Annual Report & Accounts 2023

VIRGIN MONEY UK

2023

Our Purpose

Making you happier about money

Our Purpose guides the way we do business every day, from our Strategy, Values and Behaviours, 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

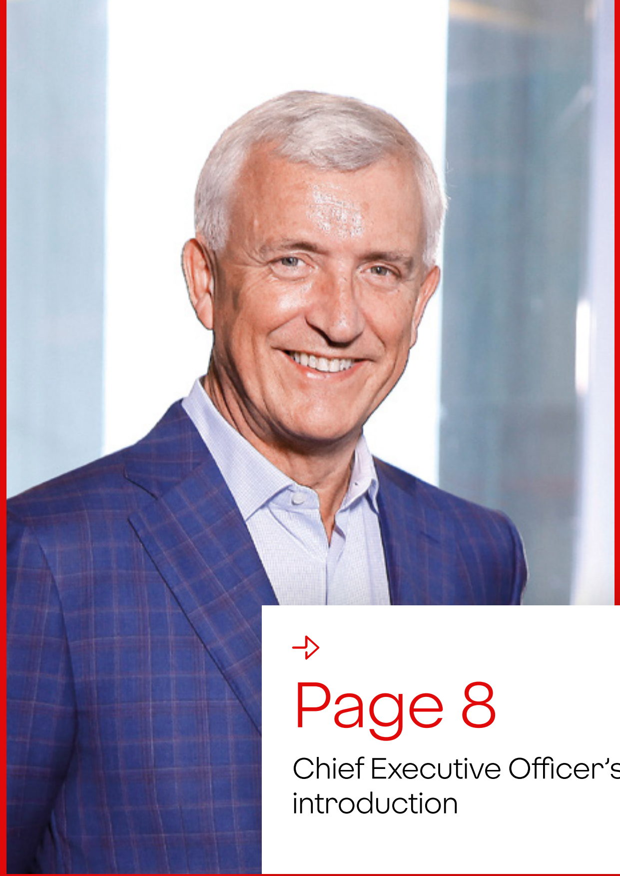
Insatiable curiosity
We search for the best ideas, approaches and solutions

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



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Chief Executive Officer's introduction

Contents

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

Strategic report

Who we are

We are Virgin Money

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

We are led by our Purpose ...

Making you happier about money

See pages 3-4 for more on our Purpose

... which informs our strategic ambition ...

To be the UK's best digital bank

See pages 18-30 for more on our strategy

... 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 pages 31-67 for more on our performance

Scale positions in key UK retail banking markets:

Personal
Helping our customers live and bank in a more rewarding way

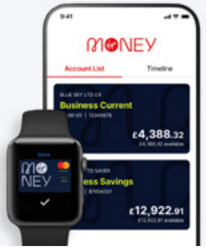
£6.5bn of lending

£49.9bn of deposits

Business
Supporting business owners in realising their potential and achieving their dreams

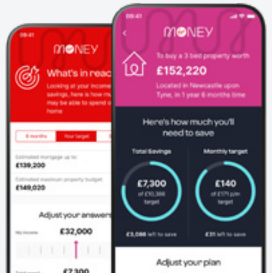
£8.7bn of lending

£16.7bn of deposits



Mortgages
Simplifying mortgages to make homeowners' lives better

£57.5bn of lending



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 pages 20-24 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 pages 25-26 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 pages 27-28 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 pages 29-30 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 and 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 (ALMV) approach'.

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

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

Our Purpose supports us in focusing on creating value for society and helping our customers, especially in challenging times.

Helping our customers in a difficult environment

> Supported customers with the cost of living
See page 20 and our hub here

> Implemented Consumer Duty
See page 21

> Adopted the government's Mortgage Charter
See page 54

Developing our operations for the digital age

> Improving customer service and experience
See pages 20 and 21

> Driving digital engagement with customers
See pages 20, 21 and 28

> Building our digital resilience against financial crime
See pages 10, 15 and 30

With
c.6.6m
customers

and
c.3.8m
active relationship customer accounts
(5% yoy growth)

Developing propositions that meet customer needs

> Leading, award-winning digital PCA and BCA propositions
See page 25 and 26

> Refreshed VM Investments and Pensions proposition
See page 26

> Sustainable Business Coach helping businesses with net zero
See pages 39 and 40

Supporting society and those in need of help

> Partnering with Macmillan to support people with cancer
See page 7

> Helping people calculate their benefits entitlements
See page 43

> Helping address data poverty with Databank
See page 45

Board Chair's introduction

Delivering for our stakeholders, led by our Purpose

David Bennett
Board Chair

Our Purpose sits at the heart of Virgin Money's strategy, ensuring we remain focused on delivering for all of our stakeholders.

In 2023, Virgin Money made further progress, and is increasingly well placed to adapt to an ever-changing environment.

Dear stakeholder
Virgin Money has continued to make good progress in 2023 against the digital strategy set out in 2021, with growth in active relationship customer account numbers and our target lending and savings segments, and further progress on our efforts to digitise the Bank.

This has been achieved despite an operating environment that has proved increasingly challenging for the customers we serve. Over the course of the year, UK GDP growth has been low but resilient, while the economy has been impacted by persistently higher inflation, resulting in multiple interest rate rises, to levels not seen for nearly 15 years. The Group has adapted the pace of execution accordingly as it focused on improving service levels and supporting customers.

Despite a turbulent backdrop for financial services earlier in the year, the Group has maintained a robust balance sheet across all key metrics, with funding, liquidity and capital all remaining strong.

Continued good levels of capital generation, combined with a robust performance in our second stress test participation, demonstrate our capital strength and has allowed the Group to return more capital to shareholders. The Board is recommending a final dividend of 2.0p (5.3p in total in respect of FY23) supplemented by a further £150m share buyback to take the total buybacks announced to £200m for FY23. This represents total distributions of £272m to shareholders in respect of FY23, a similar level to FY22 (£267m).

Looking ahead to 2024, the Board remains very focused on ensuring the Group remains resilient and adapts to new emerging threats and technologies. As a result, we have taken the decision to increase our digital investment in countering financial and cybercrime and improving data management. This increased investment will help safeguard the Bank and our customers and was made with careful consideration of the short-term financial implications.

As we enter the new financial year, we have much to do to deliver our strategy, but these investments, and the good underlying momentum in the business will leave Virgin Money increasingly well placed to deliver sustainable returns to investors over time, alongside ongoing value for all stakeholders.

Delivering for all stakeholders in 2023

As the sixth largest bank in the UK with c.6.6m customers, Virgin Money has an important role to play in supporting our customers, colleagues and society more broadly through the cost-of-living challenges presented by the environment. The Board and I, along with David Duffy and the management team, have been focused on ensuring we support our customers as needed.

Throughout 2023, we have offered customers valuable, digital-led propositions and provided assistance to those dealing with the impacts of higher living costs as well as proactively supporting vulnerable customers. The Group was a signatory to the Mortgage Charter but thankfully instances of customers needing additional support have so far remained low.

Another significant focus has been the adoption of the new Consumer Duty regulations which seek to ensure that banks offer good outcomes for customers. We have also provided a range of initiatives to drive good customer outcomes and were proactive in offering customers higher rates earlier in the year.

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 98-106.

Our colleagues play a pivotal role in the execution of our strategy. Our successful delivery of these various requirements was testament to the hard work of colleagues across the business, for which I extend my sincerest thanks.

We continue to see strong levels of engagement across the Group, and benefits from our 'A Life More Virgin' approach which offers colleagues a significant range of flexible working opportunities.

The Bank has also made progress in its efforts to drive diversity and inclusion. We launched our allyship framework, BRAVER, over the Summer, which brings to life the behaviours and practices that promote equity and inclusion, providing guidance on how to better support colleagues from under-represented groups and foster a genuinely inclusive culture in the Bank. This has been well received by colleagues and role modelled by many of our senior leaders (see page 24 for more).

As part of our wider commitment to society and the communities in which we operate, the Board is heavily focused on the progress of the Group's sustainability journey and actively engages in a detailed, quarterly sustainability update. The Directors also reviewed and approved the expanded net-zero strategy, which takes a significant step forward with the adoption of refreshed, science-based targets that now cover all our priority portfolios alongside our own operations. We detail these and more in our Climate-related disclosures on pages 240-272.

I am particularly proud of the successful relationship Virgin Money has had with our corporate charity partner Macmillan over the last three years, working in close partnership to provide support to our customers living with cancer and raising significant sums of money; more on this can be seen on the following page. We now look forward to working with our new charity partners Mind, in partnership with the Scottish Association for Mental Health, over the coming years.

From a regulatory perspective, we continue to maintain a strong working relationship with our regulators as we adopt and adapt to the requirements of tier 1 bank and O-SII status. This status rightly comes with greater scrutiny, and demands a matched response in performance and focus from us. Our enhanced reputation as a tier 1 bank is helpful assurance for all our stakeholders and provides confidence at times of market instability, as we have seen during the past year.

Our investors also continue to benefit from the Group's strong capital position, and the Board's commitment to returning excess capital to shareholders in line with our capital framework. We will continue to return capital to shareholders in a balanced way, reflecting our strategy to seek profitable growth, and to build a sustainable, resilient digital bank that is fit for the future.

In summary then, while circumstances may change and economic conditions will vary, 2023 has demonstrated that if you place Purpose at the core of what you do, while ensuring all stakeholders are considered, good outcomes will follow.

Governance

The operating backdrop across 2023 has led to a changing environment, both from a regulatory and customer appetite point of view. This provided an opportunity to ensure the governance practices underpinning our operations remain of the highest standard.

Furthermore, we have ensured the skill set of the Board is ever evolving, and improving, particularly against the demands of a digital future. The Board remains focused on ensuring that the significant stakeholder engagement carried out throughout the year is reflected in its decision-making process, with further details available within the s.172 compliance section, on pages 98 to 106.

During the year, we welcomed Sara Weller as the new Representative Director of Virgin Enterprises Limited, replacing Amy Stirling who left the Board during 2022. Sara has extensive experience, including nine years as a non-executive director of Lloyds Banking Group, and she currently also serves on the Board of BT Group. Female representation on the Board is now 38%, above our 33% target.

Outlook

In conclusion, there remains more to do to deliver on the three-year strategy set out in 2021, but we are making solid progress on its implementation against a less than certain operating environment. The Board and I remain comfortable that our digital strategy is the right one, and the Group is well positioned as it enters 2024, to deliver good returns, improved cost efficiency and profitable growth.

With a robust strategy to digitise the Bank, a focus on resilience, and opportunities for growth, Virgin Money and its stakeholders have much to look forward to in the years ahead.

David Bennett
Board Chair
22 November 2023

Purpose in action

Macmillan partnership

The three-year relationship we've had with Macmillan Cancer Support has been brilliantly impactful. Thanks to the 12 Macmillan moments, we've had record colleague engagement and fundraising. We closed out our partnership with a bespoke hike up Ben Nevis with just short of 150 colleagues raising over £67k, our stores hosting Coffee Mornings and a presence at the Mela festival in Newcastle.

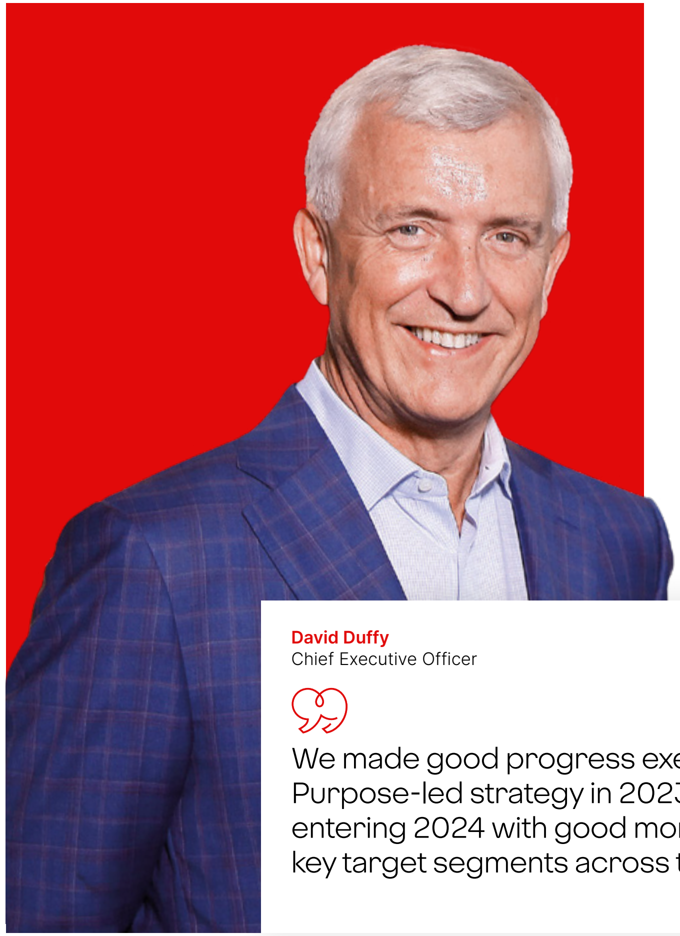
In total, our fundraising and additional company donations have brought us to a sum of over £1.5m raised for Macmillan, far beyond our anticipated initial targets.

Beyond fundraising, the Virgin Money Macmillan Guides made us the first UK bank to offer a bespoke service for people living with or affected by cancer, which is something we're incredibly proud to have achieved. We've also put support in place for our colleagues to help them if they're impacted by cancer, with colleagues trained to offer peer-to-peer support and a cancer toolkit for leaders.

For more information see pages 45 and 46.

Chief Executive Officer's introduction

Delivering against our strategy



David Duffy
Chief Executive Officer

We made good progress executing our Purpose-led strategy in 2023 and are entering 2024 with good momentum in our key target segments across the business.

We are delivering positive financial performance and strong capital distributions despite a challenging backdrop

Dear stakeholder
During the second year of our current strategic cycle, the Group has continued to execute well against our Purpose-led ambition to become the UK's best digital bank.

2023 has been another year of significant change in the operating environment and I am pleased that we have continued to deliver against this backdrop. The combination of the higher rate environment and our strategy is increasingly translating into growth in relationship customer accounts and income. We've made good progress on our journey to digitise the Bank, and I would like to thank our colleagues for a significant year of execution.

There remains more to do as we enter the final year of our current 3-year plan, but we have good momentum across key areas of the business, a robust balance sheet, and a continued focus on ensuring we support and reward our customers' ongoing loyalty. We will remain vigilant in safeguarding against new and emerging threats, and adapting accordingly, we are increasingly well placed to generate strong, sustainable returns. These will support shareholder distributions, investment in the business and our long-term growth ambitions.

Strategic delivery in 2023
Throughout the year, I have been pleased with our commercial momentum across the business. Our balance sheet strength helped us withstand the broader turbulence in the sector earlier in the year as we retained resilient liquidity, funding and capital positions.

Our refreshed digital products are delivering growth in balances across our target segments of Business, Unsecured and relationship deposits. Business, in particular, demonstrated good momentum across both sides of the balance sheet, with a second year of robust current account sales, and lending growth despite a weaker market backdrop. Within Unsecured, our cards business continued to drive good growth, increasing our market share steadily, while also focusing on long-term profitability against the higher rate backdrop. Relationship deposits grew in line with the overall deposit base at a time when many banks have seen significant deposit migration and attrition. Our early management of the trend for customers to seek higher yields, offering attractive products such as our linked savers, demonstrated how we can offer good value to customers while also delivering a more resilient margin outlook.

Earlier in the year the Group took action to invest in improving our service position, and we are seeing an improvement in the key customer satisfaction metrics, albeit we have more to do. As we reaccelerated our digitisation work in the second half of the year, we continued to deliver the gross savings outlined at FY21, mitigating the backdrop of inflationary pressure.

Continuing to build an efficient and sustainable platform to support long-term returns remains a key ambition. However, we must recognise the need to adapt to changes in the environment, including emerging threats and new technology. We have therefore decided to invest c.£130m over 3 years, as we deliver our response to the emerging risks and technologies, including AI, in the evolving financial and cybercrime space. Additional savings have been identified to offset this however, taking the original c.£175m target for cost savings to c.£200m, with no additional cost to achieve.

