the Group
June 2015.

Skills, experience and contribution
- Extensive retail and commercial banking experience in the UK and internationally built over a period of more than 30 years.
- Significant strategic and financial leadership experience including strategic planning and development, business and cultural transformation.
- Proven ability to build and lead strong management teams.
- Deep industry understanding and credibility with key stakeholders.

David has over three decades of extensive experience in banking and financial services in both the UK and internationally. He brings deep industry understanding to the Board as well as strong executive leadership which is critical to his role as Chief Executive Officer (CEO). His drive, energy and commitment to customers as well as his proven ability to build and lead strong management teams and transform businesses, brings significant value to all of Virgin Money's stakeholders. Prior to joining the Group, David was CEO at Allied Irish Banks plc and previously of Standard Bank International where he had responsibility for operations in the UK, Europe, Latin America and Asia. He was also previously Head of Global Wholesale Banking Network with ING Group and President and Chief Executive of the ING wholesale franchises in the United States and Latin America. David is a past president of the Banking and Payments Federation of Ireland and a past Director of the European Banking Federation and previously held the role of HM Treasury Fintech Envoy for England.

External appointments
Senior Independent Director of UK Finance Limited, the industry body representing leading firms providing finance, banking, markets and payments-related services in or from the UK, member of the Confederation of British Industry (CBI) President's Committee, an advisory body providing advice to the President and CBI executive on all issues of national importance and a Board member of The Northern Powerhouse Partnership.

Clifford Abrahams
Executive Director and Chief Financial Officer

Joined the Group
March 2021.

Skills, experience and contribution
- Extensive international executive experience at leading financial services businesses.
- Deep experience as Chief Financial Officer.
- Significant strategic and financial experience, including on integration and digital transformation.

Clifford brings extensive executive experience across international financial services to the Board. His broad knowledge gained as a Chief Financial Officer (CFO) of publicly listed financial services companies is of great value to the Board. Clifford's proven track record of delivery of commercial results, risk management and business change and development including digital propositions is crucial to supporting Virgin Money in the delivery of its strategy. Clifford is also Chair of Virgin Money's Environment Committee. Prior to joining Virgin Money, Clifford was Group CFO at ABN AMRO Bank having joined in that role in 2017. Previous roles include Group CFO at the Dutch insurer Delta Lloyd Group, ten years at Aviva in several senior financial roles including CFO of Aviva Investors, CFO of UK & Ireland Life Insurance and CFO of UK & Ireland General Insurance. In the early part of his career Clifford spent 12 years at Morgan Stanley in the Financial Institutions Group latterly as Managing Director.

External appointments
None.

Non-Executive Directors

Tim Wade
Senior Independent Non-Executive Director

AUDIT GOV REM RISK

Joined the Group
September 2016.

Skills, experience and contribution
- Deep financial services experience including banking and insurance.
- Considerable board experience including as an audit committee chair.
- Deep knowledge of accounting, auditing and associated regulatory issues.
- Chartered accountant and experienced Chief Financial Officer.

Tim's background as an experienced CFO, his breadth of financial services experience and the industry knowledge he has gained from over 20 years at both executive and non-executive director level is excellent grounding for his role as Chair of the Audit Committee. His extensive accounting, financial services audit, prudential oversight and corporate governance knowledge, including considerable experience as an audit committee chair, strengthen the Board. His previous non-executive director roles include Macquarie Bank International Limited, Friends Life Group Limited, Monitise plc and The Access Bank UK Limited. He was a Managing Director at AMP Group, responsible for both its Bank and the Virgin Direct (now Virgin Money) joint venture (JV). Earlier in his career he was Group CFO at Colonial Limited in Melbourne, Australia where he oversaw the company's initial public offering (IPO) and was involved in its acquisition by Commonwealth Bank.

External appointments
Non-Executive Director and Chair of the Audit Committee of RBC Europe Limited and Non-Executive Director and Chair of the Audit and Risk Committee of Chubb Underwriting Agencies Limited.

Geeta Gopalan
Independent Non-Executive Director

RISK AUDIT GOV REM

Joined the Group
October 2018.

Skills, experience and contribution
- Extensive business leadership, management and board experience.
- Experience in the UK and internationally across a range of industries including financial services, retail banking, payments, digital innovation and the social sector.
- Deep understanding of the digital economy and interest in emerging technologies.
- Strong strategic, risk and governance experience.

Geeta's extensive financial services, retail banking and payments industry experience gained over more than 25 years strengthen the Board. Her understanding of the digital economy and interest in emerging technologies including the use of data and analytics in financial services enhance Board discussions with respect to the Group's digital strategy in particular. Her extensive experience in the retail banking and payments industries mean she has a strong focus on customer conduct and fairness considerations and in delivering customer-focused outcomes. Her broad risk and governance experience is highly relevant to her role as Chair of the Risk Committee. Geeta was formerly Non-Executive Director and Chair of the Remuneration Committee of Ultra Electronic Holdings Plc, Executive Chair of Monitise Europe, a Non-Executive Director at VocaLink and Vice Chair of the Big Lottery Fund England, one of the largest funders of the third sector in England. Among the many roles in her career, Geeta was Director of Payment Services with HBOS plc and previously Managing Director, UK Retail Bank and Business Development Head EME at Citigroup. She is a chartered accountant.

External appointments
Senior Independent Director and Chair of the Audit Committee of Funding Circle Holdings Plc, Non-Executive Director and Chair of the Risk Committee at Wizink Bank S.A. and Trustee of the Old Vic Theatre Trust 2000.

Non-Executive Directors

Elena Novokreshchenova
Independent Non-Executive Director

AUDIT GOV REM RISK

Joined the Group
March 2021.

Skills, experience and contribution
- Extensive experience in leading disruptive technology organisations across a range of sectors and growth stages.
- Proven track record in formulating and executing on digital strategy and transformation.
- Deep understanding of delivering value within innovative customer-centric businesses.
- Significant strategic and risk management experience.

Elena's extensive understanding of customer-centric Digital First organisations and the technology ecosystem gained over a 20-year international career, brings a wealth of experience to the Board. Elena's most recent role was Executive Vice President of International at Remitly, a leading disruptor in the app first digital remittance space, appointed to internationalise, scale and drive company growth as a leading digital money transfer provider. Prior to this, Elena held senior technology product and general management positions at Expedia Inc. She also brings an invaluable strategic perspective from her time spent in the management consulting role at Strategy& (part of PricewaterhouseCoopers LLP) as well as a strong financial acumen from her risk and debt finance roles at Barclays PLC.

Elena is a strong advocate for diversity and inclusion in the technology sector and is a member of the 'Women in Payments Group' and the Worshipful Company of International Bankers. She is a regular speaker at technology summits and forums.

External appointments
Managing Director Europe Digital at Entain plc.

Darren Pope
Independent Non-Executive Director

REM AUDIT GOV RISK

Joined the Group
October 2018.

Skills, experience and contribution
- Extensive retail banking and financial services background.
- Significant board level strategic and financial leadership experience including investor relations, strategy, corporate development, treasury and finance.
- Governance and deep regulatory experience.
- Strong experience of boards at both executive and non-executive level.

Darren brings considerable and highly relevant experience in retail banking and financial services from a career spanning more than 30 years during which he held senior and board level positions as a CFO and finance director. His in-depth understanding of financial and risk matters and experience of managing relations with investors and regulators provides an excellent foundation for his role as Chair of the Remuneration Committee. Darren has strong experience of board governance including as a senior independent director and as chair of audit committees. His previous appointments include Senior Independent Director and Chair of the Audit Committee of Equiniti Group plc and CFO of TSB Bank plc, where he took the lead role in the divestment of the TSB business from Lloyds Bank plc and its subsequent IPO and takeover. Prior to that he held several executive and senior retail banking and finance roles at Lloyds Banking Group plc.

External appointments
Senior Independent Director and Chair of the Audit Committee at Network International Holdings plc; Non-Executive Chairman at Silicon Valley Bank UK Ltd and Non-Executive Director at Hargreaves Lansdown plc.

Joined the Board post FY22

Sara Weller CBE
Non-Executive Director

Joined the Group
October 2022.

Skills, experience and contribution
- A broad perspective coming from a background in retail, fast moving consumer goods and financial services.
- Strong board experience at both executive and non-executive level.
- Extensive business leadership experience in the UK and internationally.

Sara is an independent non-executive director of BT Group plc (BT) and a member of BT's Audit, Risk, Nominations, Digital Impact & Sustainability and Compliance committees. In September 2022 she joined the Board of the Money and Pensions Service, and she is also currently Chair of the Remuneration Committee at New College, University of Oxford and a member of the Stop MS Campaign Board, part of the MS Society charity. Sara's previous roles include managing director of Argos and various senior positions at J Sainsbury, including deputy managing director and serving on its board between 2002 and 2004. Sara was a non-executive director of Lloyds Banking Group from February 2012 to May 2021 and United Utilities Group from March 2012 to July 2020. She was also the lead non-executive director at the Department for Work & Pensions from April 2017 until April 2020. She has also previously been a non-executive director of Mitchells & Butlers and held senior management roles at Abbey National and Mars Confectionery.

External appointments
Independent non-executive director of BT Group plc; member of the Money and Pensions Service board; Chair of the Remuneration Committee at New College, University of Oxford and a member of the Stop MS Campaign Board.

Group Company Secretary

Lorna McMillan
Group Company Secretary

Joined the Group
September 1994.

Skills, experience and contribution
- Extensive board, governance and general management experience.
- Significant banking and risk management experience.
- Extensive financial services experience gained over nearly 30 years.

Lorna was appointed Group Company Secretary in January 2019 and prior to that was Company Secretary from October 2014. She has broad experience and knowledge gained from nearly 30 years in the Group having held various roles in Personal and Business banking, wholesale banking, risk management and legal and governance areas.

Our Executive Leadership Team

The Executive Leadership Team is responsible for delivering the initiatives that underpin the Group's strategic priorities as detailed in the Strategic report. The team operates under the direction and authority of the Chief Executive Officer.

Read the biographies of our Executive Leadership Team members on our website (www.virginmoneyukplc.com/about-us/executive-leadership-team).

David Duffy
Chief Executive Officer

Clifford Abrahams
Chief Financial Officer

Syreeta Brown
Group Chief People and Communications Officer

Hugh Chater
Chief Commercial Officer

Fraser Ingram
Chief Digital and Innovation Officer

Fergus Murphy
Chief Customer Experience Officer

James Peirson
General Counsel and Purpose Officer

Susan Poot
Chief Risk Officer

How our Board operates

The role of the Board and our governance framework

The Board is collectively responsible for promoting the long-term, sustainable success of the Group generating value for shareholders and ensuring the interests of all stakeholders and the Group's contribution to wider society are fully understood and considered. You can read more about how the Board engages with stakeholders and the Directors' statement of compliance with their duties under section 172 of the Companies Act 2006 on pages 89 to 99.

At the date of this report, the Board comprises the Board Chair, two Executive Directors, four independent Non-Executive Directors and one Non-Executive Director appointed by Virgin. The names of the Directors together with their biographies, including their skills, experience and contribution to the Board are on pages 74 to 78.

The Board's role is to provide leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board establishes the Group's Purpose and Values, sets the Group's strategy and risk appetite and leads the development of the Group's culture. You can read more about how our Purpose Making you happier about money drives our strategy on page 3 and there's an overview of the Board's engagement in strategy setting on page 87.

Our governance framework, encompassing the Board, Board committees and the executive committees (described on page 162) facilitates the delivery of Virgin Money's strategy through informed Purpose-driven decision making. The Board is the ultimate decision-making body for matters of Group-wide strategic,

Board governance framework

Virgin Money UK PLC Board[1]
Responsible for the overall leadership of the Group

Governance and Nomination Committee

- Reviews the composition of the Board
- Considers succession planning arrangements for Board, Board committee and Executive Leadership Team roles
- Recommends to the Board the appointment of new Directors and reappointment of serving Directors
- Oversees the annual Board Effectiveness Review

Read more on pages 101 to 105.

Audit Committee

- Assesses the integrity of the Group's financial and regulatory reporting and disclosures
- Oversees the effectiveness of the Group's financial controls
- Reviews the activities and performance of Internal Audit and the external auditor
- Reviews and monitors the Group's whistleblowing procedures

Read more on pages 106 to 112.

Risk Committee

- Monitors and recommends to the Board the Group's RAS and RMF
- Monitors the Group's risk profile including principal and emerging risks and financial and non-financial internal controls
- Reviews the effectiveness of systems and controls for the prevention of bribery and fraud
- Oversees conduct and compliance
- Reviews the effectiveness of the Risk function

Read more on pages 113 to 118.

Remuneration Committee

- Develops and recommends the remuneration strategy and policy for the Group
- Engages with investors on aspects of the Directors' remuneration policy
- Reviews and approves the remuneration of the Board Chair, Executive Directors, Executive Leadership Team members and certain other senior Group employees
- Oversees other remuneration issues

Read more on pages 120 to 124.

(1) From time to time the Board may also establish special purpose committees to assist it in overseeing specific areas and usually such committees operate only for a defined period. No such special purpose committees operated during FY22.

How our Board operates continued

financial, regulatory or reputational significance and the decisions reserved for the Board are set out in the Board Charter available on our website (www.virginmoneyukplc.com). The Board oversees the delivery of the Group's strategy including our sustainability strategy and ESG goals; ensures that the necessary resources and succession planning arrangements are in place for the Group to meet its objectives; is responsible for the raising and allocation of capital; and reviews business, financial and risk appetite performance. The Board ensures that the Company's obligations to its shareholders and other key stakeholders are met.

The Board is supported in its work by its committees, as illustrated in the 'Board governance framework' diagram on page 80, which make decisions and recommendations on matters delegated to them as set out in each committee Charter. Each Board committee has a membership comprising Non-Executive Directors only and has an experienced Chair. The Board agenda includes time at the outset of the meeting for each committee Chair to report on the main points of discussion at a committee meeting and on any recommendations for the Board's own decision making. This structure enables the Board to prioritise its time on a more strategic, forward-looking agenda. The key focus areas of the Board during the year, the links to our strategic priorities and the stakeholder groups central to those focus areas and decisions taken are set out on pages 89 to 99. You can read more about the focus areas of each Board committee in their individual reports beginning on page 101 and look at their Charters on our website (www.virginmoneyukplc.com).

The Board has delegated the responsibility for making and implementing operational decisions and for running the Group's business on a day-to-day basis to the Chief Executive Officer who has established an executive Leadership Team, and other executive committees, to help him discharge his responsibilities, with the Board retaining ultimate responsibility for providing oversight and holding management to account through constructive challenge, advice and support.

ESG embedded in our governance framework

Our sustainability strategy and driving a positive social and environmental impact is a core part of our broader Group strategy, ensuring we embed sustainability in everything we do. The Board has oversight of the progress we are making on executing our ESG strategy and in achieving our sustainability goals. You can read more about our key ESG achievements during the year, the challenges and future areas of focus, including specific climate-related risks and opportunities, on pages 26 to 43.

The Board governance framework supports the Board in overseeing and monitoring progress and in establishing the right priorities and culture guided by our Purpose. The Board receives regular progress reports, informed by external perspectives when required, and provides rigorous challenge to management on progress against our ESG goals and targets and ensures that the Group maintains an effective risk management and internal control system, including over climate-related risks and opportunities. Board members possess a variety of skills and experience relating to ESG topics which are highlighted in the Directors' biographies on pages 74 to 78.

The Board delegates some ESG oversight and decision making to the principal Board committees as outlined in the diagram on page 82 and further information on each committee's ESG activities during the year is included in their individual reports beginning on page 101.

Board and committee operations

The Board held ten scheduled meetings during the year and attendance is set out on page 70. Most of these meetings were held virtually with in-person meetings taking place in October, March and May. The Board also holds ad hoc meetings when matters of a time-critical nature need escalating for information or decision. During the year, the Board Chair also held several meetings with Non-Executive Directors without the Executive Directors present and the Senior Independent Director met with Non-Executive Directors without the Board Chair present to undertake the annual review of the Board Chair's performance.

All Directors are expected to attend each Board meeting and the meetings of Board committees of which they are a member. In the rare event that a Director is unable to attend a meeting, they nonetheless receive the agenda and papers and have the opportunity to discuss with, or notify, the relevant Chair or the Group Company Secretary of any matters they wish to raise and to confirm their support or otherwise for the matters on the agenda requiring a decision. The Board or committee Chair then represents those views at the meeting.

The Board Chair leads the agenda setting process, which is summarised below, with the input of the Chief Executive Officer and Group Company Secretary who maintains a rolling calendar of items requiring the Board's attention. The agenda setting process ensures that the Board's time is prioritised to focus on the most material strategic and business critical items, including those items reserved for its own decision making.

The Board Chair ensures Board meetings are structured to facilitate open discussion, debate and challenge with relevant members of the management team attending to participate in the discussion, respond to any questions arising and to ensure they can quickly take forward any follow-up actions. The Chief Risk Officer attends part of the meeting to ensure that the Board is provided with Risk's independent input and opinions particularly when there are matters for the Board's approval.

Matters route to the Board and Board committees via the executive governance framework and relevant items are recommended to the Board for approval from Board committees. This escalation process ensures the Board is engaged on the right matters and has the right information to help Directors make decisions.

Board leadership and Company Purpose

How our Board operates continued

Board ESG responsibilities

Virgin Money UK PLC Board
Responsible for the long-term sustainable success of Virgin Money

Governance and Nomination Committee
- Keeps the Board's composition, skills and experience (including with regard ESG topics) under review to ensure sufficient diversity on the Board
- Recommends the Board Diversity and Inclusion Policy to the Board, monitors implementation of the Policy and progress towards achieving the targets set for gender and ethnicity on the Board
- Tracks progress on targets for gender diversity across senior roles and the broader workforce
- Ensures diversity and inclusion is given sufficient prominence in succession planning and talent management

Audit Committee
- Oversees the Group's financial statements and non-financial disclosures, including climate-related financial disclosures
- Considers, and recommends to the Board, whether the Annual Report & Accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy including in relation to ESG matters
- In conjunction with the Risk Committee, approves the statement on risk management and internal controls, including climate risk, for inclusion in the Annual Report & Accounts

Risk Committee
- Advises the Board on the principal, current and emerging risks facing the Group including receiving reports on the risk profile associated with climate change; oversees the approach to climate risk disclosures; and oversees the activity to embed the identification, assessment and management of climate change into the risk management process
- Recommends to the Board the Group's RAS which includes climate risk
- In conjunction with the Audit Committee, approves the statement on risk management and internal controls, including climate risk, for inclusion in the Annual Report & Accounts
- Approves Policy Statements aligned to principal risks. Supporting Policy Standards govern ESG related topics including Sustainability and Responsible Lending

Remuneration Committee
- Ensures the Group's approach to remuneration rewards the delivery of the Group's strategy, including the sustainability strategy, with performance metrics aligned to Group KPIs and strategic priorities
- Approves the annual Gender Pay report
- Ensures long-term incentives are appropriately aligned to short and medium-term ESG targets
- Reviews progress on the Group's diversity targets and considers how the Group's remuneration policies and practices deliver fair outcomes for colleagues

The process for agenda setting, the focus of the Board's time, quality of reporting and escalation of issues is regularly reviewed as part of the Board evaluation with improvements made where necessary to ensure the ongoing effectiveness of the Board.

During Board days, time is also allowed for deep dives, round-table discussions and briefings providing an opportunity for Directors to gain deeper insight and build their knowledge by hearing from subject matter experts, asking questions and debating the impacts for the Group in an informal way, for example into areas of strategic importance or on emerging issues of relevance to the Board.

Between Board meetings, Directors are provided with regular updates on material issues from the Chief Executive Officer and members of the Executive Leadership Team.

The management of all Board committees is on the same basis as the Board. Details of committee membership and attendance at meetings are set out on page 70 and you can read about committee activities during the year in each committee report beginning on page 101.

How our Board operates continued

Board agenda setting and meeting process	
Start of the Board year	The Board Chair, Chief Executive Officer and Group Company Secretary agree a calendar of Board agenda items for the year.
Setting the agenda for each Board meeting	The Group Company Secretary drafts the Board agenda and discusses it with the Board Chair, also keeping the Chief Executive Officer updated. The prioritisation and allocation of time for the most material matters is agreed.
The Board pack is prepared and issued	The Group Company Secretary reviews all reports to ensure they are succinct and focused on the most relevant information. The Board pack is then published on a secure electronic Board portal usually one week prior to the Board meeting to ensure Directors have sufficient time to fully prepare for the meeting and request additional information if necessary.
The Board day	The Board Chair holds a private session with Non-Executive Directors to agree the matters of concern or focus which they would specifically like to discuss during the meeting. A typical Board meeting will start with reports from each Board committee Chair and an update from Directors on key messages from workforce engagement sessions followed by a report from the Chief Executive Officer covering progress on strategic delivery and various internal and external stakeholder matters. The Board then focuses on matters requiring its approval followed by updates from Executive Leadership Team members on financial and business performance, customer experience and customer service, other stakeholder matters and risk and governance topics. Following the Board meeting, Non-Executive Directors usually hold a further private session without management present.
After the meeting	The Group Company Secretary produces the minutes and circulates actions from the meeting and meets with the Board Chair to review the effectiveness of the meeting and to agree the immediate points of follow up.

Information and support

The Board Chair, through the Group Company Secretary and with the support of management, is responsible for ensuring communication flows between the Board and its committees and that information received by the Board is of high quality. In addition to the main Board papers, supplementary background material is regularly provided via a Reading Room on the electronic Board portal and Directors can seek clarification or further detail from management where necessary. 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.

Training, development and induction

The Board Chair leads the training and development of the Board and of individual Directors and regularly reviews and agrees with each Director their individual and collective training and development needs, taking into account the output from the annual Board evaluation and the evaluation of each Director's own performance. During the year, collective Board training included externally facilitated sessions on cybercrime and ransomware attacks and on cloud computing and internally facilitated training to test the Bank's resolvability capabilities in relation to the BoE's Resolvability Assessment Framework. The Group Company Secretary maintains a training and development log for each Director.

All Directors who join the Board receive a comprehensive induction tailored to a Director's individual requirements which the Group Company Secretary plans in consultation with the Board Chair. The key elements of the induction programme are set out below and the aim is to provide a new Director with an understanding of how the Group operates and its strategic priorities, opportunities and challenges; introduce the new Director to members of the executive and senior management team and other key stakeholders; and to provide an overview of the governance framework in which the Board operates.

Sara Weller, who joined the Board on 3 October 2022, is undertaking an induction programme following this structure. Any new or serving Director joining a Board committee is also provided with an induction tailored to that committee. Additionally, a Director taking on a senior management function role as prescribed under the Senior Manager's Regime, undertakes a full and formally documented handover of responsibilities with the outgoing role holder.

Board leadership and Company Purpose

How our Board operates continued

Orientation pack	> Information about Board operations and administration including meeting dates and logistics > Key Company policies including in relation to share dealing > Training on the use of the Board portal to access Board and committee papers > Access to the Board Library of useful reference documents > Directors' duties and conflicts of interest
Reading material	> Board and Board committee papers and minutes from the previous 12 months > Key Company governance documentation including Board and committee charters and the Delegated Authorities Framework > Core prudential documents including the latest Strategic and Financials Plans, the Capital and Funding Plans and the RAS > Key items of regulatory correspondence and reports following routine reviews
Meetings with fellow Directors and executives	> One-to-one meeting with the Chair of each principal Board committee > Introductory meetings with the external auditor and the Director Internal Audit > Briefings on the Group's Strategic and Financial Plans including the ESG Strategy > Deep dive sessions with members of the executive Leadership Team focusing on matters within their areas of responsibility including customer, colleague, shareholder and other stakeholder priorities and insights > Participation in the workforce engagement programme to understand issues that matter to colleagues
Board Chair and mentor support	> Depending on an incoming Director's experience, a serving Non-Executive Director may act as mentor to provide additional support during a new Director's first few months > Regular one-to-one meetings take place with the Board Chair throughout the induction period to check progress

Time commitment

Non-Executive Directors, including the Board Chair, are informed of the minimum time commitment required prior to their appointment and they are expected to devote sufficient time to the Company to effectively discharge their responsibilities. A Director's preparation for, and attendance at, Board and Board committee meetings is only part of their role.

The time commitments of Directors are considered by the Board on appointment and are reviewed annually. External appointments must be agreed with the Board Chair and disclosed to the Board before appointment, with an indication of the time involved. During the year, the Governance and Nomination Committee kept under review the number of external directorships held by each Director considering the risks of 'over-boarding' and the limits on the number of directorships imposed by relevant regulations in addition to the guidelines of shareholder bodies in relation to the maximum number of board roles. During the year, Darren Pope was appointed to the Board of Hargreaves Lansdowne plc, a FTSE 100 company and therefore a significant appointment as defined by the Board. The Board fully considered Mr Pope's proposed appointment including the time commitment involved and potential conflicts of interest with Mr Pope's Group roles. The Board was satisfied that notwithstanding the new appointment, Mr Pope will continue to have sufficient time available to meet his Board responsibilities and therefore permitted the significant appointment. Following this year's general review, the Board is satisfied that there are no Directors whose time commitment causes a concern and that all Directors have been able to devote sufficient time to the Company.

No Executive Director has either taken up more than one Non-Executive Director role at a FTSE 100 company or taken up the chairmanship of such a company.

Managing conflicts of interest

The Board has a well-embedded process for reviewing and, where it sees fit as permitted by the Companies Act 2006 and the Company's Articles of Association, approving actual and potential Director conflicts of interest that could compromise the independent judgement of the Board. Prior to a new Director being appointed, potential conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent the incoming Director from taking the appointment and, during their tenure, Directors are asked to consult with the Group Company Secretary and the Board Chair before taking up any external appointment or responsibilities. Changes to the commitments of Directors are reported to the Governance and Nomination Committee and the Board and all potential conflicts authorised by the Board are recorded in a Register of Directors' Conflicts of Interests which is reviewed by the Board annually.

Board activities

Key – Group strategic priorities

Super straightforward efficiency | Delighted customers and colleagues | Discipline and sustainability | Pioneering growth

Stakeholders

CU Customers | S Society | PS Partners and suppliers
CO Colleagues | I Investors | GR Government and regulators

Set out below are the key focus areas of the Board during the year, their links to our strategic priorities, the stakeholder groups central to those focus areas and the decisions taken by the Board.

Key areas of focus in FY22

	Board approvals	Other matters considered	Strategic priority	Stakeholders
Purpose, culture and Values	> People Plan and A Life More Virgin colleague proposition > Workforce engagement plan > Modern Slavery Statement	> Annual colleague engagement survey results and Pulse updates > Reviewed the whistleblowing process and activity > Action taken in response to colleague feedback at workforce engagement events > Outputs from Culture Assessments led by Internal Audit	Delighted customers and colleagues	CO, S
Strategy and business performance	> Strategic Plan > ESG Strategy > FY22 strategic planning timetable and focus areas	> Progress on the simplification of the IT estate and move to a cloud-based infrastructure > Progress of the Digital First strategy and projects including the digital wallet > Regular updates on advancement of ESG big goals > Brand and marketing updates including briefing from Virgin Group	Super straightforward efficiency; Delighted customers and colleagues; Discipline and sustainability; Pioneering growth	CU, CO, S, I, PS, GR
Customers	> Virgin Money Store strategy with a particular emphasis on mitigating customer harms and vulnerable customer considerations > Prioritised customer journeys for end-to-end digitisation > New customer propositions to target digital-driven growth > Implementation plan responding to the FCA's new Consumer Duty principle	> Impacts of the economic environment and cost of living crisis on Personal and Business customers > Reviewed with the Chief Digital and Innovation Officer root causes of IT outages impacting customers' use of banking services seeking assurances around action taken to prevent future incidents > Received reports from the Chief Customer Experience Officer on the drivers of customer complaints and action being taken to improve customer satisfaction including progress on digitisation > Considered the findings and actions to be taken following the FCA's work on banks' treatment of SME customers during collections and recoveries activity > Deep dive on community strategy and activities	Super straightforward efficiency; Delighted customers and colleagues; Pioneering growth	CU, CO, S, I, PS, GR

Board leadership and Company Purpose

Board activities continued

	Board approvals	Other matters considered	Strategic priority	Stakeholders
Financial	> Financial Plan and operational delivery plans > Capital and Funding Plans > Annual Report & Accounts; Interim Financial Results and Trading Updates > FY21 final dividend and FY22 interim dividend > ICAAP > ILAAP > Launch of a share buyback programme > Appointment of new auditor	> Debated the proposed capital framework and dividend policy informed by external perspectives > Approved material investments to support the acceleration of the Group's Digital-First strategy > Received updates from the Chief Financial Officer on financial performance and forecasts including the capital, funding and liquidity position > Chief Commercial Officer updates on delivery of customer propositions and growth in target segments		CU CO S I PS GR
Risk management	> RAS and changes > RMF > Operational Resilience Strategy incorporating the Cybersecurity Strategy > Renewal of the Group's insurance arrangements	> Overviewed reporting in accordance with CRR regulation and Pillar 3 Disclosures > Received reports from the Chief Risk Officer on principal and emerging risks and on risk appetite performance > Focus on credit risk performance and portfolio resilience in post COVID-19 period and from cost of living pressures		CU S I GR
Regulatory	> Responses to routine regulatory reviews > Group Tax Strategy following annual review > Group Recovery Plan and Risk Appetite Framework (RAF) Self-Assessment for submission to the BoE	> Impacts of new Operational Resilience regulation > Discussion sessions with the PRA on Periodic Summary Letter and with FCA on Firm Evaluation Letter > Considered the FCA's views and expectations in relation to consumers impacted by the cost of living crisis and the action to be taken > Group's progress towards resolvability under the BoE RAF		GR
Corporate governance	> Changes to the Securities Trading Policy, Disclosure Policy and Board Diversity and Inclusion Policy > AGM notice and arrangements > Updates to Board and Board committee charters and the Delegation of Authority Framework following annual reviews > Fees to be paid to Non-Executive Directors and annual minimum time commitments > Board and Committee appointments	> Strength of the Board, executive and senior management succession plans and progress on diversity and inclusion targets > Monitored progress on Board evaluation actions and plans for the externally facilitated review in FY23 > Received updates following investor meetings and on shareholder feedback > Annual review of the composition of the Board and its committees including Non-Executive Director independence, conflicts of interest and time commitments		GR I

Governance spotlights

Our strategy

The Board was heavily engaged in a comprehensive review of our strategy last year resulting in the update we gave in November 2021 on the acceleration of our Digital-First strategy and medium-term growth, investment and efficiency targets. Our governance framework enables the development and delivery of our strategy including the Board's oversight of strategy implementation. During the year, a new Strategic Execution report was introduced which the Board received every quarter. This allowed the Board to track progress against our target strategic outcomes and to monitor KPIs. The Board particularly focused on the progress of the major investment projects and the overall level of digitisation across key customer journeys, digitally-led product and proposition launches and cost performance.

As in previous years, the Board held a series of Strategy Sessions with members of the Executive Leadership Team during May, July and September. The first of these sessions focused on developments internally and externally since November including stakeholder considerations such as evolving customer needs and behaviours, the competitor landscape and regulatory expectations in addition to the macroeconomic outlook and headwinds which may present risks to the strategy. The Board's discussions were informed by external insights on Virgin Money's strategy in the context of evolving market dynamics and the potential strategic choices to grow market value.

In July the discussion focused on strategic priorities and the emerging Financial Plan. This included perspectives from advisers on external threats and opportunities. The Board spent much of the time discussing how to improve customer experience over the short and longer term and how this will translate into customer experience goals. Linked to this the Board debated where to reprioritise and focus IT change activity to simplify the IT infrastructure and support customer experience. An update was also given on the development of our digital wallet and adoption of an Agile approach to change delivery. Following the July discussions, an additional deep dive session was held focusing specifically on IT infrastructure and capabilities with a particular focus on the changes needed to improve current challenges and to create the infrastructure we need for the future.

The final session in September was an opportunity to review the proposed refinements to the Strategic Plan, the risk assessment of the Plan, how those risks will be mitigated and proposed KPIs to track delivery of the Plan through FY23. The final Strategic and Financial Plan was then approved.

Our risks and controls

At each Board meeting throughout the year the Board heard from the Chief Risk Officer on their independent view of the Group's risk profile including principal risks and the horizon risk landscape. This reporting was enhanced during the year by providing the Board with a clearer view of the risk priorities. An increased area of focus as the year progressed was the impact of the weakening UK economic outlook and the Board spent time discussing the credit risk profile, asset quality and early warning indicators to identify customers potentially in financial stress. These Board discussions were informed by deep dive sessions undertaken by the Board's Risk Committee. The Board discussed the potential affordability issues that higher living costs will cause for households and was updated on the action being taken in readiness to support customers, to tighten lending criteria to account for higher levels of inflation and to prepare for a potential deterioration in asset quality. During these discussions the Board also considered the financial well-being of colleagues given escalating cost of living pressures and was updated on the range of practical support available and additionally, approved a £1,000 cost of living allowance in August for the majority of colleagues.

Board leadership and Company Purpose

Governance spotlights continued

Our Purpose

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. You can read more about the Board's Purpose-driven decision making in our s.172 report beginning on page 89.

Throughout the year the Board heard how Purpose is driving the development of our customer and colleague propositions and how we engage with wider society. For example, in response to the war in Ukraine, the Board was updated on the steps taken to make our bank account opening process easier for Ukrainian nationals arriving in the UK including how essential account opening documents had been translated into Ukrainian and Russian and the training given to colleagues. The Chief Commercial Officer reported on how our propositions are being developed with financial well-being in mind, for example through the launch of instalment payments on credit cards and Virgin Money Slyce aimed at giving our younger customers a differentiated way to access and manage their credit. The Group Chief People and Communications Officer kept the Board informed on how the A Life More Virgin colleague proposition is evolving aimed at enabling colleagues to live their best lives, by having flexibility over how, when and where they work.

The Board heard how feedback from colleagues, discussed in the 'Our workforce engagement and culture' spotlight, had shaped the recommendations the Board was asked to approve such as the introduction this year of five well-being days to help colleagues switch off and recharge and the modernising of HR policies.

The Board took part in a Deep Dive session focusing on how our Purpose is driving our community strategy and continuing to make Virgin Money a force for good. During this session the Board heard about the work we are doing with our charity partner Macmillan Cancer Support and the launch of bespoke financial support for people living with or affected by cancer.

The 'Levelling Up Impact Report' launched by Virgin Money and the Purpose Coalition in May 2022 highlighted how we are using our Purpose to improve business performance while driving wider impact. As well as highlighting strengths the report outlined recommendations to deliver even more purposeful outcomes for our customers, colleagues and the communities we serve, and the Board will continue to monitor the progress being made over the coming year.

Further Board oversight of how Purpose is being embedded throughout Virgin Money is achieved through Non-Executive Directors attending meetings of the Purpose Council throughout the year and by winners of our Purposeful Teams Awards showcasing at Board meetings how their Purpose-led work is delivering positive outcomes for customers, colleagues and communities. The General Counsel and Purpose Officer also reports to the Board periodically on progress.

Our workforce engagement and culture

Colleagues are central to the delivery of our strategy and the Board places great emphasis on understanding their views and ensuring these views are fully considered in the Board's decision making. Examples of this are included in our s.172 report beginning on page 89.

We described the elements of our Workforce Engagement Programme on page 84 of the FY21 Annual Report & Accounts and the programme has continued to operate along these lines during FY22 incorporating our Purpose Council and Inclusion Networks; Board Jams and large-scale Colleague Engagement sessions; and Leadership Conversations. We continue to define 'workforce' as including permanent, fixed term and zero hours colleagues along with contractors and agency workers. Time continues to be allowed at the start of each Board meeting for Directors to report on key messages from the sessions they have attended, and Board papers draw out colleague feedback and impacts where appropriate, in addition to broader stakeholder considerations. Additional insight on the health of the Company's culture is gained from the annual MyVoice colleague engagement survey, the periodic pulse checks and other cultural indicators including reports on colleague health, safety and well-being and the Culture Assessments conducted by Internal Audit.

Topics discussed during Workforce Engagement sessions throughout the year included how our Purpose is driving our ESG strategy and our ESG priorities; achieving success as a Digital First bank; supporting our customers and colleagues through the challenging economic environment and looking ahead to future inflationary pressures; the experiences of colleagues who had recently joined Virgin Money; and how the colleague A Life More Virgin proposition is being embedded.

The Board has kept the Workforce Engagement programme under review during the year to ensure that the arrangements remain effective and continue to provide meaningful insight into the views and experiences of colleagues. The easing of COVID-19 restrictions and the opening-up of our colleague collaboration spaces has enabled us to evolve how we run these sessions and in July we held our first hybrid colleague event fusing together virtual and face-to-face attendance in one session. The Board has concluded that the current approach is effective and that the variety of methods – ranging from smaller, focused sessions on a particular topic such as remuneration to larger sessions open to all colleagues without a set agenda – provides access to a wide range of perspectives and helpful insights. The Board has therefore decided to continue leveraging existing channels of colleague engagement through FY23 rather than adopting one of the methods described in the Code. The Board is also looking into a way to more effectively bring all workforce feedback together in a single forum which could have a voice in the Boardroom through periodic reporting and representation of issues to the Board. The Board will continue to evolve and enhance the approach, keeping its effectiveness under review throughout the year, and the Board has already agreed to find ways to introduce more in-person sessions to its programme going forward.

Stakeholder engagement and Board decision making

s.172 factor	Report section	Page
Consequence of any decision in the long term	Strategy	14-25
	Significant progress in our ESG strategy	26-43
Interests of employees	Our workforce engagement and culture	88
	Colleagues	92-93
Fostering business relationships with suppliers, customers and others	Stakeholder engagement	89-99
Impact of operations on the community and the environment	Significant progress in our ESG strategy	26-43
	TCFD report	231-262
Maintaining a reputation for high standard of business conduct	Governance – How our Board operates	80-84
	Straight-up ESG	39-40
Acting fairly between members of the Company	Directors' report	153-158

Stakeholder engagement, and considering stakeholder perspectives in business decisions, is a fundamental part of delivering on our Company Purpose. Engagement with our stakeholders produces constructive and meaningful input to the Board decision-making process which strives to balance the interests of all stakeholders with our objective to achieve long-term sustainable success. Information on material stakeholder feedback, sentiment and interactions is provided to the Board by the Chief Executive Officer and Chief Financial Officer and other members of our Executive Leadership Team to ensure the Board is kept fully up to date. Any proposals made to the Board must set out the internal and external stakeholders that have been engaged on the proposal and provide an overview of the feedback received.

More detailed information on the ways in which our Board engages with stakeholders, and examples of key Board decisions which required the Board to have consideration of the impacts on our stakeholders, are provided on pages 89 to 99.

s.172 compliance

The Companies Act 2006 sets out the general duties which directors owe to a company and the Companies (Miscellaneous Reporting) Regulations 2018 also requires companies to explain how directors have discharged their duty to promote the success of the Company, while having regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 (s.172 factors). As in previous years, the Directors continued to exercise all their duties in the year to 30 September 2022, while having regard to the s.172 factors and other factors as they reviewed and considered proposals from senior management and governed the Company on behalf of its shareholders through the Board. The information included in the table on the left provides a signpost to where more detail can be found of some of the key areas where the Board considered s.172 factors in its discussions during the year.

Customers

Throughout the past 12 months the Board has focused on the Group's continued roll-out of new and improved digitally-led propositions as we continue our journey to be the UK's best digital bank and has received updates on new product launches and key performance metrics to monitor how they are being received by customers.

The Board is acutely aware of the current uncertainty around the economic outlook, with rising interest rates and inflation and recognises that higher living costs have the potential to create affordability issues. The Group is ready to support customers in light of the cost-of-living concerns. Our credit and debit cards offer cashback and our credit card instalment repayment option allowing customers to spread the cost of large purchases was introduced in February 2022. In August 2022 we announced the launch of the new market-leading credit card product, Virgin Money Slyce, which will allow customers to enjoy the benefits of a traditional BNPL product in a simple, safe and responsible way. The Board heard how Slyce has been designed and built with a 'Gen Z' audience in mind having taken into account the feedback from the target market about the issues when being new to credit and seeking to build a credit score for the future. Recognising consumer concerns about rising costs of food and fuel, the Board was kept updated by the Chief Commercial Officer on how our current account offering was being refreshed to provide new customers switching to Virgin Money the opportunity to earn 25% cashback on UK supermarket and fuel spend for a period.

During the year, the Board was updated at each meeting by the Chief Customer Experience Officer on the headway being made in digitising the processes that impact customers and monitored progress against our target to have 40% of our processes digitised by the end of FY22 – we exceeded this target by achieving 43%. Key milestones included the launch in May 2022 of our best-in-class future focused Digital Experience Centre aimed at anticipating our customers needs and helping them self-serve in-app and online; increased use of Chatbot functionality allowing Personal customers to get instant responses to their questions and, following feedback from customers, we now direct all fraud related calls to our team of fraud specialists ensuring that customers receive the right help at first point of contact.

As part of the digitisation programme, three customer journeys were prioritised during the year for additional focus and the Board monitored the implementation and ongoing improvements to these journeys covering opening a PCA in-app, moving money and answering general queries using Chatbot and live chat. In monitoring progress, the Board spent time looking into the primary reasons for customer complaints and feedback obtained from customers via the 'Smile Score' where after each interaction customers are asked to rate how easy it is to transact with Virgin Money and whether the experience was a happy one. With this context, the Board challenged on the pace of the improvements being made across both the prioritised customer journeys and other customer service areas to drive better customer experience outcomes more quickly.

Stakeholder engagement and Board decision making continued

As a result of these discussions, and also taking into account regulatory expectations and the latest Competition and Markets Authority (CMA) Service Quality Indicators published in August 2022, the Board supported a funded customer service recovery plan, including funding for increased resources, to drive an improvement in complaint resolution and customer experience and also supported the Chief Executive Officer's proposal to focus on a narrower set of priorities to ensure resources are fully focused on improving customer experience while continuing to deliver on our digitally-led strategy.

The Board continued to be consulted on a number of digital initiatives including the development of our digital wallet, in partnership with Global Payments, which included giving feedback on an early prototype and discussing with the development team the functionality that will be available when the first iteration of the wallet is launched. Having heard from the Chief Commercial Officer on plans to transform the end-to-end mortgage journey in view of feedback from customers and mortgage brokers, the Board approved the financial investment in technology to provide a unified digital platform for mortgage customers and intermediaries which will expand and optimise our digital processing capability, allowing automated case tracking, improved processing times and extended market reach.

For our business customers, the Board was provided with updates on the response to the launch of M-Track, the new free business banking service and Marketplace, a facility which offers access to five specially chosen Fintech partners to cover a range of small business needs from insurance to HR. These propositions are part of the ecosystem that Virgin Money is developing to offer digital services to help customers run their businesses successfully. Designed following research and consultation with customer groups on the digital solutions that SME customers need.

While the Group continues its digital journey the Board remains focused on the treatment of our more vulnerable customers. For example, in considering our future Store strategy, the Board has discussed with the Chief Customer Experience Officer the plans for preserving access to cash for consumers, particularly the elderly, vulnerable and small businesses, including our support for the Community Access to Cash Pilots and involvement in the UK Finance Cash Action Group which is one of the ways we engage to understand the needs of customers and communities. The Board was also updated on the outcomes of an analysis of the customer base, including business customers, to identify customers most likely to experience detriment or potential customer harm from our digital transformation and supported the plans to establish a dedicated Hub to provide these customers with additional support.

The Board receives updates at each meeting from our Chief Commercial Officer and Chief Customer Experience Officer to ensure that they are abreast of current and planned initiatives and have a good awareness of how customers are interacting and responding to our products and services. These reports highlight what's gone well during the period, areas of focus and customer frustrations, and improvement activities that are under way. A focused Customer Complaints report is reviewed and discussed by the Board on a quarterly basis to spotlight trends and causes of complaints and to track progress against rectifying the origination of these trends.

Our Customer Experience Committee held its inaugural meeting in September 2021 and was established to review customer experience performance across the Group, to oversee the delivery of the Customer Experience Strategy, review performance outcomes and agree optimisation of resources and investment to deliver on our strategic priorities. The Board receives ongoing updates through monthly reporting.

The Board was kept updated throughout the year on how Virgin Money will address the new FCA Consumer Duty which will set higher and clearer standards of consumer protection across financial services and will require firms to put their customers' needs first, which is discussed in more detail in the Government and Regulators section on page 97 to 98. The Board has nominated Elena Novokreshchenova to be Board Champion responsible, along with the Board Chair and Chief Executive Officer, for ensuring that the Consumer Duty is discussed regularly at Board level.

Board decision spotlight – 'Digital Brand and Marketing strategy'

The Board provided support for a new digitally-led Brand and Marketing strategy and closely monitored the execution and significant progress made on this new strategy during the year. At the centre of the strategy is a transformative shift in Brand and Marketing philosophy from a more traditional campaign approach to an always-on, insight-led approach with continuous optimisation across digital channels. The Board reinforced that the new strategy was an opportunity to bring to life the Group's Purpose of Making you happier about money by creating memorable digital experiences for customers that are unmistakably Virgin in how they look, talk and feel.

The new strategy required the Group to embrace new partners, solutions and ways of working. The Board recognised the importance of this new strategy with almost all PCA and BCA sales generated through digital channels. The new strategy has seen increased engagement on social media in both the numbers of customers reached and their level of engagement with the content being shared. Awareness and consideration of the Virgin Money brand has shown significant and sustained improvement since the start of FY21 with both measures reaching historic highs during the year. The Board will continue to monitor progress towards further digitising the Group's Brand and Marketing activities as the delivery of modern money experiences accelerate and escalate.

Colleagues

The Board regards engagement with colleagues as key to the delivery of the Group's strategy and ambitions and a means of gauging how the Group's Purpose is embedding throughout Virgin Money.

The Remuneration Committee, Governance and Nomination Committee, together with the Board, receive regular updates from the workforce engagement sessions held throughout the year including themes arising from colleague feedback which the Board takes into account in its decision making. Further details of the Workforce Engagement Programme can be found on page 88.

In last years' Annual Report & Accounts we described how the Board had been engaged in the development of our A Life More Virgin (ALMV) colleague proposition (page 89) which was fully launched in January this year, and the Board has been kept updated since then on how the proposition has been received including hearing directly from colleagues through the Workforce Engagement Programme. The results of our annual MyVoice colleague engagement survey, which were reported to the Board by the Group Chief People and Communications Officer, evidence that colleagues value the changes introduced driving a Sustainable Engagement score to 79%, improved from 68% in FY21. When asked about the one thing that colleagues value most about Virgin Money, most comments related to flexibility, working hours and work life balance with 90% of colleagues reporting that ALMV allows sufficient flexibility to meet personal and family needs. The ALMV proposition was also seen to have improved colleague empowerment and energy levels and to underpin a strong collaborative culture.

In response to feedback from colleagues, a new Career Journey Framework was launched in August 2022 as a further part of the ALMV proposition. The Remuneration Committee discussed and received regular updates on the development and roll-out of the new Career Journey Framework which delivers a new consistent, transparent and simplified approach to salary management and career progression. Career progression had also been raised as an area of focus through our Pulse and MyVoice surveys which the Career Journey Framework addresses by providing colleagues with a clear view on their roles today and the different routes they could take in order to build new experiences for the future. In response to colleague feedback about career development we launched our Career Development Hub this year which provides tools for colleagues to use proactively to create their own development opportunities and experiences, recognising that careers are not always linear and empowering colleagues to take advantage of different learning opportunities. This focus on self-development is backed up with regular career aspiration conversations during quarterly check-ins which all colleagues have with their people leader. Responding to feedback about how to improve the recruitment experience for people leaders and colleagues joining Virgin Money, or changing roles, we also launched a new Recruitment Hub providing all the tools required for the recruitment life cycle and to ensure we are innovative, fair and inclusive when it comes to attracting and retaining talent.

The Remuneration Committee and Board, conscious of colleague concerns about the cost of living increases, approved a one-off payment of £1,000 to be made to colleagues on a salary of £50,000 or less. This was additional support following the pay increase award in January 2022, the launch of new ALMV proposition and access to the range of financial well-being tools offered, such as our Employee Assistance Programme and Virgin Money Minded which helps colleagues to think about and understand their relationship with money. The Board heard how these measures have made a difference to colleagues with 62% reporting in the 2022 MyVoice survey that their total reward package meets their needs, a significant improvement from the previous year demonstrating that the Board and Remuneration Committee has listened to colleague feedback and taken meaningful action.

As we reported last year, the Remuneration Committee Chair and the Head of Reward and Employee Relations hosted focus groups with colleagues from a broad cross-section of the workforce, including a dedicated session with our Union, to hear directly from colleagues on remuneration related topics. The themes from these sessions included career progression and performance management, concerns about the length of time it has taken to move all colleagues onto one set of terms and conditions and challenges about the market competitiveness of particular areas of the Group's salary structures which was manifesting into both recruitment and attraction issues. The Remuneration Committee was kept updated throughout the year on the action taken in response to this feedback which included the harmonisation of terms and conditions and launch of the Career Journey Framework described above. The Board agrees that these focused sessions are a powerful way to understand in more detail the issues of concern for colleagues and therefore plans to host similar sessions on an annual basis with colleague feedback continuing to be reported to, and actions tracked by, the Remuneration Committee.

Recognising that having great leaders at every level of our business is essential to help us overcome obstacles and perform at our best, during the year the Group rolled out a new and improved Great Leadership programme entitled 'Leading in A Life More Virgin' which represents a significant investment in people leadership development to ensure our people leaders have the tools, support and confidence to lead our business towards its digital future. The programme was sponsored at an executive level by the Chief Customer Experience Officer and consists of sprint-based development which includes short challenges, digital support, externally-hosted workshops and an online Learning Hub that People Leaders can immerse themselves in. They are also encouraged to interact and share ideas and learnings from the programme in real-time with each other via a workspace app. The sprints, which are aligned to the qualities needed in great leaders, have this year focused on growing trust, stretching possibilities and an Agile way of working.

Colleague feedback in the first Pulse survey following the introduction of ALMV showed that flexibility is of real importance to colleagues. As restrictions from the pandemic lifted colleagues and teams used ALMV to test and learn what worked for them as individuals, refining team rhythms and finding new ways to collaborate either in person in our new hubs or online. The first hybrid Straight-Up colleague engagement event was held both online and in our Guildhall Collaboration Hub in July with 40 colleagues in the collaboration space and a further 100 colleagues attending virtually. The panel included both David Duffy and Clifford Abrahams and members of the Leadership Team and discussed ALMV, our digital strategy and customer propositions, among other topics. The feedback from colleague engagement events together with other insights, for example from the MyVoice colleague engagement survey and Pulse updates, will help inform how we continue to evolve our colleague proposition and people strategy aligned to our Digital-First bank strategic ambition.

The Board receives updates on our culture twice a year and a Cultural Assessment is performed internally, the results of which are presented to the Board. The assessment provides the Board with a view of how the Purpose, Values and Behaviours of the organisation are embedded in the Group and where there is room for improvement to enable the Board to discuss and challenge on the actions that will be taken as a result.

Our colleague intranet site, VMx, continues to provide easy access to relevant information, guidance and news for colleagues including up to date information on our latest results, spotlights on colleagues working in various departments in our 'Whatcha Working on?' series and how their work aligns to our Purpose.

Board decision spotlight – An Agile way of working

The Board regularly discusses the Group's customer experiences and the initiatives to be implemented that aim to significantly improve the ways in which the Group supports its customers. One of these initiatives discussed and agreed by the Board at a deep dive session was for the Group to roll out an 'Agile' way of working across its colleague population as a new way of empowering colleagues to find the best solutions. At its core, Agile sees a group of cross-functional specialists brought together to form a small, persistent 'squad'. The squad is then set a specific goal as part of a broader mission to deliver continuous customer value within a particular area. Each squad is part of a larger tribe of squads grouped together to collectively contribute to the broader objective and has the autonomy to decide for themselves how they achieve their outcomes. They'll then work in an iterative fashion to deliver an initial result that can be continuously tested and improved upon.

All colleagues will have a role to play in the new Agile organisation, either by working within an Agile team, supporting one, or helping bring new Agile-led propositions and processes to life for the Group's customers and stakeholders. Dedicated training and coaching is being provided for those colleagues who are first to adopt Agile and learning resources are being provided for all colleagues via the Learning in A Life More Virgin programme and the Group's Learning Hub. The full roll-out of Agile across the Group will run into 2024 and will ultimately allow the Group to deliver better outcomes at a faster pace.

Investors

The Board carefully considers the areas of focus and expectations of shareholders and CDI holders when making decisions.

The Board has continuous engagement with shareholders to understand their expectations and gain feedback on the Group's overall strategic goals and ambitions. Conscious that we have shareholders in both the UK and Australia, the Board also carefully considers the areas of focus and expectations of shareholders in both geographies when making decisions and implementing its strategic priorities.

The Group has around 110,000 shareholders with the majority of these holding CHESS Depositary Interests (CDIs) registered on the Australian Securities Exchange (ASX) and engagement with our Australian investors increased this year to include roadshows following our Q1 and Q3 results as well as following our annual results. Face-to-face engagement with some Australian investors took place later in the year and a further roadshow is planned following the release of the FY22 results.

The Chief Executive Officer and Chief Financial Officer, along with Investor Relations colleagues, held over 70 meetings with investors during the year covering a number of topics including our results, delivery against our strategy, growing financial momentum and our share Buyback programme. Both the Board Chair and Darren Pope attended one-on-one meetings with investors discussing strategy and competitive positioning, costs and investment, remuneration, and progress on digital transformation initiatives.

This year the Group continued to enhance and develop engagement with debt investors expanding the reach of the Group and attracting new investors, with the Chief Financial Officer holding a round-table meeting specifically for debt investors. The launch of a new AT1 transaction in June 2022 was substantially oversubscribed and attracted a high-quality pool of over 50 investors. This was combined with a tender offer on the Group's existing £450m AT1 instrument and resulted in an 84% take up.

The Board is kept up to date on share price performance, investor sentiment, market views and trends through regular reporting providing market and economic updates both from a general and banking specific perspective. It also receives a review of share price performance and highlights of any current and future potential considerations for the Board in its decision making, most recently highlighting inflation and cost of living concerns.

The Group's Investor Relations team provides ongoing updates to the Board on investor activities including key areas of focus for investors, roadshows, investor meetings and same day reactions to our full year, interim and trading updates. This ensures the Board is considering the most up to date investor views in its decision making. In addition to this, the Board received feedback from the corporate broker as part of a strategy focused session which provided insights on market and broker views on the VMUK strategy including views on the capital position and evidencing strategic delivery.

Board decision spotlight – 'Group Capital Framework'

At our interim financial results in May 2022, we announced an updated capital framework and dividend policy approved following presentation to and discussion by the Board. The framework set out several components including a long-term CET1 target range of 13-13.5% and the move to a Capital Distribution Policy underpinned by a dividend payout range starting at 30% in FY22, which included an interim dividend of 2.5p per share. The Board was pleased to approve the implementation of the framework which followed on from positive results being received as part of the BoE 2021 SST (a test designed to assess whether Bank capital buffers were sufficient to deal with an intensification of the macroeconomic shocks seen in 2020). The SST outcome reported that the Group's results on both a transitional and non-transitional basis were in excess of published reference rates and the Group was therefore not required to take any additional capital actions or to submit a revised capital plan.

A key aspect of the Group Capital Framework is the use of share buybacks which investors had intimated their expectation of given the Group's prevailing level of capital headroom announced within the Group's FY22 interim financial results. The Board considered in detail several factors as part of its final decision that the share buyback programme should commence including the Group's obligation to identify and manage material non-public information, the requirements for reporting to the relevant stock exchanges, the chosen broker and its approach to trading, and seeking confirmation of the availability of distributable reserves. As part of the Board approval provided, a delegation was given to a committee of the Board to finalise the execution terms of the share buyback. Regulatory approval was sought and obtained and the commencement of the Group's inaugural share buyback programme took place in June 2022 with an initial repurchase of up to £75m given ongoing profitability and capital strength.

The Board was pleased that due to the easing of the restrictions that were in place during the COVID-19 pandemic shareholders were again able to attend the AGM held in February 2022 and once again shareholders had the opportunity to submit questions in advance of the AGM with the answers to key questions and themes posted on our website. The Board will continue to use the AGM as a means of engaging directly with shareholders during the year.

The Board held a number of focused sessions during the year to review the Group's strategy. Topics considered at these sessions included the macroeconomic outlook and headwinds, perspectives from advisers on opportunities for the Group, and risks to the Strategic Plan. A more detailed overview of the Board's involvement in these strategy sessions can be found on page 87.

Society

Our ambition at Virgin Money is to be a positive force for good in society and to demonstrate that commitment through everything we do.

Our ESG strategy was created taking into account customer insight research and engagement with various stakeholders including colleagues and suppliers and continues to be refined and updated to align to both our aspirations and regulatory requirements. Our key FY22 targets in respect of our ESG strategy were approved by the Board to align to the Group's overall strategy and sets clear accountabilities to ensure the ESG principles and goals are embedded within the Group.

As part of the Board's engagement on ESG topics, two of our Non-Executive Directors hosted a Board Jam session with colleagues to hear their views and discuss the importance of ESG issues in a Purpose-driven organisation. The sessions covered which activities are particularly relevant within the financial services market and colleagues' awareness of the Group's ESG related activities. Colleagues agreed that ESG was an important factor for our business, our customers and across communities and that the Group should do more to highlight its activities in this area. They also raised that education is a significant factor in transitioning to low carbon and increased general awareness, understanding, calculators and tools, such as our Sustainable Business Coach app, helped customers to understand the issues further and take action. As a result of the Board Jam, it was agreed that communications should be reviewed with a view to promoting ESG awareness.

We engage with external rating agencies, including Sustainalytics, to track the progress we are making in respect of ESG disclosures, including ratings based on the information available in the public domain and interact with various industry bodies to assist us in assessing and disclosing the GHG emissions linked to our financing. The Board has been kept appraised of the progress being made on our NZBA commitments, including the ongoing development of our net-zero targets and road maps. Our Environment Committee continues to support the Board in monitoring progress against these goals and further details on the Environment Committee and its role in supporting the Board to ensure key environmental matters are considered can be found in the Risk report beginning on page 159.

The Group is guided by our Purpose and we showcased our Purpose externally through partnering with the Purpose Coalition on a Levelling Up Impact Report setting out our contribution to the levelling up agenda in the UK. The report highlights the work Virgin Money is undertaking to deliver social impact by encouraging economic activity and sustainable practices to help create a shared prosperity within the framework of 14 levelling up goals. The goals focus on key life stages – from early years through to adulthood, alongside other barriers which may prevent people from achieving their potential. The framework also allows mapping of best practice and tracking the progress businesses are making to maximise the positive impact they have.

The Levelling Up Impact Report brought to life Virgin Money's work on Purpose as well as using the 14 Levelling Up goals to create a framework to map best practice, track progress and ensure a maximum and measurable impact for our colleagues, customers and the communities we serve.

The Group remains committed to tackling the poverty premium, currently paid by about one fifth of the population, and aspires to no customers of the Group paying a poverty premium by 2030. Over the next five years the Group aims to measure the levels of exposure on our Customer book and with the help of partners implement solutions to help customers avoid energy, credit and payment-related premiums. The Group works with Smart Data Foundry to define a national measure of the poverty premium and, in partnership with Turn2Us, helps people across the UK to make sure they are not missing out on benefits they are entitled to. We continue to hold our 'FinInc' annual events where colleagues get the opportunity to hear from various contributors on the issues that financial exclusion can bring and provides them with the chance to be part of the solution by contributing their ideas to solve issues.

Our Macmillan Cancer Support year-long pilot scheme to provide financial support services to customers living with or affected by cancer has become a permanent feature for the Group and provides a two-way referral service for customers in financial difficulty. This works alongside our Macmillan Guides, who are Store colleagues trained to provide specialist support in guiding customers to sources of information and support both within and outside of the Group and our Macmillan Neighbours initiative which provides peer-to-peer support for our colleagues.

The Board and our colleagues recognise the contribution we can make to our communities through volunteering our time and skills. Our Community Team engages with colleagues highlighting volunteering opportunities which can be used for the two days a year that colleagues have to volunteer for causes that matter to them.

The Virgin Money Foundation, which supports grant making and other initiatives at a grassroots level, recently launched 'Leading the Way', an innovative community leadership programme developed in partnership with Power to Change, which sees 19 community leaders benefiting from a tailored learning programme to build their skills, confidence and networks to play a vital role in supporting their communities in the North of England and across Yorkshire and the Humber.

Board decision spotlight – 'Being a force for good'

As a Purpose-led business, Virgin Money has a huge opportunity to drive positive social change through the way in which it operates and the Board is cognisant of this in its decision-making. During the year, the Board took time to carefully consider the effects of the outbreak of war in Ukraine on the Group but also, importantly, the scale and impact of the resulting humanitarian crisis which led to the displacement of many Ukrainians across Europe. The Board was in agreement that the Group should make a donation of £300,000 to the Disasters Emergency Committee's (DEC) Ukraine Humanitarian appeal which brought together 15 leading UK aid charities to raise funds quickly and efficiently in the time of crisis. The appeal is supported by the British Government with matched funding up to £20m. The Board also helped shape the Group's colleague communications approach in relation to the war in Ukraine which saw stories shared across the business of colleagues who had given up time or used volunteering days to get involved in local collections and fundraising activities for the Ukraine Humanitarian appeal or in some cases even provided a temporary home for Ukrainians who had been forced to flee their homeland. The Board was proud to show its support in this time of crisis and reinforce the Group's desire that important social matters are firmly on its strategic agenda.

Government and regulators

It is important to the Board and Leadership Team to continue to further our strong, open and transparent relationships with our regulators.

It is important to the Board and Leadership Team to continue to further our relationships with our regulators, ensuring they are strong, open and transparent and that communication is productive for all stakeholders involved. The Board ensures the Group's strategic aims align with regulatory requirements, including any new initiatives, by making it a priority at all levels within the Group.

The Board is kept appraised of regulatory interactions, initiatives and developments through the standing updates it receives at each Board meeting from the Board Risk Committee updates and Leadership Team reports, ensuring the Board remains cognisant of the regulatory landscape and any key matters of relevance to the Group.

Directors and members of the Leadership Team attend regular meetings with both the FCA and PRA as part of the Continuous Assessment and Proactive Engagement meetings programme. Recent areas of PRA discussion have included the Bank's Risk Profile, Resolvability Assessment Framework submission, Recovery and Resolution Planning, internal ratings-based (IRB) Hybrid Mortgage submission, updates on capital and liquidity and the Group's strategy and financial results. Recent FCA engagement has focused on potential customer harms from the accelerated digital strategy, SME collections and recoveries, and the Group's complaints position. Meetings also provide the opportunity for the Board and management to discuss the Group's approach to regulatory priorities and the overall regulatory agenda. The key points raised at these meetings are then shared with the Board to ensure they are aware of regulatory views and these are considered as part of decision making.

Our relationship with our regulators is valued by the Board and management and is carefully monitored. We endeavour to proactively engage with the regulators on mutual priorities extending to attendance at regulatory round tables where, with the Group's peers, key issues such as internal-ratings based approaches to credit risk are discussed. Combined, these activities ensure the Board is abreast of the current and future regulatory considerations for the Group which is valuable due to the increased level of the regulatory agenda.

In line with the new FCA Operational Resilience Regulation, and an overall increased focus on operational resilience both from the Board and the regulators, the Board approved the Operational Resilience self-assessment noting that the Group was 'Year 1' compliant. The Board was provided with an overview from an external subject matter expert on the Group's standing among peers against the regulations. It noted the key areas of focus and that as the regulations evolved further resilience measures would be implemented. The Group also reaffirmed its commitment to the Government's SME Finance Charter to ensure that SME customers are supported to grow and thrive.

Following the BoE raising interest rates and inflation concerns overall, the FCA issued a letter to lenders in the financial sector relating to the rising cost of living and the behaviours and actions it expects lenders to take as a result of pressures on consumer budgets. The Board, cognisant of this, is receiving regular updates and is having ongoing discussions on matters that may arise as a result in order to take regulatory expectations into account for our planned customer support measures.

The Board was kept appraised of the ongoing development of the new FCA Consumer Duty principle, expected to be implemented in 2023, including the creation of a Head of Consumer Duty role in order to drive forward the work required and the development of an appropriate Group-wide reporting framework and Governance workstream.

Further to the Group's participation in the multi-firm review of the treatment of SMEs regarding collections and recoveries, the Board received a report on the points of remediation identified by the FCA and the Group provided an overview of a comprehensive plan to address the matters raised. As a result of the findings, the Group will review the collections and recoveries framework to identify any gaps and establish a plan for sustainable improvements, building on the framework already in place.

The Group is a member of the Cash Action Group, a collaboration between banks, consumer groups, the Post Office and LINK to ensure long-term cash availability across the UK through a hub network. Relevant updates are provided to the Board on this topic and the capability for providing this service is being evaluated.

The Board was encouraged to see the strong political attendance in Parliament when the Group's report in partnership with the Purpose Coalition was launched together with the publication of the HM Treasury Women in Finance Annual Review which provided the opportunity to engage with stakeholders.

Board decision spotlight – 'Resolvability Assessment'

In March 2022, the Board was asked to approve the VMUK's 'Readiness for Resolution Public Disclosure document (disclosure). Resolution is the framework put in place after the last financial crisis to ensure that, in the event of a crisis, banks and banking groups can be recapitalised and restructured in a way that provides for the continued operation of important banking services to protect financial stability but without exposing public funds to losses. As part of the Resolvability Assessment Framework (RAF) all Tier 1 UK banks were required to publicly disclose the progress made in achieving three BoE resolvability outcomes. The Board reviewed and put questions to the Group Treasurer on aspects of the disclosure it felt needed additional explanation and clarity. It also heard of input provided by third-party advisers before ultimately approving the disclosure.

A Fire Drill exercise was held which was designed to test the resolvability capabilities of the Group as part of the BoE's RAF. The Board was presented with a scenario and challenges were posed in order to test the readiness, understanding and familiarity the Board had with the process and to capture any additional requirements that would support the Board in their decision making.

In June 2022, following the BoE's review of the disclosure, VMUK publicly announced its Resolvability Assessment in line with PRA guidance with the BoE also publishing its assessment of the resolvability of VMUK alongside the largest, systemically important firms in line with the RAF. The announcement confirmed that VMUK had taken robust steps to prepare for the unlikely event of resolution and had met the resolution expectations of the BoE Resolvability Assessment. Following the assessment and BoE feedback, the Board also announced its commitment that the Group will work to deliver further enhancements as it continues to develop and improve its resolvability capabilities.

Partners and suppliers

The Group's partners and suppliers are invaluable to us in delivering on our ambitions and meeting our customers' and stakeholders' expectations driven by our Purpose.

We launched the online Marketplace for business customers to access through M-Track with five specially chosen Fintech partners to cover a range of small business needs including: an all-in-one platform for business expenses; a new take on invoice financing that allows businesses to grow both domestically and internationally through a unique and scalable platform; flexible monthly insurance allowing small businesses the freedom to adjust their cover as things change; tax management tools; and a simple HR platform helping them to become more digital.

The Board considered and approved a partnership with Microsoft to further digitise customer journeys using their cloud infrastructure and cloud computing product-suite to enhance colleague collaboration. This was complemented by a 'Summer of Learning' for colleagues to enable them to make full use of the tools to collaborate, automate and ultimately work smarter. The Board held a deep dive session on cloud technology insights, including receiving an external presentation, to better understand developments in the industry, benefits, implementation and any potential pitfalls.

We partner with Virgin Red, the rewards club from Virgin and during the year the Board received updates from executives of the Virgin Group on Virgin companies including how they are recovering and evolving after the pandemic. These insights were useful inputs to Virgin Money's own strategy including the ongoing development of our digital wallet proposition.

As travel restrictions lifted, our Virgin Money travel insurance proposition was relaunched and we partnered with Hood Group, our new insurtech partner allowing us to make the most of their technological innovations and deliver a fully digitised end-to-end proposition for our five-star Defaqto gold and silver travel insurances policies.

The Board was consulted and provided with updates on various supplier and partnership relationships during the year. One example was the extension of our current partnership arrangement with Experian, which provides critical data decisioning services to the Group. The Board considered the performance of the current contract and service levels received along with the costings before approving, based on its view, that the extension was in the best interests of the Group.

The Group recognises that our partners and suppliers have an important role in the delivery of the Group's operations. Our relationship managers across the business regularly engage with our suppliers on the areas critical to the Group including service; innovation; compliance and growth. We continue to utilise our 'Voice of the Supplier' approach in our supplier framework as it provides a method of providing formal feedback to the Group on our relationship with them outside of the regular ongoing discussions that take place as a matter of course.

The Board has a zero-tolerance attitude with respect to modern slavery in the Group's supply chain and during the year it approved the revised Corporate Statement on Modern Slavery, updated to align to the Group's Purpose and taking into account industry best practice. The topic is now included in an all-colleague compliance learning module.

Board decision spotlight – 'Auditor Tender Process'

One of the most significant new partnerships the Board provided input to during the year was the appointment of a new external auditor. The external audit tender process was led by the Audit Committee which provided regular updates to the Board on progress which included approving the initial shortlist of firms that were to receive an 'Invitation to Tender'. The shortlist was created based on analysis which considered the scale and expertise to support a FTSE 350 banking audit, recent quality ratings from the annual FRC review cycle, and prior experience gained by the Group from a previous tender process carried out in 2015. Following a review of the tender offers received, the firms that were taken forward to the next stage provided detailed presentations to relevant senior colleagues within the Group, which included Board members. Thereafter, a final proposal was presented to the Board in July 2022 where approval was given for PricewaterhouseCoopers LLP (PwC) to be appointed as the new Group external auditor from 1 October 2023. On behalf of the Board, the Audit Committee will receive regular updates to oversee the external auditor transition plan led by PwC and members of the Group's Finance team and will monitor the transition of existing services provided by PwC elsewhere in line with the non-audit services requirements of the Group's External Auditor Independence Policy Standard.

Board roles

Individual roles on the Board and their responsibilities are set out in the Charter of Key Board Roles and Expectations periodically reviewed and agreed by the Board. This includes role profiles and the behaviours, competencies and annual minimum time commitment required for each role on the Board. There is a clear division of responsibilities between the Board Chair's role in leading the Board and in ensuring its overall effectiveness and the Chief Executive Officer's leadership of the Group day-to-day.

The Board includes an appropriate combination of Executive and Non-Executive Directors which enables the Board to provide clear and effective leadership of the Group's business activities and ensures that no one individual or small group of individuals dominates the Board's decision making. The Board Chair and Non-Executive Directors meet periodically without the Executive Directors present.

The key responsibilities of Board members and the Group Company Secretary are outlined below.

Role	Responsibility
Board Chair	> David Bennett leads the Board and is responsible for its overall effectiveness. He is expected to demonstrate objective judgement, to promote a culture of openness and constructive challenge and debate between all Directors and promotes high standards of corporate governance. The Board Chair sets the Board's agenda and ensures the Board receives accurate, clear and timely information. He also leads Board succession planning; ensures that Board induction, evaluation and development are a priority; and seeks to ensure effective communication with shareholders.
Senior Independent Non-Executive Director	> Tim Wade provides a sounding board for the Board Chair and acts as an intermediary for other Directors as necessary; he is also available to shareholders to discuss any concerns that have not been addressed through the normal engagement channels. As part of his role, he meets with the Non-Executive Directors without the Board Chair at least annually and leads on the ongoing monitoring and annual evaluation of the Board Chair's performance.
Chief Executive Officer (Executive Director)	> David Duffy manages and leads the Group on a daily basis, supported by the Executive Leadership Team. He is delegated authority by the Board to make decisions on matters affecting the operation and performance of the Group and delivery of the Board approved Strategic and Financial Plan.
Non-Executive Directors	> Together with the Board Chair and Executive Directors, the Non-Executive Directors are responsible for ensuring the Board fulfils its responsibilities under its Charter (available on our website at www.virginmoneyukplc.com). Non-Executive Directors bring diverse business and commercial experience, objective judgement and specialist advice to inform Board discussions and decision making. They help develop and set the Group's strategy, monitor its delivery and constructively challenge Executive Directors holding management to account for the performance of the Group. Non-Executive Directors satisfy themselves on the integrity of financial information and keep the Group's risk profile and systems of risk management under review. Led by the Governance and Nomination Committee they are responsible for the appointment and removal of Executive Directors and determine the remuneration of Executive Directors through the Remuneration Committee.
Group Company Secretary	> Lorna McMillan works closely with the Board Chair to ensure the Board operates effectively and efficiently and that there is appropriate alignment and information flows between the Board and its committees. She is also responsible for advising the Board and individual Directors on corporate governance matters and facilitates Director induction and professional development overseen by the Board Chair.

Governance and Nomination Committee report

David Bennett
Chair of the Governance and Nomination Committee

The Committee has focused on ensuring the skills and experience on the Board and across the executive team are aligned with the Group's strategy and future needs supported by robust succession plans that drive diversity and inclusion at Board level and across Virgin Money.

Introduction

I am pleased to bring you my report as Chair of the Governance and Nomination Committee (Committee) outlining how the Committee discharged its responsibilities during the year and the key topics it considered in doing so. I report to the Board after each meeting on the main issues discussed and matters for recommendation to the Board.

Committee role and responsibilities

The Committee is responsible, on behalf of the Board, for:

- reviewing the structure, size and composition of the Board and its committees to ensure there is an appropriate balance of skills, experience, knowledge, diversity and independence;
- reviewing succession arrangements for the Board and recommending the appointment of Executive Directors, Non-Executive Directors and the Board Chair;
- keeping the succession arrangements for the Executive Leadership Team under review; and
- overseeing the annual Board Effectiveness Review.

The full details of the Committee's responsibilities are set out in its Charter available on the Group's website (www.virginmoneyukplc.com).

Committee membership, skills, experience and operations

All Non-Executive Directors are members. On joining the Board on 3 October 2022, Sara Weller also became a member of the Committee. The Group Chief People and Communications Officer and Group Company Secretary, who is secretary to the Committee, attend all meetings and the Chief Executive Officer attends meetings where appropriate.

During the year, six scheduled meetings were held and there was one additional meeting to consider succession arrangements for the Virgin Representative Director.

Further information on Committee members, their skills and experience and meeting attendance is in the 'Our Board in 2022' section on page 70 and in Directors' biographies on pages 74 to 78.

The Committee undertakes an annual effectiveness review as part of the Board evaluation process. This year the evaluation took the form of a survey asking Committee members for their views on Committee effectiveness and to track progress since the last externally facilitated review in FY20. Additionally, a review of the Committee's activity relative to its Charter was undertaken.

Governance and Nomination Committee report continued

The outputs of both elements of the evaluation were considered by the Committee in a meeting. The evaluation concluded that the Committee is effective overall with improvements evidenced compared to FY20 including in relation to the Committee's role in keeping Board composition under review and on Non-Executive Director succession planning. The strength of succession cover across Executive Leadership Team roles was identified as an area for improvement and is discussed further in the 'Succession Planning' section below. The review also concluded that the Committee operated and carried out its duties in line with its Charter throughout the year.

What was on the Committee's agenda in FY22?

The key areas of focus for the Committee during the year were:

- Board composition, skills and experience.
- Board and Executive Leadership Team succession planning.
- Progress being made on improving diversity and inclusion across the Group.
- Monitoring the implementation of actions from the 2022 Board evaluation.
- Planning for the FY23 Board and committee evaluation.
- Reviewing the effectiveness of the workforce engagement programme.

You can read more detail about the Committee's activities during 2022 in the rest of this report. The diagram illustrates how the Committee spent its time during the year.

Other significant issues considered by the Committee during the year

Composition

The Board is structured to ensure it has an appropriate combination of skills, experience, knowledge and diversity and that at least half of the members are independent Non-Executive Directors.

During the year, the Committee carried out a review of the composition of the Board and its committees including the Board skills matrix reflecting Directors' own assessment of the skills and experience they bring. As can be seen from the Board Skills chart in the 'Our Board in 2022' section on page 70 the Board comprises members with a wealth of skills, experience and competencies aligned to the Group's strategic priorities. Given the nature of Virgin Money's business, a significant proportion of the Board is experienced in financial services however Non-Executive Directors also bring substantial skills and experience in other important areas including customer experience, business transformation and technology enabled change and experience of environmental, sustainability and climate risk issues. Board committees also comprise Non-Executive Directors with a broad range of skills and experience so that no undue reliance is placed on one individual. The Board skills matrix will continue to be reviewed by the Committee and the Board at least annually.

As mentioned in my opening remarks, during the year the Committee was engaged by Virgin on their nomination for a new Representative Director. The Committee received a detailed briefing on the criteria identified by Virgin as particularly important for the appointment including significant prior Non-Executive Director experience in a UK publicly listed company, financial services experience, deep customer understanding and a consumer-focused mindset, strong cultural fit with Virgin Money and the Virgin brand and overall a profile that can positively contribute to complement and strengthen the existing Board capabilities. Based on these criteria and following an external search process, Virgin presented Sara Weller as its preferred candidate.

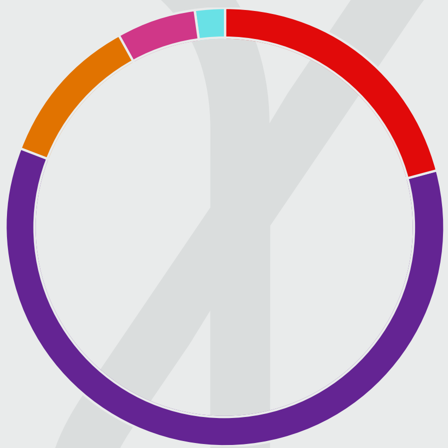
The Committee, having reviewed Virgin's assessment of Sara's qualifications and suitability for the role, and having heard the feedback from the Board Chair and Chief Executive Officer who had met with her as part of the selection process, recommended the appointment to the Board for approval.

Independence, election and re-election of Directors

In recommending Directors for election and re-election, the Committee considered the skills and experience, time commitment, tenure, potential conflicts of interest and performance of each Non-Executive Director.

The external roles held by all Directors were considered to be appropriate. The Board is of the view that each Director it has recommended to shareholders for election or re-election at the 2023 AGM brings considerable knowledge, wide-ranging skills and experience to the Board, makes an effective contribution and continues to demonstrate commitment to their role.

How the Committee spent its time



Other governance matters (including meeting administration)	21%
Succession planning	60%
Diversity, inclusion and workforce engagement	11%
Board evaluation	6%
Director and Committee appointments	2%

The Board also reviewed the continued independence of Non-Executive Directors. The Board Chair is committed to ensuring that the Board comprises a majority of independent Non-Executive Directors having regard to the circumstances set out in the Code that are likely to impair, or could appear to impair, independence. The Board continues to consider all serving Non-Executive Directors as being independent in line with the Code, except for Sara Weller, Virgin's Representative Director. The Board Chair was judged to be independent on appointment as Board Chair in May 2020.

The charts on pages 70 to 72 illustrate the independence; skills and experience; diversity and tenure of Board members during the year ending 30 September 2022 and their skills, experience and contribution to the Board are set out in their biographies on pages 74 to 78.

Succession planning

Strong succession planning remains a key focus in helping ensure the continuation of a well-balanced Board taking into account the business' immediate and longer-term requirements.

Board succession plan

The Committee is responsible for keeping the Board succession plan arrangements under review and making recommendations to the Board. During the year the Committee undertook a detailed review of the Board succession plan covering contingency arrangements for short-term unexpected absences, the medium term for the orderly replacement of current Board members and longer-term planning for each of the key Board roles. In doing so the Committee had regard to the Board skills matrix and the future skill set needed on the Board as Virgin Money continues its transformation to a Digital First bank.

In undertaking this review the Committee considered the tenure of a number of current Non-Executive Directors, the benefits in the regular renewal of the Board and its committees to bring new and fresh perspectives and also the target diversity and inclusion profile for the Board. As part of the succession plan review, following assessment by the Committee, the Committee recommended to the Board that Darren Pope and Tim Wade be appointed for a third three-year term, subject to re-election at the AGM. The Committee agreed a series of priorities which will be considered further as the Committee oversees the delivery of a robust and orderly succession plan over the coming period.

Executive leadership team succession and talent

During the year, the Committee also kept the leadership and succession needs of the business under review including monitoring the depth and diversity of the succession pipeline at both the Executive Leadership Team level and the level immediately below and the plans in place to continue to improve diversity over the longer term. As part of this work the Chief Executive Officer kept the Committee updated on successor candidates for the Chief Risk Officer and Chief Digital and Innovation Officer roles leading to the Committee supporting the appointments of Susan Poot as Chief Risk Officer who joined the Group in January 2022 and Sarah Wilkinson as Chief Operating Officer who will join Virgin Money early in 2023.

When considering executive and senior management succession planning, the Committee reflected on the importance of having caretaker cover until permanent appointments are made, near-term successors ready to step up into a senior role either immediately or within 24 months and medium-term plans.

The discussion also considered the different skills and experience Virgin Money will need in the future as it increasingly digitises the business and the changes to the operating model this will bring about. The Committee and Board were pleased with the progress made in strengthening the succession plan and discussed with the Group Chief People and Communications Officer the actions being taken to develop successor readiness including at more junior levels in the organisation to improve the internal talent pipeline. During the year, the workforce engagement programme (which is described on page 88) included sessions with Board members and small groups of colleagues to discuss strategic topics which provided an opportunity for Non-Executive Directors to get to know potential future leaders.

Diversity and inclusion

The development of a diverse and inclusive organisation is central to our people strategy driven by our Purpose. The Board firmly believes that having a truly diverse workforce that reflects the communities and customers Virgin Money serves is fundamental to the Group's long-term sustainable success. The Board's commitment to diversity and inclusion among its own membership, and the related targets it has set, are explained in our Board Diversity and Inclusion Policy (Policy) (available on our website at www.virginmoneyukplc.com) with progress towards achieving the targets reviewed at least annually.

The Policy's objectives ensure that the Committee and the Board follow an inclusive process 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.

This includes considering differences in knowledge, skills and experience and also in age, gender, ethnicity, disability, educational, professional and socio-economic background and other distinctions between Directors such as cognitive and personal strengths to ensure the Board benefits from a range of perspectives which supports good decision making and avoids the risk of 'group think'.

In light of new Listing Rules introduced during the year, the Board has approved revised diversity and inclusion targets for its membership comprising at least 40% female Directors by the end of 2023, at least one of the senior Board positions of Chair, Senior Independent Director, Chief Executive Officer or Chief Financial Officer held by a woman and to have at least one member of the Board who is from a minority ethnic background. Additionally, the Board aspires that the membership of each of its Audit, Governance and Nomination, Remuneration and Risk committees comprises at least 40% women by the end of 2023 with one committee member in each case being from a minority ethnic background. As part of the Board succession planning work undertaken this year, the Committee is already considering how it will work towards achieving the new Listing Rule and Policy targets and acknowledges that in periods of Board change there may be times when these targets are not met.

As at 30 September 2022 measured against the current Policy, the Board comprises one Director from an ethnic minority background and female representation on the Board was 28.6% (based on two female Directors and five male Directors), which, following Amy Stirling leaving the Board during the year, falls short of the 33% target. Upon Sara Weller joining the Board on 3 October 2022 women's representation improved to 37.5% as at the date of this report achieving the 2022 target. The diversity of the Board will remain a focus through the delivery of the succession plan.

Board and committee evaluation

In line with the Code, an evaluation of the performance of the Board, its Committees, the Board Chair and of individual Directors takes place annually and usually this is externally facilitated at least once every three years. The performance evaluation of the Board Chair is carried out by the Non-Executive Directors, led by the Senior Independent Director, considering the views of the Executive Directors. 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.

An internal evaluation was completed in FY22 following the same process and covering broadly similar topics to FY21 enabling the Board to track progress in its effectiveness over the year. The Committee agreed the methodology and timetable with the exercise coordinated by the Group Company Secretary.

The stages of the Board and committee evaluation

1st Stage Survey	Directors completed an online survey asking them to rate the Board's effectiveness on questions covering composition and dynamics; governance and information; risk management and internal control; succession planning and HR management; and priorities for change. A rating scale was used ranging from ineffective to highly effective with the option to include additional commentary and viewpoints.
2nd Stage Results collated	The Group Company Secretary collated the results of the survey and prepared a report drawing out trends compared to the 2021 review and key themes from Directors' viewpoints. The report was initially discussed between the Group Company Secretary and the Board Chair then circulated to all Directors.
3rd Stage Board discussion	Informed by the report prepared at Stage 2, the Board held a round-table discussion of the results and key themes with a particular focus on lower rated areas or where the overall rating had declined since the previous year. During the session Directors also shared ideas on how to improve Board effectiveness and which good practices should be continued in addition to discussing areas of focus for the Board in FY22.
4th Stage Action plan agreed	The Group Company Secretary produced a report summarising the discussion at Stage 3 and documenting the suggested areas of focus and action in FY22 to improve Board performance and effectiveness. This report was circulated to and agreed with the Board. The Committee has monitored the implementation of the action plan during the year, periodically reporting progress to the Board.
Committee evaluation process	A review of the effectiveness of the Audit, Governance and Nomination, Remuneration and Risk committees was also completed following the same process as the Board evaluation and coordinated by the relevant committee secretary. A survey was issued to committee members covering general topics including governance, the quality of information provided and committee operations in addition to questions tailored specific to each committee's remit. Additionally, a review of each committee's activity relative to its Charter was undertaken. The survey results and activity review were considered by each committee in a meeting, with actions to improve committee effectiveness agreed where appropriate, and then reported to the Board. Key insights from the committee evaluations are covered in the individual committee reports elsewhere in this Governance report. Each committee was found to be effective overall.
Board Chair and individual directors	Tim Wade, Senior Independent Director, coordinated the Non-Executive Directors' evaluation of the Board Chair, considering the views of the Executive Directors. The evaluation found the Board Chair's performance to be effective. The Board Chair undertook individual assessments of the Non-Executive Directors during the year which were partly informed by the views of each Director's Board peers which the Chair sought in advance of one-to-one meetings. The Board Chair concluded that the Non-Executive Directors are committed and continue to operate effectively individually and collectively as a Board. The performance of Executive Directors followed the performance management framework which applies to all colleagues with outputs reported to and reviewed by the Remuneration Committee during the year.