Investment case

Virgin Money is well placed to deliver growth and shareholder distributions

	Objectives set at FY21	Progress at FY23	FY24 targets
1. Driving efficiency	> Invest £275m to accelerate digital transformation > Create a modern tech platform and end-to-end digital customer journeys	> Invested £213m for £130m savings > Digitisation of key journeys at 50% (FY22: 43%)	> Further gross savings towards c.£200m target > Increase in key journeys digitised > c.£40m of c.£130m 3 year investment in financial crime prevention programme
2. Earnings momentum	> Deliver net interest margin (NIM) accretion > Control costs > Deliver improving returns profile	> NIM expanded 6bps to 1.91% in FY23 > Stable underlying C:I on FY22, of 52%; statutory C:I of 64% (FY22: 62%) > Statutory RoTE of 3.9% in FY23	> NIM of 190-195bps > Broadly stable underlying C:I, excluding financial crime prevention programme > Statutory RoTE c.8%
3. Strong asset quality	> Maintain a prudent risk appetite > Maintain low impairments within through the cycle range (30-35bps) > Remain well-provisioned against a downturn	> Loan book skewed to low-risk mortgages > Built up coverage to 84bps (FY22: 62bps); well above the pre-pandemic level > FY23 42bps cost of risk above target range given provision build	> Prudent risk appetite maintained > Gradual balance sheet evolution > Cost of risk between c.30-35bps
4. Profitable growth	> Develop and deliver exciting new digital propositions > Grow across target areas: current accounts and linked savings, business and unsecured lending > Grow relationship customers	> Virgin Money Investments launched > 9% growth in target lending segments > 5% growth in active relationship customer accounts > Relationship deposits maintained at 53% share of deposits	> Maintain mortgage market share > 5-10% growth across unsecured and business > Further relationship deposit growth, optimising cost of funding
5. Capital returns	> Maintain capital framework; 30% dividend payout supplemented by buybacks > Continue with strong organic capital generation to support sustainable returns	> Further dividend payouts > £200m buybacks announced for FY23; £325m in total to date > Total capital returns yielding 142% in FY23 > Strong CET1 ratio of 14.7%; >13-13.5% target	> Further distributions to drive CET1 to target 13-13.5% ratio > Nominal distributions in line with FY23, subject to Board and regulatory approval > Ongoing capital generation supporting growth, returns and targeted investment

Chief Executive Officer's introduction

The improving rate environment, combined with our commercial momentum, saw continued strong underlying capital generation to support the Group's ambitions. Our CET1 ratio remained robust throughout the period and we saw another strong set of results through our second BoE stress testing process.

The Board and I remain committed to continuing to deliver capital distributions for shareholders. We are recommending a 5.3p ordinary dividend for 2023, supplemented by our announcement today of a higher than guided £150m share buyback in respect of FY23, to be executed during H1 2024. This takes total shareholder returns announced for the year to £272m, in line with 2022 (£267m).

Robust financial performance in 2023

The significantly higher rate environment, combined with our strategic execution in the year, resulted in underlying operating profit before impairment charges 9% higher than a year ago. However, statutory profit before tax of £345m was lower than 2022 (£595m), firstly given higher impairments relative to last year's low charge, which primarily reflected higher modelled provisions, and secondly, higher adjusting items due to ongoing restructuring activity and intangible asset writedowns (see CFO review, pages 59 to 67 for full details). Altogether, this resulted in a lower Statutory RoTE of 3.9% (2022: 10.3%), with a Statutory cost:income ratio of 64% (2022: 62%).

Underlying income increased 8% in the year, primarily driven by stronger net interest income (NII). NIM expanded again to 1.91% (2022: 1.85%), supported by a higher yield on our structural hedge, early management of deposit migration trends and growth in higher yielding lending. These developments have helped offset a continued competitive market for mortgages and an increasingly competitive market for deposits.

Underlying operating costs of £971m increased 6% on the prior year. We have continued to deliver against our cost reduction programme, with gross savings broadly offsetting additional costs from inflation and balance sheet growth. However, the additional costs to resolve service challenges and higher levels of investment drove the increase in total costs.

While our overall credit quality remains resilient, we saw a higher credit impairment charge this year, equivalent to a cost of risk of 42bps (2022: 7bps), as we incorporated a more conservative economic outlook and updated credit bureau data. This is reflected in our increased expected credit loss (ECL) provision, and coverage of 84bps, which is significantly higher compared to 62bps at FY22. The key driver of the increased credit provision is credit cards, reflecting a higher modelled view of future losses, given updated assumptions. This leaves the Bank well placed against any future credit deterioration.

Overall lending balances were stable at £72.8bn, despite a muted market backdrop. We achieved 9% growth across our target segments of Unsecured and business-as-usual (BAU) Business lending, while the mortgage book reduced 1%, as market demand slowed against the higher rate backdrop. Pleasingly given the competitive backdrop, deposit balances grew 2% to £66.6bn, with relationship deposits also 2% higher.

Our ongoing profitability supports a robust capital position, reflected in a CET1 ratio of 14.7% (2022: 15.0%) supporting further capital distributions. The liquidity coverage ratio (LCR) of 146% and loan to deposit ratio (LDR) of 109% also highlight the strength of our funding position and the robustness of our balance sheet.

Responding to evolving technology

As the backdrop continues to evolve and new technologies emerge, the Group remains focused on safeguarding the Bank and our customers. We remain vigilant to the emerging expectations, threats and challenges we face, as well as rising stakeholder expectations.

The rapidly increasing prevalence of online channels and social media are driving higher instances of fraud and financial crime in the UK. Increasingly, this will become an area where banks bear the full extent of fraud losses and associated penalties. Cybercrime represents another area of significant development, with new technologies including AI increasing the sophistication and risk of attacks. Underpinning the defence against such attacks and broader reporting is strong data management, including adoption of the Basel Committee on Banking Supervision (BCBS) 239 data standard, and this will be an area of increased focus for us in the years ahead.

To maintain our vigilance against all forms of fraud and financial crime, we have decided to increase our digital investment in this area from FY24. We will implement new and improved technology and increase the sophistication of our processes, with the goal of providing our customers with upgraded protection against criminal actors.

As a result, we are announcing a c.£130m investment programme over the next three years, of which c.£40m will be spent in FY24. This investment will significantly upgrade our financial crime prevention and cyber defence capabilities, while also delivering increasingly rich data and analytical capabilities, including AI models, to underpin our risk data aggregation and internal risk reporting practices, in line with regulatory requirements.

This is the right thing to do for customers and the Bank in the long term, safeguarding and protecting both as the environment evolves, and will support sustainable shareholder returns over time. While the investment will impact on returns in the short term, we believe it mitigates against the risk of greater impact on the Bank and our customers in the future.

We will also seek to offset the higher costs incurred through additional cost saving initiatives. We are increasing the scope of our existing cost savings programme and are now targeting c.£200m of gross cost savings, up from c.£175m previously. These will be delivered primarily by further strategic rationalisation of our real estate portfolio, outsourcing and systems simplification. This will be delivered within the existing c.£275m restructuring budget set at FY21.

Delivering against our strategic priorities

We continue to progress our strategic shift towards digital banking, as set out at FY21. This outlined a three-year programme of change and investment towards achieving our strategic ambition of becoming the UK's best digital bank. A summary of our progress against our four key strategic priorities during 2023 is below.

Delighted Customers and Colleagues

We have made significant improvements in addressing the challenges faced earlier in the year around service. Call waiting times are on average 65% lower compared to their October 2022 peak, and after investing more in the first half, we have been able to reduce the numbers of third-party resources and additional colleagues employed to address the backlog of complaints. Having addressed these issues, over the second half of the year we have re-accelerated efforts to digitise and automate the business as planned.

Chief Executive Officer's introduction

KPIs

Measuring strategic delivery

Our strategic priorities

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

KPIs

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

Total active relationship customer accounts

2023	3.8m
2022	3.6m
2021[1]	3.3m

Digital primacy

2023	61%
2022	56%
H122[2]	51%

Target lending segment asset growth

2023	9%
2022	7%
2021	(3)%

Gross annualised cost savings (cumulative)

2023	£130m
2022	£69m
Target	£200m

Customer complaints per 1k accounts

2023	4.0
2022	4.2
2021	3.7

Colleague engagement

2023	80%
2022	79%
2021	68%

Group Smile score

2023	49%
2022	46%
2021	51%

Group diversity indicators

	Senior Gender[3]	Senior Ethnicity[3]	Group Ethnicity
2022	55%	4%	6%
2023	52%	8%	7%
2025 Target	45-55%	10%	10%

Financial highlights

Statutory profit before tax

2023	£345m
2022	£595m
2021	£417m

Net interest margin

2023	1.91%
2022	1.85%
2021	1.62%

Cost of risk

2023	42bps
2022	7bps
2021	(18)bps

CET1 ratio

2023	14.7%
2022	15.0%
2021	14.9%

Key financial targets

Statutory RoTE

c.8% in FY24

2023	3.9%
2022	10.3%
2021	10.2%

Underlying cost:income ratio[4]

c.52% in FY24[5]

2023	52%
2022	52%
2021	58%

Statutory cost:income ratio of 64% in 2023 (2022: 62%, 2021: 81%)

Announced shareholder distributions

30% dividend payout ratio

Supplemented by buybacks, subject to Board and regulatory approval

Total payout level, including announced buybacks

2023	142%
2022	57%
2021	4%

(1) As at October 2021 due to availability of source data
(2) As at March 2022 due to availability of source data
(3) Senior defined as top three levels
(4) Hedge ineffectiveness is now presented as an adjustment to underlying as detailed on page 381. The comparative periods have been adjusted accordingly.
(5) Excluding financial crime prevention programme

See our ESG and sustainability metrics in the ESG report, pages 31 to 50.

For full definitions of KPIs shown on this page, please see pages 372-380.

As a result of these actions, the Group's Smile scores improved for the first time in three years, increasing to 49%. Complaints per 1,000 have reduced to 4.0, as we addressed complaint backlogs and improved processes.

While this investment drove a higher cost out-turn for 2023 than was initially expected, it was right we invested for both our customers and the long-term health of the business. However, we want to do more and remain focused on continuing to improve service levels.

Over the course of the year, we have fully implemented new regulatory requirements including Consumer Duty and the Mortgage Charter as well as supporting additional regulatory focus on the savings market. These new requirements are well aligned to our Purpose and how we conduct our business, meaning we were well placed to deliver them.

Given the current environment, we are also fully committed to supporting customers as they deal with higher living costs, including via our online cost of living hub.

We have made good progress in the development of our digital wallet and this has now been launched to our closed user group made up of Virgin Atlantic credit card users. This work will form the foundation of our all-encompassing integrated app for Virgin Money in 2024 and we are well placed to launch the first iteration of this through the next year.

For colleagues, our A Life More Virgin flexible working proposition continues to garner strong support, with colleague engagement scores rising to 80% (2022: 79%), validating our differentiated strategy. We are also advancing our Diversity, Equity and Inclusion work, seeing some improvement in our key metrics and launching our BRAVER initiative (see page 24). See pages 20 to 24 for more on how we delight our customers and colleagues.

Pioneering Growth

We have made good progress in 2023 in our target segments, with total active relationship customer accounts increasing by 5% to 3.8m, driven mainly by credit card sales and new Business Current Account (BCA) customers.

I was particularly pleased with our 6% growth in business lending, despite the ongoing reduction in government lending scheme balances. Our Business bank has benefited from our sector specialisms at a time when the market has been muted and we remain well placed to continue to grow profitably.

We delivered 6% growth in unsecured lending, primarily driven by growth in credit cards including a strong performance in our VAA co-branded card. Taken together, we saw 9% growth across our target lending segments of BAU business and unsecured (2022: 7%).

In mortgages, our aim is to maintain our market share over time at around 3.5%. During the year, we traded well against lower market activity levels and strong competition. Given the tougher backdrop, we traded tactically and focused on maintaining margins, as balances reduced by 1%.

Our deposit performance throughout the year has been robust. Maintaining our relationship deposits as a share of deposit mix at 53% (2022: 53%) remains an important strategic focus. We attracted c.110k new Personal Current Account (PCA) sales in 2023 (2022: 131k) by leveraging our attractive linked savings propositions and reward offerings, rather than competing on up-front cash incentives. Our cashback offering also continues to see good utilisation with over 860k customers now enrolled (2022: c.650k).

In the Business bank, our award-winning BCA proposition and improved digital journeys have now driven 22 months of consecutive net customer account growth, via c.39k new BCA sales in 2023 (2022: c.33k).

During 2023, we also completed the build-out of our full product proposition with the launch of Virgin Money Investments (see page 26). Since launch this has attracted new customers as we offer a Purpose-led, simple approach to investing. See pages 25 and 26 for more on Pioneering Growth.

Super Straightforward Efficiency

Since we announced our strategy at FY21, inflation has been higher and more enduring than expected, resulting in key costs across salaries, suppliers and change delivery moving significantly higher and providing a major cost headwind. In addition, the technological environment continues to evolve at pace, with new opportunities, threats and regulatory requirements, which we have needed to consider in our investment portfolio.

Digital primacy, which measures the proportion of active PCA and Card customers who are digital only in their engagement with the Bank, improved to 61% (2022: 56%). From a property perspective, the Group announced in H2 that it will be closing an additional 39 stores, as it adapts to changing customer demand, reducing our store network by 30% to 91 stores. The Group's property footprint is now at c.440k sq ft, against a target of c.300k sq ft by FY24, from our c.900k sq ft start point; a 51% reduction.

Having paused some restructuring activity to focus on supporting customer service during the first half of the year, we picked up the pace in the second half, and have now incurred £213m of the anticipated total c.£275m investment programme. We have made good progress, delivering £130m of annualised run rate savings and helping to offset cost pressures from inflation, growth and investment.

These savings have been driven by ongoing digitisation, property and organisational changes, and sourcing benefits. Our work in H2 included digitising key customer journeys, which remains central to our strategy, and we have now fully automated 50% of key journeys (2022: 43%).

During the year, we also deployed our latest chatbot Redi (see page 28) across credit cards. This has been well received by customers, attracting favourable Smile scores and supporting a reduction in call volumes.

Following an assessment of the progress of the project to upgrade the mortgage platform and challenges identified during testing, we now anticipate a significant deferral and redesign as we implement the upgraded capability. We remain committed to launching improved capability for our mortgage customers and brokers over time, and there remains no impact on day-to-day trading.

Looking ahead, we believe that delivering greater efficiency will support sustainable value creation for shareholders, a lower cost:income ratio and will enhance our ability to compete effectively in a rapidly changing digital marketplace. See pages 27 to 28 for more on delivering Super Straightforward Efficiency.

Discipline and Sustainability

Our focus has always been on ensuring that our Bank is delivering consistent, sustainable positive outcomes for our customers, investors and other stakeholders. Aligned to that, in 2023 we have been particularly focused on ensuring our resilience against the challenging external backdrop.

The Group has remained well positioned given our strong capital, high-quality customer base and robust asset quality. We maintained our disciplined approach to credit, achieving modest, profitable lending growth in our target areas, while ensuring the resilience of our funding and deposits. Our liquidity metrics remain well above regulatory minimums, and we have maintained good access to wholesale funding markets, all of which demonstrate our prudent approach and market confidence in our business model. We have also now repaid £1.0bn of TFSME funding, ahead of its contractual maturity.

The Group’s resilient performance in the BoE’s Annual Cyclical Scenario (ACS), remaining significantly in excess of its reference rates on both a transitional and non-transitional basis, demonstrates the sustainability of our franchise against even a severe macro downturn.

We’ve also made good progress on ESG metrics, maintaining our ‘low risk’ status from Sustainalytics and AA ‘Leader’ status from MSCI, evidencing the Group’s enhanced disclosure and commitment to continual improvement of our sustainability agenda.

In 2023, the Group has further developed its Commercial net zero targets and road maps, as well as setting targets in relation to its own operations for the first time. Further detail of our achievements can be found in our sustainability report on pages 31 to 50. More on our Discipline and Sustainability strategic priority is on pages 29 and 30.

Leadership changes

I have further strengthened the Group’s Executive Leadership Team this year, ensuring we have the required digital leadership capabilities to deliver now and in the future, against the higher expectations of a tier 1 bank.

As announced last year, Sarah Wilkinson joined the Group as Chief Operating Officer in early 2023, bringing together the Group’s Customer Experience and Digital & Innovation functions under new, focused leadership. In late 2023 we appointed Allegra Patrizi as Managing Director, Business and Commercial. Allegra has worked in the financial services sector for over 20 years having started her career at McKinsey & Company where she rose to Partner, before being Chief Product Officer at F&C Asset Management, Group Risk Director at Prudential plc and most recently CEO of Aegon in the Netherlands. Hugh Chater will remain with us as a senior adviser until the end of 2024, and I thank him for all his hard work and leadership over the last seven years.

Outlook

The Group’s underlying momentum is strong. NIM has continued to expand in FY23, and we expect a NIM of 190-195bps in FY24. This will be supported by re-investment of the structural hedge at higher rates and further growth in higher margin lending, where we expect to grow our business and unsecured segments between 5% and 10%.

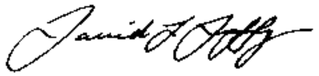
We will continue to invest in strengthening our business for all stakeholders, including the digital investment in financial crime prevention and as we focus on improving legacy components of our infrastructure. We will improve digital customer experience further, deliver the second phase of Consumer Duty and launch new digital propositions, while delivering against our expanded, £200m gross cost saving programme. We now anticipate that the underlying cost:income ratio in FY24 will be broadly stable on this financial year, excluding our investment in financial crime prevention.

Having updated our economic outlook under the International Financial Reporting Standard (IFRS) 9 methodology, we feel well provided, and expect our cost of risk for the year to be in the range of 30-35bps, subject to the macroeconomic outlook remaining consistent.

The Group remains strongly capital generative and I’m pleased to confirm that, as previously announced, we plan further buybacks through 2024, subject to Board and regulatory approval, following on from £150m today, as we return to operating within our target CET1 range of 13% – 13.5% by FY24. We expect nominal shareholder distributions in FY24 to be in line with FY23; delivering this would mean we have returned around £800m of capital distributions to shareholders over the three years of our strategy.

As a result of the increased level of investment in the financial crime prevention programme, we do now expect to take longer to achieve our double digit statutory return ambition. We expect to generate an underlying RoTE of c.10% in FY24, excluding the financial crime prevention programme and cash flow hedge reserve, with a statutory RoTE of c.8%. We are committed to generating double digit returns in the medium-term and I look forward to communicating more details about the next phase of our strategy at a Capital Markets Day next year.

In the meantime I would like to thank all our colleagues for their hard work, and our customers for their loyalty and support as we continue to execute our strategy and deliver on our Purpose of Making you happier about money. I look forward to updating the market on our further progress during 2024.



David Duffy
Chief Executive Officer
22 November 2023

Operating environment

Driving customer-centric digital growth in a dynamic environment

Impact areas	What we are seeing	Our response	And looking ahead
Uncertain economic outlook	While the UK economy has proven more resilient than previously forecast, growth has remained muted. Inflation has been more persistent than expected, requiring the BoE to raise interest rates to levels not seen for 15 years. Higher inflation and higher rates have added to cost of living challenges, but the labour market has remained strong, with unemployment increasing only gradually. This has underpinned strong wage growth, supporting household finances. Towards the end of 2023 the rate of inflation has started to fall, alongside increased expectations of higher for longer rates. The rate backdrop and higher prices for customers have led to a more muted housing market, particularly for new purchases, which has been reflected in lower demand and lower house prices this year. Consumer spending has remained resilient, although there are signs of customers modestly adapting their spending. The stock of Business lending has also continued to reduce over the year.	Within credit provisioning, we continue to reflect Oxford Economics' latest economic scenarios through our IFRS 9 models, with a weighting to downside, conservative forecasts. The Group has tightened affordability criteria and reflected higher living costs, higher interest rates and the impact of inflation in key criteria. The Group has strengthened its coverage ratio to 84bps, which remains well above pre-pandemic levels. We are continuing to monitor each portfolio closely for any leading signs of affordability stress, and while we expect arrears to rise, we feel we are well provided against a downturn in the economy.	The latest base case forecasts, supplied by Oxford Economics, anticipate inflation falling back to 3% in 2024. Growth is expected to be muted until 2025, and unemployment is expected to rise gradually, peaking around 4.5% in 2024. The UK economy is expected to take some time to recover and the current low growth trajectory is expected to persist. Structural housing imbalances should support house prices over time but will continue to challenge affordability for first time buyers. A lower supply of workers and an ageing workforce should support employment, absent major technological shifts from the likes of AI.
Changing customer needs	In a backdrop where higher cost of living is a key focus, customers are looking for good value. Higher rates have driven changes in customer behaviour across banking products. On lending, such as mortgages, 'rate shocks' and more expensive credit have led customers to adjust household budgets to absorb higher repayments, but given tighter underwriting standards since the global financial crisis (GFC), existing mortgage customers have typically had the headroom to be able to absorb higher costs, with arrears levels yet to significantly increase. On savings products, given the higher rate backdrop, customers have been more prepared to move their money into term deposit products in search of higher yields. This shift, and the higher cost of living has seen non-interest bearing current account volumes decline across the market, as customers also start to run down account surpluses built up during the pandemic.	We remain ready to provide support to customers where they need it. We have adopted the Mortgage Charter (see page 54) and proactively offered support to customers in need, including vulnerable customers and those struggling to adapt to digital banking. Pleasingly uptake to date has remained limited but we continue to monitor trends closely. We have passed on interest rate rises to customers, proactively managing the deposit mix. We remain focused on growing relationship deposits. Our linked saver offers good value for our PCA customers and we have consistently offered attractive Term pricing, and have seen our deposit mix shift towards TDs this year.	In a higher rate environment, we expect customers to continue to be focused on achieving good value. We have launched a series of differentiated, simple products that reward customers' loyalty and this remains our focus for the future. Our current accounts, 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.

Strategic report

Impact areas	What we are seeing	Our response	And looking ahead
Rapidly accelerating digital technology and threats	Technological disruption continues to accelerate in UK banking, with investment in digital infrastructure essential. Customer preference for digital channels continues to grow, with Statista estimating 93% of the UK population used online banking in 2022. This requires a shift from legacy technology and service platforms, towards digital, self-service models, supported by AI and machine learning. The Group will also need to adapt to the potential emergence of central bank digital currencies (CBDC). We are also seeing threats to customers and banks increase as criminals take advantage of opportunities offered by new technology, as digitisation across society increases, accelerated by the pandemic. With the UK offering a universal language, faster payments technology and a highly digital society, digital fraud and crime are relatively more prevalent than in other economies. It is estimated £88bn is laundered through the UK each year, second only to the US. UK consumers lost £1.2bn through fraud in 2022 according to UK Finance, with c.80% started online and through social media. Government statistics also show that over half of medium and large UK businesses experienced cybercrime attacks in the last 12 months, with AI contributing to increased threats.	We continue to invest in our digital strategy, supporting our ability to grow and be more efficient. The deployment of chatbots and improved journey digitisation this year has supported customers in achieving outcomes more quickly, driving cost-efficiency (see page 28). We will continue to invest in improved technology, automation and digital propositions as we move into the final year of our three-year digital strategy in FY24. This will allow us to deliver improved customer outcomes and generate benefits from efficient servicing. Given the evolving threats from criminals greater use of technological capabilities, we are launching a 3-year programme of investment, expected to total c.£130m. This will upgrade our financial crime and fraud prevention capability, as well as improving our cyber security and data management.	We expect that the current trends towards the digitisation of society will continue, requiring continued investment to meet customer expectations and ensure safe, secure banking. We also anticipate that organisations will need to continue to support customers with the implications of these changes. We therefore expect the pace of technological change to remain elevated in the years ahead, and will continue to invest in upgrading our propositions, digital customer experience, automation and the ability to keep the Bank, and our customers safe and secure against emerging threats. We expect AI, CBDC and other tech developments to offer both opportunities and challenges to existing banking models, and will remain alert to emerging risks from criminal actors making use of these advancements.
Growing sustainability agenda	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.	We continue to execute on our ESG strategy to support a sustainable future and enhance our ESG-related disclosure, providing more insight for stakeholders. This has been reflected in improved ESG ratings from the key agencies in recent years. In 2023 we have also implemented clear net-zero targets and road maps to deliver this, a year ahead of required timelines, supported by robust KPIs. We will support businesses and mortgage customers as they transition to net-zero. Please refer to our Climate-related disclosures from page 240, and expanded information on progress against our ESG priorities on pages 31 to 50.	We expect a continued focus on sustainability in the years ahead, despite volatility in the political environment. Recent UK Government proposals will take time to be reflected through key scenarios and we continue to focus on supporting the transition to a low-carbon economy. We continue to see delivering sustainable outcomes as good for all stakeholders and expect those stakeholders to continue to increase their demands on corporate actors and the banking sector for progress to a more sustainable future, across all elements of ESG.

Impact areas	What we are seeing	Our response	And looking ahead
Continuing competitive backdrop	The UK financial services market remains competitive. In mortgages competition has remained strong, reflecting the long-running trend of excess liquidity being deployed into mortgages at scale by the large UK banks. However, this has met with lower customer demand this year as higher rates raise the cost of mortgages to consumers. This has subdued the housing and mortgage markets and this mismatch of strong supply and lower demand has continued to put downward pressure on mortgage returns. The deposit market has also slowed as customers have rationally reduced excess deposits to meet higher costs and repay debts, while also looking to secure higher yields on their savings. Lenders are looking to attract deposit funding to help repay government borrowing schemes. These factors have increased competitive intensity and pricing across the deposit market, particularly for term deposits. Competition in certain segments of the market is less intense however, with fewer active players, including credit cards and SME lending.	We continue to develop best-in-class propositions and experiences to target strong growth in our key target segments. We are focused on deepening customer relationships and launching new propositions to target above-market growth in the Unsecured and Business markets, where competition is less intense. In Mortgages, we remain focused on balancing volume and price carefully against the subdued, but competitive backdrop. We also continue to successfully target growth in relationship deposits and new current accounts, while also remaining competitive for term money, as we optimise our cost of funding and repay TFSME ahead of schedule.	We expect that the mortgage market will remain competitive, and are focusing on exploring opportunities to grow in less well-served segments, while balancing volumes and returns. We expect deposit markets will also continue to be competitive, as TFSME repayment requirements continue until 2026 and customers seek good returns on their money. We may see innovative Fintech offerings take on some of the less concentrated areas of banking markets. We expect to see continuing challenges to profitability and returns for some market participants, which may lead to consolidation across the sector in the years ahead.
Demanding regulatory agenda	UK banks are subject to ongoing monitoring and oversight from the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) among others. The regulatory landscape continues to evolve to maintain the financial stability and support positive and safe outcomes for customers. An important focus this year has been on the implementation of the first stage of Consumer Duty regulations, with further requirements to be met in 2024. Regulators remain focused on sustainable outcomes and the role banks play in supporting the transition to net zero. Stress-testing results in July were an important milestone for the sector and the regulator has subsequently confirmed there will be a more limited stress-test for the sector in 2024. The regulatory environment around payments, financial crime and fraud is also evolving. For example, Authorised Push Payment fraud is growing and is the most common type of fraud in the UK, and primarily originates online on social media platforms. In 2024 new regulations from the Payment Services Regulator will require banks to fully reimburse customers who fall victim to APP fraud in almost all cases, regardless of fault or source of the fraud.	We have invested significantly in 2023 to ensure full compliance with Consumer Duty requirements (see page 21 for more). The Group remains focused on ensuring that current and future customer products and services meet conduct standards and regulatory expectations. Given the strengthening regulatory framework around payments, and higher stakeholder interest in the risks and cost of fraud and financial crime, we are investing to improve our capability and resilience against these issues. The investment in stress testing capabilities ensured we were well positioned to participate in the BoE's stress testing regime for the second time. The Bank remained significantly above all reference rates in the ACS against a severe economic scenario. We continue to maintain prudent buffers above all regulatory requirements and internal risk appetite metrics, across capital, funding and liquidity.	We do not expect to see any reduction in regulatory focus across the sector in the years ahead, and believe that a well-regulated banking sector remains in the interest of all stakeholders. As the landscape changes, we expect banks will continue to be required to respond to ongoing prudential and conduct-driven initiatives, as well as climate stress testing, reviews and other projects. We also expect an increasing regulatory focus on fraud, financial crime and cyber resilience in the years ahead. Ongoing evolution of longer-term capital requirements, ensuring fair treatment of customers and financial stress testing are also expected to remain areas of regulatory focus for the sector.

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; 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

Strategic priorities

Delivering our Purpose-led digital strategy

Implementing our digital strategy is supporting good outcomes for customers, strengthened returns for investors, and will ensure the Bank remains safe and resilient in the long term.

Continued progress as we digitise the Bank

Following a comprehensive review of the Group's strategy during 2021 and in view of the changing operating environment, as well as the need for a sustainable competitive advantage, the Board decided to accelerate the next stage of our development.

Aligned to our strategic ambition to become the UK's best digital bank, our strategic priorities are designed to support profitable financial and customer growth through innovative, digital propositions, targeted efficiency improvements, all while ensuring a robust balance sheet that can support sustainable returns over time.

Reflecting on the evolving backdrop in 2023, the strategy remains the right one. Ensuring we continue to improve our efficiency, while offering valued products to customers, gives Virgin Money the ability to build stronger and deeper customer relationships. Against a backdrop of high inflation, where consumers are focused on getting more value from their banking products, and with the acceleration of new technologies, our digital strategy will drive improved returns and growth over time.

Regulatory developments over the course of the year, including the implementation of Consumer Duty, are fully aligned to Virgin Money's purpose and strategic ambition as we remain focused on delivering good outcomes for all our customers.

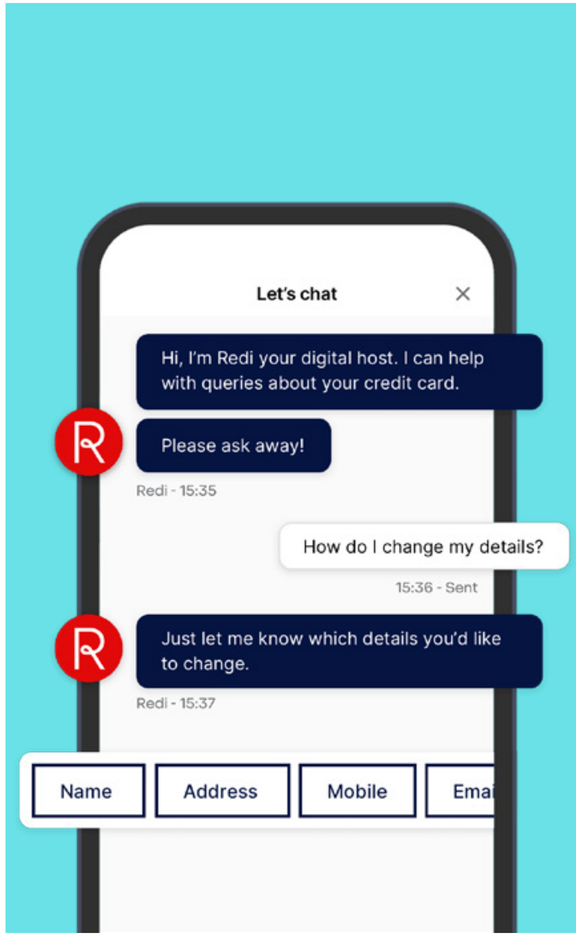
As we enter the final year of our current plan cycle, there remains more work to do but the business has good underlying momentum and is increasingly well placed.

Delivering our strategic priorities will enable the Group to become an efficient, growth-oriented bank offering differentiated customer experiences and unique rewards, driving sustainable double-digit returns over time for our shareholders, and ensuring we are a force for good in society.

During FY24 our management team will work with the Board to develop the next phase of our strategy. We look forward to updating the market on our objectives for our next strategic cycle in the second half of 2024.