Governance and Nomination Committee report continued

Key themes and actions agreed

The Board evaluation concluded that the Board is viewed as effective overall with most assessment areas showing an upward trend year-on-year indicating that the Board's effectiveness has continued to improve. The most notable improvements when considering the change from 2020 (when the last externally facilitated review was conducted) to FY22 relate to the skills and expertise on the Board, the style of contribution and constructive challenge in the Boardroom and time management in Board meetings to ensure the Board agenda and discussion is focused on the most significant matters.

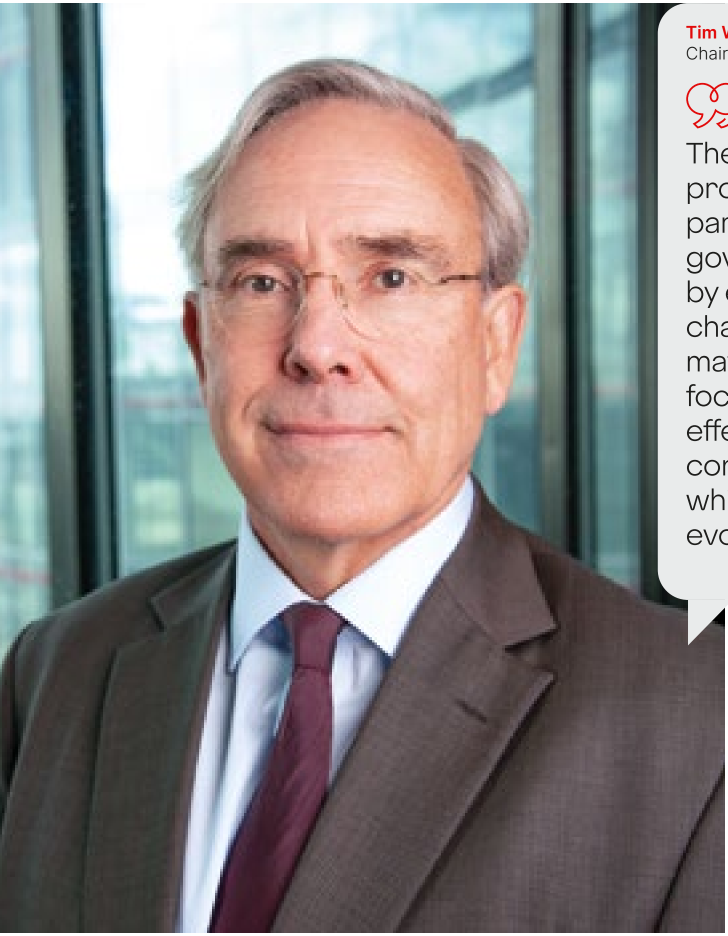
Theme	Areas of focus from the 2022 evaluation	Actions taken
Board papers	The quality and quantity of Board reports, although improved, needs to remain a focus to ensure they are insightful, particularly with regard strategic execution, progress on digitisation and customer experience	Standing reports refreshed to make them more focused, highlighting upfront areas for Board feedback and discussion New quarterly strategic execution report introduced to track progress on strategic outcomes and KPIs Chief Customer Experience Officer's report restructured to focus on prioritised customer journeys, progress on digitisation and impact on customer experience Risk opinion and alignment to risk appetite more clearly drawn out in approval papers
Board schedule	While time management and the focus in meetings is seen as effective, Board days are busy and would benefit from more reflection/informal time	Board Chair and Group Company Secretary continue to keep the content of meeting days/the Board meeting itself under review to avoid an overly busy schedule Hybrid model introduced to the Board schedule with at least three meetings per year taking place in person; re-introduced informal engagement opportunities outside of formal Board meetings including with the broader colleague population
Succession planning	Continue to evolve the effectiveness of the Board's oversight of executive and senior management succession planning	The Group Chief People and Communications Officer improved the depth and quality of the succession plan information reported to the Board Continued the programme of quarterly leadership conversations to improve Directors' familiarity with potential internal successors for senior roles

Looking ahead

The Board is committed to independently evaluating its own effectiveness and that of its committees as recommended by the Code. On the Committee's recommendation, the Board has agreed that the next externally facilitated review will be conducted in FY23. The Committee oversaw the process to appoint a suitable external facilitator which involved consideration of a number of potential firms and resulted in the Committee recommending, and the Board subsequently approving, the appointment of Korn Ferry (UK) Limited to conduct the next independent evaluation. Korn Ferry is an independent external service provider with no connection to the Group in relation to undertaking the Board evaluation exercise although Korn Ferry has been engaged in the past in relation to some Board and executive search activity. The scope of the evaluation, the process followed, the results and actions agreed by the Board will be reported on in detail in next year's Annual Report & Accounts.

David Bennett
Chair, Governance and Nomination Committee

Audit Committee report



Tim Wade
Chair of the Audit Committee

The Audit Committee provides support as part of the Bank's wider governance framework by ensuring oversight and challenge of key reporting matters and maintaining focus on evaluating the effectiveness of the control environment which we continue to evolve and strengthen.

Introduction

I am pleased to present my report as Chair of the Audit Committee (Committee) outlining how the Committee discharged its responsibilities and met its objectives during the year and the key topics it considered in doing so. After each Committee meeting I report to the Board on the Committee's activities, the main issues discussed and matters for recommendation to the Board. As Chair I meet with the external audit lead partner, Group Director Internal Audit (GDIA) and management as appropriate ahead of meetings to discuss specific items of focus.

Committee role and responsibilities

The Committee is responsible, on behalf of the Board, for:

- assessing the integrity of the Group's financial and regulatory reporting and disclosures;
- overseeing the effectiveness of the Group's financial control environment;
- reviewing the activities and performance of Internal Audit and the External Auditor; and
- reviewing and monitoring the Group's whistleblowing procedures.

The full details of the Committee's responsibilities are set out in its Charter available on the Group's website (www.virginmoneyukplc.com).

Committee membership, skills, experience and operations

All Independent Non-Executive Directors, other than the Board Chair, are members. Acting independently of management ensures the interests of shareholders are protected in relation to financial reporting and long-term value is prioritised. The Board Chair, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel and Purpose Officer, Group Financial Controller, GDIA and the External Auditor also attend all meetings.

Tim Wade, Chair, an experienced Chief Financial Officer and a chartered accountant, is deemed to have recent and relevant financial experience for the purposes of the Code. All members have competence in the financial sector and further information on Committee members, their skills and experience and meeting attendance is in the 'Our Board in 2022' section on pages 70 to 72 and in Directors' biographies on pages 74 to 78.

Audit Committee report continued

During the year, six scheduled meetings took place. Private sessions of the Committee took place before each meeting with the External Auditor or GDIA attending as required. Private sessions continue to prove useful as they provide members with the opportunity to raise specific questions and conduct more detailed discussions in relation to matters of importance for the Group without management being present.

In recognising the common interest in issues relevant to both the Committee and the Risk Committee, two scheduled joint Audit and Risk Committee meetings were also held in the year where matters including the FY23 Risk Management Assurance Plan and FY23 Internal Audit Plan were discussed and approved.

Each year the Committee undertakes a review of its activity relevant to its Charter and its effectiveness which this year involved asking Committee members about their views on Committee effectiveness via an online questionnaire. The output of the Charter review concluded that the Committee operated and carried out its duties in line with its Charter throughout the year. In relation to effectiveness, member responses were analysed and conclusions drawn on progress made since the prior year's review. The outputs of the review were considered by the Committee which concluded that it is effective overall with members rating the quality of the information provided to support the Committee to fulfil its role and responsibilities, the ability to provide constructive challenge to management and time spent on most significant matters as "highly effective". When compared with FY20 results, improvements were seen in relation to the effectiveness of reviewing material judgements and monitoring whistleblowing procedures and the effectiveness of assessing the work of the External Auditor. The assessment of the work of Internal Audit remained consistently high.

The review highlighted the need for the Committee to ensure the continued effectiveness of its oversight of financial reporting and the effectiveness of financial controls which have both been key areas of focus for the Committee during FY22 as the Bank concentrates on strengthening the internal control environment, to meet increased regulatory demand driven by its Tier 1 status and the forthcoming changes as a result of the output of the UK Government Department for Business, Energy & Industrial Strategy (BEIS) consultation on 'Restoring trust in audit and corporate governance' discussed further below. The Committee will take part in an externally facilitated Board and Committee evaluation in early FY23. More detail is included on page 105.

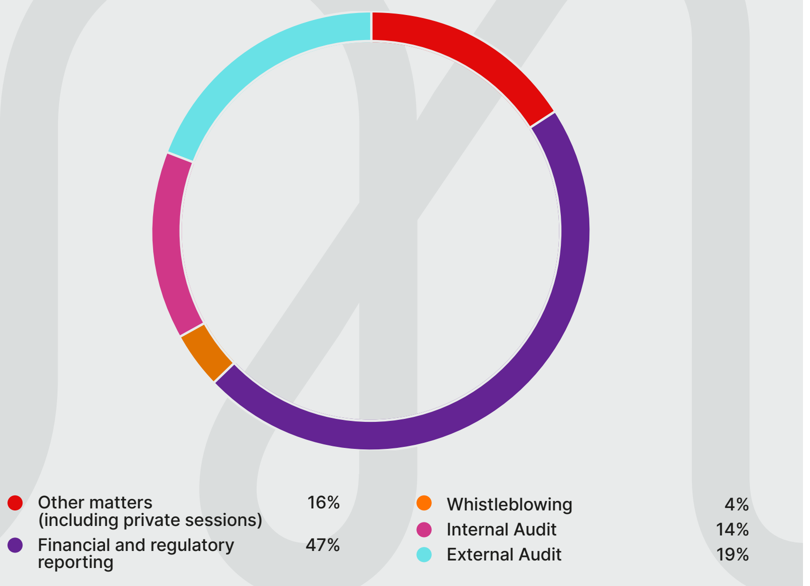
What was on the Committee's agenda in FY22?

Some of the key areas of focus for the Committee during the year were:

- Reviewing the integrity and quality of the Group's published financial information, including the interim and full year results announcements, the Annual Report & Accounts and Pillar 3 disclosures.
- Responding to the evolving disclosure requirements, including climate-related reporting and net-zero strategy.
- Overseeing the effectiveness and continuous improvement of financial controls.
- Reviewing the calculation of ECL provisioning outcomes in line with IFRS 9 financial reporting requirements during an uncertain economic environment.
- Reviewing and challenging the inputs, methodologies and assumptions in operating Effective Interest Rate (EIR) accounting.
- Overseeing the process for the selection of a new Group auditor.

You can read more detail about the Committee's activities during the year in the following pages. The following diagram illustrates how the Committee spent its time during the year.

How the Committee spent its time



Audit, risk and internal control

Audit Committee report continued

Activities during the year

Significant financial reporting judgements

The areas of judgement considered, key conclusions reached, and actions taken by the Committee during the year, which ensure that appropriate rigour has been applied to the 2022 Annual Report & Accounts, are detailed below. This included consideration of management's review of the critical accounting estimates and judgements, with the conclusion that they had been applied appropriately and the disclosures presented were sufficient. There were no changes to the Group's critical accounting estimates and judgements in the year.

Key area of review and challenge		Key discussions, decisions and recommendations
Accounting, tax and financial reporting	The appropriateness of the Group's financial statements, including the content of the Interim Financial Report, Annual Report & Accounts, related results announcements, quarterly results announcements and supporting analyst presentations.	**The Committee:** > reviewed the process for producing reports under the remit of the Chief Financial Officer and the level of involvement of cross-functional subject matter experts, including monitoring the procedures in place to ensure that all contributors attested to the completeness, accuracy and appropriateness of the disclosures provided; and > considered carefully if the external reporting met the requirements to be suitably 'fair, balanced and understandable'.
Accounting policies and practices	The critical accounting policies, disclosure obligations, changes in accounting requirements, and the Group's use and explanation of alternative performance measures (APMs). Further detail on APMs can be found in the 'measuring the Group's performance' section of the Annual Report & Accounts commencing on page 344.	**The Committee:** > reviewed with both management and the External Auditor, the critical accounting estimates and judgements, and significant accounting policies and disclosures for the Group's interim and annual financial statements during the year; > received regular updates from the Accounting Policy Team and External Auditor on key changes and developments in financial reporting requirements; > reviewed the approach to APM adjustments and received regular updates on the determination and presentation of APMs. These provided evidence of how the Group's financial performance on a statutory basis reconciled to the underlying view as presented by management. The Committee agreed with management's conclusions on the items to be adjusted in presenting an underlying position; and > continued to emphasise the importance of placement and prominence of the statutory reporting basis over APMs.
Impairment losses on loans and advances	The Group's loans and advances held at amortised cost are subject to impairment losses which are measured on an ECL basis. The process of calculating the collectively assessed element of the ECL balance for both the 12-month ECL allowance (Stage 1) and the lifetime ECL allowance (Stages 2 and 3) requires the use of significant estimates and judgements over issues such as the estimation of the probability of default, macroeconomic indicators, scenarios and weightings in arriving at a probability weighted forward-looking ECL allowance, and the use of PMAs by management to augment the pure modelled output where appropriate. The Group's ECL allowance reflects the impact of inflationary and cost of living pressures and how these have affected our customers in 2022. Further information on and disclosures relating to the Group's ECL impairment allowance are set out in the credit risk section of the Risk report starting on page 159 and in note 3.2.	**The Committee:** > reviewed regular reports from management in relation to the level of ECL impairment provisioning, with the key focus being on the assumptions used within the collectively assessed element of the provision. This included the measures taken by management in assessing the gradual removal of the impact of COVID-19 and the emergence of the inflationary and cost of living pressures on the Group's customers and how these were adequately incorporated and reflected within the ECL allowance; > reviewed and challenged the inputs (including the macroeconomic scenario selection and associated weighting changes in the year) and resulting output of the base models, with a particular focus on probabilities of default, and the estimate of future recoveries; > provided continuous review and challenge of the level of PMAs included within the ECL impairment allowance and the rationale for their inclusion; > assessed outputs against peer and wider industry benchmarks; and > agreed that the judgements and assumptions used were necessary and appropriate as at 30 September 2022.

Key area of review and challenge		Key discussions, decisions and recommendations
Effective Interest Rate (EIR)	The Group offers a range of mortgage and credit card products, interest income on which is recognised using the EIR method. This provides a level yield over the anticipated behavioural life of the product. In addition, certain fees and costs that are directly attributable and integral to the generation of a financial instrument are deferred and released to the income statement over the expected life of the relevant product. Further information on and disclosures relating to the Group's use of EIR accounting are set out in note 2.2.	**The Committee:** > received regular updates from management on the operation of the EIR models and how these impacted the Group's results; > reviewed and challenged the inputs, methodologies and assumptions applied to these models, in particular those around customer prepayment profiles and behaviours; and > was satisfied that the inputs, methodologies and assumptions used by management in operating EIR accounting for the Group at 30 September 2022 are appropriate and supportable in an uncertain economic environment.
Deferred tax assets	The largest elements of the Group's deferred tax asset are historic losses and capital allowances. In assessing the recoverability of the deferred tax asset on the balance sheet, management has exercised judgement over the forecast future profitability of the Group and the number of years over which to take account of future profits (i.e. the period over which profits can be reliably estimated). Further information on and disclosures relating to the Group's deferred tax asset position are set out in note 2.5.	**The Committee:** > reviewed the recoverability of deferred tax assets throughout the year; > considered the judgements made by management over the forecast future profitability of the Group and the time horizon over which the use of tax losses was foreseeable in light of the continuing and progressively tightening restrictions on their use; and > agreed that the recognition of a deferred tax asset balance as at 30 September 2022 was appropriate.
Retirement benefit obligations	The actuarial valuation of the Group's defined benefit scheme liabilities involves making several financial and demographic assumptions including the discount rate; future inflation rates; and future mortality rates. Further information on and disclosures relating to the Group's retirement benefit obligations are set out in note 3.9.	**The Committee:** > reviewed the discount and inflation rate assumptions proposed by management against a benchmark range provided by the external adviser and concurred with these key assumptions; and > agreed that the discount and inflation rates used in the calculation of the retirement benefit obligations as at 30 September 2022 were appropriate.
Going concern and long-term viability	The Board is required to confirm whether it has a reasonable expectation that the Company and the Group will be able to continue to operate and meet their liabilities for a specified period. The Viability Statement must also disclose the basis for the Directors' conclusions and explain why the chosen period is appropriate.	**The Committee:** > reviewed and challenged the going concern assessment undertaken by management including assessments of the Group's capital, liquidity and funding position and consideration of the principal risks and uncertainties set out on pages 63 to 66; > concluded that the Company and Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements and confirmed to the Board that it was appropriate for the Group's financial statements to be prepared on a going concern basis; > reviewed climate-related reporting, including the assessment of risks and opportunities, potential impacts to the financial statements and the strategy to net zero; > reviewed and challenged the viability assessment (including the three-year time horizon selected) undertaken by management in the 2022 Annual Report & Accounts; > considered the process to support the Viability Statement in conjunction with an assessment of principal risks and strategy/business model disclosures, taking into account the assessment by the Risk Committee of stress testing results and risk appetite; and > recommended the draft Viability Statement (as set out on page 155 to 157) to the Board for approval.

Other significant issues considered by the Committee during the year

Assessment of fair, balanced and understandable reporting

In light of the Board's obligation under the Code, the Committee considered the comprehensive review process which supports the Board and Committee in reaching its conclusion as to whether the 2022 Annual Report & Accounts is fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy.

The production of the 2022 Annual Report & Accounts was managed by the Chief Financial Officer, with overall governance and coordination provided by a cross-functional team of senior management led by the Financial Controller. A robust review process of inputs into the 2022 Annual Report & Accounts by contributors from across the business was conducted to ensure disclosures were balanced, accurate and verified, and further comprehensive reviews were conducted by senior management. The Committee then formally reviewed the draft 2022 Annual Report & Accounts in advance of final review and sign-off by the Board.

The following highlights some of the questions that the Committee asked itself as part of the review process along with the conclusion reached:

Is the report fair?	Is the report balanced?	Is the report understandable?
> Has the whole story been presented and are there any significant matters omitted which should have been included? > Do the Financial Statements contain narrative which is consistent with that used in the Strategic Report to describe the performance of the business? > Is there a clear and unified link between the Strategic Report, Governance and Financial Statements and between the Annual Report & Accounts as a whole and the Group's other external reporting?	> Are the statutory and adjusted measures set out clearly and given appropriate prominence? > Has the report been properly considered as a document that has been prepared for shareholders? > Is the reporting consistent throughout the report, from the Strategic Report through to the Financial Statements and does it remain consistent when these sections are read independently of one another? > Are the key judgements explained in the narrative reporting consistent with the disclosures set out in the Financial Statements? > Are the Group's strategy, business model and KPIs correctly and clearly described?	> Is the structure and framework of the report clear and understandable? > Is the layout clear and linked throughout enabling the whole story to be understood? > Are important messages highlighted well enough throughout the document? > Is the information presented in a clear and concise manner, illustrated by appropriate KPIs to facilitate shareholders' access to relevant information?

Conclusion

After careful review and consideration of all relevant information, including principal risks and ongoing risk reporting, the Committee was satisfied that, taken as a whole, the 2022 Annual Report & Accounts is fair, balanced and understandable and has affirmed that view to the Board.

Internal Audit

The Group's Internal Audit function plays a key role in providing an independent assessment and challenging risk management and control. In monitoring the role and effectiveness of the Internal Audit function (including the role of the GDIA) and the Internal Audit programme, the Committee:

- approved and monitored the audit plan, including any material changes, and progress towards its delivery;
- conducted regular interactions with the GDIA including private sessions with the Committee and Committee Chair and specific audit planning workshops;
- considered regular reports from Internal Audit on activities undertaken and a six-monthly assessment of the overall control environment;
- provided detailed in and out-of-meeting challenge in relation to major findings, and the responses to these from management;
- conducted an annual assessment of the independence and performance of the GDIA who continued to report directly to the Committee Chair, with a secondary reporting line to the Chief Executive Officer for administrative purposes;
- engaged a third party to assess the effectiveness of the function, considered the result and monitored progress against the findings, see page 112 for more information;
- reviewed the adequacy of Internal Audit's resources and skills, including the financial budget and capability to draw on external specialists when appropriate; and
- approved revisions to the Internal Audit Charter (available at www.virginmoneyukplc.com), which sets out the role and responsibilities of the function.

The Committee concluded that the Internal Audit function was independent and sufficiently resourced and skilled to meet its accountabilities.

External Auditor

The Committee oversees the relationship with the External Auditor and is responsible for assessing its effectiveness, approving its terms of engagement, remuneration and monitoring its independence and objectivity.

Andrew Bates fulfilled the role of Senior Statutory Auditor for the first time in 2021 and will hold this position until EY are replaced as the Group's External Auditor by virtue of the mandatory tender requirements in 2024. All other audit partners and audit senior management are required to rotate at least every seven years.

During the year, the Committee:

- approved the annual external audit plan and received updates on the progress of the audit, including the responses to challenges created by COVID-19;
- reviewed the external auditor engagement letter and agreed the Auditor's remuneration (the Committee was authorised by shareholders at the 2022 AGM to agree the remuneration of the External Auditor);
- reviewed the findings of the external audit including key judgements and the level of challenge provided by the External Auditor;
- reviewed management's responses to control findings, non-compliance and any other findings identified by the External Auditor;
- received a series of presentations on specific areas of EY's audit such as the Group's IFRS 9 multiple economic scenarios approach and IT applications and received insight sessions from EY specialists on Fraud and EIR;
- considered the wider external audit market generally, assessing relevant industry specific information and events including the Written Auditor Reporting (WAR) feedback issued by the PRA to firms in September 2021 on the 2020/21 reporting cycle;
- reviewed FRC Quality Audit reports; and
- provided input to and oversight of the process for the selection of a new Group auditor. Details of the external audit tender process and the outcome are set out at the Statutory Audit Compliance section below.

As part of its responsibility for annually reviewing the effectiveness of the audit process and the External Auditor performance, the Committee focused on the areas of judgement; mindset and culture; skills, character and knowledge; with an overarching assessment of quality control. The Committee concluded that it was satisfied with the External Auditor's performance and recommended to the Board a proposal for the reappointment of EY as Group Auditor for a final one-year term for approval by shareholders at the Company's 2023 AGM.

External Auditor independence and remuneration

Both the Board and the External Auditor have safeguards in place to protect the independence and objectivity of the External Auditor which are detailed in the External Auditor Independence Policy Standard (Policy). This Policy is reviewed at least annually and details the nature of the services that the External Auditor may not undertake and specifies that non-audit services may not be pre-approved and are subject to prior approval from the Committee or a delegate.

In certain cases, the External Auditor may be selected over another service provider due to their detailed knowledge and understanding of the Group's operations. Any allowable non-audit service with a value above £100,000 requires approval from the Chair of the Committee. The Policy also specifies that the overall fee for non-audit services be continually monitored and should not exceed 70% of the average audit fee over the prior three-year period. The total amount paid to the External Auditor in 2022 was £6,496,000 (2021: £4,959,000).

The Committee challenged the External Auditor on whether this fee level was sufficient to facilitate an effective audit and received satisfaction on this point. Non-audit services of £1,801,000 (2021: £585,000) performed by the Auditor during the year included providing accounting opinions and comfort letters in respect of the issues of Global Medium Term Note debt instruments; profit attestations; and a Client Assets Sourcebook audit. Payments by the Group for both audit and non-audit services provided in 2022 and 2021 are further detailed in note 2.4 to the Financial Statements. The Policy also regulates the appointment of former audit colleagues to senior finance positions in the Group.

Statutory Audit Services Compliance

The Committee confirms that the Group has complied during FY22 and to the date of this report with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, which relates to the frequency and governance of tenders for the appointment of the external auditor and the setting of a policy on the provision of non-audit services.

EY has been the External Auditor for Clydesdale Bank PLC and other Group entities since January 2005, and during the year, the Committee has provided oversight of the process for the selection of a new Group auditor.

A number of firms were invited by the Committee to tender for the external audit mandate from the year ending 30 September 2024. The Group's current auditor, EY, did not participate in the process as they were coming to the end of the maximum 20-year duration allowed for external audit appointment under the Statutory Auditors and Third Country Auditors Regulations 2016.

The six-month long process, overseen by the Committee, involved senior representatives of the tendering firms meeting with senior management from across the Group and presenting their proposals to become the Group's external auditor. Each firm submitted written proposals and presented to a selection panel chaired by the Committee Chair. The panel met to discuss and evaluate the proposals and after careful consideration by the Committee, a recommendation was made to the Board for the appointment of PricewaterhouseCoopers LLP (PwC), which the Board approved. Subject to shareholders' approval at the AGM, PwC will be appointed as external auditor in place of EY, with effect from the year ending September 2024.

The Committee received confirmation from PwC that it will be independent of the Group from 30 September 2022 and, as a result, will be able to commence its planning activities in 2023. The transition plan will be overseen by the Committee over the course of 2023.

Risk management and internal control systems

Detailed information in respect of the internal controls and risk management systems for the Group's financial reporting process are provided within the Risk report on pages 159 to 230. In considering the effectiveness of internal controls, the Committee received and discussed reports from Internal Audit and the External Auditor. Specific matters that the Committee considered during the year included:

- reviewing the output of Internal Audit reports (including thematic and focused reviews of prudential, credit, conduct and strategic change risks) to allow an assessment of the effectiveness of the Group's internal control and risk management systems. This regular monitoring ensured timely identification of issues and formal tracking of remediation plans. The Committee also challenged management where appropriate on the time frame for delivery of actions;

- consideration of the three lines of defence assurance plans; and
- consideration of the findings of the External Auditor in connection with the Group's control environment.

The Committee concluded that it was content that financial reporting internal controls were sufficiently robust and were operating effectively.

Regulatory compliance

The Committee provided oversight of the Group's compliance with all necessary regulatory reporting which included reviewing the integrity of the Pillar 3 disclosures and recommending approval by the Board and providing oversight of significant management judgement in the regulatory returns to the Group's regulators (the PRA, FCA, BoE and European Banking Authority (EBA)).

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 is subject to such a review which commenced this year and which will ultimately lead to enhancements to the governance and control framework of the Group's regulatory reporting. In May the Board approved that EY be recommended to the PRA as the preferred Skilled Person to undertake the review and the PRA subsequently approved EY's appointment. The Committee has received regular updates on the progress of the review which is scheduled to finalise towards the end of calendar year 2022.

Whistleblowing

The Committee and Board places great importance on having arrangements in place whereby every Virgin Money colleague feels confident in speaking up, safe in the knowledge that they'll be protected from any reprisal for raising concerns and that their concerns are taken seriously. The Group operates a Whistleblowing Programme, which provides an anonymous, secure and easy way to raise any concerns, through a number of confidential channels, including an independent external whistleblowing hotline. A dedicated team is in place to receive reports and ensure a thorough independent and confidential investigation is undertaken. Upon receipt of a report the team will assess the concerns and appoint an appropriate manager to undertake an investigation, and ensure any necessary remedial action is taken.

The Committee Chair is the Group Whistleblowing Champion in accordance with the Senior Managers and Certification Regime, with responsibility for overseeing the integrity, independence and effectiveness of the Group's policies and procedures on whistleblowing. The Committee has oversight of the Whistleblowing Policy Standard and operational framework, seeking assurance it is adequately designed and operating effectively within the Group. The Committee received and considered its biannual whistleblowing reports covering the Group's whistleblowing arrangements, including monitoring the trends in reported and substantiated whistleblowing cases, training and awareness of colleagues, and the effectiveness of the whistleblowing programme. The Committee provided challenge to management in respect of the effectiveness of the programme and was satisfied that management dealt with reported whistleblowing cases appropriately. The Committee also reports biannually on its consideration of whistleblowing arrangements to the Board.

Proposed audit and corporate governance reform

The Committee welcomed the response from BEIS on their consultation 'Restoring trust in audit and corporate governance' in May this year and the subsequent Financial Reporting Council's (FRC) Position Paper from July which outlined how it will support the Government's proposed reforms. The Committee recognises that the proposed reforms will take some time before they can be fully enacted, especially those that require primary or secondary legislation; with those reforms related to changes to the UK Corporate Governance Code and associated guidance having an easier and faster pathway via the FRC (and its successor – the Audit, Reporting and Governance Authority).

During the year, the Committee discussed a number of the proposed reforms including the effectiveness of internal controls and the potential for an Audit and Assurance Policy (AAP). Work within the Group has already begun on the former, which will be enhanced over the coming years, and discussions will continue on the latter into 2023. The Committee is aware that an AAP can be implemented at any time and will consider this further over the coming months.

Climate-related disclosures

Climate-related disclosures continue to receive increased attention from the Committee. During the year the Committee received updates on the Group's approach to climate disclosures in line with the TCFD recommendations.

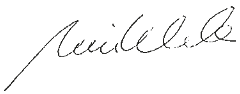
The Group will continue to enhance its climate-related reporting. The Committee is in agreement that transition and physical risks could cause impairment and changes to ECLs and that, although there is no material impact on the Group's consolidated financial statements for the year ended 30 September 2022, close monitoring must continue.

Work to address climate-related data limitation and to build accurate modelling of the financial impact of climate-related risks is continuing and will deliver improvements to disclosure quality.

External Quality Assessment

In the early part of the reporting period the Committee Chair oversaw the appointment of Board Alchemy Limited to carry out an external assessment of the Internal Audit function, as required by the Chartered Institute of Internal Auditors. The work included reviewing reports and relevant audit documentation, observing team meetings, meeting with members of the Internal Audit team and interviews with key stakeholders. The assessment concluded that the function undertakes its work displaying a high degree of independence. It plans, executes and reports on its work effectively, meeting the assurance needs of the Committee. The Internal Audit function is well led with audit team and key stakeholder relationships managed appropriately.

The function aspires to further strengthen coverage in response to increased regulatory demand driven by the Bank's Tier 1 status. This approach is supported by the Committee which approved an appropriate uplift in budget for FY23.



Tim Wade
Chair, Audit Committee

Risk Committee report

Geeta Gopalan
Chair of the Risk Committee

During the year, along with overseeing the Group's risks, the Committee kept a close watch on operational resilience, change risk as well as emerging risks from an uncertain macro environment.

Introduction

I am pleased to bring you my report as Chair of the Risk Committee (Committee) outlining how the Committee discharged its responsibilities during the year and the key topics it considered in doing so. It was another busy year for the Committee with significant time and focus given to monitoring the principal and emerging risks identified as facing the Group given the uncertain economic environment. I report to the Board after each Committee meeting on the main issues discussed and matters for recommendation to the Board. As Chair, I interact regularly with the Chief Risk Officer and other management as appropriate, to discuss key items in focus.

Committee role and responsibilities

The Committee is responsible, on behalf of the Board, for, among other things:

- assisting the Board to set the Group's risk appetite and to ensure that the Group maintains an effective RMF;
- assessing the principal and emerging risks facing the Group, including their management and mitigation;
- reviewing and approving the annual risk assurance plan and receiving regular reports on progress against the plan; and
- leading the development and embedding of a culture that supports risk awareness and the fair treatment of customers.

The full details of the Committee's responsibilities are set out in its Charter available on the Group's website (www.virginmoneyukplc.com).

Committee membership, skills, experience and operations

Elena Novokreshchenova, Darren Pope, Chair of the Remuneration Committee, and Tim Wade, Chair of the Audit Committee, sit alongside me as the Non-Executive Directors on the Committee. The Board Chair, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel and Purpose Officer and Group Director Internal Audit regularly attend Committee meetings which ensures all three lines of defence are fully represented. The external auditor is also invited to be represented at all meetings.

Risk Committee report continued

During the year, seven scheduled meetings were held along with two additional meetings to consider and recommend the overall ICAAP assessment; Pillar 1; Pillar 2A; and Pillar 2B stress testing assessments; and the associated ICAAP document to the Board for approval. Private sessions of the Committee took place before each scheduled meeting with the Chief Risk Officer attending as required. In recognising the common interest in issues relevant to both the Committee and the Audit Committee, two scheduled joint Audit and Risk Committee meetings were also held in the year where matters including the FY23 Risk Management Assurance Plan and FY23 Internal Audit Plan were discussed and approved and Annual Report & Accounts disclosures were reviewed.

Further information on Committee members, their skills and experience and meeting attendance is in the 'Our Board in 2022' section on page 70 and in Directors' biographies on pages 74 to 78.

Each year the Committee undertakes a review of its activity relevant to its Charter and its effectiveness, which this year involved asking Committee members for their views on the effectiveness of the Committee via an online questionnaire. The outputs of both elements of the evaluation were considered by the Committee in a meeting. The output of the Charter review concluded that the Committee operated in line with the requirements of the Charter throughout the year. In respect of the responses received via the effectiveness questionnaire, the Committee concluded that it had operated effectively overall with the main improvements when compared with FY20 results relating to the effectiveness of the Committee being positioned to monitor VMUK's risk exposure and RMF and in monitoring the control environment.

The effectiveness questionnaire highlighted two areas of enhancement for the Committee which were to present additional concise risk MI within the Chief Risk Officer's Report and to enhance the external perspectives provided to help inform Committee discussions. Actions were agreed to address both areas. The Committee will take part in an externally facilitated Board and Committee evaluation in early FY23. More detail is included on page 105.

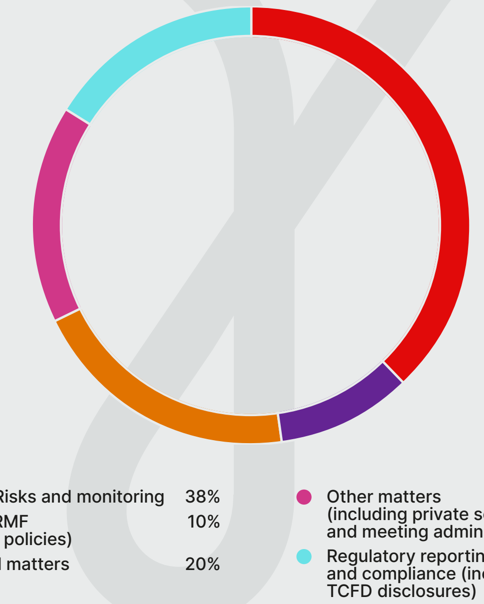
What was on the Committee's agenda in FY22?

The key areas of focus for the Committee during the year were:

- Risk appetite, limits and tolerances.
- Operational resilience and stress testing.
- Climate risk and embedding the TCFD governance pathway.
- Credit risk matters because of the uncertain economic environment.
- Ensuring a continued strong risk culture and environment.

You can read more detail about the Committee's activities during the year in the tables on pages 115 to 118. The diagram opposite illustrates how the Committee spent its time during the year.

How the Committee spent its time



Activities during the year

The Committee discharges its responsibilities by reviewing exposures in the context of the principal and emerging risks facing the Group.

In line with the requirements of the Group RMF, during the year the Committee maintained oversight of the following identified principal risks which are set out in more detail on pages 63 to 66.

Principal risk		Role of Committee and conclusion/action taken
Credit risk	The risk that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk 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 Committee:** > regularly reviewed the performance of the loan portfolio including the potential longer-term impacts of the COVID-19 pandemic, the rise in inflation and the increased living costs on the risk profile. Deep dive sessions took place to allow the Committee to review analysis on the Group's Business, Unsecured and Mortgage credit portfolios which included portfolio resilience, asset quality, emerging risks and credit loss expectations. These deep dive sessions allowed the Committee to spend time discussing with management any areas of concern or to seek further clarification as required; > provided input to enhancements to the Group's Sensitive Sector Statement which sets out the sectors the Group is willing to provide finance to. It challenged some of the judgements that had been made and requested to review the risk assessment criteria for the acceptance of sensitive sectors; > kept under review material credit risk exposures including requesting deeper dive sessions on key customer connections that allowed the Committee to consider the associated risks in detail, ask questions of key management personnel (KMP) to understand specific points of interest, and make recommendations to management on potential next steps; and > approved the refreshed Credit Risk Policy.
Financial risk	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 managed properly.	**The Committee:** > closely monitored the Group's funding and capital positions giving due consideration to any additional risks arising from market uncertainty due to global macro events. It also enhanced its understanding of and provided feedback on Interest Rate Risk in the Banking Book (IRRBB) for the Group in a deep dive session; > received regular reports from the Treasurer which provided updates on the Group's exposure to pension risk and discussed strategic options to manage pension risk, including longevity risks; > considered updates on the Group's London Inter-bank Offered Rate (LIBOR) Cessation and Transition Plan, including the strategy for discontinuing LIBOR, key risks and the customer journey for the transition of Business loan contracts; > conducted its annual review and recommendation of the ICAAP, ILAAP, SST results, Resolvability Assessment Framework, and Recovery Plan to the Board for approval; and > approved the refreshed Group Financial Risk Policy and Ring-fencing Policy.
Model risk	The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.	**The Committee:** > closely monitored the current and emerging model performance risks including the impact on model performance caused by the COVID-19 pandemic. The Committee noted that there was a possibility that the cost of living pressures may lead to future impacts in model performance in 2023; > considered the findings from the Model Risk Management review including remediation and resource plans; > received a briefing from external advisers on the Group's current position relative to the wider market with regard to Hybrid model development and sought assurances on the work being carried out by the Group to meet revised deadlines for the hybrid model development work; and > approved the refreshed Group Model Risk Management Policy.

Risk Committee report continued

Principal risk		Role of Committee and conclusion/action taken
Regulatory and compliance risk	The risk of failing to comply with relevant laws and regulation, failing to implement new regulatory requirements, or not keeping the regulators informed of relevant issues or responding effectively to regulatory requests, leading to regulatory sanction.	**The Committee:** > received updates on matters relating to General Data Protection Regulation (GDPR) compliance and assurance activity; > regularly reviewed status updates on upcoming regulatory deliverables and actions; > in conjunction with the Audit Committee, reviewed and approved the FY23 first and second line Risk Assurance Plans; > provided regular oversight of progress with the FY22 Risk Assurance Plan including ad hoc changes to the Plan following its initial presentation to the Committee for approval; > provided input to the work required by the Group to comply with the FCA's 'Consumer Duty' due to be implemented in 2023 and reviewed, and challenged, the outcome of a gap analysis exercise which identified the scale and nature of work required to be undertaken by the Group to comply with the new 'Consumer Duty'; and > approved the refreshed Group Regulatory and Compliance Risk Policy.
Conduct risk	The risk of undertaking business in a way that is contrary to the interests of customers, resulting in customer harm, regulatory censure, redress costs and/or reputational damage.	**The Committee:** > regularly reviewed and challenged comprehensive conduct risk MI which provided insight into the risks throughout the customer journey across all major product areas including customer outcomes, conduct risk RAS measures and complaints performance; > monitored the continued progress to remediate key legacy conduct issues throughout the year and requested enhancements to the reporting of contagion and layered risks; > considered any risk adjustments to be taken into account by the Remuneration Committee when making remuneration decisions and approved the submission of related regulatory disclosures for submission to the PRA; > discussed the customer-centric treatment strategies in respect of store closures which had allowed the Group to contact defined subsets of customers identified as either known vulnerable or potentially vulnerable in line with FCA guidance to understand their preferred alternative banking solution and how the Group could assist them going forward; > received regular updates on the actions being taken to enhance the Group's products and services for vulnerable customers, which are supported by input from the Vulnerable Customers Steering Group and a Vulnerability and Inclusion team; > reviewed the results from potential customer harm assessments and all other broader conduct matters kept under discussion at the executive-level Enterprise Conduct Committee; and > approved the refreshed Group Conduct Risk Policy.
Operational and resilience risk	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 Committee:** > considered the regular updates from the Chief Risk Officer on operational risks; > reviewed regular updates on the status of operational resilience within the Group, including resilience profiles for critical end-to-end processes and progress made to achieve compliance with new regulations. The Committee requested that operational resilience reporting be enhanced to incorporate the impact of the considerable investment in digital infrastructure on tolerances set and also include the views of all three lines of defence; > challenged and approved the operational risk scenarios and their resulting output for inclusion in the ICAAP to support the operational risk capital calculation; and > approved the refreshed Group Operational Risk Policy.

Risk Committee report continued

Principal risk		Role of Committee and conclusion/action taken
Technology and cyber risk	The risk of loss resulting or customer harm resulting from inadequate or failed information technology processes. Technology risk includes cybersecurity, IT resilience, information security, data risk and payment risk.	**The Committee:** > reviewed regular IT service updates including updates on service performance (trends and volumes), digital demands on core systems, change management risk and demand and capacity management risk; > reviewed regular cyber and information security updates including updates on material cyber risks, cyber threat intelligence and the cybersecurity strategy and framework; > requested further insight around Third Party service interruptions and was informed that Third Party service performance and availability is monitored and managed in line with how the Group's own internal equivalents are managed. The Committee agreed that a more detailed understanding of the assurances required to be provided by Third Party IT providers and related risks was of high importance; and > approved the refreshed Group Technology and Security Risk Policy and Business Resilience Policy.
Financial crime and fraud risk	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, terrorist financing, sanctions, fraud, bribery and corruption.	**The Committee:** > oversaw the effectiveness of the Financial Crime Framework which provided insight on the monitoring, management and mitigation of financial crime; > reviewed and discussed the opinions within the Annual Money Laundering Reporting Officer's Report on the effectiveness of the Group's Anti Money Laundering, Counter Terrorist Financing and Sanctions and Embargoes framework; > considered, with the input of external advisers, the outputs of a gap analysis exercise on the Group's Anti-Money Laundering and Counter Terrorist Financing frameworks, systems and controls following the receipt of a 'Dear CEO' letter from the FCA which outlined concerns following assessments it had conducted of Retail Banks. The Committee satisfied itself that controls and frameworks remained relevant and robust; and > approved the refreshed Group Financial Crime Risk, Anti Money Laundering and Counter Terrorist Financing, Anti Bribery and Corruption, and Sanctions and Embargoes policies.
Strategic and enterprise risk	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 adapt to external developments, including potential execution risk as a result of transformation activity.	**The Committee:** > received an update on a new version of the Implementation Decision Framework which set out the requirement for governance and detailed evidence ahead of key implementations and for the mandatory assessment of potential customer harms for all projects; > were provided with an updated view at the half-year of the risks highlighted as part of the initial risk assessment of the FY22 Strategic and Financial Plan and progress made on addressing suggested actions. The Committee noted that there were certain operational risk management challenges remaining in respect of the design and execution of the FY22 Strategic and Financial Plan; > considered the regular updates from the Chief Risk Officer on strategic and enterprise risks; and > approved the refreshed Strategic and Enterprise Risk Policy.
People risk	The risk of not having sufficiently skilled and motivated colleagues, who are clear on their responsibilities and accountabilities and behave in an ethical way.	**The Committee:** > considered the regular updates from the Chief Risk Officer on people risks; > reviewed the findings and observations from people risk oversight through close and continuous activities, formal assurance reviews, joint working between HR and Risk on the management of risks, and organisational restructure engagement. The Committee requested that consideration be given to developing future reporting to report people risks at a thematic level to allow it to understand issues such as capability, skills gaps, including any proposed actions as a result; > received an update from the Chief Risk Officer on proposed changes to the organisational design of the Risk function to further strengthen risk capability in line with the Group's risk profile; and > approved the refreshed People Risk Policy.

Audit, risk and internal control

Risk Committee report continued

Principal risk		Role of Committee and conclusion/action taken
Climate risk	The risk of exposure to physical and transition risks arising from climate change.	**The Committee:** > discussed and noted regular updates on the impacts from climate change including the financial risks from the climate change plan covering governance, risk management, scenario analysis and disclosure and opportunities. This activity supports the Group's ability to establish, monitor and disclose more quantitative approaches to metrics and targets in line with the requirements of the TCFD; > endorsed the proposed changes to the Risk report within the Annual Report & Accounts and the updated TCFD disclosures in order to enhance the Group's climate-related risk disclosures for FY22 reporting; > received an update on the development of climate change scenario analysis capability, the purpose of which was to understand and quantify how climate change risks could impact the Group's lending and understand what actions might be required to ensure the future resilience of the Group's business model. The approach established as a result of this exercise helped underpin the Group's climate risk disclosure for FY22; > considered, and provided feedback on, the Group Climate strategy, including the approach taken to develop Net-Zero actions and targets under NZBA commitments. Following the initial update, the Committee then took part in an informal working session with senior colleagues from the Group's Commercial team to discuss and finalise commitments to be included in the Group Climate strategy; and > approved the Climate Risk Policy.

Emerging risks

The Committee also maintained oversight of emerging risks that could potentially impact the Group. Details of the landscape of emerging risks being monitored by the Group are contained within the Chief Risk Officer's Report presented to the Committee at each scheduled meeting. Further detail on the emerging risks which the Committee was being kept informed of during the year, along with additional information on the Group's principal risks, approach to risk appetite, risk culture and the RMF can be found in the Risk report beginning on page 159.

The Committee recognises the steady maturing of the risk function and will continue to support the ongoing investments there to further strengthen risk culture and management across the organisation.

Geeta Gopalan
Chair, Risk Committee

Internal control

Board responsibility

The Board is responsible 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. Owing to the limitations inherent in any internal control framework, the controls have been designed to manage and mitigate, rather than eliminate, the risk of failure to achieve the Group's business objectives and can provide only reasonable, not absolute, assurance against material misstatement or loss. The Directors acknowledge their responsibilities in relation to the Group's internal control framework and for reviewing its effectiveness.

The Board confirms that throughout the year ended 30 September 2022 and up to the date of approval of this Annual Report & Accounts, there have been rigorous processes in place to identify, evaluate and manage the principal 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 FRC.

In order to assist in the identification and management of the principal risks, the Board has an established RMF which is integrated into the Group's overall framework for risk governance, and has developed a system of regular reports from management. The Board has authorised the Committee to oversee the Group's compliance with the Board's approved RAS, RMF and risk culture. Further details can be found in the Risk report on pages 159 to 164.

Reviews by the Board

The effectiveness of the risk management and internal control systems is reviewed regularly by the Committee and the Audit Committee. The 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.

Control effectiveness

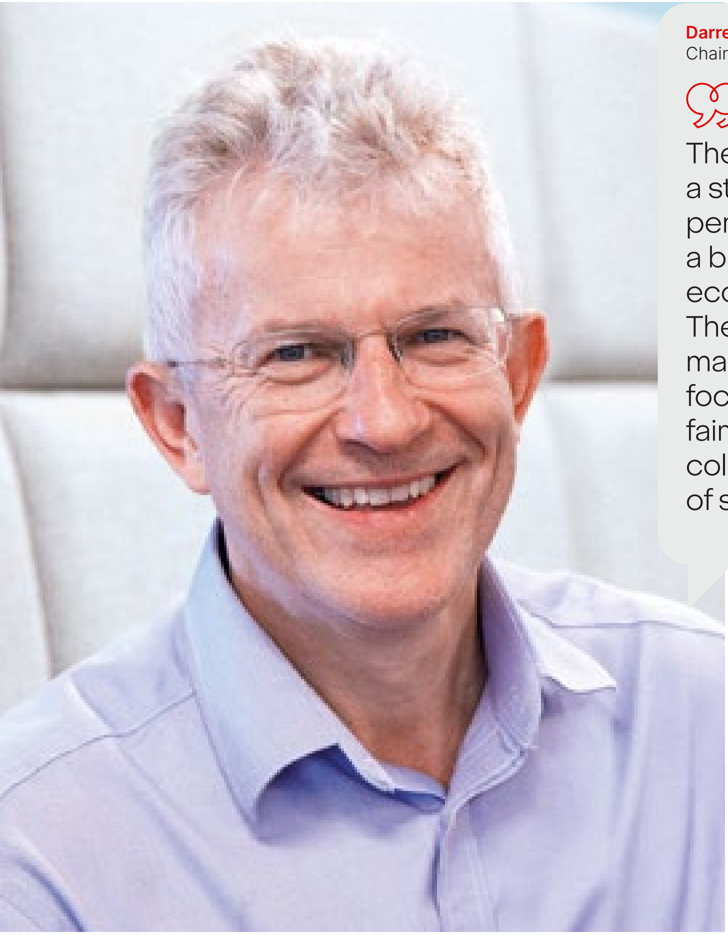
A review of the effectiveness of controls is regularly undertaken across the Group, providing an assessment and statement on the effectiveness of the Group's control environment. Each business unit is required to produce a control effectiveness statement which is approved by the relevant Executive Leadership Team member with independent oversight and challenge by Operational Risk and principal risk owners. This provides assurance to the Board, via the Committee and the Audit Committee, that no new material control issues have been identified and that robust management actions are in place to address specific known gaps.

Overall assessment

The RMF, RAF, RAS and Policy Management Framework have continued to be monitored to ensure they remain in line with the external environment and aligned to the Group's strategy and Purpose. The RMF has been updated to reflect the reclassification of Climate Risk as a principal risk rather than a cross cutting risk; similarly Operational Risk has been reclassified from a cross cutting risk and is now reflected within an Operational and Resilience principal risk to reflect the current environment.
The control environment remains stable with the annual Control Effectiveness Statement providing assurance that ineffective controls are escalated appropriately and have adequate action plans in place.

The Committee, in conjunction with the Audit Committee, concluded that the Group's risk management and internal control framework in relation to the Group's risk profile and strategy was effective and adequate. The Board therefore remained satisfied that the system of internal control continued to be effective in identifying and assessing the various risks to the Group and in monitoring and reporting progress on their potential impact.

Statement by the Chair of the Remuneration Committee



Darren Pope
Chair, Remuneration Committee

The Group has delivered a strong financial performance against a backdrop of ongoing economic uncertainty. The Committee's decision making has remained focused on overseeing fair outcomes for all colleagues taking account of stakeholder experience.

Directors' remuneration report contents | **Page**

Introduction

On behalf of the Board, and as Chair of the Remuneration Committee, I am pleased to present the Directors' remuneration report for the year ended 30 September 2022 which includes:

- the annual report on remuneration which summarises how the Committee addressed its responsibilities during the year and explains the rationale for its decision making; and
- the forward looking Directors' remuneration policy which, subject to a binding vote at the AGM, will apply for three years commencing 1 October 2022.

2022 AGM and engagement with shareholders

The 2021 remuneration report received strong backing from shareholders at the 2022 AGM with 90.86% of votes in favour reflecting ongoing support for the Group's remuneration structure as well as the implementation of the policy.

The positive and supportive ongoing dialogue with investors during 2022 has included engagement with our largest shareholders on the development of the new Directors' remuneration policy and amendments to incentive plan performance measures to enhance alignment with the Group's strategic ambitions. The proposed amendments coming into effect from 2023 represent a refinement of our current approach rather than fundamental change. Further details on the new policy and the forward-looking incentive measures are provided below.

2022 Review

As reflected elsewhere in this year's Annual Report, the Group has delivered a strong financial performance in 2022 against a backdrop of ongoing economic uncertainty. The Committee's decision making during 2022 has remained focused on overseeing fair outcomes for all colleagues taking account of experience of all stakeholders while responding to the unique challenge presented by COVID-19 over the last few years and the current inflationary environment and cost of living crisis.

2022 Annual Bonus
The annual bonus pool is determined based on the Group's performance against a range of financial and non-financial targets set at the beginning of the year.

The Group has consolidated its sound financial position, recording an underlying profit before tax of £789m and achieving an underlying RoTE outcome of 13.5%. At the same time, targeted growth in Unsecured and Business lending has been maintained. Good progress has also been made against non-financial measures, with a material increase in colleague engagement and an above plan outcome against digital sales targets.

The Group did not, however, achieve its target on Smile Score, its measure for enhancing customer experience and fell short of its ambitions on PCA switchers in a competitive market place.

On costs, the target for the year has been achieved despite inflationary pressures (see below).

Overall performance translated into an above target outcome against the Group's strategic scorecard. In reaching a final decision on the annual bonus pool for 2022, the Committee takes account of a range of factors alongside the scorecard. The primary factor has been affordability in the context of our total cost ambitions for the year supported by overall stakeholder experience (see page 146). While significant progress on strategically managing costs has been achieved, this activity was not sufficient to fully absorb the above target bonus which was therefore constrained to meet the internal cost target. For 2022 the Committee, in conjunction with the Executive Directors, has therefore exercised downward discretion in reducing the Group scorecard outcome from 65.2% of maximum to 37.5% of maximum.

As demonstrated in the table on page 128, this final outcome will be applied consistently in all material respects across all-colleague populations.

While the Group Scorecard outcome directly determines the majority of colleagues' overall bonus outcome for the year, for Executive Directors it accounts for 80% of bonus opportunity, with the remaining 20% assessed on personal performance. Taking account of both elements, the outcomes for Executive Directors are 38.6% of maximum for the CEO and 40.6% of maximum for the CFO. The very marginally higher out-turns for Executive Directors compared with colleagues has arisen due to personal performance outcomes. Both Group and personal elements have been subject to the same reduction in percentage terms as all colleagues, as reflected on page 126.

A detailed summary of Executive Directors' personal performance is provided on page 145 reflecting their considerable achievements during a challenging year.

2019 LTIP
Following the end of the three-year performance period applicable to the 2019 LTIP awards, the Committee assessed outcomes against the financial and non-financial performance targets set prior to both the pandemic and the war in Ukraine. The challenging external environment over this period has impacted on the Group's ability to achieve its ambitions, in particular, the financial targets underpinning this award. The Group has, however, exceeded its ambitions on Relationship Deposit Growth, at the same time as prudently managing risks throughout an uncertain period.

Taking these outcomes into account alongside a marked improvement in colleague engagement and excellent progress against senior leadership gender targets, the Committee approved a final scorecard outcome of 32%, with no discretion applied. The vesting of the 2019 LTIP is included in the Single Figure Table for the CEO for the year, with awards being released in five instalments up to 2026. The net number of shares received are subject to a regulatory hold period as required. Having joined the Group in 2021, the CFO did not receive a 2019 LTIP Award.

Further details on the Committee assessment of Annual Bonus and LTIP outcomes are included in 'Remuneration at a glance' on pages 126 and 127 and from page 144 of the annual report on remuneration.

All-colleague remuneration
The Committee's oversight of remuneration across the wider colleague population has featured prominently on its agenda during 2022. Beyond its involvement in the year-end pay and bonus process, its regular review of pay gap data and the remuneration specific engagement sessions held with colleagues each year, the Committee has also monitored the development and roll-out of a new colleague proposition across the Group (see Spotlight on A Life More Virgin (ALMV) page 139).

During the year, the Group has closely monitored the impact of the rising cost of living on colleagues and considered how best to support them through this challenging time. In July, the Committee approved the payment of a one-off award of £1,000 to around 80% of colleagues.

The inflationary environment also influenced decision making around annual pay awards to all colleagues with the Committee approving an average salary increase of 10% to be implemented in 2023. These increases will be administered in two instalments; a flat 5% increase across the majority of colleagues in January 2023, with a further residual award to be made in July 2023.

Executive Directors' salaries and Non-Executive Directors' fees
For Executive Directors, the Committee proposes to award a 5% increase to both the CEO and CFO. This will apply from 1 January, in alignment with the initial 5% increase for all colleagues. In the case of the CEO, this represents the first increase to his salary since 1 October 2018.

Although Non-Executive Director fees are reviewed by the Governance and Nomination Committee on an annual basis, these have remained unchanged for three years. During this period, the Board has reduced in size and correspondingly total fees have reduced from £1.7m in 2019 to £1.1m in 2022. A more comprehensive analysis of Non-Executive Director fees has been undertaken this year and, recognising the Board's increased accountability since the Group became a Level 1 firm in 2021, it is proposed to apply the same 10% increase as for all staff applied in two stages; a 5% increase effective in January 2023 and the residual increase in July 2023. Details of the new fees, including that of the Board Chair approved by the Committee, are detailed on page 143.

CEO pay ratio
The Committee's end of year decision making in respect of Executive Directors is made taking account of all-colleague outcomes for the year. The overall impact of variable pay decisions for 2022 on the ratio of CEO pay to that of the median colleague is a decrease from 77:1 in 2021 to 59:1 in 2022. While the CEO's annual bonus award has increased year-on-year, his total variable remuneration has reduced due to the lower out-turn for the 2019 LTIP, which is further impacted by the reduction in share price since the award was granted in December 2019.

Directors' remuneration report

Statement by the Chair of the Remuneration Committee continued

Remuneration policy
The Directors' remuneration policy has now been in place for three years and is therefore due for renewal at the 2023 AGM. As noted above, the current framework has operated effectively and retains strong support, reflected through the historic voting outcomes and reinforced through our engagement with our largest shareholders.

Having undertaken a comprehensive review of the policy, the Committee concluded that the existing approach continues to provide an appropriate framework in supporting delivery of the Group's strategic priorities. Therefore, the proposed new policy will represent a continuation of the existing approach, with some small changes to ensure ongoing alignment with evolving standards of best practice. In line with previous commitments the pension arrangements for the current CEO will be reduced to the rate available to all colleagues. In respect of Executive Director shareholding expectations, the in-employment requirement will be aligned at 200% of salary for both the CEO and CFO and a formal, post-employment shareholding requirement has been introduced.

In terms of implementing the new policy in 2023, the Committee has made a very small change to the CFO's bonus and LTIP opportunity to ensure consistent treatment for both Executive Directors. For 2023, both the CEO and CFO's maximum bonus opportunity will be 118% of salary and their maximum LTIP opportunity will be 177% of salary (previously for the CFO: Bonus – 117%; LTIP – 176%). Total variable remuneration opportunity remains limited by the 2:1 ratio of variable pay to fixed pay.

The UK Government's stated intention to remove the regulatory cap on variable pay that has been in place since 2014 was announced as the Committee finalised arrangements under the new policy. The time frame and regulatory implementation for this proposed change have not yet been confirmed. We will review the changes in due course, and consult with shareholders if we consider any further changes to the policy to be in all stakeholders' interests.

Forward-looking incentive targets
During the course of the year, the Committee has also reviewed the performance measures that apply across both the short and long-term incentive plans with the aim to reduce the overlap across incentive plans, migrate financial metrics to statutory targets and introduce a metric that incentivises management for performance relative to peers.

The review has also resulted in a reduction in the number of performance measures for both the short and long-term incentive plans for 2023.

Performance measures for 2022 LTIP awards have been reduced to four in total. Financial measures account for 65% of the overall opportunity and focus on Statutory RoTE and Total Shareholder Return (TSR). TSR is included for the first time and will track the Group's performance relative to FTSE 350 Financial Services companies. The non-financial element of the LTIP award will consist of ESG and Risk scorecards, tracking the Group's progress towards its sustainability goals and monitoring prudent risk management.

The financial elements of the annual bonus scorecard for 2023 account for 60% of the overall opportunity and focus on the achievement of Statutory RoTE, Statutory Profit and underlying CIR targets. Non-financial measures will focus on colleague engagement, improving customer experience and progress towards the Group's ambition to be the UK's best digital bank, measured by improved digitisation across the full suite of customer journeys and the level of digital customer engagement. The Group's growth ambitions are reflected in the customer lending measure. Recognising the Group's strategy to rebalance its product mix, this is specifically targeted at unsecured and business lending.

A summary of 2023 short-term incentive plan (STIP) and 2022 LTIP performance measures is provided on page 125 with a detailed disclosure of 2022 LTIP measures, weightings and targets provided on page 149.

2022 LTIP Awards
2022 LTIP Awards will be made to Executive Directors and senior leaders in December 2022. Performance measures will be assessed over the three-year period to 30 September 2025, with awards released from December 2025 to December 2029 and subject to post-release holding requirements. In order to retain and appropriately incentivise the current Leadership Team to deliver on the Group's strategic goals, the Committee's intention is to grant 2022 LTIP awards at the normal level, consistent with previous years' awards and in line with the remuneration policy. The Committee will take the necessary steps to mitigate excessive windfalls on vesting if required.

Corporate Governance Code
Although most of the features of the 2018 Code are already embedded into Group remuneration practice, the Committee has used this year's policy review as an opportunity to close any remaining gaps.

Committee performance evaluation
The Committee undertakes an annual effectiveness review as part of the Board evaluation process. In 2022 the evaluation took the form of a survey asking Committee members for their views on Committee effectiveness and to track progress since the last externally facilitated review in FY20. At the same time a review of the Committee's activity relative to its Charter was completed.

The Committee considered the output of both exercises in a meeting. The evaluation concluded that the Committee is effective overall. The Committee agreed actions to continue to improve its effectiveness including incorporating an annual technical briefing into the Committee's calendar and enhancing the Committee's insight on diversity and inclusion considerations in relation to remuneration. The evaluation also concluded that the Committee operated and carried out its duties in line with its Charter throughout the year.

Committee changes
During the year, Paul Coby stepped down from the Committee, and from the Board. I should like to thank him for his significant contribution throughout his membership of the Committee.

Finally, I would express my gratitude to investors for their significant engagement during the course of the year which gives me assurance that the policy being proposed is in the interests of the Group and its shareholders. I am pleased to recommend it to you, along with the 2022 annual report on remuneration and this statement, ahead of the 2023 AGM.

Darren Pope
Chair, Remuneration Committee
20 November 2022

Directors' remuneration report

Statement by the Chair of the Remuneration Committee continued

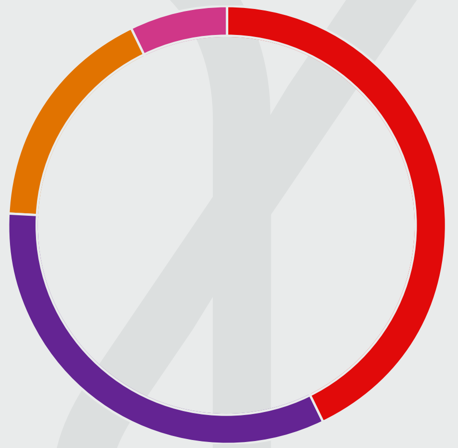
Committee role and responsibilities

The Committee assists the Board in overseeing remuneration arrangements, particularly those of the senior management and employees covered by the Remuneration Code. The Committee is responsible for:

- providing oversight and advice to the Board in relation to the Group's remuneration policy;
- considering and implementing remuneration arrangements of the Board Chair, Executive Directors, members of the Leadership Team and the Company Secretary; and
- considering and approving remuneration arrangements for other senior executives and employees covered by the Remuneration Code while having oversight for remuneration scales and structure across the Group.

A full list of the responsibilities of the Committee is set out in its charter. The charter can be accessed on the Company's website: www.virginmoneyukplc.com

Committee meetings



Committee membership, skills, experience and operations

The Committee comprises four independent Non-Executive Directors being Darren Pope, Geeta Gopalan, Elena Novokreshchenova and Tim Wade and the Board Chair, David Bennett, who was considered independent on appointment as Board Chair. Paul Coby was a member of the Committee until 30 June 2022 when he stepped down from the Board. Further information on Committee members, their skills and experience and meeting attendance is in the 'Our Board in 2022' section on page 70 and in the Directors' biographies on pages 74 to 77.

During the year, six scheduled meetings were held and there were two additional meetings to consider FY21 year-end remuneration matters and proposed changes to the Directors' remuneration policy in advance of the programme of investor engagement. Details of significant matters addressed by the Committee are on page 124.

Other attendees at Committee meetings during the year included: the Chief Executive Officer, the Chief Financial Officer, the Group Chief People and Communications Officer, the Head of Reward and Employee Relations, and the Group Company Secretary, except when issues relating to their own remuneration were being discussed. The Committee's independent remuneration adviser, PricewaterhouseCoopers LLP (PwC), also regularly attends Committee meetings as appropriate depending on the Committee's business. The Virgin Group Non-Executive Director regularly attended meetings until the date she stepped down from the Board.

Statement by the Chair of the Remuneration Committee continued

Activities during the year

The significant matters addressed by the Committee during the financial year ended 30 September 2022 are described below:

Key area of focus	Key discussions, decisions and recommendations
All-colleague remuneration	> Approved all-colleague awards under the Group Team Bonus for the 2021 financial year. > Approved annual pay budget of 4.5% for all colleagues for 2022. > Considered 2022 gender and ethnicity pay gaps. > Reviewed progress on Group's diversity targets and considered how the Group's remuneration policies and practices deliver fair outcomes for colleagues across all protected characteristics. > Reviewed and approved the Group scorecard performance measures and targets for the 2022 Annual Bonus. > Approved one-off payment to c.80% of colleagues in response to the Cost of Living challenge.
Executive Director and senior management remuneration	> Approved 2021 variable remuneration awards for Executive Directors, other senior management and Material Risk Takers (MRTs). > Reviewed and approved salary proposals for individual Executive Directors (no change) and senior management for 2022. > Approved the performance outcome of the 2018 LTIP award granted in December 2018. > Reviewed and approved the Group scorecard performance measures and targets for the 2022 Annual Bonus. > Considered and approved the 2021 LTIP awards performance measures and targets. > Approved the LTIP awards granted in December 2021. > Considered and noted Executive Director personal objectives for 2022. > Considered external market insight when undertaking annual review of the Board Chair's fee. > Approved MRT termination and commencement awards.
Governance, risk and other matters	> Reviewed and approved the new remuneration policy proposals, which are subject to shareholder vote at the 2023 AGM. > Approved the 2021 Directors' remuneration report. > Reviewed and approved changes and confirmed MRT population throughout the year. > Considered all regulatory requirements. > Considered appropriate risk reporting, including corporate risks and conduct risks and approved any corporate or individual risk adjustments to variable pay. > Considered and reviewed the 2022 planned activities. > Reviewed the Committee's charter.

Following the end of the 2022 financial year, Committee meetings have taken place at which final 2022 variable remuneration outcomes for all colleagues, including the Chief Executive Officer and Chief Financial Officer, other senior management and MRTs, have been determined. The Committee also determined the performance outcome for the 2019 LTIP award following completion of the three-year performance period on 30 September 2022.

Advisers to the Committee

PwC were first appointed by the Committee as independent advisers in 2015. They have been advisers to the Committee since this date having been reappointed following a tender process in 2021. During the 2022 financial year, PwC advised the Committee on all aspects of the Directors' remuneration policy. PwC also provide professional services in the ordinary course of business including assurance, advisory, tax and legal advice. There are processes in place to ensure no conflict of interest exists in the provisions of these services. PwC is a member of the Remuneration Consultants Group, whose voluntary code of conduct is designed to ensure objective and independent advice is given to remuneration committees. Total fees paid to PwC for advice to the Committee during the year amounted to £179,700 excluding VAT (2021: £139,000) on a part fixed fee and part time and materials basis.

Voting from AGM

	Votes for		Votes against		Withheld
	Number of shares	% of votes	Number of shares	% of votes	Number of shares
Directors' remuneration policy (2020 AGM)	998,049,041	99.50	5,037,177	0.50	11,636,931
Directors' remuneration report (2022 AGM)	960,151,760	90.86	96,626,072	9.14	21,011,042

Remuneration at a glance

How does our remuneration framework align to our strategy?

Our strategic priorities	2023 Annual Bonus – performance measures and weightings[1]	2022 LTIP – performance measures and weightings	ESG alignment
Delighted customers and colleagues	Smile Score 10% Colleague engagement 10% Digital scorecard 10%	ESG scorecard 15%	**Open doors** > Gender Pay Gap reporting > Employee recognition > All-colleague Share Plans > Flexible benefits > Financial wellness support
Pioneering growth	Customer Lending Asset Growth 10%	Total Shareholder Return 25%	**Build a brighter future** > Volunteering days > Career Development > Flexible working > Well-being days
Super straightforward efficiency	Statutory PBT 15% Underlying CIR 20%		**Put our (carbon) foot down** > LTIP target to reduce Scope 1 and 2 emissions > ESG pension investments available to colleagues
Discipline and sustainability	Statutory RoTE 25%	Risk scorecard 20% Statutory RoTE 40%	**Straight-up ESG** > Variable pay linked to ESG > Deferral of variable pay > Malus and clawback > Shareholding requirements

Performance measures for the Annual Bonus and LTIP are carefully chosen to align to the Group's strategic priorities. The measures reflect the Group's ambitions to grow the business, to deliver robust and disciplined financial performance, to provide heartfelt service to customers and delight colleagues. The inclusion of an ESG scorecard within our LTIP measures ensures that Executive Director remuneration is aligned with the Group's aspiration to drive positive social and environmental impact through everything we do. As illustrated in the table, the all-colleague remuneration framework is aligned with the Group's ESG Goals.

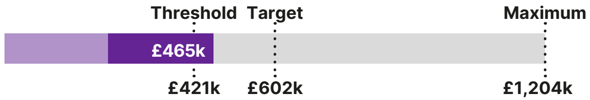
(1) The percentages represent the weighting attributable to each performance measure included in the Group Scorecard. Performance against the Group Scorecard accounts for 80% of Executive Director bonus opportunity with a further 20% weighting attributable to personal performance.

Directors' remuneration report

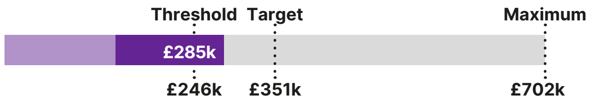
Remuneration at a glance continued

2022 Annual bonus

David Duffy
£465k



Clifford Abrahams
£285k



● Delivered in cash ● Delivered in shares

Executive Directors' annual bonus outcomes are illustrated in the table above. Bonus awards are delivered half in cash and half in shares with the share element subject to a 12 month holding period. The possible threshold, target and maximum outcomes are also provided as a comparison.

As reflected in the 2022 Annual bonus performance table, performance against the Group and Personal scorecards for Executive Directors translated into an above target outcome. Taking into consideration affordability in the context of the Group's total cost ambitions for the year as well as broader shareholder experience, the Committee, in conjunction with Executive Directors, determined to reduce the Group scorecard outcome. This adjustment will be applied consistently in all material respects across all colleague populations.

2022 Annual bonus performance

Category	Measure	Weighting	Performance achievement versus targets: Threshold	Target	Maximum	CEO outcome as % of maximum opportunity	CFO outcome as % of maximum opportunity
Delighted customers and colleagues	Smile score	6.4%	51%	54%	61%	0%	0%
				Actual: 46% (Threshold not met)			
	Colleague engagement	6.4%	72%	74%	78%	6.4%	6.4%
				Actual: 79%			
	Digital sales new	3.6%	93%	94%	96%	3.6%	3.6%
				Actual: 97%			
	Digitally active	3.6%	70%	73%	76%	1.8%	1.8%
				Actual: 73%			
Pioneering growth	Number of PCA switchers	6%	40,000	50,000	60,000	0%	0%
				Actual: 27,208 (Threshold not met)			
	Customer lending asset growth	6%	8%	10%	12%	0%	0%
				Actual: 7% (Threshold not met)			
Super straightforward efficiency	Underlying PBT	12%	£476m	£526m	£601m	12%	12%
				Actual: £789m			
	Total underlying costs	16%	£925m	£915m	£895m	8.4%	8.4%
				Actual: £914m			
Discipline and sustainability	Underlying RoTE	20%	7.5%	8.5%	10.5%	20%	20%
				Actual: 13.5%			
Group scorecard outcome		80%				52.2%	52.2%
Personal scorecard outcome		20%	Summary of personal performance on page 145.			15%	18.5%
Total scorecard outcome						**67.2%**	**70.7%**
Affordability adjustment[1]						**(28.6%)**	**(30.1%)**
Final outcome						**38.6%**	**40.6%**

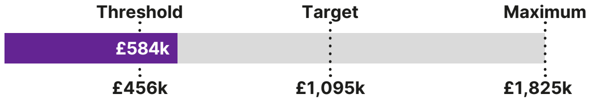
(1) The Total scorecard outcome for the CEO and CFO has been reduced by 42.5%. This reduction is consistent with the adjustment made to the Group scorecard outcome for the wider colleague population.

Directors' remuneration report

Remuneration at a glance continued

2019 LTIP

David Duffy
£584k*



* Delivered in shares and deferred up to 2026 with net shares subject to a further regulatory hold period as required.

The average share price between 1 July 2022 and 30 September 2022 of 144.1p has been used to calculate the value of the 2019 LTIP award following assessment of performance at the end of the three-year period. The possible threshold, target and maximum outcomes are also provided as a comparison. Share price movement has decreased the valuation of the award by £123k compared to the corresponding value at the time of grant.

Clifford Abrahams joined the Group in March 2021 and therefore did not receive a 2019 LTIP Award.

2019 LTIP performance
(1 October 2019 – 30 September 2022)

Category	Measure	Weighting	Threshold	Target	Maximum	Outcome as % maximum opportunity
			Performance achievement versus targets			
Delighted customers and colleagues	Colleague engagement	5%	73%	76%	77%	5%
				Actual: 79%		
	Senior colleague diversity	5%	41%		45%	5%
				Actual: 46%		
	CMA ranking	10%	Top 5		Top 2	0%
				Actual: 15 (Threshold not met)		
Pioneering growth	Relationship deposit growth	10%	5%	7.5%	10%	10%
				Actual: 17.5%		
Super straightforward efficiency	CIR	10%	47%	45%	44.5%	0%
				Actual: 52.1% (Threshold not met)		
	Operating cost outcome	10%	£790m	£780m	£770m	0%
				Actual: £914m (Threshold not met)		
	Restructuring costs	5%	£378m	£360m	£342m	0%
				Actual: £440m (Threshold not met)		
Discipline and sustainability	Statutory RoTE	25%	11.0%	12.0%	12.25%	0%
				Actual: 10.3% (Threshold not met)		
	Risk scorecard	20%				12%
			Actual: Target outcome	(see below)		
Final outcome		100%				**32%**

Further information on the 2019 LTIP performance outcome, including a summary of performance against the Risk scorecard, is provided on page 149.

How does executive remuneration align to performance?

Single figure total remuneration

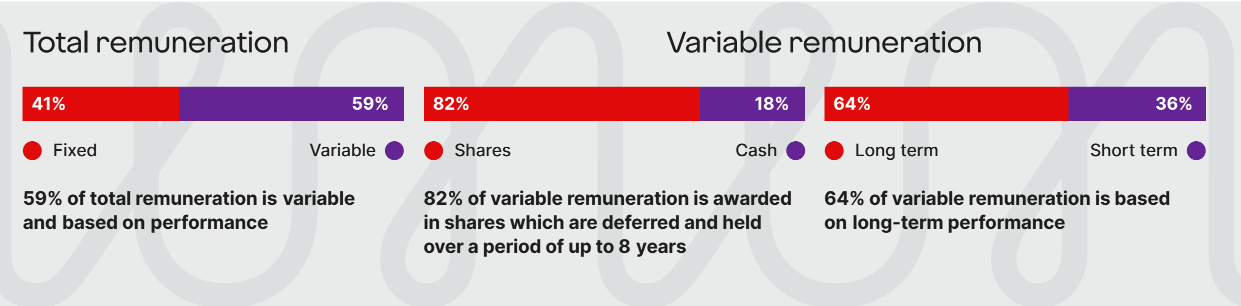
David Duffy
Chief Executive Officer

Clifford Abrahams[1]
Chief Financial Officer

(1) Clifford Abrahams joined the Group in March 2021 and therefore his 2021 income relates to only part of the year.

How does executive remuneration align to long-term shareholder value?

As a Committee, we want to incentivise Executive Directors to take a long-term, sustainable view of the performance of the Group:



Percentages in the above illustration are based on the achievement of on target performance outcomes under the Bonus and LTIP.

How does executive remuneration align with the wider workforce?

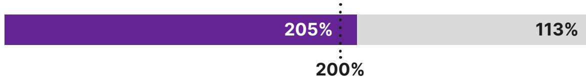
	Executive Directors	All colleagues
Salary	**2023 Salary increase** Executive Directors to receive a 5% increase, below the rate applied across all colleagues.	**2023 Salary increase** Annual pay budget of 10%. **2022 One-off cost of living payment** £1,000 award to c.80% of colleagues paid in August 2022.
Bonus	**2022 Bonus Outcome** Annual bonus award of 38.6% of maximum for the CEO and 40.6% of maximum for the CFO. 50% of bonus awards are delivered in shares. Total scorecard outcomes reduced by 42.5%.	**2022 Bonus Outcome** Annual bonus award made to all eligible colleagues with the majority of colleagues to receive bonus award of 37.5% of maximum (equivalent to 75% of target). Group scorecard outcome reduced by 42.5%.
LTIP	**2019 LTIP Outcome** The CEO's 2019 LTIP Award, granted in December 2019, vested at 32% and will be released in line with regulatory deferral requirements. The CFO joined the Group in 2021 and therefore did not receive a 2019 LTIP Award. **2022 LTIP Award** 2022 LTIP to be granted in December 2022.	**2019 LTIP Outcome** Some senior managers are eligible to participate in the LTIP. Vesting outcome at 32% for senior managers who received 2019 LTIP awards in December 2019. **2022 LTIP Award** The LTIP performance measures, weightings and targets are the same as that applied for Executive Directors, however level of award varies by role.

When making remuneration decisions for the Executive Directors, the Committee considers pay, policies and practices elsewhere in the Group, see the Colleague Remuneration section (page 139) for further details.

Executive Director share interests

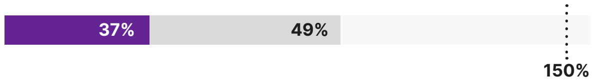
David Duffy

The chart below shows that as at 30 September 2022, David Duffy had met his minimum shareholding requirement of 200% of salary, demonstrating strong alignment with shareholders.



Clifford Abrahams

Clifford Abrahams joined the Group in March 2021 and has acquired shares through Group shares plans and from market purchases since then. Clifford has not met his shareholding requirement this year. Under the Directors remuneration policy, Executive Director's must retain 60% of net shares from Group share awards until the shareholding requirement is met.



- Shares counting towards shareholding requirement[1]
- Unvested subject to performance[2]
- Shareholding requirement

(1) Represents beneficially owned shares as well as the net value of unvested share awards no longer subject to performance conditions.

(2) Represents the net value of share awards subject to ongoing performance conditions based on a target outcome.

Further details regarding Executive Directors' share interests can be found on page 151.

Directors' remuneration policy

This section contains the proposed Directors' remuneration policy that will govern the future remuneration payments. The remuneration policy will be put forward to shareholders at the 2023 AGM. Subject to shareholder approval, the policy is intended to apply for three years from 1 October 2022. The Committee will consider the remuneration policy annually to ensure that it remains aligned with business needs and is appropriately positioned relative to the market. However, there is no intention to revise the policy more frequently than every three years.

Development of policy

In formulating the new remuneration policy, the Remuneration Committee undertook an extensive review of the existing policy including consideration of alternative approaches to executive remuneration. The existing remuneration policy, as approved by 99.5% of shareholders at the 2020 AGM, remains aligned with the Group's remuneration principles. The small number of changes to the policy are primarily driven by best practice and to further align with the 2018 Corporate Governance Code.

Element	Substantive changes from policy approved at 2020 AGM
Salary	No changes
Pension	The maximum contribution rate for incumbent Executive Directors has been reduced from 20% of salary to the rate available to the majority of colleagues (currently 13%). This results in a reduction in pension contribution for the current CEO. In line with the provisions of the previous policy, the CFO's pension arrangement was aligned with the rate available to the majority of colleagues at the time he joined the Group. This change recognises the need for consistent, fair and transparent remuneration structures across the workforce.
Benefits	As part of ALMV, the Group introduced well-being days for all colleagues this year. In addition to 30 days of annual leave and bank holidays, all colleagues (including Executive Directors) are able to take five paid well-being days a year. The current policy includes a benefits cap of £250k on the cash value of benefits (including pension) that can be provided to the CEO. Following the reduction in the Executive Director pension rate, the total value of the CEO's core benefits is now significantly below this cap and it is therefore proposed that the limit is now redundant and should be removed as a means of simplifying the policy.
Bonus	No changes
LTIP	No changes
All-employee share plans	No changes
Shareholding guidelines	The shareholding requirement for the CFO has been increased from 150% to 200% of salary, meaning that the shareholding requirement for both Executive Directors is now aligned. Under the new policy, a formal post-employment shareholding requirement is introduced. The changes to Executive Director shareholding requirements provide further alignment with long-term shareholder experience.

Consideration of other stakeholders:

Colleagues

While employees are not formally consulted on the Directors' remuneration policy, the Committee ensures that the pay and employment conditions of all colleagues are taken into account as part of the process for developing the policy.

At the last policy review, in advance of the 2018 Corporate Governance Code changes, the pension contributions (or cash in lieu) for new Directors were aligned to that for the wider workforce. As part of this policy review, the incumbent CEO's pension arrangement has been aligned with all colleagues.

The Committee reviews changes in remuneration arrangements for all colleagues generally as it recognises that all our people play an important role in the success of the Group. Virgin Money is committed to creating an inclusive working environment and to rewarding colleagues throughout the organisation in a fair manner.

Each year the Committee Chair meets with groups of colleagues from across the Group to hear their views and discuss key topics, including how all-colleague remuneration aligns with Directors' remuneration.

As part of our commitment to fairness, this year's report includes an overview on our approach to all-colleague remuneration (see Colleague Remuneration section on page 139) which illustrates the consistency in the approach applied across the Group.

Shareholders

In preparing the new policy, the Company consulted with our largest shareholders to seek feedback on the main changes proposed. The Remuneration Committee was pleased with the support of our largest shareholders for the new remuneration policy. No changes were therefore made to the original policy proposals.

2018 Corporate Governance Code

The Committee has applied the remuneration principles of the 2018 Corporate Governance Code. Further details of how the new policy follows the remuneration principles and fulfils the factors set out in provision 40 of the Code are provided below and on page 141. The main changes the Committee has made to the policy enhance alignment with the Code and with investor expectations: the alignment of the CEO pension contributions; an increase in the shareholding requirement for the CFO; and the implementation of a formal post-employment shareholding requirement policy.

Details on how the policy will be applied in 2023 are included on pages 142 and 143.

How the Committee has applied the remuneration principles of the 2018 Corporate Governance Code

Corporate Governance Code principles

Principle P:

Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company Purpose and Values, and be clearly linked to the successful delivery of the company's long-term strategy.

Variable pay is designed to reward the delivery of the Group's strategy. Performance metrics are aligned to the Group's KPIs and strategic priorities. These include non-financial metrics linked to the Group's Purpose and Values. See page 125.

A substantial proportion of pay for Executive Directors is subject to performance and is awarded in shares which are deferred and held over an extended period of up to eight years. This ensures that Executive Directors are fully committed to sustainable long-term performance. There are shareholding requirements for the CEO and CFO. The new policy includes a formal post-employment shareholding requirement.

Principle Q:

A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

The process followed by the Remuneration Committee in developing the new policy is described on page 129. The Committee has consulted with shareholders in relation to the new policy and performance measures.

Principle R:

Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

The Committee may exercise discretion to ensure outcomes reflect business performance, individual performance and stakeholder experience.

A summary of how the proposed remuneration policy fulfils the factors set out in provision 40 of the 2018 Corporate Governance Code is below.

Simplicity, clarity and proportionality	The remuneration policy is designed to retain simplicity while complying with all relevant regulatory requirements and meeting shareholder expectations. Remuneration elements include fixed pay (base salary, pension and benefits) and variable pay (annual bonus and LTIP). Targets for annual bonus and LTIP awards are aligned to the Group's strategic priorities. This provides clarity to shareholders and other stakeholders on the relationship between the successful delivery of the Group's strategy and remuneration paid. The Committee's overriding discretion ensures that remuneration outcomes are aligned with Group performance. As reflected on page 128 the Committee considers overall pay and conditions for colleagues across the Group as a whole when determining Executive Director outcomes. The pension arrangements for Executive Directors are aligned with those available to all colleagues. The alignment of the CEO's pension arrangement was effective from 1 October 2022.
Risk and alignment to culture	The remuneration policy supports the Group's RMF and delivers outcomes over short and long-term horizons with appropriate performance and risk adjustments. Risk and conduct considerations are taken into account as part of the decision-making process for variable pay awards. Ahead of the release of deferred share awards a risk adjustment process is applied with a review undertaken by the Remuneration Risk Adjustment and Board Risk Committees prior to final approval by the Remuneration Committee. Annual and long-term incentives are designed to drive behaviours consistent with the Group's Purpose, Values and strategy. Performance measures are subject to oversight from the Board Risk Committee and include non-financial metrics linked to the Group's Purpose and Values, such as measures to improve customer experience, diversity and colleague engagement. The Group's performance philosophy that success will be achieved through alignment with strategic goals and working together is underpinned by a team-based annual bonus. To support this approach to performance management, the annual bonus for colleagues is aligned with the performance of the business. When the Group performs well, colleagues will share in this success and therefore everyone is rewarded for the contribution they make to the Group's success. This aligns Executive Directors and the wider workforce, encouraging colleagues to work collaboratively as one team and therefore reduces behavioural risks. While this approach is adopted for the majority of colleagues across the Group, incentive outcomes for colleagues employed in Control Functions are based on an assessment of functional objectives rather than the performance of the Group.
Predictability	The remuneration policy on pages 132 to 134 describes the Purpose, operation and maximum potential of each remuneration element and illustrates a range of potential outcomes for Executive Directors. Details of the use of discretion and malus and clawback provisions are explained on page 137.