David Duffy
Chief Executive Officer

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



Our Purpose

Making you happier about money ...

... drives our strategic priorities ...

Delighted customers and colleagues

See pages 20 to 24

Pioneering growth

See pages 25 to 26

Super straightforward efficiency

See pages 27 to 28

Discipline and sustainability

See pages 29 to 30

... 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 c.£275m to:

- Deliver c.£200m 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 43 to 46

Build a brighter future

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

See pages 38 to 42

Put our (carbon) foot down

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

See pages 34 to 37

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 47 to 50

Delighted customers and colleagues

Customers

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

Group Smile score

2023	49%
2022	46%
2021	51%

Complaints per 1,000 accounts

2023	4.0
2022	4.2
2021	3.7

What have we achieved in 2023?
We continue to progress on our strategic shift towards digital-led banking as set out in our accelerated digital strategy at FY21. This envisaged a three-year programme of change and investment, recognising that achieving our digital and customer ambitions would take time and substantial effort.

In last year's report we reflected on the challenges we had been facing around the implementation of our strategy, given pressure on customer service and higher complaints arising from elevated customer demand following a series of rapid interest rate changes. These challenges have continued into this year, while the higher rate backdrop has also led to concerns across the industry about mortgage customers' ability to afford higher repayments.

The Group deployed significant resources in 2023 to drive improvements in these areas, including additional internal resources and temporary third-party support to help address the service and complaints challenges. While this contributed to a higher cost out-turn for the year, it was an important decision and the right thing to do for our customers.

We can see our investment and efforts being reflected in better outcomes on key metrics. Call waiting times have reduced by 65% on average in Q4, compared to peak levels. This has resulted in an improvement in key customer experience metrics including the Group's Smile score (for definition, see page 379) which has improved to 49%, reversing the trend of decline over the past three years, although there remains more work to do to improve this score further.

Complaints rates also saw an inflection point, reflecting significant efforts to address the complaint backlogs with additional resources. Tackling the backlog and improving key processes, such as ISA maturities, has driven an improvement enabling us to release the majority of the temporary resources employed to support our efforts. Driving a further reduction in complaints remains an important area of focus for the Bank in FY24. For more on our approach to complaints, see page 29.

Digitising the Bank
The Group remains committed to plans set out in FY21 to digitise and automate our operations. This will continue to be a key focus in 2024.

After pausing digitisation work in H1 to support customer service, key initiatives were re-accelerated in H2. This included reassessing how customers interact with our key channels, and as a result of this work the Group reduced its branch footprint by 30%.

The Group continues to automate key customer journeys with around half of processes now completed, with more to follow in FY24. Highlights include the implementation of chatbots, with the deployment of Redi (see page 28), offering a 24/7 digital service to handle customer queries swiftly and accurately. Further process improvements across key products, such as ISA maturities, which had been a significant driver of complaint volumes, have also been implemented with a reduction in inbound customer calls as a result.

As we continue to digitise, and mindful of the challenging backdrop for customers, we remain committed to supporting all our customers on the transition to digital banking. We have established a dedicated Customer Care team who proactively contact vulnerable and potentially vulnerable customers who may be impacted by our digitisation projects. This team offers customers one-to-one support to help achieve the right outcomes for their banking needs. We have also enriched our Customer support hub, https://uk.virginmoney.com/service/support-hub/cost-of-living/free-help-and-support/ available to all customers and non-customers, offering support and advice to those struggling with the higher cost of living.

Sarah Wilkinson
Chief Operating Officer

"We've made significant progress in improving customer service and are increasingly well placed to drive further digital improvements for customers."

Strategic priorities

Delighted customers and colleagues continued

Changes in regulation and legislation

Over the course of the year there have been a number of sector-wide initiatives and updates to key regulations, which will help to ensure customers are fully supported.

The Group has fully implemented the initial requirements for Consumer Duty in July this year assessing c.2,300 communications to customers and c.60 products (see Purpose in action box opposite for more). The implementation of off-sale product requirements is expected by July 2024 and the Group remains well-placed to deliver the final requirements.

Virgin Money has also fully implemented the requirements of the Mortgage Charter, (see page 54 for more), which offers additional support to customers concerned about the impact of higher interest rates as well as taking its own measures to support customers who may be at risk of experiencing financial hardship.

Finally, in line with our purpose the Group remains committed to supporting its savings customers with attractive propositions, and has an ongoing programme of proactive communication to ensure customers are aware of alternative products which may offer them a better home for their money (see page 58 for more).

Updated management team

During 2023, we have also consolidated leadership of the customer and digital functions under our new Chief Operating Officer, Sarah Wilkinson. This brings together responsibility for these important operations in one function to ensure we continue to support customers across the Bank, as well as driving further automation and process improvement over time.

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.

In FY24, we will continue to refine our propositions and deliver service enhancements to drive improvements in our Smile scores. Our focus remains 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, while also providing support in difficult times.

Alongside our target for Digital Primacy, our measure for assessing customer migration to digital-only engagement with us (see pages 27 to 28), we are targeting for 80% of Personal customer interactions to be digital (2023: c.63%; 2022: c.50%). PCA digital adoption has improved since we began targeting this in 2019, rising from 51% to 70% (2022: 67%) reflecting good progress towards our target of greater than 80% by FY24. Added together, these developments should drive an improvement in the Group Smile score from 49% at FY23.

Our embedding of Agile methodologies will be an important enabler of changes that will be delivered across our customer-facing technology and processes. Detailed service design work is underway, and this will drive change, delivering automation to improve the customer experience. The upcoming implementation of our new complaints system will support better root cause analysis, which will further enable us to address the issues causing complaints, at source.

Purpose in action

Delivering good customer outcomes

The FCA's Consumer Duty went live on 31 July, setting higher and clearer standards of consumer protection across financial services, to drive good outcomes for customers. Over the past year, as a business we have assessed all on-sale products and key customer journeys, carried out fair value assessments and reviewed customer communications, with any material gaps now closed. The work undertaken has not only immediately enhanced customer outcomes but also strengthened our key frameworks including governance, third parties and outcome testing ensuring everything we do and every outcome we achieve is driven by our Purpose of Making you happier about money.

Our programme of work continues, with the final phase looking to assess off-sale products and close the lower priority gaps identified in phase one, all while operating in a new Consumer Duty world encouraging colleagues to speak up where they think further improvements could be made.

All colleagues have completed Consumer Duty training, which ensures good customer outcomes are embedded in our ways of working regardless of role, with new feeds of data and management information allowing us to continually monitor and react to the outcomes our customers are receiving. This wealth of new insight and understanding will allow us to develop our customer strategies and prioritise actions to make our customers happier about money.

We will further expand our use of technology to solve customer service challenges. While chatbots have been deployed successfully into the customer journey, we will continue to expand these and focus on optimisation to drive improved levels of resolution, ensuring customers get what they need first time, as often as possible. Where that isn't possible, we will make sure enough skilled colleagues are available to provide tailored support.

Finally, we will continue our work on Consumer Duty, to ensure the regulations are embedded and meet the second phase requirements by the deadline of Summer 2024.

Strategic priorities

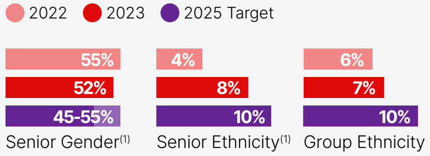
Delighted customers and colleagues continued

Colleagues

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

Colleague engagement

Group Diversity indicators



(1) Senior defined as top three levels

Our Purpose of Making you happier about money extends to our colleague population. It drives the way that we think about our colleague support and engagement, so that they are energised and committed to delivering the best experience for our customers.

What have we achieved in 2023?

Through the course of the last financial year, we have delivered a People Strategy focused on becoming the employer of choice in financial services, differentiated by, and known for, our Purpose, our unique colleague proposition and a positively distinctive culture.

We have focused on the following four areas: Engagement, Experience, Attraction and Retention and Diversity & Inclusion.

We have made good progress, with colleague engagement remaining high despite a challenging backdrop, however we have further work to do in meeting our Diversity, Equity and Inclusion (DE&I) representation targets.

Engagement

We believe colleague engagement is vital to the delivery of our strategy and support of our customers.

Our latest survey of colleague engagement has shown very positive results. This year, over three-quarters of colleagues took the time to share their views with us, which is an outstanding response rate. We measure the heartbeat of colleague sentiment across Virgin Money through our sustainable engagement score, an index of six questions that define how colleagues feel about working here.

This year, we've seen another strong sustainable engagement score of 80%, up 1% from last year. Within the detail there are three data points that are really striking: 82% of colleagues say they are proud to work here. 69% of colleagues believe our processes and services are designed to provide the best possible outcome for our customers. While this is an increase of 14% since last year, it is not yet where we want it to be, and remains an area of focus for the Leadership Team. Finally, and encouragingly, 94% of colleagues feel that they can be themselves at work.

There are a number of ways in which our colleagues can engage with the Exec team and Board; through 'Straight Up' Q&A sessions, live online chat/Q&A sessions post results, 'Colleague Connect' sessions with our Non-Executive Directors, or simply dropping by to say hello. We use the latest technology to ensure that those not available to attend in person get the best experience from replays of the engagement events. Overall, we had almost 15,000 engagement touchpoints with colleagues through the year, double the total number of employees.

Experience

Through the course of the year we have continued to evolve our 'A Life More Virgin' (ALMV) colleague proposition.

This allows a truly flexible approach, allowing teams and colleagues to establish the rhythm that best suits their lives while ensuring we meet operational and customer requirements. It also delivers location flexible hiring, allowing us access to wider talent pools, and gender neutral parental leave inclusively supporting new parents and families. We also provide wellbeing days in addition to annual leave to specifically encourage colleagues to look after themselves physically, mentally and emotionally.

Despite much public debate about mandating employees back to the office, we find that the approach set out above works well for our employees and our customers. 88% of colleagues tell us that ALMV enables them to balance their work goals with other priorities in their life, but this does not come at a cost to productivity; 86% of colleagues tell us their department constantly looks for ways of improving customer outcomes.

ALMV enables international working for eligible colleagues which we've managed through introducing a digital tool. ALMV has also changed how and when we work and we've invested heavily in our leadership community to give them the skills and confidence to lead in this new hybrid world.

Within the flexibility offered by ALMV, a core part of the colleague experience is in our main hubs. We have continued to invest in our hubs and have welcomed our first batch of colleagues to our new Bothwell Street head office in Glasgow. Our new home is in purpose-built offices at 177 Bothwell Street, Glasgow's most environmentally-friendly building which is designed with wellness at its heart, including a roof terrace complete with seating spaces and Scotland's first rooftop running track.

Across the Virgin Group there was a new online platform launched in September called 'Virgin Family' which is the new home for employees to get news, join communities, learn about the brand, secure discounts and deals, and collaborate with colleagues across the Virgin companies. Available for colleagues via laptop and mobile devices this is a groundbreaking initiative which really makes our colleagues feel even more a part of the Virgin Family community.

During the year we introduced HaRi (Human Resources meets artificial intelligence) to our colleagues. HaRi has made it easier and quicker for colleagues to get to the answers to over 200 of our most common HR-related questions.

Strategic priorities

Delighted customers and colleagues continued

Syreeta Brown
Group Chief People and Communications Officer

We have delivered a People Strategy focused on becoming the employer of choice in financial services.

Attraction and retention

We have seen a significant and consistent overall increase in applications for jobs at Virgin Money since the launch of ALMV and a notable increase in applications from candidates from under-represented backgrounds.

We continue to evolve our employer brand and use a broad range of recruitment marketing methods to attract under-represented talent, coupled with partnerships, community groups, and charities. Throughout 2023 we've highlighted our credentials as an inclusive and desirable employer:

1. Our Disability Confident status reaffirms our support and encouragement for people who consider themselves to have a disability to progress within the workplace
2. Our partnership with Black Professionals Scotland continues to grow, enabling us to access their network to share vacancies and participate in careers events with them
3. We continue to be a Women in Finance signatory and achieved our Women in Finance representation target for 2023 (45%)
4. In 2023 we were awarded a Gold Award by Stonewall and are now in the top 100 in the Workplace Equality Index
5. We attended several external events, sharing our ALMV story, and have been shortlisted for a People Management Award by the CIPD for the best flexible working initiative

We've been making progress against our significant representation targets, set out in the table on the next page. Our FY25 targets relate to target representation in our workforce across all levels of the Bank (excluding gender which is within our top 3 levels of leadership) and our 2030 targets focus on achieving balanced representation within our top pay quartile.

Diversity, Equity and Inclusion

Data is vital to our understanding of perceived equity within our colleague experience, and how connected and included colleagues feel. Our commitments under the Women in Finance and the Race at Work Charters reflect our belief that capturing and reporting data is crucial to support progress against our bold aspirations. Our new BRAVER index provides us with valuable insight on the extent to which colleagues feel connected, included and treated fairly at Virgin Money, and we were very pleased to have a score of 87% for our first BRAVER index inclusion rating.

Our colleague disclosure rates continue to be high, with 83% of colleagues disclosing at least one aspect of their characteristics with us, such as ethnicity, sexual orientation or disability. A review across all protected characteristics within our colleague population shows a gradual increase in each category, and a reduction in the percentage of colleagues who have 'not shared' characteristics relating to their identity.

We had a mean gender pay gap of 26.4% in 2023, and the table at the foot of the next page sets out the composition of our workforce as of 30 September 2023. For more detail, see our 2023 gender pay gap report at www.virginmoneyukplc.com/our-people/diversity-and-inclusion/gender/

Our colleague networks continue to perform critical work to help us better understand and improve colleague experiences and the drive for equity. We have 3,290 members across all six (Aspire, Balance, Embrace, Enable, Vets & Vibrant) networks and have run multiple events and initiatives throughout the year. Vibrant (LGBTQ+) won the Best Employee Network award at the Proud Scotland awards in June, and all networks have had a productive year working together to create sustained focus on inclusion.

Policy and process both play a crucial role in creating equity in the workplace. This year we launched our Carers Guidance to bring clarity to a complex subject, and support and empower our leaders to bring balance, fairness and equity to the way we support our working carers. From a process perspective, our Enable Network, which is dedicated to supporting colleagues with disabilities or caring responsibilities, undertook a full review of our reasonable adjustments process to reduce friction and delay in the experience for colleagues requesting adjustments or equipment.

Build a BRAVER and more inclusive culture

In the Summer of 2023 we formally launched BRAVER, an enterprise-wide allyship campaign anchored around six principles: Believe, Reflect, Accountable, Vulnerable, Empathy and Recognise. It is designed to bring to life the behaviours and practices that promote equity and inclusion and provides all colleagues with a practical means of being an active ally. We hope this will provide the energy, momentum and clarity needed to create and sustain a more consciously inclusive culture across Virgin Money. You can see more on our new BRAVER allyship framework in the Purpose in action box on the following page.

What will we achieve in the coming years?

While we have achieved our short-term gender representation targets, we have not achieved our ethnicity targets, and both remain areas of focus for us. Central to achievement of our targets is creating accountability and awareness within our leadership population. This will be aided by the launch of our new BRAVER allyship framework which encourages both accountability for DE&I outcomes but also systematic self-reflection on bias to disrupt and improve decision making.

Strategic priorities

Delighted customers and colleagues continued

We regard people leaders (at every level) as critical in the role of driving diversity, equity and inclusion. Inclusion is already embedded as one of our six leadership expectations and is written into our behaviours, our Code of Conduct, and all people processes. We continue to develop the capability of people leaders and work is underway to ensure that the BRAVER principles are embedded within these frameworks and across all development journeys. The Leadership Team all have localised plans designed to support both the achievement of our representation targets and nurturing an inclusive culture where colleagues feel connected and included.

We will be providing both digital and in-person development in 2024 to support leaders and hiring managers to ensure recruitment and talent advancement decisions and experiences are equitable and fair. We will also embed the principle of proportionate representation within our talent programmes and introduce a targeted mentoring programme for under-represented talent.

Building on the success of our career sponsorship programme for colleagues from ethnically under-represented backgrounds in 2022, we recently concluded our career sponsorship programme for our Enable Network (for colleagues who consider themselves to have a disability or have caring responsibilities), with a cohort of 21 colleagues. We have seen 50% of the cohort go on to make a career change during or post programme due to the sponsorship. We are about to commence the career sponsorship programme again but are taking a more intersectional approach to this and will be opening it for applications to colleagues from across all our colleague networks.

Progress against our representation targets (data as at 30 September 2023)

	FY23	FY25 target	2030 target
Gender Female Senior Leaders(1)	51.6%	45-55%	45-55% at top quartile by pay
Ethnicity Senior Leaders(1) (2)	7.5%	10% Group-wide	14% at top quartile by pay
LGBTQ+ all colleagues(2)	4.4%	4% Group-wide	5% at top quartile by pay
Disability all colleagues(2)	6.4%	8% Group-wide	10% at top quartile by pay
Ethnicity all colleagues(2)	7.1%	10% Group-wide	14% at top quartile by pay

(1) Definition of senior leaders is based on the top three layers of the organisation, and is consistent with our 2023 Women in Finance submission, and longer-term targets.

(2) Based on colleague disclosure.

Current year vs previous year actuals (data as at 30 September 2023)

	2023 Female (Number/%)	2023 Male (Number/%)	2022 Female (Number/%)	2022 Male (Number/%)	2023 Ethnically under-represented group(2)	2022 Ethnically under-represented group(2)
Board	3 (38%)	5 (62%)	2 (29%)	5 (71%)	1 (13%)	1 (14%)
Senior management LO-2(1)	29 (49%)	30 (51%)	29 (48%)	32 (52%)	12%	7%
All colleagues	4,702 (58%)	3,343 (42%)	4,408 (58%)	3,178 (42%)	7%	6%

(1) For the purposes of meeting the Companies Act requirements we have defined Senior Management as layers 1 and 2. As members of the Board, Executive Directors are excluded.

(2) Colleagues from an ethnic minority background as a percentage of colleagues who have shared their ethnicity.

Purpose in action

BRAVER: Creating a groundswell for good...
At Virgin Money we have made a visible commitment to diversity, equity and inclusion for all our colleagues and future colleagues. We work hard to create a welcoming and friendly culture, and through the introduction of A Life More Virgin we have a wonderfully inclusive approach to the world of work. We know how important it is that our workplace is reflective of our customers and communities that we serve so we're always striving to do more to ensure colleagues feel connected and included.

We have active and committed colleague networks that do an amazing job of driving initiatives and conversations. Our HR team work hard to drive programmes of activity that agitate positive change too, but to make a real mindset shift in our culture it requires commitment from everyone. That's where our brilliant colleagues come in. We know colleagues want to play their part and with the right support we believe they play a critical role in reflecting our commitment to diversity, equity and inclusion that will help accelerate us towards our objectives. Colleagues can all do this through being active allies for inclusion and we have worked hard this year on accelerating our journey and illustrating what being an active ally really means.

Our BRAVER allyship mission
We are on a mission to make allyship really practical and simple for colleagues so that everyone can play their part. To do this we have surfaced the behaviours and practices that promote equity and inclusion. These can all be found in our BRAVER allyship model, which is a practical framework for allyship.

We support our colleagues on their journey to be BRAVER by providing a rich BRAVER hub of content, stories, learning and information on what they can do to activate BRAVER individually, in their teams, and with our customers.

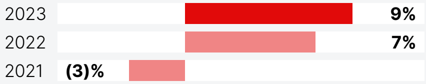
Pioneering growth

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

Total active relationship customer accounts

^ As at October 2021 due to availability of source data

Target lending segment asset growth



What have we achieved in 2023?

Over the course of the past few years, we have progressively upgraded and refreshed our key digital propositions and product sets, launching attractive new offerings to customers. This in line with our strategy to attract digital-first customers to the Brand, with whom we can grow deeper relationships over time. In 2023 this approach has delivered 5% growth in our active relationship customer accounts, driven by growth in BCAs and credit cards in particular.

As we move forward, we will strengthen our digital propositions with the ability to establish empathetic, warm and engaged relationships with our customers, as we accompany them through their lives. We will fulfil their day to day banking needs with understanding and competency, as well as supporting them in managing life's big financial decisions.

We remain committed to our strategy to optimise both sides of our customer balance sheet. In lending, this targets growing our share of Business and Unsecured, whilst maintaining our mortgage market share in the medium term. For deposits, we are focused on growing relationship deposits, that is, our current accounts and linked savings.

In 2023, the market backdrop evolved significantly, with higher interest rates a key feature, driving strong customer demand for higher rate deposits, but with more subdued demand in mortgages. Against this backdrop, we've achieved strong momentum by leveraging our previous investments as our digital propositions continue to attract customers across our target lending segments, delivering 9% loan growth compared to 7% in 2022. Relationship deposit balances also increased 2% during the year, including c.150k new current account sales, as customers were attracted to competitive, compelling digital customer propositions.

Our Business bank has continued to make strong progress across both sides of the balance sheet, against a weak sector backdrop throughout the year. Our Moneyfacts 5 star-rated BCA continues to be well received. It offers debit and credit cashback, as well as innovative online solutions such as our digital dashboard M-Track, to help support businesses in their growth ambitions.

We have also continued to refine and expand digital onboarding, which has significantly improved our customer conversion ratios from interest to purchase. As a result, we have continued to see robust growth adding nearly 40k accounts, with BCA sales 18% higher compared to last year, and 22 consecutive months of net inflows since relaunch.

Business lending volumes have also grown strongly through the period, benefiting from our sector specialist relationship managers and our focus on resilient sectors that can grow across economic cycles. We know our customer base well and have a good understanding of the credit and business opportunities across these key sectors. Our sector expertise has therefore enabled us to grow BAU lending balances by 11% in 2023, against a continued subdued backdrop which has seen market balances reduce c.3% over the year.

In Unsecured we moderated the pace of growth in 2023 reflecting the more uncertain environment, although market demand remained buoyant. We continued to focus on driving improved profitability across the portfolio. We saw good growth in our cards business where our market share rose to c.8.5%. This was driven by resilient demand from existing customers, and stronger growth in Virgin Atlantic credit cards as travel spend picked up over the course of the year. Progress on our digital wallet continues with the launch of the first iteration of the wallet to Virgin Atlantic card customers in the second half.

In Mortgages, against a subdued market backdrop, where approvals were c.30% lower than in 2022, our balances reduced by only 1%. Competition across the sector has seen spreads remain tight throughout the year and we have continued to balance pricing and volumes carefully. Whilst house purchase volumes have reduced, we have maintained our strong retention rates for existing customers, averaging 74% across the year (2022: 73%).

Allegra Patrizi
Managing Director, Business and Commercial

I am focused on ensuring we are putting customers at the heart of everything we do, leveraging the power of the Brand and taking into account not just their obvious banking needs but also their fears, aspirations and dreams. Coupled with our attractive digital propositions, this means we're well placed to make our customers happier about money.

Strategic priorities

Pioneering growth continued

With growth in Mortgages subdued, but growth in Business and Unsecured building well, our strategic objective to move the balance sheet to a richer yielding mix is continuing, with mortgages now down to 79% from 81% at FY21.

In the PCA market, we have seen ongoing competition from high street banks offering up-front incentives. In the higher rate environment, we've also seen customers holding lower average balances in current accounts. Our strategy has been to offer competitive, rewarding propositions, offering attractive rates on our linked saver products along with other exclusive product offers for our PCA customers. This has supported c.110k of PCA sales this year (2022: 131k), offsetting attrition and the migration of customer balances. New current account acquisition across business and personal, together with competitive linked saver products have enabled us to maintain the mix of relationship deposits as a percentage of total deposits at 53%, following significant growth in previous years.

Looking at the wider deposit market, customers rationally moving their savings to higher rate term deposits has been a clear trend, with the more attractive rates on offer giving customers a clear incentive to do so. We recognised this trend early, and have remained competitive for term money across the year, rewarding customers and allowing the Group to lock in funding at relatively good spreads. Over the course of the year, this has driven strong (57%) growth in our term deposit base, which now make up 32% of deposits (2022: 21%), while non-linked variable savings balances have reduced by 43%. This resilience and careful management of mix across deposits, has meant that in a very competitive market, we have been able to maintain and grow our deposit balances by 2%.

In fee income generating lines, after the launch of our new travel insurance product last year, we have delivered c.375k new travel sales during FY23. We also relaunched our investment proposition, Virgin Money Investments, alongside our JV partner abrdn. See the purpose in action box opposite for more.

What will we achieve in the coming years?
The Group continues to have significant opportunities for growth. We will be mindful of the uncertain economic environment and will deliver moderate, prudent growth in 2024, targeting profitable growth on both sides of our balance sheet, and particularly in our target segments, building on the Virgin brand affinity that exists with customers across the Group.

In FY24 we will target 5-10% growth across Unsecured and Business lending. We will continue to drive growth in digitally-originated lower-cost current accounts and relationship deposits, while providing good value to all of our deposit customers. We will look to maintain our share of relationship deposits, while we leverage our investments in the propositions launched to date. Over time, we will look to further unlock the strength of the Virgin brand, coupling it with improved digital propositions and enhanced human relationships, when it counts.

As part of this wider and enhanced proposition, our new Virgin Money Investments platform is expected to deliver growth as it targets an underserved market for simple, jargon-free investing. We will also continue to expand our fee-earning insurance propositions, including a new digital home insurance product.

In Mortgages, we will seek to maintain our market share in the medium term. We will explore opportunities to improve our propositions and service to intermediaries.

We will also make further progress on our all-encompassing integrated app for Virgin Money, using the technology from our digital wallet as the foundation and we are well placed to launch the first iteration of this during 2024.

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.

Purpose in action

Virgin Money Investments
Virgin Money Investments is on a mission to make it easier to build a brighter future for our customers through investing. We identified that investing is a world that can seem daunting and expensive for many people, who don't always feel happy about how they would invest their money. Some don't think they're wealthy enough, some don't know where to start, and some don't have the confidence.

That's why in April, we launched our new investment service. It was designed with our Purpose in mind, seeking to make investing easy and understandable for everyone, and giving customers confidence to help them feel happy about investing. We offer a range of investment products tailored to reflect customers' approach to risk, with a simple fee structure and no hidden charges. With a digital platform including helpful guides and an online investment coach, everything can be done online via a dedicated app, making managing your money as easy as possible.

Since launching, our high impact 'Kiss my ISA' advertising has resonated with consumers and we're already starting to disrupt the market. We've attracted 2,000 new customers and £10m assets under management (AUM) since launch, adding to the over 150,000 customers who already trust us to look after roughly £3.5bn in AUM.

Growth in investments is a key strategic ambition for Virgin Money and the launch of our new service is a key part of achieving that aim. In November, we launched our straightforward digital pensions proposition, based upon the same vision – to help people build a brighter future by giving them the confidence to take control of their pensions.

Strategic report

Governance

Risk report

Climate-related disclosures

Financial statements

Additional information

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 (cumulative)

2023	£130m
2022	£69m
Target	£200m

Underlying cost:income ratio[1]

2023	52%
2022	52%
2021	58%

(1) Hedge ineffectiveness is now presented as an adjustment to underlying as detailed on page 381. The comparative periods have been adjusted accordingly.

Digital primacy

2023	61%
2022	56%
H122[2]	51%

(2) As at March 2022 due to availability of source data

What have we achieved in 2023?

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

Since setting the plan, inflation has been higher and more enduring than was initially expected, running at around 15% in total over the last two financial years. The persistence and scale of inflation has superseded our initial expectation that we could deliver absolute cost reductions while reinvesting to cover inflation and growth initiatives. With inflation driving costs for salaries, suppliers and change delivery much higher than had been expected, this has represented a significant headwind. In addition, the technological environment continues to evolve at pace, with new opportunities, threats and regulatory requirements emerging and we have needed to factor in these additional investment needs.

We have also refreshed our leadership and structure to reflect these challenges and the increasing demands of being a more highly regulated, tier 1 bank. Sarah Wilkinson joined as Chief Operating Officer early in 2023, bringing together our customer and digital functions under her combined leadership. Bringing a new perspective, Sarah and her revamped team have reviewed our plans and progress, making decisions to reprioritise or accelerate projects as necessary.

Against this more challenging backdrop, we continue to focus on ensuring we are delivering an efficient platform capable of supporting our growth ambitions, while we absorb the impact of higher inflation and investment. We are increasing our targeted cost savings from c.£175m to c.£200m after making further good progress during 2023. We have delivered £130m of annualised run rate savings to date, driven by ongoing digitisation, organisational design and property changes, and sourcing benefits.

As highlighted previously, we paused some restructuring activity at the start of the year to focus on supporting customers. Since then, given the improvement in customer metrics, we have been able to pick up the pace again in the second half of this year. We have also been able to release some of the external resource costs that were required to support service in the first half. We have now spent £213m on restructuring activity, and expect to spend the majority of the remaining c.£60m in FY24 as we drive out the final efficiencies from the programme.

From a property perspective, the Group announced in the second half that it will be closing an additional 39 stores, as it adapts to changing customer demand. Following these latest changes, the store network will reduce by 30% to 91 stores. The Group's property footprint, with recent office rationalisation, is now at c.440k sq ft, against a target of c.300k sq ft by FY24, from our c.900k sq ft start point. Good progress is also being made on the project to relocate our Glasgow colleagues to new, state-of-the-art and highly efficient offices in Bothwell Street (see page 35), which we expect to occupy in late 2023.

From an IT development perspective, our existing core platform remains resilient and robust, and we will continue to invest in upgrading legacy components. Our digitisation activity and migration to a cloud-based operating environment is making progress using the Microsoft Azure platform, focused on building new applications, products and services on our cloud infrastructure. Existing applications are being assessed and reviewed to ensure we modernise the technology estate generally before migrating these elements to the cloud, with a number of applications being retired as we drive simplification across the digital estate.

Clifford Abrahams
Chief Financial Officer

> We continue to focus on driving efficiency through the business by delivering our gross cost savings and focusing on automation, while also reinvesting for the future.

Strategic priorities

Super straightforward efficiency continued

The new Azure technology architecture has underpinned the introduction of our new 'conversational banking' platform, with Redi, our digital host, being deployed to our credit card customers in March, with plans to roll out to PCA customers soon (see the Purpose in Action box for more). As a result, the percentage of customer interactions through calls has reduced from c.70% at FY21 to 37% as at the end of FY23 (2022: c.50%). Digital Primacy, our key measure for assessing customer migration to digital-only engagement with us, improved to 61% (2022: 56%), while non-digital account numbers also reduced, now down to 0.5m from a start point of 1.3m in FY21.

As highlighted last year, we continue to implement Agile methodologies across the Group to support improved change delivery. The existing tribes continue to mature and deliver good solutions, with an aligned customer-focused digital mindset.

Following an assessment of the progress of the project to upgrade the mortgage platform and challenges identified during testing, we now anticipate a significant deferral and redesign as we implement the upgraded capability. We remain committed to launching improved capability for our mortgage customers and brokers over time, and there remains no impact on day-to-day trading.

Other product implementations have proven successful this year, including the launch of digital VM Investments with our joint venture (JV) partner abrdn. Strong technology partnerships remain crucial for us, and we continue to work with Microsoft, Global Payments and Mastercard on a range of infrastructure and proposition developments.

Overall, the Group has delivered an underlying cost:income ratio of 52% for FY23, which although higher than our expectations at the start of the year, is significantly improved on our starting position in FY21 of 58%.

What will we achieve in the coming years?

2024 will see more progress on our journey towards becoming a digital bank, as we implement further technology solutions and service redesign to support cost efficiency and strong customer service, while enabling the delivery of new digital propositions. We will continue to invest to ensure we upgrade our infrastructure and have the required core capabilities for the future.

Given inflationary pressures to date, we have not yet been able to manage nominal costs to a level that would support achieving our target of an underlying cost:income ratio below 50%. We still aim to make progress on this metric over time, and remain focused on cost optimisation.