Directors' remuneration policy and principles

The remuneration principles support the Group's culture and its long-term business strategy. Executive Director remuneration is linked to individual performance, business results, shareholder experience, fair customer outcomes and prudent risk management. Remuneration arrangements are fully compliant with, and will be operated in line with, all remuneration regulatory requirements.

The benchmarking peer group is defined as other UK-based banks and wider financial services firms of a comparable size and other FTSE companies reflecting the Group's market capitalisation.

The remuneration policy is intended to:

- provide competitive, transparent and fair rewards and benefits;
- reward achievement of short and long-term individual performance and business strategy;
- align the interests of Executive Directors and shareholders;
- deliver outcomes over short and long-term horizons with appropriate performance and risk adjustments;
- support the RMF which is set by reference to the risk appetite of the Group; and
- ensure the Group is able to attract, recognise, motivate and retain Executive Directors as the Group grows.

2022 Directors' remuneration policy table

Each of the key elements of Directors' Remuneration are summarised below.

Fixed remuneration

	Purpose and link to strategy	Operation	Maximum opportunity
Salary	Recruit, reward, retain and recognise role responsibilities	Base salaries are paid in 12 equal monthly instalments during the year and are reviewed annually in the context of the salary increases for colleagues across the Group. Any changes are normally effective from 1 January following the end of the financial year. When determining and reviewing base salaries, the Committee considers: > Group and individual performance; > the skills, experience and responsibilities of the Executive Director and their market value; > the scope and size of the role; > base salary increases for colleagues throughout the Group; and > position relative to the external market.	Salary increases will normally be aligned in percentage terms with increases awarded to other colleagues but may be higher in certain circumstances such as: > where there has been an increase in role responsibilities; and > where an Executive Director is relatively new in the role and the Committee determines to provide increases that are greater than those applied across the Group to bring the individual's salary in line with the market and reflect experience gained. Details of the current salary levels for Executive Directors are set out on page 142.
Pension	Recruit, reward, retain and contribute towards Executive Directors' funding for retirement	Executive Directors are entitled to participate in the Group defined contribution pension scheme or may receive a cash allowance in lieu of an employer pension contribution.	The maximum contribution or cash allowance is aligned with the pension benefits available to the majority of colleagues (currently 13% of salary).
Benefits	To provide competitive benefits	The Group provides a range of benefits which can include private medical insurance, health assessments, life assurance and car allowance/car. The Committee retains the discretion to provide additional benefits as may be reasonably required. These may include relocation benefits such as (but not limited to) accommodation, family relocation support and taxable travel. The Executive Directors are entitled to 30 days' holiday and five paid well-being days in addition to applicable bank/public holidays.	The value of benefits is based on the cost to the Group and there is no pre-determined maximum limit. The range and value of the benefits offered are broadly aligned with market practice and subject to periodic review.

Variable remuneration

	Purpose and link to strategy	Operation	Performance measures	Maximum opportunity
Bonus	To reward Group and personal performance in line with strategic objectives	Annual bonuses are discretionary and are based on Group and individual performance measures within the year. The measures, their weighting and targets are set annually with awards determined by the Committee at the end of the financial year. The annual bonus may be delivered in shares and/or cash which, in combination with the LTIP award and any relevant awards under the all-employee Share Incentive Plan (SIP), will be structured in line with the regulatory requirements on the deferral of variable pay under the PRA Remuneration Code. The equity-based element of the award will be made under the Deferred Equity Plan (DEP). Regulatory holding periods may be applied as necessary upon the vesting of upfront awards and at the end of the required deferral period for deferred awards. Dividends or dividend equivalents may accrue on deferred annual bonus awards and are paid on vesting, subject to the extent permitted under the relevant financial services remuneration regulations. If dividend equivalents are not permissible, the number of shares awarded may be determined using a share price discounted by reference to the anticipated yield over the deferral period. In determining the outcome, the Remuneration Committee will seek the advice of the Risk Committee to ensure all relevant risk factors are identified. The Committee may exercise discretion to ensure that the bonus outcomes are a fair and accurate reflection of the business and individual performance (but any award may not exceed the maximum opportunity). The Committee can, at its discretion, apply malus and/or clawback to all or part of any bonus award.	Performance measures consist of financial and non-financial measures, including personal objectives. Specific measures, targets and weightings will be set by the Remuneration Committee annually with targets disclosed on a retrospective basis. Typically: > 80% of the annual bonus opportunity is based on performance of the Group against key financial and non-financial measures; and > 20% is based on personal performance.	Taken together with the LTIP and any relevant awards under the all-employee SIP, the total variable remuneration opportunity in respect of a financial year is limited by the 2:1 ratio of variable pay to fixed pay (excluding recruitment awards, see page 136) subject to the LTIP opportunity being at least half of the total variable pay opportunity. To the extent permitted by remuneration regulations, a discount may be applied to deferred bonus awards for the purposes of calculating the 2:1 regulatory maximum.
LTIP	Delivery of the Group's strategy and growth in shareholder value	Awards are normally granted under the LTIP following the end of the financial year. The Committee, in its absolute discretion, will determine the level of the awards made under the LTIP after taking into account business and individual performance. Awards are subject to performance conditions aligned with the Group's long-term strategic goals. Performance conditions are normally tested over a period of three financial years. Upon the vesting of shares at the end of the required deferral period, a regulatory holding period may be applied as necessary. Dividends or dividend equivalents may accrue on LTIP awards and, to the extent that the award vests, are paid on vesting, subject to the extent permitted under the relevant financial services remuneration regulations. If dividend equivalents are not permissible, the number of shares awarded may be determined using a share price discounted by reference to the anticipated yield over the deferral period. In determining the outcome, the Remuneration Committee will seek the advice of the Risk Committee to ensure all relevant risk factors are identified and may exercise discretion to ensure that LTIP outcomes are a fair and accurate reflection of overall business performance of the Group during the performance period (but any award may not exceed the maximum opportunity). The Committee can, at its discretion, apply malus and/or clawback to all or part of any LTIP award.	Performance conditions are set by the Remuneration Committee each year and are normally tested over a period of three financial years. Measures will normally consist of an appropriate balance of financial and non-financial targets aligned with the strategic priorities of the Group and its aspiration to drive positive social and environmental impact. The weighting of metrics will be determined before each award with no more than 25% of the maximum vesting for threshold performance.	Taken together with the annual bonus opportunity and any relevant awards under the all-employee SIP, the total variable remuneration opportunity in respect of a financial year is limited by the 2:1 ratio of variable pay to fixed pay (excluding recruitment awards, see page 136) subject to the LTIP opportunity being at least half of the total variable pay opportunity. To the extent permitted by remuneration regulations, a discount may be applied to LTIP awards for the purposes of calculating the 2:1 regulatory maximum.

Directors' remuneration report

Directors' remuneration policy continued

	Purpose and link to strategy	Operation	Maximum opportunity
All-employee share plans	To encourage widespread employee share ownership to enable employees to share in the success of the Group, and to align their interests with those of shareholders	The Executive Directors are able to participate in HMRC tax advantaged all-employee share plans on the same terms as other eligible employees. The SIP provides for the purchase of shares from gross pay on a monthly basis. The SIP is also the plan under which awards of free or matching shares may be made.	Participation levels are within HMRC limits as amended from time to time.
Shareholding guidelines	To align Executive Directors' interests with those of shareholders	Executive Directors are expected to build and maintain a holding of Group shares equivalent to the value of 200% of salary within five years from the date of their appointment. For this purpose, unvested awards that are not subject to ongoing performance conditions will count towards the shareholding requirement based on the anticipated net number of shares that would be released to the Executive Director at the end of the deferral period. 60% of net shares received from share awards must be retained until this requirement is met. In addition, Executive Directors will be required to retain a fixed number of shares for at least two years after leaving Group service. The fixed number of shares to be held will be determined at exit and will be based on the lower of: 1. the in-employment shareholding requirement immediately prior to departure; and 2. the actual shareholding on departure. The post-employment shareholding requirement will apply to shares acquired under share plan awards granted following the approval of this policy. Shares acquired from share plan awards granted before the approval of the new policy (2023 AGM), and shares purchased by Executive Directors using their own funds, are excluded from the post-employment shareholding requirement. The enforcement mechanism for the post-employment shareholding requirement will be facilitated through the existing nominee arrangements.	

Performance measures

The Committee will set targets annually based on the Group's strategy. Performance measures are selected to ensure an appropriate balance between short and long-term strategic goals and to align Executive Director and shareholder interests. In determining the appropriate set of measures and targets for annual bonus and LTIP awards, the Committee has discretion to vary the weighting attributed to performance measures, or to substitute the metrics, over the life of the Directors' remuneration policy taking into account the strategic plan and consensus forecasts.

This gives flexibility to ensure the remuneration policies and practices continue to support strategy and promote long-term sustainable success. For example, over the life of the existing policy, the Committee looked at ways to recognise and embed the Group's sustainability goals within its remuneration framework. The inclusion of an ESG scorecard within our LTIP measures ensures that Executive Director remuneration is aligned with the Group's ESG strategy to support a sustainable future.

The Committee believes that the incentive plans are appropriately managed and that the choice of performance measures and targets does not encourage undue risk taking by the Executives so that the long-term performance of the business is not compromised by the pursuit of short-term value. The plans incorporate a range of financial and non-financial performance metrics, over differing and overlapping performance periods, providing a rounded assessment of overall performance.

The Committee retains discretion to adjust outcomes to ensure these are consistent with corporate performance and stakeholder experience.

Bonus and LTIP flexibility

The Committee operates within its policy at all times. Bonus and LTIP awards are administered according to the rules of each respective plan and in line with the Listing Rules while retaining flexibility in a number of areas. This includes how to deal with a change of control, restructuring or any other corporate event of the Group; and how and whether an award or its performance conditions may be adjusted in certain circumstances (e.g. change of accounting policy).

The Committee may apply discretion, in exceptional circumstances (e.g. where there is a major corporate event), to amend targets and measures for in-flight awards if these are no longer appropriate to ensure alignment with strategy and any risks within the business.

Discretion

Any use of the above discretions would, where relevant, be explained in the Directors' remuneration report.

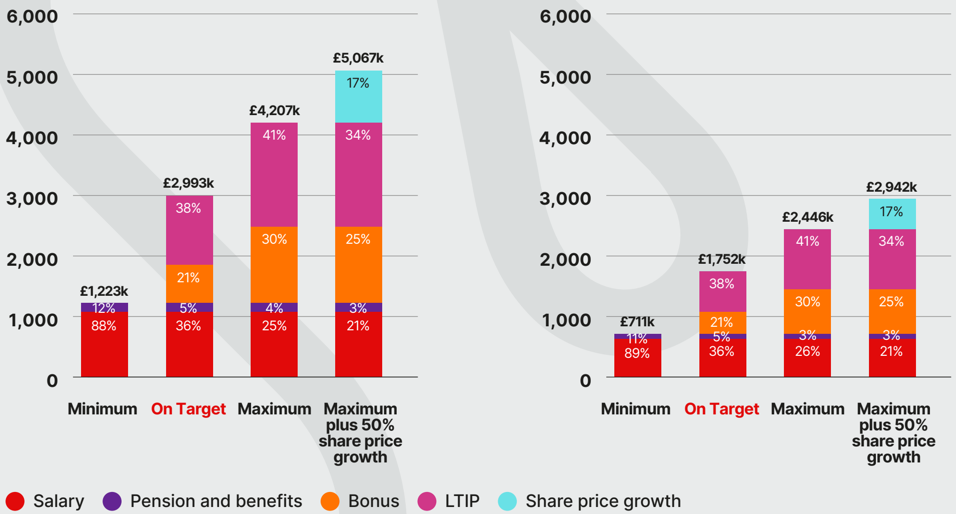
Illustration of what could be received in 2023

The charts below provide an illustration of what could be received by each of the Executive Directors under the new remuneration policy for financial year 2023. These charts are illustrative as the actual value will depend on performance in the financial year to September 2023 (for the annual bonus) and in the three-year period to September 2026 (for the LTIP), as well as share price performance to the date of the vesting of LTIP awards in December 2026 (see Illustration of delivery time frame for 2023 remuneration on page 143). As additional context, over the last seven years the CEO's average variable remuneration outcome has been c.45% of maximum and is therefore slightly below on-target outcomes, being the long-term aspiration.

The maximum scenario also includes an additional bar which shows the impact of 50% share price growth on the LTIP outcome over the relevant performance period to show how the remuneration is aligned to shareholders. It is a key part of our remuneration policy to align interests of the Executive Directors and shareholders through the provision of a substantial element of remuneration in shares. Increases in the value of remuneration through an increase in share price are evidence of the direct link between the interests of the two.

Remuneration scenarios

David Duffy – CEO | **Clifford Abrahams – CFO**



Note: Minimum pay is fixed pay only (i.e. salary + allowance/benefits + pension). On-target pay includes fixed pay, 50% of the maximum bonus and 60% vesting of the LTIP awards (with grant levels of 177% of salary). Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards, with outcomes adjusted to remain within the regulatory 2:1 cap. The potential outcomes illustrated include, where relevant, the implementation of the EBA discount factor for variable pay deferred over more than five years. Salary levels (on which other elements of the package are calculated) are based on those applying at 1 January 2023.

Other considerations for Directors' remuneration

Approach to recruitment and promotion

When considering Executive Director appointments, the Committee will consider the skills and experience of the candidates in relation to external data and remuneration required to attract the individual taking note of the remuneration of the previous incumbent. The Committee will seek advice from its independent advisers when considering the level of remuneration to be offered.

The Committee will align the remuneration for any new appointment with the Directors' remuneration policy.

Item	Policy
Salary, benefits and pension	These will be set in line with the policy for existing Executive Directors, taking note of external data, the level of experience of the hire, and the remuneration of the previous incumbent.
Annual bonus and LTIP	Maximum annual participation will be set in line with the Group's policy for existing Executive Directors. The maximum variable pay opportunity for each performance period would be within the regulatory requirements.
'Buyout' of awards forfeited on cessation of employment	Where it is necessary to compensate an individual for awards forfeited or forgone from an existing employer including long-term awards, deferred awards, in year and prior year annual bonuses and other contractual entitlements, the Committee will seek to match up to the expected value of the awards. Awards granted will be no more generous than the forfeited remuneration and will vest over a similar time frame with similar conditions. In accordance with regulatory requirements, the Committee will also take into consideration relevant factors including, but not limited to: > the form of the award; > any performance conditions attached to those awards; > the relative stretch of any performance conditions compared to those awards being forfeited; > the vesting profile of the awards and the likelihood of vesting; and > relevant regulatory guidance in place in relation to buy-out awards.
Relocation policies	Where a new Executive Director has to relocate to take up the appointment, either locally in the UK or from overseas, practical and/or financial support may be given in relation to relocation and mobility. This may include reimbursement of legal and accounting advice and tax equalisation payments.
Internal promotions / Corporate restructure	Where an Executive Director is appointed from within the Group or following corporate activity or reorganisation (e.g. merger with another company), the normal policy would be to honour any legacy arrangements in line with the original terms and conditions. In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to the terms on which it was originally granted. Details would be disclosed to shareholders in the remuneration report for the relevant financial year. Otherwise their remuneration would be set applying the principles set out above.

The Company's policy when setting fees for the appointment of new Non-Executive Directors is to apply the policy which applies to current Non-Executive Directors, which is set out on page 138.

Policy on payments for loss of office

When determining any loss of office payment for a departing Executive Director, the Remuneration Committee will always seek to minimise the cost to the Group while complying with the contractual terms agreed and seeking to reflect the circumstances in place at the time.

Item	Provision	Details
Compensation for loss of office	Payment in lieu of notice of no more than 12-months' salary.	Payable monthly and subject to an obligation on the Executive Director to mitigate their loss such that payments will either reduce or cease completely if the Executive Director obtains alternative employment. In the event of redundancy, the Executive Director shall be entitled to receive statutory redundancy pay, together with outplacement and legal support.
Treatment of annual bonus on termination	Good leavers remain eligible to receive an award for their final year of service. With the exception of good leavers, where an Executive Director leaves before 1 December following the end of the performance year they will not be eligible for an award.	Any award would be subject to proration to reflect their service during the financial year. The Committee has discretion to reduce the entitlement of a good leaver in line with performance and the reason for leaving.
Treatment of unvested deferred bonus on termination	With the exception of good leavers, unvested awards lapse where participants leave before the relevant vest date.	Awards to good leavers will be retained. Release dates will remain in line with those set at the time of award.
Treatment of unvested LTIP awards on termination	With the exception of good leavers, unvested awards lapse where participants leave before the relevant vest date.	Awards to good leavers will be prorated, unless the Committee decides otherwise. The award will vest, unless the Committee decides otherwise, on the normal vesting date to the extent that any performance condition has been met.

At the Committee's discretion, an Executive Director will be treated as a good leaver in cases where their employment ends due to death, injury, ill-health, disability, redundancy, retirement, or the Company being transferred out of the Group and any other reason (except for resignation, dishonesty, fraud, misconduct or dismissal). The Committee reserves the right to make additional payments where such payments are made in good faith and are required to discharge legal obligations or are due to the breach of such obligations.

Policy on change of control

In the event of a takeover or other major corporate event (but not an internal reorganisation of the Group) all outstanding DEP and LTIP awards granted under the Group's share plans would vest, to the extent that the Committee determines that any performance conditions have been met, with proration applied unless determined otherwise by the Committee. Awards would, however, remain subject to any regulatory deferral requirements.

Legacy arrangements

The Remuneration Committee reserves the right to honour any remuneration payments or awards and any payments or awards for loss of office, notwithstanding that they are not in line with this policy where the terms of the payments or award were agreed before the policy came into effect. Such payments or awards will be set out in the Annual remuneration report for the relevant year.

Risk adjustments, malus and clawback

Bonus and LTIP awards may be reduced before they are released (malus) or may be subject to clawback where the Committee determines that an adjustment should apply. Clawback may be applied up to seven years from the award date, or ten years where an investigation has commenced.

Circumstances in which malus and/or clawback may be applied include, but are not limited to, where:

- there is material misstatement of the Group's financial results;
- there is reasonable evidence of individual misbehaviour or material error including the failure to meet appropriate standards of fitness or propriety;
- the Group suffers a material downturn in financial performance;
- the Group suffers a material failure of risk management;
- a determination by the Committee that the circumstances on which it has based any discretion in respect to good leaver treatment were misrepresented at the time, or have subsequently changed so that it would have exercised its discretion differently;
- individual conduct has, in the reasonable opinion of the Committee, caused serious harm to the reputation of and/or significant financial loss to the Group or the relevant business unit;
- an error is made in the calculation of the extent of vesting of an award that resulted in an overpayment to the individual; and
- any other matter which, in the reasonable opinion of the Committee, is required to be taken into account to comply with prevailing legal and/or regulatory requirements, which, for the avoidance of doubt, includes any regulations or guidance published by a relevant regulator from time to time.

Service contracts and provisions

Item	Provision	Details
Election	All Executive Directors are subject to annual re-election.	
Notice periods within Executive Directors' service contracts	12-months' notice from Company. 12-months' notice from Executive Directors.	Executive Directors may be required to work during the notice period, unless determined otherwise.
Confidentiality	Six-month post-termination restrictive covenants.	Executive Directors are subject to a confidentiality undertaking without limitation in time, as well as to six-month post-termination restrictive covenants covering non-competition; non-solicitation of and non-dealing with clients; non-interference with suppliers or contractors; and non-solicitation of colleagues.
Outside appointments	Executive Directors may accept outside appointments in other listed companies and retain any fees received.	The Board Chair is required to approve appointments in advance. Agreement from the Board must be sought before Executive Directors accept any additional non-executive roles outside of the Group. Procedures are in place to ensure that regulatory limits on the number of directorships held are complied with. Details of the directorships held can be found in the Directors' biographies on pages 74 to 77.

The notice periods and dates of service contracts for Executive Directors are shown below:

Executive Directors	Notice period	Date of service contract
David Duffy	12 months	25 November 2015
Clifford Abrahams	12 months	8 March 2021

Chair and Non-Executive Directors' remuneration policy

The table below sets out the Non-Executive Directors' remuneration policy which applies to the Board Chair and Non-Executive Directors.

Non-Executive Directors are engaged through letters of appointment which are for an initial period of three years, subject to three-months' notice by the Non-Executive Directors or the Group. The Board Chair has a six-month notice period. All Non-Executive Directors are subject to annual re-election by shareholders at each AGM and are subject to early termination without compensation if they are not reappointed at a meeting of shareholders.

	Purpose and link to strategy:	Operation	Maximum opportunity	Substantive changes from Policy agreed at 2020 AGM and rationale
Non-Executive Directors' fees	To recruit and retain Non-Executive Directors of a suitable calibre for the role and duties required	Fees paid to the Board Chair are determined by the Remuneration Committee, while the fees paid to the Non-Executive Directors are set by the Board annually. The fees reflect a base fee with additional fees payable for being members of, or chairing, Board committees and a separate fee is payable to the Senior Independent Director. The fees are set at a rate that reflects the value to the Group and expected time commitment given the added regulatory complexity within the financial services sector. In exceptional circumstances, incremental fees may be paid for additional duties and time commitment, to reflect increased workload. From time to time, new Board committees may be established and/or responsibilities distributed between committees, at which point fees for committee membership and chair may be reviewed. The Board Chair and Non-Executive Directors are reimbursed for expenses incurred in performing their duties and any tax arising on such reimbursed expenses is borne by the Group. For individuals based outside of the UK this will include travel to and from the UK. Non-Executive Directors and the Board Chair do not participate in any variable remuneration or benefits arrangements. There are no performance conditions attached to the fees payable to the Board Chair or Non-Executive Directors.	Details of the current fee levels for the Non-Executive Directors are set out on page 143. The maximum aggregate value of fees payable to the Board Chair and the Non-Executive Directors is capped at £2.5m under the Company's Articles of Association.	No changes

Colleague remuneration

In this section, we focus on colleague remuneration and show how remuneration compares across the different employee groups. We look at pay comparisons, colleague engagement and the positive impact A Life More Virgin has had on colleagues' lives and within their teams.

Alignment of remuneration
The Committee is always mindful of the alignment between the framework for Executive Directors and all-colleague remuneration. Its end of year decision making relating to annual pay increases and variable pay awards is made based on a holistic approach with particular focus paid to the consistency of outcomes across the Group. The Committee has also considered colleague remuneration when developing the new Directors' remuneration policy this year. The table on page 140, shows how the cascade of the reward framework applies across different employee groups.

The Committee has oversight for all-colleague remuneration and is updated on notable matters affecting pay and benefits across the wider workforce. During 2022, key focus areas have included the Group's response to the cost of living crisis and the roll-out of A Life More Virgin. As part of the Group's broader response to the increased cost of living, the Committee approved a one-off payment of £1,000 to c.80% of colleagues in July 2022. More information on how A Life More Virgin has impacted the pay, benefits and working environment for colleagues is provided in the A Life More Virgin Spotlight.

Engagement with colleagues
The Committee has mechanisms through which it hears from and engages with colleagues. During the year, the Chair has held a series of focus groups with colleagues from a broad cross-section of the organisation including Unite. Matters discussed included the roll-out of the new colleague proposition, the Group's response to the cost of living challenge and how Directors' remuneration aligns with the all-colleague remuneration framework. This format of engagement with colleagues will continue during the year ahead to ensure the Committee remains aware of the key remuneration issues for colleagues.

A Life More Virgin: a new proposition for colleagues

As described on page 18, during 2022 we fully introduced our new colleague proposition, A Life More Virgin. In addition to the enhanced flexibility that this enables, there are a number of benefit elements which now form an essential part of the overall colleague remuneration package from day one. This includes equal, flexible family leave for all, five extra well-being days' leave each year, and a 13% of salary pension contribution available to all colleagues.

Our belief is that ALMV provides the Group with a competitive advantage in terms of talent retention and the recruitment of a diverse resource pool. During the year, we've seen applications for our roles rise by 34%.

The results from our April Pulse survey also reflect the positive response to the new proposition: 88% of colleagues believe working flexibly improves their team's productivity and 86% of colleagues say they have enough flexibility in their role to provide good service to our customers.

The table below summarises the benefits offered to all colleagues under ALMV. In addition, we also offer a wide range of well-being tools including financial wellness support.

What A Life More Virgin introduced in 2022

The working week	A normalised 35-hour working week across Virgin Money, with no impact to pay.
Well-being days	Well-being is front and centre of our proposition, so all colleagues now receive five extra paid wellbeing days a year.
Annual leave	Everyone now gets 30 days' annual leave, plus at least 8.5 bank holidays, every year. Colleagues are also able to purchase up to five days' extra holiday through our flexible benefits scheme.
Equal family leave for all	We introduced our new Virgin Money Family Leave – supporting our colleagues with a market-defining approach to fully equal, flexible family leave.
Planning for retirement	All colleagues have the option to receive up to 13% pension contributions.
Looking after colleagues if they fall ill	We have enhanced sick leave, with no length of service requirements and aligned income protection benefits.

Colleague remuneration continued

Cascade of remuneration

The Committee's remit includes considering the remuneration structure for the workforce as a whole. Each year the Committee is presented with updates that set out developments in colleagues' pay policies and practices. The provision of these reports meets the requirements of the 2018 Code.

The Committee continues to be engaged on how the remuneration framework is aligned across the different employee groups and how the pay policies and practices support the Group's Purpose and Values. This year we have increased our disclosure for colleague remuneration. A summary of the areas of focus for the Committee relating to all-colleague remuneration is shown in the table below.

All colleagues are eligible to participate in the Group's pension scheme, flexible benefit scheme, annual bonus and SIP. All members of the Executive Leadership Team and some senior management are eligible to participate in the Group's LTIP. The Executive Leadership Team are also required to adhere to the Group's shareholding guidelines.

Who	Element and purpose	Details	Board and Committee areas of focus
All colleagues 7,586 colleagues at 30 Sep 2022	Salary	Base salaries are in line with role and responsibilities. They are paid monthly and reviewed each year. Annual increases are approved by the Remuneration Committee. All colleagues are paid at, or above, the Living Wage.	> Salary increases for all colleagues > Fair pay across employee groups > Gender and ethnicity pay gaps > Response to Cost of Living crisis > Alignment of Executive Director and all-colleague pension benefit
	Pension	All colleagues are entitled to participate in the Group's defined contribution pension scheme and have the option to receive up to 13% of salary pension contributions. 98.7% of our colleagues are members of the pension scheme.	
	Benefits	All colleagues are eligible to participate in our flexible benefits scheme which offers colleagues a range of benefits designed to support their financial goals, lifestyle and well-being. Benefits include private medical insurance, health assessments, life assurance, and 30 days' holiday as well as an additional five well-being days.	
	Bonus	All colleagues are eligible for a bonus. The annual bonus is aligned with the performance of the business. Performance measures support the delivery of the Group's strategic priorities as shown on page 125. Some senior colleagues and Executive Directors also receive a percentage of bonus based on individual performance. Bonus opportunity varies by grade. Each year, the Committee reviews and approves the colleague bonus pool and in doing so takes account of the potential outcomes for Executive Directors, as well as year-on-year relative movement and other emerging metrics such as the CEO pay ratio. Malus and clawback provisions are in place.	> Strategic alignment of performance measures and targets > Group scorecard outcomes for the year > Bonus pool for all colleagues versus Executive Directors
	SIP	All colleagues are able to participate in the SIP. The SIP provides for the purchase of shares, in line with HMRC participation level rules, on a monthly basis from gross pay and is also the vehicle used to allow for awards of free or matching shares.	> None
Leadership Team/some Senior Management c.60 colleagues at 30 Sep 2022	LTIP	Awards are subject to performance conditions aligned with the Group's long-term strategic goals. Performance conditions are normally tested over a period of three financial years. Upon the vesting of shares at the end of the required deferral period, a regulatory holding period may be applied as necessary. The weighting of metrics will be determined before grant with no more than 25% of the maximum vesting for threshold performance.	> Strategic alignment of performance measures and targets > Performance outcome of LTIP following completion of three-year performance period
Leadership Team 8 colleagues at 30 Sep 2022	Shareholding guidelines	The Executive Leadership Team are expected to build up a specified holding of Group shares equivalent to a percentage of salary. 60% of net shares received from share awards must be retained until this requirement is met.	> Actual shareholding versus requirements > Introduction of formal post-employment shareholding requirement for Executive Directors

Colleague remuneration continued

Change in Directors' remuneration compared with colleagues

The table below shows the percentage change in remuneration for Directors compared with the average percentage change in the remuneration of colleagues.

	% change in remuneration between 2021 and 2022			% change in remuneration between 2020 and 2021			% change in remuneration between 2019 and 2020		
	Salary/Fee	Benefits	Bonus	Salary/Fee	Benefits	Bonus	Salary/Fee	Benefits	Bonus
All colleagues[(1)]	**8%**	**2%**	**72%**	3%	9%	458%	3%	12%	(67%)
David Duffy (CEO)	**0%**	**2%**	**232%**	0%	(38%)	n/a	0%	10%	(100%)
Clifford Abrahams (CFO)	**75%**	**401%**	**520%**	n/a	n/a	n/a	n/a	n/a	n/a
David Bennett	**0%**	**0%**	**n/a**	33%	0%	n/a	15%	0%	n/a
Paul Coby	**(25%)**	**0%**	**n/a**	31%	0%	n/a	(6%)	0%	n/a
Geeta Gopalan	**0%**	**0%**	**n/a**	19%	0%	n/a	(4%)	0%	n/a
Elena Novokreshchenova	**121%**	**0%**	**n/a**	n/a	n/a	n/a	–	–	–
Darren Pope	**0%**	**0%**	**n/a**	29%	0%	n/a	(11%)	0%	n/a
Amy Stirling	**n/a**	**0%**	**n/a**	n/a	0%	n/a	n/a	0%	n/a
Tim Wade	**0%**	**0%**	**n/a**	16%	0%	n/a	3%	0%	n/a

(1) The percentages for 'All colleagues' reflect the average percentage change in full time equivalent (FTE) salary, taxable benefits and allowances, and bonus for colleagues (excluding Directors) employed by Clydesdale Bank at both 30 September 2021 and 3 September 2022.There are no employees of Virgin Money UK PLC.

The year-on-year percentage changes are influenced by a number of factors including where Directors have completed part-year service in one or more of the years reflected in the table. For example, Clifford Abrahams and Elena Novokreshchenova joined the Board in 2021, while Paul Coby stepped down for the Board in 2022. For Non-Executive Directors, changes in fees may also be attributable to the different Committee roles undertaken by each Non-Executive Director over the period.

With reference to the year-on-year percentage increase in bonus for the Executive Directors from 2021 to 2022, it should be noted that last year the Remuneration Committee determined that the bonus pool should be distributed such that more junior colleagues received relatively better outcomes compared with more senior colleagues. A more uniform approach to bonus pool distribution is to be applied in 2022 and, as a consequence, the percentage change in Executive Directors' bonuses is higher than the all-colleague percentage change. The percentage change in bonus for Clifford Abrahams is also impacted by 2021 being a part-year of service.

Regarding the percentage increases in Clifford Abrahams' salary and benefits in 2022, these have arisen due to 2021 being a part-year of service as well as the inclusion of a one-off relocation cost in his benefit figure for 2022.

CEO pay ratio

The Group's approach to remuneration is consistent for all colleagues as outlined on pages 139 and 140. The following table shows the ratio between the total pay of the Chief Executive and the lower quartile, median and upper quartile pay of employees.

	Method[(1)]	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	A	132:1	97:1	60:1
2020	A	56:1	42:1	26:1
2021	A	106:1	77:1	47:1
2022[(2)]	**A**	**80:1**	**59:1**	**38:1**

(1) Methodology option A has been used and was selected on the basis that it provided the most accurate means of identifying the median, lower and upper quartile colleagues. Total remuneration for the colleagues identified at the 25th percentile, median and 75th percentile was calculated for each financial year for all employees of the Group as at 30 September. Payroll data from 1 October to 30 September and variable remuneration outcomes approved in November following the financial year were used.

(2) The average share price between 1 July 2022 and 30 September 2022 of 144.1p has been used to indicate the value of shares vesting under the 2019 LTIP.

The pay at each quartile used to calculate the ratio is set out in the table below:

	25th percentile		Median		75th percentile	
	Total pay	Of which is salary	Total pay	Of which is salary	Total pay	Of which is salary
2021	£25,851	£21,217	£35,627	£30,270	£59,006	£49,720
2022	**£28,626**	**£22,923**	**£38,546**	**£30,632**	**£61,013**	**£44,453**

The median pay ratio has reduced from 77:1 in 2021 to 59:1 in 2022. The year-on-year change is primarily driven by a decrease in the total pay reportable in the CEO's single figure total for 2022. While the CEO's annual bonus award has increased year-on-year, his total variable remuneration has reduced due to the lower out-turn for the 2019 LTIP of 32%. The value of the 2019 LTIP was further impacted by the share price during the final quarter of the financial year, 17% below the share price at the time the award was granted in December 2019. In comparison, the 2018 LTIP vested at 60%, with the share price during the final quarter of the 2021 financial year 5% above the share price at grant. Over time, a degree of volatility in the CEO pay ratio is expected since the CEO's single figure consists of a higher proportion of variable pay than colleagues, in line with shareholder expectations and the Group's remuneration framework. The ratio of CEO salary to that of the median colleague is 33:1 (34:1 in 2021).

The CEO pay ratio is one of a number of data points that the Committee considers in ensuring a fair reward framework for all our colleagues. The Committee also regularly reviews gender and ethnicity pay gap data. On gender pay, our mean pay gap reduced to 28.5% from 29.7% in the prior year but our median pay gap increased primarily as a result of ongoing organisational changes. For more detail, see our 2022 gender pay gap report www.virginmoneyukplc.com

Annual report on remuneration

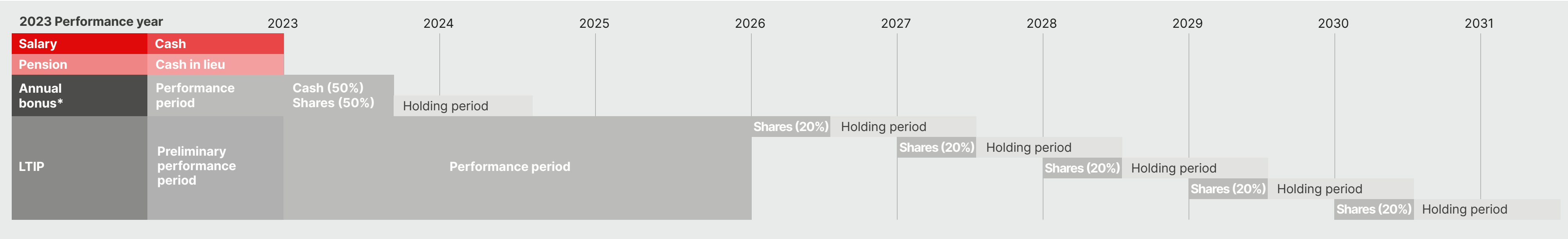
Implementation of the policy in 2023

The following sets out how the Directors' remuneration policy will be applied in 2023.

	Implementation in 2023
Salary	**David Duffy** **£1,071,000 p.a.** **Clifford Abrahams** **£630,000 p.a.** (5% salary increase for Executive Directors effective 1 January 2023)
Pension	**David Duffy** **13% of salary** **Clifford Abrahams** **13% of salary**
Benefits	In line with policy
Bonus	2023 Annual Bonus – maximum opportunity (% of salary): **David Duffy** **118% of salary** **Clifford Abrahams** **118% of salary** **Performance measures and weightings are provided on page 125** In line with policy, the Remuneration Committee has determined that for 2023: > 80% of the annual bonus opportunity is based on performance against the Group scorecard; and > 20% is based on personal performance. Performance targets are considered commercially sensitive and will be disclosed on a retrospective basis following the end of the performance period in the 2023 Annual Report & Accounts. The Committee has determined that 50% of maximum opportunity is justified for target performance. Annual bonus will be awarded in a combination of cash and shares. Deferral, as required, will be consistent with regulatory requirements taking into account total variable pay for 2023 including LTIP with at least 50% of any bonus award delivered in shares. Any share releases are subject to a post-vest holding period in line with regulatory requirements and market practice. Awards are subject to malus and clawback.
LTIP	2023 LTIP – maximum opportunity in 2023: **David Duffy** **177% of salary** **Clifford Abrahams** **177% of salary** The performance period will be the three years commencing 1 October 2023. An assessment of individual and business performance in the financial year preceding the date of grant will be taken into account before awards are made. The expectation is that awards will be granted in December 2023. To the extent that performance conditions are met, awards will be released in equal tranches from the third anniversary of the date of grant to the seventh such anniversary. On each release date, half of the shares released will be subject to a post-vest holding period in line with regulatory requirements. The Committee will determine performance measures aligned with the delivery of the Group's strategic objectives and the continued creation of shareholder value. These measures will be published in the 2023 Directors' remuneration report ahead of any awards being made.

Annual report on remuneration continued

Illustration of delivery time frame for 2023 remuneration



* Annual Bonus awards are normally delivered in a combination of cash and shares and are subject to deferral, in line with regulatory requirements, taking into account total variable pay awarded for the year including LTIP. Any share releases are subject to a post-vest holding period in line with regulatory requirements and market practice.

Non-Executive Directors

Non-Executive Directors receive fees set at a rate that reflects the value to the Group and expected time commitment given the added regulatory complexity within the financial services sector. The following table sets out the fees payable for the year ending 30 September 2023, in line with the rates that were approved by the Board in October 2022 and that are reviewed annually. A 10% increase is to be applied to the fees paid for these roles in 2023. Consistent with the increases for the wider colleague population, increases will be applied in two stages; a 5% increase effective in January 2023 and a residual increase in July 2023.

The Non-Executive Directors are reimbursed for expenses they incur in performing their duties. Any tax arising on such reimbursed expenses is borne by the Group.

	Implementation in 2022	Implementation from January 2023	Implementation from July 2023
Board Chair[(1)]	£375,000	£393,750	£412,500
Non-Executive Director	£75,000	£78,750	£82,500
Senior Independent Director	£30,000	£31,500	£33,000
Chair Audit Committee	£35,000	£36,750	£38,500
Chair Risk Committee	£35,000	£36,750	£38,500
Chair Remuneration Committee	£35,000	£36,750	£38,500
Member Audit Committee	£15,000	£15,750	£16,500
Member Risk Committee	£15,000	£15,750	£16,500
Member Remuneration Committee	£15,000	£15,750	£16,500
Chair Governance and Nomination Committee	£35,000	£36,750	£38,500
Member Governance and Nomination Committee	£15,000	£15,750	£16,500

(1) Paid as a combined fee for the role as Chair and Chair of the Governance and Nomination Committee.

Implementation of the policy in 2022

In this section we provide greater detail on how the remuneration policy was implemented in 2022.

Outcomes for 2022

Executive Directors – single total figure of remuneration (audited)

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of the financial year to 30 September 2022 and prior year comparison. The subsequent sections detail additional information for each element of remuneration.

	David Duffy		Clifford Abrahams	
£000s	2022	2021	2022	2021[1]
Salary	**1,020**	1,020	**600**	342
Benefits and allowances	**35**	34	**21**	4
Pension and pension allowance	**184**	184	**68**	39
Total fixed remuneration	**1,239**	1,238	**689**	385
Annual bonus	**465**	140	**285**	46
LTIP[2,3]	**584**	1,126	**–**	–
Total variable remuneration	**1,049**	1,266	**285**	46
Total remuneration	**2,288**	2,504	**974**	431

(1) Clifford Abrahams was appointed to the Board on 8 March 2021.

(2) The average share price between 1 July 2022 and 30 September 2022 of 144.1p has been used to indicate the value of the 2019 LTIP. The award was granted in 2019 based on a share price of 174.5p. Following application of the 32% performance outcome, 405,423 shares are due to be released in tranches up to December 2026. Share price movement has decreased the gross valuation of the award by £123,249 compared with the corresponding value at the time of grant.

(3) The values for 2018 LTIP included as 2021 remuneration have been restated to reflect the share price on the date of vesting (164.4p) on 20 December 2021.

Salary

As disclosed in last year's report, the Executive Directors did not receive a salary increase for 2022.

Benefits

Executive Directors receive private medical cover, health assessment and life assurance. In addition, during 2022, David Duffy received a car allowance of £30,000 (2021: £30,000) and other taxable benefits including security totalling £4,195 (2020: £3,699). Clifford Abrahams received an allowance of £8,175 (2021: £3,866) and other taxable benefits including a one-off relocation cost totalling £11,594 (2021: £168).

Pension

David Duffy and Clifford Abrahams opted out of the Group's defined contribution pension plans and, in line with policy, received cash allowances in lieu of pension contributions.

Bonus

Executive Director bonus opportunity in 2022 was 118% of salary for the CEO and 117% of salary for the CFO. David Duffy was awarded an annual bonus of £464,794 (38.6% of maximum) and Clifford Abrahams was awarded an annual bonus of £285,219 (40.6% of maximum). Half of the awards are delivered in shares and subject to a 12-month regulatory hold period. Further details on performance against the Group scorecard (which accounts for 80% of Executive Directors' bonus opportunity) is provided in the 'Remuneration at a glance' section including details of discretion applied by the Committee (page 126).

Performance against personal objectives accounts for the remaining 20% of Executive Directors' bonus opportunity. Outcomes have been assessed based on the Executive Directors' shared and individual objectives for the year, in addition to the delivery of the strategic priorities included in the Group scorecard. During the year, the Executive Directors have navigated the Group through the initial post-pandemic recovery and have effectively responded to the challenges that have arisen in the second half of the year, in particular the impact of cost of living increases on customers and colleagues. A summary of Executive Directors' performance against their personal objectives is set out on the following pages.

Executive Directors' shared objectives		
Strategic priority	**Achievements in the year**	**Assessment**
Delighted customers and colleagues	**Transform customer service model to deliver improved digital experience** > Delivery of new customer propositions including BCA, M-Track, Marketplace and Slyce. > The digitisation of customer journeys has progressed ahead of plan with 43% of journeys completed digitally end to end. > Virgin brand reward opportunities leveraged including partnerships with Virgin Voyages, Virgin Atlantic, Virgin Hotels, Virgin Media, Virgin Red and Virgin Wines. > Progress towards enhanced customer experience outcomes although more work to undertake in this area.	**Objective partially met**
	Delivery of a purpose-led, differentiated colleague proposition, focused on flexibility, unity and talent > Successful roll-out of A Life More Virgin supporting improved engagement scores and increase in external applications for roles and increased diversity of candidates. > Colleague engagement scores increased by 11%. > One-off financial wellness payment of £1k to c.80% of colleagues in response to cost of living increases.	**Objective met**
Pioneering growth	**Execution of Commercial strategy to deliver agreed financial outcomes within risk appetite** > Returned the overall loan book to growth. Improved NII and OOI. > Optimisation of funding mix with further growth in relationship deposits growth achieved. > Successful delivery of Commercial and digital change agenda to drive growth momentum including credit card migration, mobile onboarding, M-Track and Marketplace. > Development of Slyce proposition for Gen Z customers. > Growth in new PCA and BCA accounts.	**Objective partially met**
Super straightforward efficiency	**Execute FY22 digital road map to become a more efficient and agile bank** > Improved cost focus embedded across the business with cost target met despite inflationary pressures. > Infrastructure designed to enable removal of legacy applications and reduce data centres alongside significant progress in delivering scalable and modern business and technical architecture. > Stage one of property strategy executed with key hub location refurbished to support agile, digital working aligned to ALMV.	**Objective met**
Discipline and sustainability	**Delivery of statutory profit and a sustainable dividend** > Launch of inaugural buyback programme in UK and Australia. > NIM and Cost of Risk delivered on upgraded guidance while maintaining strong capital base. CET1 improvement to 15.0%. > Strong credit quality maintained across portfolios with robust provision coverage of 62 bps. > Defined our commercial net-zero targets and road maps for mortgages and priority business sectors.	**Objective met**

Executive Directors' personal objectives

	Achievements in the year	Assessment
CEO personal objectives	> Strengthened Leadership Team with CRO and CPO onboarded and new COO to join in January 2023 and improved succession planning. > Enhanced Group's external reputation with strong media profile, positive regulator feedback, good political relationships and launch of Levelling Upstarts programme. > Working with industry and government, played a leading role in convening like-minded businesses to consider ways in which to eradicate the Poverty Premium. > Successful launch of the Purpose Coalition partnership.	**Objective met**
CFO personal objectives	> Consolidation of strong, robust balance sheet. > Delivery of capital framework and dividend strategy. > Board approval of Commercial road maps to net zero. > 12-point increase in colleague engagement across Finance function. > Good progress on Resolvability Assessment Framework.	**Objective met**

Summary of Executive Director bonus outcomes

	David Duffy: CEO	Clifford Abrahams: CFO
Group scorecard Outcome (out of 80%):	52.2%	52.2%
Personal scorecard Outcome (out of 20%):	15.0%	18.5%
Total scorecard Outcome (out of 100%):	67.2%	70.7%
Affordability adjustment:	(28.6%)	(30.1%)
Final outcome (% of maximum):	38.6%	40.6%

Alignment with stakeholders

In determining Executive Director variable pay awards for 2022 due consideration was given to overall stakeholder experience during the year. The Committee considers that final outcomes appropriately reflect overall stakeholder experience.

Customers
Progress in enhancing customer experience has not kept pace with the Group's plan during 2022 while the Group has worked hard to address the sustained level of customer complaints. At the same time, however, the Group has delivered and advanced the development of several long-term customer propositions that will help meet its ambition of becoming the UK's best digital bank.

Colleagues
Throughout the year, the Group has demonstrated how highly it values its colleagues. This has included rolling out of a new colleague proposition and responding to the cost of living crisis with c.80% of colleagues receiving a one-off payment of £1,000 in August. The positive impact of these actions is reflected in a 11 point year-on-year increase in engagement scores across the Group.

Regulator
The Bank is operated in a prudent manner and in line with its principal risk profile and appetite. Material risk events are subject to a robust risk adjustment process and regulatory oversight. The Group has not been subject to any regulatory fines or sanctions in the period.

Shareholders
During the year the Group resumed dividend payments with 30% payout ratio achieved as per capital framework and launched its first share buyback programme. Along with the FTSE 250 index more broadly, the share price has suffered from the external economic outlook during the second half of the year. However, it remains on track to meet shareholder expectations of >10% RoTE.

LTIP

(i) LTIP awards included in 2022 Single Figure Table

2019 LTIP award (granted December 2019)

David Duffy was granted awards over 1,266,947 shares to the value of 177% of salary on 9 December 2019 with performance conditions tested over the three financial years to 30 September 2022. Performance against the targets set at grant has achieved an outcome of 32% of maximum. A breakdown of the performance outcome against each target is included in the 'Remuneration at a glance' section on page 127 with further information on the Risk scorecard outcome provided below. Share awards granted under this award will be released in tranches from December 2022 to December 2026 with no dividend equivalents payable. A 12-month regulatory hold period applies to half of the net shares received (post-taxation) on each release date. As Clifford Abrahams was not a participant in this award, no income is included in his single figure table in respect of LTIP.

Performance against 2019 LTIP Risk scorecard

Following the end of the three-year performance period, an assessment of performance against the Risk scorecard was carried out. This included top of Bank analysis of risk profile and risk appetite, as well as specific focus on the areas of customer complaints, operational risk losses and Cost of Risk. Regulatory relations, fraud losses and capital outcomes were also considered, as was qualitative feedback received from the Chair of the Board Risk Committee. Customer complaint handling has been an ongoing issue for the Group during the performance period with complaints per thousand reaching 4.3 during 2022. This has been driven by a combination of customer service challenges and systems related incidents. On operational risk losses, excluding the impact of COVID-19, the Group's position has been on an improving trend across the period with FY22 losses significantly lower than in FY21. Cost of risk has been heavily influenced by external factors. Throughout the period, however, customers and portfolios have been well managed with strategy and decision making adapted to keep customers, and the Group, safe. Fraud losses have been managed within risk appetite and budget comparing favourably to industry benchmarks. Following post COVID-19 instability and throughout FY22, the Group continues to see stable and improving trends in its risk profile and risk appetite positions, with negative impacts largely related to the uncertain macro-economic environment and COVID-19.

Taking into account the above performance alongside feedback from the Board Risk Committee, the Remuneration Committee determined a final outcome on the Risk scorecard of 12% (out of 20%).

(ii) Prior year LTIP awards subject to ongoing performance conditions

2020 LTIP award (granted December 2020)

Performance measures are shown in the table below:

Underlying performance measures		Weighting	Threshold	Target	Maximum
Delighted customers and colleagues	ESG scorecard[1]	15%			
	CMA ranking	10%	Top 5	Top 3	Top 2
Pioneering growth	Relationship deposit growth	10%	4%	5.5%	7%
Super straightforward efficiency	CIR[2]	10%	53%	50%	47%
	Operating cost outcome[2]	10%	£810m	£780m	£750m
Discipline and sustainability	RoTE[3]	25%	6%	8%	10%
	Risk scorecard[4]	20%			

(1) Performance will be assessed by the Committee based on several qualitative and quantitative measures such as operational carbon emissions and the Group's progression to net-zero operational carbon emissions by 2030, senior leadership diversity and colleague engagement.

(2) CIR and operating costs are on an underlying basis.

(3) RoTE is on a statutory basis.

(4) Performance will be assessed by the Committee based on several qualitative and quantitative inputs such as feedback from the Chair of the Board Risk Committee and achievement of the long-term objectives of the organisation. Specific focus will be on customer complaints, operational risk losses, cost of risk and Credit Risk Policy compliance.

The award was granted on 9 December 2020 and will vest based on the performance over the period from 1 October 2020 to 30 September 2023. Subject to performance outcomes, the award will be released over three to seven years from the date of grant, with the net shares received (post-taxation) subject to further regulatory holding periods as required.

2021 LTIP award (granted December 2021)

Performance measures are shown in the table below:

Underlying performance measures		Weighting	Threshold	Target	Maximum
Delighted customers and colleagues	ESG scorecard[1]	15%			
	Retail NPS[2]	10%	1 rank higher	3+ ranks higher	4+ ranks higher
Pioneering growth	Growth in number of BCA and PCA customer accounts	15%	500k	600k	700k
	Customer Lending Asset Growth		8%	10%	12%
Super straightforward efficiency	CIR[3]	15%	48%	46%	44%
Discipline and sustainability	RoTE[4]	25%	9%	10%	11%
	Risk scorecard[5]	20%			

(1) Performance against the ESG scorecard will be determined by the Committee based on performance against quantitative targets including: operational carbon emissions, senior colleague gender and ethnic minority representation, Group-wide ethnic minority representation, colleague engagement. In addition, the Committee will undertake a qualitative assessment on progress against the Group's 2030 ESG aspirations.

(2) Based on relative performance against a competitor comparison group of Barclays, HSBC, Lloyds, Metro, Monzo, Nationwide, NatWest, Revolut, Santander, Starling, Tide and TSB.

(3) CIR is on an underlying basis.

(4) RoTE is on a statutory basis.

(5) Performance will be assessed by the Committee based on several qualitative and quantitative inputs such as feedback from the Chair of the Board Risk Committee and achievement of the long-term objectives of the organisation. Specific focus will be on the Group's risk profile and risk appetite positioning over the period, alongside a detailed assessment of performance against customer complaints, operational risk losses, cost of risk targets.

The award was granted on 9 December 2021 and will vest based on the performance over the period from 1 October 2021 to 30 September 2024. Subject to performance outcomes, the award will be released over three to seven years from the date of grant, with the net shares received (post-taxation) subject to further regulatory holding periods as required.

(iii) LTIP Awards to be granted in FY23

2022 LTIP award (to be granted December 2022)

The following award will be made to Executive Directors in December 2022.

2022 LTIP award	Percentage of salary[1]	Face value of award	Type of interest awarded	End of performance period	Percentage receivable for threshold performance	Percentage receivable for target performance
David Duffy	177%	£1,805,400	Conditional rights to VMUK PLC shares	30 Sep 2025	25%	60%
Clifford Abrahams	176%	£1,056,000	Conditional rights to VMUK PLC shares	30 Sep 2025	25%	60%

(1) The award will be based on a percentage of salary as at 30 September 2022. For the purposes of determining the 2:1 cap, a discount is applied in line with regulatory requirements.

The performance period will be from 1 October 2022 to 30 September 2025 (2023 to 2025 financial years). Subject to performance outcomes, the awards will vest from December 2025 to December 2029 with 60% vesting for target performance and 25% vesting for threshold performance. At each vest date, the net number of shares received (post-taxation) will be subject to a regulatory hold period as required.

Directors' remuneration report

Annual report on remuneration continued

Performance measures for the 2022 LTIP are shown in the table below:

Underlying performance measures		Weighting	Threshold	Target	Maximum
Delighted customers and colleagues	ESG scorecard[1]	15%			
Pioneering growth	Total Shareholder Return[2]	25%	Median performance		Upper Quartile performance
Discipline and sustainability	Statutory RoTE	40%	9%	11%	13%
	Risk scorecard[3]	20%			

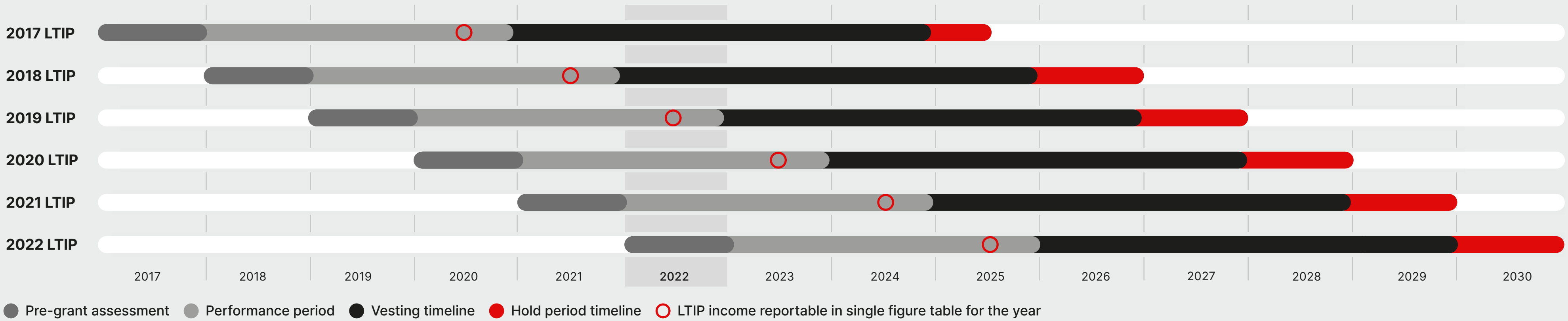
(1) Performance against the ESG scorecard will be determined by the Committee based on performance against quantitative targets including: operational carbon emissions; EPC ratings; Lending to Sustainability Change Makers; senior colleague gender and ethnic minority representation; Group-wide ethnic minority representation; and colleague engagement. In addition, the Committee will undertake a qualitative assessment on progress against the Group's 2030 ESG aspirations.

(2) Total Shareholder Return will be assessed based on performance relative to FTSE 350 Financial Services companies (excluding Investment Trusts). Median performance will deliver a threshold out-turn; upper quartile will deliver maximum out-turn. Performance between median and upper quartile will vest on a straight-line basis.

(3) Performance against the Risk scorecard will be assessed by the Committee based on several qualitative and quantitative inputs such as feedback from the Chair of the Board Risk Committee and achievement of the long-term objectives of the organisation. Specific focus will be on customer complaints, operational risk losses, cost of risk and the Group's Risk profile and Risk appetite.

The 2022 LTIP measures have been formulated to align with the delivery of the Group's strategy. The targets will drive the Group towards double digit returns by FY24 and beyond. It is intended to deliver this within an acceptable risk appetite coupled with stretching ESG targets that ensure continued carbon reductions, increasing diversity and sustained levels of colleague engagement. The inclusion of a relative Total Shareholder Return measure ensures that the Group retains focus on performance in comparison to FTSE 350 Financial Services companies.

LTIP deferral timeline



Payments to past Directors (audited)
No payments were made to any former Executive Directors during the year.

Executive Directors' payments for loss of office (audited)
No payments were made during the current or the previous year.

Non-Executive Directors' payments for loss of office (audited)
No payments were made during the current or previous year.

Non-Executive Directors' fees (audited)
The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director for the year ended 30 September 2022.

	Total	
	2022 £000	2021 £000
David Bennett[1]	**390**	390
Paul Coby[1,2]	**101**	135
Geeta Gopalan[1]	**155**	155
Elena Novokreshchenova[1,2]	**135**	61
Darren Pope[1]	**155**	155
Amy Stirling[2,3]	**–**	–
Tim Wade[1]	**185**	185
Total	**1,121**	1,081

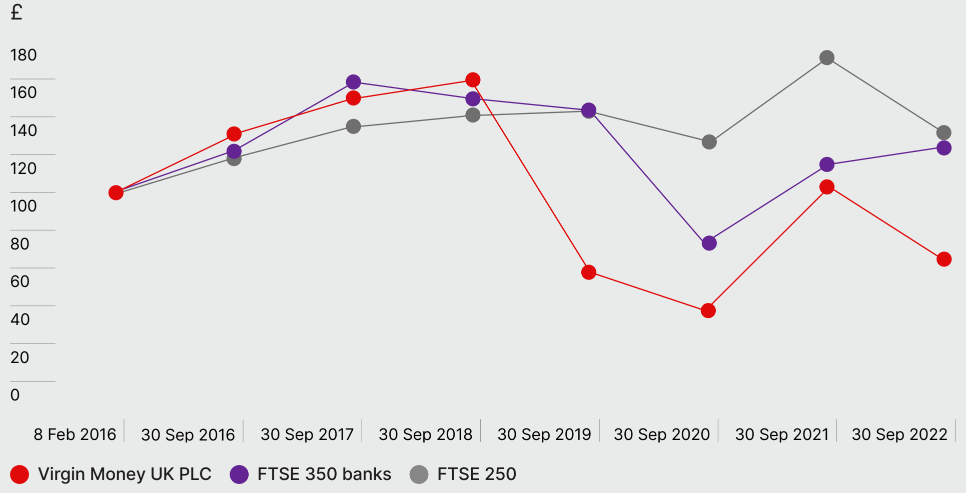
(1) Fees are paid to Board and Committee members in line with the Chair and Non-Executive Directors' remuneration policy as set out on page 138 and in line with the fees approved by the Board in September 2021 as set out on page 143. Non-Executive Directors' and the Chair may be reimbursed for expenses incurred in performing their duties but do not participate in any variable remuneration or benefits arrangements.

(2) Amy Stirling and Paul Coby left the Board on 5 May 2022 and 30 June 2022 respectively. Elena Novokreshchenova joined the Board on 22 March 2021.

(3) Amy Stirling did not receive any fees.

Total shareholder return performance
The graph shows the value of £100 invested in the Group's shares since listing, compared with the total returns of the FTSE 250 Index. The graph shows the total shareholder return generated by both the movement in share value and the reinvestment over the same period of dividend income. The Committee considers the FTSE 250 as representative of the current market capitalisation of the Group. For further context and a sector comparison, the graph also reflects the FTSE 350 Banks Index over the same period.

Virgin Money UK PLC TSR v FTSE 250



Chief Executive Officer historic remuneration
The table below sets out the total remuneration delivered to the Chief Executive Officer since the Company's IPO:

Chief Executive Officer	2016	2017	2018	2019	2020	2021	2022
Total single figure (£000)[1]	2,048	2,056	1,833	3,374	1,351	2,747	**2,288**
Annual short-term incentive payment level achieved[2]	80%	82%	62%	37%	0%	12%	**39%**
Demerger award[2]	n/a	n/a	n/a	100%	n/a	n/a	**n/a**
Long-term incentive vesting level achieved[2,3]	–	–	–	62%	32%	60%	**32%**

(1) Values represent the figures reported in the single figure table for the relevant year.

(2) Percentage of maximum opportunity.

(3) No LTIP awards vested during 2016, 2017 or 2018.

Annual report on remuneration continued

Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in the 2022 financial year:

Overall spend	Disbursements from profit in 2022 financial year £m	Disbursements from profit in 2021 financial year £m	% Change
Distributions to shareholders[1]	**100**	–	–
Overall spend on pay including Executive Directors[2]	**435**	426	2%

(1) Dividends of 3.5p per share were paid during the year ended 30 September 2022 (1p relating to the FY21 full year dividend paid in March 2022 and 2.5p relating to the interim FY22 dividend paid in June 2022) (2021: £Nil). This amounted to £50m. In addition, £50m was returned to shareholders through share buybacks giving a total of £100m per above.

(2) 2021 and 2022 numbers as per note 2.4 of the consolidated financial statements.

CEO pay ratio

For details of the CEO pay ratio see pages 141.

Change in Directors' Remuneration compared with colleagues

For details on the change in Directors' remuneration compared with colleagues see page 141.

Statement of Directors' shareholding and share interests (audited)

Share interests at 30 September 2022 by Executive and Non-Executive Directors who held office during the year are shown below. For Executive Directors, the position against the current shareholding requirement is also reflected in the table. There have been no other changes to the above interests between 30 September 2022 and the date of this report.

	Shares owned outright at 30 September 2022[1]	Unvested		Shareholding requirement as a % of salary	Current shareholding as a % of salary[4]
		Subject to Performance[2]	Not subject to performance[3]		
David Duffy	1,134,111	2,912,793	1,030,531	200%	205%
Clifford Abrahams	177,038	748,936	–	150%	37%
David Bennett	40,338				
Paul Coby[5]	11,928				
Geeta Gopalan	7,932				
Elena Novokreshchenova	–				
Darren Pope	11,785				
Amy Stirling[5]	–				
Tim Wade	50,505				

(1) Ordinary shares beneficially-owned and holdings of connected persons on 30 September 2022 (or date of cessation if earlier). This includes shares held via the Group SIP – David Duffy (661 shares) and CDIs which represent interests in ordinary shares beneficially-owned by David Duffy (4,080 shares).

(2) Conditional share awards granted under 2020 LTIP and 2021 LTIP. Subject to ongoing performance and service conditions.

(3) Conditional share awards granted under 2017 LTIP, 2018 LTIP and 2019 LTIP. No ongoing performance conditions apply, but awards remain subject to deferral.

(4) The percentage of shareholding requirement achieved is calculated based on owned shares plus the net value of unvested awards not subject to ongoing performance (47% deducted to reflect the tax and National Insurance due on release). Values are based on 30 September 2022 closing price of 124.3p.

(5) Amy Stirling and Paul Coby left the Board on 5 May 2022 and 30 June 2022 respectively.

Breakdown of Executive Director share interests under each of the Group's share plans

Further details in respect of the unvested shares included in the Directors' interest table above are provided in the following table. The details are in relation to the Executive Directors and no other Directors hold any awards under the Group share plans (2021: none).

DEP and LTIP awards	Start of year	Awarded during the year	Vested during the year	Lapsed during the year	Unvested at year end	Date of grant	Grant price (p)	Face value at grant date[1] £000	Release dates
David Duffy									
2017 DEP	26,053	–	26,053	–	**–**	24 Nov 17	313.2	536	December 2020 to June 2022
2021 DEP	–	40,544	40,544	–	**–**	9 Dec 21	172.6	70	December 2021
2017 LTIP	93,994	–	17,246	–	**76,748**	24 Nov 17	313.2	1,000	December 2020 to June 2025
2018 LTIP	685,450	–	137,090	–	**548,360**	20 Dec 18	189.7	2,167	December 2021 to December 2025
2019 LTIP	1,266,947	–	–	861,524	**405,423**	9 Dec 19	174.5	2,211	December 2022 to December 2026
2020 LTIP	1,632,368	–	–	–	**1,632,368**	9 Dec 20	135.4	2,210	December 2023 to December 2027
2021 LTIP	–	1,280,425	–	–	**1,280,425**	9 Dec 21	172.6	2,211	December 2024 to December 2028
Clifford Abrahams									
2021 DEP	–	13,321	13,321	–	**–**	9 Dec 21	172.6	23	December 2021
2021 LTIP	–	748,936	–	–	**748,936**	9 Dec 21	172.6	1,293	December 2024 to December 2028

(1) Represents the value of the total number of shares awarded at the date of grant.

LTIP

Conditional share awards were made to Executive Directors under the LTIP in December 2021. Awards were granted based on 177% of salary for David Duffy (£1,805,400) and 176% of salary for Clifford Abrahams (£1,056,000). These values were converted into the number of shares shown in the table opposite using the middle market share price on the day immediately preceding grant which was discounted to reflect the absence of dividend equivalents during the period from grant to vest in accordance with the Directors' remuneration policy. The face value at the date of grant included in the table reflects the middle market share price multiplied by the number of shares awarded. Performance conditions apply (as set out on page 148) with no more than 25% of the maximum vesting for threshold performance. Performance conditions are measured over a three-year performance period to 30 September 2024. Awards are subject to malus and clawback provisions. Subject to performance outcomes, awards will be released over three to seven years with resultant shares (post-taxation) subject to a regulatory hold period. Details of these awards are included in the table above alongside the LTIP awards made in respect of 2017, 2018, 2019 and 2020.

SIP

Neither Executive Director participates in the monthly purchase of shares through the SIP.

Save As You Earn (SAYE)

No offers under the SAYE plan have been made (2021: none).

This report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the UK Corporate Governance Code and the Listing Rules. The report was approved by the Board of Directors on 20 November 2022.

On behalf of the Board

Darren Pope
Chair, Remuneration Committee
20 November 2022

Directors' report

Governance report
The Governance report, on pages 67 to 158 together with this report, satisfies the requirements of the Corporate Governance Statement for the purpose of the FCA's Disclosure and Transparency Rules (DTR).

Directors
The names and biographies of the current Directors of the Company are shown on pages 74 to 78 and include their relevant experience within the sector.

Particulars of Directors' emoluments and interests in shares in the Company are given on pages 142 to 151 of the Directors' remuneration report. No Director had a material interest in any significant contract to which any Group Company was a party during the year.

Annual General Meeting
The Company's 2023 AGM will be held on 21 February 2023. Full details of the arrangements for the AGM and details of the resolutions to be proposed, together with explanatory notes, will be set out in the Notice of AGM to be published on the Company's website (www.virginmoneyukplc.com).

Appointment and retirement of Directors
The appointment, retirement and/or replacement of Directors is governed by the Articles of Association of the Company (Articles), the Code and the Companies Act 2006. The Articles may be amended only by a special resolution of the shareholders in a general meeting. In line with the requirements of the Code, all Directors will submit themselves for election or re-election at the next AGM.

Board composition changes
Changes to the composition of the Board since 1 October 2021 up to the date of this report are shown in the table below.

Name	Role	Date of appointment	Date of resignation
Paul Coby	Independent Non-Executive Director		30 June 2022
Amy Stirling	Non-Executive Director		5 May 2022
Sara Weller	Non-Executive Director	3 October 2022	

Directors' indemnities and insurance
The Directors have each entered into individual deeds of access, insurance and indemnity with the Group which indemnify the Directors to the maximum extent permitted by law. Each such provision constitutes a 'third-party indemnity provision' and a 'qualifying indemnity provision' for the purposes 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 Company'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 Company while acting in the capacity of a trustee or administrator of employee benefit or pension plans. This policy 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 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 Company's registered office.

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

Profits and dividends
The Group profit before tax for the financial year ended 30 September 2022 amounted to £595m (2021:£417m). The profit attributable to the ordinary shareholders for the year ended 30 September 2022 amounted to £467m (2021: £395m). As at 30 September 2022, the distributable reserves of the Company were £1,056m (2021: £792m). The Directors recommended a final dividend in respect of the year ended 30 September 2022 of 7.5p per ordinary share in the Company to be paid on 15 March 2023. The payment of the final dividend is subject to approval of the shareholders at the 2023 AGM.

Share capital, control and Directors' powers

Shares in the Company are listed on both the London Stock Exchange (LSE) and the ASX (in the form of CDIs). The Company is required to comply with the disclosure requirements of the LSE and also of the ASX insofar as they relate to the Company's foreign exempt listing in Australia.

Details of the movements in allotted share capital during the year, and the rights and obligations attaching to the Company's shares, are shown in note 4.1.1 to the consolidated financial statements.

There are no restrictions on voting rights of securities in the Company. The Notice of AGM will specify the deadlines for determining attendance and voting entitlements at the AGM.

The Group operates an Employee Benefit Trust (EBT), which holds ordinary shares on trust for the benefit of employees and former employees of the Group, and their dependants, which is used in conjunction with the Group's employee share schemes. While ordinary shares are held in the EBT, the voting rights in respect of these ordinary shares are exercised by the trustees of the EBT.

Where participants in an employee SIP operated by the Company are the beneficial owners of shares but not the registered owners, the voting rights are normally exercised at the discretion of participants.

With the exception of restrictions on transferring ordinary shares under the Company's SIP there are no restrictions which exist on transferring or holding of securities in the Company under its Articles and there are no shares carrying special rights in respect of the control of the Company.

Subject to the Articles and provisions of relevant statutes, the Board may exercise all powers of the Company.

The Company can only amend its Articles of Association if its shareholders pass a special resolution to this effect.

Acquisition of own shares

At the AGM of the Company held on 17 February 2022 a resolution was passed that the Directors were authorised to purchase up to a maximum of 144,151,422 ordinary shares representing approximately 10% of the issued ordinary share capital. A renewal of authority will be sought at the next AGM. Further information will be set out in the Notice of AGM.

Share buyback programme

The Group announced a share buyback programme on 30 June 2022 with an initial repurchase of up to £75m in aggregate between ordinary shares of £0.10 each and CDIs, intending to repurchase shares and CDIs in approximately equal proportions. The buyback commenced on 30 June 2022 and will end no later than 17 December 2022. The buyback was initiated as part of the capital return policy, announced in May 2022, as the Company targets profitable growth and seeks to distribute excess capital.

As at 18 November 2022, being the latest practicable date prior to the publication of this document, the Group has repurchased 46,413,829 shares and CDIs (3.32% of the share capital as at 18 November 2022) at a cost of £65m (total nominal value £5m).

On 21 November 2022, the Company announced an extension to the buyback programme with an intent to repurchase a further £50m in aggregate of shares and CDIs. Subject to trading liquidity, the Company intends to repurchase shares and CDIs in approximately equal proportions. The buyback extension will commence on 21 November 2022 and will end no later than 2 May 2023.

The buyback has been effected in accordance with the scope of the authority to repurchase ordinary shares conferred on the Company at its February 2022 AGM, Regulation (EU) No 596/2014 (the Market Abuse Regulation), the Commission Delegated Regulation (EU) 2016/1052 (both form part of Retained EU Law as defined in the European Union (Withdrawal) Act 2018) and Chapter 12 of the Listing Rules and was still valid as at 30 September 2022. The buyback is subject to the continuing approval of the PRA.

Further information on the buyback is included in Note 4.1 to the financial statements on page 314.

Political donations

The Group did not give any money for political purposes nor did it make any political donations to political parties or other political organisations, or to any independent election candidates, or incur any political expenditure during the year. At the AGM in 2022, shareholders gave authority under Part 14 of the Companies Act 2006 to make political donations and incur political expenditure up to a maximum of £100,000. This authorisation was sought for prudence as it is the Group's policy not to make any political donations to political parties or incur political expenditure within the ordinary meaning of those words. Given the wide definition of donations and expenditure within the Companies Act 2006, activities which form part of the regular operations of the Group such as communicating with government at local, national level and funding events to which politicians are invited, may be covered.

Financial risk management objectives and policies

Information about internal controls and financial risk management systems relating to financial reporting and Board review can be found on page 119 of the Governance report.

Information regarding financial risk management objectives and policies in relation to the use of financial instruments can be found in the Risk report on pages 159 to 230.

Post-balance sheet events

On 21 November 2022 the Company announced an extension to the share buyback programme with an intent to repurchase a further £50m in aggregate of shares and CDIs. Subject to trading liquidity, the Company again intends to repurchase shares and CDIs in approximately equal proportions. The buyback extension will commence on 21 November 2022 and will end no later than 2 May 2023.

Information included in the Strategic report

The following information that would otherwise be required to be disclosed in this report and which is incorporated into this report by reference can be found on the following pages of the Strategic report.

Subject	Page reference
Future developments	2-66
Engagement with colleagues, customers, suppliers and others	89-99
Equality of employment opportunities	18-20
Summary of Group results	50-58
Directors' biographies and Directors during the year	70, 74-78
Principal risks and uncertainties	59-66
Climate Change Emission Reporting	30-32

Substantial shareholdings

Information provided to the Company pursuant to the FCA's DTR is published on Regulatory Information Services and on the Company's website.

As at 18 November 2022, being the latest practicable date prior to the publication of this document, the following information has been received, in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital. The information provided below was correct at the date of notification; however, the date received may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

	Total number of shares	% of voting rights	Direct/indirect Interest
Virgin Group Holdings Limited	188,083,550	13.47	Direct
Firetrail Investments Pty Limited	72,343,768	5.18	Direct
Blackrock, Inc	73,604,579	5.27	Indirect
Perpetual Limited and Subsidiaries	60,787,499	4.35	Direct
Investors Mutual Limited	53,659,761	3.84	Direct
Schroders PLC	44,572,459	3.19	Indirect

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 1.4 of the Group's consolidated financial statements.

Viability Statement

Time horizon

The Directors have an obligation in accordance with Provision 31 of the Code to confirm that they believe that both the Company and the Group will be able to continue in operation, and to meet their liabilities as they fall due. The Code requires the Directors to explain in the Annual Report & Accounts how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate.

The Directors have determined that a three-year period to 30 September 2025 is an appropriate period over which to perform the assessment. This is the period over which forecasts have a greater level of certainty. The Board monitors a longer-term strategic and financial plan which extends beyond the three-year period and the Group also undertakes internal and regulatory stress tests with a five-year horizon. This longer-term strategic and financial horizon provides less certainty of outcome but provides a robust and effective planning tool against which strategic decisions can be made.

In making this assessment the Directors have considered a wide range of information, the current state of the balance sheet, and principal and emerging risks which could impact the performance of the Group and the Group's strategic and financial plan, including detailed forecasts of capital, funding and liquidity.

Consideration of key risks

As described in the Corporate Governance report on page 119 and the Risk report on page 162, 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 controls, including financial, operational and compliance controls.

The Directors have performed a robust assessment of the principal risks facing the Group, including those that would threaten its business model and future performance, solvency or liquidity. The Group's principal risks and policies and processes for managing those risks are described in the Risk report and summarised on pages 59 to 66.

Of the Group's principal risks, those which could directly lead to the business not being able to continue in its current form if they were to occur (although a failure of the Group's other principal risks could lead to one of these events) are:

- operational failure (operational and resilience risk);
- credit risk; and
- a lack of liquidity and/or insufficient capital (financial risk).

The viability assessment also considers the key emerging risks, including that:

- There continues to be significant uncertainty linked to the UK economic outlook, with inflationary pressures contributing towards a cost-of-living crisis, which combined with low economic growth presents risks to the strategic plan.
- UK political risks, in particular linked to the potential for a Scottish Independence referendum, could have wide-ranging impacts for the Group.
- Geo-political tensions, including the war in Ukraine, are creating volatility within domestic and global markets, leading to wide-ranging impacts affecting global trade, consumer confidence and financial crime.

Climate-related risks arising from physical risks and the transition to a low carbon economy continue to pose significant and complex risks. 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. Further information can be found in the Group's TCFD report on pages 231 to 262.

Planning and stress testing activity
As detailed in the Strategic report, the overall Group strategy which underpins the Group's financial, capital and funding plans remains unchanged.

The Group's process for creating financial forecasts considers these strategic objectives, the risks required to meet those objectives and the risk appetite limits in place. The Group's planning process involves consideration of an expanded economic scenario reflecting the volatility of the ever-changing macroeconomic environment. Detailed modelling is then completed for selected economic outcomes to form the projections for the financial plan and their associated impacts on the Group's capital ratios. Sensitivities are modelled around key risks and the Group's capital risk appetite gives measure to the impact of stress and downside scenarios in assessing the capacity to absorb capital shocks without threatening viability.

Macroeconomic uncertainties along with consideration of the principal and emerging risks to the Group are central to the development of all stress scenarios. Regulatory change remains under review and indicative capital impacts of emerging rules are assessed as sensitivities and tracked where material. Specific focus has also been given to exploring climate-related risks and impacts for future expansion in stress tests.

Strategic corporate plans, including detailed financial, capital and funding plans, are presented at the Group ALCO and ultimately reviewed and adopted at Board. All relevant plans are subject to functional Risk review and Internal Audit assessment where appropriate.

The Board use stress testing as a key risk management tool for gauging the strength of the Group's balance sheet, assessing the adequacy of its capital reserves and helping to better understand the resilience of strategic goals against adverse and unexpected outcomes. Stress testing is applied in multiple forms, some examples are discussed below.

Internal stress tests as part of ICAAP took place in April 2022. These scenarios considered the impacts of:

- An affordability stress whereby supply chain issues in the aftermath of the pandemic result in high inflation, increased interest rates, combined with severe HPI falls and contracted GDP.
- An income stress whereby a return to COVID-19 restrictions results in a GDP shock, with HPI and unemployment deteriorating.

The Group participated in the BoE Annual Concurrent Stress Test for the first time in 2021 through the SST, and the Group is currently taking part in the BoE's 2022 Annual Cyclical Scenario stress test.

Reverse Stress Testing (RST) is also a key component to the Group's wider stress testing framework. The key benefits include:

- Helping the Group to understand key risks and scenarios that may put business strategies and continuance as a 'going concern' at risk; and
- Providing management and regulators with qualitative information on the potential vulnerabilities faced by the business so that they can identify appropriate actions that should be taken to manage such risks.

The objective is to identify the scenarios that could threaten the viability of the business, and allow the business to build contingency plans to, where possible, prevent such events. RST scenarios can be drawn from a broad pool of lead factors and the Group's focus has included extreme pan-portfolio impairment increases and RWA inflation shocks in the Group's mortgage portfolio. Single-event operational risk scenarios have also been explored both in isolation and overlay.

The Group has a dedicated Recovery Planning team and a key element to the stress testing framework is the focus and link to recovery planning activity and the identification of potential management actions and scenarios which may be available to mitigate stress impacts across both capital and liquidity footings. The Group's Recovery Plan has an established matrix of internal and external Early Warning Indicators which are calibrated to flag potential stress triggers to allow a detailed evaluation of emerging capital or liquidity concerns. Ultimate assessment of recovery planning actions gives credit to both scale and timing factors in measuring potential effectiveness as a counter to discrete stress impacts.

Based on the current forecasts, while utilising the Group's stress testing framework, the results continue to support the Board's assessment of the Group's viability.

Assessment

The Group has a strong business model and robust financial position at 30 September 2022. Capital and liquidity metrics are forecast to remain above Board Risk Appetite and regulatory requirements. Internal stress testing indicates the Group can withstand severe economic and competitive stresses.

Based upon this assessment, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three years to 30 September 2025. There is no information contained within the outer years of the Group's financial forecasts which would cause the Directors to conclude that the Group would not remain viable in the longer term.

This assessment is further supported by the Directors' robust review and challenge of the outcomes of the 2021 Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), which assess the Group's future projections of capital adequacy, liquidity and funding.

Additional information relevant to this assessment can be found in the following sections of the Annual Report & Accounts:

- a financial summary, including a review of the latest income statement and balance sheet is provided in the financial results section pages 50 to 58;
- the Group's capital position is included in the balance sheet and prudential regulation risks section of the Risk report pages 201 to 221;
- the Group's liquidity position is described in the balance sheet and prudential regulation risks section of the Risk report pages 201 to 221;
- the Group's principal risks and policies and processes for managing those risks are described in the Risk report and summarised on pages 59 to 66;
- the Group's business model and strategy are described in the Strategic report pages 2 to 43; and
- the Group's approach to stress testing and reverse stress testing are described in the Risk report on page 164.

Research and development activities

The Group does not undertake formal research and development activities although it does invest in products and services in each of its business lines in the ordinary course of business.

Disclosure of information under Listing Rule 9.8.4R

Additional information required to be disclosed by Listing Rule 9.8.4R, where applicable to the Group, can be found in the following sections of this report:

Subject	Page reference
Publication of unaudited financial information	The disclosures within the Directors' remuneration report (pages 120 to 152), Risk report (pages 159 to 230), and the Additional information section (pages 331 to 363) are unaudited unless otherwise stated.
Allotment of equity securities	314
Significant contracts	330

Change of control

The Group is not party to any significant agreements that are subject to change of control provisions in the event of a takeover bid, other than the following:

- Clydesdale Bank PLC, a company within the Virgin Money UK PLC Group, is a shareholder, along with abrdn (formerly Aberdeen Asset Management PLC), in the JV Virgin Money Unit Trust Managers Limited (UTM). Where either shareholder (Clydesdale Bank PLC or abrdn) in the JV has a change of control event, the JV will terminate unless such change of control has prior approval of the other shareholder; and
- a Trade Mark Licence Agreement with Virgin under which Virgin has granted a licence to Virgin Money UK PLC to use the 'Virgin' and 'Virgin Money' trademarks. Virgin has the right to terminate the agreement within 30 days of a change of control of Virgin Money UK PLC unless it is a Permitted Change of Control. A Permitted Change of Control is one arising from (a) an IPO on a recognised stock exchange or (b) any other sale of shares of Virgin Money UK PLC which has been pre-approved by Virgin in writing. Virgin can withhold consent only in the event that the third-party purchaser is a direct competitor of Virgin or another Virgin licensee in the UK, or it is involved in any activity or possesses a reputation or financial standing which would be likely to materially damage the value or reputation of the Virgin brand.

Statement of Directors' responsibilities in respect of the Financial statements

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 Company financial statements in accordance with UK-adopted International Accounting Standards (IAS). 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 Company and of the profit or loss of the Group and the Company 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;
> make judgements and accounting estimates that are reasonable and prudent;
> 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 Company financial position and financial performance;
> in respect of the Group and Company financial statements, state whether UK adopted IASs have been followed, subject to any material departures disclosed and explained in the financial statements; and
> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company 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, Directors' report, Directors' remuneration report and Corporate governance statement 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 Company's website.

The Directors confirm that 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 Company and undertakings included in the consolidation taken as a whole;
> that the Annual Report including the Strategic report, includes a fair review of the development and performance of the business and the position of the Company 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, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Independent auditor and audit information

The Directors who were members of the Board at the time of approving the Report of the Directors are listed on pages 74 to 78. 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.

In accordance with section 485 of the Companies Act 2006, a resolution to reappoint Ernst & Young LLP, and to authorise the Audit Committee to agree their remuneration, will be proposed at the next AGM.

On behalf of the Board

Lorna McMillan
Group Company Secretary

20 November 2022

Virgin Money UK PLC. Registered No. 09595911

Risk report


What's in reach
£152,220
Here's how much you'll need to save
£7,300
£140
Adjust your plan
£7,300

Supporting customers and colleagues through change

Effective data driven risk management is critical to realising the Group's Digital-First strategy. Supported by our move to Agile ways of working, we ensure the Group has stable foundations to grow and delight our customers and colleagues. The safety and resilience of the Group is aligned to Our Purpose and is a fundamental requirement to enable our customers and stakeholders to be 'happier about money'.

Risk exists in everything we do, from day-to-day operational activities to strategic change initiatives. 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

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.

Personal accountability is at the heart of this and is enabled through the risk management accountability model, as well as the formal delegation framework. 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 statements and standards;
- the risk management operating model; and
- an articulation of risk appetite that aligns to, and supports, strategic objectives.

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.

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 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 report

Supporting customers and colleagues through change continued

Risk management framework

1 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;
- 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.

2 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 RAF 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 BRC. 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.

3 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.

Policy statements and supporting policy standards define the key risk management principles and minimum control requirements which must be observed across the Group to manage material sources of risk within risk appetite.

4 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.

5 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, 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.