We are aiming for more customer journeys to be digitised, and have good line of sight to delivering the required changes, particularly via the deployment of agile change methodologies. We also continue to look at the latest technological opportunities to leverage cloud technology to improve customer service. Improvements in data management will also support personalisation and the ability to cross-sell across the Virgin Group.

We will continue to strategically optimise our property footprint and such changes will also deliver a further reduction in the Group's Scope 1 and 2 greenhouse gas (GHG) emissions as we deliver lower operational emissions in the future (see pages 34 to 37).

Our initiatives will enable continued delivery against our updated annualised cost savings target of c.£200m, and we expect the majority of the remaining c.£60m restructuring spend to be incurred in FY24. 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 greater efficiency will support sustainable value creation for shareholders and an enhanced competitive position. We remain committed to delivering an underlying cost:income ratio of less than 50% in the medium term, enabling us to compete effectively in a rapidly changing digital marketplace.

As we move to the end of this strategic cycle, we will set out a road-map for further digital efficiency at our next strategic update, planned to take place during 2024.

Purpose in action

Redi in action

With many of our customers now using our apps, the ability to independently self-serve and get instant responses has been our focus point as we work towards delivering outstanding digital experiences.

This year, we launched our first virtual assistant 'Redi' across our credit card apps. Powered by Microsoft AI, customers can ask Redi a question and it'll answer straightaway – giving customers instant answers to their burning questions.

With purpose at the heart of what we do, collaborating with our partners at IBM Consulting, we've been bold in our design – giving Redi a super slick look and feel to differentiate from the rest. With our inimitable Virgin Money tone of voice, Redi chats to customers naturally, giving to-the-point helpful advice aiming to give customers expert answers to a huge range of account queries. From setting up payments to changing details and more.

Never losing the human element when our customers need it the most was also important in our design. Redi recognises when a customer needs more support and will pass customers to our friendly Virgin Money digital team when it matters.

So far, with over half a million chats, Redi is living our purpose of making customers feel happier about money. Helping many customers self-serve due to its knowledge and helpfulness, it has resulted in one of the leading Smile score performances across the Bank.

Find out more here: uk.virginmoney.com/cards/redi

"It has been a true pleasure working with the Virgin Money team and enabling them to become a truly Conversational Bank. Redi has fast become one of the most integrated and advanced assistants in the market and we have deeply enjoyed helping drive the Bank forward in their aims." – Michael Conway, Data and AI Leader, IBM Consulting UK

Strategic report

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.

Statutory RoTE

c.8% in FY24

2023	3.9%
2022	10.3%
2021	10.2%

Announced shareholder distributions

30% dividend payout ratio

supplemented by buybacks, subject to Board and regulatory approval

Total payout level, including announced buybacks

2023	142%
2022	57%
2021	4%

What have we achieved in 2023?
Our focus remains on delivering disciplined and sustainable growth, ensuring our Bank is built to last and delivering consistent positive outcomes for customers and all stakeholders. Aligned to that, we have been particularly focused on ensuring our resilience against a challenging external backdrop.

During 2023, the macroeconomic environment remained mixed, with low unemployment supporting the resilience of the economy, but high inflation persisting, resulting in multiple BoE base rate increases. Against this backdrop, the Group remained robustly positioned with its defensive balance sheet, including stable funding and liquidity, a healthy capital position and increased provision coverage. We also maintained our disciplined approach to credit, achieving modest, profitable lending growth in our target areas.

A key achievement this year was the Group's successful participation in the BoE's ACS where we performed resiliently, remaining significantly in excess of reference rates on both a transitional and non-transitional basis. This demonstration of the sustainability of our business against a very severe downturn scenario supported our confidence in being able to deliver further capital distributions this year. In line with our capital framework, the Board has announced a further £150m share buyback, adding to the £50m share buyback announced post ACS in August, which is now complete.

A key focus for markets in 2023 has been on liquidity and funding resilience, particularly in light of the issues seen at SVB, US regional banks and Credit Suisse. The Group has maintained a prudent approach throughout with a stable funding base where customer deposits represent c.80% of total funding, of which 72% are insured via the Financial Services Compensation Scheme. As a further sign of our deposit-gathering strength, the Group reported deposit inflows of 2% across the year, despite market-wide headwinds from deposit migration. Our LDR has therefore reduced to 109% from 111% at FY22.

In light of the market volatility, we have conservatively held more liquidity during the period, with the 12-month average LCR increasing to 146% as at the end of September (2022: 140%), comfortably in excess of both regulatory requirements and the Group's more prudent internal risk appetite metrics. The stability of our funding sources is also highlighted in the 12-month average NSFR ratio, which remained stable at 136% (2022: 134%).

The Group has a number of well-established wholesale funding programmes and proven markets access. During the year, the Group successfully issued MREL and secured funding in different currencies and expanded its breadth of debt investors, demonstrating the strength of the franchise. This supported the repayment of £1.0bn of TFSME this year, ahead of its contractual maturity.

Credit quality has also remained resilient this year, despite an uncertain macroeconomic backdrop, testament to our consistent underwriting and defensively positioned portfolio. So far there has been limited impact from higher mortgage rates, with customers

Purpose in action

Complaints
At FY22 we recognised that we needed to take action to improve our complaints performance. We had seen a significant spike in complaints volumes driven by elevated levels of customer demand and a shortage of operational resources following multiple base rate changes in late 2022. Our complaints handling performance was not where we wanted it to be and the complaint backlogs we were seeing did not provide a good, timely experience for customers in line with our Purpose.

Recognising this, the Group committed significant temporary resources to address the existing backlogs. We also addressed areas of customer dissatisfaction, driving our digitisation agenda and revamping processes to improve the customer experience in general. While incoming complaint volumes reduced in the first half, the overall stock of complaints remained elevated as we worked through the backlog. In the second half of the year our efforts were successful with complaints per thousand reducing from 4.2 to 4.0, and the average age of open complaints reducing from well over one month to less than 10 days, with roughly half of all new complaints now being resolved in three days, from about a quarter in the first half of 2023. This improved performance, along with efforts to address root causes, has enabled us to release much of the temporary additional resource that we had employed to support complaints handling.

Finally, our new digital complaints platform, operated via Microsoft Dynamics, is due to be rolled out in the coming months. This will support further operating efficiency and speed up the production of key insights into complaints and so improve our ability to analyse root causes and drive better customer outcomes, leading to less complaints and making our customers happier about their experience with Virgin Money.

Strategic priorities

Discipline and sustainability continued

able to manage higher payments having been originally stressed for affordability at higher interest rate levels. Our business lending continues to perform well benefiting from our focus on resilient, specialist sectors and the benefits of our relationship manager-led model where we remain close to our customers. Finally in our unsecured lending we have seen an increase in credit card arrears reflective of the maturation of the portfolio and the weaker credit environment, but we remain very well provided against further deterioration.

During the year, the Group refreshed the economic assumptions being used within IFRS 9 models from its third-party provider Oxford Economics. The weighted macroeconomic scenarios reflect a more uncertain outlook over the medium term, with a recession now expected in 2024 and a decline in the House Price Index (HPI) across 2023-2025. Alongside this, latest bureau data indicates rising levels of customer indebtedness in the economy. The combination of these factors has led to higher than expected credit loss provisions of £617m at FY23 (FY22: £457m), primarily reflecting a higher modelled provision. Overall coverage therefore stepped up significantly to 0.84% at FY23 (FY22: 0.62%), above pre-pandemic levels (FY19: 0.50%). This provides significant cover against a worsening in arrears performance, and credit card coverage has increased in particular, to c.7%, from less than 4% at FY21.

Despite the challenging operating environment, we were pleased that Fitch Ratings have recognised the Group's progress and stability with the Group's Long-Term Issuer Default Rating moving to Positive Outlook reflecting an improving risk profile, robust asset quality and stable profitability. Additionally, we were pleased to maintain our 'low risk' status from Sustainalytics and 'Leader' status from MSCI, evidencing the Group's enhanced disclosure in an increasingly scrutinised field, and our commitment to continual improvement of our sustainability practices.

In 2023, the Group has further developed our Commercial net zero targets and road maps, building on our Mortgages and priority Business sectors completed in 2022, to include all Business sectors and moving towards the completion of all in-scope lending. We continue to develop our green products and services such as introducing, and extending, our Green Rewards for Mortgages, enhancing our Sustainable Business Coach data capture and reporting functionality, and delivering c.7% of business lending to sustainability changemakers, which remains in line with our 2027 target of 10%. Further detail of our 2023 achievements can be found on pages 31 to 50.

What will we achieve in the coming years?

As we enter the final year of the digital strategy launched at FY21, we remain focused on delivering a robust and resilient Bank, well-positioned for consistent and sustainable growth. The economic environment has been challenging, however the resilience of our customers, alongside attractive, Purpose-led propositions and consistent underwriting, will enable us to target profitable growth while maintaining a defensive balance sheet, facilitating continued capital generation that supports sustainable distributions, growth and investment.

As new technologies emerge we remain focused on safeguarding the Bank and our customers. We remain vigilant to the evolving expectations, threats and challenges we face, as well as rising stakeholder expectations.

The rapidly increasing prevalence of online channels and social media are driving higher instances of fraud and financial crime in the UK, while cybercrime represents another area of significant development, with new technologies including AI increasing the sophistication and risk of attacks. Underpinning the defence against such attacks and broader reporting is strong data management. As an O-SII bank, adoption of the BCBS 239 data standard will be an area of increased focus for us in the years ahead.

In order to maintain our vigilance against all forms of fraud and financial crime we will increase our digital investment in this space from FY24. We will implement upgraded technology and increase the sophistication of our processes with the goal of providing our customers with the best possible protections against criminal actors.

As a result, we are announcing a c.£130m investment programme over the next 3 years. As a tier 1 bank, this investment will significantly upgrade our financial crime prevention and cyber defence capabilities, while also strengthening our risk data aggregation and internal risk reporting practices, in line with regulatory requirements.

In line with our net zero commitments, we will focus on enhancing our green products, propositions, and customer education programmes, all of which remain key components in the realisation of our net zero road maps and targets. We will also further embed climate risk across the business with enhancements to our stress testing, credit decisioning, policies and frameworks.

We will continue to support our customers as they navigate unexpected challenges, develop our purposeful partnerships further to help bridge the digital divide and reduce the poverty premium, and deepen our relationship with our new charity partner Mind, in association with the Scottish Association for Mental Health, following the success of our partnership with Macmillan (see page 7).

Environmental, social and governance

Overview of progress made in our ESG strategy ...

As we reflect on our progress we're pleased to have made important strides in the execution of our ESG strategy this year but there remains a lot more to do ...

Against a volatile backdrop, we've continued to make good progress in embedding sustainable practices across our business and supporting a more sustainable and inclusive future for our customers, colleagues and society.

As we deliver and expand our climate strategy, the Group's financed emissions calculations now cover the most material carbon intensive sectors on our balance sheet.

We have evolved our Commercial transition plans to cover c.85% of the Group's portfolio, across the most material lending sectors, as outlined by the Net Zero Banking Alliance (NZBA). To track this, the Group also expanded the modelling and methodology, with estimates showing an 11% decrease from FY22 on a like-for-like basis.

We've continued to develop propositions and tools to support our customers today and provide insight into their needs tomorrow, including bespoke reports through our Sustainable Business Coach and thought leadership events with our Agri customers. Whilst we are pleased with our progress to date, we recognise the rapidly evolving landscape that requires continued focus on developing data capabilities and our understanding, to continue to make progress to net zero.

Following our successful bid to the Green Homes Finance Accelerator discovery grant, we've been working with Rightmove and Sero to research and design a new retrofit mortgage proposition, with the aim of encouraging and educating customers on achieving a net zero home.

We've delivered financial education support and resources and refreshed our 'S' strategy, strengthening the alignment between our Customer and Community plans and leveraging partnerships and insight to amplify our impact.

Continuing to support our customers, colleagues and communities through the current economic backdrop, we've focused on two super-themes of digital inclusion and financial education: important topics where we are already having strong impact, and which are aligned to our Purpose of "Making you happier about money" and our ambition to be the UK's best digital bank.

We're delighted to have exceeded our Macmillan fundraising target of an additional £500k, and as we prepare to onboard our next charity partner, we are integrating the learning from our work with Macmillan within our broader vulnerable customer focus.

We'd like to thank Macmillan for a wonderful partnership over the last 3 years and for giving us the opportunity to work together in making a tangible difference in the lives of those affected by cancer.

A large focus this year has been on supporting customers who find themselves in vulnerable situations. With rising interest rates impacting the mortgage market, we have signed up to the Mortgage Charter, proactively contacted 150,000 mortgage customers with our cost-of-living assistance communication, and our customer care team have contacted 32,000 customers in potentially vulnerable circumstances.

FY23 marks our fourth year as a signatory of the UN Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking and, in accordance with the principles, we've sought Limited Assurance on our report. We've continued to make strong progress on our first key impact area of Climate and have confirmed our second key impact area as Financial Inclusion.

We've enhanced our sustainability-related disclosures through FY23, augmenting the content on our ESG hub. Through this and proactive engagement with the key agencies, we have retained our AA rating with MSCI and 'Low' risk rating with Sustainalytics, our Moody's Analytics rating remained stable.

Maintaining a watching brief on emerging regulations, we have participated in consultation around new sustainability-related standards and continue to assess the impending requirements for our disclosure.

Looking ahead to FY24, we are focused on executing and evolving our plans and ensuring we're continuing to address the economic challenges our customers, colleagues and communities face. We'll strive to achieve higher and more sustainable returns for our investors, while meeting the needs and expectations of our broader stakeholders.

Strategic report

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 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.	Reducing carbon emissions by at least half across everything we finance.	7 Affordable and clean energy; 8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 12 Responsible consumption and production; 13 Climate action; 15 Life on land
3 Open doors	Delighted customers and colleagues	Work with customers, colleagues and communities to encourage sustainable practices and economic activity that creates shared prosperity.	Empower and enable those most in need to gain digital access and vital skills to better manage their finances. Work towards the eradication of poverty premium for our customers. 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

FY23 highlights

100%(1) of electricity generated from renewable sources

16% reduction of scope 1 and 2 emissions YoY

Zero waste to landfill since 2014

£317m* energy and environment lending

11% reduction in financed emissions

>£1.6m Virgin Money Foundation grants distributed

£1.5m three-year fundraising total for Macmillan charity partnership

£>4.5m additional benefits confirmed or uplifted through Turn2Us benefits calculator

>32k Customers supported by a call from our care team

31k pupils participating in our Make £5 Grow scheme

88% of colleagues feel ALMV allows flexibility to create work–life balance

2023 Ethnicity Awards Finalist for Network Group (ERG)

Mortgage Industry Mental Health charter Signatory

Scottish Agri team first to complete **RSABI mental health first aid awareness training**

Gold Stonewall award Putting VMUK top 100 in the workplace equality index

(1) Where available and where Virgin Money are responsible for the supply, 100% of gas and electricity in our UK stores and offices is generated from green sources. c.8% of the Group's energy utilisation is not from renewable sources, due to either a lack of control or availability.

Environmental, social and governance

1

Put our (carbon) foot down

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

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

Approach

We've set ambitious targets to change the way we operate as a business and reduce our impact on climate and the environment. Execution of our property strategy is well under way and work with our suppliers is evolving.

We have updated our Operational targets to align with Science-Based Targets Initiative (SBTi) guidance and now expect to reduce Scope 1 emissions by 42% by 2030, from a 2022 baseline. We have disclosed priority Scope 3 category emissions targets and road maps for the first time, ensuring our compliance with NZBA and TCFD.

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 16% lower than the prior year on a combined basis.

Given the varying timelines for our supply chain to achieve net zero, we are updating our 2030 Aspiration to focus on Scope 1 and 2 emissions, where we have direct control. We expect to be Net Zero in terms of our own Operational emissions by 2030.

Our ALMV colleague proposition supports our Scope 3 ambitions and our target for business travel is to maintain travel carbon emissions per full time equivalent (FTE) below 50% of 2019 base level (FY19: 0.27tCO_2e per FTE).

We are on track to achieve our target of net zero in all direct and indirect emissions by 2050.

Key achievements in 2023

Property

Reducing energy consumption remains at the core of our operational climate aspirations and net zero journey. We've continued to install low-carbon and energy efficient measures across our stores and hubs, including the ongoing rollout of smart metering and our LED lighting retrofit programme.

Improved performance monitoring through Triana dashboards has been key to better understanding our energy and water metering data. It's enabling us to undertake site level interrogation and benchmarking of our building data, and utilize insight reports to indicate how we can manage consumption across our sites.

Strategic report

Environmental, social and governance

1 Put our (carbon) foot down continued

Where the Group is responsible for the supply and where available, 100% of gas and electricity in our UK stores and offices is generated from green sources[(1)], including a solely 100% green gas product[(2)] from April 2021. Our use of paper is falling year-on-year with a 17.4% reduction from FY22 and we have sent zero waste to landfill.

We estimate the savings in FY23 from all our initiatives to be 1,607tCO_2e when measuring our Scope 1 and Scope 2 location based emissions. We are advancing towards our overall goal to reduce location-based energy consumption by 50% in FY25.[(3)]

Colleagues

ALMV has significantly changed our working patterns, introducing Colleague Personas, Team Rhythms, and location-less hiring. Much of our workforce have been enabled to work remotely, resulting in a significant reduction in employee commuting and associated emissions. We recognise that there is still a need for business travel and as part of our Team Rhythms, we encourage colleagues to consider the environmental impact when arranging team gatherings. We have enhanced our travel policy and travel booking tool to encourage colleagues to consider more environmentally friendly travel options when they are available.

We've captured colleague commuting and home working data throughout FY23 and developed a methodology and data model to measure the associated GHG emissions. This data model – the average-data method – involves estimating emissions from employee commuting, based on average (e.g. national) commuting patterns combined with secondary colleague contract, transport and activity data.

Suppliers

We are continuing to deliver the Carbon Disclosure Project (CDP) Supplier Engagement Programme, in which we request our suppliers to report their environmental data which helps us to understand their progress to date in reducing their emissions and any future plans. We support our suppliers disclosing to CDP by delivering webinars and providing access to resources, which has been particularly important for any suppliers new to the programme in 2023.

We achieved a response rate of 87% from 178 suppliers (2022: 94% of 100 suppliers), compared to an industry average of 63%. This equates to 74% of total FY21 supplier spend and, as we continue to engage our suppliers and increase the number that disclose to CDP, the Group improves the accuracy and reliability of our reporting.

This year, we've calculated and disclosed our Scope 3 Category 1: Purchased Goods and Services and Category 2: Capital Goods emissions for the first time. A spend-based methodology was used to calculate the Scope 3 Category 1 and 2 emissions, using data from both CDP and supplier spend.

(1) c.8% of the Group's energy utilisation is not from renewable sources, due to either a lack of control or availability.

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

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

Introducing 177 Bothwell Street our new home from Q1 2024

How we're evolving our office footprint

The building is fitted with the latest energy efficient equipment, including LED lighting and highly efficient, heat-recovery air conditioning systems to reduce consumption.

Powered by 100% renewable energy with zero-carbon emissions, the power is supplied from a local wind farm located in South Lanarkshire.

We've signed a green Memorandum of Understanding to work collaboratively to reduce energy usage at the site.

The building is EPC 'A' rated which means best practice in building operational energy performance (BREEAM rated 'Excellent').

Plasterboard is 100% recycled, with other mixed construction wastes recycled or diverted to energy from waste.

We've engaged with as local a supply chain as possible, most within central Scotland and using local wholesalers based within 10 miles from the site.

Training and employment for local people has been the focus, including apprenticeships and partnering with a local recruitment agency, 'Search'.

We're encouraging colleagues to switch from commuting in their cars to walking, using public transport, or cycling and are providing 318 internal cycle spaces.

Environmental, social and governance

1 Put our (carbon) foot down continued

Strategic report

Progress against aspirations and targets (Streamlined Energy and Carbon Reporting (SECR))

	Actual 2022 (last year)	Actual 2023 (this year)[1]	2023 target	Future targets
Scope 1 & Scope 2 Emissions Location Based				
Scope 1 emissions[2] location based (tCO_2e)	3,395	**2,677***	-10% (met)	2025: -50% to 1,850t 2030: Net zero[7]
Scope 2 emissions[3] location based (tCO_2e)	6,891	**6,002***	-10% (met)	2024: -10% to 5,402t
Total Scope 1 & 2 location based emissions (tCO_2e)	10,376	**8,679**		n/a
Intensity ratio: location-based CO_2e emissions per FTE (Scope 1 and 2) (tonnes/FTE)	1.49	**1.23***		n/a
Scope 1 & Scope 2 Emissions Market Based				
Market-based Scope 1 emissions (tCO_2e)	747	**473***	n/a	Continue to source 100% biogas[8]
Market-based Scope 2 emissions (tCO_2e)	989	**926***	n/a	Continue to source 100% renewable electricity[8]
Intensity ratio: market-based CO_2e emissions per FTE (Scope 1 and 2) (tonnes/FTE)	0.25	**0.20***		n/a
Energy (gas and electric) – measured by kWhm	47,473	**42,001**	-10%	2025: -50%to 30,000 kWhm
Water consumption – measured by m³ volume	41,765	**35,900**	-10%	2025: -50% to 45,000
Scope 3 emissions (tCO_2e)				
Category 1[4] – Purchased Goods & Services	–	**48,544**		75% of suppliers (by spend) to have committed to or have approved science-based targets by FY28
Category 2[4] – Capital Goods	–	**2,039**		
Category 5[5] – Waste Generated in Operations	0	**0**		Target 1: Zero waste to landfill
Category 6 – Business Travel	313	**755**		Maintain travel carbon emissions per FTE below 50% of 2019 base level (FY19: 0.27tCO_2e per FTE)
Category 7[6] – Employee Commuting and Homeworking	–	**3,700**		No target due to no expected change to ALMV

(1) The reporting period for GHG emissions in the Group ran from 1 July 2022 to 30 June 2023.

(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) Reporting period is FY21 based on FY21 spend and CDP 2022 data. This is the most recent year of measurement and CDP emissions intensity data is in arrears.

(5) The calculation methodology for waste emissions is currently under review and will be disclosed in FY24 reporting.

(6) Based on February 2023 data, applied across 12 months .

(7) Target set in line with SBTi guidance and tooling.

(8) Where available and where Virgin Money is responsible for the supply rather than a third-party landlord or property owner. c.8% of the Group's energy utilisation is not from renewable sources, due to either a lack of control or availability.

Basis of GHG reporting

The Group GHG reporting is undertaken in line with the requirements of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. These regulations are also know as Streamlined Energy and Carbon Reporting. Further details on the Group's GHG emissions and energy consumption is available within the Climate-related disclosures at page 240.

Independent limited assurance

The Group engaged Ernst & Young LLP (EY) to undertake an independent limited assurance engagement over selected metrics in the current year, highlighted with a * throughout this ESG report, using the assurance standards ISAE (UK) 3000. A limited assurance engagement consists principally of applying analytical procedures, making inquiries of persons responsible for the subject matter. EY has issued an unqualified opinion over the selected information. EY's full assurance report is available at: virginmoneyukplc.com/corporate-sustainability/esg-hub.

The basis of preparation for the scope and methodology of assured metrics, is available at: virginmoneyukplc.com/corporate-sustainability/esg-hub.

Environmental, social and governance

1 Put our (carbon) foot down continued

Key Challenges and what's next

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. We'll continue to deliver this through the rationalisation of stores and data centres and the ongoing installation of low-carbon and energy efficient measures across the estate.

A key focus in FY24 will be in our controls management. We are investing in building management systems (BMS) which allow us to be proactive and remotely manage our sites, ensuring minimal energy wastage and savings.

We'll also utilise a new Minimum Energy Efficiency Standard (MEES) compliance and net zero capex planning platform which will enable us to create a robust property-centred net zero budget and action plan as well as advising other work areas such as offsetting strategies and awareness/education campaigns.

We are introducing systematic sustainability building annual inspections (AI's) from Q1 2024, to help to identify energy saving and sustainable solutions across our hubs and stores.

Colleagues

We will continue to closely monitor our business travel activity and encourage our employees to consider the environmental impact when making their travel decisions. Our target for business travel is to maintain travel carbon emissions per FTE below 50% of 2019 base level (FY19: 0.27tCO_2e per FTE).

Suppliers

The Group had previously set an ambition to achieve net zero supplier emissions by 2030. However, given the challenge of suppliers having different timescales to net zero, we are updating our 2030 aspiration to focus on Scope 1 and 2 emissions, where we have direct control. We now expect to be Net Zero in terms of our own Operational emissions for Scope 1 and 2 by 2030.

We continue to set interim targets to ensure we reduce emissions from our supply chain including 75% of suppliers (by spend) to have committed to or have approved science-based targets by FY28. As a baseline, in 2022, 42 suppliers in the CDP Supplier Engagement Programme committed to science-based targets, representing 38% of total FY21 spend.

We realise there are limitations: many of our suppliers are large corporations already on net zero journeys independent of Virgin Money, but we also have smaller suppliers who are yet to define a net zero approach. Our commitment to develop the Group's CDP Supplier Engagement Programme will help us continue to develop our supplier road map to achieve net zero. Using insight from the survey responses will help improve data and track targets, as well as gain a better understanding of the environmental impacts and issues in our supply chain.

We will be strengthening our focus on sustainability within our supplier tendering and selection process, embedding climate into procurement processes, to further understand supplier transition plans and science based targets. We will be looking for suppliers to tell us how their proposed products and solutions are considering the sustainability impact, which will feature in our scoring methodology and influence the outcome of supplier selection.

Also, in FY24, our Supplier Relationship Managers will be working more closely with our key suppliers to understand their sustainability road map, encouraging them to commit to setting science-based targets and disclose to CDP. Supplier Relationship Managers will continue to receive CDP training through webinars and access to resources and online tools, building competency and awareness.

Operational Emissions

We will maintain low levels of market-based emissions through sourcing of green electricity and green gas and will continually reduce our consumption. We will continue to disclose operational scope 3 emissions' evolving to reflect the latest science and guidance, combined with continued data quality improvements and the Group's ability to measure the impact of specific actions.

For more detailed information on our net zero plans and targets, see pages 240 to 272 in the Climate-related disclosures.

2 Build a brighter future

SDG alignment

7 Affordable and clean energy – Ensure access to affordable, reliable, sustainable and modern energy for all	12 Responsible consumption and production – Ensure sustainable consumption and production patterns
8 Decent work and economic growth – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	13 Climate action – Take urgent action to combat climate change and its impacts
9 Industry, innovation and infrastructure – Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation	15 Life on land – Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

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

Approach

We serve millions of people and businesses across the UK and believe we can make a real difference through supporting the UK's transition to a low carbon future. We recognise the role our products and services play, both within the Group's environmental sustainability strategy and in the fight against climate change. As we continue to embed sustainability across our business, we are growing our suite of greener products and services, considering how we can incorporate sustainable elements into new propositions. We aim to support our customers to develop more sustainable practices, creating a more sustainable and inclusive future for people and businesses.

Key achievements in 2023

We've made strong progress against our science-based targets in FY23. We've expanding our calculated emissions to 85% of the lending portfolio and set science-based targets for 82% of the book, ensuring our compliance with NZBA and Climate-related disclosures.

Mortgages

We are on a mission to improve the energy efficiency of UK homes; our strategy to achieve our aspirations covers four priorities:

- Enhance the quality of our data to strengthen our analysis and monitor the impact of climate change from our portfolio
- Grow customer awareness and support customers to develop an understanding of their transition plan to a more energy-efficient home
- Expand our Green lending proposition to encourage customers to make more sustainable borrowing choices
- Improve the EPC profile of our portfolio

We've made it our ambition to drive growth in green lending products and services and, after a successful application, we're delighted to have been awarded a Green Homes Finance Accelerator (GHFA) discovery phase grant.

In partnership with property search portal Rightmove and energy tech specialist Sero, we've designed a proposition – the Green Makeover Mortgage – that will enable customers to make energy efficient home improvements and support the UK's transition to Net Zero.

The project aims to educate customers on retrofit options available to decarbonise their home and the benefits of doing so, while also providing finance options to implement the changes. Driving green finance innovation

Environmental, social and governance

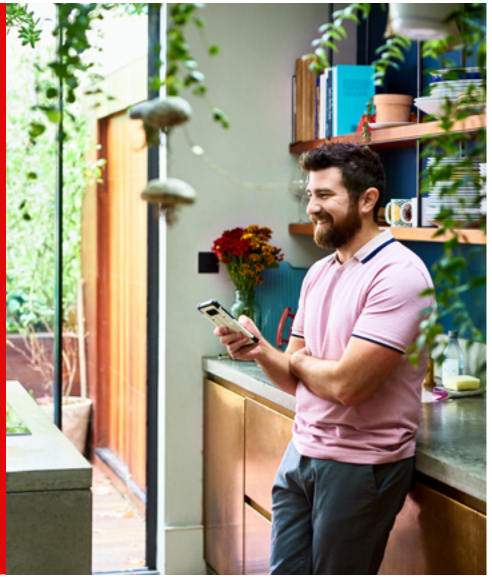
2 Build a brighter future continued

50% of mortgage portfolio EPC C+ rated by 2030

FY22 38%
FY23 39%[1]

50% increase every year in value of new greener mortgage lending

FY22 £131m
FY23 £226m



is an important element of Virgin Money's strategy as we look to reinforce our aspiration to halve our financed emissions by 2030 and deliver Net Zero by 2050.

We aspire to improve the EPC profile of our Mortgages portfolio. Despite existing challenges regarding EPCs, and the need for government support to improve them, they remain a part of measuring our success against our sustainability ambitions and in FY23 we are on track with our aspiration, with 39%[1] rated C or above.

Our exclusive Green reward product offers £250 cashback to both residential and BTL customers who borrow to make energy saving upgrades to their property, and our Greener mortgage product offers lower rates for residential mortgages on properties rated EPC A-B. We have made slower progress than planned this year due to the tougher mortgage environment and cost of living challenges.

With rising base rates impacting the mortgage market we have implemented several options to support our homeowners and proactively ensure that we identify, contact and help customers in potential difficulty. We've also signed up to the government's Mortgage Charter to give mortgage customers the right support in the current environment of financial strains and uncertainty, and our customer website provides a new range of support options for those who need it.

The Group achieved a 57% increase (£82m) year-on-year, against a target of 50%, taking the total new greener mortgage lending to £226m. We continue to explore the suitability of green mortgage products and will support customers with the most relevant offering to decarbonise their homes.

Business

In 2022, we launched the Sustainable Business Coach (SBC) app: a smart digital coach which uses methodology developed by non-profit organisation Future-Fit. The app can help in setting targets and measuring progress against ESG-related goals and helps businesses of any size to assess and improve their sustainability. The SBC is embedded within our credit risk assessment for all lending >£2.5m.

During 2023 we carried out several enhancements to optimise app functionality including the addition of downloadable reports and sector score comparisons, allowing customers to share their individual reports with stakeholders. We've also introduced additional climate-focused questions through which we gain greater insight into how Business customers are thinking about sustainability.

As the SBC app is embedded in our annual review process, we use the data to measure the ESG score of our portfolio, helping us understand where additional help and focus is needed. We're starting to gain greater insight into our customers' behaviours through the data generated such as: 13% of businesses power more than 75% of their operations through renewable energy, 27% of respondents have already mapped their supply chain for social and environmental issues and 15% of businesses fully engage their local communities in their decisions. This data will inform how we support our customers moving forward.

(1) 39% where a positive match is made. (29% of the full mortgage portfolio, including properties which have not been matched to EPCs).

Environmental, social and governance

2 Build a brighter future continued

£500m in Energy and Environment Lending by FY27

FY22 £224m
FY23 £317m*

10% Lending to Sustainability Changemakers by FY27

FY22 5.3%
FY23 6.7%

By 2027 our ambition is for 10% of all business lending balances to be through Sustainability Changemakers, whose core goods and services drive social or environmental change, such as reducing dependency on non-renewable energy sources and reclamation and recycling of waste.