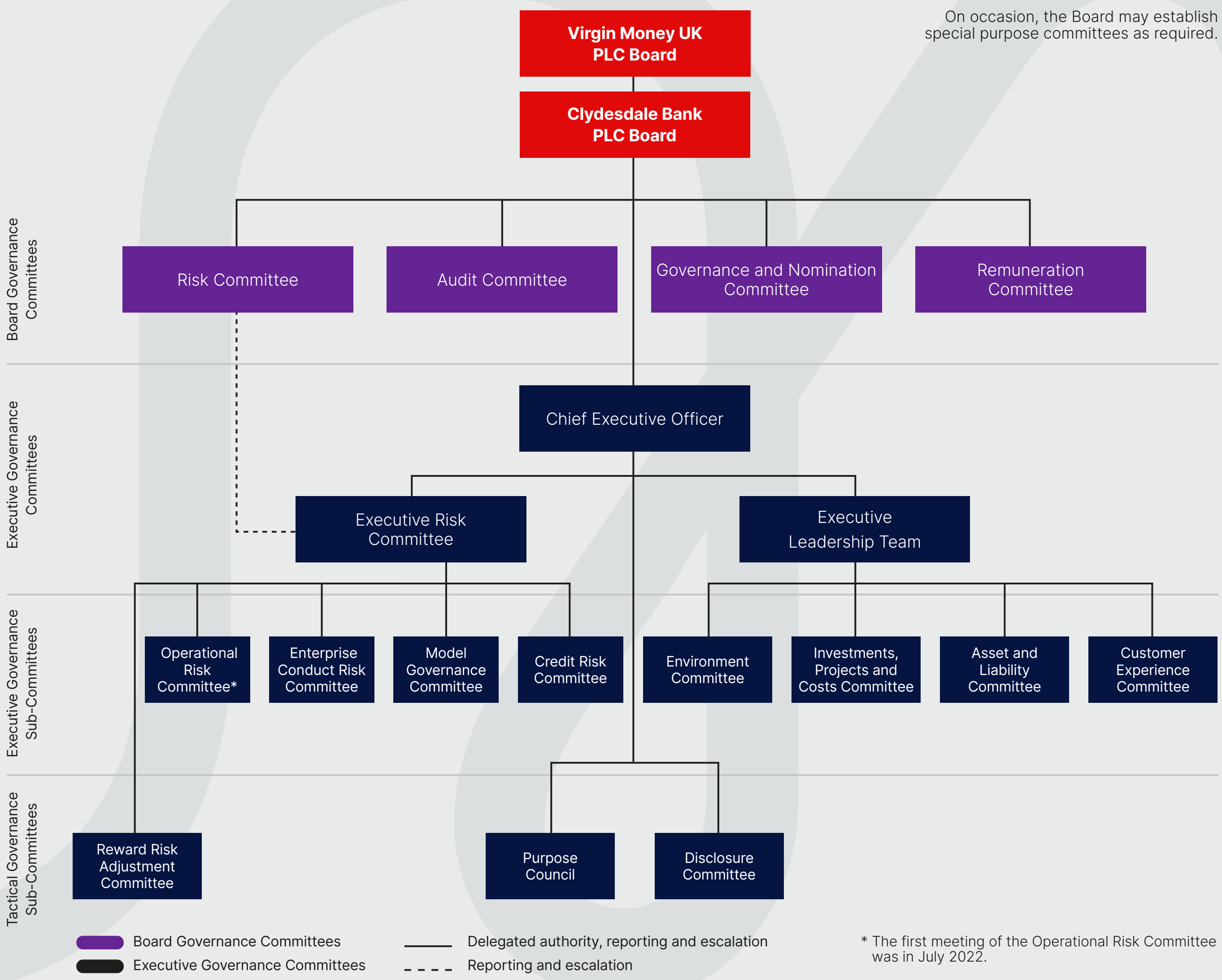
Supporting customers and colleagues through change continued

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.

Governance committee framework



Supporting customers and colleagues through change continued

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.
The Executive Risk Committee is supported by the following committees:	
Operational Risk Committee	The Operational Risk Committee is responsible for overseeing the management of risks relating to operational risk, operational resilience, business continuity, third parties, IT, information security, payments and people, and emerging risks. The Committee also supports key operational risk management processes, including risk acceptance, risk and control self-assessment (RCSA), and the control effectiveness statement (CES).
Enterprise Conduct Risk Committee	The Enterprise Conduct Risk Committee is responsible for overseeing the management of conduct risk across the Group (including third parties) and taking an enterprise perspective of conduct performance. The Committee also supports the Group in ensuring the right outcomes for customers and will report any material conduct themes or issues for action to the Executive Risk Committee.
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.
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 and to support opportunities for growth.
Model Governance Committee	The MGC 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:	
Investments, Projects and Costs Committee	The Investments, Projects and Costs Committee is responsible for overseeing the management of controllable costs across the Group while supporting its growth ambitions, aligned to risk appetite.
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 oversee 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.
Customer Experience Committee	The Customer Experience Committee oversee the delivery of the Customer Experience Strategy and the overall holistic customer experience agenda.

Risk report

Supporting customers and colleagues through change continued

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;
- 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 risk profile.

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

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 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 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 risks, the Board considered what procedures are in place to identify emerging risks and how they are being managed or mitigated.

Three lines of defence

3rd Line of Defence

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

2nd Line of Defence

Risk Management designs and owns the Risk Management Strategy, RAS and the Risk and Policy Management Frameworks monitoring and facilitating the implementation of risk management practices across the Group.

1st Line of Defence

Business Units take ownership, responsibility and accountability for directly identifying, assessing and mitigating risks and issues.

Risk classes

Credit risk continued

Credit risk

Risk classes

Credit risk continued

Risk classes

Credit risk continued

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 borrower or counterparty fails to pay the interest or capital due on a loan, or other financial instrument. 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 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 qualitative and 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 ongoing approval and monitoring of individual transactions, timely changes to application scorecards and credit strategies, 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 as it continued to recognise some of the delayed impacts of COVID 19, with updates to underwriting criteria to reflect the uncertain economic environment and emerging inflationary headwinds. The FY23 RAS continues to consider the impact of those inflationary headwinds and cost of living pressures, and is focussed on supporting customers through this challenging period. Climate risk is an increasingly important component of the broader RMF and we have recognised this risk through the inclusion of climate-related risk factors within the FY22 RAS. The framework has been updated to embed climate risk considerations across various aspects of customer lending and credit risk management practices. Further detail is provided in the TCFD report on pages 231 to 262.

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 169.

As highlighted on page 60 of the Strategic report, 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 192 to 195.

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 product, industry, geographic concentrations and delinquency trends, as well as considering layered risks where customers may have more than one higher risk characteristic.

There is regular analysis of borrower ability to meet interest and capital repayment obligations, with early support and mitigating steps taken where required. 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.

Risk classes

Credit risk continued

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. 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 standard applications within Board approved risk appetite limits. Included within these is the maximum percentage LTV limit that is 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.

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.

Significant credit risk strategies and policies are reviewed and approved annually by the Credit Risk Committee. For complex credit products and services, the Chief Credit Officer and Credit Risk Committee provide a policy framework that identifies, quantifies and mitigates risks. 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 reports provided for review by senior management.

Controls over rating systems
The Group has a Model Risk Oversight 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 into master netting arrangements with counterparties 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 includes the following:

Risk classes

Credit risk continued

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 confidence levels).

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 (within the Stage 3 Business balance of £376m, £106m is collateralised on property), (2021: Stage 3 Business balance of £235m, with £117m collateralised on property). 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:* The Credit Risk Committee ensures that the credit RMF and associated policies remain effective. The 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 CRR.
- *Portfolio Monitoring:* Continuous monitoring of the portfolio composition and performance is undertaken through weekly and 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 under IFRS 9:

Individually assessed

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. These will be classified as Stage 3.

Risk classes

Credit risk continued

Collectively assessed
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, and to calculate the level of ECL. This approach is supplemented by management judgement in the form of PMAs where necessary.

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:

Classification	ECL calculation period	Description
Stage 1	12 months	An exposure that is not credit-impaired on initial recognition and has not experienced a SICR since initial recognition.
Stage 2	Lifetime	An exposure that has experienced a SICR since initial recognition, but is not yet deemed to be credit impaired.
Stage 3	Lifetime	An exposure that is credit-impaired.

In addition, purchased or originated credit-impaired (POCI) financial assets are those that are assessed as being credit-impaired upon initial recognition. Once a financial asset is classified as POCI, it remains there until derecognition irrespective of any changes to its credit quality. POCI financial assets are included in Stage 3 with corresponding values disclosed by way of footnote to the relevant tables. The Group regards the date of acquisition as the origination date for purchased portfolios.

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.

The SICR criteria and triggers are parameters within the ECL calculation process and, as such, are considered under the same governance pathway as the Group's IFRS 9 models. This approach means that any changes to the triggers are initially submitted to and endorsed by the Credit Model Technical Forum, with formal approval provided by the MGC.

During the year, refinements were made to the SICR criteria within the Group's Business portfolio to more closely reflect the level of credit risk. On adoption of IFRS 9 from 1 October 2018, the Group had selected eCRS based SICR triggers as one of the tools for monitoring the credit risk on Business customers. The effectiveness of all triggers were reviewed during the year, including overlaps with other causes of stage migration, and the Group concluded that its hard triggers based on internal credit risk rating were ineffective when used in conjunction with the PD deterioration threshold. In addition, the threshold definition has been simplified and is now set at a 50% increase in the annualised PD since origination, subject to a 100bps floor in the movement. The overall impact of this refinement has resulted in more of the Business portfolio remaining in Stage 1 in the current year. As this change represents a revision to model parameters rather than a change of policy, comparatives have not been restated.

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 PMAs, the basis on which these are calculated and the proposed timeline for their release.

The Boards' Audit Committee provides oversight to the ECL calculation and measurement of ECL, 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 3.2 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 assessed on a forward-looking view, with a lifetime loss calculated where appropriate. Credit losses are supplemented by management judgements in the form of PMAs, 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 2023.

Cure periods
The Group aligns the regulatory cure periods for forborne exposures in its IFRS 9 staging criteria at a minimum period of either 24, or 36 months, depending on the forbearance programme utilised. Where exposures are classified as Stages 2 or 3 as a result of not being in a forbearance programme, these can cure when the relevant staging trigger is removed and no longer applicable.

Risk classes

Credit risk continued

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 £12.2bn (2021: £9.7bn) of cash and balances with central banks and £0.7bn (2021: £0.8bn) due from other banks at amortised cost, with a further £5.1bn (2021: £4.4bn) of financial assets at fair value through other comprehensive income (FVOCI). Additionally £11.0bn of cash is held with the BoE (2021: £8.3bn), and 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:

	2022			2021		
	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	**58,464**	**4,200**	**62,664**	58,441	2,845	61,286
Unsecured	**6,513**	**11,057**	**17,570**	5,770	10,507	16,277
Business	**8,169**	**4,102**	**12,271**	8,340	3,769	12,109
Total	**73,146**	**19,359**	**92,505**	72,551	17,121	89,672
Impairment provisions on credit exposures[1]	**(454)**	**(3)**	**(457)**	(496)	(8)	(504)
Fair value hedge adjustment	**(941)**	**–**	**(941)**	(179)	–	(179)
Maximum credit risk exposure on lending assets	**71,751**	**19,356**	**91,107**	71,876	17,113	88,989
Cash and balances with central banks			**12,221**			9,711
Financial instruments at FVOCI			**5,064**			4,352
Due from other banks			**656**			800
Other financial assets at fair value			**78**			153
Derivative financial assets			**342**			140
Maximum credit risk exposure on all financial assets[2]			**109,468**			104,145

(1) The total ECL provision covers both on and off-balance sheet exposures, which are reflected in notes 3.2 and 3.13 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)	2022 £m	2021 £m
Impairment charge/(credit) on credit exposures		
Mortgage lending	**(30)**	(44)
Unsecured lending	**178**	(32)
Business lending	**(96)**	(55)
Total Group impairment (credit)/charge	**52**	(131)
Underlying impairment (credit)/charge[1] to average customer loans (cost of risk)	**0.07%**	(0.18%)
Key asset quality ratios		
% Loans in Stage 2	**7.76%**	14.09%
Loans in Stage 3	**1.41%**	1.32%
Total book coverage[2]	**0.62%**	0.70%
Stage 2 coverage[2]	**4.72%**	3.02%
Stage 3 coverage[2]	**11.24%**	9.59%

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

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

The Group has continued to maintain a stable lending book, with gross lending to customers of £73.1bn at 30 September 2022 (2021: £72.6bn). While the Mortgage book remained relatively stable, a small 1.2% reduction in Business lending was more than offset by 12.9% growth in the Unsecured lending book, mainly driven by credit card growth of £0.9bn in FY22 despite having tightened underwriting criteria in the second half of the year in response to rising living costs.

Asset quality was robust in the period and most of the key asset quality ratios remained broadly stable. However, other significant economic and geopolitical factors have the potential to impact the short to medium term performance of the portfolio, with the most significant of these anticipated to be cost of living pressures. The Group continues to support customers through this challenging period, with a controlled risk appetite and focus on responsible lending decisions.

The selection of appropriate PMAs is a major component in determining the Group's ECL, with the following considered to be key factors for the Group's portfolio at that date:

- All PMAs relating to the COVID-19 pandemic, including the move of balances to Stage 2 for customers taking a payment holiday, have been fully released from Stages 1 and 2 as the risk of potential default within the portfolio is no longer considered to be directly attributable to specifically pandemic effects.
- Application of a £27m adjustment for the cost of living crisis and the impact it may have on customers' ability to absorb higher day-to-day costs within available finances. This adjustment impacts both the Mortgage (£6m) and Unsecured (£21m) portfolios and are held in Stage 1.
- Recognising that the Business portfolio continues to face an uncertain economic environment, with an economic resilience PMA of £30m being recognised and is primarily held in Stage 2.

As such, the Group has recorded a total impairment provision of £457m at 30 September 2022, reflecting a 9% reduction from £504m at 30 September 2021, and a corresponding reduction in coverage from 70bps to 62bps. Within this, the modelled and IA provision has increased to £372m (2021: £297m) driven by the updated macroeconomic inputs and growth in Unsecured lending. PMAs have reduced in the period to £85m (2021: £207m).

The net reduction in provision has been offset by the individually assessed impairment charge of £106m in the year (2021: £79m), resulting in a net charge to the income statement of £52m (2021: net credit of £131m), and an associated cost of risk of 7bps (2021: (18)bps).

Risk classes

Credit risk continued

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

	Mortgages		Unsecured						Business[2]		Total[4]	
			Cards		Loans and Overdrafts		Combined					
2022	£m	%	£m	%	£m	%	£m	%	£m	%	£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%**	**1,526**	**18.7%**	**5,725**	**7.8%**
Stage 2: 0 DPD	**2,763**	**4.7%**	**723**	**13.0%**	**327**	**34.3%**	**1,050**	**16.1%**	**1,499**	**18.4%**	**5,312**	**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%**	**8,169**	**100.0%**	**73,146**	**100.0%**
ECLs												
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%**	**–**	**0.0%**	**17**	**3.7%**
Stage 2: > 30 DPD	**2**	**3.6%**	**13**	**5.3%**	**2**	**5.3%**	**15**	**5.3%**	**–**	**0.0%**	**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%**

Risk classes

Credit risk continued

	Mortgages		Unsecured						Business[2]		Total[4]	
			Cards		Loans and Overdrafts		Combined					
2021	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1	50,596	86.6%	4,100	88.1%	1,048	94.0%	5,148	89.2%	5,672	68.0%	61,416	84.7%
Stage 2 – total	7,192	12.3%	497	10.7%	56	5.0%	553	9.6%	2,433	29.2%	10,178	14.0%
Stage 2: 0 DPD	6,918	11.9%	466	10.1%	46	4.2%	512	8.9%	2,390	28.7%	9,820	13.5%
Stage 2: < 30 DPD	128	0.2%	16	0.3%	5	0.4%	21	0.4%	25	0.3%	174	0.2%
Stage 2: > 30 DPD	146	0.2%	15	0.3%	5	0.4%	20	0.3%	18	0.2%	184	0.3%
Stage 3[3]	653	1.1%	58	1.2%	11	1.0%	69	1.2%	235	2.8%	957	1.3%
	58,441	100.0%	4,655	100.0%	1,115	100.0%	5,770	100.0%	8,340	100.0%	72,551	100.0%
ECLs												
Stage 1	4	4.6%	32	20.0%	9	26.5%	41	21.1%	66	29.6%	111	22.0%
Stage 2 – total	64	73.6%	99	61.9%	19	55.9%	118	60.9%	120	53.8%	302	59.9%
Stage 2: 0 DPD	61	70.2%	82	51.3%	13	38.2%	95	49.0%	120	53.8%	276	54.8%
Stage 2: < 30 DPD	1	1.1%	8	5.0%	2	5.9%	10	5.2%	–	–	11	2.1%
Stage 2: > 30 DPD	2	2.3%	9	5.6%	4	11.8%	13	6.7%	–	–	15	3.0%
Stage 3[3]	19	21.8%	29	18.1%	6	17.6%	35	18.0%	37	16.6%	91	18.1%
	87	100.0%	160	100.0%	34	100.0%	194	100.0%	223	100.0%	504	100.0%
Coverage												
Stage 1		0.01%		0.85%		1.13%		0.91%		1.35%		0.18%
Stage 2 – total		0.88%		22.12%		42.01%		23.92%		5.43%		3.02%
Stage 2: 0 DPD		0.87%		19.51%		33.66%		20.64%		5.48%		2.84%
Stage 2: < 30 DPD		0.85%		58.36%		52.88%		57.27%		1.51%		6.90%
Stage 2: > 30 DPD		1.36%		64.46%		99.65%		73.48%		2.85%		8.99%
Stage 3[3]		2.81%		54.13%		64.02%		55.65%		17.31%		9.59%
		0.15%		3.79%		3.86%		3.80%		3.06%		0.70%

(1) Excludes loans designated at 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 £56m for Mortgages and £1m for Unsecured (2021: £67m and £2m respectively); and ECL of (£1m) for Mortgages and (£2m) for Unsecured (2021: £Nil and (£2m) respectively).

(4) The COVID related PMAs held in 2021 were allocated across Stages 1 and 2 and have now been fully released. The cost of living PMAs are held in Stage 1 and the economic resilience PMA is primarily held in Stage 2.

Risk classes

Credit risk continued

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[3]	
2022	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD deterioration	**2,084**	**69%**	**401**	**52%**	**329**	**99%**	**730**	**66%**	**826**	**55%**	**3,640**	**64%**
Forbearance	**106**	**3%**	**9**	**1%**	**1**	**0%**	**10**	**1%**	**235**	**15%**	**351**	**6%**
AFD or Watch List[1]	**6**	**0%**	**–**	**0%**	**–**	**0%**	**–**	**0%**	**447**	**29%**	**453**	**8%**
> 30 DPD	**169**	**5%**	**24**	**3%**	**5**	**1%**	**29**	**3%**	**18**	**1%**	**216**	**4%**
Other[2]	**725**	**23%**	**340**	**44%**	**–**	**0%**	**340**	**30%**	**–**	**0%**	**1,065**	**18%**
	3,090	**100%**	**774**	**100%**	**335**	**100%**	**1,109**	**100%**	**1,526**	**100%**	**5,725**	**100%**
ECLs												
PD deterioration	**18**	**55%**	**73**	**47%**	**23**	**92%**	**96**	**53%**	**26**	**47%**	**140**	**53%**
Forbearance	**5**	**16%**	**3**	**2%**	**–**	**0%**	**3**	**2%**	**12**	**22%**	**20**	**7%**
AFD or Watch List[1]	**–**	**0%**	**–**	**0%**	**–**	**0%**	**–**	**0%**	**17**	**31%**	**17**	**6%**
> 30 DPD	**2**	**6%**	**13**	**8%**	**2**	**8%**	**15**	**8%**	**–**	**0%**	**17**	**6%**
Other[2]	**7**	**23%**	**67**	**43%**	**–**	**0%**	**67**	**37%**	**–**	**0%**	**74**	**28%**
	32	**100%**	**156**	**100%**	**25**	**100%**	**181**	**100%**	**55**	**100%**	**268**	**100%**

			Personal									
	Mortgages		Cards		Loans and Overdrafts		Combined		Business		Total[3]	
2021	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD deterioration	6,100	85%	300	60%	48	86%	348	63%	1,445	59%	7,893	78%
Forbearance	176	2%	11	2%	3	5%	14	3%	374	15%	564	6%
AFD or Watch List[1]	11	–	–	–	–	–	–	–	584	24%	595	6%
> 30 DPD	146	2%	15	3%	5	9%	20	4%	18	1%	184	2%
Other[2]	759	11%	171	35%	–	–	171	30%	12	1%	942	8%
	7,192	100%	497	100%	56	100%	553	100%	2,433	100%	10,178	100%
ECLs												
PD deterioration	43	67%	51	52%	14	74%	65	55%	52	43%	160	53%
Forbearance	4	6%	2	2%	1	5%	3	3%	24	20%	31	10%
AFD or Watch List[1]	–	–	–	–	–	–	–	–	32	27%	32	11%
> 30 DPD	2	3%	9	9%	4	21%	13	11%	–	–	15	5%
Other[2]	15	24%	37	37%	–	–	37	31%	12	10%	64	21%
	64	100%	99	100%	19	100%	118	100%	120	100%	302	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 includes high indebtedness, county court judgments and previous arrears, as well as a number of smaller value drivers.

(3) The COVID related PMAs held in 2021 allocated to Stage 2 have now been fully released. The economic resilience PMA is primarily held in Stage 2

Risk classes

Credit risk continued

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[2]	
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	0 – 0.74	**4,808**	**5**	**719**	**17**	**–**	**–**	**5,527**	**22**
Good	0.75 – 9.99	**1,455**	**7**	**751**	**31**	**–**	**–**	**2,206**	**38**
Satisfactory	10.00 – 99.99	**7**	**–**	**56**	**7**	**–**	**–**	**63**	**7**
Default	100	**–**	**–**	**–**	**–**	**373**	**50**	**373**	**50**
Total		**6,270**	**12**	**1,526**	**55**	**373**	**50**	**8,169**	**117**

Risk classes

Credit risk continued

2021		Stage 1 Lending £m	Stage 1 ECL £m	Stage 2 Lending £m	Stage 2 ECL £m	Stage 3[(1)] Lending £m	Stage 3[(1)] ECL £m	Total[(2)] Lending £m	Total[(2)] ECL £m
Mortgages	**PD range**								
Strong	0 – 0.74	46,984	3	4,555	19	–	–	51,539	22
Good	0.75 – 2.49	3,313	1	1,888	21	–	–	5,201	22
Satisfactory	2.50 – 99.99	299	–	749	24	–	–	1,048	24
Default	100	–	–	–	–	653	19	653	19
Total		50,596	4	7,192	64	653	19	58,441	87
Unsecured									
Strong	0 – 2.49	4,730	28	85	9	–	–	4,815	37
Good	2.50 – 9.99	411	12	325	54	–	–	736	66
Satisfactory	10.00 – 99.99	7	1	143	55	–	–	150	56
Default	100	–	–	–	–	69	35	69	35
Total		5,148	41	553	118	69	35	5,770	194
Business									
Strong	0 – 0.74	3,298	13	505	53	–	–	3,803	66
Good	0.75 – 9.99	2,374	53	1,823	40	–	–	4,197	93
Satisfactory	10.00 – 99.99	–	–	105	27	–	–	105	27
Default	100	–	–	–	–	235	37	235	37
Total		5,672	66	2,433	120	235	37	8,340	223

(1) Stage 3 includes POCI for gross loans and advances of £56m for Mortgages and £1m for Unsecured (2021: £67m and £2m respectively); and ECL of (£1m) for Mortgages and (£2m) for Unsecured (2021: £Nil and (£2m) respectively).

(2) The COVID related PMAs held in 2021 were allocated across Stages 1 and 2 and have now been fully released. The cost of living PMAs are held in Stage 1 and the economic resilience PMA is primarily held in Stage 2.

In terms of credit quality, 97% (2021: 97%) of the loan commitments and financial guarantee contracts were classed as either 'Good' or 'Strong' under the Group's internal PD rating scale.

Risk classes

Credit risk continued

Movement in gross lending balances and impairment loss allowance (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]			
2022	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions[4] £m
Opening balance at 1 October 2021	**61,416**	**111**	**10,178**	**302**	**957**	**91**	**72,551**	**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)**
Recoveries	**–**	**–**	**–**	**–**	**–**	**30**	**–**	**30**
Individually assessed impairment charge	**–**	**–**	**–**	**–**	**–**	**107**	**–**	**107**
Closing balance at 30 September 2022	**66,385**	**85**	**5,725**	**268**	**1,036**	**104**	**73,146**	**457**

	Stage 1		Stage 2		Stage 3[1]			
2021	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions[4] £m
Opening balance at 1 October 2020	59,219	136	12,844	465	862	134	72,925	735
Transfers from Stage 1 to Stage 2	(11,131)	(62)	11,076	389	–	–	(55)	327
Transfers from Stage 2 to Stage 1	10,397	58	(10,484)	(284)	–	–	(87)	(226)
Transfers to Stage 3	(115)	(1)	(623)	(91)	734	108	(4)	16
Transfers from Stage 3	33	–	217	23	(253)	(25)	(3)	(2)
Changes to model methodology	–	–	–	–	–	–	–	–
New assets originated or purchased[2]	19,276	206	1,621	158	132	22	21,029	386
Repayments and other movements[3]	(2,955)	(59)	(933)	(140)	(16)	(72)	(3,904)	(271)
Repaid or derecognised[3]	(13,308)	(167)	(3,540)	(218)	(376)	(55)	(17,224)	(440)
Write-offs	–	–	–	–	(126)	(126)	(126)	(126)
Recoveries	–	–	–	–	–	26	–	26
Individually assessed impairment charge	–	–	–	–	–	79	–	79
Closing balance at 30 September 2021	61,416	111	10,178	302	957	91	72,551	504

(1) Stage 3 includes POCI for gross loans and advances of £56m for Mortgages and £1m for Unsecured (2021: £67m and £2m respectively), and ECL of (£1m) for Mortgages and (£2m) for Unsecured (2021: £Nil 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.

(4) The COVID related PMAs held in 2021 were allocated across Stages 1 and 2 and have now been fully released. The cost of living PMAs are held in Stage 1 and the economic resilience PMA is primarily held in Stage 2.

Risk classes

Credit risk continued

In addition to the above on-balance sheet position, the Group also has £19,359m of loan commitments and financial guarantee contracts (2021: £17,121m) of which £18,454m (95.3%) are held under Stage 1, £865m in Stage 2 and £40m in Stage 3 (2021: £16,001m (93.5%) held under Stage 1, £1,090m in Stage 2 and £30m in Stage 3). ECLs of £3m (2021: £8m) are included in the table above, of which £1m (2021: £2m) is held under Stage 1 and £2m (2021: £6m) under Stage 2.

Against the backdrop of a deteriorating UK economy, credit quality has remained solid throughout the year, with the overall portfolio performing well and no significant individually assessed provisions raised.

During the second half of 2022, refinements to the staging criteria in the Business portfolio were implemented to further enhance the calculation and align it more closely to the underlying level of credit risk inherent within the Business portfolio. The impact moved c. £443m of loans from Stage 2 to Stage 1, leading to a modelled ECL release of c. £7m, and an approx. 22% reduction in the balance of business loans in Stage 2.

The contractual amount outstanding on loans and advances that were written off during the reporting period, or still subject to enforcement activity was £4.3m (2021: £2.6m). The Group has not purchased any lending assets in the year (2021: 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)

2022	Gross lending £m	Modelled & IA ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage %	Average LTV %
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%**
2021							
Residential – capital repayment	35,192	19	21	40	35,152	0.10%	57.2%
Residential – interest only	8,341	6	2	8	8,333	0.10%	47.2%
BTL	14,908	8	31	39	14,869	0.24%	54.8%
Total Mortgage portfolio	58,441	33	54	87	58,354	0.15%	55.3%

Mortgage lending has remained flat on a net basis at £58.5bn (2021: £58.4bn) as the Group continued to prioritise margin in an increasingly competitive environment.

The portfolio continues to evidence solid underlying credit performance, with the majority (98%) of lending not yet past due at the balance sheet date (2021: 98%), and 94% of loans held in Stage 1 (2021: 87%). The successful return to normal payment patterns of customers taking advantage of COVID-19 payment holiday arrangements last year, drove the migration in balances from Stage 2 to Stage 1. A significant proportion of the portfolio is rated Strong at the balance sheet date (92% compared to 88% at 30 September 2021), and the volume and value of loans in forbearance has reduced to 4,636/£640m from 6,743/£830m, 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% (2021: 1.1%) and 93% of the portfolio has an LTV of less than 75% (2021: 87%), with the weighted average LTV further reducing in the year to 52.7% (2021: 55.3%). All of these key metrics evidence a high quality mortgage portfolio, with relatively low risk of default, driven by sound lending decisions and underwriting criteria. Further detail on LTV bandings and forbearance measures is provided on the following pages.

The stability in the Mortgage portfolio metrics together with the improvement in the economic assumptions, such as house prices, have contributed to a release of £9m in the modelled ECL, taking the total modelled and IA ECL provision to £22m (2021: £33m). Total PMAs have similarly reduced in the period, as detailed below, from £54m to £34m. The total Mortgage portfolio impairment provision is £56m (2021: £87m).

Risk classes

Credit risk continued

The Group had previously introduced a PMA for payment holidays in 2020 at the outset of the COVID-19 pandemic; this PMA, which was £22m at 30 September 2021, has now been fully released as customers have successfully exited payment holiday arrangements and returned to normal repayment patterns. Due to the uncertain macroeconomic environment, however, a new PMA of £6m has been introduced in response to the cost of living crisis, to reflect the potential impact on debt affordability from rising base rates and other inflationary impacts. The PMA reflects the potential impact on ECL in the event of a monthly payment shock to household finances, applied to customers in Stage 1 that are not currently, or otherwise showing signs of financial difficulty.

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 PMA held broadly stable at £25m (2021: £28m). Other small PMAs totalling £4m (2021: £4m) have been retained, taking total PMA's held to £34m, down from £54m at 30 September 2021.

The release of modelled provisions and PMAs has resulted in an impairment credit of £30m in the income statement (2021: credit of £44m) and associated cost of risk of (4)bps (2021: (7)bps). While the total book coverage has reduced in the year to 9bps, it remains higher than the pre-pandemic level of 7bps.

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)

2022	Stage 1			Stage 2			Stage 3[2]			Total[3]		
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**

2021	Stage 1			Stage 2			Stage 3[2]			Total[3]		
LTV[1]	Loans £m	%	ECL £m	Loans £m	%	ECL £m	Loans £m	%	ECL £m	Loans £m	%	ECL £m
Less than 50%	19,907	39%	1	2,268	32%	6	274	41%	2	22,449	38%	9
50% to 75%	24,383	49%	1	3,648	51%	37	256	39%	3	28,287	49%	41
76% to 80%	3,123	6%	1	729	10%	9	49	8%	1	3,901	7%	11
81% to 85%	2,346	5%	1	426	6%	6	30	5%	1	2,802	5%	8
86% to 90%	715	1%	–	102	1%	3	17	3%	1	834	1%	4
91% to 95%	79	–	–	7	–	–	8	1%	1	94	–	1
96% to 100%	8	–	–	2	–	–	5	1%	–	15	–	–
Greater than 100%	35	–	–	10	–	3	14	2%	10	59	–	13
	50,596	100%	4	7,192	100%	64	653	100%	19	58,441	100%	87

(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 £56m (2021: £67m) of POCI gross loans and advances and (£1m) ECL (2021: £Nil).

(3) The payment holiday PMA held in 2021 was allocated to Stage 2 and has now been fully released. The cost of living PMA is held in Stage 1.

The Mortgage portfolio remains highly secured with 92.3% of mortgages, by loan value, having an indexed LTV of less than 75% (2021: 86.8%), and an average portfolio LTV of 52.7% (2021: 55.3%). New lending has increased the value of loans in Stage 1 with an LTV between 91% to 95%.

Risk classes

Credit risk continued

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 longer-term 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 in order 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 considered to be 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	
2022	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
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%**
2021					
Formal arrangements	1,115	133	0.23	4.9	3.66
Temporary arrangements	675	100	0.17	6.8	6.81
Payment arrangement	1,865	176	0.30	2.3	1.30
Payment holiday	1,436	123	0.21	0.5	0.41
Interest only conversion	1,390	273	0.47	1.3	0.47
Term extension	127	12	0.02	0.1	0.57
Other	19	2	0.01	–	0.68
Legal	116	11	0.02	0.3	3.09
Total mortgage forbearance	6,743	830	1.43	16.2	1.95

As at 30 September 2022, forbearance totalled £640m (4,636 customers), a decrease from the 30 September 2021 position of £830m (6,743 customers). This level represents 1.10% of total mortgage balances (2021: 1.43%), 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 2022, there were 73 repossessions of which 7 were voluntary (2021: 33 including 13 voluntary). The number of repossessions has increased as court proceedings resume following the suspension during the COVID-19 pandemic. The Group remains committed to supporting the customer, and places the right outcome for them at the centre of this strategy.

Risk classes

Credit risk continued

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 are presented in the tables below.

2022	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[1] Gross loans £m	Stage 3[1] ECL £m	Total gross loans £m	Total provisions[4] £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)**
Recoveries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Individually assessed impairment charge	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Closing balance at 30 September 2022	**54,791**	**10**	**3,090**	**32**	**583**	**14**	**58,464**	**56**

2021	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[1] Gross loans £m	Stage 3[1] ECL £m	Total gross loans £m	Total provisions[4] £m
Opening balance at 1 October 2020	49,970	14	8,166	95	516	22	58,652	131
Transfers from Stage 1 to Stage 2	(8,172)	(4)	8,140	113	–	–	(32)	109
Transfers from Stage 2 to Stage 1	7,479	5	(7,522)	(101)	–	–	(43)	(96)
Transfers to Stage 3	(64)	–	(367)	(9)	429	7	(2)	(2)
Transfers from Stage 3	24	–	108	13	(137)	(4)	(5)	9
Changes to model methodology	–	–	–	–	–	–	–	–
New assets originated or purchased[2]	9,662	2	76	2	2	–	9,740	4
Repayments and other movements[3]	(2,141)	(11)	(405)	(36)	(38)	(3)	(2,584)	(50)
Repaid or derecognised[3]	(6,162)	(2)	(1,004)	(13)	(118)	(2)	(7,284)	(17)
Write-offs	–	–	–	–	(1)	(1)	(1)	(1)
Recoveries	–	–	–	–	–	1	–	1
Individually assessed impairment charge	–	–	–	–	–	(1)	–	(1)
Closing balance at 30 September 2021	50,596	4	7,192	64	653	19	58,441	87

(1) Stage 3 includes POCI for gross loans and advances of £56m (2021: £67m) and ECL of (£1m) (2021: £Nil).

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

(3) 'Repayments' comprises payments made on customer lending that 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.

(4) The payment holiday PMA held in 2021 was allocated to Stage 2 and has now been fully released. The cost of living PMA is held in Stage 1.

Risk classes

Credit risk continued

Despite economic uncertainty, the Mortgage portfolio continues to evidence strong performance and has benefited from positive house price movements. Coupled with the successful exit from payment holiday arrangements for those customers that took advantage of those measures during the pandemic, there has been a shift in balances from Stage 2 to Stage 1. The level of mortgage lending classed as Stage 1 increased from 86.6% in 2021 to 93.7%, with a corresponding decrease of assets in Stage 2 from 12.3% to 5.3%. Within the Stage 2 category, 4.7% of balances are not yet past due at the balance sheet date (2021: 11.9%), but falls within the Stage 2 classification predominantly due to PD deterioration. The proportion of mortgages classified as Stage 3 remains modest at 1.0% (2021: 1.1%).

These conditions have also contributed to an increase in assets classed as 'Strong' from 88% at 30 September 2021 to 92.4% at 30 September 2022, with over 97% (2021: 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 lower level of provision coverage.

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)

2022	Gross lending £m	Modelled ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage %
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%**
2021						
Credit cards	4,655	142	18	160	4,495	3.79%
Personal loans	1,082	14	17	31	1,051	3.57%
Overdrafts	33	3	–	3	30	11.14%
Total Unsecured lending portfolio	5,770	159	35	194	5,576	3.80%

Unsecured gross lending balances increased to £6.5bn (2021: £5.8bn) predominantly due to growth in credit card portfolio, while the personal loan portfolio continued to contract. The credit quality of the Unsecured portfolio remains high overall, with 97.9% of the portfolio in Stage 1 or Stage 2 not past due (2021: 98.1%) and a 1.2% in Stage 3 (2021: 1.2%). The level of customers in forbearance similarly remains low at 1.12% of the portfolio (2021: 1.30%).

Credit cards

Growth in the number of credit card accounts in the year of 20% has driven an increase in the lending balance of £0.9bn (21%). Average balances have remained fairly static throughout the year, as has the average level of facility utilisation. The credit quality of the cards portfolio remains high with 97.8% (2021: 98.2%) in stage 1 and stage 2 not past due, and a modest 1.3% in Stage 3 (2021: 1.2%).

While there has been minimal evidence of a deterioration in credit quality across the portfolio, as evidenced by these key metrics, the downturn in the broader UK economy has been reflected through the economic scenarios, resulting in an increase of £74m in the modelled ECL. Coverage of 481bps is consequently up 102bps from FY21, and is 139bps higher than pre-pandemic levels of 342bps.

The payment holiday PMAs introduced in response to COVID-19, which amounted to £4m for the cards book at 30 September 2021, have now been fully released. A new PMA has been established for cost-of-living shocks that are not yet fully observed and incorporated in the modelled ECL. This has been applied to a cohort of credit card customers who are susceptible to a payment shock, and has resulted in a £20m PMA. This has been allocated to Stage 1. A small number of previously held PMAs totalling £10m (2021: £14m) have also been retained.

Risk classes

Credit risk continued

Personal loans

While the personal loan portfolio represents only a small portion of our Unsecured and total Group portfolio, staging has shifted during the year with a reduction in Stage 1 balances from 94.0% to 64.1%, and a corresponding increase in Stage 2 not past due balances from 5.0% to 35.1%. This movement has had an impact on the staging profile for the whole Unsecured portfolio. This movement relates to personal lending made via the Group's JV arrangement with Salary Finance which has a cohort of customers who can be more susceptible to being impacted earlier, and harder, by cost of living shocks. During the year, the JV experienced an increased number of customers not maintaining scheduled loan repayments. Consequently, the Group has assessed the credit risk for this specific cohort of customers, and has now classified all lending with the JV (£318m) in Stage 2 (2021: £223m within Stage 1), together with an associated ECL of £19m (2021: £Nil).

Loan payment holiday PMAs, which were £8m at 30 September 2021, were fully released in the year. A new PMA of £1m has been established for cost-of-living shocks. Other PMAs have fallen from £9m in the prior year to £1m at the balance sheet date.

Taking the modelled provisions and PMAs together for the full Unsecured portfolio, the total ECL provision increased to £284m at 30 September 2022 (2021: £194m), resulting in a charge to the income statement in the year of £178m (2021: credit of £32m) and an increase in coverage ratio of 86bps to 466bps (2021: 380bps).

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	
2022	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Credit card arrangements	**15,872**	**62**	**1.19%**	**24.3**	**39.47%**
Personal loan arrangements	**638**	**3**	**0.56%**	**1.4**	**40.33%**
Overdraft arrangements	**56**	**–**	**0.04%**	**–**	**30.76%**
Total Unsecured lending forbearance	**16,566**	**65**	**1.12%**	**25.7**	**39.51%**
2021					
Credit card arrangements	14,151	60	1.39%	23.9	39.88%
Personal loan arrangements	1,174	6	0.78%	3.3	49.61%
Overdraft arrangements	280	1	2.55%	0.4	51.89%
Total Unsecured lending forbearance	15,605	67	1.30%	27.6	40.98%

At 30 September 2022, credit cards forbearance totalled £62m (15,872 accounts), an increase from the 30 September 2021 position of £60m (14,151 accounts). This represents 1.19% of total credit cards balances (2021: 1.39%). The level of impairment coverage on forborne credit cards is stable at 39.5% (2021: 39.9%). Limited forbearance is exercised in relation to personal loans and overdrafts, with a reduction to £3m (0.54%) in the personal loans and overdrafts portfolio from £7m (0.85%) at 30 September 2021.

Risk classes

Credit risk continued

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]			
2022	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions[4] £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)**
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**

	Stage 1		Stage 2		Stage 3[1]			
2021	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions[4] £m
Opening balance at 1 October 2020	4,660	70	823	194	67	37	5,550	301
Transfers from Stage 1 to Stage 2	(954)	(32)	951	209	–	–	(3)	177
Transfers from Stage 2 to Stage 1	859	21	(890)	(113)	–	–	(31)	(92)
Transfers to Stage 3	(19)	(1)	(100)	(68)	119	80	–	11
Transfers from Stage 3	2	–	3	2	(5)	(5)	–	(3)
Changes to model methodology	–	–	–	–	–	–	–	–
New assets originated or purchased[2]	1,319	17	38	6	1	–	1,358	23
Repayments and other movements[3]	(493)	(28)	(217)	(98)	15	(52)	(695)	(178)
Repaid or derecognised[3]	(226)	(6)	(55)	(14)	(29)	(25)	(310)	(45)
Write-offs	–	–	–	–	(99)	(99)	(99)	(99)
Recoveries	–	–	–	–	–	24	–	24
Individually assessed impairment charge	–	–	–	–	–	75	–	75
Closing balance at 30 September 2021	5,148	41	553	118	69	35	5,770	194

(1) Stage 3 includes POCI for gross loans and advances of £1m (2021: £2m) and ECL of (£2m) (2021: (£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.

(4) The payment holiday PMA held in 2021 was allocated to Stage 2 and has now been fully released. The cost of living PMA is held in Stage 1.

Risk classes

Credit risk continued

The balance of unsecured lending in Stage 2 increased by 7.4% to 17.0% (2021: 9.6%), driven primarily by the observed deterioration of the Salary Finance lending. Of the Stage 2 category, 16.1% is not yet past due at the balance sheet date, but falls into the Stage 2 classification predominantly due to PD deterioration.

There has been a corresponding reduction in Stage 1 from 89.1% to 81.7%, while Stage 3 remains stable at 1.2% (2021: 1.2%).

Business credit performance

The table below presents key information on 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)

2022	Gross lending £m	Government[1] £m	Total gross £m	Modelled & IA ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage[2] %
Agriculture	**1,392**	**66**	**1,458**	**5**	**1**	**6**	**1,452**	**0.45%**
Business services	**980**	**286**	**1,266**	**22**	**4**	**26**	**1,240**	**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	**330**	**128**	**458**	**7**	**1**	**8**	**450**	**2.51%**
Transport and storage	**291**	**56**	**347**	**4**	**1**	**5**	**342**	**1.44%**
Other	**1,089**	**262**	**1,351**	**20**	**4**	**24**	**1,327**	**2.11%**
Total Business portfolio	**7,112**	**1,057**	**8,169**	**99**	**18**	**117**	**8,052**	**1.59%**
2021								
Agriculture	1,361	80	1,441	7	5	12	1,429	0.89%
Business services	943	337	1,280	21	27	48	1,232	4.82%
Commercial Real Estate	667	13	680	4	3	7	673	1.00%
Government, health and education	1,031	73	1,104	7	10	17	1,087	1.62%
Hospitality	563	105	668	6	7	13	655	2.29%
Manufacturing	556	144	700	22	21	43	657	6.93%
Resources	95	8	103	3	4	7	96	6.85%
Retail and wholesale trade	623	248	871	14	14	28	843	4.13%
Transport and storage	300	80	380	4	4	8	372	2.50%
Other	883	230	1,113	17	23	40	1,073	4.42%
Total Business portfolio	7,022	1,318	8,340	105	118	223	8,117	3.06%

(1) Government includes all lending provided to business customers under UK Government schemes including Bounce back loan scheme, Coronavirus business interruption loan scheme, Coronavirus large business interruption loan scheme and Recovery loan scheme (RLS). This excludes £66m (2021: £Nil) of guarantee claim funds received from British Business Bank.

(2) Coverage ratio excludes the guaranteed element of government-backed loan schemes.

Risk classes

Credit risk continued

Gross Business lending reduced to £8.1bn (2021: £8.3bn) driven by reductions in government-guaranteed lending schemes as borrowers continued to repay balances, which more than offset underlying portfolio growth in the year. Excluding the government lending, core lending balances grew slightly as business activity, which had been generally subdued during the pandemic, grew in line with broader economic activity and improved business confidence. Growth is targeted to sectors and sub sectors where the Group has a well established expertise. Book mix remained fairly constant year on year as sector focused strategy was maintained, 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% in both years.

Business lending credit performance remained resilient, with balances in Stage 1 and Stage 2 not past due representing 95.1% of the portfolio (2021: 96.7%). The percentage of loans in Stage 1 increased to 76.8% (2021: 68.0%) largely due to changes applied to the SICR criteria (outlined on page 196) which resulted in these customers migrating back to Stage 1. Across the portfolio 95% of lending was rated 'Strong' or 'Good' (2021: 96%). The previous Government interventions, including the ongoing loan schemes, continue to result in fewer customers entering forbearance; low levels were maintained with only 5.16% of the total portfolio being forborne at 30 September 2022 (2021: 5.82%).

Notwithstanding the strength of the portfolio, ongoing economic and political upheaval creates uncertainty over the potential for default occurring in the future. Key asset quality metrics continue to be monitored closely and a cautious approach to provisioning is being maintained. Stage 3 loans have increased to 4.6% driven primarily by bounce back loans (2021: 2.8%).

Despite these uncertainties, the refreshed macroeconomic scenarios have resulted in a small reduction of £6m in the modelled and IA provisions to £99m. At 30 September 2021, the Group recognised PMAs for sector stress (£80m) and PD neutralisation (£34m) together with other minor factors (£4m); each of these PMAs has been reviewed in the current year. While the removal of all COVID-19 restrictions is seen as a move away from the downside impact of the pandemic and is a rationale for a reduction in some sector stress, more recent geopolitical events in Ukraine and the cost of living crisis in the UK contribute to ongoing uncertainty over the impact that these broader economic conditions could have on UK businesses.

The models used to estimate ECL have been built and tested on the past two recessions, neither of which included the combination of historically high price inflation nor the significant shock to primary commodities and energy which are leading to economic stagnation at a time of modest interest rates and unemployment. Therefore, a new economic resilience PMA of £30m has been introduced. A small negative PMA of £12m is also held pending introduction of the Business LGD model which will be implemented in the coming year and other technical adjustments.

The above results in an overall provision of £117m (2021: £223m) and an impairment credit in the income statement of £96m for the year (2021: credit of £55m). Portfolio coverage has reduced to 159bps (2021: 306bps), 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 shall be treated as forborne.

Risk classes

Credit risk continued

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	
2022	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Term extension	**154**	**118**	**1.36%**	**4.9**	**4.18%**
Payment holiday(1)	**81**	**193**	**2.23%**	**32.6**	**16.86%**
Reduction in contracted interest rate	**2**	**1**	**0.01%**	**0.0**	**1.33%**
Alternative forms of payment	**0**	**0**	**0.00%**	**0.0**	**0.00%**
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%**
2021					
Term extension	188	196	2.27%	10.2	5.19%
Payment holiday(1)	86	130	1.51%	17.6	13.48%
Reduction in contracted interest rate	1	1	0.01%	–	0.02%
Alternative forms of payment	1	13	0.15%	5.6	43.14%
Debt forgiveness	2	4	0.04%	–	0.67%
Refinancing	10	3	0.04%	0.2	7.21%
Covenant breach/reset/waiver	44	155	1.80%	8.2	5.27%
Total Business forbearance	332	502	5.82%	41.8	8.31%

(1) In the prior year, payment holidays granted in line with regulation were not classified as forbearance due to the extenuating circumstances arising from COVID-19. The standard approach of classifying payment holidays as forbearance resumed in August 2021.

Business portfolio forbearance has reduced from £502m (332 customers) at 30 September 2021 to £448m (289 customers) at 30 September 2022. Forbearance remains an important metric, reflecting the volume and value of concessions granted to customers on a non-commercial basis. Changes to forbearance levels reflect the proportion of business customers requiring support on non-standard terms and evidencing financial difficulty. As a percentage of the Business portfolio, forborne balances have reduced to 5.16% (2021: 5.82%) with impairment coverage slightly increasing to 9.71% (2021: 8.31%). Most forbearance arrangements relate to term extensions allowing customers a longer term to repay obligations in full than initially contracted.

Customers within the forbearance portfolio have received £26m of COVID-19 related support loans: £13m CBIL, £4m BBL and £9m RLS.

The table includes a portfolio of financial assets at fair value. The gross value of fair value loans subject to forbearance as at 30 September 2022 is £4.7m (2021: £5.3m), representing 0.05% of the total business portfolio (2021: 0.06%). The credit risk adjustment on these amounts totalled £0.1m (2021: £0.1m). Coverage is 2.99% (2021: 2.32%).

Risk classes

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 in the current and prior year are presented in the tables below.

	Stage 1		Stage 2		Stage 3[3]			
2022	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions[4] £m
Opening balance at 1 October 2021	**5,672**	**66**	**2,433**	**120**	**235**	**37**	**8,340**	**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)**
Recoveries	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**4**
Individually assessed impairment charge	**–**	**–**	**–**	**–**	**–**	**19**	**–**	**19**
Closing balance at 30 September 2022	**6,270**	**12**	**1,526**	**55**	**373**	**50**	**8,169**	**117**

	Stage 1		Stage 2		Stage 3			
2021	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions[4] £m
Opening balance at 1 October 2020	4,589	52	3,855	176	279	75	8,723	303
Transfers from Stage 1 to Stage 2	(2,005)	(26)	1,985	67	–	–	(20)	41
Transfers from Stage 2 to Stage 1	2,059	32	(2,072)	(70)	–	–	(13)	(38)
Transfers to Stage 3	(32)	–	(156)	(14)	186	21	(2)	7
Transfers from Stage 3	7	–	106	8	(111)	(16)	2	(8)
Changes to model methodology	–	–	–	–	–	–	–	–
New assets originated or purchased[1]	8,295	187	1,507	150	129	22	9,931	359
Repayments and other movements[2]	(321)	(20)	(311)	(6)	7	(17)	(625)	(43)
Repaid or derecognised[2]	(6,920)	(159)	(2,481)	(191)	(229)	(28)	(9,630)	(378)
Write-offs	–	–	–	–	(26)	(26)	(26)	(26)
Recoveries	–	–	–	–	–	1	–	1
Individually assessed impairment charge	–	–	–	–	–	5	–	5
Closing balance at 30 September 2021	5,672	66	2,433	120	235	37	8,340	223

(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 £66m (2021: £Nil) of guarantee claim funds received from British Business Bank.

(4) The COVID related PMAs held in 2021 were allocated across Stages 1 and 2 and have now been fully released, the remaining Business PMAs are predominantly held in Stage 2.

Risk classes

Credit risk continued

The level of Business lending classed as Stage 1 has increased to 76.8% (2021: 68.0%), with a corresponding decrease of 10.5% in Stage 2 to 18.7% (2021: 29.2%), primarily driven by the revisions to the SICR triggers.

The majority (98%) of the portfolio in Stage 2 is not past due and is primarily in Stage 2 due to PD deterioration, in addition to proactive management measures such as early intervention, heightened monitoring and forbearance concessions. Stage 3 loans have increased to 4.6% driven primarily by bounce back loans (2021: 2.8%).

The proportion of assets classed as 'Strong' has increased to 68% (2021: 46%), with assets classed as 'Strong' or 'Good' now 95% (2021: 96%).

Other credit risks

Non-property related collateral (audited)

The following table shows the total non-property collateral held at 30 September 2022 in terms of cash, guarantees (guarantees are predominantly in relation to government-backed COVID-19 loans) and netting. The exposure amount shown below is the total gross exposure (net of credit provisions) for arrangements that have some form of associated collateral and is not the total exposure for each asset class, as this balance is disclosed elsewhere in this section.

2022	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								
Business	**7**	**970**	**237**	**–**	**464**	**501**	**2,179**	**2,397**
Cash and balances with central banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Due from other banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**7**	**970**	**237**	**–**	**464**	**501**	**2,179**	**2,397**
Of which: Stage 3								
Loans and advances to customers								
Business	**–**	**127**	**–**	**–**	**1**	**11**	**139**	**140**

2021	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								
Business	9	1,235	202	–	442	507	2,395	2,621
Cash and balances with central banks	5,894	–	–	–	–	–	5,894	8,093
Due from other banks	–	–	–	287	–	–	287	331
Total	5,903	1,235	202	287	442	507	8,576	11,045
Of which: Stage 3								
Loans and advances to customers								
Business	–	34	–	–	4	9	47	46

Risk classes

Credit risk continued

The removal of cash collateral reflected within central governments or central banks is due to a change in reporting following CRR II implementation, where the Term Funding Scheme is now reported under CCR rules. The debt securities collateral previously reported within due from other banks was in relation to a sale and repurchase agreement (repo) which is no longer held by the Group.

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

Following PRA approval in 2020, the Group moved to recognise asset finance and invoice finance collateral, being other physical collateral and receivables respectively, as eligible collateral from a credit risk mitigation perspective in relation to the foundation internal ratings based (FIRB) approach.

Corporates is the largest sector utilising other risk mitigation techniques, with all five methods utilised dependent on credit quality. The extent to which these will be used is dependent on the specific circumstances of the customer.

The Group is exposed to credit risk on its other banking and Treasury-related activities, which are subject to mitigation and monitoring. No material ECL provisions are held for these exposures.

Offsetting of financial assets and liabilities

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 3.6 to the financial statements. The amounts offset on the balance sheet, as shown below, represent derivatives and variation margin collateral with central clearing houses, which meet the criteria for offsetting under IAS 32. The table excludes financial instruments not subject to offset and that are formally subject to collateral arrangements (e.g. loans and advances).

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.

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.

				Net amounts not offset on balance sheet		
2022	Gross amounts £m	Gross amounts offset on balance sheet[1] £m	Net amounts presented on balance sheet £m	Subject to master netting agreements £m	Cash collateral pledged/received[2] £m	Net amount [3] £m
Assets						
Derivative financial instruments[4]	**3,340**	**(2,998)**	**342**	**(46)**	**(182)**	**114**
Liabilities						
Derivative financial instruments[4]	**1,797**	**(1,469)**	**328**	**(46)**	**(32)**	**250**
Securities sold under repurchase agreement	**703**	**–**	**703**	**(703)**	**–**	**–**
2021						
Assets						
Derivative financial instruments[4]	413	(273)	140	(76)	(1)	63
Liabilities						
Derivative financial instruments[4]	678	(469)	209	(76)	(50)	83

(1) The net balance of £1,529m (2021: £196m) relates to variation margin offset under IAS 32 and reflected on other balance sheet lines.

(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. Cash collateral amounts not offset under IAS 32 in respect of derivative with central clearing houses is included within other assets and other liabilities.

(3) Cash collateral amounts are limited to the net balance sheet exposure in order to exclude any over collateralisation. In addition to cash collateral, the Group has pledged securities collateral in respect of derivative transactions subject to master netting agreements of £594m (2021: £274m). This is not offset under IAS 32 or presented as collateral on the balance sheet.

(4) Derivative financial instruments comprise both trading and hedging derivative assets and liabilities.

Risk classes

Credit risk continued

Macroeconomic assumptions, scenarios, and weightings

The Group's ECL allowance at 30 September 2022 was £457m (2021: £504m).

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 2022 and changes in macroeconomic assumptions between 1 September 2022 and 30 September 2022 have been considered as part of the PMAs. 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.

As the UK economy gradually recovered from the impact of COVID-19, the outlook continues to be as uncertain than it was at this point in 2021. Recent (and further anticipated) bank base rate rises, concerns over rising energy prices (despite recent UK Government announcements on the assistance it will provide customers), the increase in national insurance contributions, and the headwinds from higher inflation have all had an impact on household incomes in 2022. The potential impact on the UK economy of the Russian invasion of Ukraine remains uncertain, but as the Group has no direct lending in that region, it is hoped that any impact will be modest and short term. Against this fast moving and evolving environment, 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 apply are considered and debated by an internal review panel quarterly with final proposed recommendations for use in the IFRS 9 models made to ALCO for formal approval. The three scenarios selected, together with the weightings applied, have been updated to reflect the current economic environment and are:

Scenario (audited)	30 Sept 2022 (%)	30 Sept 2021 (%)
Upside	**10**	15
Base	**55**	50
Downside	**35**	35

The Group continue to select three scenarios, with the largest weighting applied to the base scenario. In the current year, there is a 5% shift in the weightings from the Upside scenario towards the Base scenario, reflecting a lesser degree of confidence in the Upside scenario over the short to medium term as a result of the updated macroeconomic assumptions. The Group's current weighting applied to the Downside scenario is appropriate when considered in the context of the overall scenario weightings applied and remains unchanged from the previous year.

Upside (10%)(1)

- GDP increased sharply by 8.7% in the first quarter of 2022 (Q1 2022 v Q1 2021), before slowing down to a c.2.0%-3.0% increase in each of the remaining quarters in 2022 against the 2021 positions. Overall year-on-year growth in 2022 is forecast at 3.9%, with a slight decrease to 2.8% in 2023, before rising slightly in 2024 and 2025 and reverting to a more modest increase in 2026.
- Inflation rises steeply and peaks at 12.9% in Q4 2022 (and lasting into Q1 2023) from a low base of 0.6% at Q1 2021. Inflation reverts back but remains high for the remainder of 2023, falling to 2.0% in Q2 2024 and sub 2.0% from the following quarter for the remaining forecast period.
- BoE base rate rises are anticipated throughout 2022 and are expected to continue into 2023, peaking at 3.0% in Q2 2023 and remaining there for the rest of 2023. Slight declines are expected throughout 2024, reaching 2.3% in Q4 2024 and continue at that rate for the remainder of the forecast period.
- HPI Q4 annual growth of 8.3% in 2022, declining to (2.3%) in 2023, before rising again over the next three years finishing in 2026 with a year on year growth of 6.5%.
- Unemployment peaks in Q3 2023, at 4.3%, and drops gradually to 3.8% by Q4 2024. From then, there is no significant movement over the remaining forecast period, reaching 3.6% in Q1 2026 where it remains until the end of 2026.

Base (55%)

- GDP increased sharply by 8.7% in the first quarter of 2022 (Q1 2022 v Q1 2021) before contracting in Q2 2022, with overall year-on-year growth in 2022 forecast at 3.6%, and falling to 0.3% in 2023. GDP recovers over the remaining forecast period at between 2.1% and 2.7%.
- Inflation peaks at 12.7% in Q4 2022 before recovering and reverting to under 1% by Q1 2024. Inflation rises slightly but remains under 2% from Q1 2026 for the remaining forecast period.
- BoE base rate hits a high of 2.5% in Q1 2023 and steadily declines over the forecast period reaching 1.8% in Q4 2023 and remaining there until the end of 2025. A further reduction to 1.7% is anticipated in Q1 2026 and remains at that level for the remainder of the year.
- HPI steadily rises to Q4 2022 before modestly reverting from then until Q4 2024 when it rebounds slowly each quarter thereafter until the end of the forecast period. Overall, HPI Q4 2022 annual growth of 6.8%, which regresses to (4.6%) in 2023 and remains negative into 2024, before reverting to positive growth in 2025 and finishing 2026 back up at 6.7%.
- Unemployment peaks at 4.7% in Q3 2023 and drops to 4.1% by Q4 2024. From then, there is no significant movement with unemployment averaging just under 4% in 2025, and steadily declining and reaching 3.7% for the final two quarters of 2026.

(1) The time periods referenced in this section relate to calendar years unless otherwise stated.

Risk classes

Credit risk continued

Downside (35%)

- GDP increased sharply to 8.7% (Q1 2022 v Q1 2021) before turning negative for the final quarter of 2022 to (2.8%) (Q4 2022 v Q4 2021), and remains sluggish over the remaining forecast period. The overall year-on-year growth is 2.6% in 2022, falling to (8.9%) in 2023, before reverting to sluggish growth of 0.8% in 2024, rising to 2.1% for the remaining forecast period.
- Inflation hits 11.9% in Q4 2022 before declining and turning negative by Q4 2023, and remains negative for the first three quarters of 2024. From there, inflation rises steadily each quarter reaching 1.7% in Q3 2026 and remains at this level for Q4 2026.
- The BoE base rate reaches 2.3% in Q4 2022 before steadily falling back to 0.5% by Q3 2024 where it stays for the remaining forecast period.
- HPI falls steadily and deeply from Q4 2022 to Q3 2025, but then experiences modest increases in each quarter until the end of the forecast period, but finishes well below the levels experienced in 2021. Overall, HPI in Q4 2023 is forecast decline annually (13.3%), with a slight improvement to (11.6%) in 2024, and not turning positive until 2026.
- Unemployment rises steadily and peaks at 7.4% in Q3 2025 and improves slightly over remainder of the forecast period. Overall, unemployment averages at 4.0% in 2022, rising to 7.3% by 2025, before improving modestly to finish at 7.1% in 2026.

Base case–2022 v 2021 (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 2021:

Year	Assumption	2021 %	2022 %	2023 %	2024 %	2025 %	2026 %
30 September 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
30 September 2021	Base rate	0.1	0.1	0.1	0.3	0.5	
	Unemployment	4.8	4.6	4.3	4.0	3.9	
	GDP	7.3	6.7	2.1	1.5	1.5	
	Inflation	2.1	2.7	1.9	1.8	1.8	
	HPI	5.0	(1.6)	0.6	2.7	3.9	

(1) Macroeconomic assumptions provided by Oxford Economics on 1 September 2022 and reported on a calendar year basis unless otherwise stated. The changes in macroeconomic assumptions between 1 September 2022 and 30 September 2022 have been considered as part of the PMAs.

The base case macroeconomic estimates and assumptions used at 30 September 2021 reflected the forward-looking view at that time, which recognised the impact of the further lockdown measures introduced in Q4 2020, together with the successful vaccine roll-out programme which resulted in much more positive base case assumptions. The headwinds of inflation and cost of living crisis, and the resultant actions of the BoE to curb inflation dominated much of 2022 and resulted in the significant changes to assumptions over the relatively short term.

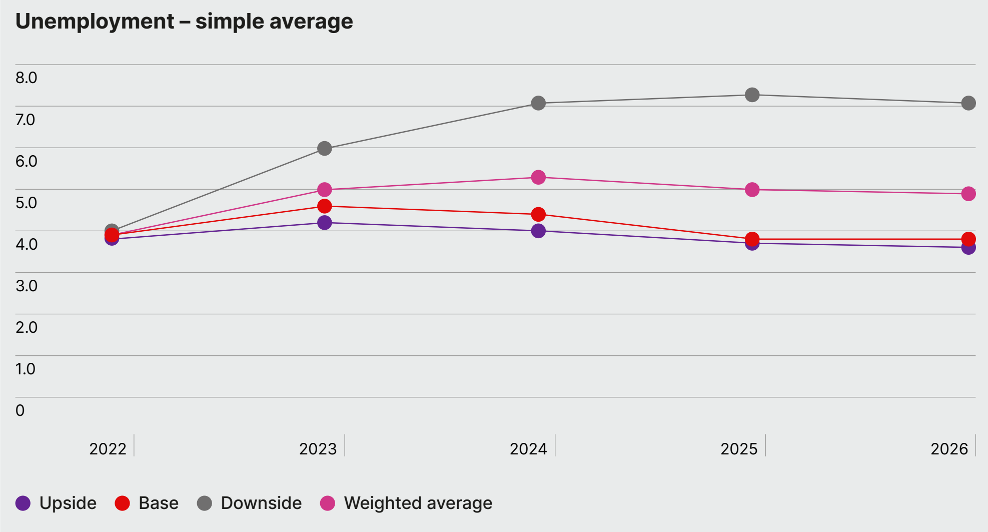
Five-year simple averages for the most sensitive inputs of unemployment, GDP and HPI (audited)

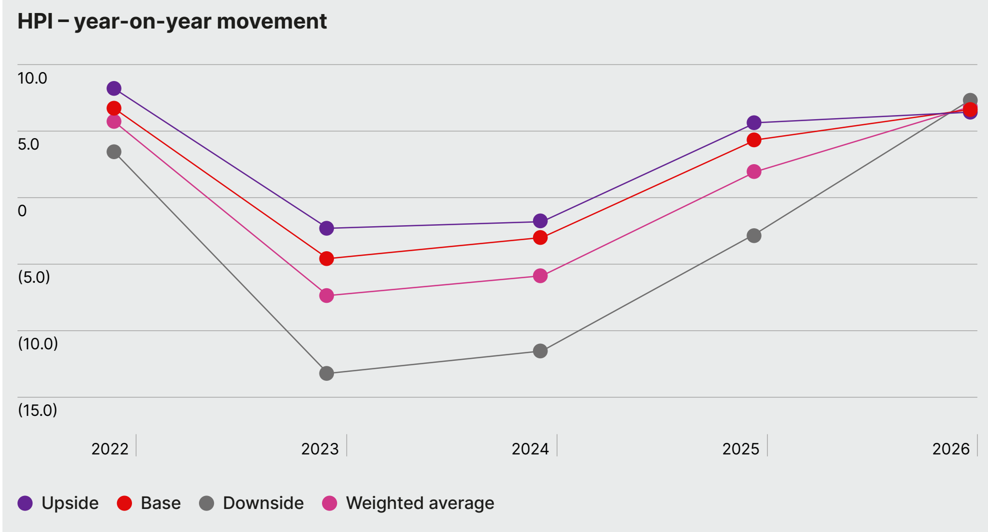
2022	Unemployment %	GDP %	HPI %
Upside	**3.9**	**3.1**	**3.3**
Base	**4.1**	**2.1**	**2.0**
Downside	**6.3**	**0.4**	**(3.4)**
2021			
Upside	3.9	4.6	4.6
Base	4.3	3.8	2.1
Downside	6.5	2.1	(5.8)

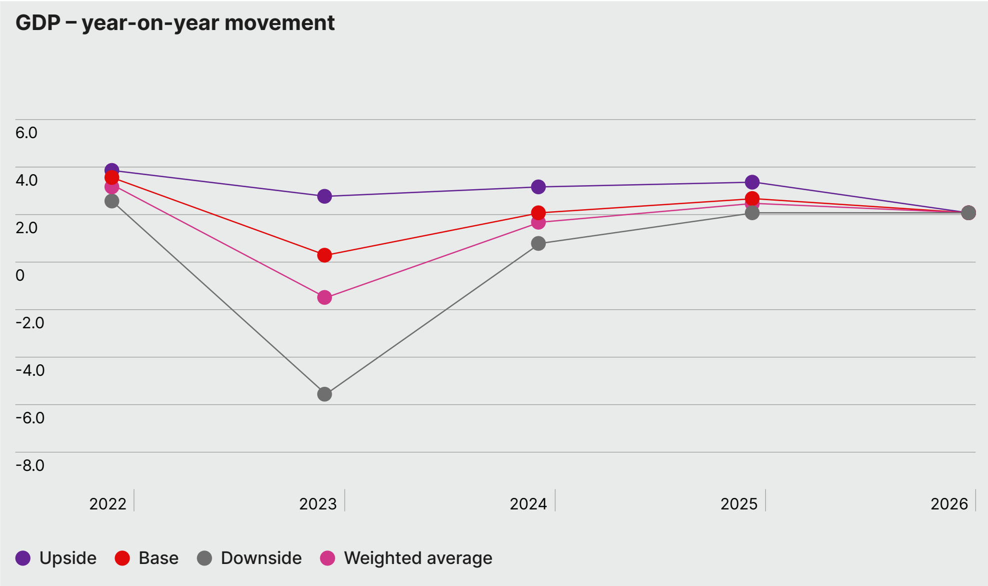
Risk classes

Credit risk continued

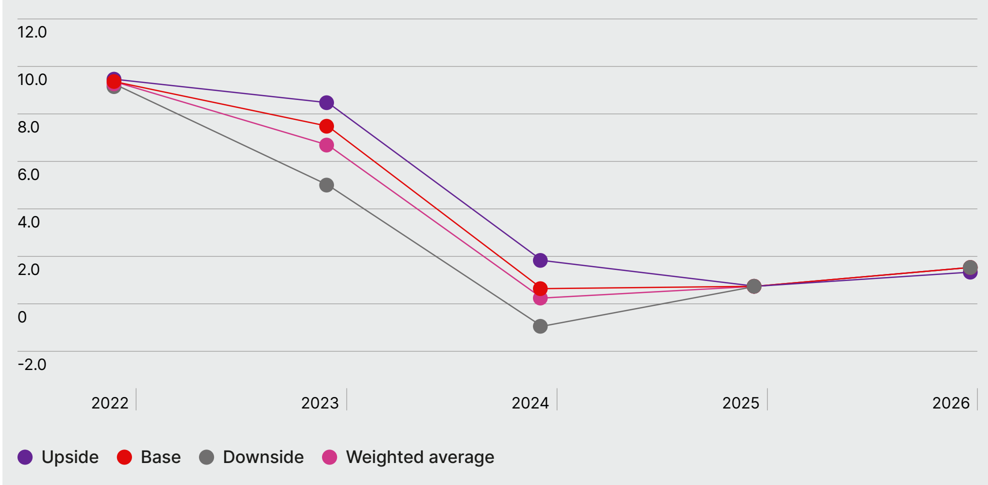
Graphical illustrations of the above key inputs over the five-year forecast period are:







While there are inflationary pressures at present that are impacting the Group's ECL calculations, the following graph demonstrates the expected relatively short-term nature of these over the forecast period (year-on-year movement):



The full range of the key macroeconomic assumptions is included in the table on page 182.

Risk classes

Credit risk continued

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:

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(4)**	**208**	**233**
Personal loans and overdrafts(3)	**35**	**27**	**29**	**46**
Business(2)	**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 £85m relative to PMAs (2021: £207m) and £38m of individually assessed provision (2021: £31m).

(2) Business and total ECLs in the above table have been calculated using the new LGD model and while not fully implemented in the year, the impact of this was incorporated into the total Business ECLs via the use of PMAs. Consequently, the probability weighted Business and total ECLs reported in the above table are £15m lower than the actual figures for the year.

(3) Salary Finance contributes more that 50% of the combined Personal Loans and overdrafts ECL.

(4) Due to a minor model interaction effect, the 100% ECL for Upside is marginally higher than the Base case.

2021 (audited)	Probability Weighted £m	Upside £m	Base £m	Downside £m
Mortgages	24	16	19	37
Unsecured of which:	159	155	155	167
Cards	142	139	139	147
Personal loans and overdrafts	17	16	16	20
Business	83	47	61	127
Total	266	218	235	331

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 PMAs, further detail of which can be found on page 196.

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 HPI changes on the Group's Mortgage and Business lending:

(audited)	2022 £m	2021 £m
Mortgages +10%	**(1)**	(2)
Business +10%	**(1)**	(2)
Mortgages -10%	**2**	3
Business -10%	**2**	3

Risk classes

Credit risk continued

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)	2022 £m	2021 £m
Mortgages +1%	**1**	1
Unsecured +1%	**15**	4
Business +1%	**4**	6
Mortgages -1%	**(1)**	(1)
Unsecured -1%	**(15)**	(4)
Business -1%	**(3)**	(4)

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.

Refinements were made to the application of SICR on the Group's Business portfolio in the year. Please refer to pages 170 and 187 for further detail.

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 5-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%
Unsecured (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)	2022 £m	2021 £m
A 10% movement in the mortgage portfolio from Stage 1 to Stage 2[(1)]	**+9**	+6
A 10% movement in the credit card portfolio from Stage 1 to Stage 2[(1)]	**+87**	+69
A 10% movement in the business portfolio from Stage 1 to Stage 2[(1)]	**+18**	+13
A PD stress which increases PDs upwards by 20% for all portfolios	**+106**	+94

(1) The comparative has been restated in line with the current year presentation.

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. The Group utilises the 90 DPD backstop for default purposes.

PMAs

PMAs were £85m in 2022 (2021: £207m) and are included within the total ECL provision of £457m (2021: £504m).

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

Mortgages: the Group continue to monitor the level of ECL held on BTL mortgages due to uncertainty of the impact on landlords and tenants and have maintained the PMA for this cohort of customers. A new PMA was introduced to reflect an impact on debt affordability as a result of rising energy prices and other inflationary effects.

Unsecured: a new PMA was introduced for debt affordability as a reaction to the reduction in customers' reduced disposable incomes. Other PMAs are also held with the most material being £10m for the potential impact on the sale or future recovery value of Unsecured written-off debt, which can fluctuate in the current environment.

Risk classes

Credit risk continued

Business: the current uncertain economic environment is also impacting the Business portfolio, where higher prices, wage inflation pressure and rising interest rates are all headwinds faced by customers. The Group has recognised these pressures and introduced an economic resilience PMA accordingly.

The impact of PMAs on the Group's ECL allowance and coverage ratios is as follows:

(audited)	Mortgages	Unsecured	Business	Total
2022	**£34m**	**£33m**(1)	**£18m**	**£85m**
% of total ECL	**70%**	**11%**	**21%**	**20%**
Coverage – total	**0.09%**	**4.66%**	**1.59%**	**0.62%**
Coverage – total ex PMAs	**0.02%**	**4.13%**	**0.93%**	**0.45%**
2021	£54m	£35m	£118m	£207m
% of total ECL	62%	18%	53%	41%
Coverage – total	0.15%	3.80%	3.06%	0.70%
Coverage – total ex PMAs	0.06%	3.11%	1.44%	0.41%

(1) The actual value £32.47m has been rounded up to ensure the table casts.

The reduction in PMAs in the year of £122m predominantly reflects the removal of (i) sector specific PMAs in the Business portfolio (£80m) that were necessary as the UK economy continued to feel the effects of Covid-19 and the outlook for businesses remained uncertain, and (ii) the impact of payment holidays on the Mortgage portfolio (£20m) as Covid-19 related support was withdrawn.

PMAs are primarily held in Stages 1 and 2 and are discussed in more detail in the divisional commentary on pages 179 to 189.

The Group assesses and reviews the need for and quantification of PMAs on a quarterly basis, with the CFO recommending the level of PMAs on a portfolio basis to the Board Audit Committee twice a year at each external reporting period. The Group has strengthened the governance around PMAs in the year, with the Model Risk Oversight and Group Credit Oversight teams reviewing the methodology supporting material PMAs and presenting their findings to the Board Audit Committee.

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

Risk classes

Credit risk continued

Macroeconomic assumptions

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

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**

2021

Scenario	VMUK weighting	Economic measure[2]	2021 %	2022 %	2023 %	2024 %	2025 %
Upside	15%	Base rate	0.2	0.6	1.2	1.5	1.6
		Unemployment	4.3	3.8	3.9	3.8	3.6
		GDP	8.1	8.8	2.8	1.8	1.5
		Inflation	2.4	3.7	2.5	1.6	1.8
		HPI	8.2	0.8	5.2	5.2	3.6
Base	50%	Base rate	0.1	0.1	0.1	0.3	0.5
		Unemployment	4.8	4.6	4.3	4.0	3.9
		GDP	7.3	6.7	2.1	1.5	1.5
		Inflation	2.1	2.7	1.9	1.8	1.8
		HPI	5.0	(1.6)	0.6	2.7	3.9
Downside	35%	Base rate	0.0	(0.5)	(0.5)	(0.5)	(0.3)
		Unemployment	5.6	6.7	6.8	6.8	6.4
		GDP	4.4	2.4	1.1	1.0	1.7
		Inflation	1.5	0.7	0.8	2.2	1.7
		HPI	(2.9)	(15.2)	(12.1)	(3.5)	4.9
Weighted average		Base rate	0.1	0.0	0.1	0.2	0.4
		Unemployment	5.0	5.2	5.1	4.9	4.7
		GDP	6.4	5.5	1.9	1.4	1.6
		Inflation	2.0	2.1	1.6	1.9	1.8
		HPI	2.7	(6.0)	(3.2)	0.9	4.2

(1) Macroeconomic assumptions provided by Oxford Economics on 1 September 2022 and reported on a calendar year basis unless otherwise stated. The changes in macroeconomic assumptions between 1 September 2022 and 30 September 2022 have been considered as part of the PMAs.

(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.

Financial risk

Risk classes

Financial risk

Strong foundations supporting resilience and growth.

The financial risk framework underpins the Group's robust balance sheet, ensuring strategy is resilient and responsive to external pressures and changing regulatory obligations.

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 in order 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 net stable funding ratio (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 over a one-month and three-month period.

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.

Measurement

The Group manages capital in accordance with prudential rules issued by the PRA and the FCA, which are implemented through the CRD IV CRR regulatory framework. 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 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.

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.

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.

COVID-19 regulatory capital developments

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 did not adopt hybrid mortgage models in FY22 and intends to do so in FY23.

Risk classes

Financial risk continued

As part of the Group's implementation of mortgage IRB models (including Hybrid PD), we will consider the need to apply an overlay to increase RWAs in advance of formal approval of models. A final figure has not yet been determined although this may be in the range of £1-1.5bn of RWAs.

The Group continues to apply relevant relief measures introduced by regulatory and supervisory bodies to help address and alleviate various COVID-19 driven financial impacts. These include amendments to the CRR introduced by the 'Quick Fix' package in June 2020, which introduced a number of beneficial modifications, including changes to IFRS 9 transitional arrangements for capital.

UK implementation of Basel Standards
In July 2021, the PRA published Policy Statement 17/21 which provided feedback to Consultation Paper 5/21 with the same title: 'Implementation of Basel standards', with the publication of Policy Statement 22/21 in October containing final rules. The policy statements covered a range of revisions in the areas of counterparty credit risk, large exposures, LCR, NSFR and reporting and disclosure among other changes. These standards became effective in the UK from 1 January 2022 and did not materially impact capital requirements.

Policy Statement 22/21 confirmed the PRA's treatment to fully deduct software assets from CET1 capital, applicable from 1 January 2022. The PRA's view is that intangible assets are not sufficiently loss absorbent on a going concern basis to warrant recognition as CET1 capital.

Basel 3.1
The Basel Committee published its final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches to credit and operational risks and the introduction of a new RWA output floor. There are a number of areas within Basel 3.1 subject to national discretion and choice. The PRA is due to publish a Consultation Paper on UK implementation in the fourth quarter of 2022, with the final reforms expected to become effective on 1 January 2025 (delayed from 2023), subject to a five-year transitional period. Uncertainties therefore remain for a number of topics that will be subject to revisions under Basel 3.1. In response the Group has undertaken an assessment of potential outcomes to assist with planning.

Solvency Stress Test and Annual Cyclical Scenarios
The Group was a participant in the BoE SST in 2021. This was the first time the Group had been involved in the BoE's stress testing for major banks. The Group will be an on-going participant in the BoE's Annual Cyclical Scenario (ACS). Results from the SST were published by the BoE at the end of 2021 and were used by the Financial Policy Committee (FPC) to assess the stress severity required to threaten resilience and test the Group's ability to absorb losses and continue to lend. The Group's results on both a transitional and non-transitional basis were in excess of the published reference rates and the Group was not required to take any additional capital actions or to submit a revised capital plan.

The 2022 ACS was postponed due to the uncertainty caused by the Russian invasion of Ukraine. The delay was to enable lenders to focus on managing the disruption in the financial markets associated with the invasion. In July 2022, it was announced that the ACS stress test would commence in September 2022. The BoE published the Key Elements of the 2022 Stress Test on 26 September 2022 and the Group is in the process of undertaking the 2022 ACS exercise. The scenario tests 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 misconduct costs. The results will be published in summer 2023.

Resolvability Assessment Framework (RAF)
The BoE has introduced a Resolvability Assessment Framework (RAF), with full implementation required by 2022 to ensure major UK banks can be safely resolved. The Group has undertaken an assessment of its resolvability 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.

UK Leverage Ratio Framework
In October 2021 the FPC and PRA published their changes to the UK leverage ratio framework (Policy Statement 21/21). The changes, effective from 1 January 2022, have simplified the framework with the Group being subject to the UK leverage ratio only rather than the two leverage ratio definitions that previously existed. The Group exceeds the 3.25% leverage ratio requirement.

Risk classes

Financial risk continued

Mitigation

The Group's capital risk policy standard provides the framework for the management of capital within the Group. The objectives of the policy standard are to efficiently 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.

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.

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 is subject to such a review which commenced this year and which will ultimately lead to enhancements to the governance and control framework of the Group's regulatory reporting. In May the Board approved that EY be recommended to the PRA as the preferred Skilled Person to undertake the review and the PRA subsequently approved EY's appointment. The review is scheduled to finalise towards the end of calendar year 2022.

Capital resources

The Group's capital resources position as at 30 September 2022 is summarised below:

Regulatory capital[1]	30 Sept 2022 £m	30 Sept 2021 £m
Statutory total equity	**6,340**	5,473
CET1 capital: regulatory adjustments[2]		
Other equity instruments	**(666)**	(915)
Defined benefit pension fund assets	**(650)**	(551)
Prudent valuation adjustment	**(5)**	(5)
Intangible assets	**(256)**	(208)
Goodwill	**(11)**	(11)
Deferred tax asset relying on future profitability	**(302)**	(258)
Cash flow hedge reserve	**(699)**	(10)
AT1 coupon accrual	**(13)**	(19)
Foreseeable dividend on ordinary shares	**(106)**	(14)
Excess expected loss	**(100)**	–
Share buyback	**(13)**	–
IFRS 9 transitional adjustments	**114**	134
Total regulatory adjustments to CET1	**(2,707)**	(1,857)
Total CET1 capital	**3,633**	3,616
AT1 capital		
AT1 capital instruments	**666**	697
Total AT1 capital	**666**	697
Total Tier 1 capital	**4,299**	4,313
Tier 2 capital		
Subordinated debt	**1,020**	1,019
Total Tier 2 capital	**1,020**	1,019
Total regulatory capital	**5,319**	5,332

(1) This table shows the capital position on a CRD IV 'fully loaded' basis and transitional IFRS 9 basis.

(2) A number of regulatory adjustments to CET1 capital are required under CRD IV regulatory capital rules.

Risk classes

Financial risk continued

Regulatory capital flow of funds[1]	2022 £m	2021 £m
CET1 capital[2]		
CET1 capital at 1 October	**3,616**	3,271
Share capital and share premium	**(1)**	2
Retained earnings and other reserves (including special purpose entities)	**428**	449
Prudent valuation adjustment	**–**	1
Amendment to software asset deduction rules[3]	**(151)**	151
Intangible assets	**103**	118
Deferred tax asset relying on future profitability	**(44)**	(107)
Defined benefit pension fund assets	**(99)**	(81)
AT1 distribution paid already deducted from CET1	**19**	21
Dividend paid already deducted from CET1	**14**	–
Foreseeable distributions	**(119)**	(33)
Share buyback	**(13)**	–
Excess expected losses	**(100)**	–
IFRS 9 transitional relief	**(20)**	(176)
Total CET1 capital at 30 September	**3,633**	3,616
AT1 capital		
AT1 capital at 1 October	**697**	915
AT1 instrument issued net of costs	**346**	–
AT1 instrument repurchased	**(377)**	–
Less other equity instruments not qualifying as AT1	**–**	(218)
Total AT1 capital at 30 September	**666**	697
Total Tier 1 capital at 30 September	**4,299**	4,313
Tier 2 capital		
Tier 2 capital at 1 October	**1,019**	749
Capital instruments issued: subordinated debt	**–**	298
Capital instruments purchased: subordinated debt	**–**	(30)
Amortisation of issue costs	**1**	2
Tier 2 capital at 30 September	**1,020**	1,019
Total capital	**5,319**	5,332

(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 increased by £17m during the year. Statutory profit after tax of £537m drove an overall increase in retained earnings, which when offset against other reserves movements resulted in a net increase in CET1 capital of £428m. The Group used this surplus principally to fund capital returns in the year of £282m (comprising payments of £36m for interim dividends and £51m for AT1 distributions, a total £76m deduction for share buyback, and a final dividend and AT1 accrual for the current year of £119m) and further investment in digital software assets of £53m. In addition, £100m of CET1 capital was absorbed by the movement in excess expected losses, as releases in IFRS 9 provisions widened the gap between regulatory and accounting credit losses.

In June 2022, the Group successfully issued £350m of new AT1 securities, achieving significantly tighter pricing on a spread basis than prior issuances. Concurrently, the Group repurchased £377m of its existing AT1 securities that are callable in December of this year. The net impact reduced AT1 capital by £31m (after costs) as at 30 September 2022.

Subsequent to the report date, the Group announced its intention to redeem the remaining £73m of those AT1 securities on their call date in December 2022.

Risk weighted assets

	2022			2021		
Minimum capital requirements	Exposure £m	RWA £m	Minimum capital requirements £m	Exposure £m	RWA £m	Minimum capital requirements £m
Retail mortgages	**62,545**	**9,155**	**732**	61,146	10,010	801
Business lending	**11,959**	**6,196**	**497**	11,670	6,040	483
Other retail lending	**17,408**	**4,817**	**385**	16,201	4,311	345
Other lending	**18,165**	**277**	**22**	15,467	326	26
Other[1]	**584**	**637**	**51**	765	856	69
Total credit risk	**110,661**	**21,082**	**1,687**	105,249	21,543	1,724
Credit valuation adjustment		**258**	**21**		103	8
Operational risk		**2,623**	**210**		2,481	198
Counterparty credit risk		**185**	**15**		105	8
Total	**110,661**	**24,148**	**1,933**	105,249	24,232	1,938

(1) The items included in the Other exposure class that attract a capital charge include items in the course of collection, fixed assets, intangible assets on software less than three years old (2021 only), prepayments, other debtors and deferred tax assets that are not deducted.

Risk classes

Financial risk continued

RWA movements	12 months to 30 September 2022 IRB RWA £m	STD RWA £m	Non-credit risk RWA[2] £m	Total £m	Minimum capital requirements £m	12 months to 30 September 2021 IRB RWA £m	STD RWA £m	Non-credit risk RWA[2] £m	Total £m	Minimum capital requirements £m
Opening RWA	**15,699**	**5,844**	**2,689**	**24,232**	**1,938**	15,846	5,642	2,911	24,399	1,953
Asset size	**267**	**575**	**–**	**842**	**68**	(553)	152	–	(401)	(32)
Asset quality	**(959)**	**4**	**–**	**(955)**	**(75)**	(644)	16	–	(628)	(50)
Model updates[1]	**(64)**	**–**	**–**	**(64)**	**(5)**	1,086	–	–	1,086	87
Methodology and policy	**–**	**(160)**	**–**	**(160)**	**(13)**	(36)	151	–	115	9
Other	**–**	**(124)**	**377**	**253**	**20**	–	(117)	(222)	(339)	(29)
Closing RWA	**14,943**	**6,139**	**3,066**	**24,148**	**1,933**	15,699	5,844	2,689	24,232	1,938

(1) Model updates include the mortgage quarterly PD calibrations.

(2) Other RWA includes operational risk, credit valuation adjustment and counterparty credit risk.

RWA reduced c.£0.1bn to £24.1bn primarily due to the impact of improvements to the HPI offsetting the impact of higher lending and increased other non-credit RWAs.

As well as the HPI improvements of £1.5bn, the asset quality movement includes RWA increases relating to the increased risk weights associated with higher mortgage pipeline commitments.

Model updates include a reversal of the £344m in RWA specific to COVID-19 related PMAs, with a new PMA of £280m to account for increased RWAs arising from Forced Sale Discounts. A further PMA of £47m to the Business portfolio relating to the new definition of default was introduced in January 2022, and this was largely offset by a reduction of £46m RWAs following recalibration of PDs throughout the year.

Methodology and policy movement is largely driven by the removal of the £151m RWA uplift in relation to the CRR Quick Fix amendments in respect of intangible assets, which was removed from January 2022.

The other movement in standardised RWAs reflects reductions to exposures to fixed assets (£39m RWA), deferred tax assets (£43m RWA) and SPV deposits with other institutions (£58m RWA), partially offset by increases to other assets including prepayments and items in the course of collection.

Other non-credit risk RWA movements include an Operational Risk RWA uplift of £142m due to a higher proportion of revenue within Commercial Banking business line over the last three years, compared to the three years prior to September 2021. CCR and CVA RWAs have increased by £80m and £155m respectively, driven by the move to the more risk sensitive SA-CCR methodology per PS22/21 from 1 January 2022 and increased market volatility in recent months.

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.

Available capital (amounts)	30 September 2022 IFRS 9 Transitional basis £m	IFRS 9 Fully loaded basis £m
CET1 capital	**3,633**	**3,519**
Tier 1 capital	**4,299**	**4,185**
Total capital	**5,319**	**5,205**
RWA (amounts)		
Total RWA	**24,148**	**24,056**
Capital ratios		
CET1 (as a percentage of RWA)	**15.0%**	**14.6%**
Tier 1 (as a percentage of RWA)	**17.8%**	**17.4%**
Total capital (as a percentage of RWA)	**22.0%**	**21.6%**
Leverage ratio		
Leverage ratio total exposure measure	**83,771**	**83,657**
UK leverage ratio	**5.1%**	**5.0%**

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 75% in 2022, reducing to 50% in 2023 and 25% in 2024.

At 30 September 2022, £114m of IFRS 9 transitional adjustments (2021: £134m) have been applied to the Group's capital position in accordance with CRR: £7m of static and £107m of dynamic adjustments (2021: £10m static and £124m dynamic).

Risk classes

Financial risk continued

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.

	30 September 2022	
Minimum requirements	CET1	Total capital
Pillar 1[(1)]	**4.5%**	**8.0%**
Pillar 2A	**1.7%**	**3.1%**
Total capital requirement	**6.2%**	**11.1%**
Capital conservation buffer	**2.5%**	**2.5%**
UK countercyclical capital buffer	**0.0%**	**0.0%**
Total (excluding PRA buffer)[(2)]	**8.7%**	**13.6%**

(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 are 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 6.3% of RWAs (equivalent to £1,521m).

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. During the year the PRA updated the Group's Pillar 2A requirement to £744m, representing a material reduction in Pillar 2A from 30 September 2021 of £209m. At September 2022 this resulted in a TCR of 11.1% of RWAs (equivalent to £2,676m) of which 6.2% must be met with CET1 capital (equivalent to £1,505m).

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. 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 as at 30 September 2022 would result in a modest reduction in total capital requirements of £27m and CET1 requirements of £15m.

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 Other Systemically Important Institutions (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. In December 2021, the FPC announced it felt that domestic risks to UK financial stability have returned to around their pre-COVID levels. It subsequently provided guidance that the UK CCyB rate would increase to 1%, effective December 2022, rising to 2% from 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.

Currently, the Group does not meet the criteria for the application of either a global or domestic systemically important institution buffer.

MREL

MREL position	2022 £m	2021 £m
Total capital resources[(1)(2)]	**5,319**	5,332
Eligible senior unsecured securities issued by Virgin Money UK PLC[(2)]	**2,423**	2,408
Total MREL resources	**7,742**	7,740
Risk-weighted assets	**24,148**	24,232
Total MREL resources available as a percentage of risk-weighted assets	**32.1%**	31.9%
UK leverage exposure measure	**83,771**	83,415
Total MREL resources available as a percentage of UK leverage exposure measure	**9.2%**	9.3%

(1) The capital position reflects the application of the transitional arrangements for IFRS 9.

(2) Includes MREL instrument maturity adjustments; the add-back of regulatory amortisation and the deduction of instruments with less than one year to maturity. From September 2022, unamortised costs are also deducted from eligible senior unsecured securities.

The BoE as the UK Resolution Authority has published its framework for setting a minimum requirement for own funds and eligible liabilities (MREL). This requires the Group to hold capital resources and eligible debt instruments equal to the greater of two times the Total Capital Requirement (TCR) or 6.5% of the leverage exposure measure. In addition to MREL the Group must also hold any applicable capital buffers, which together with MREL represent the Group's loss-absorbing capacity (LAC) requirement.

As at 30 September 2022, MREL resources were £7.7bn (FY21: £7.7bn), equivalent to 32.1% of RWAs (FY21: 31.9%). This provides prudent headroom of £1.7bn or 7.2% above LAC requirement of 24.9%.

Risk classes

Financial risk continued

Dividend
Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements. At 30 September 2022, the Company had accumulated distributable reserves of £1,056m (2021: £792m).

As disclosed on page 25 of the Strategic report, the Board has recommended a final dividend for the financial year ended 30 September 2022 of 7.5p per share.

Share buyback
At the end of June 2022, the Group announced a share buyback programme with an initial repurchase of £75m in aggregate between ordinary shares of £0.10 each listed on the LSE and CDIs, each representing one share listed on the ASX. Subject to trading liquidity, Virgin Money intends to repurchase shares and CDIs in approximately equal proportions. The buyback commenced on 30 June 2022 and will end no later than 17 December 2022.

On 21 November 2022 an extension to the share buyback programme was announced with an intent to repurchase a further £50m in aggregate of shares and CDIs, ending no later than 2 May 2023. Further details are disclosed on page 154 of the Directors' report.

Leverage

Leverage ratio	2022 £m	2021 £m
Total Tier 1 capital for the leverage ratio		
Total CET1 capital	**3,633**	3,616
AT1 capital	**666**	697
Total Tier 1 capital	**4,299**	4,313
Exposures for the leverage ratio		
Total assets	**91,907**	89,100
Adjustment for off-balance sheet items	**3,204**	2,884
Adjustment for derivative financial instruments	**282**	91
Adjustment for securities financing transactions	**2,974**	2,235
Adjustment for qualifying central bank claims	**(11,955)**	(9,094)
Other adjustments	**(2,641)**	(1,801)
UK leverage ratio exposure(1)	**83,771**	83,415
UK leverage ratio(1)(2)	**5.1%**	5.2%
Average UK leverage ratio exposure(3)	**83,985**	83,213
Average UK leverage ratio(3)	**5.0%**	5.0%

(1) As the UK leverage ratio is now the single leverage ratio exposure measure, the analysis of the CRD IV leverage ratio has been replaced with the UK equivalent for this period and the comparative.

(2) IFRS 9 transitional capital arrangements have been applied to the leverage ratio calculation.

(3) The transitional 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 2022 to 30 September 2022).

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 5.1% (2021: 5.2%) 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 also has access to and has drawn against the BoE TFS and TFSME, both schemes introduced to support the UK through periods of instability.

Risk classes

Financial risk continued

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 policy standards. A series of metrics is 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 capital 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, as demonstrated in the Group's response to COVID-19.

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.

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. In addition, the Group can use the repo market and bilateral relationships to generate funds and can also participate in BoE operations through the Sterling Monetary Framework (SMF). 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. In addition to customer funding, 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.

As a participant in the BoE SMF, the Group had access to funding via the TFS and 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. During 2022, the Group repaid the remaining outstanding TFS amounts.

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.

Risk classes

Financial risk continued

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 action required, allocates the key tasks to individuals, provides a time frame and defines a management committee 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 is a factor 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 2022:

	2022 £m	2021 £m
Total assets	**91,907**	89,100
Less: other liabilities[1]	**(3,122)**	(3,060)
Funding requirement	**88,785**	86,040
Funded by:		
Customer deposits	**65,434**	66,971
Debt securities in issue	**8,509**	7,678
Due to other banks	**8,502**	5,918
of which:		
Secured loans	**7,230**	5,896
Securities sold under agreements to repurchase	**1,205**	–
Transaction balances with other banks	**17**	–
Deposits with other banks	**50**	22
Equity	**6,340**	5,473
Total funding	**88,785**	86,040

(1) Other liabilities include derivative financial instruments, 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 growth. At 30 September 2022, the Group had a funding requirement of £88,785m (2021: £86,040m) with the majority being used to support loans and advances to customers.

Customer deposits
The majority of the Group's funding requirement was met by customer deposits of £65,434m (2021: £66,971m). Customer deposits comprise interest-bearing deposits, term deposits and non-interest-bearing demand deposits from a range of sources including Personal and Business customers. Throughout the year, funding has been managed at a level to support customer lending, with a higher proportion from wholesale, including usage of TFSME and reduced volumes of customer deposits.

Equity
Equity of £6,340m (2021: £5,473m) 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 decreased from 149% to 138% during the year and remains comfortably above regulatory and internal risk appetite.

LCR (audited)	2022 £m	Restated 2021[1] £m
Eligible liquidity buffer	**13,139**	10,996
Net stress outflows	**9,537**	7,369
Surplus	**3,602**	3,627
LCR	**138%**	149%

(1) In the prior year, certain business customer deposits were incorrectly classified as Corporates, as opposed to Financial Institutions. Due to the different liquidity outflow assumptions applied, this resulted in net outflows being understated by £80m and the LCR overstated by 2%. These deposits have been reclassified as Financial Institutions and the prior year comparative has been updated to align with the current year presentation.

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 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 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).

Risk classes

Financial risk continued

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 2022, 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.

Liquid asset portfolio(1) (audited)	2022 £m	2021 £m	Change %	Average 2022 £m	Average 2021 £m
Level 1					
Cash and balances with central banks	**9,795**	7,060	38.7	**7,632**	7,232
UK Government treasury bills and gilts	**512**	771	(33.6)	**905**	779
Other debt securities	**2,827**	3,239	(12.7)	**2,993**	3,296
Total level 1	**13,134**	11,070	18.6	**11,530**	11,307
Level 2(2)	**117**	23	408.7	**32**	24
Total LCR eligible assets	**13,251**	11,093	19.5	**11,562**	11,331

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

Cash and balances with central banks of £12,221m, as per note 3.4, include: £2,094m of assets that are encumbered to support the issuance of Scottish bank notes (excluding notes not in circulation) and to support payments systems; £266m of mandatory central bank deposits; and £62m excluded from LCR to cover operating expenses.

Financial assets at FVOCI of £5,064m, as per note 3.7, include: £1,535m of encumbered UK government treasury bills and gilts, £317m of which is encumbered to support Operational Continuity in Resolution.

The NSFR was implemented by the PRA on 1 January 2022 based on Basel standards. The ratio as at 30 September 2022 is 136% (2021: 134%) comfortably in excess of the binding minimum requirement of 100%.

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. Encumbrance limits are set in the Group RAS and calibrated to ensure that after a stress scenario is applied, the balance sheet can recover over an acceptable period of time. 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 classes

Financial risk continued

Encumbered assets by asset category (audited)

30 September 2022	Assets encumbered with non-central bank counterparties				Positioned at the central bank (including encumbered) £m	Other assets				
						Assets not positioned at the central bank				
	Covered Bonds £m	Securitisations £m	Other £m	Total £m		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	28,647	17,054	2,353	62,933	71,821
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
Derivative financial instruments	–	–	–	–	–	–	–	342	342	342
Financial instruments at FVOCI	–	–	1,535	1,535	–	3,529	–	–	3,529	5,064
Other assets	–	–	40	40	–	–	218	1,545	1,763	1,803
Total assets	**4,335**	**4,925**	**1,844**	**11,104**	**17,758**	**41,518**	**17,287**	**4,240**	**80,803**	**91,907**

30 September 2021	Assets encumbered with non-central bank counterparties				Positioned at the central bank (including encumbered) £m	Other assets				
						Assets not positioned at the central bank				
	Covered Bonds £m	Securitisations £m	Other £m	Total £m		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	2,618	4,970	–	7,588	14,108	30,175	17,419	2,719	64,421	72,009
Cash and balances with central banks	–	–	–	–	2,827	6,884	–	–	9,711	9,711
Due from other banks	352	310	76	738	–	–	62	–	62	800
Derivative financial instruments	–	–	–	–	–	–	–	140	140	140
Financial instruments at FVOCI	–	–	586	586	–	3,766	–	–	3,766	4,352
Other assets	–	–	296	296	–	–	270	1,522	1,792	2,088
Total assets	2,970	5,280	958	9,208	16,935	40,825	17,751	4,381	79,892	89,100

The Group's total non-central bank asset encumbrance increased by £1,896m to £11,104m as at 30 September 2022. This was primarily due to an increase in encumbered mortgages, supporting Covered Bond funding.

Risk classes

Financial risk continued

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.

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 assets at amortised cost							
Loans and advances to customers	764	2,378	1,019	7,241	55,053	5,296	71,751
Cash and balances with central banks	11,015	–	–	–	–	1,206	12,221
Due from other banks	575	81	–	–	–	–	656
Financial assets at FVTPL							
Loans and advances to customers	–	2	1	21	46	–	70
Derivative financial instruments	2	46	71	190	33	–	342
Other financial assets	–	–	–	–	–	8	8
Financial assets at FVOCI	–	620	602	1,917	1,925	–	5,064
Other assets	–	7	152	1	1	1,634	1,795
Total assets	12,356	3,134	1,845	9,370	57,058	8,144	91,907
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	48,750	3,786	10,209	2,689	–	–	65,434
Debt securities in issue	–	485	1,047	6,669	308	–	8,509
Due to other banks	67	285	250	7,900	–	–	8,502
Financial liabilities at FVTPL							
Derivative financial instruments	3	9	29	253	33	–	327
Other liabilities	1,822	135	134	54	59	591	2,795
Total liabilities	50,642	4,700	11,669	17,565	400	591	85,567
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 balance within loans and advances to customers relates to credit cards.

Risk classes

Financial risk continued

30 September 2021	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 assets at amortised cost							
Loans and advances to customers	766	1,966	1,051	6,654	56,812	4,627	71,876
Cash and balances with central banks	8,337	–	–	–	–	1,374	9,711
Due from other banks	800	–	–	–	–	–	800
Financial assets at FVTPL							
Loans and advances to customers	–	3	12	44	74	–	133
Derivative financial instruments	1	8	21	102	8	–	140
Other financial assets	–	–	–	–	–	20	20
Financial assets at FVOCI	–	35	448	2,176	1,693	–	4,352
Other assets	–	14	192	2	1	1,859	2,068
Total assets	9,904	2,026	1,724	8,978	58,588	7,880	89,100
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	49,477	4,079	9,327	4,088	–	–	66,971
Debt securities in issue	–	145	1,141	6,392	–	–	7,678
Due to other banks	18	2	1,248	4,650	–	–	5,918
Financial liabilities at FVTPL							
Derivative financial instruments	1	5	38	94	71	–	209
Other liabilities	2,104	52	87	65	70	473	2,851
Total liabilities	51,600	4,283	11,841	15,289	141	473	83,627
Off-balance sheet items							
Financial guarantees	–	20	21	15	45	–	101
Other credit commitments	17,020	–	–	–	–	–	17,020
Total off-balance sheet items	17,020	20	21	15	45	–	17,121

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

Risk classes

Financial risk continued

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

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 £m	Total £m
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	**48,750**	**3,801**	**10,291**	**2,732**	**–**	**–**	**65,574**
Debt securities in issue	**–**	**521**	**1,294**	**7,863**	**315**	**–**	**9,993**
Due to other banks	**67**	**289**	**492**	**8,793**	**–**	**–**	**9,641**
Financial liabilities at FVTPL							
Trading derivative financial instruments	**–**	**12**	**40**	**63**	**14**	**–**	**129**
Hedging derivative liabilities							
Contractual amounts payable	**–**	**21**	**557**	**1,720**	**–**	**–**	**2,298**
Contractual amounts receivable	**–**	**(6)**	**(459)**	**(1,477)**	**–**	**–**	**(1,942)**
Other liabilities	**1,822**	**135**	**134**	**54**	**59**	**591**	**2,795**
Total liabilities	**50,639**	**4,773**	**12,349**	**19,748**	**388**	**591**	**88,488**

30 September 2021	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 liabilities at amortised cost							
Customer deposits	49,477	4,104	9,403	4,127	–	–	67,111
Debt securities in issue	–	148	1,283	6,886	–	–	8,317
Due to other banks	18	2	1,258	4,756	–	–	6,034
Financial liabilities at FVTPL							
Trading derivative financial instruments	–	16	38	31	20	–	105
Hedging derivative liabilities							
Contractual amounts payable	–	5	244	1,750	25	–	2,024
Contractual amounts receivable	–	(9)	(199)	(1,614)	–	–	(1,822)
All other liabilities	2,104	52	87	65	70	473	2,851
Total liabilities	51,599	4,318	12,114	16,001	115	473	84,620

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

Risk classes

Financial 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 2022 £m	Total 2021 £m
Covered bonds	**4**	**13**	**3,450**	**–**	**3,467**	1,852
Securitisation	**462**	**586**	**524**	**308**	**1,880**	2,389
Medium-term notes	**6**	**447**	**1,796**	**–**	**2,249**	2,422
Subordinated debt	**13**	**1**	**899**	**–**	**913**	1,015
Total debt securities in issue	**485**	**1,047**	**6,669**	**308**	**8,509**	7,678
Of which issued by Virgin Money UK PLC	**19**	**448**	**2,695**	**–**	**3,162**	3,437

External credit ratings

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

	Outlook as at	As at	
Material risk for the Group	30 Sept 2022[1]	30 Sept 2022	30 Sept 2021
Virgin Money UK PLC			
Moody's	Stable	Baa1	Baa2
Fitch	Stable	BBB+	BBB+
Standard & Poor's	Stable	BBB-	BBB-
Clydesdale Bank PLC			
Moody's[2]	Stable	A3	Baa1
Fitch	Stable	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 March 2022, Standard & Poor's affirmed Virgin Money UK PLC's and Clydesdale Bank PLC's ratings with stable outlook, reflecting their view that the Group will maintain a sound capital position, deliver statutory profit for full-year 2022 and maintain strong asset quality metrics. This rating reflects the agency's view of the UK economy at the time, coupled with the Group's improving asset quality outlook, conservative risk appetite and robust provisioning.

In June 2022, Moody's upgraded the long-term ratings of Virgin Money UK PLC and Clydesdale Bank PLC by 1-notch, reflecting the closure of payment protection insurance (PPI), finalisation of integration, stable asset quality during the pandemic and strong allowance against loan losses, sound funding & liquidity position and new long-term CET1 target of 13–13.5%. At the same time Moody's reaffirmed the 'Stable' outlook on all of Virgin Money UK PLC's and Clydesdale Bank PLC's ratings.

In July 2022, Fitch affirmed the ratings of Virgin Money UK PLC and Clydesdale Bank PLC with 'Stable' outlook.

As at 20 November 2022, 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 risk is not a material risk for the Group.

Exposures

The Group's principal exposure comes from structural interest rate risk. 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 Overnight Index Average (SONIA); and
- customer optionality, for example, the right to repay borrowing in advance of contractual maturity dates.

The Group provides foreign exchange products and 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 not a material component of the Group's risk profile. Controls include the hedging of these products as and when they arise.

Measurement

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

Risk classes

Financial risk continued

The key features of the internal interest rate risk management model 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;
- economic value of equity is measured in line with 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);
- 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; and
- credit spread risk in the banking book (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.

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.

The Group uses derivative financial instruments to manage interest rate and foreign currency risk within approved limits. 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 3.6 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 3.6 to the Group's consolidated financial statements.

Monitoring

Model parameters and assumptions 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.

	Duration risk[1]		Credit spread	
Value at Risk (audited)	2022 £m	2021 £m	2022 £m	2021 £m
As at 30 September	**17**	2	**41**	45
Average value during the year	**19**	2	**48**	48
Minimum value during the year	**14**	1	**41**	45
Maximum value during the year	**27**	3	**52**	52

(1) The history set for duration risk VaR was increased from two years to ten years and the holding period increased from one day to one year from 1 October 2021 under internal methodology. This results in the significant increase in the reported risk positions year on year with the change in parameters resulting in larger rate shocks applied in the VaR analysis.

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 represent the primary NII sensitivities assessed internally, though a range of scenarios are assessed on a monthly basis.

12 months NII sensitivity	30 Sept 2022 £m	30 Sept 2021 £m
+ 25 basis point parallel shift	**18**	30
+100 basis point parallel shift	**66**	100
- 25 basis point parallel shift	**5**	(23)

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 classes

Financial risk 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 full rate pass on in the rate fall scenario, subject to internal product floor assumptions. In the rate rise scenario administered products receive a rate pass on in line with internal scenario specific pass on assumptions;
- 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.

	2022 £m	2021 £m	Interest rate duration	Optionality	Basis	Credit spread	Foreign exchange
Assets							
Financial assets at amortised cost							
Loans and advances to customers	**71,751**	71,876	•	•	•		•
Cash and balances with central banks	**12,221**	9,711	•		•		
Due from other banks	**656**	800	•		•		•
Financial assets at FVTPL							
Loans and advances to customers	**70**	133	•	•	•		•
Derivative financial instruments	**342**	140	•		•		•
Other financial assets	**8**	20	•				•
Financial instruments at FVOCI	**5,064**	4,352	•		•	•	•
Other assets	**1,795**	2,068	•				•
Total assets	**91,907**	89,100					
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	**65,434**	66,971	•	•	•		•
Debt securities in issue	**8,509**	7,678	•		•		•
Due to other banks	**8,502**	5,918	•		•		•
Financial liabilities at FVTPL							
Derivative financial instruments	**327**	209	•		•		•
Other liabilities	**2,795**	2,851	•				•
Total liabilities	**85,567**	83,627					

Risk classes

Financial 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.

30 September 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 assets at amortised cost							
Loans and advances to customers	7,293	8,796	13,234	41,514	1,699	(785)	71,751
Cash and balances with central banks	10,765	12	37	196	–	1,211	12,221
Due from other banks	656	–	–	–	–	–	656
Financial assets at FVTPL							
Loans and advances to customers	–	30	4	16	20	–	70
Derivative financial assets	–	–	–	–	–	342	342
Financial assets at FVOCI	1,265	525	320	1,159	1,733	62	5,064
Other assets	40	38	113	604	–	1,008	1,803
Total assets	20,019	9,401	13,708	43,489	3,452	1,838	91,907
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	7,026	18,725	13,449	26,077	–	157	65,434
Debt securities in issue	3,606	191	432	4,686	–	(406)	8,509
Due to other banks	8,438	12	–	–	–	52	8,502
Financial liabilities at FVTPL							
Derivative financial instruments	–	–	–	–	–	327	327
Other liabilities	1,717	–	–	–	–	1,078	2,795
Equity	–	264	573	3,306	350	1,847	6,340
Total liabilities and equity	20,787	19,192	14,454	34,069	350	3,055	91,907
Notional value of derivatives managing interest rate sensitivity	16,448	(359)	(239)	(12,146)	(3,704)	–	–
Total interest rate gap	15,680	(10,150)	(985)	(2,726)	(602)	(1,217)	–
Cumulative interest rate gap	15,680	5,530	4,545	1,819	1,217	–	–

Risk classes

Financial risk continued

30 September 2021	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 assets at amortised cost							
Loans and advances to customers	3,978	12,399	14,199	39,732	1,568	–	71,876
Cash and balances with central banks	8,182	12	37	196	–	1,284	9,711
Due from other banks	538	262	–	–	–	–	800
Financial assets at FVTPL							
Loans and advances to customers	–	83	8	20	22	–	133
Derivative financial assets	–	–	–	–	–	140	140
Financial assets at FVOCI	1,147	537	228	1,172	1,268	–	4,352
Other assets	–	38	113	604	–	1,333	2,088
Total assets	13,845	13,331	14,585	41,724	2,858	2,757	89,100
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	4,619	27,599	11,877	22,874	2	–	66,971
Debt securities in issue	2,329	272	198	4,879	–	–	7,678
Due to other banks	5,918	–	–	–	–	–	5,918
Financial liabilities at FVTPL							
Derivative financial instruments	–	–	–	–	–	209	209
Other liabilities	–	–	–	–	–	2,851	2,851
Equity	723	421	573	3,756	–	–	5,473
Total liabilities and equity	13,589	28,292	12,648	31,509	2	3,060	89,100
Notional value of derivatives managing interest rate sensitivity	21,786	(1,891)	(7,089)	(10,415)	(2,391)	–	–
Total interest rate gap	22,042	(16,852)	(5,152)	(200)	465	(303)	–
Cumulative interest rate gap	22,042	5,190	38	(162)	303	–	–

Risk classes

Financial risk continued

LIBOR replacement

The Group's LIBOR cessation programme successfully met the 2021 GBP regulatory and industry milestones. Treasury proactively transitioned all external transactions across issuance, hedging and liquid assets and over 90% of Business Lending customer transactions also switched from LIBOR to alternative reference rates (ARRs), with numbers continuing to reduce.

The Group engaged with the BoE's Working Group on Sterling Risk Free Reference Rates and other industry forums in transitioning to SONIA/ARRs and ensured the risks of being unable to offer products with suitable reference rates are mitigated and that full consideration is given to the other risks, including legal, conduct, financial and operational risks, that may arise.

As at 30 September 2022, all market-facing derivative flows are executed against SONIA. The focus for 2023 is ongoing management of the small business lending tough legacy and USD cohort. Processes have been implemented to ensure continued effort to move customers off synthetic LIBOR to ARRs throughout 2022.

Financial instruments that have yet to transition to alternative benchmark rates are summarised below:

Amounts yet to be transitioned (audited)

30 September 2022	Non derivative financial assets – carrying value[1][2] £m	Non derivative financial liabilities – carrying value £m	Derivatives – nominal amount[1][3] £m
GBP LIBOR	**94**	**–**	**67**
Other[4]	**164**	**–**	**–**
Cross currency swaps			
GBP LIBOR to USD LIBOR			**–**
Total	**258**	**–**	**67**

30 September 2021	Non derivative financial assets – carrying value[1][2] £m	Non derivative financial liabilities – carrying value £m	Derivatives – nominal amount[1][3] £m
GBP LIBOR	2,037	–	4,754
Other[4]	157	–	–
Cross currency swaps			
GBP LIBOR to USD LIBOR			95
Total	2,194	–	4,849

(1) Excludes exposures that are expected to expire or mature before the Interbank Offered Rate (IBOR) ceases.

(2) Gross carrying amount excluding allowances for ECLs.

(3) 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.

(4) Comprises financial instruments referencing other IBOR rates yet to transition to alternative benchmark rates (Euro, USD, AUD).

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.

Defined benefit pension schemes provide a promise to pay members a pre-determined level of income at retirement which is independent of the contributions, investments and returns (the scheme assets) used to fund these benefit promises (the scheme liabilities). The operation of a defined benefit pension scheme gives rise to several risks, for example, movements in equity valuations, changes in bond yields, life expectancy of scheme members, movements in interest and inflation rates and changes in legislation. The Group also supports a defined contribution scheme, however the nature of this type of scheme places the investment and liability risk on the member rather than the Group.

Pension risk is the risk that, at any point in time, the value of the scheme assets is not enough to meet the current or expected future value of the scheme 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.

Risk appetite

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.

Assets

The Trustee governs investments according to a Statement of Investment Principles. This is reviewed and agreed by the Trustee Board on a regular basis, with the Bank consulted on any proposed changes. The Statement of Investment Principles 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 sets out the Scheme objectives and the journey plan to meet these objectives.

This results in an appropriate mix of return-seeking assets as well as liability matching assets to better match future pension obligations. The split of Scheme assets is shown within note 3.9 of the Group's consolidated financial statements. The fair value of the assets was £3.2bn as at 30 September 2022 (2021: £4.6bn).

Risk classes

Financial risk continued

Liabilities
The retirement benefit obligations are a series of future cash outflows with relatively long duration and are responsive to movements on many of the inputs including interest rates. On an IAS 19 basis these cash flows are primarily sensitive to changes in the expected long-term price inflation rates (Retail Price Index (RPI)/Consumer Price Index (CPI)), the life expectancy of members and the discount rate (linked to yields on AA corporate bonds):

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

The actual outcome on Scheme valuations will also be affected by hedging and investment decisions made by the Trustees and inflationary caps within the terms of the Scheme.

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

- CET1 capital – while an IAS 19 surplus will increase the Group's balance sheet assets and reserves, any such amount is not recognised for the purposes of determining CET1 capital. However, an IAS 19 deficit, 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.

Within the Scheme itself, risk arises because the assets (e.g. equities, bonds/gilts, property) are exposed to market valuation movements, within and between asset classes, while the liabilities are more sensitive to interest rate and inflation rate changes, and changes in other actuarial assumptions which may not be borne out in experience, for example life expectancy.

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.

Several other activities have been implemented by the Group and Trustee with the specific aim of reducing risk in the Scheme, including increasing the levels of inflation, interest rate hedging and several member benefit reforms, culminating in closure to future accrual for most members.

The Group has signed a contingent security arrangement to provide the Trustee with protection to partially mitigate the risk of adverse changes impacting the Scheme's assets or liabilities. This arrangement also provided security for the Group's obligations under a Recovery Plan, however all payments subject to that Plan have now been made. Further information is shown within note 3.9 to the Group's consolidated financial statements.

The Bank and the Trustee continue to explore other cost-effective options to further reduce risk within the Scheme, for example, approaches for hedging against longevity risk.

Monitoring
Information on the Scheme's current valuations, asset holdings and discount and inflation rate assumptions are presented to ALCO. 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 independently monitored by the Scheme investment adviser, Willis Towers Watson, 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.

Liability Driven Investment (LDI) portfolios are commonly used by pension schemes to protect against adverse movements in interest rates and inflation. In the case of interest rates, this protects against falls in rates which increase the value of a scheme's liabilities. The general trend since LDI strategies were introduced has been long-term interest rates falling, and LDI has helped schemes to maintain more stable and improved funding positions. However, when interest rates rise instead of fall, LDI derivatives require collateral to be posted in order to maintain the same level of interest rate and inflation protection. Therefore sufficient liquidity is needed to meet such a collateral call.

Within the Scheme's matching assets there is an 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 2022, the LDI portfolio was valued at £968m.

Over the year to 30 September 2022, gilt yields have risen significantly. The Scheme therefore posted additional collateral, resulting in there being net £335m collateral posted by the Scheme as at 30 September 2022 (compared to net £65m collateral posted by the counterparties as at 30 September 2021). As at 30 September 2022, the Scheme is still estimated to have sufficient collateral headroom available to meet further rises in interest rates of more than 3%. The Scheme also has over £1bn of further assets which could be liquidated within a week if needed to meet collateral calls.

Although increased collateral postings have been required, the Scheme's funding position for IAS 19 purposes has improved over the year to 30 September 2022. The IAS 19 position continues to drive the Group's Pillar 2A and regulatory stress testing processes.

The next Triennial Valuation is due to complete by end FY23 (effective date 30 September 2022). The Trustee funding position at 30 September 2022 is a surplus, indicating no further contributions will be required.

Model risk

Well managed and optimised model risk life cycle to generate positive outcomes for stakeholders.

The Group 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. It also considers broader aspects within the model environment which may represent distinct and separable entities or be intrinsically linked to model structures and are a sub-classification of the model definition.

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.

The Group's appetite for model risk is defined and articulated in the Group RAS. Model risk 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 both Board Risk Committee and the MGC. The escalation of material model issues from MGC can be made to Executive and Board Risk Committees if appropriate.

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, 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.

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 Oversight 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

Implementing regulatory change and ensuring compliance.

Regulatory and compliance risk is the risk of failing to understand and comply with relevant laws and regulatory requirements; not keeping regulators informed of relevant issues; not responding effectively to information requests nor meeting regulatory deadlines; or obstructing the regulator.

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 ensures 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 colleagues and regulators, escalating all issues they would reasonably expect to be made aware of.

Exposures
The Group remains exposed to regulatory and compliance risk as a result of significant ongoing and new regulatory change. This is expected to increase as consumer and regulatory expectations rise and the country reacts to the macroeconomic outlook 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 regulatory breaches, and past due regulatory implementations and actions. Thresholds are set and form part of the Board-approved RAS.

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

- a clearly defined regulatory and compliance policy statement (with supporting policy standards) and RAS signed off by the Board;
- 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;
- consideration of regulatory requirements in the context of product and proposition development and associated appropriate governance;
- oversight of key regulatory implementations including the new Consumer Duty;
- oversight of regulatory and compliance risks and issues in relevant governance bodies;
- 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 monitoring plan, approved by the Board Risk Committee on an annual basis, independently assesses areas of the control framework underpinning compliance with laws and regulations.

Conduct risk

Delivering good customer outcomes across all our channels.

Conduct risk is the risk of undertaking business in a way which is contrary to the interests of customers, resulting in the delivery of inappropriate customer outcomes, customer harm, regulatory censure, redress costs and/or reputational damage.

Risk appetite
The Group is committed to acting in the interests of its customers and has no 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 transition to digital channels, and with the significant changes in customer journeys and behaviours that evolved during the pandemic and the recent macroeconomic environment. The FCA's new Consumer Duty, sets a new regulatory standard for conduct, which comes into force in July 2023.

Measurement
Conduct risks are measured against a defined set of Board-approved risk appetite metrics, which are focused on the main areas of regulatory attention such as complaints, vulnerable customers, quality of advice and treatment of customers in financial difficulty.

Mitigation

The following controls and procedures help to mitigate conduct risk:

- clearly defined Conduct Risk Policy Statement (with supporting policy standards) and RAS signed off by the Board;
- ongoing development, maintenance and reporting of conduct risk appetite measures to the Executive Risk Committee, the Board Risk Committee and the Board;
- consideration of conduct risk in the context of product and proposition development and associated appropriate governance;
- regular management review of end-to-end conduct reporting, centred on core product areas and aligned to relevant businesses;
- oversight of conduct risks and issues through relevant governance bodies;
- analysis of customer experience data as well as complaint handling quality, volumes and root causes are discussed in relevant governance bodies, with actions agreed and tracked;
- 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;
- a risk-based monitoring framework, designed to monitor compliance with regulation and assess customer outcomes; and
- a comprehensive plan, agreed by the Board, to implement the FCA's new Consumer Duty.

Monitoring
All three lines of defence consider conduct risk as part of their oversight and monitoring activities. A risk monitoring plan, approved annually by the Board Risk Committee, independently assesses the control framework underpinning the Group's conduct risk management to ensure customers are receiving good outcomes and products are designed and sold to meet their needs. The Group also works to ensure that customer expectations are met and complaints are dealt with effectively and fairly.

Operational and resilience risk

Proactive operational and resilience risk management with enhanced risk frameworks.

Operational and resilience 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 and resilience risk, with oversight from the Risk function, and independent assurance activities undertaken by Internal Audit. A new Operational Risk Committee has been established to provide oversight of the Group's 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 and resilience 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 and resilience 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:

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 is enhancing its third-party RMF and oversight approach, with ongoing performance management and assurance undertaken, to ensure that supplier relationships are controlled effectively.

Measurement
Material operational risk and resilience 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 are recorded under two Basel categories: 'External fraud' and 'Execution, delivery and process management'. The volume of External fraud losses accounted for over 93% 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]	**2022**	2021	**2022**	2021
Business disruption and system failures[2]	**0.8%**	1.6%	**0.6%**	3.7%
Clients, products and business practices	**1.0%**	1.4%	**3.9%**	0.9%
Damage to physical assets	**1.7%**	1.4%	**1.7%**	1.7%
Execution, delivery and process management	**2.6%**	9.4%	**8.0%**	24.8%
External fraud	**93.6%**	86.2%	**85.3%**	68.9%
Internal fraud	**0.3%**	–	**0.5%**	–

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

(2) Figures may not match those presented in 2021, 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 contagion 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.

Technology and cyber risk

Enabling integrated and timely responses for the continuous protection of business critical technologies.

Technology risk is defined as the risk of loss resulting from inadequate or failed information technology processes through strategy, design, build or run components internally or externally provisioned. It includes IT Resilience as well as Cyber and Information Security.

Risk appetite
Technology risks are measured against a set of defined RAS metrics and reported to Executive and Board Committees. The Group aims to provide a superior level of support and continuity of services to customers and stakeholders on a consistent and uninterrupted basis. However, the Group accepts that this is not always possible and tolerates a level of technology risk associated with internal or external events but will take immediate steps to recover within agreed tolerances and minimise customer disruption.

Exposures
The Group's exposure to technology risk is materially impacted by the need to enhance digital capabilities, simplify our technology estate and mitigate evolving cyber and information security threats. Technology risk is comprised of the following risk categories:

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 – Our Head of Information Security & Resilience is responsible for ensuring robust cyber and information security policies and controls are in place and operating effectively. 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 Information Security & Resilience 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. Our strategic plan is to move to Payments as a Service which is being driven through the Payment Infrastructure Project. This will support successful implementation of required industry changes while improving the resilience of our 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.

Measurement
The Group has a number of key risk indicators that cover the risk areas outlined above. In addition, Board-approved RAS metrics are monitored and reported monthly, with breaches escalated to the Board. All technology risks are assessed using the RMF and are monitored and challenged by the Risk function in line with functional and corporate governance.

Mitigation
Through organisational design and management focus, considerable investment has been put into the risk categories by the Group. Technology risk policies, frameworks, thematic assurance reviews and oversight routines ensure that technology risk is identified, measured, monitored and reported on by the first line of defence and overseen by the second and third lines of defence.

Monitoring
Business units are responsible for day-to-day management of technology risk, with oversight from Risk, and independent assurance by Internal Audit. The Group conducts a series of planned independent assurances, deep dives, change assurance and continuous monitoring activities.

Financial crime and fraud risk

Investing in our financial crime and fraud prevention capabilities.

Financial crime and fraud 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
Financial crime and fraud 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
Financial crime and fraud 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 for further financial crime.

Measurement
All financial crime standards are reflected in the Group policy standards, financial crime prevention manual, and supporting technical standards, the content of which is provided by the Financial Crime and Fraud 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 financial crime and fraud risk policy statement (with supporting policy standards) and RAS signed off by the Board;
- ongoing development, maintenance and reporting of risk appetite measures for financial crime and fraud 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 ensure ongoing effectiveness;
- consideration of financial crime and fraud risk in the context of product and proposition development and associated appropriate governance;
- investment to maintain compliance and progress with key implementations such as the recent successful implementation of Confirmation of Payee for our customers;
- 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 financial crime and fraud 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.

Strategic and enterprise risk

Supporting the Group's strategy while keeping our customers and colleagues safe.

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, or failing to respond to climate change risks in our direct and indirect operations.

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 present risks to the strategic plan and the Group's ability to grow. The Group has considered this uncertainty and potential challenges as part of the FY23 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 FY23 projects are 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.

People risk

Supporting our colleagues to build a successful, customer-centric business.

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.

The Group's A Life More Virgin programme brings our colleagues more choice, control and flexibility to live and work how they choose, while fostering a diverse culture. This engages and encourages colleagues to deliver customer-focused outcomes with a clear set of supporting Values and Behaviours and is an important element in mitigating people risk.

Risk appetite

The Group does not accept a material increase in risk as a result of colleagues not conducting themselves in the manner expected, nor does the Group act in a manner that may affect the health and well-being of colleagues. The Group does not take intentional action that may adversely impact on its ambition to build an inclusive culture and continues to embed activities that support the required cultural change.

Exposures

People risk, such as attrition and capability and capacity, is inherent in the day-to-day operation of the business and is controlled through Purpose, Values, Behaviours and policies, and embedded through our people practices.

Measurement

The Group has a range of RAS metrics in place which help to measure and report people risk.

The Group's 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.

Mitigation

People risk is mitigated in three core ways:

- *Managing people risk across the Group:* The changing internal and external environment raises challenges relative to the Group's ability to manage people risk, as part of the overall business strategy. The transformation of the banking industry is changing the demand for skills, particularly in relation to technology, information security, serving customers digitally and responding to market developments. The Group's operating controls are effective in managing these risks and there is a focus on the Group's ability to plan and predict resource needs, cost and the impact of the increased use of technology. The Group's strategy has implications for colleagues and creates an increased level of people risk during periods of uncertainty. Therefore, material structural changes will follow organisational design principles, the Senior Manager and Certification Framework and have appropriate governance.
- *Managing the people management framework:* Controls are deployed effectively by people leaders and senior management in the day-to-day management of people risk. People risk indicators are constantly reviewed to determine if any systemic issues exist and to agree appropriate remediation. These include health and well-being, succession and conduct.
- *The role of the HR function:* HR partners support the Executive Leadership Team and provide broader support to colleagues regarding all matters impacting the colleague life cycle, which runs from recruitment to leaving the Group. The Group has a three-tier model incorporating: ourPeople (web-based); HR Services, supported by specialist teams like reward, organisational development, payroll, case management; and full business partnering.

Monitoring
People risks are monitored and reported through Executive and Board Committees. Internal Audit will carry out independent deep dives in specific areas of the business, to complement existing reporting and measure alignment between actual and intended culture.

Stress testing
The people risks associated with a stressed scenario are automatically captured and analysed through the Group's suite of operational risk scenarios. These scenarios consider both the colleagues needed to maintain services to customers, as well as the key subject matter experts needed to keep critical functions operating while under duress.

Climate risk

Proactively managed and pre-emptively mitigated.

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 is building tools and increasing data capabilities to support climate risk assessment and, therefore, we expect risk appetite metrics and limits to continue to evolve.

Exposure
Physical risks arise from longer term changes in the climate and weather-related events, 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
Climate risks are measured against Board-approved RAS metrics in addition to a suite of key risk indicators which monitor risk against appetite set by the wider climate risk policy framework.

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 thinking evolves.

Mitigation
During 2022 climate risk was elevated to a principal risk which has resulted in establishing a specific climate risk policy framework. The framework 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 and strategic Group objectives. The Risk function provides oversight of the Group's development of its processes and systems developed to monitor and mitigate climate risk.

Further detail on how the Group identifies, manages and mitigates climate risk is included in our TCFD report overleaf.

TCFD

Task Force on Climate-related Financial Disclosures report

TCFD report

Welcome to our second annual Task Force for Climate-Related Financial Disclosures report. Here at Virgin Money, we've been busy progressing our climate strategy and we're proud to present the results of the hard work we've been doing to support transition to a more sustainable future.

Core elements of TCFD

See page 26 of the Strategic report for more detail on our wider ESG strategy.

Our Purpose-led strategy
Our Purpose is Making you happier about money and climate change is a key area within our Purpose-led ESG strategy. We strive to manage our business in a sustainable, climate-friendly way that it is good for the environment and supports long-term growth and resilience.

As a bank, we play a key role in the fight against climate change and our TCFD report details our progress towards a more sustainable future.

Compliance
Per our ESG report on page 41, we have made disclosures consistent with the 2017 TCFD recommendations and recommended disclosures, complying with the FCA Listing Rule 9.8.6R(8).

Our ambition
To be the UK's best digital bank by driving positive environmental impacts in everything we do.

Our big goals
1. Put our (carbon) foot down
2. Build a brighter future
3. Open doors
4. Straight-up ESG

Our climate aspirations for 2030
- Net zero: Operational and supplier emissions
- -50%: At least halve our financed emissions

Our climate commitment for 2050
- Net zero: All direct and indirect emissions

Nearer-term climate targets

50%
Reduction in location-based Scope 1 and 2 emissions by 2025*
2022: 12%

80%
Reduction in market-based Scope 1 emissions by 2022
2022: 77%†

£500m
Energy and Environment lending balance by 2025*
2022: £224m

10%
Of all business lending to sustainable businesses by 2027
2022: 5.3%

50%
Increase in new greener mortgage lending every year‡
2022: 908% (£118m increase)

>50%
Of the mortgage portfolio to have EPC ratings of C+ by 2030
2022: 38%

* 30 September 2020 baseline.
† Target was not met this year, despite the Group's reduction in energy consumption. This is due to an increase in the UK Government's emissions factor, which is used in the calculation.
‡ 30 September 2021, £13m baseline.

Our stakeholders

The combination of our Purpose-led strategy, our ambition and our big goals ensures we deliver for all of our stakeholders

Customers
Delivering greener propositions to support our ambition of Making you happier about money

Colleagues
Empowering our colleagues to live A Life More Virgin, and fostering a climate-focused culture to help colleagues live our Values

Society
Making sure we're doing our part to tackle climate change, support local communities and protect the environment

Investors
Aspiring to be a greener business providing sustainable returns

Partners and suppliers
Ensuring our supply chains reflect our environmental ambitions

Government and regulators
Supporting policies and initiatives for transitioning to a sustainable future

1 Strategy

Driving our ambitious ESG strategy to support our customers and society as they transition to net zero.

Introduction
Climate change represents one of the most urgent challenges to global society. Our collective response requires innovative approaches to mitigate the far-reaching environmental, economic and social impacts that will extend across all sections of society and stakeholder groups. These range from changes in mean temperatures, increasing frequency of extreme weather events, changes to our global economic systems and the emergence of climate refugees.

As one of the UK's largest banks, we have an important role to play in facilitating the country's transition to a low-carbon economy, while leveraging the opportunities and managing the risks the Group is exposed to from climate change. We are committed to working with our stakeholders to realise the ambitions of the Paris Climate Agreement, as well as the further sustainability initiatives and plans agreed at COP26, to support society's low-carbon transition and help the world reach net zero.

More broadly, our approach to climate change is anchored against the four big goals of our ESG strategy, detailed overleaf. These goals have been identified as material to our business, and are focused on where we believe the Group can have the greatest impact to the environment and society.

The disclosures included in the TCFD report are considered to provide sufficient detail to enable our customers, colleagues and communities to assess the Group's exposure to and management of climate-related issues, as well as an assessment of its key opportunities.

Our progress
2022 represented a significant year for advancing Virgin Money's delivery of its net-zero commitments. Our TCFD summary on page 41 of the ESG report provides an overview of the work carried out across all 11 recommendations, as well as the areas of future focus to develop our capabilities and strength of response.

During the year, the Group performed detailed climate risk assessment exercises to identify the impact to the Group from physical and transitional risks, which included a materiality rating across associated time horizons. As discussed on page 29, the Group also performed a materiality assessment which reaffirmed a significant increase in the materiality of climate change, which supports the focus we are placing on climate risk management in our strategy.

Following extensive analysis of the Group's priority sectors, decarbonisation plans covering c.82% of the Group's lending portfolio have also been developed to support the delivery of the required reductions in emissions. Combined with the societal changes in our key sectors, these initiatives will drive us toward net zero across everything we finance.

The work undertaken in 2022 sets strong foundations for our future delivery, through embedded governance, enhanced capabilities, and more insightful climate analysis. However, we recognise there is still significant work required to deliver net zero both internally and externally. The Group has plans in place to deliver carbon reduction initiatives across the remainder of our lending portfolio in FY23, as well as pursuing decarbonisation opportunities within our wider value and supply chains.

Our ongoing development of climate-related data will underpin this and help improve the Group's approach, especially in relation to Scope 3 emissions.

In the longer term, following extensive analysis, including the development of science-based targets, the Group is committed to reviewing its existing ambition to 'at least halve the emissions across everything we finance by 2030' in FY23, once the remaining carbon intensive sectors have been delivered. Our strategy aims to support and educate customers through the transition, offering valuable propositions that address their needs, while reducing our own carbon footprint.

TCFD report

1 Strategy continued

Our enterprise climate framework

Our climate framework has been developed to steer the Group towards net zero by 2050, in line with UK Government commitments and the goals of the Paris Agreement:

Group purpose

Making you happier about money

Climate ambition

Enterprise Net Zero by 2050

Guiding principle

Support our customers through the UK's transition to net zero and embed consideration of climate change risks and opportunities across the Bank for the benefit of all stakeholders

ESG goals / Core initiatives

1 Put our (carbon) foot down

Reduce the impact our operations have on the environment

- 100% green gas and electricity
- Zero waste to landfill
- Scope 1 and 2 emissions reduction
- CDP engagement
- Continued reductions in paper usage

2 Build a brighter future

Support customers in their transition to a low-carbon economy

- Sustainable Business Coach
- Sustainability-linked loans
- Greener Mortgages and retrofit proposition
- Agri E Fund
- Accelerating energy and environment lending
- Engagement: customer research, government consultations, partnerships and collaborations

3 Open doors

Embed climate considerations into the Bank's decision making

- Engaged colleagues through ESG Board Jam
- Environment Committee leading the Bank through change
- ESG embedded into strategic and financial planning cycle
- Board engaged in quarterly ESG updates
- Calculating financed emissions

4 Straight-up ESG

Identify and manage the impacts of climate change on the business

- BRC engagement in climate scenario analysis
- Climate Risk Team created
- Climate-related enhancements to RMF
- Sensitive sector statement

Integrating climate data capability across the whole business

Enablers

- **Enhanced climate governance and accountabilities**
- **Dedicated climate training for colleagues**
- **Transparency and disclosure of climate-related commitments and performance**
- **Public- and private-sector collaboration**

Core beliefs

It's important: One of the most urgent challenges facing society with far-reaching environmental, social and economic consequences for our customers and the Bank

We have a key role to play: in facilitating the UK's transition to Net Zero and in managing the associated risks and opportunities to ensure the Bank's long-term sustainable growth and resilience

But cannot do it alone: Solving the climate crisis and getting to Net Zero will require collaboration across the public and private sectors. Collaboration with, and action by government, peers, industry bodies, regulators and clients will be critical

SDG alignment

- 12 Responsible consumption and production; 13 Climate action
- 7 Affordable and clean energy; 8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 13 Climate action
- 1 No poverty; 5 Gender equality; 8 Decent work and economic growth; 10 Reduced inequalities
- 16 Peace, justice and strong institutions

TCFD report

1 Strategy continued

Goal 1

Reduce the impact our operations have on the environment

Virgin Money has a strong history of ensuring we make as minimal impact to the environment as possible; this extends beyond our own direct operations, to include those of our suppliers and contractors. We continue to ensure minimisation of our impact, including sourcing 100% renewable electricity and engaging our suppliers through the CDP Supplier Programme.

Goal 2

Support customers in their transition to a low-carbon economy

Given our position as the UK's 6th largest bank, it is central to our strategy to not only provide the finance, but also the guidance to help customers transition to a low-carbon economy. This includes both lending to sustainability changemakers, as well as developing propositions that equip customers to decarbonise their businesses and homes. We are guided by our sensitive sector policy and PCAF calculated emissions methodology.

Goal 3

Embed climate considerations into the Bank's decision making

The threat posed by climate change requires a fundamental change in the structures designed to do business. Embedding climate considerations into our decision making to deliver not only net zero, but value to our stakeholders, has presented a shift from traditional business models. This includes engaging at Board and local level to ensure climate is embedded into corporate planning, and adjusted accordingly as external factors develop and internal processes mature.

Goal 4

Identify and manage the impacts of climate change on the business

Ensuring the Group is set up with the right skills and structure to identify the short, medium and long-term effects of climate change on the business. This includes ensuring the right people, systems and processes are in place to monitor the ongoing and expected impacts of climate change and adjust the Group's overall strategy accordingly.

Description of time horizons

The Group considers the impacts of climate change across different time horizons, as described in the table below. These time horizons take into account the longer-term nature of climate risks and are aligned to those used internally within our climate risk assessments, as well as our broader strategy and financial planning cycles. Our consideration of time horizons will evolve as we continue to better understand our climate-related risks and opportunities and track progress against our net-zero strategy.

Time horizons	Description
Short term (0-1 years)	The time horizon for annual financial planning
Medium term (1-5 years)	The time horizon for strategic and financial planning cycles and interim climate-related targets
Long term (>5 years)	The time horizon for matters occurring beyond the Group's financial planning cycle; considered through the use of scenario analysis and over which the most material financial risks from climate change are likely to crystallise

Description of risk types

Risk	Description	Climate risk driver	Time horizon
Physical risk	Physical risks arise from longer-term changes in the climate and weather-related events, rising average temperatures, heatwaves, droughts, floods, storms, sea-level rise, coastal erosion and subsidence.	> Increased occurrence and severity of flood events. > More frequent severe weather events or general change in climate trends. > Increased occurrence and severity of subsidence caused by increased precipitation followed by increased periods of drought. > Chronic risk of coastal erosion.	Long term
Transition risk	Transition risks arise from the adjustment towards a low-carbon economy and could lead to changes in risk appetite, strategy, policy, technology and sentiment.	> Development of climate-related government policy and legislation. > Advances in technology through transitioning to a carbon-neutral economy. > Changing and more demanding societal, investor or regulatory expectations. > Shift in customer behaviour and preference for 'greener' products.	Medium term

Goal 1 – Reduce the impact our operations have on the environment

Potential opportunity	Description	Time-horizon	Progress
Green gas and electricity	100% of biogas and electricity is supplied to our UK stores and offices, where the Group is responsible for the supply.	Short	In 2022, we continued to source 100% of our gas and electricity from renewable sources, reducing the direct impact of location-based energy consumption from our stores and Property network by 50% in FY25. The Group will continue to review contracts and select renewable sources on renewal.
Waste	Ensuring zero waste is sent to landfill from the Group and its suppliers.	Short	The Group and its suppliers continue to deliver zero waste to landfill, which has consistently been achieved since 2014. We will continue to pursue opportunities to re-use and recycle materials wherever possible to further reduce the impact of waste.
Scope 1 and 2 emissions reductions	Reducing the carbon footprint from our own operations by 50% from a 2020 baseline.	Medium	The Group has delivered a 12% reduction in Scope 1 and 2 emissions, against a target of 10% for FY22. This is partly delivered through our property efficiency programmes, and we will continue to pursue further opportunities including LED lighting, more energy efficient HVAC systems, replacement of less efficient overhead heaters and replacement of end-of-life gas boilers.
Carbon Disclosure Supplier Programme	Engaging with 100 suppliers through the Carbon Disclosure Supplier Programme to support our aspiration for 2030 to achieve net-zero supplier carbon emissions.	Long	The Group achieved a response rate of 94% from 100 of our suppliers on the 2022 CDP questionnaire. This has enabled a better understanding of the environmental impacts and issues in our supply chain. We will continue through FY23 to educate our supply base on the Group's ambition to achieve net zero in supplier emissions by 2030, and will work collaboratively with suppliers on our roadmap to net zero.
Paper usage	Reducing the Group's paper consumption.	Short	In 2022, we reduced paper by a further 20%, to c.488 tonnes. We will continue to explore opportunities to reduce paper usage, including our promotion of digital communications for customers and paperless office environments, bolstered by our strategic ambition to be the UK's best digital bank.

Goal 2 – Support customers in their transition to a low-carbon economy

Potential opportunity	Description	Time-horizon	Progress
Greener lending – Business	Providing lending to businesses that are supporting the transition to a low-carbon economy or driving positive social change.	Short	In 2022, we provided £435m of loans to Sustainability Changemakers, comprising 5.3% of Business lending. These are loans to businesses whose core activities enable others to operate in a more economical and environmentally sustainable way. We will explore ways to expand our sustainability-linked loans product offering by utilising data captured by our Sustainable Business Coach to facilitate offerings aligned to our science-based targets.
Greener lending – Mortgages	Mortgages to incentivise energy-efficient residential properties.	Medium	In 2022, we attracted >700 applications, worth c.£200m, of Greener Mortgages, which rewards our customers for purchasing an energy efficient new-build home (EPC rating of A or B). We ended the year with c.500 completions worth £131m and continue to explore ways to incentivise greener purchases. We will expand the Greener Mortgage proposition next year to include BTL purchases and existing home owners, contributing to our target of 50% total portfolio coverage of EPC C or above by 2030.
Accelerating Energy & Environment lending	Delivering lending to businesses or projects that support the energy transition.	Medium	In 2022, we reached £224m of lending to businesses that facilitate the energy transition, and we are on track to deliver £500m of Energy & Environment lending by FY25. Energy & Environment lending includes alternative power sources such as hydro, wind and other renewables, which will play a key role in delivering our 2030 interim targets.
Agri E Fund	Green lending to businesses in the more carbon intensive Agriculture sector who undertake a carbon audit.	Medium	We launched the Agri E Fund in June 2022, which provides lending with no arrangement fee for customers who borrow for green purposes and undertake a carbon audit. This enables customers to understand their carbon footprint and suggests ways to reduce this over time, while incentivising farmers to invest in green efficiency improvements and meet supply chain requirements. From 2023, we will look to leverage carbon audit data within our emissions calculations and look to upskill our Relationship Managers on ways to manage this with customers.
Improving the fabric of mortgage properties	Delivering incentives and lending to encourage customers to improve the fabric of their properties and install low-carbon heating solutions.	Medium	In 2022, we launched our first existing customer 'green reward' incentive. When customers spend a minimum of £2,500 to 'green' their property, they are rewarded with £250 cashback. The scheme is available to landlords as well as home owners. We are exploring additional lending products to provide all Mortgage customers with bespoke pathways to green their homes, including the installation of insulation, cavity walls, more efficient windows and low-carbon heating technology.
Sustainable Business Coach	Interactive tool allowing businesses to assess their sustainability credentials.	Short	Since we launched the SBC in October 2021, approx. 1,000 businesses have completed the coach. The app is free to any business and simplifies the Future-Fit Business Benchmark, providing an objective assessment of a company's ESG impacts, an overall score, and advice on how to improve the score. This supports our ambition to have 10% of Business lending balances to Sustainability Changemakers by FY27, with inclusion objectively assessed by the SBC. We have embedded this as part of our annual review process for borrowing over £2.5m, and we'll explore ways to enhance its capability.
Customer educational tools	Delivering tools to allow customers to understand their climate impact.	Short	We are exploring further development, to provide educational content to all customers on how they can reduce their climate impact, as well as the support to enable them to do so. Further opportunities, including the development of a central Net-Zero Hub, which will host educational content, are also being pursued in FY23.

Goal 3 – Embed climate considerations into the Bank's decision making

Potential opportunity	Description	Time-horizon	Progress
Environment Committee	Governance Committee responsible for overseeing the Group's climate strategy.	Short	During 2022, the Committee met nine times, overseeing the production of financed emissions, science-based targets and decarbonisation roadmaps and their associated strategic implications, as well as oversight of other ESG matters. The Committee focus in FY23 will provide governance on the execution of existing climate plans, including the ongoing monitoring of climate-related KPIs and investment cases, and the evolution of climate planning across the Group's up and downstream value chain.
Board engagement through Board Jams	Large-scale online 'Jam' to engage with colleagues on the topic of climate.	Short	The Group held its first climate-related Board Jam in May 2022, where 101 colleagues shared their views of the Group's climate priorities with Board members, to further embed climate change as a consideration across all levels of the Group. The outputs of the session have informed development of the commercial and operational climate strategies, and the opportunity to host future sessions will be explored in FY23.
Embedding climate change within corporate and financial planning	Embedding climate plans within the Group's planning cycle, including the incorporation of science-based and other climate targets.	Long	In 2022, KPIs for nearer-term climate tracking have been identified and embedded within the Group scorecard and LTIP measures. Decarbonisation roadmaps have also been integrated into the planning process, with Board oversight of the approved multi-year climate strategy. Focus will turn to execution and additional levers identified through FY23 target setting, ensuring appropriate investment and resource is in place to deliver.
Calculating and expanding coverage of financed emissions	Developing capabilities to measure financed emissions across carbon intensive sectors.	Medium	Expanded coverage of sectors disclosed in FY21 (Mortgages and Agriculture), delivering data quality improvements year-on-year. 82% of the balance sheet has now been analysed, with coverage of the Mortgage portfolio and four priority carbon intensive sectors of the Business portfolio. Focus turns to expanding coverage within disclosed sectors and across other carbon intensive sectors, while enhancing capabilities to deliver improved data quality and counterparty level tracking.

Goal 4 – Identify and manage the impacts of climate change on the business

Potential opportunity	Description	Time-horizon	Progress
Climate scenarios	Scenarios aligned to BoE CBES used to assess key transition and physical risk.	Long	The Group has undertaken an inaugural scenario analysis exercise to identify climate-related risks and opportunities and assess the resilience of our business model. In FY23, we will continue to further develop the sophistication of our scenario analysis capability to ensure the future resilience of the Group's business model.
Climate Risk Team created	Dedicated climate risk team to support the Group's second line of defence on climate-related issues.	Long	During 2022, the newly created Climate Risk Team supported the Group by providing oversight of the processes and systems developed to monitor and mitigate climate risk across the Group and, shaped climate-related policy reporting on a regular basis to Executive and Board Committees on associated progress. A climate risk assessment has also been undertaken to identify the risks of physical and transitional risks to the Group. In FY23, we will use the outputs from the climate risk assessment to further embed climate risk across the Group, draw out further operational risk and expand our policy.
Climate-related enhancements to RMF	Specific climate policy framework created to outline the Group's appetite and approach to climate risk.	Long	Climate risk has been reclassified from a cross-cutting risk to a principal risk during the year, in view of its increasing relevance and materiality to the Group's risk profile. 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.
Sensitive sector statement	Policy to maintain low exposure to sensitive sectors, providing guidance to our front-line employees.	Long	The Group continues to review its sensitive sectors policy to mitigate the impact of our lending on the environment. The sensitive sector statement is visible to front-line staff and credit underwriting teams, and has allowed us to eliminate exposures to higher-risk sectors such as oil and gas extraction, coal mining, coal-fired power generation and deforestation. The Group will continue to review its exposures within related sectors, in-line with the statement. More information can be found on our ESG hub at: www.virginmoneyukplc.com/corporate-sustainability/esg-hub.

1 Strategy continued

Key climate-related risks

Medium-term risks to the Group are mainly transitional in nature, through Government-led legislative changes impacting the Business lending and Mortgage BTL property sectors holding a higher relevance and more immediate time frames within the Group's portfolio. Physical risks represent a longer-term risk, primarily from Mortgage and Agricultural portfolios, with the most material risks expected to crystallise over the long term.

- Longer-term shifts in climate trends and extreme variability in weather patterns may lead to increased incidences and severities of physical risks which, in addition to customer disruption, can lead to a decrease in the valuations of properties taken as collateral to mitigate credit risk. Greater insurance premiums, in addition to tightening minimum energy efficiency standards for domestic buildings, may lead to transition risks that could impact the value of mortgaged properties or the ability of borrowers to service debt.
- The Group may also be exposed to risks through its Business lending portfolio, due to changes in legislation, consumer preferences or technology developments.
- The operational risks the Group is exposed to arise from physical damage to key office or data centre locations and physical and transitional risks from suppliers, which could result in disruption or increased costs.
- Group transition risks are associated with the Group's own transition of operations to a low-carbon economy, which may lead to increased costs, such as potential cost of upgrading our property estate to meet new building efficiency standards.
- There is a strategic risk that the emissions associated with our Mortgages, Business lending and wider operations do not reduce as required to align with an orderly transition to a low-carbon economy.

Processes used to determine material risks and opportunities

Material risks and opportunities have been identified through portfolio assessment, stakeholder surveys and consideration of key trends.

A Group-wide climate risk assessment was undertaken to identify the impact to the Group from physical and transitional climate-related risks, including materiality and associated time horizons. Acute and chronic physical risks were assessed, as well as policy and legal, technological, reputational and market transition risks.

Insight from customers, colleagues and suppliers

- To date, £4bn of our Business lending exposure completed the Sustainable Business Coach app, developed through our relationship with Future-Fit, providing a deeper insight into customers ESG and climate credentials.
- The climate survey was introduced in 2022 for higher value Business customers, to gain an insight on how they are responding to climate risk. Response rates and insights from the survey are outlined within the Metrics and Targets section on page 261.
- As the Group continues its engagement with Business customers on climate-related matters, we will explore ways of capturing and utilising more granular data regarding their climate metrics and transition plans.
- Prior to the launch of the Agri E Fund, the Group coordinated an online survey of Agriculture customers in FY22. 35% of customers had undertaken a carbon audit on their farm (2021: 32%), while 20% intended to during the 12 months which followed (2021: 18%). The survey reached approximately 300 responders and covered the impact of COVID-19, Brexit, and sustainability on agricultural businesses.

Consideration of key climate trends in the UK that are driving both opportunities and risks

- Increasing regulation and policy action;
- Evolving climate reporting and disclosure requirements;
- Continued green energy transition from fossil fuels to low-carbon energy;
- Changing land use and the evolving role of agriculture;
- Commercialisation and adoption of low-carbon technologies;
- Consumer sentiment shifts;
- Innovations in sustainable finance; and
- More proactive investor policies and systematic assessment of climate risks.

We continue to review and assess the risks and opportunities that could have a material impact on the environment and business.

Enablers to our climate approach

There are some fundamental enablers which underpin the progress we are aspiring to make now and in the future.

Enhanced climate data capture and analysis

Building our data capabilities to capture and analyse the associated risks and opportunities, as well as accurately measuring our progress against our Net-Zero targets is critical. As new datasets emerge and methodologies become available, we must be able to integrate climate related data into an easy-to-access format to aid decision making, awareness and risk assessment.

Public and private-sector collaboration

The newly created ISSB issued the first two exposure drafts this year. The Group submitted a response letter for both. These standards will help drive towards consistency and comparability in disclosures with other companies, which the Group is supportive of.

Transparency and disclosure of climate-related commitments and performance

Clear, straight-up communication with our stakeholders is of paramount importance in our journey to delivering net zero. Ensuring timely updates to existing and future targets will allow us to take targeted action where required, and aid consumers of our climate-related reporting in assessing how society as a whole is delivering on ambitious climate targets.

Climate change impact on our business, strategy and financial planning

Supply chain

The Group continues to explore how climate-related data collected from our supply chain can be improved. This will help the Group understand potential third-party risks, and is also an important component in helping the Group achieve its aspiration of net-zero operational and supplier emissions by 2030.

The Group recorded a response rate of 94% from 100 suppliers for the CDP survey. This helps the Group further establish supplier emissions, as well as gaining a better understanding of the environmental impacts and issues in our supply chain.

Operations

Starting the year in a strong position, the Group and its suppliers are continuing to deliver zero waste to landfill. We will strive to further reduce waste and recycle everything we possibly can.

Wherever we're responsible for the supply, 100% of the gas and electricity in our UK stores and offices is generated from green sources. We will maintain these low levels of market-based emissions through continued sourcing of green electricity and biogas and continue to look at reducing market-based emissions to the absolute minimum. We also recognise the reliance on the UK energy grid becoming greener to continue reducing location-based emissions. Our Property strategy sets a clear path to continue to reduce

TCFD report

1 Strategy continued

our overall location-based energy consumption by 50% in FY25 (FY22: 28%, against an FY20 baseline). As we embed new ways of working, the Group reduced its property footprint by c.50%. The Group continued to deliver energy efficiency and carbon reduction initiatives in FY22, including LED light replacements and switching to energy efficient mechanical and electrical assets (heating, cooling, lighting systems, etc) on renewal.

Financial planning
Consideration of ESG is embedded in the financial planning process. Every business case requesting investment must set out whether it is aligned to the ESG strategy. The Group continues to review the shape of the portfolio, in light of new data and evolving societal backdrop.

The science-based targets, developed in line with the Group's NZBA commitments, form the main measurement of progress against emissions reductions required in line with reaching net zero no later than 2050. In addition, the Group has identified a number of operational KPIs, which have been integrated within the Group's wider strategic and financial plans, to measure progress against the net zero strategy. These KPIs are underpinned by the transition plans and are set within the Group's scorecard measures. The Group will continue to embed ESG within the financial planning process.

Virgin Money Unit Trust Managers (VMUTM)
VMUTM, as an investment manager of £3.4bn of funds under management, is updating its investment approach to integrate ESG considerations, and plans to make appropriate climate-related risk and opportunity disclosures. Particular focus is being given to updating the mandates of various funds in the portfolio, to incorporate ESG factors into investment decision making. During the year, the Climate Change Fund has been updated to invest in companies that are seeking to provide environmental solutions or are leading in their environmental practices.

Pensions
In exercising its responsibilities, the Trustee believes that climate-related risks and opportunities can have a material impact on the returns achieved from the Defined Benefit scheme's assets. These assets are managed by external managers and the Trustee's focus, with guidance from its investment adviser, is on monitoring the managers' processes and managing any outsized risks at a total Scheme level, including climate considerations.

The Trustee made good progress integrating climate-related risks and opportunities into its investment processes and shares its policies relating to climate risks with its managers, assessing the policies and practices of managers relative to Trustee's expectations. The Scheme's policies are regularly reviewed, recognising that both regulations and available data are developing rapidly. In line with such developing regulations, the Trustee will publish its first TCFD report by 30th April 2024.

A governance structure is in place, with the Trustee Board responsible for the overarching aims and policies for managing climate risks, delegating responsibility for monitoring and managing these risks to the Investment Sub-Committee. An initial analysis has been undertaken to examine the impact of various future climate scenarios and processes agreed for identifying and assessing climate risk.

The Trustee is supportive of the goals of the Paris Agreement and is aware of the importance of managing the climate transition to the Scheme and its members. The Trustee has taken advantage of opportunities to invest in infrastructure enabling the production of renewable energy. The Scheme has investments in funds owning UK solar assets and wind farms and has made a commitment to a fund financing the construction of renewable energy assets across the globe.

A net-zero target was agreed, and the Trustee now monitors four climate metrics to assess their suitability as primary metrics, as data quality and availability emerges.

Research and development
Investment in research and development to inform risks and opportunities, is an area under active review. The Group developed a set of greener propositions and educational tools for customers and works to improve offerings.

Memberships

Net zero requires collaboration across sectors, so we have partnered with the following organisations to ensure a consistent standard and approach:

Since January 2020, the Group has been a signatory to the UN's Principles for Responsible Banking. This mandates signatories to undertake three steps, which we have continued to develop through the course of 2022:

1. Impact analysis
2. Target setting
3. Reporting

Additionally, the Group signed up to the industry-led, UN-convened NZBA, part of the UN's wider Race to Zero campaign. NZBA forms part of the wider Glasgow Financial Alliance for Net Zero, which brings together leading net-zero initiatives from across the financial system to accelerate the transition to net-zero emissions by 2050 at the latest.

CDP is a global not-for-profit organisation that runs the world's environmental disclosure system.

The Group is a CDP supply chain member and engages with our suppliers in order to measure our indirect emissions. Additionally, the Group itself has improved its own CDP score year-on-year, most recently maintaining a B grade for its disclosure on climate change in 2021.

In 2021, the Group became a member of PCAF to work with other UK banks to develop and implement a harmonised approach to assess and disclose the GHG emissions associated with our loans. It provides financial institutions with the starting point required to set science-based targets and align their portfolio with the Paris Climate Agreement.

Future-Fit Foundation is a not-for-profit organisation that provides businesses, investors and policy makers with the tools and guidance required to help transition to a society that is environmentally, socially and economically fair. We have collaborated to adapt their Business Benchmark into a simplified learning and assessment tool for SMEs.

TCFD report

1 Strategy continued

Scenario analysis

Introduction
During FY21 and early FY22, the Group has developed scenario analysis capability to enhance its ability to identify climate-related risks and opportunities and assess the resilience of our business model. The initial analysis included the Group's lending portfolio and assessed the potential loan impairments, with a particular focus on Mortgages and Business lending. The methodology explores the Climate Biennial Exploratory Scenario (CBES) published by the BoE in 2021. These scenarios were selected as they allow us to explore the key transition and physical risks that the Group may be exposed to across a thirty-year time horizon. This scenario analysis exercise was undertaken primarily to understand and quantify how climate change risks may impact the Group's lending and understand what actions might be required to ensure the future resilience of the Group's business model.

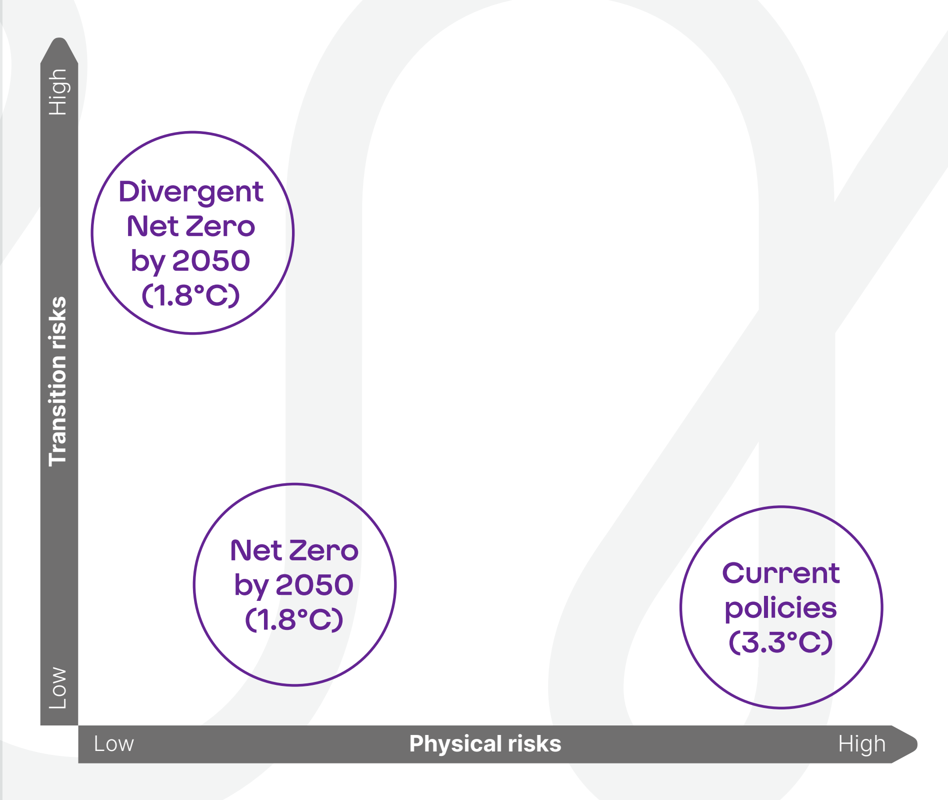
Scenarios and key assumptions
Aligned to the BoE CBES, the following scenarios were assessed:

> *Early Action:* the transition to a net-zero emissions economy starts in 2021, so carbon taxes and other policies intensify relatively gradually over the scenario horizon. Global carbon dioxide emissions (and all GHG emissions in the UK) drop to net-zero around 2050. Global warming is limited to 1.8°C by the end of the scenario (2050) relative to pre-industrial levels.

> *Late Action:* the transition is delayed until 2031, at which point there is a sudden increase in the intensity of climate policy. In the UK, GHG emissions are successfully reduced to net zero around 2050, but the transition required to achieve that is more abrupt and therefore disorderly. Global warming is limited to 1.8°C by the end of the scenario (2050) relative to pre-industrial levels.

> *No Additional Action:* primarily explores physical risks from climate change. In this scenario, no new climate policies are introduced beyond those already implemented prior to 2021. However, physical risks are greater in this scenario and continue to increase beyond the horizon of the scenario. The absence of transition policies leads to a growing concentration of GHG emissions in the atmosphere and, as a result, global temperature levels continue to increase, reaching 3.3°C relative to pre-industrial levels by the end of the scenario (2050).

Climate scenarios: Correlation between transition and physical



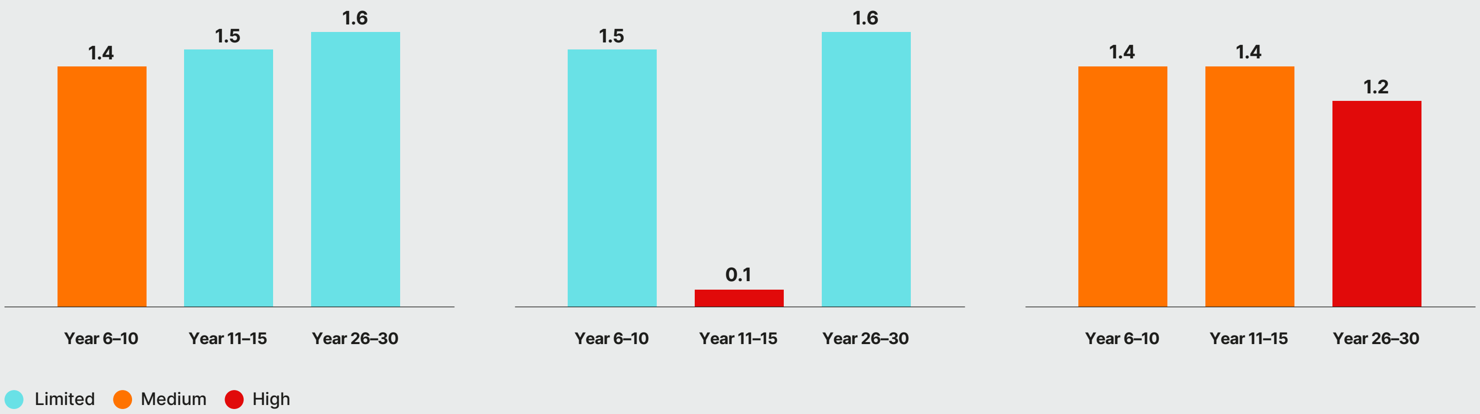
TCFD report

1 Strategy continued

Overview of the impacts of the CBES scenarios

The table below provides an overview of the three scenarios described above, as well as the transition and physical risk they give rise to.

	Early Action	Late Action	No Additional Action
Transition risks	**Medium**	**High**	**Limited**
Transition begins in	2021	2031	n/a
Nature of transition	Early and orderly	Late and disorderly	Only policies that were in place before 2021
Peak UK shadow carbon price (2010 US$/tonne carbon dioxide equivalent)	900	1,100	30
Borrower response to EPC standards	Properties upgraded to maximum potential rating over 2021-2035	Properties upgraded to maximum potential rating over 2021-2035	No upgrades made
Physical risks	**Limited**	**Limited**	**High**
Mean global warming relative to pre-industrial times by the end of scenario (°C)	1.8	1.8	3.3
Representative Concentration Pathways used for physical risk assessment	2.6	4.5	8.5
Impact on output	Temporarily lower growth	Sudden contraction (recession)	Permanently lower growth and higher uncertainty
Average annual output growth in the UK (%)			



TCFD report

1 Strategy continued

CBES scenario overview (cont.)

In addition to the table, the Group made the following key assumptions:

Risk type	Portfolio	Key basic assumption
Transitional	Mortgages and Business	No insurance coverage is assumed (and similarly no increase in related insurance premium cost)
Physical	Mortgages and Business	Flood and subsidence physical perils were assessed as the most pertinent physical risks for the Group's portfolio

Modelling approach
Each of the scenarios above were assessed over a thirty-year horizon based on a static balance sheet.

Mortgages
The Mortgage portfolio was assessed at loan level, with physical risks modelled at a minimum of postcode district, with more granular analysis where heightened risk was identified, and EPC ratings obtained at property level as a proxy for transition risk. Where no EPC rating was available, a rating was inferred based on the property location using the most conservative rating. This climate data was then used to estimate the potential impact on collateral values, which along with the macroeconomic out-turn under each scenario, was used to model the impact on credit impairments.

Business lending
For Business lending, a segment-level risk assessment was modelled using the forecast macroeconomic out-turn under each scenario. This was supplemented with a targeted sample of counterparty-level analysis. Borrower-level assessments allow consideration of more granular idiosyncratic risk factors, however require more data and are more difficult to implement at this early stage of developing internal comprehensive climate risk assessments. For this initial exercise, we therefore decided to assess sample exposures within our Agriculture portfolio (as our largest sector with higher risk) as well as Commercial Real Estate exposures (the Group is significantly underweight in this higher risk sector). This contrasts with the CBES approach of assessing the top 100 counterparties, plus the top three from higher risk sectors with the BoE encouraging wider analysis. Expanding our capability over time to perform increasing numbers of individual counterparty assessments is an important future development and will also link into future credit decisioning and planned customer engagement on climate change. We are aware of the difficulties larger peers have had in obtaining good response rates for counterparty level analysis. This may prove to be more challenging for the Group given the typical size of our business counterparties.

Overall, the analysis covered 93% of customer lending (balance sheet), focusing on the risks described opposite.

The scenarios used (BoE CBES scenarios) explore both transition and physical risks, to differing degrees and each scenario takes place over thirty years, however, the 'no additional action' scenario reflects physical risks for the period 2050-2080.

The exercise was used to provide us with insights into potential vulnerabilities and opportunities across the Group's lending portfolio. Outputs and learnings will be considered through the strategic and financial planning cycles. We also explored possible management actions the Group could take to respond to the risks identified in the scenarios.

Outcome and insights
The findings of our internal exercise were broadly aligned with the observations published by the BoE as part of the CBES exercise.

The 'no additional action' scenario had the highest physical risk impact and significantly its impacts continued to trend upwards towards the end of the 30-year forecasting horizon.

An 'orderly early transition' (Early Action) is less impactful than a 'disorderly late' one (Late Action), with the impact of the latter taken over a shorter time frame and resulting in an increased impact through the mid-2030s.

The exercise emphasised the importance of capturing climate risk drivers, such as EPC and incorporating them in risk management.

Uncertainties, limitations and future enhancements
There is significant uncertainty in the modelling of climate change. At this stage, this type of analysis is exploratory in nature and allows the Group to identify key climate risk drivers and potential financial impacts. It was necessary to make some simplifications to the modelling approach and this and other identified limitations may impact the results.

The Group's climate model is a first-generation model and, as such, there are certain limitations and areas for potential future enhancement. The Group aims to further develop the sophistication of our modelling capability over time proportionate to the nature of our lending portfolio.

TCFD report

2 Governance

Our governance around climate-related risks and opportunities.

Board

The Board is responsible for the long-term success of the Group and the delivery of sustainable value to its shareholders and wider stakeholders. The Board discharges some of its responsibilities directly and others through its Committees. The Board's role and the governance framework is described further in the 'How our Board operates' section of the Governance report on page 80, with Board members ESG-related competencies detailed on page 70.

As part of its role in ensuring the long-term sustainable success of Virgin Money, the Board is responsible for overseeing delivery of the Group's ESG strategy, including climate-related risks and opportunities. It delegates some oversight and decision making to its Committees, as set out in the 'ESG embedded in our governance framework' section on page 81 of the Governance report. The Board receives updates on progress against the Group's big four ESG goals on a quarterly basis. The formulation of the Group's response to net zero was formally approved through the Board governance cycle and engagement through extraordinary sessions on net zero were convened with feedback incorporated.

Risk Committee

The Risk Committee has delegated authority to oversee the management of climate risk across the Group, taking a forward-looking perspective, anticipating changes in business conditions and promoting a risk awareness culture within the Group.

Across FY22, the Risk Committee:

- approved an updated RMF, elevating Climate Risk to a principal risk;
- approved a new Climate Risk Policy Statement, which outlines the Group's principles for managing climate risk;
- received regular updates on climate risk as part of the CRO report, considered by BRC at every scheduled meeting. This included monitoring the progress in managing financial risks from climate change, as well as progress against regulatory expectations;
- heard of the developments to the Group's climate change scenario analysis capabilities; and
- provided input to the Group's climate strategy and its approach to developing net zero actions and targets under NZBA commitments.

The Chief Risk Officer presents a monthly report to each Risk Committee meeting, which covers the second line oversight that has been taken in relation to the management of climate-related risks.

2 Governance continued

Audit Committee
The Committee is responsible for reviewing the disclosures made within the Annual Report & Accounts, including consideration and approval of climate-related disclosures and for advising the Board on whether the Annual Report & Accounts, taken as a whole, are fair balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Addressing our climate strategy
The Board has been engaged in the development of the Group's sustainability strategy and receives regular updates on the execution of this strategy from the members of the Executive Leadership Team. In November 2020, the Group announced its refreshed sustainability strategy. Elements of this strategy, which are directly linked to the management and mitigation of climate-related financial risks, include: our 'Put our (carbon) foot down' goal and 2030 aspiration for net-zero operational and supplier carbon emissions; and our 'Build a brighter future' goal and aspiration to halve carbon emissions across everything the Group finances by 2030.

During the year, the Board received regular updates on our climate response, escalated through the Environment Committee where appropriate. The formulation of net-zero targets and transition plans were developed with input from Board Risk Committee members, working closely with Commercial functions. A framework for monitoring delivery of plans will be in place throughout FY23, while updates on the evolution of plans through external and internal influences will follow the standard governance processes in place for climate-related matters.

Financial planning
The Group has now fully embedded climate considerations in its financial planning cycle, including through the investment planning process and setting of KPIs in order to track progress against its net zero targets.

Addressing climate risk management
Matters presented to the Board and Board Committees for decision must contain reference to the way in which each matter supports the Group's ESG principles and goals, including those relating to climate risk. The corporate governance framework is continuously reviewed to ensure it includes sufficient focus on ESG topics, including climate risks and opportunities.

The Risk Committee Charter outlines responsibilities in relation to the climate-related risks being updated. The Committee is formally required to oversee the activity being undertaken to embed the identification, assessment and management of climate change risk into the risk management process; oversee the approach to climate risk disclosures including risk management, operational risk and lending risk disclosures; and regularly consider reports regarding the risk profile associated with climate change. The Committee can escalate any climate-related risk matters to the Board.

The Board has regular oversight of financial and non-financial risks from climate change through reports on ESG topics, as well as regular risk updates. In addition, the Board reviews the Group's ESG strategy, which includes climate related risks and opportunities, as part of the annual strategic and financial planning process to ensure the Group's approach to ESG matters, relevant to the Group, evolves with emerging developments vis-à-vis ESG in the financial services sector.

Training
The Board undertook a quarterly deep dive on ESG topics during FY22, covering an overview of the Group's refreshed sustainability and ESG strategy and updates on progress made on the Group's ESG goals. This provided insight and key information that helped educate the Board on the Group's climate change ambitions and the key factors that need to be considered to enable the Group to achieve its desired outcomes. The ESG deep dives were hosted by senior colleagues from the Investor Relations and Sustainability team, with Executive Leadership Team members in attendance. External support and insight will also continue to be valuable as the Group's ESG capabilities enhance and mature.

In addition to the ESG-focused deep dive sessions, Directors also undertook externally facilitated training in the year, which focused on climate change and relevant considerations for the banking sector. Topics discussed during these sessions included how climate change is impacting the financial services sector and how the industry is responding; the responsibilities for boards around sustainability and regulatory requirements; and market opportunities and the short and longer-term focus for the Group.

Furthermore, the Board, along with all of the Group's colleagues, received targeted training on ESG factors by way of a mandatory ESG e-learning module which highlighted the impact of climate change on financial services and how climate change is considered as an integral part of the Group's ESG strategy.

Management

Executive Leadership Team
The Chief Executive Officer has ultimate responsibility for climate-related issues affecting the Group and its customers and overall accountability to the Board and shareholders to ensure that sustainable and responsible ESG practices are embedded into our business operations, including those associated with environmental or climate areas.

Consequently, the Chief Executive Officer has accountability for the Group's ESG strategy, which is devolved to relevant Executive Leadership Team members, both through the sponsorship of ESG strategic goals as well as the incorporation of ESG elements into relevant 'day-to-day' responsibilities.

Under the Senior Manager and Certification Regime, Senior Management Function responsibility for climate-related matters is split between Executive Leadership Team members, who each provide monthly reports to the Board:

- The Chief Financial Officer has overall responsibility for setting the Group's climate strategy, this includes:
  - setting the overall net-zero targets, commitments and transition pathways;
  - the calculation of financed emissions and climate-related financial judgements; and
  - responsibility for the overall ESG reporting in the Annual Report & Accounts.
- The Chief Risk Officer has responsibility over the Group's approach to managing and monitoring climate-related risks, including:
  - providing challenge and oversight of climate-related first line activities;
  - reporting updates to Board on the second-line view of climate risk;
  - setting the climate risk appetite, as well as the relevant climate-related policy standards across a suite of principal risks;
  - the development, maintenance and monitoring of climate-related models; and
  - the co-ordination and production of the Group's annual TCFD report.

2 Governance continued

- The Chief Commercial Officer is responsible for identifying and managing climate risks arising from customer activity, including:
  - capturing relevant ESG data from customers, through activities such as climate risk assessments for new business customers;
  - development and implementation of greener propositions; and
  - setting targets relating to the reduction of carbon emissions associated with the Mortgage and Business portfolios.
- The Chief Digital & Innovation Officer has responsibility for identifying and managing climate change risks arising from the Group's operations, which includes:
  - the calculation of operational emissions, including suppliers;
  - setting targets to reduce carbon emissions associated with our own operations; and
  - incorporating climate considerations in investment business cases.

Environment Committee

During the year, the Environment Committee, established in 2021, was made permanent and continues to meet on a monthly basis. It uses emerging data and evidence to prioritise and direct resources, investment and activity across the Group (within overall plan parameters), to set in motion the most important actions required to develop and execute the roadmaps to a low-carbon economy. It also maintains oversight of environment-related investment and ensures effective, synergistic use of funding across business units.

The Committee is chaired by the Chief Financial Officer and attended by members of the Executive Leadership Team, including the Chief Risk Officer, Chief Commercial Officer, Chief Digital & Innovation Officer and relevant subject matter experts, all with specific responsibilities for climate-related matters, in particular, the sponsorship of the Group's big four ESG goals, as outlined in the Strategy section.

Purpose Council

The Purpose Council was formed to oversee and manage the factors that are critical to being a Purpose-led organisation. Part of this is overseeing and promoting activities in the Group that drive our ESG goals. This includes participation in the materiality assessment and promoting colleague engagement on climate matters, through events such as our Group-wide PurposeFest. The Purpose Council is formed of representatives from each business function, including members who also sit on the ESG Working Group to ensure cross-sharing.

Investments, Projects & Costs Committee

The Investments, Projects & Costs Committee is responsible for overseeing performance of the Group's strategic cost plan, including cost management and performance in the current financial year, as well as the outlook for later years, to achieve targets agreed in the strategic cost plan. As part of its focus on climate change, all new business cases are required to address how the project impacts on and supports our ESG ambitions.

Asset and Liability Committee

ALCO 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. As appropriate, this includes the impact of climate change on aspects under its remit.

Executive Risk Committee

The Executive Risk Committee is chaired by the Chief Risk Officer, who holds Senior Management Function responsibility over climate risk. The Committee is responsible for overseeing the Group's exposures and approach to managing the financial risks from climate change. During the year, the Committee received updates on the Group's progress in managing financial risks from climate change and progress against the PRA's expectations, as set out in the 'Dear CEO Letter – embedding financial risk for climate change into risk management practices'. The Committee also reviewed and recommended a new Climate Risk Policy Statement for onward approval by the Risk Committee.

Credit Risk Committee

The Credit Risk Committee has responsibility for oversight of climate-related aspects of credit risk, including recommending strategies to adhere to the climate risk appetites set by the Board and to react to change in the prevailing market or physical environmental conditions. During the year, the Committee received quarterly updates on the credit risk aspects of climate change, including climate-related analysis of lending portfolios. Climate change was also considered within the Committee's review of the Group's Sensitive Sectors policy summary as part of the ESG framework.

Model Governance Committee

Models related to climate change are subject to the Group's Model Risk Policy with oversight from the MGC and its delegated sub-committees (Credit Models Technical Forum and Finance Models Technical Forum).

ESG Working Group

The ESG Working Group is held twice-monthly with cross-functional senior leaders, who support the delivery of our ESG strategy. The purpose of the working group includes:

- evolving and refining the Group's ESG strategy and associated targets to keep pace with the market and the Group's overall ambitions and strategy;
- overseeing that the ESG delivery across the business meets the strategic objectives and associated targets; and
- escalating any risks or issues with delivery to the Environment Committee.

Climate Change Programme

In 2022, a Climate Change Programme was established to support the Group's wider climate goals and ambitions. The Programme is a central change initiative capturing climate related projects across the Group to further enhance capability in climate risk identification, monitoring and management.

Remuneration

The performance measures for awards made to senior management under the 2021 LTIP included an ESG scorecard. The ESG scorecard carries 15% weighting with performance to be assessed over the three-year performance period (1 October 2021 to 30 September 2024). The environmental aspect of the ESG scorecard is based on quantitative measures applied to operational carbon emissions and our progression to net-zero operational carbon emissions by 2030. The ESG scorecard will also be included in the performance measures for the 2022 LTIP awards and will incorporate enhanced climate-related measures aligned with the Group's roadmaps and targets to net zero across our priority sectors.

For further information, please refer to the Group's Directors remuneration report on page 120

3 Risk management

How we identify, assess and manage climate-related risks within our Group RMF and supporting processes.

Risk Management Framework
The Group manages risk using a single RMF, which supports decision making, delivers a risk culture underpinned by our Purpose and Values and ensures a consistent approach to risk management activities across the organisation. Risks are managed through a continuous risk management life cycle which identifies, assesses, measures, monitors and reports risk. The RMF is supported by the Group Policy Management framework which provides structure and governance for the consistent, effective management of all policies. Policy Statements and supporting Policy Standards define the key risk management principles and minimum control requirements which must be observed across the Group to help manage key risk exposures within risk appetite.

Risk appetite
During 2022, Climate Risk was elevated from a cross-cutting risk to principal risk, reflecting its increasing relevance and materiality to the Group's profile. A dedicated Climate Risk Team has been created to provide oversight of climate-related risk activity, monitor climate risk against the Group's risk appetite and report on a regular basis to Executive and Board Committees on associated progress.

A specific Climate Risk Policy Framework has been established, which outlines the Group's approach to the identification, management and monitoring of climate risk. The framework is supported by:

- risk appetite measures to monitor physical and transitional climate-related risks;
- clearly defined climate risk roles and responsibilities across the Group; and
- climate change scenario analysis to identify climate-related risks and opportunities, and to assess the resilience of our business model.

As a result of data capability enhancements throughout the year, a suite of climate-related metrics have been incorporated into the risk appetite, covering physical and transitional risks across the Group's Mortgage and Business lending portfolios and operational risk.

Monitoring of metrics is measured against the Climate Risk Policy Framework and strategic Group objectives.

A Group-wide Climate Risk Assessment was undertaken this year, to identify the impact to the Group from acute and chronic physical risks; in addition to policy and legal, technology, reputational and market transitional risks. This enabled the Group to populate a materiality rating across associated time horizons.

The assessment concluded that medium-term risks to the Group primarily result from transition risks, with policy and legal changes within the Commercial and BTL property sectors holding a higher relevance and shorter time horizons within the Group's portfolio. Physical risks represent a longer-term risk (primarily from Mortgage and Business portfolios) with the most material risks expected to crystallise over the long term.

Output from the assessment supported the development of the Group's Climate Risk Appetite Framework policy enhancements and external disclosures, which have been mapped to principal risks on the table overleaf.

The Group's response to its net-zero commitments and lending to environmentally damaging activities were considered 'high' relevance by the assessment. However, these transition risks are supported by a robust net-zero strategy and lending framework, via the Sensitive Sector and Credit ESG policies, which outline the Group's appetite to lending in sensitive sectors. Further information is available at: virginmoneyukplc.com/corporate-sustainability/sensitive-sector-policy-statement.

For further information on how the Group manages risk, please refer to the Risk report on page 159

The Group is exposed to physical and transition risks arising from climate change:

Physical risks	Transition risks
Arising from longer-term changes in the climate and weather-related events, rising average temperatures, heatwaves, droughts, floods, storms, sea levels rising, 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.	Arising from the process of 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 credit exposures for banks and other lenders as the costs and opportunities arising from climate change become apparent. Reputation risks arise from a failure to meet changing and more demanding societal, investor or regulatory expectations.

Climate risk impact on principal risks

The most relevant risks identified by the climate risk assessment are presented in the table below:

Climate risk drivers	FY22 progress	Future focus
Credit risk		
> Increased occurrence and severity of physical climate-related risks such as flooding, subsidence and coastal erosion resulting in the devaluation of collateral value. > Developing climate-related legislation and policy, including minimum residential efficiency standards, may have a negative impact on collateral value. > Increased carbon pricing or requirements to reduce carbon-related energy usage and other GHG emissions could have an impact on the Group's lending portfolios. > Changes in climate trends may pose a risk to Business customers creating credit risk, particularly in the Agricultural sector, as a result of disruption to customers supply chains, increased costs and revenue implications.	> Working with a specialist third-party climate data provider, Hometrack, data capability has been enhanced to further profile physical and transitional climate-related risk against the Group's lending portfolio. > The Group's inaugural climate scenario analysis was completed in FY22 to assess possible future climate-related risks and exposures that may impact the Group. The analysis also enhances our ability to identify climate-related opportunities, and to assess the resilience of our business model. > Climate factors have been incorporated into a suite of key risk indicators which monitor risk against appetite set by the wider Climate Risk Policy Framework. > Greater Business customer engagement via Sustainable Business Coach and climate surveys for higher value lending balances to gain greater insights into how customers are responding to climate change.	> The Group will continue to develop capability to identify, manage and monitor climate risk. > Investment to further develop data capability to inform strategy and support customers transition to a low-carbon economy. > Explore climate change scenario analysis capability enhancements.
Regulatory and compliance risk and Conduct risk		
> Failure to meet expectations or requirements as the regulatory landscape develops over time. > Risk that the Bank exaggerates or misstates a product's 'green' credentials, which may mislead customers. > External reporting is non-compliant with regulatory requirements or expectations leading to re-submissions and reputational damage to the Group.	> A dedicated Climate Risk Team was established in FY22, providing second line oversight of climate-related risk activity across the Group. > During FY21, an Environment Committee was established to oversee the management of environmental and climate change matters across the Group and is chaired and sponsored by the Chief Financial Officer.	> Continued horizon-scanning to monitor for changes within the developing regulatory landscape.
Strategic and enterprise risk		
> Reputational risk associated with the Group's response to climate-related risks and net-zero strategy; or failure to meet changing and more demanding societal, investor or regulatory expectations. > The Group faces reputational risk from lending to environmentally damaging activity.	> Analysis of the internal and external risks and opportunities presented by climate change has been completed with plans in place to support the Group's net-zero strategy and ambitions. > The Group's ESG Hub sensitive sector policy outlines the Groups appetite to sensitive sectors.	> Further work is required across FY23 to support net-zero delivery, including analysis of the remaining carbon intensive sectors and pursuing decarbonisation opportunities within our wider value chain.
Operational and resilience risk		
> Increased climate-related legislation and policy risks, such as tighter efficiency standards, may create future operational risk to the Group's property and operational footprint.	> A Group-wide climate risk assessment was completed to identify any impact from physical and transitional climate-related risk, including resulting operational risks.	> Outputs from the climate risk assessment will be used to identify additional actions to incorporate climate risk within the Group's assessment of operational resilience.

Managing climate-related risks

Credit risk – Mortgages

Our Climate Change Group Secured Lending Policy outlines how the Group considers climate-related risk within its retail business activities and continues to evolve in response to the external environment, increasing regulation, investor and other stakeholder interest.
The Policy focuses on:

- Climate Risk – Regulatory background;
- Alignment with Group Sustainability Strategy;
- Transition risk factors: EPC property ratings, Greener Mortgages, Home Buying Coach app;
- Physical risk factors: Flood risk, subsidence, coastal erosion; and
- Future direction.

EPC Property Ratings – BTL Mortgages

In accordance with the Minimum Energy Efficiency Standards regulations, all BTL properties must have a minimum EPC rating of E. The Group only accepts new applications for BTL properties that comply with the minimum EPC rating. We are working towards updating strategies in accordance with revised EPC legislation expected to come into effect in 2026.

Physical risks

The Group has controls in place to mitigate flood risk, subsidence, heave and landslip in its Residential Mortgage portfolio. Where it is identified that a property has previously been affected by flooding, subsidence, heave or landslip; or is situated on a flood plain, new or increased lending is only provided where certain conditions are met.

Controls are also in place around other environmental-related property issues. For example, in relation to protected wildlife, Japanese knotweed, fracking, sewage and drainage, high voltage electrical supply apparatus, shale/contaminated fill, radon gas and contaminated land. Additional environmental reports may be required in such circumstances.

All physical valuations must be completed by registered surveyors to utilise their local knowledge and expertise, including the assessment of physical risks and climate-related information (e.g. documenting whether the home is subject to a 'green deal' or has solar panels installed). Where an automated or desktop valuation is completed, the Group relies on the acting solicitor/conveyancer to carry out environmental reports and advise of any risks.

Where the offer of free legal services is taken by customers, only limited title checks are carried out by solicitors, as is industry standard practice for lower risk cases (i.e. remortgage, transfer of equity). As the original lender's due diligence is relied upon, environmental reports are not re-run.

Portfolio monitoring

During FY22, the Group received property data from a third-party provider in respect of our Mortgage portfolio, to enhance our risk identification and monitoring processes. This includes fluvial, pluvial and tidal flooding, coastal erosion, subsidence, expected future insurability and EPC rating. Work is continuing to determine how climate risks will be incorporated into credit decisioning in the future.

Credit risk – Business lending

The Group has an established process to consistently apply ESG and climate risk criteria to our Business lending credit assessment process and lending decisions.

This includes assessing lending applications against our Sensitive Sector policy, which outlines the prohibited and restricted sectors where the Group has either no or limited appetite to lend. The Sensitive Sector Policy can be found on our ESG Hub at: www.virginmoneyukplc.com.

Additionally, for corporate transactions, climate risk mitigation and wider ESG impacts are embedded into our due diligence and credit assessment processes. Where material risks are identified, proposals are subject to a greater degree of review and scrutiny.

The Group Policy Management Framework was also reviewed and enhanced to reflect the need for more forward thinking in relation to transition risks. Additionally, the Group recognises the need to enhance capability for assessing and modelling the impact of physical risks over the long-term horizon over which increased risks may arise.

A large proportion of our Business lending customers are privately owned and/or SMEs. Very few lending customers therefore report against voluntary disclosure initiatives such as CDP, TCFD or Sustainability Accounting Standards Board (SASB). Such businesses are key to the UK economy and therefore the Group's focus will be on how it can support customers with adaptation and mitigation.

A top-down assessment of sectors (and sub-sectors) which may have a higher likelihood of being impacted by transition risks has been performed. The main purpose of the analysis was to build on our previous analysis and support the Group's development of scenario analysis. This work helped us identify transition risks most material for the Group portfolio and also informed ongoing enhancements to credit policy. The output of this work was used to inform the evolution of Risk Appetite measures established to monitor the Business lending portfolio exposure to transition risk, based on sectoral transition risk assessments.

Operational and resilience risk

Outputs from the climate risk assessment will be used to identify additional actions to incorporate climate risk within the Group's assessment of operational resilience for critical services, third-party policies and change management risk assessments. Physical risk data under the CBES scenarios have been obtained in relation to key data centres and office locations to support our assessment of future risk.

Financial risk

The Group has a lower tolerance for market risk, given the lack or trading activity. Market risk principally arises through IRRBB, very small foreign exchange exposure and the management of assets to support our liquidity requirements. The management of each of these risks is over a relatively short time scale and the physical risks from climate are seen as longer term. We recognise that markets could change more quickly as a result of transition risks and that this could have an impact on credit spreads. Our existing framework monitors and measures the impact of credit spreads within areas of our business that are subject to market risk and we run scenarios to consider the impact of increased volatility.

The assets we hold for liquidity purposes are all subject to credit review and the process to assess counterparty risk considers ESG risks. The nature of these assets is overwhelmingly focused on UK-based issuers, UK Sovereign and Supranationals along with small holdings of non-UK based Covered Bonds. Through the credit assessment, we will continue to evolve our approach to how these counterparties are responding to the effects of climate risks and ESG more broadly, for example how Covered Bond issuers are responding to longer-term risks and opportunities to support the decarbonisation of housing stock.

The financial impacts associated with climate-related risks are considered within the ICAAP. This uses both expert judgement and scenario analysis to assess the impacts of transitional and physical risks over a range of time horizons.

TCFD report

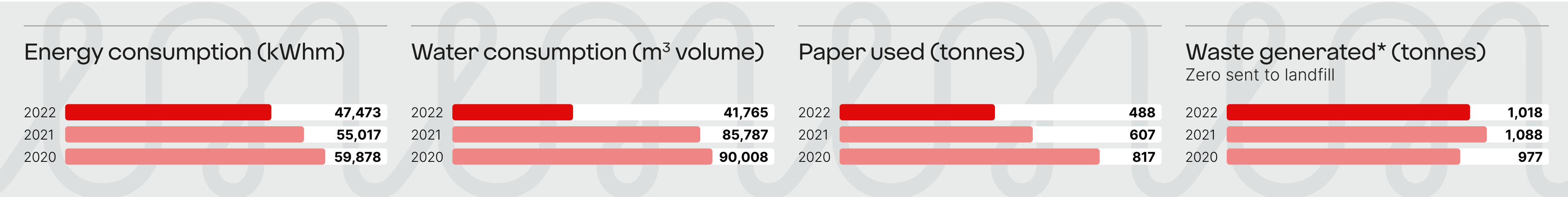
4 Metrics and targets

The measures we use to assess and manage our climate-related risks and opportunities

Operational emissions

Key achievements

The Group has made progress on the pathway to net-zero operational and supplier emissions by 2030, with significant reductions in the activities that have a negative impact on the environment.



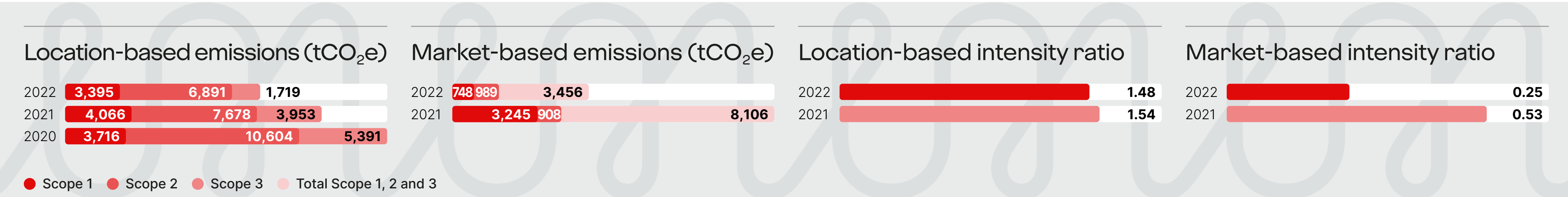
* 2020 was lower than usual, due to COVID-19 lockdown restrictions prompting an increase in colleagues working from home and a reduction in customers attending stores. In 2021 and 2022, waste generated was higher as we reduced our property footprint, which resulted in the disposal of redundant office furniture.

Our operational GHG emissions[(1)(2)]

The Group's operational emissions are wholly derived from UK operations. Reductions were achieved across overall emissions, with work ongoing to improve on market-based emissions data.

Intensity ratio

The metrics stated below define the Group's Scope 1 and 2 location- and market-based CO_2e emissions per full time equivalent employees (tonnes/FTE).



(1) The reporting period for GHG emissions for the Group is from 1 July 2021 to 30 June 2022.

(2) Market-based Scope 2 emissions increased this year, despite the Group's reduction in energy consumption. This is due to an increase in the UK Government's emissions factor, which is used in the calculation.

4 Metrics and targets continued

Climate-related targets

The Group has a number of targets set against its property emissions, with some metrics on colleague and supplier emissions still under development due to the additional work required to enhance data capabilities and set baselines in these areas.

Metric	2022 target	Future targets
Energy (gas and electric) consumption	-5% (met)	2023: -10% to 42,700 2025: -50% to 30,000
Water consumption	-2% (met)	2023: -10% to 37,600m^3 2025: -50% to 45,000m^3
Location-based Scope 1 emissions(1)	-10% (met)	2023: -10% to 3,015t 2025: -50% to 1,850t
Location-based Scope 2 emissions(2)	-10% (met)	2023: -10% to 6,190t 2025: -50% to 5,300t
Scope 3 emissions(3)	n/a	Under development
Total Scope 1, 2 (location-based) and 3 emissions	n/a	Under development
Market-based Scope 1 emissions	-80% (not met)(4)	2023: -10% to 673t
Market-based Scope 2 emissions	n/a	Under development
Total Scope 1, 2 (market-based) and 3 emissions	n/a	Under development

Definitions

The Group's operational Scope 1 and 2 emissions are split into the following two categories:

Term	Definition
Location-based emissions	Calculated using the average emissions intensity of the grids on which energy consumption occurs, using mostly grid-average emission factor data.
Market-based emissions	Calculated as the electricity that companies have purposefully chosen to purchase. It derives emission factors from contractual instruments, which include any type of contract between two parties for the sale and purchase of energy bundled with attributes about the energy generation, or for unbundled attribute claims.

Further detail on the Group's GHG emissions, reported in accordance with the GHG Protocol, and other key metrics are available in the ESG report on pages 30 to 32.

Financed emissions

Scope 3 financed emissions represent our share of GHG emissions, expressed as carbon dioxide equivalent (CO_2e), that we facilitate through our lending portfolio.

The Group recognises that measuring financed emissions is fundamental to analyse scenarios, set targets, inform actions and disclose progress. As such, the Group is committed to disclosing financed emissions using the PCAF Global GHG Accounting and Reporting Standard (the PCAF Standard) and has been working on deploying the PCAF methodology to calculate our financed emissions. The Group is still in the early stages of its journey and working hard to develop the data and technology required to accurately assess and manage our carbon-related assets and exposures.

Selection of the most appropriate internal data sources for each element of the financed emissions calculation has resulted in a divergence in reporting dates between Mortgage and Business disclosures below. The current reporting period reflects Mortgage emissions based on balances as at 31 March 2022 and Business sector emissions based on balances reported as at 30 September 2021. The Group has accepted this inconsistency, as this has allowed the calculation of financed emissions to progress, which is thought to be more important to the Group in the overall financed emissions journey.

Per the PCAF Standard, financed emissions are calculated, using the following formula:

How financed emissions are calculated

$$\sum_i \text{Attribution factor}_i \times \text{Emissions}_i = \text{Financed emissions}$$

$$\text{Attribution factor}_i = \frac{\text{Outstanding amount}_i}{\text{Total equity + debt}_i}$$

(with i = borrower or investee)

- Attribution factor for business loans = the outstanding lending to a customer divided by the total debt + equity of that customer.
- Attribution factor for residential property = the outstanding lending to a customer divided by the property value at origination.
- The emissions are Scope 1 and 2 emissions (including Scope 3 for oil and gas and mining) as reported by the customer, or as calculated using physical activity-based emissions (e.g. using primary energy consumption data) or as estimated using average emission factors by sub-sector and other suitable proxies.

(1) Generated from the gas and oil used in all buildings where the Group operates; emissions generated from Group-owned and leased vehicles used for business travel; and fugitive emissions arising from the use of air conditioning and chiller/refrigeration plant to service the Group's property portfolio.

(2) Generated from the use of electricity in all buildings from which the Group operates.

(3) Relates to business travel undertaken by all colleagues using rail, private vehicles, hired vehicles, contracted taxi services, air travel, waste, water and paper.

(4) The Market-based Scope 1 emissions target was not met this year, despite the Group's reduction in energy consumption. This is due to an increase in the UK Government's emissions factor, which is used in the calculation.

4 Metrics and targets continued

In addition to reporting absolute financed emissions, emissions intensity is measured as physical and economic emissions intensity metrics. Physical emissions intensities refer to financed emissions per unit of physical output in the real economy such as square meters of floor space for mortgage properties. Economic emissions intensities refer to financed emissions per pound of lending or investment. These are calculated as a metric to help the Group assess the marginal impact of its lending to its Scope 3 emissions.

We reported our financed emissions for the first time in our 2021 Annual Report. During the year, we have expanded the scope of portfolios which we have included in our initial estimate of financed emissions baselines. In addition to the Agriculture component of our Business lending portfolio, we have also calculated a baseline for the resources, transport and manufacturing (cement, metals and chemicals) components of the Business portfolio. Alongside this we have progressed the financed emission calculations on our Mortgage portfolio.

While progress has been made, we will continue to develop climate-related data across the portfolios, to enable more in-depth analysis and reporting, which will support our efforts to reduce financed emissions and achieve net zero by 2050 or sooner.

Given the limited availability and consistency of climate-related data, the Group has made a number of assumptions in order to calculate its emissions. The key limitations are EPC data for the Mortgage portfolio and a lack of reported emissions data in the Business portfolio, exacerbated by the largely SME nature of our portfolio.

Data quality score

The data and methodologies used are subject to ongoing adjustment and modifications. In addition, the calculations are highly sensitive to the quality of the underlying data, the assumptions made and the approaches taken. As a result, we expect future emissions calculations to evolve following improvements in data quality and refinements to methodologies and assumptions. The PCAF Standard recommends applying a data quality scoring methodology to help assess data quality challenges and recognise areas for improvement. PCAF's ratings generally assign directly collected customer emissions data a better score while estimated or extrapolated data achieves lower scoring. A PCAF score of 1 is typically considered to have a very low margin of error for estimation of financed emissions, while a PCAF score of 5 is typically considered to have a much larger margin of error.

It is expected that the Group's data quality scores will improve over time as we collect more customer-level reported emissions data and enhance internal data and modelling capabilities. The Group's financed emissions disclosures will be developed further over the coming year as work continues on more detailed calculations of the mortgage portfolio and on additional sectors and asset classes within our Business portfolio.

Mortgages

The financed emissions reported for Mortgages in the current period are those attributable to the Group's loans as at 31 March 2022.

Accounting for 80% of the Group's gross customer lending as at 31 March 2022, the Mortgage portfolio has been identified as an area of material climate-related risk and opportunity for the Group, and hence a priority for calculating emissions baselines and developing green propositions, as detailed in the Strategy section of this report.

We are disclosing our baseline calculation of the financed emissions in the Mortgage portfolio, calculated on loan level data as at 31 March 2022. In the prior year, we disclosed our initial estimate of financed emissions which was conducted at a portfolio level. Data limitations make it impractical to restate the prior year estimate on the same basis as the March 2022 disclosure, therefore the results reflect significantly different methodologies and are not directly comparable.

What's covered in our calculations?

In line with the PCAF standard, we include on-balance sheet loans and lines of credit used for the purchase and re-finance of residential property, including BTL. This does not include residential property owned by a business under commercial real estate.

Methodology – Current year

The approach undertaken aligns to the general PCAF methodology within the limitations of the data available. Calculations are performed at a loan level.

- For 68% of the portfolio which has available EPC data, energy consumption figures for gas and electricity by EPC band by property type from government consumption tables[1] are combined with EPC rating, floor space and property type data to model estimated energy consumption for each home financed. Current electricity and gas emission factors for the UK grid[2] are then applied to estimate CO_2 emissions per home. This calculation was given a data score of 3.
- For 30% of the portfolio, energy consumption figures for gas and electricity by property type from government consumption tables are combined with property type data to model estimated energy consumption for each home financed. Current Electricity and gas emission factors for the UK grid are then applied to estimate CO_2 emissions per home. This calculation was given a data score of 5.
- For the remaining 2% with limited data available we have used a general PCAF emissions factor per home financed to estimate emissions. This calculation was given a data score of 5.
- The resulting weighted average data quality score for the mortgage calculation is 3.5.
- For all mortgages in the portfolio, we have calculated the attribution factor with reference to LTV based on the spot balance and original valuation.

Methodology – Prior year

A portfolio level estimation approach was adopted which extrapolated known EPC data across the full population. A portfolio level LTV was used for attribution. For full details refer to page 233 of the Group's Annual Report & Accounts 2021.

(1) National Energy Efficiency Data-Framework summary consumption statistics.

(2) UK Government GHG Conversion Factors for Company Reporting: kg CO_2e/kWh for electricity generation and gas.

TCFD report

4 Metrics and targets continued

Calculated emissions

Mortgages portfolio: Scope 3 emissions	31 Mar 2022	30 Sep 2020[1]
Total lending (£bn)	58.1	58.3
Assessed lending (£bn)	58.1	58.3
Assessed lending (% total customer lending)	100%	100%
Virgin Money attributed financed emissions (tCO_2e)	625,280	712,257
Physical emissions intensity ($kgCO_2/m^2$)[2]	39	–
Economic emissions intensity (tCO_2e/£m lent)	10.8	12.2
PCAF data quality score[2]	3.5	5.0

(1) Significant enhancements were made to the estimation methodology for the March 2022 disclosure. Data limitations make it impractical to restate the prior year estimate on the same basis, therefore the results reflect significantly different methodologies and are not directly comparable.

(2) Physical emissions intensity is calculated as attributed financed emissions divided by floor space financed. The Group holds floor space data for 68% of the Mortgage portfolio, a floor space estimate is derived from PCAF emissions factors for the remaining 32% of the portfolio.

Data quality and limitations

Due to the limited availability of accurate, public emissions data on UK homes, the Group has applied a number of assumptions and judgements in order to model carbon emissions:

- Availability and limitations of EPC data – An EPC is a document which sets out the energy efficiency of a property. Energy efficiency is indicated using a traffic light system rating from A to G, based on Standard Assessment Procedure (SAP) points, with A being the most efficient. EPCs are currently the best source of publicly available data on the energy efficiency of a property and while useful, they have their limitations, such as:
  - *Out of date data*: an EPC is valid for 10 years and hence any changes to the energy efficiency of a property (for example, due to improved insulation) may not be captured unless the homeowner chooses to have the EPC updated.
  - *Are not real-world:* the data within an EPC does not reflect the actual energy usage of a home, the methodology was designed to allow purchasers to compare the running costs of different properties independent of occupant behaviour, location or property size. Consequently, there can be a considerable gap between EPC data and actual energy use in any specific property.
- Incomplete data – Emissions are calculated using EPC data. Only 68% of the Group's mortgage properties have an EPC. Where EPC and floor space data is unavailable, alternative modelling approaches are used to estimate emissions.
- Lag effect and availability of government data on energy consumption – While we have calculated emissions for on-balance sheet lending, published government data used within the calculation does not always correlate to these dates. This may result in a lag in reflecting changes in energy consumption within financed emissions calculations. Calculations also make certain assumptions regarding property sizes and government consumption data being representative across different regions of the UK.

Future focus

Over the course of the next year, the Group will continue to refine its calculations and develop its financed emissions methodology. Improving the availability of and quality of data is a key focus.

Business banking

Across the portfolio, we progressed our financed emissions calculation by focusing initially on four priority sectors. These sectors have been identified based on carbon intensity, the Group's exposure to the sector and the requirements of key dependencies (such as setting targets). The Group anticipates expanding the sectors considered in the financed emissions calculation in future years.

What's covered in our calculations?

Following the identification of priority sectors, the Group applied a balance limit and sector code limit to the portfolio which further reduced the balances in scope. The balance limit reduced the number of customers in the calculation while still giving appropriate coverage, and the sector code limit aligned the Group with the International sector codes (ISIC Rev 4) used by PCAF in its emissions database. The balance limit was set at £1.5m, and reduced to £1m for the Agriculture portfolio and £250k for the Resources portfolio, to obtain appropriate coverage in these portfolios.

Financed emissions calculation in the Business portfolio has been calculated on balances at 30 September 2021, due to the availability of data at the time of calculation.

	30 September 2021			30 September 2020[1]		
	Total gross lending (£m)	Loans analysed (£m)	% analysed	Total gross lending (£m)	Loans analysed (£m)	% analysed
Agriculture	**1,441**	**905**	**63%**	1,526	952	62%
Manufacturing	**700**	**233**	**33%**	769	280	36%
Transport and storage	**380**	**281**	**74%**	376	255	68%
Resources	**103**	**99**	**96%**	103	98	95%
Total sectors analysed	**2,624**	**1,518**	**58%**	2,774	1,585	57%
Sectors not yet analysed	**5,716**			5,949		
Total Business banking portfolio	**8,340**	**1,518**	**18%**	8,723	1,585	18%

(1) Restated balances calculated on the same basis as the 2021 financed emissions calculation.

Utilities was identified as a priority sector, but once analysed was excluded from this year's calculation on the basis that 68% of in-scope loans relate to renewable energy. We are developing our calculation approach to appropriately reflect the emissions, and avoided emissions, applicable to this specific sector.

TCFD report

4 Metrics and targets continued

Methodology

The PCAF Standard provides a detailed methodology for six asset classes to assist users to consistently apply the methodology. These asset classes are Listed equity and corporate bonds; Business loans and unlisted equity; Project Finance; Commercial real estate; Mortgages; and Motor vehicle loans. For all portfolios analysed we applied the Business Loans and Unlisted Equity PCAF approach. The primarily SME nature of our portfolio means that there are limited listed customers to which an alternate approach would apply.

- Calculation of total customer carbon dioxide equivalent emissions:
  - Where available from reported figures or carbon audits conducted, customers' actual CO_2e emissions figures have been used.
  - Where reported emissions were unavailable, they were estimated using economic activity-based emission factors from the PCAF emissions database based on the industry classification code assigned to the loan.(1)
  - Economic emission factors were then multiplied by customer revenue to arrive at an estimated carbon dioxide equivalent figure.(1)
- Calculation of attribution factor:
  - PCAF stated attribution factor for private companies (outstanding loan amount divided by total debt plus equity) was applied to all customers.
  - Where total debt plus equity was not available, total assets was used as a proxy, as permitted by the PCAF methodology.
  - In a small number of instances, where the calculated attribution factor was greater than 100%, the attribution factor was limited to 100%.(2)

Calculated emissions

	30 September 2021				30 September 2020(3)			
	Scope 1 and 2			Scope 1, 2 and 3	Scope 1 and 2			Scope 1, 2 and 3
	Agri-culture	Manu-facturing	Transport	Resources	Agri-culture	Manu-facturing	Transport	Resources
Total lending (£m)	**1,441**	**700**	**380**	**103**	1,526	769	376	103
Assessed lending (£m)	**905**	**233**	**281**	**99**	952	280	255	98
Assessed lending (% total customer lending)	**63%**	**33%**	**74%**	**96%**	62%	36%	68%	95%
Virgin Money attributed financed emissions (tCO_2e)(4)	**517,452**	**163,287**	**596,561**	**160,286**(5)	475,668	246,760	396,727	148,753(5)
Economic emissions intensity (tCO_2e/£m lent)(6)	**572**	**701**	**2,120**	**1,622**(6)	500	882	1,553	1,520(6)
PCAF data quality score(7)	**4.4**	**4.5**	**4.5**	**4.5**	4.5	4.5	4.5	4.5

(3) Restated balances calculated on the same basis as the 2021 financed emissions calculation.

(4) Financed emissions expressed in tCO_2e and economic emission factors expressed in tCO_2e/£m of revenue. Emissions exposures exported from the Environmentally-Extended Input Output database EXIOBASE – accessed via the PCAF emissions factor database.

(5) Scope 1 and 2 resources: 109,726 (2020: 102,010) and Scope 3 resources: 50,560 (2020: 46,743).

(6) Scope 1 and 2 resources: 1,110 (2020: 1,042) and Scope 3 resources: 512 (2020: 478).

(7) Data quality scoring aligns with PCAF's Global GHG Accounting and Reporting Standard, with 1 representing high data quality and 5 representing low data quality.

(1) Industry classification codes used by Virgin Money have been mapped to ISIC rev. 4 codes for the purpose of assigning emission factors. Where a Virgin Money code maps to multiple ISIC rev. 4 codes, the highest emission factor across those codes has been applied. Economic emission factors are provided per £m of customer revenue.

(2) This limit was applied as it would not be appropriate for the Group to be attributed with more than 100% of a customer's absolute financed emissions. The Group is continuing to refine and cleanse the data used in the calculation to further reduce the incidence of this. Only 4% of balances analysed were impacted by a fixed attribution factor.

4 Metrics and targets continued

Outcomes
Financed emissions have been estimated at 30 September 2020 and 2021, and movements between these years are driven by:

- changes in customer revenue, moving from the pandemic to a post-pandemic period. Economic emission factors are based on customer revenue;
- foreign exchange movements. The PCAF emissions database is in Euros, and has been translated to GBP; and
- changes in the size of the portfolio.

Until customer specific emissions are available, estimated emissions may not reflect actual changes in emissions, but rather be driven by changes in the factors used to estimate emissions, such as customer revenue.

Data quality and limitations
In order to improve data quality, a balance limit was applied to determine the customers in scope. This results in the financed emissions calculations focusing on the highest exposures in the priority sectors.

In addition to the lack of reported customer emissions, key limitation of the above approach is the requirement to translate between industry classification codes so an emission factor from the PCAF EXIOBASE emissions database can be attributed.

It is widely acknowledged that alignment of reporting dates is challenging when calculating financed emissions. As a result, the Group has used the latest available customer financial statement data, with the PCAF emission factor, and applied that to the spot rate at the reference date (30 September 2020 and 30 September 2021).

The PCAF methodology provides specific guidance on the interpretation of the PCAF formula (presented on page 252). In particular, it clarifies the approach for calculating the attribution factor for business loans. The calculation of financed emissions has only considered on balance sheet exposure, in line with this guidance. This results in any undrawn commitments to customers being excluded from the calculation – resulting in potential volatility in the future.

Using the PCAF Standard, a score of 4.5 applied to loans where spot balance, revenue and Debt and Equity are known, and a sector emission factor was applied to revenue. The data quality score has been lowered to reflect the challenges associated with translating sector industry codes (as noted above). This was the case for the majority of the financed emissions assessed in the Business portfolio. In limited circumstances within the Agriculture portfolio, customer specific emissions were available, and so a PCAF data score of 2 was applied to these exposures. This data score reflects the fact these customer specific emissions were not verified.

Future focus
Over the course of the next year, the Group will continue to refine its preliminary calculations and continue to develop its financed emissions methodology for the remaining sectors in the Business portfolio to be disclosed in due course.

The importance of customer specific emissions cannot be understated, and the Group encourages calculation and reporting of customer specific emissions.

Improving the availability of and quality of data is a key focus. Specifically by drilling further into sector codes (which determine emission factors) assigned to customers will enhance our calculation until customer specific emissions are available. Capturing customer specific emissions will enhance the calculation, but the Group will continue to estimate emissions until customer specific emissions are available, as obtaining customer specific emissions is likely to be challenging, given the weighting of SME customers in the portfolio.

Climate-related targets

Measuring emissions has provided the basis for understanding the carbon intensity of our customer portfolios. Under our commitments to the NZBA, we must transition all attributable GHG emissions from our lending and investment portfolios to align with pathways to net zero by mid-century, or sooner. The setting of science-based targets will become the primary focus for the Group in addressing the carbon reductions required across our lending portfolios, considering governmental and societal change alongside the latest climate science. Work to calculate expanded scope within existing sectors, and residual carbon-intensive sectors within the Business portfolio, will support greater coverage of climate-related targets.

Climate-related targets are aligned to the Science Based Targets initiative (SBTi) methodology, using their Sectoral Decarbonisation Approach (SDA) wherever possible to calculate emissions intensity estimates for 2030. The SDA approach takes into account inherent differences between sectors, such as their expected growth and potential for emissions reduction activities and is considered one of the most ambitious ways to set a Scope 3 target under SBTi guidance. Where the SDA has not been available for individual sectors, an economic intensity approach has been adopted, in line with SBTi guidance. The Group has not currently submitted targets for validation under the SBTi due to resource constraints, but will consider doing so in the future.

Sector	Balances (£bn)	Est. 2020 baseline intensity[1]	Intensity metric	Est. 2030 intensity	Approach	Scenario
Mortgages[1]	58.1	39	$kgCO_2e/m^2$	22	SDA	IEA ETP B2DS (World)
Agriculture	0.95	712	tCO_2e/£m revenue	503	SDA	UK CCC BNZ
Resources	0.1	1,520	tCO_2e/£m lending	736	Economic intensity	N/A
Transport – Surface	<0.1	148	gCO_2e/pkm	89	SDA	UK CCC BNZ
Transport – Shipping	<0.1	1,881	tCO_2e/£m lending	911	Economic intensity	N/A

(1) Calculated on Mortgage loan level data as at 31 March 2022.

The table shows estimated 2020 and 2030 intensity targets, calculated using SBTi guidance. Estimations of physical intensity have been produced for each relevant individual sector, expressed as total emissions per unit of physical output in the real economy. Physical metrics were obtained through counterparty data where possible, but the majority of physical outputs were estimated using proxies such as the share of revenue or emissions per each individual sector. The boundaries applied to the Business sector science-based targets align to the emissions outputs, focusing on customer exposures >£1.5m for all sectors, except a £1m limit for Agriculture, and a >£250k limit for Resources, applied to achieve coverage guidance. This aligns to the specialist sector relationship management model, allowing for more closely managed emissions reduction strategies.

Scenario selection

The scenarios selected to formulate targets were based on the greatest percentage reduction in intensity for each sector. As the Group is wholly UK-based, the UK's Climate Change Committee (CCC) Balanced Net Zero (BNZ) pathway has been selected for Businesses, with the International Energy Agency's (IEA) Beyond 2 Degrees Scenario (B2DS World) scenario chosen for Mortgages.

Data quality and future developments

The science-based targets have been formulated using the best available guidance and data. However, there are a number of data limitations and further work in the coming years on data availability, including capture of relevant counterparty data, as well as updates to methodologies and understanding, which will be reflected in future reports and may result in updated targets. The SBTi recommend targets are revisited at least every five years, or where any material changes to data quality, assumptions and updates to the latest climate science are present.

Resources

The Group aims to achieve an emissions intensity reduction of 52% by 2030, based on a 2020 baseline, in line with the economic intensity approach.

While the Group has exposure to customers classified within the oil and gas sector, we do not provide lending to businesses which generate revenue directly from oil and gas extraction and are instead mostly providers of field services. Customers currently classified within this sector are positioned well to enable the transition to net zero, including supporting and manufacturing parts for renewable projects. Opportunities for these customers and key areas of focus within the CCC pathway include the electrification of compressors and generators on oil and gas platforms and the overall fuel switch within the economy from petroleum. The Group will work with these customers to assess transition plans; provide funding to those facilitating the transition; and develop an enhanced climate onboarding criteria.

Surface transport

The Group aims to achieve an emissions intensity reduction of 40% by 2030, based on a 2020 baseline, in line with the SDA approach under the CCC BNZ pathway. Key assumptions within the pathway include:

- a reduction in car usage, with total car miles falling by 9% as uptake in other transport (walking, cycling, public transport) increases;
- sales of new petrol and diesel cars and vans are phased out by 2032 at the latest. Battery vehicles make up 64% of all cars and 68% of all vans on the road; and
- zero-emission HGVs comprise 96% of all sales and 99% of bus and coach sales are zero-emission. Diesel vehicles still comprise 67% of the HGV fleet.

Key opportunities within the surface transport sector include the financing of electric vehicle infrastructure and green asset finance products. The Group will work with customers to assess transition plans and provide funding aligned with these opportunities.

Shipping

The Group aims to achieve an emissions intensity reduction of 52% by 2030, based on a 2020 baseline, in line with the economic intensity approach. The Shipping sector currently has a limited set of policies and pathways to decarbonise, with main opportunities in efficiency improvements, electrification and the eventual shift to zero-carbon fuels. The Group will work with its customers to understand their transition plans and will update its Shipping specific strategy as new technologies are developed to accelerate the transition.

TCFD report

4 Metrics and targets continued

Mortgages

Overview

Accounting for £58.2bn (80%) of the Group's customer lending as at September 2022, mortgages are a material area of climate-related risk and opportunity for the Group.

Methodologies applied

PCAF methodology was applied to measure financed emissions at individual property level (where appropriate). To calculate the target, floor space is required. The Group holds floor space data for 68% of the Mortgage portfolio. For the remaining 32% of the portfolio, a floor space estimate is derived from PCAF emissions factors. Our March 2022 calculations cover 100% of the portfolio lending balances.

To calculate our Science-based Target, the Group applied the IEA's B2DS pathway for residential buildings.

The Group is aligning its Science-based Targets to a reduction in Emissions Intensity. This will be measured using Physical Intensity ($kgCO_2e/m^2$ floor area) with an aim to transition to customer specific data points (e.g. smart meter data) as data quality improves.

Science-based Target

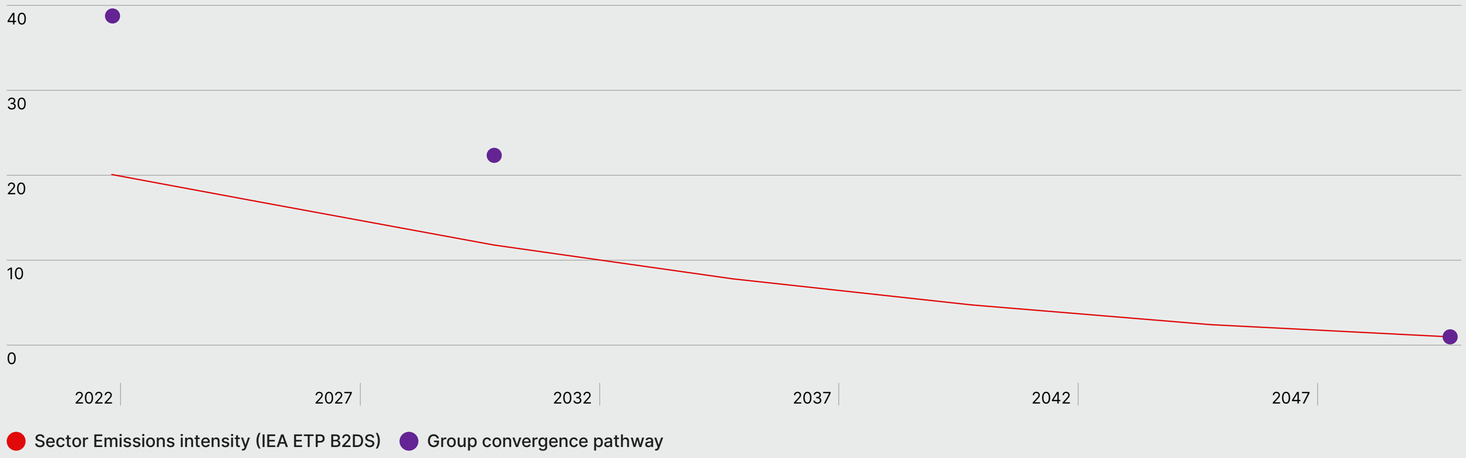
To calculate the Science-based Target, IEA B2DS World pathway inbuilt to the SBTi modelling tool to estimate convergence points, which requires an emission intensity reduction of 43% by 2030, based on a 2022 baseline.

IEA B2DS assumptions

The target scenario contains assumptions out of our control, such as:

- **Low-carbon heating equipment** (heat pumps, solar, thermal, biomass, etc) will make up 45% of global heating equipment by 2030 and 79% by 2050. As a result, fossil fuel energy consumption in heating will decrease 17% by 2030 and 51% by 2050 relative to the IEA's base scenario.

Emissions intensity
$kgCO_2e/m^2$



- **Accelerated uptake of high-efficiency products** requires strong push and pull policies to overcome barriers, such as higher upfront costs and availability of less efficient products.
- **Residential floor space** is expected to grow (i.e. additional incremental properties built) aligned to increase in population and the IEA assumes that global incremental floorspace increases by 2% each year until 2040, then 1.5% through to 2060.

Our assumptions

We've made some additional assumptions based on our specialist sector expertise:

- Energy efficiency and electrification of home appliances has the potential to impact emissions in residential mortgages. UK Government legislation to invest £450m to support low-carbon heat in existing buildings, offering grants of £5k per home to replace gas boilers with heat pumps, among other incentivisation measures will be key.
- Book growth will align to sector growth over the target period, as outlined in the IEA scenario.
- Cross-sector collaboration will enable greater data quality at capture, aligned customer incentives and approach to Government consultation and policy change.

Actions to help the book transition

To help meet our 43% Emission Intensity reduction by 2030, we will undertake a series of management actions over a number of years to help sectoral transition. We will continue to explore additional actions.

- **Retrofit:** Help customers improve the fabric of their home (i.e. insulation), to increase energy efficiency. This could reduce running costs and ensure properties are ready to install low-carbon heating technology.
- **Retrofit:** Offering customers access to low carbon heating solutions (e.g. heat pump installation, solar panels etc) and finance to help them transition to carbon neutrality.
- **Greener mortgages:** Roll out of a greener mortgage proposition to incentivise customers with reduced rates on new and existing housing stock with A to B EPC certificate rating.
- **Educational content:** Inform customers and colleagues on how their homes can achieve greater energy efficiency and carbon neutrality by delivering tailored insight.
- **Targeting EPC of C+:** The Group's target of 50% coverage of C+ EPC ratings will transition the book to meet the 43% target by 2030.

More actions will be developed in line with external scenarios.

4 Metrics and targets continued

Agriculture

Overview

Agriculture is the Group's largest Business lending sector, accounting for c.£1,400m of borrowing and c.20% of lending to businesses. The sector emits 0.5 $MtCO_2e$ of the Group's attributed emissions, and accounts for approximately 10% of the UK's GHGs.

Methodologies applied

The Group has applied the PCAF (Partnership for Carbon Accounting Financials) methodology to measure financed emissions, allowing calculations at sector and sub-sector level within Agriculture. Our September 2020 baseline calculations cover 62% of sector lending balances.

To calculate our Science-based Target, the Group has applied the UK's Climate Change Committee's (CCC) balanced pathway to net-zero for Agriculture, representing its natural alignment with our Agriculture portfolio.

The Group is aligning its SBTs to a reduction in Emissions Intensity. Initially, this will be measured using Physical Intensity ($tCO_2e/£m$ revenue) with an aim to transition to customer specific data points (e.g. customer emissions) as data quality improves.

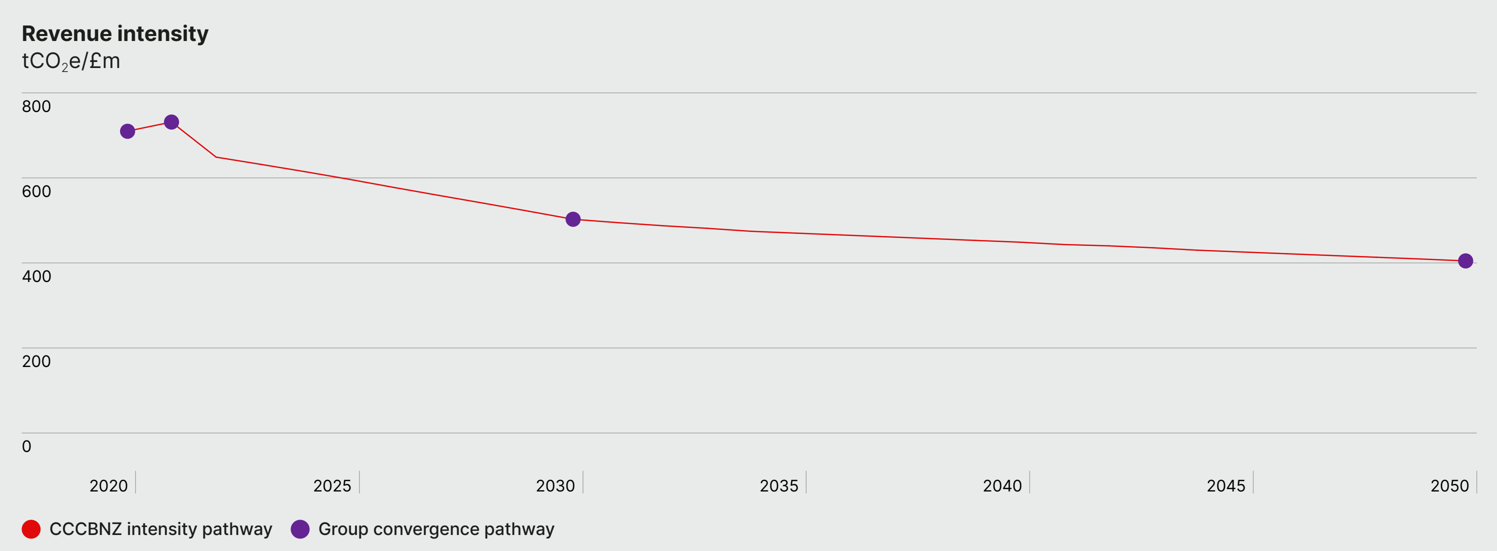
Science-based Target

Using the above methodologies and pathways, the Group will aim to reduce its Agri financed emissions by 29% by 2030, from our September 2020 baseline of 476 $ktCO_2e/£m$. This puts us on the trajectory to net zero aligned with the CCC's balanced pathway.

Pathway assumptions

CCC scenarios have progress points at 2035 and 2050. We've used the 2035 assumptions to direct our 2030 target:

- Take up **low-carbon farming practices**, such as wastewater treatment for on-farm energy. The CCC estimates actions here can drive a 4$MtCO_2e$ reduction by 2035.



- **Changing consumer diets**, a key driver, with the CCC balanced pathway involving a 20% shift from meat and dairy products by 2030.
- Other reductions come through **decarbonised vehicles and buildings, less food waste** and broader **productivity enhancements**, such as on-farm IoT investment.
- A rise in **afforestation** and a restoration of **peatland**, encouraging farmers to transition land from animal-use; potentially delivering over 8MT in carbon-saving by 2035. Both require common codes to create value in credit markets.

Our assumptions

We've made some additional assumptions based on our specialist sector expertise:

- Dietary changes sees a reduction in our emissions through beef, sheep or dairy farming, with farmers further diversifying to offset income impact.
- Consolidation of farms will occur with more efficient farms purchasing inefficient operators.
- As our lending balances increase, so will the underlying value of affiliated farms.
- Our customers will continue to invest in energy transition projects, reducing on-farm emissions and developing carbon abatement.

Actions to help the sector transition

To help meet our 29% emission intensity reduction by 2030, we will undertake a series of management actions over a number of years to help sectoral transition. We will continue to explore additional actions.

- **Launch of an Agri e-Fund**, waiving arrangement fees for farmers who wish to borrow for green purposes and have completed a carbon audit on the business.
- **Strengthened partnership with Carbon Metrics** through the production of a net-zero report to increase value of carbon audits for farmers – research shows only 54% of farmers found carbon audits helped overall business planning despite supply chain requirements.
- We've **embedded the Sustainable Business Coach into annual reviews** for borrowing over £2.5m, helping businesses identify and progress their high priority sustainability goals.
- **Targeted action** to understand emission reduction plans of top emitting farming customers.
- **Relationship Manager education** on financed emissions methodology and implications, to apply knowledge in their day-to-day role.

TCFD report

4 Metrics and targets continued

Transition risks

Mortgages

An Energy Performance Certificate (EPC) gives properties an energy efficiency rating on a range from A (most efficient) to G (least efficient). As we transition to a net-zero economy, more importance is placed on homes being better equipped to reduce their energy consumption. With this shift, comes increased regulation around minimum EPC ratings and as a mortgage provider, we need to ensure that new lending applications are for properties that fulfil the new requirements and that current customers are supported through the transition.

The table below shows a summary of Mortgage EPC ratings by volume, the EPC rating being a proxy for transition risk. 67.6% of total mortgaged properties were matched to an EPC rating (63.7% Residential; 78.3% BTL). Of those properties where no EPC rating was found, the majority of were located in Scotland and Northern Ireland, where data availability is more limited:

	Current EPC rating			Potential EPC rating		
EPC Rating[1]	Residential mortgages	BTL	Total mortgages	Residential mortgages	BTL	Total mortgages
A	**0.1%**	**0.1%**	**0.1%**	5.2%	2.5%	4.5%
B	**7.9%**	**6.8%**	**7.6%**	30.4%	41.1%	33.3%
C	**15.0%**	**26.5%**	**18.1%**	21.4%	28.9%	23.4%
D	**27.0%**	**33.1%**	**28.7%**	5.2%	4.9%	5.1%
E	**10.8%**	**10.6%**	**10.7%**	1.2%	0.7%	1.1%
F	**2.4%**	**0.9%**	**2.0%**	0.2%	0.1%	0.2%
G	**0.5%**	**0.2%**	**0.4%**	0.1%	0.0%	0.1%
Unmatched	**36.3%**	**21.8%**	**32.4%**	36.3%	21.8%	32.3%

(1) Split of mortgage records by EPC band by property type (including Scotland) as at 31 March 2022.

The largest proportion of properties have been rated C to E. This is consistent across both the Residential and BTL portfolios.

Business lending

The Group is potentially exposed to future transition risks through its Business lending portfolio, as a result of specific sectors being exposed to heightened transition and physical risks. In line with TCFD guidance, the Group has identified exposures to carbon-related assets associated with non-financial groups Energy, Transportation, Materials and Buildings, and Agriculture, Food and Forest Products. These specific sectors are more likely to be financially impacted due to their exposure to certain transition and physical risks such as emissions, energy or water dependencies associated with their operations and products.

A view of the Group's exposure to carbon-related assets and wider Business lending sectors at potential of heightened transition risk, highlighted in bold, are shown below:

Carbon-related assets[1][2]

	September 2022		September 2021[3]	
	£m	% Lending	£m	% Lending
Energy	**137**	**0.2%**	**96**	**0.1%**
Coal mining	**–**	**0.0%**	**–**	**0.0%**
Utilities (gas and electricity)	**12**	**0.0%**	**12**	**0.0%**
Oil and gas[4]	**125**	**0.2%**	**84**	**0.1%**
of which: Oil and gas field services	*109*	*0.1%*	*80*	*0.1%*
Transportation	**722**	**1.0%**	**737**	**1.0%**
Automotive, aviation, shipping, rail, motor, vehicle retailing and servicing	**722**	**1.0%**	**737**	**1.0%**
Materials and buildings	**870**	**1.1%**	**901**	**1.2%**
Construction and Commercial Real Estate	**743**	**1.0%**	**816**	**1.1%**
Concrete, chemicals and steel manufacturing	**103**	**0.1%**	**62**	**0.1%**
Metals and mining	24	0.0%	23	0.0%
Agriculture, food and forest products	**1,659**	**2.3%**	**1,680**	**2.4%**
Agriculture, forestry and fishing	**1,467**	**2.0%**	**1,490**	**2.1%**
Beverages	48	0.1%	48	0.1%
Food	144	0.2%	142	0.2%
Subtotal: Heightened risk sectors	**3,172**	**4.3%**	**3,201**	**4.4%**
Grand total	**3,388**	**4.6%**	**3,414**	**4.7%**

(1) The table has been aligned to TCFD guidance based on the four non-financial groups noted above. As a result the table may not be directly comparable to financed emissions and wider tables within the ARA.

(2) Business lending sectors have been identified in line with 2021 TCFD guidance with water utilities and renewable electricity producer industries removed from the table.

(3) As the Group has developed its approach to carbon-related assets, prior year figures have been restated to allow for year-on-year comparability.

(4) Increase in oil and gas driven by increased exposure to oil and gas field services (transitioning to renewable energy support) and alternatives source of energy.

TCFD report

4 Metrics and targets continued

Sustainable Business Coach and climate surveys

During FY22, the Group introduced a requirement for customers with higher value lending balances and the potential to have the highest exposure to climate change risk, to complete a climate survey alongside the Sustainable Business Coach application, through our relationship with the Future-Fit Foundation. The climate survey and Sustainable Business Coach tool were completed by our customers and/or their Business Relationship Manager aimed at providing more detailed insight on how customers are responding to climate risk and their ESG credentials.

The responses from the climate survey have been analysed to aid our understanding of how customers are responding to climate change risks and how the future business models or strategies of those businesses may change over time. It has also provided an understanding of the preparation our customers are making to tackle the risks resulting from climate change and how the Group can support customer's transition as the climate change landscape evolves.

Questions from the survey focused on: whether our customers were operating with a specific climate change policy; were materially exposed to transition or physical risks relating to climate change; have taken action over the last two years to tackle climate change; whether specific climate data was being captured (e.g. GHG emissions) by their business; and if there were plans in place to reduce emissions in the next five years.

To date, 74% of Business customers that were selected have completed the Sustainable Business Coach benchmarking tool and climate survey which equates to £4bn of lending.

The benchmarking tool and climate survey will continue to be developed and enhanced over time as more data becomes available, and customer awareness of climate risk evolves.

Climate survey responses

The table below summarises customer responses to the questionnaire across our top five lending sectors:

30 September 2022	Agriculture	Business Services	Healthcare	Hospitality	Manufacturing
Businesses with a climate strategy integrated into business strategy	**61%**	**48%**	**26%**	**55%**	**50%**
Physical risks from climate change assessed as a key risk	**75%**	**30%**	**23%**	**24%**	**35%**
Transition risks from climate change assessed as a key risk	**73%**	**39%**	**26%**	**27%**	**39%**
GHG emissions arising from operations calculated (i.e. Scope 1 and 2 emissions)	**32%**	**42%**	**13%**	**15%**	**35%**
GHG emissions arising from value chains calculated (i.e. Scope 3 emissions)	**9%**	**27%**	**8%**	**3%**	**18%**
Proportion of businesses with a plan in place to reduce GHG emissions over next five years	**70%**	**55%**	**42%**	**42%**	**58%**
Emission reduction target(s) set to align with a recognised climate standard or initiative	**20%**	**33%**	**13%**	**18%**	**31%**
Businesses that have taken action to reduce GHG emissions in the last two years	**39%**	**55%**	**28%**	**42%**	**52%**

4 Metrics and targets continued

Physical risks

Flood risk

The map opposite illustrates the potential flood risk for our Retail Mortgage customers as at 31 March 2022, representing the proportion of properties at high or very high risk of flood for each geographic region.

On a total volume basis, Retail Mortgages at high risk of flooding are 3% of the portfolio and those at very high risk are 1% of the portfolio.

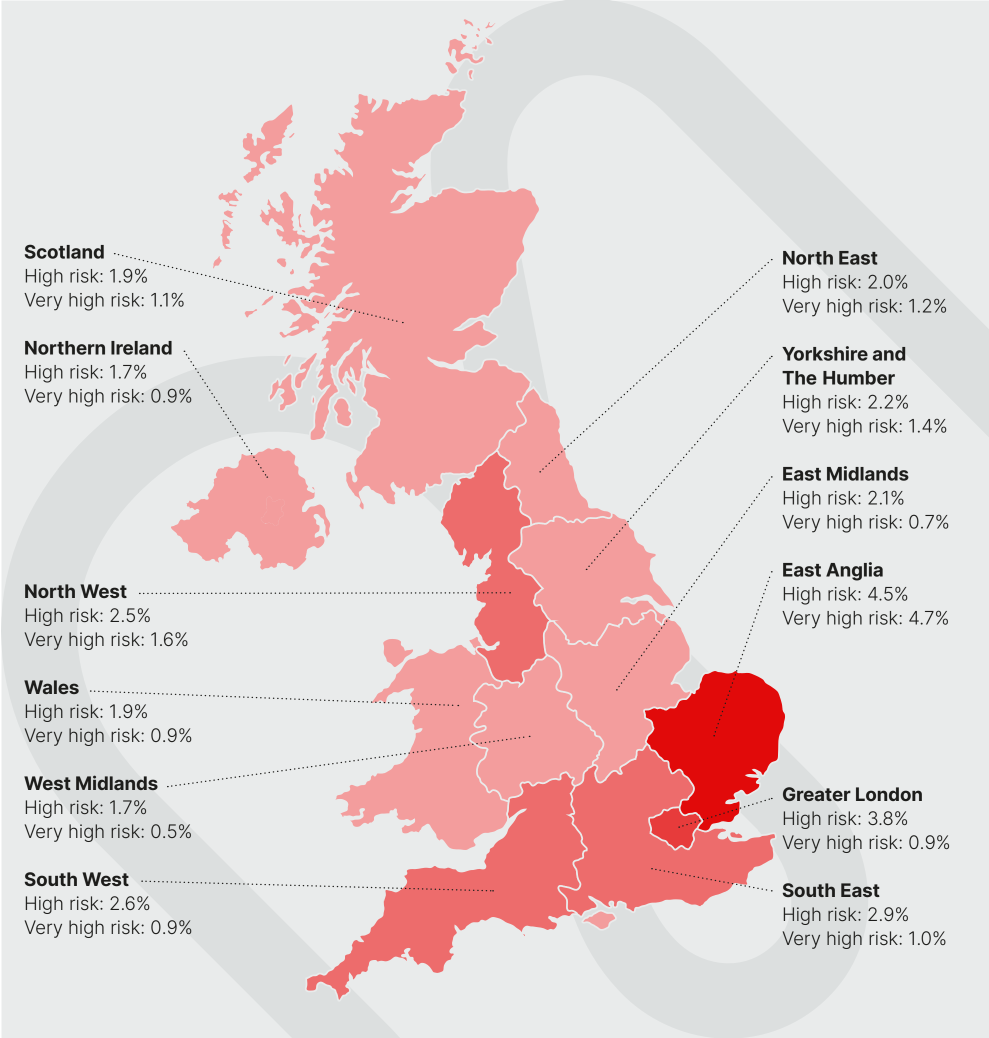
The Group's low future exposure to climate change is due to low current exposure to flood risk zones. Changes in climate risk and the impact on flood risk zones will continue to be monitored and the Group's exposure reassessed as required.

Coastal erosion

The risk to the Retail Mortgage portfolio from coastal erosion is minimal, as illustrated in the table below.

	Current coastal erosion risk		
Risk Rating	Residential mortgages	BTL	Total mortgages
Negligible	**94.8%**	**88.1%**	**93.1%**
Low	**0.00%**	**0.00%**	**0.00%**
Medium	**0.02%**	**0.01%**	**0.01%**
Very high	**0.00%**	**0.00%**	**0.00%**
Unmatched	**5.2%**	**11.9%**	**6.9%**
Average	–	–	–

c.93% of all mortgages with a rating recorded carry a negligible risk rating. The Group will continue to monitor the impact of climate change on coastal erosion relative to its portfolio.



Financial statements

Contents

Independent auditor's report to the members of Virgin Money UK PLC

Opinion

In our opinion:

- Virgin Money UK 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 2022 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 Virgin Money UK PLC (the 'parent company') and its subsidiaries (collectively the 'Group') for the year ended 30 September 2022 which comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2022	Company balance sheet as at 30 September 2022
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	Statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 6.1 to 6.6 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 5.5 to the financial statements, including a summary of significant accounting policies	
Information identified as "audited" within the Directors' remuneration report	
Information identified as "audited" within the Risk report	

The financial reporting framework that has been applied in the 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group and parent 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 listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

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 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 Bank'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.

In relation to the Group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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. > All audit work performed for the purposes of the Group audit was undertaken by the primary team.
Key audit matters	> Impairment of loans. > Revenue recognition – Effective interest rate method accounting.
Materiality	> Overall Group materiality of £37m which represents 0.58% of equity.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact Virgin Money UK PLC. The Group has determined that the most significant future impacts from climate change on their operations 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 230 in the risk report, and on pages 232 to 262 in the required Task Force for Climate related Financial Disclosures, which form 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.

As explained in Note 1.9 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 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 1.9 have been appropriately reflected in the areas of judgement and estimation where relevant. Details of our procedures and findings on this matter are included in our key audit matters below. We also challenged the Directors' considerations of climate change in their assessment of going concern and associated disclosures.

Whilst the Group has stated its commitment to the aspiration to achieve net zero emissions by 2050, the Group is currently unable to determine the full future economic impact on its business model, operational plans and customers to achieve this and therefore as set out above the potential impacts are not fully incorporated in these financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

Independent auditor's report to the members of Virgin Money UK PLC

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of loans **Consolidated balance sheet impairment of loans – £457m (2021: £504m)** **Consolidated income statement charge – £52m (2021: £131m credit)** **Please refer to page 108 (Audit Committee report), 165 (Credit risk report) and note 3.2 (Impairment provisions on credit exposures note).** There is uncertainty in estimating expected credit losses (ECLs), and management are required to make highly subjective judgements which have a material impact on the financial statements. This calculation is ordinarily complex, however in the current economic environment there is heightened uncertainty and complexity as a result of the ongoing high inflation, high interest rates and indirect economic impact of the war in Ukraine. Such economic conditions have not been experienced for many years, which creates modelling difficulties due to existing models having been developed on data relating to different economic conditions. As a result there is a need for Management to exercise judgements and capture the risks through post model adjustments. Key matters that could result in material misstatement in respect of the measurement of ECLs include the: > Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard; > Accounting interpretations and modelling assumptions used to build the models that calculate the ECLs; > Completeness and accuracy of data used to calculate the ECLs; > 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 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 > Accuracy and adequacy of the financial statement disclosures.	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 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, to source systems and contracts. To test credit monitoring, we independently recalculated risk ratings for a sample of performing and non-performing non-retail loans and compared to the Group's determinations. We assessed the economic scenario 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, such as GDP, unemployment, interest rates, House Price Index, Consumer Price Index and average earnings were appropriate loan loss provision drivers, and that the forecast variables were reasonable. We performed testing over material post model adjustments including those which were applied as a result of impact of the cost of living crisis. With our credit modelling specialists, we assessed the completeness of these adjustments and their appropriateness by considering the data, judgments 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.	We communicated that we were satisfied that ECL provisions were reasonable and in compliance with the requirements of IFRS 9. We communicated to the Audit Committee 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 economic inputs (such as GDP, unemployment, interest rates, House Price Index, Consumer Price Index and average earnings) and the base, downside and upside scenarios, together with weightings adopted by Management, were concluded to be reasonable. The risk not captured by the economic scenarios was appropriately addressed through post model adjustments. Our testing of post-model adjustments 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. 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 the retail and business portfolios are considered reasonable, albeit the business book provision is considered to be at the lower end of the range. 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: £2,215m (2021: £1,906m)** **Total EIR adjustments on balance sheet: Mortgage EIR: £201m, Cards EIR: £285m (2021: £210m and £273m)** **Please refer to note 2.2 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. Please refer to note 2.2 on pages 282 to 284. As set out in note 2.2, the most material adjustments to interest income under EIR accounting are made in respect of the Group's mortgage and credit card portfolios. 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. 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 utilises models to calculate EIR adjustments based on forecast future cashflows. 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 cashflows (particularly in the context of uncertain future consumer behaviours and the impact of current 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 adopted by the Group during the year for compliance with the accounting standards. We gained an understanding of the key processes, controls, assumptions and judgements used within the Group's EIR models. We also assessed the inclusion or exclusion of key streams of income and expenditure within the Group's EIR models. 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 models. 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 in aggregate 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 models, 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 that we were satisfied that in the aggregate EIR adjustments made to income were in compliance with the requirements of IFRS 9. We communicated to the Audit Committee that the models, assumptions and calculations informing the EIR calculations, and the EIR adjustments recorded as at 30 September 2022 were reasonable in the aggregate. We communicated our observations on management's key assumptions. We noted the potential downside risk present in EIR adjustments owing to possibilities in changes future customer behaviour, particularly as a result of emerging economic volatility and the likely impacts on consumer spend and repayment. We considered the modelling adjustments recorded by management in respect of these risks to be within a reasonable range of outcomes. We also noted that the unwind of the fair value adjustments recorded by management were reasonable in comparison to the customer behaviour assumptions used within the Group's EIR models.

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 £37m (2021: £37m), which is 0.58% (2021: 0.68%) of equity. We believe that equity provides us with an appropriate measure as there remains uncertainty in the economy which may lead to income volatility.

We determined materiality for the Parent Company to be £37m (2021: £37m), which is 0.92% (2021: 0.92%) of equity.

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 £27.7m (2021: £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 only minor 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 £1.8m (2021: £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 set out on pages 1 to 262, including the Strategic report set out on pages 2 to 66, the Governance report set out on pages 67 to 158, the Risk report set out on pages 159 to 230, the Task Force on Climate-related Financial Disclosures (TCFD) report set out on pages 231 to 262 and Additional information set out on pages 331 to 363, 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, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

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 and the part of the Directors' Remuneration Report to be audited 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.

Corporate Governance Statement
We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 155;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 155;
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 155;
- Directors' statement on fair, balanced and understandable set out on page 158;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 155 to 156;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 119; and
- The section describing the work of the audit committee 106 to 112.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 158, 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.

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.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- 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

- We were appointed as Virgin Money UK PLC's external auditor and signed an engagement letter on 14 January 2016, prior to Virgin Money UK PLC (formerly CYBG PLC) becoming the holding company of the Group on its demerger and IPO in February 2016. The period of total uninterrupted engagement as auditors of Virgin Money UK PLC including previous renewals and reappointments, is seven years covering the years ending 30 September 2016 to 30 September 2022.
- Virgin Money UK PLC is the holding company of the Group. A subsidiary of the Group is Clydesdale Bank PLC for which we have been the auditors for a total uninterrupted period of 18 years, covering the years ending 30 September 2005 to 30 September 2022.
- 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
20 November 2022

Consolidated financial statements

Consolidated income statement

For the year ended 30 September	Note	2022 £m	2021 £m
Interest income		2,215	1,906
Other similar interest		2	4
Interest expense and similar charges		(641)	(553)
Net interest income	2.2	1,576	1,357
Gains less losses on financial instruments at fair value		(17)	(5)
Other operating income		157	137
Non-interest income	2.3	140	132
Total operating income		1,716	1,489
Operating and administrative expenses before impairment losses	2.4	(1,069)	(1,203)
Operating profit before impairment losses		647	286
Impairment (losses)/credit on credit exposures	3.2	(52)	131
Profit on ordinary activities before tax		595	417
Tax (expense)/credit	2.5	(58)	57
Profit for the year		537	474
Attributable to:			
Ordinary shareholders		467	395
Other equity holders		70	79
Profit for the year		537	474
Basic earnings per share (pence)	2.6	32.4	27.3
Diluted earnings per share (pence)	2.6	32.3	27.3

All material items dealt with in arriving at the profit before tax for the above years relate to continuing activities.

The notes on pages 278 to 320 form an integral part of these financial statements.

Consolidated financial statements

Consolidated statement of comprehensive income

For the year ended 30 September	Note	2022 £m	2021 £m
Profit for the year		**537**	474
Items that may be reclassified to the income statement			
Change in cash flow hedge reserve			
Gains during the year		**962**	99
Transfers to the income statement		**(13)**	24
Taxation thereon – deferred tax charge		**(260)**	(33)
	4.1.5	**689**	90
Change in FVOCI reserve			
Gains during the year		**15**	33
Transfers to the income statement		**(4)**	–
Taxation thereon – deferred tax charge		**(1)**	(11)
		10	22
Total items that may be reclassified to the income statement		**699**	112
Items that will not be reclassified to the income statement			
Change in defined benefit pension plan	3.9	**122**	54
Taxation thereon – deferred tax charge		**(50)**	(46)
Taxation thereon – current tax credit		**6**	21
Total items that will not be reclassified to the income statement		**78**	29
Other comprehensive income, net of tax		**777**	141
Total comprehensive income for the year, net of tax		**1,314**	615
Attributable to:			
Ordinary shareholders		**1,244**	536
Other equity holders		**70**	79
Total comprehensive income for the year, net of tax		**1,314**	615

The notes on pages 278 to 320 form an integral part of these financial statements.

Consolidated financial statements

Consolidated balance sheet

As at 30 September	Note	2022 £m	2021 £m
Assets			
Financial assets at amortised cost			
Loans and advances to customers	3.1	**71,751**	71,876
Cash and balances with central banks	3.4	**12,221**	9,711
Due from other banks		**656**	800
Financial assets at FVTPL			
Loans and advances to customers	3.5	**70**	133
Derivative financial instruments	3.6	**342**	140
Other financial assets	3.5	**8**	20
Financial assets at FVOCI	3.7	**5,064**	4,352
Property, plant and equipment		**211**	250
Intangible assets and goodwill	3.8	**267**	373
Current tax assets		**–**	13
Deferred tax assets	2.5	**146**	377
Defined benefit pension assets	3.9	**1,000**	847
Other assets		**171**	208
Total assets		**91,907**	89,100
Liabilities			
Financial liabilities at amortised cost			
Customer deposits	3.10	**65,434**	66,971
Debt securities in issue	3.11	**8,509**	7,678
Due to other banks	3.12	**8,502**	5,918
Financial liabilities at FVTPL			
Derivative financial instruments	3.6	**327**	209
Current tax liabilities		**1**	–
Deferred tax liabilities	2.5	**350**	296
Provisions for liabilities and charges	3.13	**50**	104
Other liabilities	3.14	**2,394**	2,451
Total liabilities		**85,567**	83,627
Equity			
Share capital and share premium	4.1	**148**	149
Other equity instruments	4.1	**666**	915
Capital reorganisation reserve	4.1	**(839)**	(839)
Merger reserve	4.1	**2,128**	2,128
Other reserves	4.1	**766**	71
Retained earnings		**3,471**	3,049
Total equity		**6,340**	5,473
Total liabilities and equity		**91,907**	89,100

The notes on pages 278 to 320 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 20 November 2022 and were signed on its behalf by:

David Duffy
Chief Executive Officer

Clifford Abrahams
Chief Financial Officer

Virgin Money UK PLC, Registered number: 09595911

Consolidated financial statements

Consolidated statement of changes in equity

	Note	Share capital and share premium £m	Capital reorg' reserve £m	Merger reserve £m	Other equity instruments £m	Other reserves: Capital redemption reserve £m	Other reserves: Deferred shares reserve £m	Other reserves: Equity based comp' reserve £m	Other reserves: FVOCI reserve £m	Other reserves: Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
		4.1.1	4.1.3	4.1.4	4.1.2	4.1.5	4.1.5	4.1.5	4.1.5	4.1.5		
As at 1 October 2020		147	(839)	2,128	915	–	16	10	11	(80)	2,624	4,932
Profit for the year		–	–	–	–	–	–	–	–	–	474	474
Other comprehensive income, net of tax		–	–	–	–	–	–	–	22	90	29	141
Total comprehensive income for the year		–	–	–	–	–	–	–	22	90	503	615
AT1 distributions paid		–	–	–	–	–	–	–	–	–	(79)	(79)
Ordinary shares issued		2	–	–	–	–	–	–	–	–	–	2
Transfer from equity based compensation reserve		–	–	–	–	–	–	(1)	–	–	1	–
Equity based compensation expensed		–	–	–	–	–	–	5	–	–	–	5
Settlement of Virgin Money Holdings (UK) Limited share awards		–	–	–	–	–	(2)	–	–	–	–	(2)
As at 30 September 2021		149	(839)	2,128	915	–	14	14	33	10	3,049	5,473
Profit for the year		–	–	–	–	–	–	–	–	–	537	537
Other comprehensive income, net of tax		–	–	–	–	–	–	–	10	689	78	777
Total comprehensive income for the year		–	–	–	–	–	–	–	10	689	615	1,314
AT1 distributions paid		–	–	–	–	–	–	–	–	–	(70)	(70)
Dividends paid to ordinary shareholders		–	–	–	–	–	–	–	–	–	(50)	(50)
Ordinary shares issued		2	–	–	–	–	–	–	–	–	–	2
Share buyback		(3)	–	–	–	3	–	–	–	–	(63)	(63)
Transfer from equity based compensation reserve		–	–	–	–	–	–	(9)	–	–	9	–
Equity based compensation expensed		–	–	–	–	–	–	5	–	–	–	5
Settlement of Virgin Money Holdings (UK) Limited share awards		–	–	–	–	–	(3)	–	–	–	1	(2)
AT1 issuance		–	–	–	346	–	–	–	–	–	–	346
AT1 redemption		–	–	–	(595)	–	–	–	–	–	(20)	(615)
As at 30 September 2022		**148**	**(839)**	**2,128**	**666**	**3**	**11**	**10**	**43**	**699**	**3,471**	**6,340**

The notes on pages 278 to 320 form an integral part of these financial statements.

Consolidated financial statements

Consolidated statement of cash flows

For the year ended 30 September	Note	2022 £m	2021 £m
Operating activities			
Profit on ordinary activities before tax		**595**	417
Adjustments for:			
Non-cash or non-operating items included in profit before tax	5.2	**(1,326)**	(1,225)
Changes in operating assets	5.2	**1,212**	832
Changes in operating liabilities	5.2	**(238)**	(1,026)
Payments for short-term and low value leases		**(2)**	(1)
Interest received		**2,112**	2,088
Interest paid		**(378)**	(461)
Tax paid		**(59)**	(27)
Net cash provided by operating activities		**1,916**	597
Cash flows from investing activities			
Interest received		**47**	19
Proceeds from maturity of financial assets at FVOCI		**479**	1,079
Proceeds from sale of financial assets at FVOCI		**194**	–
Purchase of financial assets at FVOCI		**(2,019)**	(521)
Purchase of shares issued by UTM		**(4)**	(12)
Proceeds from sale of property, plant and equipment		**1**	6
Purchase of property, plant and equipment		**(13)**	(26)
Purchase and development of intangible assets	3.8	**(53)**	(80)
Net cash (used in)/provided by investing activities		**(1,368)**	465
Cash flows from financing activities			
Interest paid		**(246)**	(161)
Repayment of principal portions of lease liabilities	3.16	**(26)**	(28)
Redemption of AT1 securities		**(614)**	–
Proceeds from issuance of AT1 securities		**347**	–
Redemption and principal repayment on RMBS and covered bonds	3.11	**(1,264)**	(1,543)
Redemption and principal repayment on medium-term notes/subordinated debt	3.11	**–**	(30)
Issuance of RMBS and covered bonds	3.11	**2,480**	–
Issuance of medium-term notes/subordinated debt	3.11	**–**	732
Amounts drawn down under the TFSME		**2,550**	3,350
Amounts repaid under the TFS		**(1,244)**	(2,864)
Purchase of own shares		**(53)**	–
AT1 distributions	4.1.2	**(70)**	(79)
Ordinary dividends paid		**(50)**	–
Net cash provided by/(used in) financing activities		**1,810**	(623)
Net increase in cash and cash equivalents		**2,358**	439
Cash and cash equivalents at the beginning of the year		**10,253**	9,814
Cash and cash equivalents at the end of the year	5.2	**12,611**	10,253

Movements in liabilities arising from financing activities

	Note	Term funding schemes[1] £m	Restated debt securities in issue £m	Lease liabilities £m	Restated total £m
		3.12	3.11	3.16	
At 1 October 2020		5,397	8,758	175	14,330
Cash flows:					
Issuances		–	732	–	732
Drawdowns		3,350	–	–	3,350
Redemptions		–	(1,573)	–	(1,573)
Repayment		(2,864)	–	(28)	(2,892)
Non-cash flows:					
Fair value and other associated adjustments[2]		12	(183)	–	(171)
Additions to right-of-use asset in exchange for increased lease liabilities		–	–	4	4
Remeasurement		–	–	1	1
Movement in accrued interest		1	7	2	10
Unrealised foreign exchange movements[2]		–	(69)	–	(69)
Unamortised costs		–	6	–	6
At 1 October 2021		5,896	7,678	154	13,728
Cash flows:					
Issuances		–	2,480	–	2,480
Drawdowns		2,550	–	–	2,550
Redemptions		–	(1,264)	–	(1,264)
Repayment		(1,244)	–	(26)	(1,270)
Non-cash flows:					
Fair value and other associated adjustments		–	(400)	–	(400)
Additions to right-of-use asset in exchange for increased lease liabilities		–	–	4	4
Remeasurement		–	–	(4)	(4)
Movement in accrued interest		28	8	4	40
Unrealised foreign exchange movements		–	5	–	5
Unamortised costs		–	2	–	2
At 30 September 2022		**7,230**	**8,509**	**132**	**15,871**

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

(2) The accumulated amount of the fair value adjustments on the debt securities in issue has been restated in the comparative year in line with the current year presentation. The restatement had no impact on the debt securities in issue balance, however fair value and other adjustments have increased in the comparative period by £59m from £124m to £183m and unrealised foreign exchange movements has decreased by £59m from £128m to £69m.

The notes on pages 278 to 320 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 2022 Annual Report and Accounts in compliance with the Code.

1.1 General information

The Company is a public company limited by shares, incorporated in the United Kingdom under the Companies Act and registered in England and Wales.

The consolidated financial statements comprise those of the Company and its controlled entities, together the 'Group'.

1.2 Basis of accounting

On 1 October 2021, the Group transitioned to preparing consolidated financial statements under UK adopted International Accounting Standards (IAS) which is a change in accounting framework. This had no impact on the recognition, measurement or disclosure of financial information presented in the year.

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 comparative year financial statements were prepared and presented in accordance with IASs in conformity with the Companies Act 2006 and IFRSs adopted pursuant to regulation (EC) No. 1606/2002 as it applied in the European Union. This also included the early adoption of 'Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2', which had been endorsed by the EU and UK in January 2021 and included in UK adopted IAS.

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 as 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 measurement date.

1.3 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.

1.4 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 2022, 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 Company 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.

The Directors' report provides further detail on the Group's going concern and viability assessment.

1.5 Basis of consolidation

Controlled entities are all entities (including structured entities) to which the Company 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 on an ongoing basis.

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 Group's interests in JV entities are accounted for using the equity method and then assessed for impairment in the relevant holding companies' financial statements.

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

Section 1: Basis of preparation continued

1.6 Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, the 'functional currency'. The consolidated financial statements are presented in pounds sterling (GBP), which is also the Group's presentation currency, rounded to the nearest million pounds sterling (£m) unless otherwise stated.

Transactions and balances

The Group records an asset, liability, expense or revenue arising from a transaction using the closing exchange rate between the functional and foreign currency on the transaction date. At each subsequent reporting date, the Group translates foreign currency monetary items at the closing rate. Foreign exchange differences arising on translation or settlement of monetary items are recognised in the income statement during the year in which the gains or losses arise.

Foreign currency non-monetary items measured at historical cost are translated at the date of the transaction, with those measured at fair value translated at the date when the fair value is determined. Foreign exchange differences are recognised directly in equity for non-monetary items where any component of associated gains or losses is recognised directly in equity. Foreign exchange differences arising from non-monetary items, whereby the associated gains or losses are recognised in the income statement, are also recognised in the income statement.

1.7 Financial instruments

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.

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).

Financial assets

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; ii) FVTPL; or iii) FVOCI.

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. The amortised cost classification applies to the Group's loans and advances to customers (note 3.1), cash and balances from central banks (note 3.4) and balances due from other banks. Financial assets classified at amortised cost are subject to ECL requirements as detailed in note 3.2.

Specific accounting policies for financial assets at FVTPL and FVOCI can be found in notes 3.5 and 3.7 respectively.

Financial liabilities

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.

Repurchase agreements

Securities sold subject to repos 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.

1.8 Property, plant and equipment

The Group's property, plant and equipment is carried at cost, less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to acquisition of the asset. Impairment is assessed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

All items of property, plant and equipment are depreciated or amortised using the straight line method, at rates appropriate to their estimated useful life to the Group. The annual rates of depreciation or amortisation are:

> Buildings	50 years
> Leases (leasehold improvements)	the lower of the expected lease term or the asset's remaining useful life
> Fixtures and equipment	3–10 years

Residual values and useful lives of assets are reviewed at each reporting date. Depreciation is recognised within operating expenses in the income statement. The policy for lessee accounting is provided in note 3.16.

1.9 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 3.2
EIR	Product life Post promotion attrition and yield	Standard variable rate Macroeconomic factors Model risk reserve (MRR)	Note 2.2
Deferred tax		Period for the recoverability of deferred tax assets	Note 2.5
Retirement benefit obligations	Discount rate Inflation assumptions Mortality assumptions		Note 3.9

Critical accounting estimates and judgements related to climate change

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 understood and appreciated that the effects of climate change 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 exposed to the potential impact of climate-related risks, primarily the ECL implications and the ability of the customer to meet their contractual payments. As a UK-based bank with no significant lending outside of the UK, the Group considers the potential for material ECLs to emerge as a result of climate change in the short term to be negligible.

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 Statement of Investment Principles which incorporates climate change considerations. In addition, by necessity, the investment decisions made by the Trustees are normally medium to long term in nature.

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.

Notes to the consolidated financial statements

Section 1: Basis of preparation continued

1.10 New accounting standards and interpretations

The Group has adopted the following International Accounting Standards Board (IASB) pronouncement in the current financial year:

> Amendment to IFRS 16 and COVID-19 related rent concessions beyond June 2021 was issued in March 2021 and endorsed for use in the UK in May 2021. The original amendment (issued in May 2020 and effective for annual reporting periods beginning on or after 1 June 2020) introduced the optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. The IASB subsequently extended the period of application of the practical expedient to 30 June 2022, effective for annual reporting periods beginning on or after 1 April 2021. These pronouncements had no material impact on the Group's consolidated financial statements as it does not receive rent concessions.

The Group also acknowledges the decision by the IFRS Interpretations Committee (IFRIC) in April 2022, which concluded that certain demand deposits with restrictions should be presented as part of the cash and cash equivalents balance. The IFRIC agenda decision was considered but there are no impacts that would require a change in accounting policy for demand deposits.

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.

1.11 Other changes in the year

The following changes took place during the year:

Hedge accounting

The Group has changed the presentation of certain items in the derivative financial instruments note to the financial statements (note 3.6), with the relevant sections of the note restated. These are presentational changes only and have no impact on the Group's primary financial statements or net asset position.

The restatement was necessary to correct the historic presentation of the foreign exchange component of the fair value hedge adjustment, with the following restatements made:

Derivative financial instruments – hedge accounting (note 3.6)

The spot foreign exchange element was previously excluded from the disclosures. This has been corrected and impacts both the hedging instrument and the hedged item. The impact of the restatement on the previous year disclosure is as follows:

	Change in fair value of hedging instrument in the year used for ineffectiveness measurement	
Hedging instrument	Original £m	Restated £m
Fair value hedges		
Foreign exchange and interest rate risk		
Cross currency swaps	(12)	(86)
Total derivatives designated as fair value hedges	**488**	**414**

	Accumulated hedge adjustment on the hedged item		Change in fair value of hedged items in the year used for ineffectiveness measurement	
Hedged item	Original £m	Restated £m	Original £m	Restated £m
Fair value hedges				
Fixed rate currency issuances	(13)	72	17	91
Total	**(273)**	**(188)**	**(498)**	**(424)**

Expected credit losses

During the year, the Group made refinements to the operation of the SICR criteria within the Business portfolio. Further detail can be found in the credit risk section within the Risk report, pages 170 and 187. These refinements do not require any change to the prior period reported position.

Section 2: Results for the year

2.1 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

	2022 £m	2021 £m
Net interest income	**1,576**	1,357
Non-interest income	**140**	132
Total operating income	**1,716**	1,489
Operating and administrative expenses	**(1,069)**	(1,203)
Impairment (losses)/credit on credit exposures	**(52)**	131
Segment profit before tax	**595**	417
Average interest earning assets	**86,275**	86,947

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.

2.2 Net interest income

Accounting policy

Interest income is recognised in the income statement 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 in the income statement 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. Loan related administration and service fees are recognised as revenue over the period of service.

Interest income on financial assets in impairment 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 (after deducting the ECL allowance from the gross lending) using the asset's original EIR. The 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 3.2.

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 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 within other similar interest.

Included in interest income is finance lease income which is recognised at a constant periodic rate of return on the net investment.

2.2 Net interest income continued

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, a MRR is held to mitigate this uncertainty.

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 2022, a total EIR adjustment of £201m (2021: £210m) has been recognised for mortgages. This represented 0.3% (2021: 0.4%) 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 (0.7)% of gross customer interest income for mortgages (2021: 1.4%).

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 Group currently assumes that 85% (2021: 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.

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 bate rate rises. The Group has taken this into account when determining the EIR model 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	2022 (£m)	2021 (£m)
+/- 1 month change to the timing of customer repayments, redemptions and product transfers	**16/(13)**	12/(10)
50bps increase to the BoE base rate not passed through to the Group's SVR	**(46)**	(43)

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 2022, a total EIR adjustment of £285m (2021: £273m) has been recognised for credit cards. This represented 5.5% (2021: 6.4%) 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 in the year represented 3.3% of gross customer interest income for credit cards (2021: 24.3%).

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% (2021: 55%) following the end of the promotional period.

2.2 Net interest income 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 (2021: 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 and anticipated future base rate rises. As a result, temporary adjustments have been made to assumptions. Post promotional IBB has been decreased to 50% for 12 months and balance attrition has been increased to reflect a reduction in retail and balance transfer transaction activity for 12 months. If, however, the stress period was to increase to 24 months, the Group estimates it would result in a negative present value adjustment of approximately £35m, 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	2022 £m	2021 £m
+/- 5 ppts change to post-promotional IBB assumption[(1)] (9.1% relative increase/decrease)	**34/(28)**	31/(31)
+/- 0.5 ppts change to post-promotional monthly balance attrition rate (33% relative increase/decrease)	**(20)/23**	(23)/27

(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.

MRR
The complicated nature of EIR models means the Group exercises prudence on the modelled outcome and therefore chooses to hold a MRR in relation to both mortgages and credit cards to mitigate the risk of estimation uncertainty.

In arriving at the level of MRR, the Group assesses the judgements made within the EIR modelling and applies severe downside stress scenarios to quantify emerging or potential risks. This allows the Group to hold an appropriate level of MRR across both asset classes. The MRR is reviewed quarterly based on the conditions prevalent at the time and adjusted where necessary.

	2022 £m	2021 £m
Interest income		
Loans and advances to customers	**2,095**	1,880
Loans and advances to other banks	**70**	8
Financial assets at FVOCI	**50**	18
Total interest income	**2,215**	1,906
Other similar interest		
Financial assets at FVTPL	**5**	9
Derivatives economically hedging interest bearing assets	**(3)**	(5)
Total other similar interest	**2**	4
Less: interest expense and similar charges		
Customer deposits	**(342)**	(361)
Debt securities in issue	**(227)**	(168)
Due to other banks	**(70)**	(20)
Other interest expense	**(2)**	(4)
Total interest expense and similar charges	**(641)**	(553)
Net interest income	**1,576**	1,357

Notes to the consolidated financial statements

Section 2: Results for the year continued

2.3 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 expense arising on those derivatives except when economically hedging other assets and liabilities at fair value as outlined in note 2.2.
- Other financial assets designated at FVTPL – these relate principally to the Group's fixed interest rate loan portfolio (note 3.5), 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. The valuation technique used is reflective of current market practice.
- 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 3.6).

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 fee and commission income are charged to fees and commissions expense as they are incurred.

	2022 £m	2021 £m
Gains less losses on financial instruments at fair value		
Held for trading derivatives	**6**	6
Financial assets at fair value[1]	**(19)**	4
Ineffectiveness arising from fair value hedges (note 3.6)	**46**	(10)
Amounts recycled to profit and loss from cash flow hedges[2] (note 3.6)	**(4)**	(5)
Ineffectiveness arising from cash flow hedges (note 3.6)	**(46)**	–
	(17)	(5)
Other operating income		
Net fee and commission income	**134**	124
Margin on foreign exchange derivative brokerage	**19**	16
Gains on sale of financial assets at FVOCI	**4**	–
Share of JV loss after tax	**(4)**	(5)
Other income	**4**	2
	157	137
Total non-interest income	**140**	132

(1) Included within financial assets at fair value is a credit risk gain on loans and advances at fair value of £1m (2021: £1m gain), and a fair value gain on equity investments of £2m (2021: £15m gain).

(2) In respect of terminated hedges.

The Group's unrecognised share of losses of JVs for the year was £8m (2021: £1m). For entities making losses, subsequent profits earned are not recognised until previously unrecognised losses are extinguished. The Group's unrecognised share of losses net of unrecognised profits on a cumulative basis of JVs is £9m (2021: £1m).

Non-interest income includes the following fee and commission income disaggregated by income type:

	2022 £m	2021 £m
Current account and debit card fees	**102**	90
Credit cards	**52**	38
Insurance, protection and investments	**8**	10
Other fees[1]	**26**	29
Total fee and commission income	**188**	167
Total fee and commission expense	**(54)**	(43)
Net fee and commission income	**134**	124

(1) Other fees include mortgages, invoice and asset finance and ATM fees.

Notes to the consolidated financial statements

Section 2: Results for the year continued

2.4 Operating and administrative expenses before impairment losses

Accounting policy
Staff costs primarily consist of wages and salaries, accrued bonus and social security costs arising from services rendered by employees during the financial year.

The Group recognises bonus costs where it has a present obligation that can be reliably measured. Bonus costs are recognised over the relevant service period required to entitle the employee to the reward.

The Group's accounting policies on pension expenses and equity based compensation are included in notes 3.9 and 4.2 respectively.

	2022 £m	2021 £m
Staff costs	**435**	426
Property and infrastructure	**38**	89
Technology and communications	**119**	121
Corporate and professional services	**135**	160
Depreciation, amortisation and impairment	**179**	191
Other expenses	**163**	216
Total operating and administrative expenses	**1,069**	1,203

Staff costs comprise the following items:

	2022 £m	2021 £m
Salaries and wages	**254**	248
Social security costs	**30**	30
Defined contribution pension expense	**50**	49
Defined benefit pension credit	**(24)**	(8)
Compensation costs	**310**	319
Equity based compensation(1)	**4**	8
Bonus awards	**27**	22
Performance costs	**31**	30
Redundancy and restructuring	**3**	29
Temporary staff costs	**13**	13
Other(2)	**78**	35
Other staff costs	**94**	77
Total staff costs	**435**	426

(1) Includes National Insurance on equity based compensation.
(2) Includes a one-off cost of living allowance of £7m (2021: £Nil).

The defined benefit pension credit in the current period includes a credit of £10m (2021: £5m) arising from the ongoing Pension Increase Exchange (PIE) exercise which will complete in calendar year 2023 (note 3.9). 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:

	2022 Number	2021 Number
Managers(1)	**2,574**	2,691
Clerical staff	**4,292**	4,724
	6,866	7,415

(1) Includes a combination of managers with and without staff responsibilities.

The average monthly number of employees was 7,829 (2021: 8,613). 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:

	2022 £'000	2021 £'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	**24**	23
Fees payable to the Company's auditor for the audit of the Company's subsidiaries(1)	**4,564**	4,272
Total audit fees	**4,588**	4,295
Audit related assurance services	**262**	255
Other assurance services	**1,877**	330
Total non-audit fees	**2,139**	585
Fees payable to the Company's auditor in respect of associated pension schemes	**107**	79
Total fees payable to the Company's auditor	**6,834**	4,959

(1) Includes the audit of the Group's structured entities.

Non-audit fees of £2.1m (2021: £0.6m) were paid to the auditor during the year for services including the skilled person reporting as required by the PRA, the review of the Interim Financial Report, PRA Written Auditor Reporting, comfort letters for the global medium-term note and covered bond programmes, TFSME assurance, client money reviews and profit attestations.

Out of pocket expenses of £13k (2021: £Nil) were borne by the Group during the year.

Notes to the consolidated financial statements

Section 2: Results for the year continued

2.5 Taxation

Accounting policy
Income tax on the profit or loss for the year comprises current and deferred tax.

Income tax is recognised in the income statement except to the extent that it is related to items recognised directly in equity, in which case the tax is also recognised in equity (excluding AT1 distributions where the tax impact is recognised in the income statement).

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 £146m (2021: £377m), significant judgement is exercised on the component of deferred tax assets that relate to tax losses carried forward of £302m (2021: £255m).

The Group has assessed the potential for the recovery of these tax losses carried forward for this component of deferred tax assets at 30 September 2022 and considers it probable that sufficient future taxable profits will be available against which the underlying deductible temporary differences can be utilised over the corporate planning horizon. Deferred tax assets are recognised to the extent that they are expected to be utilised over six years from the balance sheet date. If instead of six years the period were five years or seven years, the recognised deferred tax asset would be £115m or would remain at £146m respectively. If Group profit forecasts were 10% lower than anticipated, the deferred tax asset would be £140m. This is only £6m lower than the reported position as there is excess plan profit capacity for losses to be recognised; all historic tax losses are now recognised on the balance sheet. All tax assets arising will be used within the UK.

	2022 £m	2021 £m
Current tax		
Current year	**81**	62
Adjustment in respect of prior years	**4**	–
	85	62
Deferred tax		
Current year	**(21)**	(124)
Adjustment in respect of prior years	**(6)**	5
	(27)	(119)
Tax expense/(credit) for the year	**58**	(57)

The tax assessed for the year differs from that arising from applying the standard rate of corporation tax in the UK of 19%. A reconciliation from the expense implied by the standard rate to the actual tax expense/(credit) is as follows:

	2022 £m	2021 £m
Profit on ordinary activities before tax	**595**	417
Tax expense based on the standard rate of corporation tax in the UK of 19% (2021: 19%)	**113**	79
Effects of:		
Disallowable expenses	**4**	13
Bank levy	**–**	1
Conduct indemnity adjustment	**(12)**	58
Deferred tax assets recognised	**(83)**	(126)
Impact of rate changes	**23**	(92)
AT1 distribution	**(13)**	(15)
Banking surcharge	**28**	20
Adjustments in respect of prior years	**(2)**	5
Tax expense/(credit) for the year	**58**	(57)

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 changes are effective for current tax from 1 April 2023 but, in accordance with accounting standards, have effect for deferred tax in the current year. The impact is a reduction in the value of deferred tax assets, reflected within the £23m charge to the income statement above.

Notes to the consolidated financial statements

Section 2: Results for the year continued

2.5 Taxation continued

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 (liability)/asset

	Acquisition accounting adjustments £m	Cash flow hedge reserve £m	Gains on financial instruments at FVOCI £m	Tax losses carried forward £m	Capital allowances £m	Pension spreading £m	Other temporary differences £m	Total deferred tax assets £m	Defined benefit pension scheme surplus £m	Total deferred tax liabilities £m
At 1 October 2020	(10)	23	(4)	151	113	9	23	305	(253)	(253)
Income statement (charge)/credit	–	1	–	104	11	–	6	122	(3)	(3)
Other comprehensive income charge	–	(33)	(11)	–	–	(4)	(2)	(50)	(40)	(40)
At 30 September 2021	(10)	(9)	(15)	255	124	5	27	377	(296)	(296)
Income statement credit/(charge)	2	2	–	47	(13)	–	(2)	36	(9)	(9)
Other comprehensive income charge	–	(260)	(1)	–	–	(5)	(1)	(267)	(45)	(45)
At 30 September 2022	**(8)**	**(267)**	**(16)**	**302**	**111**	**–**	**24**	**146**	**(350)**	**(350)**

Other temporary differences include the IFRS 9 transitional adjustment of £11m and equity based compensation of £6m (2021: £15m and £9m respectively).

The Group has deferred tax assets of £146m (2021: £377m), the principal components of which are tax losses of £302m (2021: £255m) and capital allowances of £111m (2021: £124m) offset by the cash flow hedge reserve deferred tax liability of £267m (2021: £9m). The Group also has deferred tax liabilities of £350m (2021: £296m) in relation to the defined benefit pension surplus.

The deferred tax assets and liabilities detailed above arise primarily in Clydesdale Bank PLC 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.

Historic trade tax losses are now fully recognised (2021: unrecognised deferred tax asset of £112m representing trading losses with a gross value of £449m). The Group also has historic non-trading losses of £6m gross, tax value £1m; a deferred tax asset has not been recognised in respect of these losses as their use cannot be foreseen.

On 17 October 2022, the Chancellor of the Exchequer confirmed that the UK corporation tax rate will increase to 25% from 1 April 2023. On 17 November 2022 it was confirmed that the previously enacted reduction in Banking Surcharge to 3%, with an allowance of £100m, would proceed, also from 1 April 2023. In line with the requirements of IAS 12, these enacted tax rates have been used to determine the deferred tax balances at 30 September 2022.

Notes to the consolidated financial statements

Section 2: Results for the year continued

2.6 Earnings per share

Accounting policy

Basic EPS

Basic EPS is calculated by taking the profit attributable to ordinary shareholders of the parent company and then dividing this by the weighted average number of ordinary shares outstanding during the year after deducting the weighted average of the Group's holdings of its own shares.

Diluted EPS

This requires the weighted-average number of ordinary shares in issue to be adjusted to assume conversion of all dilutive potential ordinary shares. These arise from awards made under equity based compensation schemes. Share awards with performance conditions attaching to them are not considered to be dilutive unless these conditions have been met at the reporting date.

The Group presents basic and diluted loss per share data in relation to the ordinary shares of Virgin Money UK PLC.

	2022 £m	2021 £m
Profit attributable to ordinary equity holders for the purposes of basic and diluted EPS	**467**	395

	2022	2021
Weighted-average number of ordinary shares in issue (millions)		
– Basic	**1,441**	1,442
Adjustment for share awards made under equity based compensation schemes	**3**	1
– Diluted	**1,444**	1,443
Basic earnings per share (pence)	**32.4**	27.3
Diluted earnings per share (pence)	**32.3**	27.3

Basic earnings per share has been calculated after deducting 0.3m (2021: 0.1m) ordinary shares representing the weighted-average of the Group's holdings of its own shares.

Note 4.1 provides details of the share buyback programme including buybacks intended for beyond 30 September 2022.

Section 3: Assets and liabilities

3.1 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, adjusted for ECLs (note 3.2). 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.

	2022 £m	2021 £m
Gross loans and advances to customers	**73,146**	72,551
Impairment provisions on credit exposures[1] (note 3.2)	**(454)**	(496)
Fair value hedge adjustment	**(941)**	(179)
	71,751	71,876

(1) ECLs on off-balance sheet exposures of £3m (2021: £8m) are presented as part of the provisions for liabilities and charges balance (note 3.13).

The Group has a portfolio of fair valued business loans of £70m (2021: £133m) which are classified separately as financial assets at FVTPL on the balance sheet (note 3.5). Combined with the above, this is equivalent to total loans and advances of £71,821m (2021: £72,009m).

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 has transferred a proportion of mortgages to the securitisation and covered bond programmes (note 3.3).

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 £46m (2021: £9m) and £405m (2021: £301m) 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, are as follows:

Gross investment in finance lease and hire purchase receivables

	2022 £m	2021 £m
Less than 1 year	**269**	257
1-2 years	**170**	156
2-3 years	**117**	99
3-4 years	**66**	50
4-5 years	**46**	26
More than 5 years	**24**	26
	692	614
Unearned finance income	**(45)**	(30)
Net investment in finance lease and hire purchase receivables	**647**	584

Finance income recognised on the net investment in the lease was £21m (2021: £19m) and is included in interest income in the income statement (note 2.2).

3.2 Impairment provisions on credit exposures

Accounting policy

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.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.2 Impairment provisions on credit exposures continued

SICR assessment and staging
The ECL is calculated as either a 12-month (Stage 1) or lifetime ECL 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 provisions 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 assessed as being credit impaired upon initial recognition. Once a financial asset is classified as POCI, it remains there 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. Further detail on the low credit risk option can be found in note 3.7.

The ECL assessment is performed on either a collective or individual basis:

Collective: these assets are assessed and provided for on a group or a pooled basis due to the existence of shared risk characteristics for as long as they retain those similar characteristics. Financial assets are considered to have shared risk characteristics when, at a given point in time, they will tend to display a similar PD and credit risk profile and can be allocated to Stages 1, 2 or 3.

Individual: these assets are assessed and provided for at the financial instrument level, with the assessment (which is governed by the Group's Credit Policy) taking into consideration a range of likely potential outcomes relating to each customer and their associated financial assets. These will be allocated to Stage 3.

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 judgements in the form of PMAs 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.

The Group's impairment policy for debt instruments at FVOCI is included in note 3.7. The impact of the ECL methodology on the Group's cash and balances with central banks and due from other banks balances held at amortised cost is immaterial. ECLs relating to loan commitments and financial guarantees can be found in note 3.13.

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 management's use of PMAs together with sensitivity analysis, is contained in the credit risk section of the Risk report on pages 192 to 198.

Movement in impairment provisions on credit exposures

	2022 £m	2021 £m
Opening balance	**496**	735
Charge/(credit) for the year[1]	**57**	(132)
Amounts written off	**(129)**	(126)
Recoveries of amounts written off in previous years	**30**	26
Transfer of off-balance sheet ECLs to provisions (note 3.13)	**–**	(7)
Closing balance	**454**	496

(1) The £52m charge (2021: £131m credit) for impairment losses on credit exposures shown in the income statement also includes a £5m credit (2021: £1m charge) in respect of off-balance sheet ECLs (note 3.13).

Off-balance sheet ECLs are presented as part of the provisions for liabilities and charges balance (note 3.13).

3.3 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 Company 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 1.5.

Securitisation
The Group has securitised a portion of its retail mortgage loan portfolio under both master trust (Lanark and Lannraig) and standalone (Gosforth) 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 3.11). 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 3.11). 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.

The assets and liabilities in relation to securitisation and covered bonds in issue at 30 September are as follows:

	2022		2021	
	Loans and advances securitised £m	Notes in issue £m	Loans and advances securitised £m	Notes in issue £m
Securitisation programmes				
Lanark	**3,776**	**2,768**	4,383	3,396
Lannraig	**768**	**622**	921	693
Gosforth 2017-1	**–**	**–**	712	591
Gosforth 2018-1	**872**	**745**	1,107	887
	5,416	**4,135**	7,123	5,567
Less held by the Group		**(2,260)**		(3,181)
		1,875		2,386
Covered bond programmes				
Clydesdale Bank PLC	**–**	**–**	999	742
Clydesdale Bank PLC (formerly Virgin Money PLC)	**6,739**	**3,450**	3,960	1,100
	6,739	**3,450**	4,959	1,842

During the year the Clydesdale Bank PLC Global Covered Bond Programme ceased activity and the Series 2012-2 Covered Bonds transferred to the Clydesdale Bank PLC (formerly Virgin Money PLC) Global Covered Bond Programme. There was no financial impact to the Group in relation to this transfer.

The fair values of financial assets and associated liabilities relating to the securitisation programmes were £5,235m and £1,878m respectively (2021: £7,171m and £2,406m) 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 transferred financial assets being derecognised.

The Group has contractual and non-contractual arrangements which may require it to provide financial support as follows:

Securitisation programmes
The Group provides 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:

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.3 Securitisation and covered bond programmes continued

	2022 £m	2021 £m
Beneficial interest held	**1,239**	1,521
Subordinated loans	**42**	1
Junior notes held	**978**	1,206
	2,259	2,728

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 Group, as sponsor, to provide additional liquidity support.

Covered bond programmes
The nominal level of over-collateralisation was £3,127m (2021: £2,827m) in the Clydesdale Bank PLC (formerly Virgin Money PLC) programme. In the prior year there was also £541m over-collateralisation in the Clydesdale Bank 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.

3.4 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.

	2022 £m	2021 £m
Cash assets	**1,206**	1,374
Balances with central banks (including EU payment systems)	**11,015**	8,337
	12,221	9,711
Less mandatory deposits with central banks[1]	**(266)**	(258)
Included in cash and cash equivalents (note 5.2)	**11,955**	9,453

(1) Mandatory deposits are not available for use in the Group's day-to-day business and are non-interest bearing.

3.5 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 1.7) or FVOCI (note 3.7); (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 2.3).

Loans and advances
Included in financial assets at FVTPL is a historical portfolio of loans (sales ceased in 2012). 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 £70m (2021: £133m). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £1m (2021: £2m); the change for the current year is a decrease of £1m (2021: decrease of £1m), of which £1m (2021: £1m) has been recognised in the income statement.

Other financial assets
Included in other financial assets are £7m (2021: £19m) of unlisted securities and £1m (2021: £1m) of debt instruments.

Note 3.15 contains further information on the valuation methodology applied to financial assets held at FVTPL and their classification within the fair value hierarchy. Details of the credit quality of financial assets is provided in the Risk report.

3.6 Derivative financial instruments

Accounting policy
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 reported 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 2.3).

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.6 Derivative financial instruments continued

The tables below analyse derivatives between those designated as hedging instruments and those classified as held for trading:

	2022 £m	2021 £m
Fair value of derivative financial assets		
Designated as hedging instruments	**277**	94
Designated as held for trading	**65**	46
	342	140
Fair value of derivative financial liabilities		
Designated as hedging instruments	**201**	143
Designated as held for trading	**126**	66
	327	209

Cash collateral totalling £241m (2021: £18m) has been pledged and £38m has been received (2021: £76m) 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 £149m (2021: collateral placed of £82m) 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.

Total derivative contracts

	2022			2021		
	Notional contract amount £m	Fair value of assets £m	Fair value of liabilities £m	Notional contract amount £m	Fair value of assets £m	Fair value of liabilities £m
Derivatives designated as hedging instruments						
Cash flow hedges						
Interest rate swaps (gross)	**35,753**	**1,988**	**930**	24,886	71	90
Less: net settled interest rate swaps(1)	**(33,188)**	**(1,803)**	**(900)**	(21,500)	(64)	(79)
Interest rate swaps (net)(2)	**2,565**	**185**	**30**	3,386	7	11
Fair value hedges						
Interest rate swaps (gross)	**16,600**	**1,201**	**636**	30,707	295	447
Less: net settled interest rate swaps(1)	**(14,611)**	**(1,144)**	**(570)**	(25,260)	(209)	(390)
Interest rate swaps (net)(2)	**1,989**	**57**	**66**	5,447	86	57
Cross currency swaps(2)	**2,113**	**35**	**105**	1,880	1	75
	4,102	**92**	**171**	7,327	87	132
Total derivatives designated as hedging instruments	**6,667**	**277**	**201**	10,713	94	143
Derivatives designated as held for trading						
Foreign exchange rate related contracts						
Spot and forward foreign exchange(2)	**599**	**26**	**20**	805	13	12
Cross currency swaps(2)	**–**	**–**	**–**	490	–	3
Options(2)	**1**	**–**	**–**	1	–	–
	600	**26**	**20**	1,296	13	15
Interest rate related contracts						
Interest rate swaps (gross)	**1,411**	**52**	**66**	734	14	31
Less: net settled interest rate swaps(1)	**(665)**	**(50)**	**–**	–	–	–
Interest rate swaps (net)(2)	**746**	**2**	**66**	734	14	31
Swaptions(2)	**10**	**–**	**2**	10	–	1
Options(2)	**501**	**16**	**17**	495	1	2
	1,257	**18**	**85**	1,239	15	34
Commodity related contracts	**199**	**21**	**21**	97	17	17
Equity related contracts	**–**	**–**	**–**	1	1	–
Total derivatives designated as held for trading	**2,056**	**65**	**126**	2,633	46	66

(1) Presented within other assets and other liabilities.
(2) Presented within derivative financial instruments.

3.6 Derivative financial instruments continued

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; and
- components of cash flows of hedged items, for example certain interest payments for part of the life of an instrument.

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.

Micro cash flow hedges

Floating rate issuances that are denominated in currencies other than the functional currency of the Group are designated in cash flow hedges with cross currency swaps. There are no active micro cash flow hedges at the Group's balance sheet date.

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 (e.g. 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 220.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.6 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:

	2022				2021			
		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][3] £m
Cash flow hedges								
Interest rate risk								
Interest rate swaps[1]	**35,753**	**1,988**	**930**	**916**	24,886	71	90	127
Foreign exchange risk								
Cross currency swaps	**–**	**–**	**–**	**–**	–	–	–	(28)
Total derivatives designated as cash flow hedges	**35,753**	**1,988**	**930**	**916**	24,886	71	90	99
Fair value hedges								
Interest rate risk								
Interest rate swaps[1]	**16,150**	**1,059**	**361**	**1,052**	30,707	295	447	500
Inflation and interest rate risk								
Inflation linked interest rate swaps[1]	**450**	**142**	**275**	**96**	–	–	–	–
Foreign exchange and interest rate risk								
Cross currency swaps	**2,113**	**35**	**105**	**6**	1,880	1	75	(86)
Total derivatives designated as fair value hedges	**18,713**	**1,236**	**741**	**1,154**	32,587	296	522	414

(1) As shown in the total derivatives contracts table on page 295, 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) The change in fair value of the hedging instrument used for ineffectiveness measurement has been restated in the comparative year in line with the current year presentation, as detailed in note 1.11.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.6 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.

	2022			2021		
	Change in fair value of hedged item in the year used for ineffectiveness measurement £m	Cash flow hedge reserve: Continuing hedges £m	Cash flow hedge reserve: Discontinued hedges £m	Change in fair value of hedged item in the year used for ineffectiveness measurement £m	Cash flow hedge reserve: Continuing hedges £m	Cash flow hedge reserve: Discontinued hedges £m
Cash flow hedges						
Interest rate risk						
Gross floating rate assets and gross floating rate liabilities[1]	**(962)**	**979**	**(14)**	(127)	2	13
Foreign exchange risk						
Floating rate currency issuances[2]	**–**	**–**	**–**	29	–	–
Total	**(962)**	**979**	**(14)**	(98)	2	13

	2022				2021			
	Carrying amount of hedged items: Assets £m	Carrying amount of hedged items: 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	Carrying amount of hedged items: Assets £m	Carrying amount of hedged items: Liabilities £m	Accumulated hedge adjustment on the hedged item[3] £m	Change in fair value of hedged items in the year used for ineffectiveness measurement[3] £m
Fair value hedges								
Interest rate risk								
Fixed rate mortgages[4]	**9,520**	**–**	**(941)**	**(779)**	24,265	–	(179)	(420)
Fixed rate customer deposits[5]	**–**	**–**	**(2)**	**–**	–	–	(5)	–
Fixed rate FVOCI debt instruments[6]	**2,443**	**–**	**(613)**	**(629)**	3,010	–	(115)	(197)
Fixed rate issuances[2]	**–**	**(2,392)**	**350**	**388**	–	(2,779)	39	107
Inflation and interest rate risk								
Fixed rate FVOCI debt instruments[6]	**589**	**–**	**(105)**	**(96)**	–	–	–	–
Foreign exchange and interest rate risk								
Fixed rate currency FVOCI debt instruments[6]	**76**	**–**	**(3)**	**(3)**	78	–	–	(5)
Fixed rate currency issuances[2]	**–**	**(1,954)**	**83**	**11**	–	(1,730)	72	91
Total	**12,628**	**(4,346)**	**(1,231)**	**(1,108)**	27,353	(4,509)	(188)	(424)

(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.

(3) The accumulated hedge adjustment on the hedged item and the change in fair value of the hedged items used for ineffectiveness measurement have been restated in the comparative year in line with the current year presentation, as detailed in note 1.11.

(4) Hedged item and the cumulative fair value changes, are recorded in loans and advances to customers.

(5) 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 in customer deposits.

(6) Hedged item is recorded in financial assets at FVOCI.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.6 Derivative financial instruments continued

	2022				2021			
	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	**(46)**	**962**	**17**	**(4)**	–	127	10	(5)
Foreign exchange risk								
Floating rate currency issuances	**–**	**–**	**–**	**–**	–	(28)	–	–
Total gains/(losses) on cash flow hedges	**(46)**	**962**	**17**	**(4)**	–	99	10	(5)

	Hedge ineffectiveness recognised in income 2022 £m	Hedge ineffectiveness recognised in income 2021 £m
Fair value hedges		
Interest rate risk		
Fixed rate mortgages	**33**	(10)
Fixed rate FVOCI debt instruments	**(2)**	1
Fixed rate issuances	**1**	(1)
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	**15**	–
Total losses on fair value hedges[1]	**46**	(10)

(1) Recognised in gains less losses on financial assets at fair value.

3.7 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 option is available for each separate investment. 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 are 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 3.2), with the ECL element recognised directly in the income statement. As the financial asset is fair valued through other comprehensive income, 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. No material ECL provision is held for these financial assets.

Financial assets at FVOCI consists of £5,064m of listed securities (2021: £4,352m).

Note 3.15 contains further information on the valuation methodology applied to financial instruments at FVOCI at 30 September 2022 and their classification within the fair value hierarchy. Details of the credit quality of financial assets is provided in the Risk report.

3.8 Intangible assets and goodwill

Accounting policy

Capitalised software is stated at cost, less amortisation and any provision for impairment.

Identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred. Capitalised software costs are amortised on a straight-line basis over their expected useful lives, usually between three and ten years. Impairment losses are recognised in the income statement as incurred.

Goodwill arises on the acquisition of an entity and represents the excess of the fair value of the purchase consideration and direct costs of making the acquisition over the fair value of the Group's share of the net assets at the date of the acquisition. Goodwill is not subject to amortisation and is tested for impairment on an annual basis.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, which typically arises when the benefits associated with the software were substantially reduced from what had originally been anticipated or the asset has been superseded by a subsequent investment. In such situations, an impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal or its value-in-use.

Intangible assets which are fully amortised are reviewed annually to consider whether the assets remain in use.

3.8 Intangible assets and goodwill continued

	Capitalised software £m	Goodwill £m	Core deposit intangible £m	Total £m
Cost				
At 1 October 2020	1,028	11	6	1,045
Additions	80	–	–	80
Write-off	(65)	–	–	(65)
At 30 September 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**
Accumulated amortisation and impairment				
At 1 October 2020	552	–	2	554
Charge for the year	123	–	1	124
Impairment	9	–	–	9
At 30 September 2021	684	–	3	687
Charge for the year	81	–	3	84
Impairment	47	–	–	47
Disposal	(8)	–	–	(8)
At 30 September 2022	**804**	**–**	**6**	**810**
Net book value				
At 30 September 2022	**256**	**11**	**–**	**267**
At 30 September 2021	359	11	3	373

All (2021: all) of the software additions form part of internally generated software projects.

A £62m charge (2021: £68m) (comprising write-offs of £17m (2021: £65m) and impairments of £45m (2021: £3m)) was recognised in the year following a reassessment of the Group's accounting practices on the capitalisation of internally generated software against the backdrop of the move to an Agile project delivery.

3.9 Retirement benefit obligations

Accounting policy

The Group makes contributions to both defined benefit and defined contribution pension schemes which entitle employees to benefits on retirement or disability.

Defined contribution pension scheme

The Group recognises its obligation to make contributions to the scheme as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

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.

3.9 Retirement benefit obligations continued

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:

	2022 £m	2021 £m
Active members' defined benefit obligation	**(9)**	(16)
Deferred members' defined benefit obligation	**(987)**	(1,973)
Pensioner and dependant members' defined benefit obligations	**(1,220)**	(1,800)
Total defined benefit obligation	**(2,216)**	(3,789)
Fair value of Scheme assets	**3,216**	4,636
Net defined benefit pension asset	**1,000**	847
Post-retirement medical benefits obligations[1]	**(2)**	(2)

(1) Post-retirement medical benefits obligations are included within other liabilities (note 3.14).

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 2.4.

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 2022 (2021: £2m) and is included within other liabilities in note 3.14.

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.

During 2020 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 2019. The valuation resulted in an improvement in the Scheme's funding position, with a reported surplus of £144m (previously a deficit of £290m) and a technical provisions funding level of 103% (previously 94%). As the 2019 valuation outcome was a funding surplus, the future payments to the Scheme were limited solely to those relating to a payment holiday agreed between the Group and Scheme Trustee in respect of contributions due under the prior 2016 valuation. These totalled £52m and were paid in full by the end of September 2021.

The next triennial valuation is due to be conducted in 2023 with Scheme data and market conditions as at 30 September 2022.

Scheme assets are not subject to the same valuation differences as Scheme obligations and are consistently valued at current market value.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.9 Retirement benefit obligations continued

IAS 19 position

The Scheme movements in the year are as follows:

	2022				2021			
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Cumulative impact in other comprehensive income £m	Present value of obligation £m	Fair value of plan assets £m	Total £m	Cumulative impact in other comprehensive income £m
Balance sheet surplus at 1 October	**(3,789)**	**4,636**	**847**		(3,958)	4,681	723	
				(248)				(302)
Total expense								
Past service credit	**9**	**–**	**9**		3	–	3	
Interest (expense)/income	**(84)**	**104**	**20**		(61)	73	12	
Administrative costs	**–**	**(5)**	**(5)**		–	(6)	(6)	
Total (expense)/income recognised in the consolidated income statement	**(75)**	**99**	**24**		(58)	67	9	
Remeasurements								
Return on Scheme assets greater than discount rate	**–**	**(1,393)**	**(1,393)**	**(1,393)**	–	(19)	(19)	(19)
Actuarial:								
Loss – experience adjustments	**(16)**	**–**	**(16)**	**(16)**	(15)	–	(15)	(15)
Gain – demographic assumptions	**36**	**–**	**36**	**36**	2	–	2	2
Gain – financial assumptions	**1,495**	**–**	**1,495**	**1,495**	86	–	86	86
Remeasurement gains/(losses) recognised in other comprehensive income	**1,515**	**(1,393)**	**122**	**122**	73	(19)	54	54
Contributions and payments								
Employer contributions	**–**	**7**	**7**		–	61	61	
Benefit payments	**105**	**(105)**	**–**		99	(99)	–	
Transfer payments	**28**	**(28)**	**–**		55	(55)	–	
	133	**(126)**	**7**		154	(93)	61	
Balance sheet surplus at 30 September	**(2,216)**	**3,216**	**1,000**		(3,789)	4,636	847	
				(126)				(248)

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 in calendar year 2023. A past service credit of £10m has been recognised in the year to 30 September 2022 (2021: £5m) in line with member acceptance of the PIE offer by the balance sheet date; the balance of the credit will be recognised next calendar year as the exercise concludes.

The expected contributions and benefit payments for the year ending 30 September 2023 are £10m (2022: £7m) and £118m (2022: £115m) respectively.

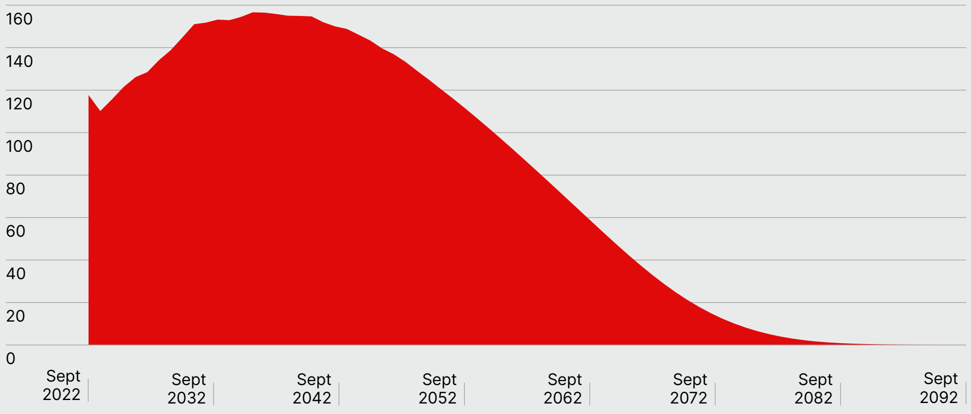
The Group and Trustee have entered into a contingent security arrangement (the ‘Security Arrangement’) (note 5.3).

3.9 Retirement benefit obligations continued

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 2022 is 14 years (2021: 18.5 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 2022, the interest rate and inflation rate hedge ratios were 97% and 95% respectively (2021: 95% 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.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.9 Retirement benefit obligations continued

The major categories of plan assets for the Scheme, stated at fair value, are as follows:

	2022				2021			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Bonds								
Fixed government	**350**	**–**	**350**		894	–	894	
Index-linked government	**1,314**	**–**	**1,314**		1,815	–	1,815	
Global sovereign	**90**	**2**	**92**		117	4	121	
Corporate and other	**781**	**37**	**818**		1,011	47	1,058	
	2,535	**39**	**2,574**	**80%**	3,837	51	3,888	84%
Equities[1]								
Global equities	**–**	**137**	**137**		–	150	150	
Emerging market equities	**–**	**14**	**14**		–	16	16	
UK equities	**–**	**7**	**7**		–	8	8	
	–	**158**	**158**	**5%**	–	174	174	4%
Other								
Secured income alternatives	**–**	**229**	**229**		–	197	197	
Derivatives[2]	**–**	**(83)**	**(83)**		–	6	6	
Repurchase agreements	**–**	**(803)**	**(803)**		–	(719)	(719)	
Property	**–**	**59**	**59**		–	122	122	
Alternative credit	**–**	**645**	**645**		–	597	597	
Infrastructure	**–**	**194**	**194**		–	161	161	
Cash	**–**	**243**	**243**		–	209	209	
Equity options	**–**	**–**	**–**		1	–	1	
	–	**484**	**484**	**15%**	1	573	574	12%
Total Scheme assets	**2,535**	**681**	**3,216**	**100%**	3,838	798	4,636	100%

(1) Equity investments are classified as unquoted reflecting the nature of the funds in which the Scheme invests directly. The underlying investments within those funds are, however, mostly quoted.

(2) Derivative financial instruments are used to modify the profile of the assets of the Scheme to better match the Scheme liabilities. Derivative holdings may lead to increased or decreased exposures to the physical asset categories disclosed above.

At 30 September 2022, the Scheme had employer-related investments within the meaning of Section 40 (2) of the Pensions Act 1995 totalling £2m (2021: £2m).

3.9 Retirement benefit obligations continued

Actuarial assumptions

The following assumptions were used in arriving at the IAS 19 defined benefit obligation:

	2022 % p.a.	2021 % p.a.
Financial assumptions		
Discount rate	**5.45**	2.08
Inflation (RPI)	**3.58**	3.40
Inflation (CPI)	**2.94**	2.77
Career average revalued earnings revaluations:		
Pre 31 March 2012 benefits (RPI)	**3.58**	3.40
Post 31 March 2012 benefits (CPI capped at 5% per annum)	**2.90**	2.73
Pension increases (capped at 2.5% per annum)	**2.21**	2.16
Pension increases (capped at 5% per annum)	**3.37**	3.23
Rate of increase for pensions in deferment	**2.91**	2.73

Demographic assumptions

	2022 Years	2021 Years
Post-retirement mortality:		
Current pensioners at 60 – male	**27.0**	27.2
Current pensioners at 60 – female	**29.3**	29.4
Future pensioners at 60 – male	**28.0**	28.3
Future pensioners at 60 – female	**30.4**	30.5

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 are:

discount rate applied: 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 20 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 assumptions: 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; and

mortality assumptions: 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%	(63)	(70)	(7)
	–0.25%	64	74	6
Inflation	+0.25%	36	43	2
	–0.25%	(34)	(43)	(2)
Life expectancy	+1 year	(67)	67	4
	–1 year	67	(67)	(4)

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.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.10 Customer deposits

	2022 £m	2021 £m
Interest bearing demand deposits	**46,457**	46,839
Term deposits	**13,951**	15,097
Non-interest bearing demand deposits	**4,952**	4,936
	65,360	66,872
Accrued interest payable	**74**	99
	65,434	66,971

3.11 Debt securities in issue

Accounting policy
Debt securities comprise short and long-term debt issued by the Group including commercial paper, medium-term notes, 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 issue 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:

	Medium-term notes £m	Subordinated debt £m	Securitisation £m	Covered bonds £m	Total £m
2022					
Debt securities	**2,236**	**899**	**1,875**	**3,450**	**8,460**
Accrued interest payable	**13**	**14**	**5**	**17**	**49**
	2,249	**913**	**1,880**	**3,467**	**8,509**
2021					
Debt securities	2,409	1,001	2,386	1,842	7,638
Accrued interest payable	13	14	3	10	40
	2,422	1,015	2,389	1,852	7,678

Key movements in the year are shown in the table below[1].

	2022				2021			
	Issuances		Redemptions		Issuances		Redemptions	
	Denomination	£m	Denomination	£m	Denomination	£m	Denomination	£m
Medium-term notes	**–**	**–**	**–**	**–**	EUR	432	–	–
Subordinated debt	**–**	**–**	**–**	**–**	GBP	300	GBP	30
Securitisation	**GBP**	**700**	**USD, GBP**	**1,264**	–	–	USD, EUR, GBP	1,543
Covered bonds	**EUR, GBP**	**1,780**	**–**	**–**	–	–	–	–
		2,480		**1,264**		732		1,573

(1) Other movements relate to foreign exchange, hedging adjustments and the capitalisation and amortisation of issuance costs.

The following tables provide a breakdown of the medium-term notes and subordinated debt by instrument as at 30 September:

Medium-term notes (excluding accrued interest)

	2022 £m	2021 £m
VM UK 3.125% fixed-to-floating rate callable senior notes due 2025	**299**	299
VM UK 4% fixed rate reset callable senior notes due 2026	**444**	509
VM UK 3.375% fixed rate reset callable senior notes due 2026	**317**	359
VM UK 4% fixed rate reset callable senior notes due 2027	**331**	390
VM UK 2.875% fixed rate reset callable senior notes due 2025	**413**	424
VM UK 0.375% fixed rate reset callable senior notes due 2024	**432**	428
	2,236	2,409

Subordinated debt (excluding accrued interest)

	2022 £m	2021 £m
VM UK 7.875% fixed rate reset callable subordinated notes due 2028	**249**	248
VM UK 5.125% fixed rate reset callable subordinated notes due 2030	**400**	458
VM UK 2.625% fixed rate reset callable subordinated notes due 2031	**250**	295
	899	1,001

Details of securitisation and covered bond issuances are included in note 3.3.

Full details of all notes in issue can be found at https://www.virginmoneyukplc.com/investor-relations/debt-investors/.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.12 Due to other banks

	2022 £m	2021 £m
Secured loans	**7,230**	5,896
Securities sold under agreements to repurchase[(1)]	**1,205**	–
Transaction balances with other banks	**17**	–
Deposits from other banks	**50**	22
	8,502	5,918

(1) The underlying securities sold under agreements to repurchase have a carrying value of £1,873m (2021: £Nil).

Secured loans comprise amounts drawn under the TFSME scheme (including accrued interest). In 2021, secured loans included both TFS and TFSME scheme drawings (including accrued interest).

3.13 Provisions for liabilities and charges

Accounting policy
Provisions for liabilities and charges are recognised when a legal or constructive obligation exists as a result of past events, it is probable that an outflow of economic benefits will be necessary to settle the obligation, and the obligation can be reliably estimated. Provisions for liabilities and charges are not discounted to the present value of their expected net future cash flows except where the time value of money is considered material.

	Employee related costs provision £m	Customer related provision £m	Property provision £m	Off-balance sheet ECL provisions[(1)] £m	Total
As at 1 October 2020	16	130	26	–	172
Transfer of ECL from impairment provisions	–	–	–	7	7
Charge to the income statement	31	78	39	1	149
Utilised	(25)	(189)	(10)	–	(224)
As at 30 September 2021	22	19	55	8	104
Charge to the income statement	2	8	–	–	10
Utilised	(17)	(14)	(28)	(5)	(64)
As at 30 September 2022	**7**	**13**	**27**	**3**	**50**

(1) The Group's ECL accounting policy can be found in (note 3.2).

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.13 Provisions for liabilities and charges continued

During the year, the Group has refined its methodology for categorising provisions for liabilities and charges to align with current business operations. There has been no change to the total provisions in the prior year and comparatives have been amended to conform with the current year's presentation.

The change took the original provision categories and analysed this further to align with business operations. The revised prior year categories of PPI redress provision (£1m), customer redress and other provisions (£28m) and property closure and redundancy provision (£67m) is now allocated to employee related costs provision (£22m), customer related provision (£19m) and property provision (£55m). PPI redress provision of £1m has been reallocated to customer related provision, £10m of customer redress and other provisions has been reallocated in part £3m to employee related costs provision and £7m to property provision, and restructuring provisions of £19m which were previously included within property closure and redundancy provision has been reallocated to employee related costs provision.

Employee related costs provision

This includes provision for staff redundancies and for NIC on equity based compensation. During the year, provisions of £2m (2021: £31m) were raised relating to staff redundancy costs.

Customer related provision

This relates to customer matters, legal proceedings, claims arising in the ordinary course of the Group's business and other matters. 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 £Nil (2021: £39m) were raised relating to store and office closures.

3.14 Other liabilities

Accounting policy

Deferred grants

Deferred grants are recognised when there is reasonable assurance that the grant will be received and that any conditions attached to the grant will be complied with. Where the grant relates to costs, it is released to the income statement on a systematic basis in line with the incurring of the related costs. Where the grant relates to the cost of an asset, it is released and recognised directly against the cost of the asset when incurred.

	2022 £m	2021 £m
Notes in circulation	**1,822**	2,104
Accruals and deferred income	**74**	76
Deferred grant	**–**	20
Other	**498**	251
	2,394	2,451

In 2021, the Group received £9m from the Capability and Innovation Fund (as part of the RBS alternative remedies package), which has been utilised under the terms of the grant application during the year. As part of the grant the Group is subject to delivering a number of public commitments. These commitments can be found on Banking Competition Remedies (BCR's) (the awarding body) website. As at 30 September 2022 the Group is currently on track with the delivery of these commitments.

The movement in the deferred grant is shown below:

	2022 £m	2021 £m
Opening balance	**20**	35
Grants received	**–**	9
Utilised against income statement spend in the year	**(20)**	(24)
Closing balance	**–**	20

3.15 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 hierarchy is as follows:

- Level 1 fair value measurements – quoted prices (unadjusted) in active markets for an identical financial asset or liability.
- Level 2 fair value measurements – 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 fair value measurements – 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.

(a) Fair value of financial instruments recognised on the balance sheet 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.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.15 Fair value of financial instruments continued

	2022		2021	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to customers[1]	**71,751**	**69,277**	71,876	72,229
Financial liabilities				
Customer deposits[2]	**65,434**	**65,069**	66,971	67,012
Debt securities in issue[3]	**8,509**	**8,515**	7,678	8,050
Due to other banks[2]	**8,502**	**8,485**	5,918	5,918

(1) Loans and advances to customers are categorised as Level 3 in the fair value hierarchy with the exception of £1,098m (2021: £1,057m) of overdrafts which are categorised as Level 2.

(2) Categorised as Level 2 in the fair value hierarchy.

(3) Categorised as Level 2 in the fair value hierarchy with the exception of £3,156m of listed debt (2021: £3,704m) which is categorised as Level 1.

The Group's fair values disclosed for financial instruments at amortised cost are based on the following methodologies and assumptions:

(a) *Loans and advances to customers* – The fair values of loans and advances are 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* – The fair value of deposits is 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* – The fair value is 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* – The fair value is determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

(b) Fair value of financial instruments recognised on the balance sheet 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:

	Fair value measurement 2022				Fair value measurement 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Financial assets at FVOCI	**5,064**	**–**	**–**	**5,064**	4,352	–	–	4,352
Loans and advances at FVTPL	**–**	**70**	**–**	**70**	–	133	–	133
Other financial assets at FVTPL	**–**	**4**	**4**	**8**	–	14	6	20
Derivative financial assets	**–**	**342**	**–**	**342**	–	139	1	140
Total financial assets at fair value	**5,064**	**416**	**4**	**5,484**	4,352	286	7	4,645
Financial liabilities								
Derivative financial liabilities	**–**	**327**	**–**	**327**	–	209	–	209
Total financial liabilities at fair value	**–**	**327**	**–**	**327**	–	209	–	209

There were no transfers between Level 1 and 2 in the current or prior year.

The Group's valuations for financial instruments that are measured subsequent to initial recognition at fair value are based on the following methodologies and assumptions:

(a) *FVOCI* – The fair values of listed investments are based on quoted closing market prices.

(b) *Loans and advances to customers (Level 2)* – The fair value is 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 financial assets at FVTPL (Level 2)* – Represents £4m of Visa Inc. Series A preferred stock received following a conversion event in July 2022. The fair value of the preference shares has been calculated by taking the year end New York Stock Exchange share price for Visa inc. The prior year amount represented £14m of an unlisted equity investment that was valued based on an offer of purchase by an independent third party, with the sale concluded in January 2022.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.15 Fair value of financial instruments continued

(d) *Other financial assets at FVTPL (Level 3)* – Partly represents £1m (2021: £4m) of Visa Inc. Series B preferred stock received as partial consideration for the sale of the Group's share in Visa Europe. The preferred stock is convertible into Visa Inc. common stock or its equivalent at a future date, subject to potential reduction for certain litigation losses that may be incurred by Visa Europe. The fair value of the preference shares has been calculated by taking the year end New York Stock Exchange share price for Visa Inc. and discounting for illiquidity and clawback related to contingent litigation. For other unlisted equity investments, 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.

(e) *Derivative financial assets and liabilities (Level 2)* – The fair values of derivatives, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from discounted cash flow models or option pricing models as appropriate.

Level 3 movement analysis:

	2022 Financial assets at FVTPL £m	2022 Derivative financial assets £m	2021 Financial assets at FVTPL £m	2021 Derivative financial assets £m
Balance at the beginning of the year	**6**	**1**	5	–
Fair value gains recognised(1)				
In profit or loss – unrealised	**–**	**(1)**	1	1
Settlements	**(2)**	**–**	–	–
Balance at the end of the year	**4**	**–**	6	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 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 £4m which would be recognised directly in the income statement.

3.16 Lessee accounting

Accounting policy
The Group as lessee
The Group leases offices, stores and other premises, and sub-leases certain premises which are no longer occupied by the Group. The Group applies a single lessee accounting model to all lease arrangements it enters into from the date on which the leased asset is available for use, with the exception of low value leases and short-term leases (less than 12 months) in respect of which the associated lease payments are expensed in the income statement on a straight line basis over the lease term.

Under the single lessee accounting model, the Group recognises a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, comprising the initial amount of the lease liability plus any initial direct costs incurred and any lease payments made at or before the lease commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term, subject to review for impairment. The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot readily be determined (as is the case in the majority of the leasing activities of the Group), the incremental borrowing rate. The liability is remeasured when there is a change in future lease payments arising from a change in an index or a rate or a change in the Group's assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the right-of-use asset or is recorded in the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

Termination options are included in several leases across the Group with a small number of leases having extension options. These terms are used to maximise operational flexibility in terms of managing contracts. In determining judgements on the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Periods covered by termination options are only included in the lease term if it is reasonably certain that the lease will not be terminated. The assessment of the lease term is reviewed if a significant event or a significant change in circumstances occurs that is within the control of the Group.

The Group as sub-lessor
Sub-leases are classified as finance leases if substantially all the risks and rewards incidental to ownership of the underlying asset are transferred, otherwise they are classified as operating leases. Finance sub-leases are recognised in other assets 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 reflecting a constant periodic rate of return. Operating sub-lease income is recognised in the income statement on a straight line basis over the lease term.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.16 Lessee accounting continued

a) Amounts recognised in the income statement

The income statement includes the following amounts related to leases:

	2022 £m	2021 £m
Interest expense and similar charges		
Interest expense	**(2)**	(3)
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)**	(28)
Expense relating to short-term leases	**(1)**	(1)
Expense relating to leases of low-value assets that are not short-term leases	**(1)**	(1)
Amounts recognised in the income statement	**(29)**	(32)

Total leasing cash outflow in the year was £28m (2021: £29m).

b) Amounts recognised on the balance sheet

Right-of-use assets

	2022 £m	2021 £m
As at 1 October	**135**	161
Additions	**4**	4
Remeasurements	**1**	1
Disposals	**(1)**	(2)
Depreciation and impairment	**(26)**	(29)
As at 30 September	**113**	135

All right-of-use assets relate to leases of land and buildings and are presented within property, plant and equipment on the balance sheet.

The Group reviewed its existing surplus estate population for impairment. Where it is expected 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. It was concluded that 19 properties (2021: 22) should be impaired following a reduction in value-in-use, resulting in an impairment charge of £4m (2021: £1m). In addition, an impairment of £5m was recognised in the current year in relation to right-of-use assets for office estate where no further economic benefit was expected following exit. In the prior year the Group announced the closure of 30 stores leased by the Group and to relocate four stores to more prime locations in existing towns. The right-of-use assets were assessed following the above methodology resulting in an impairment charge of £5m.

Sub-leases

Future undiscounted minimum payments receivable in respect of sub-leased assets at 30 September were as follows:

	2022 £m	2021 £m
Operating leases	**1**	1
Finance leases	**3**	5
	4	6

Lease liabilities

	2022 £m	2021 £m
Lease liabilities(1)	**132**	154

(1) Lease liabilities are presented within other liabilities on the balance sheet.

Future undiscounted minimum payments under lease liabilities at 30 September are as follows:

Amounts falling due	2022 £m	2021 £m
Within 1 year	**22**	26
Between 1 and 5 years	**60**	73
Over 5 years	**66**	78
	148	177

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:

Amounts falling due	2022 £m	2021 £m
Within 1 year	**4**	–
Between 1 and 5 years	**22**	21
Over 5 years	**99**	104
	125	125

Section 4: Capital

4.1 Equity

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

(a) They impose no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group.

(b) Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends
Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are no longer at the discretion of the Company.

4.1.1 Share capital and share premium

	2022 £m	2021 £m
Share capital	**141**	144
Share premium	**7**	5
Share capital and share premium	**148**	149

	2022 Number of shares	2021 Number of shares	2022 £m	2021 £m
Ordinary shares of £0.10 each – allotted, called up and fully paid				
Opening ordinary share capital	**1,439,993,431**	1,438,574,687	**144**	144
Issued under employee share schemes	**2,982,745**	1,418,744	**–**	–
Share buyback programme	**(34,445,188)**	–	**(3)**	–
Closing ordinary share capital	**1,408,530,988**	1,439,993,431	**141**	144

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 Company. All shares in issue at 30 September 2022 rank equally with regard to the Company's residual assets.

A final dividend in respect of the year ended 30 September 2021 of 1p per ordinary share in the Company, amounting to £14m, was paid in March 2022.

An interim dividend in respect of the year ended 30 September 2022 of 2.5p per ordinary share in the Company, amounting to £36m, was paid in June 2022.

The Directors have recommended a final dividend in respect of the year ended 30 September 2022 of 7.5p per ordinary share in the Company to be paid in March 2023. The payment of the final dividend is subject to approval of the shareholders at the 2023 AGM. These financial statements do not reflect the recommended dividend.

On 30 June 2022 the Company announced a share buyback programme, with an initial repurchase of up to £75m in aggregate between its ordinary shares of £0.10 each listed on the LSE and CDIs, each representing one share, listed on the ASX. Subject to trading liquidity, the Company intends to repurchase shares and CDIs in approximately equal proportions. The buyback commenced on 30 June 2022 and will end no later than 17 December 2022. 34m shares, with a nominal value of £3m, were repurchased in the year ended 30 September 2022 for a total consideration of £50m (2021: £Nil). All shares repurchased were cancelled and the nominal value of the share cancellation transferred to the capital redemption reserve with the premium paid deducted from retained earnings.

On 21 November 2022 the Company announced an extension to the share buyback programme with an intent to repurchase a further £50m in aggregate of shares and CDIs. Subject to trading liquidity, the Company again intends to repurchase shares and CDIs in approximately equal proportions. The buyback extension will commence on 21 November 2022 and will end no later than 2 May 2023.

Share premium represents the aggregate of all amounts that have ever been paid above par value to the Company when it has issued ordinary shares.

A description of the other equity categories included within the consolidated statement of changes in equity, and significant movements during the year, is provided below:

4.1 Equity continued

4.1.2 Other equity instruments

Other equity instruments comprises AT1 capital which consists of the following Perpetual Contingent Convertible Notes:

- Perpetual securities (fixed 8% up to the first reset date) issued on 8 February 2016 with a nominal value of £73m and optional redemption on 8 December 2022. On 17 June 2022, securities totalling £377m (representing 83.86% of the original £450m principal amount) were redeemed. On 10 October 2022 it was announced that the remaining securities would be redeemed on the optional redemption date.
- Perpetual securities (fixed 9.25% up to the first reset date) issued on 13 March 2019 with a nominal value of £250m and optional redemption on 8 June 2024.
- Perpetual securities (fixed 8.25% up to the first reset date) issued on 17 June 2022 with a nominal value of £350m and optional redemption on 17 June 2027.

On 10 November 2021, perpetual securities with a nominal value of £230m were redeemed in full.

The issues are treated as equity instruments in accordance with IAS 32 'Financial Instruments: Presentation' with the proceeds included in equity, net of transaction costs of £7m (2021: £15m). AT1 distributions of £70m were paid in the year (2021: £79m).

4.1.3 Capital reorganisation reserve

The capital reorganisation reserve of £839m was recognised on the issuance of the Company's ordinary shares in February 2016 in exchange for the acquisition of the entire share capital of the Group's previous parent company, CYB Investments Limited (CYBI). The reserve reflects the difference between the consideration for the issuance of the Company's shares and CYBI's share capital and share premium.

4.1.4 Merger reserve

A merger reserve of £633m was recognised on the issuance of the Company's ordinary shares in February 2016 in exchange for the acquisition of the entire share capital of CYBI. An additional £1,495m was recognised on the issuance of the Company's ordinary shares in October 2018 in exchange for the acquisition of the entire share capital of Virgin Money Holdings (UK) Limited. The merger reserve reflects the difference between the consideration for the issuance of the Company's shares and the nominal value of the shares issued.

4.1.5 Other reserves

Own shares held and treasury shares

Virgin Money Holdings (UK) Limited established an EBT in 2011 in connection with the operation of its share plans. On the date of acquisition by the Company, the shares held in the EBT were converted to the Company's shares at a ratio of 1.2125 Company shares for each Virgin Money Holdings (UK) Limited share. The investment in own shares as at 30 September 2022 is £0.6m (2021: £0.2m). The market value of the shares held in the EBT at 30 September 2022 was £0.4m (2021: £0.2m).

As part of the buyback programme, the Company has entered a non-discretionary arrangement with Citigroup Global Markets Limited to purchase shares as riskless principal and to make trading decisions independently of the Company. Any purchase of shares pursuant to this engagement will be carried out on the LSE or other recognised investment exchange. This arrangement results in the recognition of a liability (included within due to other banks) and a deduction from retained earnings of £11m at 30 September 2022 (2021: £Nil). The liability will reduce as shares are repurchased and cancelled with the impact on share capital and capital redemption reserve as described elsewhere within this note.

Capital redemption reserve

Under UK companies legislation, when shares are redeemed or purchased wholly or partly out of the company's profits, the amount by which the company's issued share capital is diminished must be transferred to the capital redemption reserve. The capital maintenance provisions of UK companies legislation apply to the capital redemption reserve as if it were part of the company's paid up share capital. The nominal value of the shares repurchased and cancelled under the buyback programme during 2022 has been transferred to the capital redemption reserve.

Deferred shares reserve

The deferred shares reserve comprises shares to be issued in the future relating to employee share plans in regard to the settlement of outstanding Virgin Money Holdings (UK) Limited share awards, which will be settled through the issuance of the Company's shares at a future date in line with the vesting profile of the underlying plans.

Equity based compensation reserve

The Group's equity based compensation reserve records the value of equity settled share based payment benefits provided to the Group's employees as part of their remuneration that has been charged through the income statement and adjusted for deferred tax.

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.

Notes to the consolidated financial statements

Section 4: Capital continued

4.1 Equity continued

	2022 £m	2021 £m
At 1 October	**10**	(80)
Amounts recognised in other comprehensive income:		
Cash flow hedge – interest rate risk		
Effective portion of changes in fair value of interest rate swaps	**962**	127
Amounts transferred to the income statement	**(13)**	(5)
Taxation	**(260)**	(33)
Cash flow hedge – foreign exchange risk		
Effective portion of changes in fair value of cross currency swaps	**–**	(28)
Amounts transferred to the income statement	**–**	29
At 30 September	**699**	10

4.2 Equity based compensation

Accounting policy

The Group operates a number of equity settled share based compensation plans in respect of services received from certain of its employees. The fair value of the services received is recognised as an expense. The total amount to be expensed is measured by reference to the fair value of the Company's shares, performance options or performance rights granted, including, where relevant, any market performance conditions and any non-vesting conditions. The impacts of any service and non-market performance vesting conditions are not included in the fair value and instead are included in estimating the number of awards or options that are expected to vest.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. A corresponding credit is recognised in the equity based compensation reserve, adjusted for deferred tax. In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between the start of the service period and the grant date.

At the end of each reporting year, the Group revises its estimates of the number of shares, performance options and performance rights that are expected to vest based on the non-market and service vesting conditions. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to the equity based compensation reserve.

The equity settled share based payment charge for the year is £5m (2021: £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]
DEP[3]	Selected employees	Conditional rights to shares	Continuing employment or leaving in certain limited circumstances	2017, 2018, 2019, 2020 and 2021
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 and 2021
SIP	All employees	Non-conditional share award	Continuing employment	2016, 2017 and 2019

(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.

SIP

At the date of the awards, eligible employees are awarded Group shares which are held in the SIP Trust. Awards are not subject to performance conditions and participants are the beneficial owners of the shares granted to them, but not the registered owners. Voting rights over the shares are normally exercised by the registered owner at the direction of the participants.

Notes to the consolidated financial statements

Section 4: Capital continued

4.2 Equity based compensation continued

Awards/rights made during the year

Plan	Number outstanding at 1 October 2021	Number awarded	Number forfeited	Number released	Number outstanding at 30 September 2022	Average fair value of awards at grant pence
DEP						
2016 Commencement	2,620	–	–	(1,310)	**1,310**	266.03
2017 Bonus	49,909	–	–	(47,789)	**2,120**	313.20
2018 Bonus	170,649	–	–	(34,129)	**136,520**	192.35
2019 Bonus	85,544	–	–	(6,384)	**79,160**	174.50
2019 Commencement	19,843	–	–	(11,797)	**8,046**	174.50
2020 Commencement	19,570	–	–	(9,970)	**9,600**	135.40
2021 Bonus	–	590,513	(10,536)	(579,977)	**–**	172.65
2021 Commencement	–	107,747	–	–	**107,747**	142.70
LTIP						
2017 LTIP	380,924	–	–	(111,295)	**269,629**	313.20
2018 LTIP	4,751,736	–	(1,906,079)	(845,346)	**2,000,311**	190.47
2019 LTIP	7,680,636	–	(739,329)	–	**6,941,307**	174.50
2020 LTIP	10,379,519	–	(2,019,760)	–	**8,359,759**	135.40
2021 LTIP	–	6,761,290	(273,467)	–	**6,487,823**	172.65
SIP[(1)]						
2015 Demerger	629,169	–	–	(629,169)	**–**	194.67
2017 Free Share	564,118	–	–	(564,118)	**–**	313.20
2019 Free Share	1,684,854	–	(58,794)	(1,626,060)	**–**	202.53

(1) Shares awarded under the SIP do not have a release date but become available to award holders without restriction following the completion of relevant service conditions. The service conditions applicable to each of the awards in the table above has now been completed and, since no ongoing charge is taken in respect of these awards, the values in the table reflect that all awards have now fully vested and are available to award holders without restriction, with no awards still to vest as at 30 September 2022.

Determination of grant date fair values

The grant date fair value of the awards has been taken as the market value of the Company's ordinary shares at the grant date. Where awards are subject to non-market performance conditions, 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. Awards were granted under the LTIP and DEP on 9 December 2021, based on the middle market share price on the day immediately preceding the grant (172.65p).

The Group has not issued awards under any plan with market performance conditions.

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 3.2 apply to loan commitments and financial guarantee contracts, with the ECL allowance held as part of the provision for liabilities and charges balance (note 3.13).

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless they are remote.

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.

Financial guarantees

	2022 £m	2021 £m
Guarantees and assets pledged as collateral security:		
Due in less than 3 months	**33**	20
Due between 3 months and 1 year	**23**	21
Due between 1 year and 3 years	**9**	13
Due between 3 years and 5 years	**3**	2
Due after 5 years	**44**	45
	112	101
Other credit commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**19,247**	17,020

Capital commitments

The Group committed to providing additional funding of up to £5.5m over an eight-month period from June 2021 to enable the JV UTM to support the business transformation and to meet its regulatory capital and liquidity requirements, of which £Nil was the remaining commitment as at 30 September 2022 (2021: £4m). Further detail on UTM can be found in the JVs and associates section of note 5.3.

The Group had future capital expenditure which had been contracted for, but not provided for, at 30 September 2022 of £0.4m (2021: £0.2m).

Other contingent liabilities

Conduct risk related matters

There continues to be uncertainty with judgement required in determining the quantum of conduct risk related liabilities, with note 3.13 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.

Legal claims

The Group is named in and is defending a number of 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.

Notes to the consolidated financial statements

Section 5: Other notes continued

5.2 Notes to the statement of cash flows

	2022 £m	2021 £m
Adjustments included in the profit before tax		
Interest receivable	**(2,217)**	(1,910)
Interest payable	**641**	553
Depreciation, amortisation and impairment (note 2.4)	**179**	191
Derivative financial instruments fair value movements	**17**	5
Impairment losses/(credit) on credit exposures (note 3.2)	**52**	(131)
Equity based compensation (note 4.2)	**4**	5
Gain on disposal of FVOCI assets (note 2.3)	**(4)**	–
Other non-cash movements	**2**	62
	(1,326)	(1,225)
Changes in operating assets		
Net (increase)/decrease in:		
Balances with supervisory central banks	**(3)**	(38)
Derivative financial instruments	**1,847**	269
Financial assets at FVTPL	**57**	30
Loans and advances to customers	**(713)**	491
Defined benefit pension assets	**(7)**	(61)
Other assets	**31**	141
	1,212	832
Changes in operating liabilities		
Net increase/(decrease) in:		
Due to other banks	**1,235**	(50)
Derivative financial instruments	**119**	(41)
Customer deposits	**(1,510)**	(644)
Provisions for liabilities and charges	**(50)**	(72)
Other liabilities	**(32)**	(219)
	(238)	(1,026)

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 to other banks (to the extent less than 90 days).

	2022 £m	2021 £m
Cash and balances with central banks (less mandatory deposits)	**11,955**	9,453
Due from other banks (less than three months)	**656**	800
	12,611	10,253

5.3 Related party transactions

The Group 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 £12m (2021: £40m). Pension contributions of £7m were made to the Scheme in the year (2021: £61m).

The Group and the Trustee to the Scheme (note 3.9) have entered into a contingent Security Arrangement which provides additional support to the Scheme by underpinning recovery plan contributions and some additional investment risk. The security is in the form of a pre-agreed maximum level of assets that are set aside for the benefit of the Pension Scheme in certain trigger events. These assets are held by Red Grey Square Funding LLP, an insolvency remote consolidated structured entity.

Joint ventures and associates

The Group holds investments in JVs of £10m (2021: £10m). The total share of loss for the year was £4m (2021: £5m). 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 £318m (2021: £223m) and the undrawn facility was £32m (2021: £37m). The facility is held under Stage 2 for credit risk purposes (2021: Stage 1), with an ECL allowance of £19m (2021: £Nil) held against the lending; further detail on the ECL allowance is provided in the credit risk section of the Risk report. Additionally, the Group received £10m (2021: £6m) of interest income from Salary Finance in the year. Board approval is in place for this facility up until March 2023 with £400m being the approved limit.
- UTM – the Group provides banking services to UTM which has resulted in amounts due of £4m (2021: £3m). Additionally, the Group received £7m of recharge income in the year (2021: £7m) from UTM in accordance with a Service Level Agreement in respect of resourcing, infrastructure and marketing. During the year, the Group provided £4m of additional funding to UTM (2021: £12m).

Notes to the consolidated financial statements

Section 5: Other notes continued

5.3 Related party transactions continued

Other related party transactions with Virgin Group

The Group has related party transactions with other Virgin Group companies[(1)]:

- Licence fees due to Virgin Enterprises Limited for the use of the Virgin Money brand trademark resulted in an amount payable of £5m (2021: £4m), with expenses incurred in the year of £15m (2021: £14m).
- 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 £1m (2021: £2m) and expenses of £16m were incurred in the year (2021: £12m).
- 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 from Virgin Red totalled £0.1m (2021: £Nil), amounts payable totalled £1m (2021: £Nil) and during the year this resulted in expenses of £3m (2021: £0.8m) along with income of £0.5m (2021: £Nil).
- 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 expenses of £0.5m (2021: £0.1m).
- The Group paid £7m (2021: £Nil) of ordinary dividends to Virgin Group Holdings Limited.

(1) All companies were incorporated in England and Wales with the exception of Virgin Group Holdings Limited, which was incorporated in the British Virgin Islands.

Charities

The Group provides banking services to The Virgin Money Foundation which has resulted in customer deposits of £1m (2021: £1m). The Group has made donations of £1m in the year (2021: £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 £0.4m (2021: £0.4m).

Compensation of key management personnel (KMP)

KMP comprises Directors of the Company and members of the Executive Leadership Team.

	2022 £m	2021 £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.

The following information regarding Directors' remuneration is presented in accordance with the Companies Act 2006.

	2022 £m	2021 £m
Aggregate remuneration[(1)]	**5**	3

(1) Aggregate remuneration includes amounts paid for the 2022 year and amounts paid under the LTIPs in relation to the 2018 LTIP award. LTIP figures in the single figure table for Executive Directors' 2022 remuneration in the Remuneration report relate to the 2019 LTIP award in respect of the 2020–2022 LTIP performance period cycle.

None of the Directors were members of the Group's defined contribution or defined benefit pension schemes during 2022 (2021: none).

None of the Directors hold share options and none were exercised during the year (2021: none).

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:

	2022 £m	2021 £m
Loans and advances	**1**	3
Deposits	**1**	2

No provisions have been recognised in respect of loans provided to the KMP (2021: £Nil). There were no debts written off or forgiven during the year to 30 September 2022 (2021: £Nil). Included in the above are five (2021: six) loans totalling £0.3m (2021: £0.3m) made to Directors. In addition to the above, there are guarantees of £Nil (2021: £Nil) made to Directors and their related parties.

5.4 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 the Group, for the 2022 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/.

5.5 Post balance sheet events

On 21 November 2022 the Company announced an extension to the share buyback programme with an intent to repurchase a further £50m in aggregate of shares and CDIs. Subject to trading liquidity, the Company again intends to repurchase shares and CDIs in approximately equal proportions. The buyback extension will commence on 21 November 2022 and will end no later than 2 May 2023.

Company financial statements

Company balance sheet

As at 30 September	Note	2022 £m	2021 £m
Assets			
Investments in controlled entities	6.2	**4,085**	4,111
Due from related entities	6.6	**3,526**	3,468
Financial assets at FVTPL		**6**	5
Current tax assets		**6**	3
Other assets		**1**	–
Total assets		**7,624**	7,587
Liabilities			
Debt securities in issue	6.3	**3,459**	3,429
Due to other banks		**129**	129
Due to related entities	6.6	**8**	8
Other liabilities		**6**	5
Total liabilities		**3,602**	3,571
Equity			
Share capital and share premium	4.1	**148**	149
Other equity instruments	6.5	**666**	919
Merger reserve	6.5	**2,128**	2,128
Other reserves	6.5	**24**	28
Retained earnings	6.5	**1,056**	792
Total equity		**4,022**	4,016
Total liabilities and equity		**7,624**	7,587

The Company made a profit of £426m (2021: £81m) during the year.

The notes on pages 324 to 330 form an integral part of these financial statements.

Company financial statements

Company statement of changes in equity

	Note	Share capital and share premium £m	Other equity instruments £m	Merger reserve £m	Other reserves: Capital redemption reserve £m	Other reserves: Deferred shares reserve £m	Other reserves: Equity based compensation reserve £m	Retained earnings £m	Total equity £m
At 1 October 2020		147	919	2,128	–	16	10	789	4,009
Profit for the year		–	–	–	–	–	–	81	81
AT1 distribution paid		–	–	–	–	–	–	(79)	(79)
Ordinary shares issued		2	–	–	–	–	–	–	2
Transfer from equity based compensation reserve		–	–	–	–	–	(1)	1	–
Equity based compensation expensed		–	–	–	–	–	5	–	5
Settlement of Virgin Money Holdings (UK) Limited share awards		–	–	–	–	(2)	–	–	(2)
As at 30 September 2021	6.5	149	919	2,128	–	14	14	792	4,016
Profit for the year		–	–	–	–	–	–	426	426
AT1 distribution paid		–	–	–	–	–	–	(70)	(70)
Dividends paid to ordinary shareholders		–	–	–	–	–	–	(50)	(50)
Ordinary shares issued		2	–	–	–	–	–	–	2
Share buyback		(3)	–	–	3	–	–	(63)	(63)
Transfer from equity based compensation reserve		–	–	–	–	–	(9)	9	–
Equity based compensation expensed		–	–	–	–	–	5	–	5
Settlement of Virgin Money Holdings (UK) Limited share awards		–	–	–	–	(3)	–	1	(2)
AT1 issuance		–	346	–	–	–	–	–	346
AT1 redemption		–	(599)	–	–	–	–	11	(588)
As at 30 September 2022	6.5	**148**	**666**	**2,128**	**3**	**11**	**10**	**1,056**	**4,022**

The notes on pages 324 to 330 form an integral part of these financial statements.

Company financial statements

Company statement of cash flows

For the year ended 30 September	2022 £m	Restated 2021 £m
Operating activities		
Profit on ordinary activities before tax	**424**	76
Adjustments for:		
Non-cash or non-operating items included in profit before tax		
Interest receivable	**(129)**	(122)
Interest payable	**133**	126
Costs recharged from subsidiary	**(3)**	(3)
Fair value movements on other financial assets designated at FVTPL	**(2)**	(1)
Changes in operating assets		
Financial assets at FVTPL	**–**	9
Net increase in amounts due from related entities[1]	**–**	(697)
Changes in operating liabilities		
Net increase in amounts due to related entities	**11**	9
Interest received[1]	**130**	111
Tax received – Group relief	**–**	5
Net cash provided by/(used in) operating activities	**564**	(487)
Cash flows from investing activities		
Investment in controlled entities	**37**	–
Net cash provided by investing activities	**37**	–
Cash flows from financing activities		
Interest paid	**(131)**	(110)
Issuance of medium-term notes/subordinated debt	**–**	728
AT1 issuance	**347**	–
Redemption of medium-term notes/subordinated debt	**–**	(31)
Redemption of AT1 securities	**(614)**	–
Purchase of own shares	**(52)**	–
Ordinary dividends paid	**(50)**	–
AT1 distributions	**(70)**	(79)
Net cash (used in)/provided by financing activities	**(570)**	508
Net increase in cash and cash equivalents	**31**	21
Cash and cash equivalents at the beginning of the year	**19**	(2)
Cash and cash equivalents at the end of the year	**50**	19

(1) In the prior year, interest received on amounts due from related entities of £111m and net increase in amounts due from related entities of £697m were incorrectly classified as cash flows from financing activities. These have been reclassified into cash flows from operating activities and the prior year comparatives have been updated to align with the current year presentation. The correction does not impact any other lines of the Company financial statements or notes.

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.

	2022 £m	2021 £m
Due to related parties (note 6.6)	**50**	19

Movements in liabilities arising from financing activities:	Debt securities in issue £m	Total £m
At 1 October 2020	2,743	2,743
Cash flows:		
Issuances	728	728
Redemptions	(31)	(31)
Non-cash flows:		
Movement in accrued interest	7	7
Unamortised costs	4	4
Other movements	(23)	(23)
At 1 October 2021	3,428	3,428
Non-cash flows:		
Unamortised costs	10	10
Other movements	21	21
At 30 September 2022	**3,459**	**3,459**

The notes on pages 324 to 330 form an integral part of these financial statements.

Section 6: Notes to the Company financial statements

6.1 Company basis of preparation

The Company is incorporated in the UK and registered in England and Wales.

The Company financial statements of Virgin Money UK PLC, the parent company (the Company), which should be read in conjunction with the Group Directors' report, have been prepared on a going concern basis in accordance with UK adopted IASs[1].

No individual income statement or statement of comprehensive income is presented for the Company, as permitted by Section 408 of the Companies Act 2006.

Basis of measurement

The financial information has been prepared under the historical cost convention. The preparation of the financial statements in accordance with UK adopted IASs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

The accounting policies of the Company are the same as those of the Group which are set out in the notes to the consolidated financial statements except that the Company has no policy in respect of consolidation. These accounting policies have been applied consistently to all years presented in these financial statements.

(1) As the Company's prior accounting year straddled 31 December 2020, the date the UK ceased to be subject to EU law, the 2021 published financial reports were required to follow IASs in conformity with the Companies Act 2006 and IFRSs adopted pursuant to regulation (EC) No. 1606/2002 as it applied in the EU. From 1 October 2021, the Company follows and refers only to UK adopted IASs, with the UK Endorsement Board being the body responsible for providing authorisation for the use of new IASB standards, amendments or interpretations in the UK from 1 January 2021.

6.2 Company investments in controlled entities

Accounting policy

The Company'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.

	2022 £m	2021 £m
At 30 September	**4,085**	4,111

The decrease in the year is in respect of the Company's investment in Clydesdale Bank PLC and relates to the Group's historic Conduct Indemnity arrangement with National Australia Bank (NAB). Claims under the Conduct Indemnity Deed have been made by the Company in prior years, while the provisions in respect of the qualifying conduct costs and associated losses were raised and incurred by Clydesdale Bank PLC. Under this arrangement, the Company has historically recovered the cost of relevant conduct provisions raised by Clydesdale Bank PLC from NAB (minus a loss share borne by Clydesdale Bank PLC of 9.7%). Where reimbursement income has been received from NAB, an amount equal to the tax relief on the qualifying conduct costs (less the loss share of 9.7%) becomes repayable to NAB upon utilisation of that tax relief in a filed tax computation and saving an amount of tax. For the Company, the substance of the indemnity agreement is that of variable consideration in relation to its investment in Clydesdale Bank PLC. A liability for the repayment of these amounts is recognised. Changes in the value of the liability result in a corresponding purchase price adjustment to the investment in Clydesdale Bank PLC.

Notes to the Company financial statements

Section 6: Notes to the Company financial statements continued

6.2 Company investments in controlled entities continued

The table below represents the wholly-owned subsidiary undertakings of the Group and Company as at 30 September 2022:

Wholly-owned subsidiary undertakings	Nature of business	Class of share held	Proportion held	Country of incorporation	Registered office	Financial year end
Direct holdings						
Clydesdale Bank PLC	Banking	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
CYB Investments Limited	Lending company	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Virgin Money Retirement Savings Plan Trustee Limited	Dormant	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
YCBPS Property Nominee Company Limited	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Yorkshire and Clydesdale Bank Pension Trustee Limited	Dormant	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
Indirect holdings						
CGF No 9 Limited	Leasing	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
Clydesdale Bank Asset Finance Limited	Leasing	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	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	30 St Vincent Place, Glasgow, G1 2HL	30 September
Virgin Money Giving Limited	Charitable donations	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	31 March
Virgin Money Holdings (UK) Limited	Intermediate holding company	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Virgin Money Management Services Limited	Service 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	Non-trading 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	30 St Vincent Place, Glasgow, G1 2HL	30 September
CYB SSP Trustee 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
Yorkshire Bank Limited	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September

Section 6: Notes to the Company financial statements continued

6.2 Company investments in controlled entities continued

Impairment of investment in Clydesdale Bank PLC

An impairment test on the carrying value of the Company's investment in Clydesdale Bank PLC has been undertaken. The recoverable amount as determined by a value-in-use (VIU) calculation was higher than the carrying value and therefore no impairment charge has been recognised for the current year (2021: £Nil).

Key assumptions used in value-in-use calculation

The VIU calculation uses discounted cash flow projections based on the Board approved five-year Strategic and Financial Plan. Cash flows beyond the forecast period have been extrapolated with a terminal growth rate applied.

The following assumptions are used in the VIU calculation:

- Discount rate: 16.7% (2021: 14.7%).
- Annual growth rate (years 6-10): 2%.
- Projected terminal growth rate: 2%.

The five-year forecast projections encompass a range of economic indications such as GDP growth, unemployment statistics as well as a range of other business assumptions specific to the Group such as asset volumes, product volumes and margins which are commercially sensitive.

Discount rate

The discount rate applied reflects the current market assessment of the risk specific to the Group. The discount rate was calculated by reference to a series of internal indicators combined with certain identifiable and available sector specific information.

Growth rate

The growth rate is based on management's expectation of the long-term average growth prospects for UK GDP after taking into account the broader historic UK economic outlook and trends.

Sensitivity to changes in assumptions

Changes in the discount rate or projected terminal growth rate will impact the Company's assessment of the value-in-use of Clydesdale Bank PLC. If adjusted independently of all other variables, a 10 basis point increase in the discount rate would decrease the headroom by £32m and a 10 basis point decrease in the projected terminal growth rate would decrease the headroom by £10m.

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. Clydesdale Bank PLC acts as a guarantor for £1 and is also a donor.

6.2 Company investments in controlled entities continued

The Company also has an interest in a number of structured entities:

Other controlled entities as at 30 September 2022	Nature of business	Country of Incorporation	Registered office	Financial year end
Clydesdale Covered Bonds No. 2 LLP (in liquidation)	Acquisition of mortgage loans	England	10 Fleet Place, London, EC4M 7RB	30 September
Eagle Place Covered Bonds LLP	Acquisition of mortgage loans	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Gosforth Funding 2016-1 PLC (in liquidation)	Issuer of securitised notes	England	10 Fleet Place, London, EC4M 7RB	30 September
Gosforth Funding 2017-1 PLC	Issuer of securitised notes	England	Eighth Floor, 100 Bishopsgate, London, EC2V 4AG	30 September
Gosforth Funding 2018-1 PLC	Issuer of securitised notes	England	Eighth Floor, 100 Bishopsgate, London, EC2V 4AG	30 September
Gosforth Holdings 2016-1 Limited (in liquidation)	Holding company	England	10 Fleet Place, London, EC4M 7RB	30 September
Gosforth Holdings 2017-1 Limited	Holding company	England	Eighth Floor, 100 Bishopsgate, London, EC2V 4AG	30 September
Gosforth Holdings 2018-1 Limited	Holding company	England	Eighth Floor, 100 Bishopsgate, London, EC2V 4AG	30 September
Gosforth Mortgages Trustee 2016-1 Limited (in liquidation)	Trust	England	10 Fleet Place, London, EC4M 7RB	30 September
Gosforth Mortgages Trustee 2017-1 Limited	Trust	England	Eighth Floor, 100 Bishopsgate, London, EC2V 4AG	30 September
Gosforth Mortgages Trustee 2018-1 Limited	Trust	England	Eighth Floor, 100 Bishopsgate, London, EC2V 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

Details of the Group's interests in consolidated structured entities associated with securitisation and covered bond arrangements are set out in note 3.3.

6.2 Company investments in controlled entities continued

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	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[1]	JV	50% (plus one share)	Jubilee House, Gosforth, Newcastle Upon Tyne, NE3 4PL	31 December

(1) 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. The undertakings above are incorporated in the UK.

Further details on the JV arrangements are provided in note 5.3.

6.3 Company debt securities in issue

	2022 £m	2021 £m
Subordinated debt	**1,034**	1,033
Medium-term notes	**2,425**	2,396
	3,459	3,429

Information on subordinated debt and medium-term notes is provided in note 3.11 to the consolidated financial statements.

Hedge accounting is not applicable to the debt securities in issue at the Company level.

6.4 Company fair value of financial instruments

The accounting policy for fair value of financial instruments is provided in note 3.15 to the consolidated financial statements. The table below shows a comparison of the carrying amounts of financial assets and liabilities 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 may not represent the underlying value due to dislocation in the market. Not all of the Company's financial instruments can be exchanged in an active trading market.

	2022					2021				
			Fair value measurement using:					Fair value measurement using:		
	Carrying value £m	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m	Carrying value £m	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets										
Due from related entities	**3,526**	**3,292**	**–**	**3,292**	**–**	3,468	3,783	–	3,783	–
Other financial assets at FVTPL	**6**	**6**	**–**	**4**	**2**	5	5	–	–	5
Financial liabilities										
Debt securities in issue	**3,459**	**3,156**	**3,156**	**–**	**–**	3,429	3,704	3,704	–	–

6.4 Company fair value of financial instruments continued

Notes

The Company's fair values disclosed for financial instruments are based on the following methodologies and assumptions:

Amounts due from related entities – The fair value of subordinated debt and medium-term notes due from related entities is derived from quoted market prices of the debt security in issue 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.

Other Financial assets at FVTPL (Level 2) – Primarily represents £4m of Visa Inc. Series A preferred stock received following a conversion event in July 2022. The preferred stock is automatically convertible into Visa Inc. common stock on sale to a person eligible to hold Class A common stock. The fair value of the preference shares has been calculated by taking the year end New York Stock Exchange share price for Visa Inc.

Other Financial assets at FVTPL (Level 3) – Primarily represents £1m (2021: £4m) of Visa Inc. Series B preferred stock received as partial consideration for the sale of the Company's share in Visa Europe. The preferred stock is convertible into Visa Inc. common stock or its equivalent at a future date, subject to potential reduction for certain litigation losses that may be incurred by Visa Europe. The fair value of the preference shares has been calculated by taking the year end New York Stock Exchange share price for Visa Inc. and discounting for illiquidity and clawback related to contingent litigation. For other unlisted equity investments, 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.

The Company also holds £1m (2021: £1m) of debt investments measured at FVTPL. These investments are categorised as Level 3, as the valuations incorporate significant unobservable inputs. Valuation is based on the transaction price which the Company believes is the best representation of an exit price. The significant unobservable input is the recoverable amount which could range from 0 to 100%.

Debt securities in issue – The fair value of subordinated debt is taken directly from quoted market prices.

6.5 Company reserves

6.5.1 Other equity instruments and reserves

Information on other equity instruments and other reserves is provided in note 4.1 to the Group's consolidated financial statements.

6.5.2 Available distributable items

Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements. At 30 September 2022, the Company had accumulated distributable reserves of £1,056m (2021: £792m).

6.6 Company related party transactions

During the year there have been transactions between the Company, controlled entities of the Company, and other related parties. The Company receives and provides a range of services from/to its principal subsidiary undertaking, Clydesdale Bank PLC, including loans and deposits.

Amounts due from related entities

	2022 £m	2021 £m
Bank accounts held with controlled entity of the Company	**50**	19
Medium-term notes	**2,437**	2,412
Subordinated debt	**1,034**	1,032
Other receivables	**5**	5
Total amounts due from related entities	**3,526**	3,468
Interest income on the above amount was as follows:		
Interest income from related parties	**129**	123

These are all classified as amortised cost and, for IFRS 9 purposes, are 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 issued by Clydesdale Bank PLC. These securities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer, other than creditors whose claims rank junior to the claims of the holders of the medium-term note liabilities, including those of subordinated debt holders.

Subordinated debt comprises dated, unsecured loan capital issued by Clydesdale Bank PLC. These securities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer, other than creditors whose claims rank junior to the claims of the holders of subordinated liabilities.

Total amounts due to related entities

	2022 £m	2021 £m
Other payables	**8**	8
Total amounts due to related entities	**8**	8

Other transactions with related entities

	2022 £m	2021 £m
Non-interest income received	**18**	17
Dividends received	**367**	20
AT1 distributions received	**60**	59
	445	96

Other related party transactions

As detailed in note 4.2 to the consolidated financial statements, the Group provides share based compensation to employees through a number of schemes, all in relation to shares in the Company. The cost of providing these benefits is recharged to the employing company, Clydesdale Bank PLC. Recharges are calculated based on the fair value of awards expensed in the year in accordance with IFRS 2: 'Share based payments'. The key management personnel of the Company are the key management personnel of the Group, with relevant disclosures given in note 5.3 to the consolidated financial statements. The Company has no employees (2021: Nil).

Other related party transactions with the Virgin Group

The Company has related party transactions with other Virgin Group companies[(1)]:

- License fees due to Virgin Enterprises Limited for the use of the Virgin Money brand trademark resulted in payables of £5m (2021: £4m), with expenses incurred in the year of £15m (2021: £14m).
- The Company paid £7m (30 September 2021: £Nil) of ordinary dividends to Virgin Group Holdings Limited.

(1) Virgin Enterprises Limited was incorporated in England and Wales, with Virgin Group Holdings Limited incorporated in the British Virgin Islands.

Additional information

Principles for Responsible Banking report

The Principles of Responsible Banking were launched by the United Nations in 2019 with the aim of accelerating the banking industry's contribution to the SDGs. This is our second self-assessment report which outlines our progress in implementing the principles across VMUK.

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
Principle 1: Alignment **We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the SDGs, the Paris Climate Agreement and relevant national and regional frameworks.**		
1.1 *Describe* (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities, and where relevant the technologies financed across the main geographies in which your bank has operations or provides products and services.	Virgin Money is the UK's 6th largest bank, serving c.6.6m retail and small and medium sized business banking customers through an innovative digital platform with a national network of stores, contact centres and relationship managers. We are led by our Purpose of Making you happier about money which informs our strategic ambition to be the UK's best digital bank. Our business is comprised of three customer facing functions; Mortgages, Unsecured and Business Banking, offering market-leading products and services to meet the full range of customers' retail and banking needs, including insurance, pensions and investments through our JV with abrdn. Our sector credit exposures are detailed in our Pillar 3 disclosures.	Pages 2 and 11 www.virginmoneyukplc.com/investor-relations/results-and-reporting/annual-reports/
1.2 *Describe* how your bank has aligned and/or is planning to align its strategy to be consistent with and contribute to society's goals, as expressed in the SDGs, the Paris Climate Agreement, and relevant national and regional frameworks.	ESG is increasingly embedded in our governance processes and decisions and within our annual planning processes. Our ESG Strategy focuses on Four Big Goals, which we've mapped against the UN SDGs, and identifies where we believe we can have most intentional and sustained positive impact. We have set 2030 aspirations across all VMUK Goals, including our commitment to sponsor diverse and representative talent at every level and aim that no VM customer is paying a poverty premium. We are signatories to Women in Finance Charter, Race at Work Charter and a Disability Confident Employer. We became a signatory to the NZBA in September 2021, and are committed to setting science-based targets which support the goals of the Paris Climate Agreement to limit warming to 1.5 degrees. Targets will be reviewed with the latest science on a regular basis to ensure our customers continue to support a low-carbon future. We have continued to use the PCAF Global GHG Accounting and Reporting Standard to calculate financed emissions, developing science-based targets across our priority business sectors, disclosed within our FY22 ARA. Throughout FY21 and FY22 we've used the BoE CBES to identify climate-related risks and opportunities and assess the resilience of our business model in line with the Paris Agreement. This has provided insight into potential vulnerabilities and opportunities which will feed into strategic and financial planning cycles. Our Task Force on Climate-related Financial Disclosures are consistent with the TCFD's 2017 Recommendations and Recommended Disclosures across all four TCFD pillars and are compliant with the UK Listing Rule 9.8.6R(8) requirement.	Pages 26-40 www.virginmoneyukplc.com/corporate-sustainability/esg-hub/ Page 232 onwards

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
Principle 2: Impact and Target Setting **We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.**		
2.1 Impact Analysis: *Show* that your bank has identified the areas in which it has its most significant (potential) positive and negative impact through an impact analysis that fulfills the following elements: a) **Scope:** The bank's core business areas, products/services across the main geographies that the bank operates in have been as described under 1.1. have been considered in the scope of the analysis. b) **Scale of Exposure:** In identifying its areas of most significant impact the bank has considered where its core business/its major activities lie in terms of industries, technologies and geographies. c) **Context and Relevance:** Your bank has taken into account the most relevant challenges and priorities related to sustainable development in the countries/regions in which it operates. d) **Scale and intensity/salience of impact:** In identifying its areas of most significant impact, the bank has considered the scale and intensity/ salience of the (potential) social, economic and environmental impacts resulting from the bank's activities and provision of products and services. (your bank should have engaged with relevant stakeholders to help inform your analysis under elements c) and d)) *Show* that building on this analysis, the bank has > Identified and disclosed its areas of most significant (potential) positive and negative impact > Identified strategic business opportunities in relation to the increase of positive impacts/ reduction of negative impacts	Our FY22 materiality assessment focused on double-materiality. The insight from this exercise, alongside other input from key internal and external stakeholders, shows that our current strategy is aligned with the issues identified, including a significant increase in the materiality of Climate change and Digital transformation. Ethics, Governance and Data/cyber security are still important to our stakeholders. For more information on the materiality assessment, stakeholders and outputs, see page 29 in the Strategic Report	Page 29
	Our TCFD report outlines the processes used to determine material risks and opportunities, including our RMF, detail on significant short- to medium-term ESG trends in the UK, and our progress on scenario analysis.	Pages 232-262
	Our UN PRB Impact assessment identified that our greatest lending concentration is to the Agriculture sector and our Mortgages portfolio. We've extended that to include Manufacturing, Transport and Oil & Gas, now covering the 5 sectors with greatest emissions intensity, and the key areas here we are taking action. Read more about our approach, calculations, roadmaps and targets in our TCFD report. We will continue to consider the impact of external factors, emerging issues and trends, alongside approaches of our peers, to maintain robustness of our plans.	Pages 233-244
	As the 6th largest bank in the UK, an employer of c.7k staff, servicing c.6.6m customers in communities right across the UK, we recognise the need to continue reducing the carbon emissions of our business operations, and to be a fully inclusive, accessible, flexible business – for both our customers and colleagues. Our diversity and inclusion strategy focuses on two key aims: 1) Create and sustain a representative workforce at all levels, and 2) Nurture an inclusive culture. We have made good progress in respect of our gender representation targets, but less progress against our ethnicity targets and will be adopting a data-led approach to our activity in FY23 and beyond.	Pages 16-20 www.virginmoneyukplc.com/ corporate-sustainability/esg-hub
	Our 'open doors' goal is to work with customers, colleagues and communities to encourage sustainable practices and economic activity that creates shared prosperity. We're partnering with organisations who can help us understand poverty in our communities and lobby for systemic change (Smart Data Foundry, Turn2Us and Fair by Design). See the Delighted Colleagues and Customers section of the Strategic Report, pages 18-20 for more information on our approach, colleague engagement, tracking our progress and ongoing commitments.	Pages 36-38

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Impact Analysis.
Virgin Money continues to make progress in assessing our significant positive and negative impacts and we are focused on ensuring this assessment covers all our core business activities as a financial institution. We will continue to work with the United Nations Environment Programme Finance Initiative (UNEPFI), our peers and other organisations to enhance the tools and methodologies available to better understand and mitigate our impacts on society and the environment.

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
2.2 Target Setting *Show* that the bank has set and published a minimum of two **S**pecific, **M**easurable (can be qualitative or quantitative), **A**chievable, **R**elevant and **T**ime-bound (SMART) targets, which address at least two of the identified "areas of most significant impact", resulting from the bank's activities and provision of products and services.	Our first target focuses on reducing carbon emissions. In 2020, we publicised our ambition to "at least halve the carbon emissions across everything we finance by 2030" and achieve, "net zero operational and supplier emissions by 2030". In September '21, we signed up to the NZBA, committing to net zero by 2050. This activity aligns to Goals 1 & 2 and contributes to SDGs 7, 8, 9, 12 and 13. We've defined our science-based targets and roadmaps to net-zero for priority sectors, with our business operations and remaining priority sectors to be identified in FY23, and confirmed our compliance with the Taskforce on Climate-related Financial Disclosures.	Pages 232 onwards for more information on financed emissions calculations, key principles and approach, targets and roadmaps
Show that these targets are linked to and drive alignment with and greater contribution to appropriate SDGs, the goals of the Paris Agreement, and other relevant international, national or regional frameworks. The bank should have identified a baseline (assessed against a particular year) and have set targets against this baseline.	Our second target is to "Sponsor diverse talent at every level and achieve a fully representative top-quartile of the organisation", linked to Goal 3, with activity that aligns to SDGs 5 and 10. We've set a series of representation targets and have improved the baseline colleague data to better understand the workforce composition and inform how best to support colleagues. We recognise the impact the current climate of increased energy prices and cost of living has on customers affordability of energy efficiency measures, which may contribute to levels of poverty (SDG1) and access to affordable energy supply (SDG7). We've launched a Green Reward product to support customers taking additional borrowing to make green home improvements.	Pages 18-20 https://uk.virginmoney.com/mortgages/green-reward
Show that the bank has analysed and acknowledged significant (potential) negative impacts of the set targets on other dimensions of the SDG/climate change/society's goals and that it has set out relevant actions to mitigate those as far as feasible to maximize the net positive impact of the set targets.	We are also focusing on Poverty Premium (PP), supporting our vulnerable customers and tackling issues from cost of living through Goal 3 which aligns to SDG1 and SDG10. We're providing links to free tools, financial wellbeing and energy efficiency information, and the Turn2Us Benefits calculator which helps consumers identify eligibility for additional support. We expect to report more progress in our 2023 submission.	Pages 36-38 Additional information on our complete set of interim targets across our Four Goals can be found in pages 26-40

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Target Setting.
Virgin Money UK has set more than the minimum of two SMART targets relevant to our business and our impact areas as outlined in our Goals. This report focuses on thematic areas of climate, diversity and inclusion. We have made significant progress, with clear targets and commitments underpinned by robust action plans and timescales. To support achievement of the targets over time, we have incorporated both short- and longer-term metrics within our Group and Functional scorecards and will respond as necessary to flex our approach in order to meet evolving needs.

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
2.3 Plans for Target Implementation and Monitoring *Show* that your bank has defined actions and milestones to meet the set targets. *Show* that your bank has put in place the means to measure and monitor progress against the set targets. Definitions of KPIs, any changes in these definitions, and any rebasing of baselines should be transparent.	Our ESG commitments are tracked through Groupwide ESG objectives and external KPIs, and the ESG scorecard within our LTIP accounts for 15% weighting. All LT members have ESG targets in functional scorecards, including those that contribute to our science-based and D&I commitments, which are reviewed monthly at Environment Committee. As we've further developed our climate strategy and outlined roadmaps and targets to net-zero across our priority sectors, we have enhanced the climate-related measures. The Remuneration Committee will determine outcomes against the scorecard based on an assessment of performance against these quantitative measures alongside qualitative input including, for example, progress towards the Group's 2030 ESG aspirations.	Pages 18-20, 26 to 40 Page 232 onwards Page 125
Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Plans for Target Implementation and Monitoring. Virgin Money has set stretching 2030 aspirations with a set of supportive interim targets. We have implemented dedicated ESG governance, assigned accountabilities and included ESG in our scorecards and LTIP to monitor performance and drive progress. We recognise there is more to do to build a comprehensive suite of externally-disclosed interim targets and milestones, through the work underway described in section 2.2. We remain committed to disclosing these and reporting progress at least annually as a core element of our 'Straight up ESG' goal.		
2.4 Progress on Implementing Targets **For each target separately:** *Show* that your bank has implemented the actions it had previously defined to meet the set target. **Or** *explain* why actions could not be implemented/ needed to be changed and how your bank is adapting its plan to meet its set target. *Report* on your bank's progress over the last 12 months (up to 18 months in your first reporting after becoming a signatory) towards achieving each of the set targets and the impact your progress resulted in. (where feasible and appropriate, banks should include quantitative disclosures)	Current headline targets achieved: > 12% reduction in Scope 1 & 2 location-based emissions (target 10%) and 13% in Energy (gas and electric) > 51% reduction in water consumption, (achieved FY25 target) > 5.3% of our business loan book comprised of sustainable leaders (target 5%) > 50% growth in value of new greener mortgage lending > We have achieved an enhanced weighted average data quality score for the mortgage calculation of 3.5 (from 5) following improved data quality and refined methodologies. > Our TCFD report (page 232 onwards) outlines the calculations, targets and roadmaps across the priority sectors (Mortgages, Agriculture, Surface Transport, Shipping and Oil & Gas). Through next year, we'll complete this work for the remaining priority business sectors and our Operational and Supplier emissions. > We have externally disclosed Diversity and Inclusion targets for FY25 and ensure ongoing focus through the inclusion of D&I metrics in both our Group and functional scorecards.	Our progress towards achievement of ESG 2022 targets and the resultant impact is covered in pages 26 to 40 of the Strategic report. Page 232 onwards Pages 18-20
Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing Targets Virgin Money is working across the business to deliver the interim targets set out in the FY20 Annual Report and Accounts and to develop clear roadmaps to our 2030 aspirations. Progress is included within this Annual Report and Accounts alongside the definition of a broader suite of interim targets and robust KPIs		

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
Principle 3: Clients and Customers		
We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.		
3.1 *Provide an overview* of the policies and practices your bank has in place and/or is planning to put in place to promote responsible relationships with its customers. This should include high-level information on any programmes and actions implemented (and/or planned), their scale and, where possible, the results thereof.	This UNEP FI Principle is core to our ESG Goals 2 and 3, which focus on supporting customers to make a positive impact on society and the environment and encourage sustainable practices and economic activity that creates shared prosperity. The Group remains subject to high levels of oversight and an evolving programme of change from regulatory bodies, including areas such as climate and Consumer Duty.	Pages 26 to 40
	Information on our ESG strategy, additional materials and policies is included on our ESG hub. We have internal policy standards across Customer Comms, Product Development and Monitoring, Vulnerable Customers and Inclusion which ensure we act responsibly. Our Values and Behaviours and Code of Conduct set clear expectations of our people and are underpinned by a suite of ESG Policies which drive responsible customer interactions.	www.virginmoneyukplc.com/corporate-sustainability/esg-hub and page 340
	Colleagues are required to complete four mandatory training modules each year that include content specifically related to ESG.	
	We've reviewed the Group's Sensitive Sector Statement, elevated Climate Risk to principal risk status, undertaken a climate risk assessment and embedded climate risk into the Sustainable Business Coach.	Pages 41-43, 66, 230 and 232 onwards
3.2 *Describe* how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities. This should include information on actions planned/implemented, products and services developed, and, where possible, the impacts achieved.	We're passionate about empowering and educating our customers, whilst offering products and services that help them (and their businesses) reduce their carbon emissions and lead more sustainable lives such as sustainability-linked loans, Sustainable Business Coach, Greener Mortgages, Agri E Fund and Green Reward.	Pages 33-35
	We are signatories of NZBA, PCAF, Women in Finance Charter, Race at Work Charter and a Disability Confident employer. We have collaborated with Future-Fit Foundation to adapt their Business Benchmark into a simplified learning and assessment tool for SME.	Pages 24-44
	We invite industry experts to support insight across our Inclusion Networks and in addition to signing the Black Talent Charter, we partnered with Black Professional Scotland to promote role vacancies. We received Gold Employer award moving up 12 places in the UK Workplace Equality Index. As a result of significant work on this agenda, we were delighted that colleague response in our My Voice survey reported that 95% of colleagues feel they can be themselves at work which is a 5% increase on last year.	
	We have continued to embed our Purpose-led approach to financial inclusion, supporting vulnerable customers, growing our market-leading basic bank account – the M account, and continued industry collaboration around Poverty Premium. We've launched a new cost-of-living hub which supports customers with money saving suggestions, budgeting tools and links to external resources. We have embedded Turn2Us' benefits calculator on our website, helping people assess what they are entitled to and advice on how to claim.	

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
Principle 4: Stakeholders **We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.**		
4.1 *Describe* which stakeholders (or groups/types of stakeholders) your bank has consulted, engaged, collaborated or partnered with for the purpose of implementing these Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders and what issues were addressed/ results achieved.	We have gained insight through customer surveys, colleague feedback, supplier surveys, industry collaborations, a materiality assessment and broker (Citi) and consultancy feedback (PWC, EY, Deloitte). We've collaborated x-sector and with industry experts to source climate-related data (Hometrack) and on topics such as the impact of cost of living and rising energy prices on decarbonisation of the housing stock, financed emissions and tools to help businesses reduce their emissions. We've continued to work with Life Moments to enhance our Sustainable Business Coach, adapting the Future-Fit Business Benchmark. We engaged with the Modern Slavery Commissioner's review of the role of the FS sector in eradicating Modern Slavery and undertook a Groupwide risk assessment with PWC. We conducted a survey of our Agriculture customers and published a Net Zero report to provide insight into the impact, risks and opportunities of climate on the sector. We've engaged with the Economic Secretary, corporate institutions and industry experts, including Smart Data Foundry, through our Poverty Premium taskforce to progress development of a national PP baseline. We're the only bank to have a formal partnership with Turn2Us, signposting their Benefits Calculator.	Pages 26-40, 89-99, Materiality Assessment Page 29,
Principle 5: Governance & Culture **We will implement our commitment to these Principles through effective governance and a culture of responsible banking**		
5.1 *Describe* the relevant governance structures, policies and procedures your bank has in place/ is planning to put in place to manage significant positive and negative (potential) impacts and support effective implementation of the Principles.	The CEO has overall accountability to the Board and shareholders to ensure that sustainable and responsible practices are embedded into our business operations. Governance includes an Environment Committee, ESG Working Group and our LT each hold ESG accountabilities. To deliver on our NZBA commitment, we've undertaken rigorous data analysis and comprehensive measurement of our financed emissions, including identification of assumptions and dependencies throughout our roadmaps to net zero. We've defined Climate roles and responsibilities, elevated Climate risk as a principal risk, and embedded it into our credit decisioning framework. We've accessed climate risk implications through regulatory stress testing and scenario planning and introduced a climate risk policy framework to manage exposure. We maintain a watching brief on industry regulations through a Horizon Scanning working group, and have responded to ISSB consultation.	Pages 232-262
	Our Vulnerable Customer strategy ensures we design and deliver products, services and communications with disclosed and potential vulnerabilities of customers in mind. Our Customer Care team will liaise with customers who have been identified as disclosed or potentially vulnerable, transact via non digital channels and are experiencing multiple streams of change, to better understand their needs and ensure appropriate solutions and support are in place prior to any change to their banking products or services taking place.	Pages 36-38

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
5.2 *Describe* the initiatives and measures your bank has implemented or is planning to implement to foster a culture of responsible banking among its employees. This should include a high-level overview of capacity building, inclusion in remuneration structures and performance management and leadership communication, amongst others.	Our Purpose of Making you happier about money articulates why Virgin Money exists, what problems we are here to solve, and who we want to be to each person we touch. Our ARA provides more detail on the framework and activities underway to engage colleagues and foster a strong culture of responsible banking, including LTIPs linked to ESG targets. We've rolled out ESG specific training across the Group through our Learning in a Life more Virgin initiative and provided climate risk training to our business lending teams. We hosted an ESG focused Board Jam with non-executive directors, delivered ESG colleague engagement sessions as part of 2022 Purposefest, and distributed periodic updates on the execution of our strategy through Group-wide communications. All colleagues are required to undertake training on a range of ESG topics and are encouraged to participate in community and environmental volunteering. ESG objectives and metrics are embedded within our Group and functional scorecards and we have enhanced the ESG scorecard element of our LTIP.	Pages 3, 26-40, 125 www.virginmoneyukplc.com/our-people/values-culture-and-behaviour/
5.3 Governance Structure for Implementation of the Principles *Show* that your bank has a governance structure in place for the implementation of the PRB, including: a) target-setting and actions to achieve targets set b) remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected.	The governance structure for ESG, which incorporates the implementation of the Principles, is covered in sections above, page 32 within Goal 4 Straight up ESG and page 245 of the TCFD report. Progress towards Board-approved commitments under our ESG Goals are tracked monthly through the ESG Working Group, with any off-track reporting requiring additional explanation into the Environment Committee. Robust KPIs, targets and deliverables specifically relating to our climate strategy are approved by Board and are tracked monthly through Environment Committee, with remedial action discussed and agreed by the committee. We have defined and had Board approval for climate-related roles and responsibilities across the Group, and clear lines of accountability for the ESG Goals.	Pages 32, 245

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Governance Structure for Implementation of the Principles.
Virgin Money has implemented the critical elements for effective governance and a culture of responsible banking and continues to build on these as necessary to further strengthen our commitment to the Principles.

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
Principle 6: Transparency & Accountability **We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.**		
6.1 Progress on Implementing the Principles for Responsible Banking *Show* that your bank has progressed on implementing the six Principles over the last 12 months (up to 18 months in your first reporting after becoming a signatory) in addition to the setting and implementation of targets in minimum two areas (see 2.1–2.4). *Show* that your bank has considered existing and emerging international/regional good practices relevant for the implementation of the six Principles for Responsible Banking. Based on this, it has defined priorities and ambitions to align with good practice. *Show* that your bank has implemented/is working on implementing changes in existing practices to reflect and be in line with existing and emerging international/regional good practices and has made progress on its implementation of these Principles.	We have made significant progress over the past 18 months in the embedding of our climate strategy and the development of science-based targets and roadmaps to net zero for priority sectors, in line with our NZBA commitment. We've continued to use the PCAF methodologies to calculate our financed emissions and developed much greater understanding of future ESG data requirements and sources and are in the process of designing a future-proofed data architecture. We have aligned our ESG and Group Strategy – ensuring our commitments, approach and targets contribute to societies most pressing needs, where we can have greatest impact and contribute to the UN SDGs. As stated above, we've identified the UN SDGs we believe we can have most intentional and sustained positive impact upon. We have continued to support customers to understand their ESG risks and opportunities, and have developed strong, positive relationships with key industry leaders, consulted our colleagues and customers in the pursuit of our ambitions. Our Task Force on Climate-related Financial Disclosures are consistent with the TCFD's 2017 Recommendations and Recommended Disclosures across all four TCFD pillars and are compliant with the UK Listing Rule 9.8.6R(8) requirement, as outlined in our compliance table on page 41-43. Throughout our disclosures in this self-assessment (alongside our Sustainability update in the Strategic Report), we have laid out the various pieces of work completed to date including our work on impact assessment, customer propositions, policies and governance which are further implementing the Principles for Responsible Banking. We maintain a watching brief over emerging trends and future expectations of ESG and sustainability reporting requirements, and have responded to ISSB's consultation on the General Requirements of Sustainability-related Financial Information.	Page 232 onwards
Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing the Principles for Responsible Banking This is our second self-assessment in response to our adoption of the Principles for Responsible Banking and evidences that we have made positive progress against all principles. We will continue to collaborate with UNEPFI, stakeholders, industry bodies and peers to investigate and implement best practices supporting further implementation of the Principles.		

Annex: Definitions

a. **Impact:** An impact is commonly understood as being a change in outcome for a stakeholder. In the context of these Principles this means (aligned with GRI definition) the effect a bank has on people/the society, the economy and the environment and with that on sustainable development. Impacts may be positive or negative, direct or indirect, actual or potential, intended or unintended, short-term or long-term.

b. **Significant Impact:** Impact that in terms of scale and/or intensity/salience results in a particularly strong/relevant change in outcome for a stakeholder. In the context of these Principles, the concept of significant impact is used to ensure banks focus where their actions/business (can) matter most for people, economy and environment and to provide a reasonable and practical threshold for what issues need to be considered/included, similar to the concept of "materiality".

ESG index

In addition to the information found within this document, you can read more about our commitment to be a positive influence in society and how we're guided by our Purpose of Making you happier about money in our ESG Resource Hub https://www.virginmoneyukplc.com/corporate-sustainability/esg-hub.

General disclosures

Our Four Big ESG Goals are aligned to our strategic goals and underpin our Purpose of Making you Happier about Money as outlined on pages 26 to 40.

The Group is a member, signatory or a partner of the following:

- United Nations Principles of Responsible Banking; signed November 2019. See our second report on page 332;
- PCAF;
- Future-Fit Development Council;
- CDP survey on Climate Change extended to our supply chain through CDP Supplier Survey;
- Prompt Payment Code;
- NZBA;
- Carbon Neutral Britain
- Fair by Design;
- Smart Data Foundry;
- Women in Finance Charter;
- Race at Work Charter;
- Disability Confident Employer;
- Stonewall Diversity Champion; and
- Armed Forces Covenant Employee Recognition Scheme Gold award member.

Our latest ESG rating agency scores:

	2022	2021	Scale
MSCI	**AA**	A	AAA to CCC, AAA as a best possible score
Sustainalytics	**18.1**	25.7	0-100, 0 as a best possible score
CDP	**B**	B	A+ to F, with A+ as a best score
Moody's ESG Solutions	**50**	49	0-100, 100 as a best possible score

Business ethics

We pride ourselves on being an ethical business and have developed a Group wide colleague code of conduct which is underpinned by the following policies and statements;

- Whistleblowing;
- Tax transparency;
- Modern slavery; and
- Conflicts of interest.

We expect our suppliers to work alongside us, upholding our values and ethics, and in accordance with our Supplier Code of Conduct which forms part of our 3rd party contract terms.

We have developed our response to modern slavery and financial crime, rolling out training and increasing the profile of these issues with the Board and Leadership Team. More detail on this can be found on our corporate website https://www.virginmoneyukplc.com/corporate-sustainability/modern-slavery-statement/ and on page 40.

Colleagues, including contractors inside IR35, complete four mandatory training modules each year that include content specifically related to ESG.

Details of legal disputes and conduct related matters are detailed in note 5.1.

Data security, privacy and protection

We are conscious of how we operate online, and you can read more about this in our Fraud and cyber-enabled crime policy.

To maintain customer trust in the security of our services we work continuously to mitigate the risks of cyber-attack, exposure or manipulation of confidential data, and of unauthorised access to information, as outlined in our Infosec policy.

Our technology risk section on pages 226-227 outlines the risks we face as a UK bank and what we do to mitigate these risks. Business units are responsible for the management of technology risk, with oversight from the risk management function and independent assurance activities undertaken by Internal Audit.

All our colleagues, including contractors inside IR35, complete data protection, data privacy and data management training at least once a year, with extra training for people who handle customer data more frequently. You can read more about this in the Data privacy policy.

Our regulatory and compliance risk team is responsible for managing privacy and data protection risks, which may result from non-compliance with data privacy, legal and regulatory obligations. Read more within our Technology and cyber risk update on pages 226-227.

Governance

ESG is integrated within our Governance structure as detailed in the Governance report on pages 68-158. This report complies with the requirements of the Corporate Governance Code 2018 and the Companies Act 2006.

The Group considers the Board to be key in its overall implementation of our ESG strategy and effectiveness is demonstrated as follows:

- An experienced and well-governed Board, supported by Board Committees. The responsibility of each Board Committee is clearly defined in the Board and Board Committee charters and attendance at Board and Board Committee meetings is disclosed on page 70.
- 'How our Board operates' is set out on pages 80-84 and details the structure of the Board and frequency of meetings along with the management of conflicts of interest, time commitments and the training and development of Board members.
- The Board understands the benefits of diversity and has a Board diversity and inclusion policy. Charts providing a summary of Board diversity and the composition of the Board by age, role and tenure are detailed on pages 71-72.
- Details of the skills of each Board member and the training and development opportunities they are offered to support them to discharge their responsibilities is outlined on page 70.
- ESG is governed by the Board and supported by management, as outlined on pages 39, 82 and 245, reflecting its importance to the Group. During the year, the Board is engaged in regular discussion on the execution of our ESG and Climate strategy.
- The Board's established Committees support the delivery of ESG objectives, as set out on page 82.
- How the Board considers stakeholders in its decision-making process is shown within the s.172 report on pages 89 to 99.
- The Audit Committee oversees external assurance which is sought by the Group. The policy in relation to the statutory auditor is set out in the Audit Committee report on pages 106 to 112 and the Audit Committee charter.
- The Directors' report on pages 153 to 158 sets out shareholders rights (including voting rights).
- Information regarding political donations (of which there were none) can be found in the Directors' report on page 154 and our approach is set out in our Political involvement, communications and donations policy.
- We operate a series of other committees and forums through which we manage and report on our ESG activities, including our Environment Committee, ESG Working Group, Vulnerable Customer Steering Group and the Non-Financial Risk committee: details of which can be found in the Governance section of our TCFD report.

Financial inclusion and capability building	We continue to embed our purpose-led approach to financial inclusion, as outlined within our Open Doors policy: through the delivery of our M account, launch of Macmillan Guides across our stores network, our Cost of Living hub https://uk.virginmoney.com/service/support-hub/cost-of-living/#tips-to-manage-your-money and financial wellbeing resources for both customers and colleagues, and many other initiatives outlined on page 36-38. We are committed to ensuring that all new product terms and conditions have Fairer Finance accreditation. This ensures that, by an objective standard, we are delivering clarity of language, design and content. One in seven adults in the UK have a reading age below 11 years. We want to know that our customers understand what they are buying, so we have stripped back lots of the small print, included examples to explain trickier concepts, and we ensure that the layout and spacing is a help rather than a hindrance. We are sensitive about the way we deal with customers in times of financial difficulty. Read more about our approach to forbearance and collections on page 169 and in our Collections and recoveries policy. We are supporting the distribution of free mobile data to those unable to afford it and experiencing data poverty. The service will be available in several of our stores. Though its grant making programmes, the Virgin Money Foundation directly supports locally-led organisations who are driving positive economic, social or environmental change within a community https://virginmoneyfoundation.org.uk/.
Environment	Tackling our impact on the environment is a top priority for the Group. We are signatories to the NZBA and have disclosed our roadmaps and targets to net zero across our priority business sectors, in accordance with the PCAF standard. You can read more on the work undertaken to date, including detailed targets and underpinning assumptions, and our focus for the coming financial year in the TCFD report on pages 232-262. ESG, and specifically climate risk, has been embedded within the Group's RMF with climate risk being elevated to principal risk status. Read more about the actions we've taken in the risk overview on pages 59-66. Conscious of the impact of our commercial lending book, we are seeking to support our customers in their own sustainability efforts through the launch of green products and tools which help them identify their risks and opportunities, and we regularly review our Sensitive sectors policy to ensure the Group maintains a low exposure to sensitive sectors. You can read more about our offering and how it is helping customers and the environment on pages 33-35. Pages 30-32 provide detail on our own operational footprint, including our Scope 1 and 2 emissions, and the steps we are taking to reduce these emissions on our journey to net zero. Our approach to reducing our GHG emissions is outlined in our Environmental policy and performance against carbon reduction targets has been independently assured by KPMG LLP as documented on page 32. We participate in the CDP Supplier Programme where we ask our top 100 suppliers to complete the CDP climate survey as outlined on page 31. The information and data they provide will inform the development of our supplier-based roadmaps and targets to net zero. We have documented our TCFD compliance statement on pages 41-43 of our strategic report, with further detail across the four thematic areas: governance, strategy, risk management, and metrics and targets outlined in the TCFD reporting framework on pages 232-262. This second TCFD report outlines the progress made in assessing climate-related risks and opportunities, whilst also identifying where we have further ambitions to enhance our disclosures on environmental measures.

Risk and conduct

Risk management is a central part of our business: our RMF sets out our risk appetite and our approach to managing the principal risks of the Group as outlined in the risk overview on pages 59-66 and the Risk report on pages 160-230.

Our regulatory and compliance risk function monitors how we conduct business and handles our reporting of breaches, including sharing the number of reportable customer complaints received every six months in line with FCA regulations – www.fca.org.uk/data/complaints-data/. The Financial Ombudsman Service also publishes data on complaints referred to it by individual firms – www.financial-ombudsman.org.uk/data-insight/half-yearly-complaints-data. More information on our approach can be found on pages 223.

Our conduct risk function outlined on page 224 monitors the treatment of customers, our complaints handling and whether our processes support fair customer outcomes. We're responding to the new Consumer Duty legislation introduced by the FCA and are developing a more data-led approach to designing and monitoring customer outcomes, abiding by the principle that businesses 'act to deliver good outcomes for retail customers'.

We develop products in accordance with our Product development and monitoring policy standard. This standard sets the tone for the design and ongoing monitoring of products which are attractive to and inclusive of our target customer base, offer fair value to customers, and are supported by a sustainable business model and business practices. We provide product-specific training to customer-facing colleagues and follow this up with regular oversight for every colleague. Diversity and inclusion, and specifically vulnerable customers are considered at every step in the product development process. We do not incentivise sales and we train our colleagues to support our customers with the products that best meet their needs.

The following policies are in place for the Group:

- Anti-money laundering and counter-terrorist financing;
- Sanctions and embargoes;
- Statement of financial crime policies and principles; and
- Anti-bribery and corruption.

Delighted colleagues, diversity and inclusion

We are committed to being a fair, equitable and inclusive employer, as evidenced through the introduction of our new colleague proposition: A Life More Virgin. We've harmonised terms and conditions, operate a hybrid working model and offer gender neutral family leave from day one of employment. Pages 18-20 of our Strategic Report focus on our strategic goal: Delighted Colleagues, providing more information on A Life more Virgin and a variety of initiatives across colleague recruitment and development, which are driving positive action towards our DE&I commitments. We have mature recruitment and development practices which include: early careers (such as internships and apprenticeships); internal mobility approaches; redeployment support; and career sponsorship programmes.

- We have put processes in place to make our recruitment process as inclusive as possible.
- We are committed to helping all colleagues grow and develop, through digital and collaborative learning and to support them with their wellbeing.
- We recognise the importance of the colleague voice and recognise Unite the Union for collective bargaining and consultation.
- The Directors' remuneration report sets out a comparison of how all-colleague and Executive Director remuneration align as well as providing details on the ratio of CEO pay to that of the median colleague. All colleagues are paid at or above the real Living Wage.
- See our progress on strategic goal 'Delighted Colleagues' on pages 18-20 for colleague data points like survey participation rates and engagement scores.
- We've been making steady progress against the significant representation targets and pages 18-20 outline the work we're doing to create and sustain an increasingly representative workforce and a fair, equitable and inclusive culture. Additionally, we annually publish our Gender Pay report and progress towards our Women in Finance Charter commitment on our corporate website.
- We are a Disability Confident Employer and are signatories to the Women in Finance Charter.
- The approach set out above is supported by a suite of policies, including:
- Health and safety;
- Code of conduct;
- Diversity and inclusion; and
- Fit and proper.

Measuring the Group's performance

As highlighted within the Strategic report, Financial results, Directors' remuneration report, and Risk report, a range of metrics are considered that measure and track the Group's performance. Some of these metrics will be the Group's KPIs, which are a set of quantifiable measurements used to gauge the Group's overall long-term performance. Others are not referred to as KPIs, but are still useful metrics for the Group to reflect on and are disclosed to aid comparisons with peers.

These metrics fall into two main categories:

- Financial – which are further split into:
  - IFRS based – meaning the basis of the calculation is derived from a measure that can be found and is directly required under generally accepted accounting principles (GAAP); and
  - Non-IFRS based – these are also referred to as APMs and can be derived from non-GAAP measures.
- Non-Financial – being those that are not directly linked to the Group's financial performance, but more in relation to other external factors.

Non-IFRS based financial performance metrics can be calculated on either a statutory or an 'underlying' basis; with further detail on how the underlying measure is arrived at, along with management's reasoning for excluding the impact of certain items from the Group's current underlying performance rationale, can be found on page 353, directly following this section.

Financial performance metrics

Profitability:

<table>
<tr><th>Metric</th><th>KPI</th><th>LTIP</th><th>LTIP Year</th><th>Page</th><th>Basis</th><th>Definition/formula</th><th>Why it matters?</th></tr>
<tr><td>Gross annualised cost savings</td><td>Yes</td><td>No</td><td>N/a</td><td>45</td><td>Non-IFRS</td><td>Annualised gross cost savings benefits driven from the Group's efficiency programmes.</td><td>It provides an annualised progress indicator for the Group's accelerated digital strategy and stated target of delivering approximately £175m of additional cost savings by FY24, enabled by £275m of restructuring investment.</td></tr>
<tr><td>Statutory return on tangible equity (RoTE)</td><td>Yes</td><td>Yes</td><td>2022
2021
2020
2019</td><td>45</td><td>Non-IFRS</td><td>Statutory profit after tax attributable to ordinary equity holders as a percentage of average tangible equity (average total equity less intangible assets and AT1) for a given year.
<table>
<tr><th></th><th>2022</th><th>2021</th><th>2020</th></tr>
<tr><td>Statutory profit after tax attributable to ordinary equity holders (a)</td><td>£467m</td><td>£395m</td><td>£(220)m</td></tr>
<tr><td>Average tangible equity (b)</td><td>£4,539m</td><td>£3,875m</td><td>£3,554m</td></tr>
<tr><td>Statutory RoTE (a)/(b)</td><td>10.3%</td><td>10.2%</td><td>(6.2)%</td></tr>
</table></td><td>It's an indicator of the Group's profitability and gives the return generated for shareholders as a percentage of the Group's tangible equity.</td></tr>
<tr><td>Underlying cost:ratio (CIR)</td><td>Yes</td><td>Yes</td><td>2021
2020
2019</td><td>45</td><td>Non-IFRS</td><td>Underlying operating and administrative expenses as a percentage of underlying total operating income for a given year.
<table>
<tr><th></th><th>2022</th><th>2021</th><th>2020</th></tr>
<tr><td>Underlying operating and administrative expenses (a)</td><td>£914m</td><td>£902m</td><td>£917m</td></tr>
<tr><td>Underlying total operating income (b)</td><td>£1,755m</td><td>£1,572m</td><td>£1,542m</td></tr>
<tr><td>Underlying CIR (a)/(b)</td><td>52.1%</td><td>57.4%</td><td>59.5%</td></tr>
</table></td><td>It's a measure of efficiency in terms of how total operating expenses compare to total operating income on an underlying basis.</td></tr>
</table>

Metric	KPI	LTIP	LTIP Year	Page	Basis	Definition/formula	Why it matters?
Net interest margin **(NIM)**	No	No	N/a	51	Non-IFRS	Underlying NII as a percentage of average interest earning assets (which is adjusted to exclude short-term repos used for liquidity management purposes) for a given year.	It's an indicator of the Group's profitability by showing the difference between how much the Group is earning in interest on its loans compared to how much it is paying out in interest on deposits.

	2022	2021	2020
Underlying NII (a)	**£1,592m**	£1,412m	£1,351m
Average interest earning assets (b)	**£86,275m**	£86,947m	£86,826m
Short-term repos used for liquidity management (c)	**£12m**	£16m	£16m
NIM (a)/((b)-(c))	**1.85%**	1.62%	1.56%

Metric	KPI	LTIP	LTIP Year	Page	Basis	Definition/formula	Why it matters?
Statutory basic earnings per share **(EPS)**	No	No	N/a	58	IFRS	Statutory profit after tax attributable to ordinary equity shareholders, divided by the weighted average number of ordinary shares in issue for a given year (which includes deferred shares and excludes own shares held or contingently returnable shares).	It's an indicator of the Group's profitability on a statutory basis.

	2022	2021	2020
Statutory profit/(loss) after tax attributable to ordinary equity shareholders (a)	**£467m**	£395m	£(220)m
Weighted average number of ordinary shares in issue (b)	**1,441m**	1,442m	1,440m
Statutory basic earnings/(loss) per share (a)/(b)	**32.4p**	27.3p	(15.3)p

Metric	KPI	LTIP	LTIP Year	Page	Basis	Definition/formula	Why it matters?
Statutory CIR	No	No	N/a	58	Non-IFRS	Statutory operating and administrative expenses as a percentage of statutory total operating income for a given year.	It's a measure of efficiency in terms of how total operating expenses compare to total operating income on a statutory basis.

	2022	2021	2020
Statutory operating and administrative expenses (a)	**£1,069m**	£1,203m	£1,104m
Statutory total operating income (b)	**£1,716m**	£1,489m	£1,443m
Statutory CIR (a)/(b)	**62.3%**	80.8%	76.5%

Metric	KPI	LTIP	LTIP Year	Page	Basis	Definition/formula	Why it matters?
Statutory return on assets	No	No	N/a	58	Non-IFRS	Statutory profit after tax as a percentage of average total assets for a given year.	It's an indicator of the Group's profitability on a statutory basis. Underlying return on assets is no longer considered to be a performance measure, with the focus being on the statutory measure.

	2022	2021	2020
Statutory profit/(loss) after tax (a)	**£537m**	£474m	£(141)m
Average total assets (b)	**£89,504m**	£90,537m	£90,522m
Statutory return on assets (a)/(b)	**0.60%**	0.52%	(0.16)%

Metric	KPI	LTIP	LTIP Year	Page	Basis	Definition/formula	Why it matters?
Underlying basic EPS	No	No	N/a	58	Non-IFRS	Underlying profit after tax attributable to ordinary equity shareholders, divided by the weighted average number of ordinary shares in issue for a given year (which includes deferred shares and excludes own shares held or contingently returnable shares).	It's an indicator of the Group's profitability on an underlying basis.

	2022	2021	2020
Underlying profit after tax attributable to ordinary equity shareholders (a)	**£612m**	£691m	£20m
Weighted average number of ordinary shares in issue (b)	**1,441m**	1,442m	1,440m
Underlying basic earnings per share (a)/(b)	**42.4p**	47.9p	1.4p

Metric	KPI	LTIP	LTIP Year	Page	Basis	Definition/formula	Why it matters?
Underlying profit before tax	No	No	N/a	51	Non-IFRS	Statutory profit before tax plus total underlying adjustments to the statutory view of performance.	It's an indicator of the Group's profitability on an underlying basis.

	2022	2021	2020
Statutory profit/(loss) before tax (a)	**£595m**	£417m	£(168)m
Restructuring charges (b)	**£82m**	£146m	£139m
Acquisition accounting unwinds (c)	**£35m**	£88m	£113m
Legacy conduct (d)	**£8m**	£76m	£26m
Other (e)	**£69m**	£74m	£14m
Underlying profit before tax (a) + (b) + (c) + (d) + (e)	**£789m**	£801m	£124m

Metric	KPI	LTIP	LTIP Year	Page	Basis	Definition/formula	Why it matters?
Underlying profit after tax attributable to ordinary equity shareholders	No	No	N/a	346	Non-IFRS	Underlying profit before tax less underlying tax charge, less AT1 distributions. The underlying tax charge (or credit) is the difference between the statutory tax charge (or credit) and the tax attributable to exceptional items.	It's an indicator of the Group's profitability on an underlying basis.

	2022	2021	2020
Underlying profit before tax (a)	**£789m**	£801m	£124m
Underlying tax charge (b)	**£107m**	£31m	£25m
AT1 distributions (c)	**£70m**	£79m	£79m
Underlying profit after tax attributable to ordinary equity shareholders (a) - (b) - (c)	**£612m**	£691m	£20m

Metric	KPI	LTIP	LTIP Year	Page	Basis	Definition/formula	Why it matters?
Underlying RoTE	No	No	N/a	51	Non-IFRS	Underlying profit after tax attributable to ordinary equity holders as a percentage of average tangible equity (average total equity less intangible assets and AT1) for a given year.	It's an indicator of the Group's profitability on an underlying basis and gives the return generated for shareholders as a percentage of the Group's tangible equity.

	2022	2021	2020
Underlying profit after tax attributable to ordinary equity holders (a)	**£612m**	£691m	£20m
Average tangible equity (b)	**£4,539m**	£3,875m	£3,554m
Underlying RoTE (a)/(b)	**13.5%**	17.8%	0.6%

Lending (Basis – non-IFRS):

Metric	KPI	LTIP	LTIP Year	Page	Definition and formula (where applicable)	Why it matters?
Target lending segment asset growth	Yes	No	N/a	45	Target lending segment asset growth over the year. Target lending is defined as Unsecured and BAU Business lending (excluding Government lending schemes noting these are closed and in run off.	It's an indicator of how well the Group is performing against its 'pioneering growth' strategic priority.
Relationship deposits growth	No	Yes	2021 2020	21	Relationship deposit growth over the year.	It's an indicator of how well the Group is performing against its 'pioneering growth' strategic priority.

Target lending segment asset growth:

	2022	2021	2020
Total lending – current year (a)	**£13,448m**	£12,573m	£13,006m
Total lending – prior year (b)	**£12,573**	£13,006m	£12,900m
Target lending growth ((a)-(b))/(b)	**7.0%**	(3.3)%	0.8%

Relationship deposits growth:

	2022	2021	2020
Total relationship deposits – current year (a)	**£34,649m**	£30,596m	£25,675m
Total relationship deposits – prior year (b)	**£30,596m**	£25,675m	£21,347m
Relationship deposit growth ((a)-(b))/(b)	**13.2%**	19.2%	20.3%

Asset quality (Basis – non-IFRS):

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters?
Impairment charge to average customer loans **(cost of risk)**	No	No	N/a	172	Impairment losses on credit exposures as a percentage of average customer loans (defined as loans and advances to customers, other financial assets at fair value and due from customers on acceptances).	It's an indicator of the asset quality of the Group's lending portfolio.

	2022	2021	2020
Impairment charge/(credit) (a)	**£52m**	£(131)m	£501m
Average customer loans (b)	**£71,989m**	£72,447m	£73,403m
Cost of risk (a)/(b)	**0.07%**	(0.18)%	0.68%

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters?
% of loans in Stage 2	No	No	N/a	172	Stage 2 loans as a percentage of gross loans and advances.	It allows period on period comparison of stage 2 loans as a percentage of overall gross loans and advances and therefore provides insight into the asset quality of the Group's lending portfolio over time.

	2022	2021	2020
Stage 2 loans (a)	**£5,736m**	£10,178m	£12,844m
Gross loans and advances (b)	**£73,146m**	£72,551m	£72,925m
% of loans in stage 2 (a)/(b)	**7.8%**	14.1%	17.7%

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters?
% of loans in Stage 3	No	No	N/a	172	Stage 3 loans as a percentage of gross loans and advances.	It allows period on period comparison of stage 3 loans as a percentage of overall gross loans and advances and therefore provides insight into the asset quality of the Group's lending portfolio over time.

	2022	2021	2020
Stage 3 loans (a)	**£1,038m**	£957m	£862m
Gross loans and advances (b)	**£73,146m**	£72,551m	£72,925m
% of loans in stage 3 (a)/(b)	**1.4%**	1.3%	1.2%

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters?
Total book coverage	No	No	N/a	172	Total impairment provisions on credit exposures as a percentage of total customer loans.	It provides a measure of the level of provision the Group holds for the total lending portfolio.

	2022	2021	2020
Impairment provisions on credit exposures (a)	**£457m**	£504m	£735m
Gross loans and advances (b)	**£73,146m**	£72,551m	£72,925m
Total book coverage (a)/(b)	**0.62%**	0.70%	1.03%

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters?
Stage 2 coverage	No	No	N/a	172	Stage 2 impairment provisions as a percentage of stage 2 gross loans and advances.	It provides a measure of the level of provision the Group holds for the lifetime of the Stage 2 lending portfolio.

	2022	2021	2020
Stage 2 impairment provisions on credit exposures (a)	**£268m**	£302m	£465m
Stage 2 gross loans and advances (b)	**£5,736m**	£10,178m	£12,844m
Total stage 2 book coverage (a)/(b)	**4.72%**	3.02%	3.66%

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters?
Stage 3 coverage	No	No	N/a	172	Stage 3 impairment provisions as a percentage of stage 3 gross loans and advances.	It provides a measure of the level of provision the Group holds for the lifetime of the Stage 3 lending portfolio.

	2022	2021	2020
Stage 3 impairment provisions on credit exposures (a)	**£104m**	£91m	£134m
Stage 3 gross loans and advances (b)	**£1,038m**	£957m	£862m
Total stage 3 book coverage (a)/(b)	**11.24%**	9.59%	15.73%

Capital (Basis – non-IFRS):

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters?
Announced shareholder distributions	Yes	No	N/a	45	Dividends announced for the year plus buybacks as a percentage of statutory profit after tax attributable to ordinary shareholders.	It shows how much of our profits after tax and distributions we are paying out to our shareholders.

	2022	2021	2020
Interim dividend (a)	**£36m**	n/a	n/a
Final dividend (b)	**£106m**	£14m	n/a
Buybacks (c)	**£125m**	n/a	n/a
Statutory profit after tax attributable to ordinary equity holders (d)	**£467m**	£395m	£(220)m
Announced shareholder distributions ((a)+(b)+(c))/(d)	**57%**	4%	n/a

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters?
Common Equity Tier 1 **(CET1)** ratio (IFRS 9 transitional)	No	No	N/a	56	CET1 capital as a percentage of RWAs, on an IFRS 9 transitional basis.	It's an indicator of bank solvency that gauges the strength of the Group's CET1 capital relative to risk weighted assets.

	2022	2021	2020
CET1 capital (IFRS 9 transitional) (a)	**£3,633m**	£3,616m	£3,271m
RWA (IFRS 9 transitional) (b)	**£24,148m**	£24,232m	£24,399m
CET1 ratio (IFRS 9 transitional) (a)/(b)	**15.0%**	14.9%	13.4%

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters?
CET1 ratio (IFRS 9 fully loaded)	No	No	N/a	56	CET1 capital as a percentage of RWAs, on an IFRS 9 fully loaded basis.	It's an indicator of bank solvency that gauges the strength of the Group's CET1 capital without adjusting for temporary IFRS 9 relief.

	2022	2021	2020
CET1 capital (IFRS 9 fully loaded) (a)	**£3,519m**	£3,482m	£2,961m
RWA (IFRS 9 fully loaded) (b)	**£24,056m**	£24,156m	£24,246m
CET1 ratio (IFRS 9 fully loaded) (a)/(b)	**14.6%**	14.4%	12.2%

Measuring the Group's performance

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters?
Tier 1 ratio	No	No	N/a	205	Tier 1 capital as a percentage of RWAs.	It's an indicator of bank solvency that gauges the strength of the Group's Tier 1 capital relative to risk weighted assets.

	2022	2021	2020
Tier 1 capital (a)	**£4,299m**	£4,313m	£4,186m
RWA (b)	**£24,148m**	£24,232m	£24,399m
Tier 1 ratio (a)/(b)	**17.8%**	17.8%	17.2%

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters?
Total capital ratio	No	No	N/a	56	Total capital resources as a percentage of RWAs.	It's an indicator of bank solvency that gauges the strength of the Group's total capital relative to risk weighted assets.

	2022	2021	2020
Total capital (a)	**£5,319m**	£5,332m	£4,935m
RWA (b)	**£24,148m**	£24,232m	£24,399m
Total capital ratio (a)/(b)	**22.0%**	22.0%	20.2%

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters?
Tangible net asset value **(TNAV)** per share	No	No	N/a	54	Tangible equity (total equity less intangible assets and AT1) divided by the number of ordinary shares in issue at the year end (which includes deferred shares and excludes own shares held).	It represents the value per share of the Group based on the Group's tangible net assets and can be used as a comparison against the current market share price.

	2022	2021	2020
Tangible equity (a)	**£5,407m**	£4,185m	£3,526m
Number of ordinary shares in issue (b)	**1,409m**	1,440m	1,439m
Deferred shares (c)	**3m**	5m	6m
Own shares held (d)	**0.3m**	0.1m	0.2m
Tangible net asset value per share (a)/((b)+(c)-(d))	**383.0p**	289.8p	244.2p

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters?
Total shareholder return **(TSR)**	No	Yes	2022	150	Share price at the end of the financial period, less the share price at the start of the financial period including dividends received over the period, divided by the share price at the start of the financial period.	The use of total shareholder return enables us to target a measure that is directly linked to an investor's total return on a share, incorporating both share price movement and dividends paid.

	2022	2021	2020
Share price at the end of the financial period (a)	**124.3p**	204.4p	73.0p
Share price at the start of the financial period (b)	**204.4p**	73.0p	114.9p
Dividends (assuming reinvestment) (c)	**3.2p**	n/a	n/a
Total shareholder return ((a)-(b)+(c))/(b)	**(37.6)%**	180.1%	(36.5)%

Non-financial performance metrics:

Metric	KPI	LTIP	LTIP Year	Page	Definition and formula (where applicable)	Why it matters?
Colleague engagement	Yes	No	N/a	45	Outcomes from the MyVoice colleague engagement survey preceding the end of the financial year.	Measures our understanding of employee sentiment noting our Purpose of Making you happier about money extends to our colleagues and ensures our customers will be supported by delighted colleagues working in a healthy, flexible, digitally-led environment.
Customer complaints per 1,000 accounts	Yes	No	N/a	45	In line with FCA regulations, number of complaints per thousand accounts calculated as $\frac{\text{Total number of complaints received in 6 month period to reporting date}}{\text{Total number of accounts as at reporting date}} \times 1{,}000$ Currently excludes complaints relating to Insurance and Pure Protection FCA reporting group given historically skewed influence of legacy PPI	Provides a measure to benchmark against peers and drives accountability within the Group to improve customer service and ensure we are making our customers happier about money
Digital primacy	Yes	No	N/a	45	It measures the proportion of active PCA and Card customers who are digital only in their engagement with Virgin Money. To qualify, each customer must: 1. be digitally adopted and active (successfully logged in to the mobile app in the past 90 days); 2. signed up to our paperless proposition; 3. not transacted in stores within the last 90 days; and 4. have not completed an authenticated call with contact centres in the past 90 days.	Measures the level of digitisation across our customer journeys whilst demonstrating the realisation of our ambition 'to be the UK's best digital bank.'
Group Smile score	Yes	No	N/a	45	% of interactions scored as a 'Smile'. A 'Smile' is determined by our customers and only counted as a 'Smile' if they score the following three aspects at the highest ranking: • Whether the customer got what they wanted on an interaction. • How easy the interaction was. • How the interaction made them feel.	It's a score that is used to supplement NPS however we use the Smile scores as our key customer experience metric given its ability to capture the role of emotion in customer advocacy.
Total active relationship customer accounts	Yes	No	N/a	45	Active PCA, BCA and Card customer accounts where active is defined as > £0 balance for Cards; transaction in the last 12 months for PCA and BCA customer accounts.	It's an indicator of how well the Group is performing against its 'pioneering growth' strategic priority.

Metric	KPI	LTIP	LTIP Year	Page	Definition and formula (where applicable)	Why it matters?
ESG scorecard	No	Yes	2022	125	Demonstrating progress against the Group's short, medium and long term targets for: 1. Senior colleague gender representation[1]; 2. Senior colleague ethnic minority representation[1]; 3. Group-wide ethnic minority representation[1]; 4. Carbon emissions, Scope 1 and 2; 5. Net zero plan delivery (financed emissions reduction); and 6. Colleague engagement. (1) As a percentage of the population declared.	Our ESG scorecard tracks our progress in creating a sustainable future and the inclusion of an ESG scorecard within our LTIP ensures that Executive Director remuneration is aligned with the Group's aspiration to drive positive social and environmental impact through everything we do.
Risk scorecard	No	Yes	2022	125	Demonstrating progress against the Group's targets for customer complaints, operational risk losses, cost of risk, Group risk profile and Group risk appetite.	Our Risk scorecard demonstrates our commitment to, and monitoring of, prudent risk management within the business, and its inclusion within our LTIP ensures Executive Director remuneration is aligned with the Group's aspirations to deliver exceptional customer experience and ensure operations and processes drive resilience and positive customer outcomes.

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 Board Audit Committee. Additional detail on these items is provided below to help understand their exclusion from underlying performance.

Item	2022 £m	2021 £m	Reason for exclusion from the Group's current underlying performance
Restructuring charges	**(82)**	(146)	The current period costs relate to the Group's Digital-First strategy. The Group expects to incur c.£275m of restructuring charges across FY22-24. FY21 costs represented the Group's three year integration plan following the acquisition of Virgin Money Holidays (UK) PLC and comprised a number of one-off expenses that were required to realise the anticipated cost synergies.
Acquisition accounting unwinds	**(35)**	(88)	This consists principally 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 treated as non-underlying adjustments over the expected three to five-year period until they have been fully reversed.
Legacy conduct	**(8)**	(76)	These costs are historical in nature and are not indicative of the Group's current practices.
Other:			
SME transformation	**–**	(1)	These costs related to the transformation of the Group's Business banking proposition and mainly comprised costs associated with the RBS incentivised switching scheme.
UTM transition costs	**(9)**	(6)	These costs relate to UTM's transformation costs principally for the build of a new platform for administration and servicing.
VISA Shares	**2**	1	A one-off gain on conversion of Visa B Preference shares to Series A preference shares.
Internally developed software adjustments	**(62)**	(68)	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.
Total other	**(69)**	(74)	
Total underlying adjustments	**(194)**	(384)	

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.
average assets	Represents the average of assets over the year adjusted for any disposed operations.
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 revisions.
basis points **(bps)**	One hundredth of a percent (0.01%); meaning that 100 basis points 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.
carbon related assets	Assets tied to the energy and utilities sectors under the Global Industry Classification Standard (mapped to internal industry classifications), excluding water utilities and independent power and renewable electricity producer industries.
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.

Term	Definition
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.
commercial paper	An unsecured promissory note issued to finance short-term credit requirements. These instruments have a specified maturity date and stipulate the face amount to be paid to the investor on that date.
Common Equity Tier 1 capital **(CET1)**	The highest quality form of regulatory capital that comprises total shareholders' equity, less goodwill and intangible assets and certain other regulatory adjustments.
Company	Virgin Money UK 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	European legislation to implement Basel III. It replaces earlier European CRDs with a revised package consisting of a new CRD and a new CRR. CRD IV sets out capital and liquidity requirements for European banks and harmonises the European framework for bank supervision. See also 'Basel III'.
credit conversion factor **(CCF)**	CCFs are used in determining the EAD in relation to a credit risk exposure. The CCF is an estimate of the proportion of undrawn and off-balance sheet commitments expected to be drawn down at the point of default.

Glossary

Term	Definition
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.
CRR II	Capital Requirements Regulation (EU) 575/2013 and Directive (EU) 2013/36, revised by Regulation (EU) 2019/876 and 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.
customer deposits	Money deposited by individuals or 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 the Company (formerly CYBG PLC) by NAB in consideration for the issue and transfer of the Company (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.

Term	Definition
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.
Gen Z	The current generation of young people born between the mid to late 1990s and the early 2010s.
Group	Virgin Money UK 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 ECL 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.

Glossary

Term	Definition
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.
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.
location-based emissions	Calculated using the average emissions intensity of the grids on which energy consumption occurs, using mostly grid-average emission factor data.
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).

Term	Definition
market-based emissions	Calculated as the electricity that companies have purposefully chosen to purchase. It derives emission factors from contractual instruments, which include any type of contract between two parties for the sale and purchase of energy bundled with attributes about the energy generation, or for unbundled attribute claims.
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.
National Databank	The National Databank provides free mobile data, texts and calls to people in need via Good Things Foundation's network of local community partners.
net interest income **(NII)**	The amount of interest received or receivable on assets, net of interest paid or payable on liabilities.
Net Promoter Score **(NPS)**	This is an externally collated customer loyalty metric that measures loyalty between a provider, who in this context is the Group, and a consumer.
Paris Climate Agreement	Legally binding international treaty to limit global warming to below 2 degrees Celsius, and preferably to 1.5 degrees Celsius above pre-industrial levels.
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).

Glossary

Term	Definition
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 asset **(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.
Science based targets	Science based targets provide a clearly defined pathway for companies and financial institutions to reduce GHG emissions, helping prevent the worst impacts of climate change and future-proof business growth. Targets are considered 'science based' if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to 1.5°C above pre-industrial levels.
Scope 1/2/3 emissions	Scope 1, 2, and 3 emissions are a way of categorising business emissions, accounting for both direct and indirect emitted GHGs. Scope 1 emissions are GHGs released directly from a business. Scope 2 emissions are indirect GHGs released from the energy purchased by an organisation. Scope 3 emissions are also indirect GHG emissions, accounting for upstream and downstream emissions of a product or service, and emissions across a business's value chain.
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.

Term	Definition
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.
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

AFD	Approaching financial difficulty
AGM	Annual General Meeting
ALCO	Asset and Liability Committee
APM	Alternative Performance Measure
ASX	Australian Securities Exchange
AT1	Additional Tier 1
ATM	Automated teller machine
BCA	Business current account
BCBS	Basel Committee on Banking Supervision
BCR	Banking Competition Remedies
BNPL	Buy now, pay later
BoE	Bank of England
bps	Basis points
BTL	Buy-to-let
CBES	Climate Biennial Exploratory Scenario
CBI	Confederation of British Industry
CCF	Credit conversion factor
CCyB	Countercyclical Capital Buffer
CDI	CHESS Depositary Interest
CDP	Carbon Disclosure Project
CER	Certified Emissions Reduction
CET1	Common Equity Tier 1 Capital
CIR	Cost to income ratio
CMA	Competition and Markets Authority
CPI	Consumer Price Index
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSRBB	Credit spread risk in the banking book
CYBI	CYB Investments Limited
DEP	Deferred Equity Plan
DPD	Days past due
DTR	Disclosure Guidance and Transparency Rules
EAD	Exposure at default
EBA	European Banking Authority
EBT	Employee benefit trust
ECL	Expected credit loss
EIR	Effective interest rate
EPC	Energy performance certificate
EPS	Earnings per share
ESG	Environmental, social and governance
FCA	Financial Conduct Authority
FIRB	Foundation internal ratings-based
FPC	Financial Policy Committee
FRC	Financial Reporting Council
FTE	Full time equivalent
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GAAP	Generally Accepted Accounting Principles
GDIA	Group Director Internal Audit
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GHG	Greenhouse Gases
G-SII	Global Systemically Important Institution
HMRC	Her Majesty's Revenue and Customs
HPI	House Price Index
HQLA	High Quality Liquid Asset
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBOR	Interbank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standard
ILAAP	Internal Liquidity Adequacy Assessment Process
IPO	Initial Public Offering
IRB	Internal ratings-based
IRRBB	Interest rate risk in the banking book
ISA	International Standards on Auditing
ISDA	International Swaps and Derivatives Association
ISSB	International Sustainability Standards Board
JV	Joint venture
KMP	Key management personnel
KPI	Key Performance Indicator
LAC	Loss-absorbing capacity
LCR	Liquidity coverage ratio
LDR	Loan to deposit ratio
LGBTQ+	Lesbian, gay, bisexual, transgender, queer (or questioning) plus
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LSE	London Stock Exchange
LTIP	Long-term incentive plan
LTV	Loan to value
MGC	Model Governance Committee
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MRT	Material Risk Takers
NAB	National Australia Bank Limited
NII	Net interest income
NIM	Net interest margin
NPS	Net promoter score
NSFR	Net stable funding ratio
NZBA	Net-Zero Banking Alliance
PBT	Profit before tax
PCA	Personal current accounts
PCAF	Partnership for Carbon Accounting Financials
PD	Probability of Default
PIE	Pension Increase Exchange
PMA	Post model adjustment
POCI	Purchased or originated credit impaired
PPI	Payment protection insurance
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

Abbreviations

RoTE	Return on Tangible Equity
RPI	Retail Price Index
RWA	Risk-weighted asset
SASB	Sustainability Accounting Standards Board
SAYE	Save As You Earn
SDG	Sustainable Development Goal
SICR	Significant increase in credit risk
SIP	Share Incentive Plan
SME	Small or medium-sized enterprise
SMF	Sterling Monetary Framework
SONIA	Sterling Overnight Index Average
SST	Solvency Stress Test
STEM	Science, Technology, Engineering and Maths
STIP	Short-term Incentive Plan
TCFD	Task Force on Climate-related Financial Disclosures
TFS	Term Funding Scheme
TFSME	Term Funding Scheme with additional incentives for SMEs
TNAV	Tangible net asset value
TNFD	Taskforce on Nature-related Financial Disclosures
UN PRB	United Nations' Principles for Responsible Banking
UNEPFI	United Nations Environment Programme Finance Initiative
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
YoY	Year-on-year

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.

	2022 UK
Average FTE employees (number)	**6,866**
Total operating income (£m)	**1,716**
Profit before tax (£m)	**595**
Corporation tax paid (£m)	**59**
Public subsidies received (£m)	**–**

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.

Shareholder information

Annual general meeting (AGM)

The Company's 2023 AGM will be held on 21 February 2023. Full details for the arrangements for the AGM and details of the resolutions to be proposed, together with explanatory notes, will be set out in the Notice of AGM to be published on the Company's website (www.virginmoneyukplc.com).

The AGM provides shareholders the opportunity to vote on each individual resolution either online or by post. Shareholders typically vote on the re-appointment of each individual Director on an annual basis and various share capital and remuneration matters.

Shareholder enquiries

The Company's share register is maintained by the Company's Registrar, Computershare. Shareholders with queries relating to their shareholding should contact Computershare directly using one of the methods below (shareholders can visit the Investor Centre online by scanning the QR code below with a compatible mobile device):

Registrar

Computershare UK
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
United Kingdom BS99 6ZZ

Tel within UK – 0370 707 1172
Tel outside UK – +44 370 707 1172
Email: www.investorcentre.co.uk/contactus
Web: www.investorcentre.co.uk

Computershare Australia
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Australia

Tel within Australia – 1800764308
Tel outside Australia – 03 9415 4142
Email: www.investorcentre.com/contact
Web: www.investorcentre.com/au

Duplicate shareholder accounts

If you receive more than one copy of Company mailings this may indicate that more than one account is held in your name on the register. This happens when the registration details of separate transactions differ slightly. If you believe more than one account exists in your name you may contact Computershare, to request that the accounts are combined. There is no charge for this service.

Electronic communications

The Company uses its website (www.virginmoneyukplc.com) as its primary means of communication with its shareholders provided that the shareholder has agreed or is deemed to have agreed that communications may be sent or supplied in that manner. As a purpose-led business we focus on where we can make the biggest difference to the environment and society. Electronic communications allow shareholders to access information instantly as well as helping the Company reduce its costs and its impact on the planet. Shareholders who have consented or are deemed to have consented to electronic communications can revoke their consent at any time by contacting the Company's Registrar, Computershare.

Shareholders can sign up for electronic communications online via the following links:

Holders of shares on the LSE: www.investorcentre.co.uk/ecomms

Holders of CDIs on the ASX: www.investorcentre.com/au

Dividend payments

Where possible, shareholders are encouraged to have their dividend payments paid directly into their bank accounts.

Holders of ordinary shares listed on the LSE are encouraged to elect to receive dividend payments direct to UK (GBP) accounts.

Holders of CDIs quoted on the ASX are encouraged to elect to receive dividend payments direct to UK (GBP) accounts, Australian (AUD) accounts and New Zealand (NZD) accounts. Holders who have not provided direct payment instruction will receive (by post) an Australian (AUD) cheque.

You can sign up to receive your dividends directly into your bank account through the Investor Centre Portal provided by Computershare at www.investorcentre.co.uk, if you are in the UK or, at www.investorcentre.com if you are in Australia.

Sharegift
Do you have a small holding of Virgin Money or other shares? Did you know that you can transfer shares to charity, free of charge?

ShareGift is the share donation charity that uses small or unwanted shareholdings to generate funds for good causes. The charity aggregates and sells donated shares, then uses the proceeds to make donations to other registered charities.

Since it was set up, ShareGift has donated over £43m to more than 3,300 charities. Your small or unwanted shares could make a real difference too.

Ordinary Shareholders – ShareGift
Sharegift (https://www.sharegift.org)
or call +44 (0)20 7930 3737.

CDI Holders – ShareGift Australia
Sharegift (https://sharegiftaustralia.org.au)
or call 02 8328 9444.

Corporate website
Information on the Company is available on its website (www.virginmoneyukplc.com) including:

- financial information – annual and half-yearly reports as well as trading updates;
- share price information – current trading details;
- shareholder information – investor presentations and share register profile; and
- news releases – current and historical.

Unsolicited telephone calls and communication
Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. These are typically from overseas based 'brokers' who target shareholders, offering to sell them what often turns out to be worthless or high risk shares. These operations are commonly known as 'boiler rooms' and the 'brokers' can be very persistent and extremely persuasive.

Shareholders are advised to deal with only financial services firms that are authorised by the FCA. You can check a firm is properly authorised by the FCA before getting involved by visiting www.fca.org.uk/register. If you do deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme if anything goes wrong. For more detailed information on how you can protect yourself from an investment scam, or to report a scam, go to www.fca.org.uk/scamsmart.

Shareholder interests as at 30 September 2022
By size of holding:

Range	No of shareholders	%	No of shares	%
1–1,000	110,243	79.64	35,955,500	2.56
1,001–5,000	21,266	15.37	45,274,732	3.21
5,001–10,000	3,614	2.61	25,694,066	1.82
10,001–100,000	2,963	2.14	70,481,486	5.00
100,001–999,999,999	336	0.24	1,231,125,204	87.41

Financial calendar for FY23
2023 key financial reporting dates will be published on our website – www.virginmoneyukplc.com

Basis of presentation

Virgin Money UK PLC ('Virgin Money', 'VMUK' or 'the Company'), together with its subsidiary undertakings (which together comprise 'the Group'), operate under the Clydesdale Bank, Yorkshire Bank and Virgin Money brands. This Annual Report and Accounts covers the results of the Group for the year ended 30 September 2022.

Statutory basis

Statutory information is set out on page 58 and within the financial statements.

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 58 and rationale for the adjustments is shown on page 353.

Alternative performance measures (APMs)

The KPIs and performance metrics used in monitoring the Group's performance and reflected throughout this report are determined on a combination of bases (including statutory, regulatory and alternative performance measures), as detailed at 'Measuring the Group's performance' on pages 344 to 352. APMs are closely scrutinised to ensure that they provide genuine insights into the Group's progress; however statutory measures are the key determinant of dividend paying capability.

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.

Forward-looking statements

The information in this document may include forward-looking statements, which are based on assumptions, expectations, valuations, targets, estimates, forecasts and projections about future events. These can be identified by the use of words such as 'expects', 'aims', 'targets', 'seeks', 'anticipates', 'plans', 'intends', 'prospects', 'outlooks', 'projects', 'forecasts', 'believes', 'estimates', 'potential', 'possible', and similar words or phrases. These forward-looking statements, as well as those included in any other material discussed at any presentation, are subject to risks, uncertainties and assumptions about the Group and its securities, investments and the environment in which it operates, including, among other things, the development of its business and strategy, any acquisitions, combinations, disposals or other corporate activity undertaken by the Group, trends in its operating industry, changes to customer behaviours and covenant, macroeconomic and/or geo-political factors, the repercussions of the outbreak of coronaviruses (including but not limited to the COVID-19 outbreak), changes to its Board and/or employee composition, exposures to terrorist activity, IT system failures, cybercrime, fraud and pension scheme liabilities, changes to law and/or the policies and practices of the Bank of England (BoE), the Financial Conduct Authority (FCA) and/or other regulatory and governmental bodies, inflation, deflation, interest rates, exchange rates, tax and national insurance rates, changes in the liquidity, capital, funding and/or asset position and/or credit ratings of the Group, future capital expenditures and acquisitions, the repercussions of the UK's exit from the European Union (EU) (including any change to the UK's currency and the terms of any trade agreements (or lack thereof) between the UK and the EU), Eurozone instability, Russia's invasion of Ukraine, any referendum on Scottish independence, and any UK or global cost of living crisis or recession.

In light of these risks, uncertainties and assumptions, the events in the forward-looking statements may not occur. Forward-looking statements involve inherent risks and uncertainties. Other events not taken into account may occur and may significantly affect the analysis of the forward-looking statements. No member of the Group or their respective directors, officers, employees, agents, advisers or affiliates gives any assurance that any such projections or estimates will be realised or that actual returns or other results will not be materially lower than those set out in this document and/or discussed at any presentation. All forward-looking statements should be viewed as hypothetical. No representation or warranty is made that any forward-looking statement will come to pass. While every effort has been made to ensure the accuracy of the information in this document, the Group and its directors, officers, employees, agents, advisers and affiliates do not take any responsibility for the information in this document or to update or revise it. They will not be liable for any loss or damages incurred through the reliance on or use of it. No representation or warranty, express or implied, as to the truth, fullness, fairness, merchantability, accuracy, sufficiency or completeness of the information in this document or the materials used in and/or discussed at, any presentation is given.

Certain industry, market and competitive position data contained in this document and the materials used in and/or discussed at, any presentation, comes from official or third-party sources. There is no guarantee of the accuracy or completeness of such data. While the Group reasonably believes that each of these publications, studies and surveys has been prepared by a reputable source, no member of the Group or their respective directors, officers, employees, agents, advisers or affiliates have independently verified the data.

In addition, certain industry, market and competitive position data contained in this document and the materials used in and/or discussed at, any presentation, comes from the Group's own internal research and estimates based on the knowledge and experience of the Group's management in the markets in which the Group operates. While the Group reasonably believes that such research and estimates are reasonable and reliable, they, and their underlying methodology and assumptions, have not been verified by any independent source for accuracy or completeness, and are subject to change. Accordingly, undue reliance should not be placed on any of the industry, market or competitive position data contained in this document and the materials used in and/or discussed at, any presentation.

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Virgin Money UK PLC

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