Changemakers are spread across our business portfolio and are sector agnostic, but does incorporate the majority of the customers within our Energy and Environment portfolio. Eligibility is determined by the positive impact section of the Sustainable Business Coach, derived from the Future-Fit Business Benchmark, which is free to access guidance for businesses seeking to transition their business across E, S and G goals. We're delighted to be on track with 6.7% of business lending balances at FY23.

The Portfolio ESG score is the average score received by Virgin Money customers through Sustainable Business Coach assessment. Responses are self-certified, our ESG score for FY23 was 56%.

We continue to offer a Sustainability Linked Loans proposition (defined as loans Virgin Money generates without an arrangement fee where the customer has met the pre-set ESG related criteria).

We're progressing well towards our Energy and Environment £500m of lending target by FY25, achieving £317m* at end FY23.

Our focus on growth and optimising support for our business customers includes our continued commitment to support SMEs. New digital tools (M Track, Marketplace) provide SMEs with data-led solutions to manage their finances and business more efficiently. Through investment in technology, Relationship Managers have increased capacity to spend time with customers to support with their business needs.

Virgin Money is chairing the inaugural Partnership for Carbon Accounting Financials (PCAF) Business Loans and Unlisted Equity Working Group. The purpose of the group is to establish common challenges banks face in measuring financed emissions for its business loan portfolios and work collectively to enhance the underlying PCAF methodology. The group formed in June 2023 and contains membership across several other UK financial institutions.

We're an active participant in UK Finance's ESG for SME working group which meets bi-monthly, sharing common challenges and opportunities to support SMEs in an environmental and socially considerate transition.

Virgin Money was a panelist at UK Finance's Commercial Finance June 2023 conference session focused on ESG, recognising the breadth of work achieved by the bank.

We offer our Agri customers 0% arrangement fees through the E Fund when a farmer completes a carbon audit and is going to invest in emission reducing initiatives, like renewable energy, energy efficiency initiatives or activities that reduce greenhouse gases.

Throughout FY23 we've actively engaged across the sector, hosting multiple events to raise awareness of sustainability challenges and thought leadership. We've undertaken our 3rd annual survey across the Agri sector, seeking to understand key challenges since FY22 and where our customers feel their greatest areas of focus will be in FY24, ensuring we're better prepared to support them.

Environmental, social and governance

2 Build a brighter future continued

Key Challenges and what's next

Key focus in FY24 is the execution of our net-zero road maps and targets as we continue to provide resources and propositions which support our customers on their transition to low carbon.

Enhancing the quality of our data is key to our strategy in FY24, focussed on improving the quality of data inputs to develop our calculations, and for automation in several key areas. Using enhanced data and continuing industry collaboration, the insights gleaned allows us to continue evolving and respond to external influences from regulators, government and consumer behaviour. We'll also embed further climate considerations within the credit decisioning process through the use of data.

For more detailed information on our net zero plans and targets, see pages 240 to 272 in the Climate-related disclosures.

Mortgages

We'll continue our work with strategic partners to develop the Green Makeover Mortgage proposition, extending Virgin Money's green lending in the Mortgage market, supporting customers when buying a more energy efficient property or improving the efficiency of their home.

We aspire to increase customer awareness and help customers to develop an understanding of their transition plan to a more energy efficient home. We aim to encourage customers to act more sustainably, either through the option of a great deal for purchasing an energy efficient property or retrofitting their existing homes. Through this work, we are developing enduring strategic partnerships that support and facilitate the transition of UK homes to net zero.

We plan to enhance the data quality of the estimated emissions within our mortgage portfolio. For example, we'll explore capturing property consumption for mortgage customers and aim to develop an emissions tool to assess loan CO_2e value, giving us a better understanding of the loan's impact. This will enable us to better support customers, future proofing our business on a loan-by-loan basis.

Business

We're already on the road to 2050 and want to support our business customers to take advantage of the new opportunities to create a sustainable future for everyone. It's the right thing to do, is good for improving business reputation and, with increased pressure from the supply chain and regulatory landscape, now is the time to act.

Through our relationship managers, we'll use the SBC app to gain a better understanding of how a business behaves and the role of products and services in supporting environmental and social change.

Improving key sustainability data capture points from customers is an area of focus for our relationship managers, which will help us to learn about their transition plans on a customer-by-customer basis.

Deepening our awareness of the impact our lending portfolio has on our ability to achieve our climate strategy will continue.

We will explore opportunities to develop initiatives and seek to pro-actively finance the UK's climate transition, leveraging the balance sheet to support cross sectoral customer decarbonisation.

From Virgin Money's perspective, we recognise the dependency on significant government and regulatory intervention to support the introduction of an effective economic infrastructure. We aim to drive climate-led action, targeting the sub-sectors most impacting our financed emissions and so further supporting the UK's net zero ambitions.

From the start of FY24, we will introduce an emissions reduction policy which impacts the highest emitting sub-sectors of our portfolio (Air, Chemicals, Shipping and Oil & Gas). We'll require businesses with exposure over £2.5m in these sub-sectors to measure their scope 1 and 2 emissions, have an emissions reduction plan, and be making investment in the delivery of the emissions reduction plan. We'll require this information to be shared annually for the duration of the lending facility and will be a key enabler in encouraging customers in these pockets of the economy to accelerate action.

Environmental, social and governance

2 Build a brighter future continued

Virgin Money's Agri E Fund helps a first-generation farming family make the leap from traditional dairying to an automated carbon net zero pathway.

Virgin Money launched the Agri E Fund in 2022 with the aim of helping farmers to invest in emission reducing initiatives, like renewable energy, energy efficiency initiatives or activities that reduce greenhouse gases.

Eligible farmers benefit from 0% arrangement fees on term borrowing over £50,000 to be used for investing in activities which meet any of the Green Loan Principles.

Alongside the Agri E Fund, we partnered with Carbon Metrics to produce a net zero report aimed at helping farmers understand the background to climate change, what it means for the industry and how they can start to adapt their businesses to meet the challenge.

The Throups run a 700-acre farm near Keighley in West Yorkshire and needed to make improvements to their commercial cattle and sheep operation. They secured a Rural Payments Agency (RPA) grant towards the planned investment and turned to Virgin Money to support the remaining substantial costs of the new infrastructure they needed to futureproof the farm.

To qualify for the Agri E Fund loan and its reduced arrangement fee, the Throups commissioned a professional carbon audit that measured the carbon performance of every aspect of their farm and they were able to identify an environmental dimension to their plans that qualified them to benefit from the Agri E Fund.

Helping our farming customers get to grips with the carbon net zero challenge and understand the importance of having their own carbon journey mapped out is a fundamental objective in our lending strategy. Through the fund we are encouraging farmers to use carbon emission reduction as a route not just to an environmentally sustainable future but to a much more commercial approach to farming. For more information on our Agri E Fund please see our website: https://uk.virginmoney.com/business/agriculture/

"The process of the carbon audit wasn't difficult but it was very detailed," says Ian Throup "Information had to be gathered and assessed, and the consultants made detailed recommendations on how and where we could make improvements. We're looking forward to our second audit because we know we are already reducing our carbon footprint as a result of the investment we've been able to make. We're cutting carbon and increasing productivity, and the changes we've been able to make to our infrastructure are making us more efficient and reducing our use of diesel, and most importantly the cows have adapted well to the system."

Lynne Throup

We have been able to depend on Virgin Money since we first started banking with them in 2007.

3 Open doors

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

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

Approach

As the UK and our customers continue to face economic challenges, we want to bring our Purpose to life, to inspire and illustrate how it impacts our colleagues, customers and communities. Inclusion and access are at the heart of our digital strategy and underpin our work on tackling the poverty premium.

Throughout FY23 we've revisited our 'S' strategy and committed to align our activity across our Customer and Community stakeholder groups around super-themes of digital inclusion and financial education.

As we enhance insight from our own data and through strategic partnerships, we've more clearly defined our Goal 3 2030 Aspiration and are developing robust delivery plans.

Key achievements in 2023

Customers

We've established some powerful initiatives to support the estimated 14 million people in the UK paying the poverty premium. In 2022, we teamed up with Good Things Foundation (GTF) and after a successful pilot across 16 of our stores, we've now got 50 stores who offer a 20GB free data-loaded O2 SIM card to people experiencing data poverty. Our specially trained store colleagues are available to help users register SIMs, show them how to get online and offer tips on how to stay safe when browsing. Further boosting the support available to people living in digital poverty, we have donated around 200 devices to the Good Things Foundation's National Device Bank, helping put technology and training in the hands of those who would otherwise be digitally excluded due to poverty.

We have worked with the Centre for Social Justice (CSJ) to develop a report called Left Out: How to tackle digital exclusion and reduce the poverty premium. The report highlights some of the key challenges around digital access and the financial impact this has on individuals – particularly those on lower incomes – when it comes to purchasing essential goods or services. The report also makes strong recommendations on how businesses and the Government can help to tackle this challenge.

Our dedicated cost of living hub provides advice on dealing with price rises, cutting bills and signposts support services for people that need extra help, and has been accessed more than 60,000 times throughout FY23.

In addition to direct support for customers, we are working with the industry and third parties to work towards a more inclusive banking sector that eradicates inequity and aids those most in need. Continuing our work with Turn2us, 50k customers have accessed the Benefits Calculator on our website and identified an additional £4.5m in unclaimed benefits since its launch.

We're a signatory of the Mortgage Industry Mental Health Charter and chair the steering group. The charter is based around six key principles, including developing mental health awareness among employees, encouraging open conversations about mental health and supporting employees who may be struggling.

The Group is committed to offering meaningful support to our customers finding themselves in vulnerable circumstances and has introduced a specialist support team – our Customer Care Team – trained to deal with specific circumstances where extra care and more bespoke support is required.

3 Open doors continued

There's a wealth of research that indicates poverty is associated with higher rates of domestic, economic and financial abuse. Our frontline colleagues are often a safe place for victim-survivors escaping abuse and an important part of our support is understanding their specific circumstances and what help they need from us.

These conversations are sometimes challenging for our customers, and so we have focused on dedicated training and resources. Our colleagues have access to a domestic, economic and financial abuse support toolkit, and a dedicated customer hub. We've also developed a specific 'customers with vulnerabilities' colleague training module which is intended to prepare and support colleagues interactions with vulnerable customers. The team has already made calls to over 32,000 customers that we've identified as in need of this more specialist support.

Colleagues
To help us create a more inclusive future, we've launched our brand-new BRAVER Framework (an enterprise-wide Allyship framework for inclusion). We have a strong desire to create a diverse workforce that reflects the customers we serve and to build on the inclusive and fair culture we have here at Virgin Money. Our new BRAVER index is an aggregated measure of the extent to which colleagues feel connected, included and treated fairly at Virgin Money and provides us with valuable insight, We were very pleased to have a score of 87% for our first BRAVER Index inclusion rating.

We're encouraging braver conversations to shift mindsets and create sustainable change. We've asked colleagues and teams across the business to make their BRAVER promise by telling us what they'll do to be BRAVER going forward.

Our Inclusion Networks have 4,800 members across all 6 networks and provided a full calendar of events during FY23 including: daily challenges during Race Equality Week to help colleagues think differently and to take action; awards events to recognise those leading the charge, raising awareness and demonstrating what it means to embrace our culturally diverse backgrounds. Vibrant (LGBTQI+) won the best employee network award at the Proud Scotland awards in June 2023, and all networks have had a productive year working together to create sustained focus on inclusion.

We're pleased to report that we are within our target to have 45-55% female representation at 51.6% in our senior manager population and 57.1% in our Executive team. For more detail on our DE&I commitments and targets, please see page 24 in Customer and Colleagues section of the Strategic report.

We've refreshed and relaunched our colleague Career hub, designed to help our colleagues develop in their role and beyond. Our Career Journey Framework is designed to put colleagues in the driving seat. It allows them to own their own personal development, build future opportunities, and continue to receive regular formal performance reviews. We've also launched a new external Careers hub, providing information on working at Virgin Money. For more information see the Colleagues pages on 23.

Colleagues have access to a suite of financial wellness resources, including Virgin Money-Minded – a financial wellness site providing support with topics including common money worries, spending, saving, and planning, and tips about how to manage rising energy costs.

Following a one-off payment in 2022 to help with the cost of living, most colleagues will have received two salary increases during 2023, to ease the growing pressure on finances and support colleagues and their families.

We've delivered a Developing Your Toolkit webinar, including a focus on mental health, which we recognize makes up a significant part of our colleague's overall wellbeing. Colleagues had the opportunity to hear about 'different ways to look after your mental health', including the 'Five Ways to Wellbeing'.

Our annual celebration of our Purpose took place in March 2023. PurposeFest 23 saw three days worth of celebration and discussion led by speakers from our leadership team and guests from Macmillan cancer support, Turn2us, Good things foundation, Virgin Money Foundation and Virgin StartUp. Sessions included Leveraging Virgin to accelerate sustainability, Make money count for everyone, and How to be BRAVER with diversity, equity and inclusion.

Our colleagues have settled in to our ALMV colleague proposition, enabling us to delight customers, support communities, and ultimately achieve our business priorities. ALMV has also given us a unique voice in the external conversations about the future of work. Throughout 2023 we attended several external events sharing our ALMV story and have been shortlisted for a People Management Award by the CIPD for the best flexible working initiative. While we see other businesses mandate how and where their employees work, the flexibility offered by ALMV is a core part of our business strategy and it's here to stay.

Communities
Alongside the work we've done to support digital inclusion and financial education through our partnership with GTF and Turn2us, we also recognise the impact that money worries can have on our customers' mental health. We signpost a range of organisations that offer support through our Cost of Living Hub and other points of customer contact.

In FY23 we have donated c£418k to two not-for-profit organisations specialising in debt management that we refer customers onto – Step Change and PayPlan – both of whom are recognised as key providers of free-to-consumer debt advice, and are authorised and regulated by the FCA.

The Group's annual donation to the Virgin Money Foundation has enabled the Foundation to award 350 grants totalling more than £1.6million through its four grant programmes. The grants were awarded to initiatives located in areas in the top 20% of the Index of Multiple Deprivation or Scottish Index of Multiple Deprivation, with 76% of funds being spent in areas in the top 5% of either index. Over 85,000 households were supported by the organisations the Foundation funded through its main grants programme. In addition to its grants supporting community organisations, the Foundation provided leadership development grants to existing and emerging social entrepreneurs.

During the year the Group confirmed that it would be extending its commitment to the Virgin Money Foundation. Over the years ahead the Foundation will be working to address digital exclusion in local communities.

2023 was the first year of the relaunched Make £5 Grow entrepreneurship programme with online resources and videos aligned to the financial education framework giving real experiences of running a business. The total number of pupils who have participated since launch is now over 185,000.

Virgin Money exited our Clydebank premises at the end of September – moving to our new head offices in Bothwell Street (see page 35 for more information). Having been an employer in the local area for 32 years, we were keen to leave a lasting legacy in the community and have donated £100k to be used as an endowment fund. £15k has been allocated to Golden Friendships – a local charity which supports the young, elderly, disabled and vulnerable –

Environmental, social and governance

3 Open doors continued

to fund a new sound and lighting setup which will support events to become fully inclusive, and provide a wider reach within the community.

The remaining £85k will be placed in an Endowment fund managed by Foundation Scotland with the annual return being allocated to causes within the Clydebank area.

Our colleagues in Treasury partnered with HR teams to welcome pupils from schools in London, Newcastle and Glasgow into our offices to gain an understanding of the breadth of career opportunities available in Virgin Money. Providing insight into some of the varied roles available – including financial markets and responsible banking – the aim was to engage and inspire young people to consider Virgin Money as a future employer.

Macmillan

We carried out four key Macmillan moments over the year, Last Hour of Pay, Macmillan March, the Mighty Hikes series and World's biggest coffee morning. Reaching new heights, 145 colleagues took on the tallest peak in the UK, Ben Nevis, raising over £67k (including matching) in important funds for Macmillan Cancer Support. More than 1500 colleagues donated their last hour of pay in December 2022 to raise over £57k (including matching).

Our Macmillan Guides have referred nearly 100 customers to Macmillan for direct support, identifying >£53k in additional emergency grants and welfare support. We've also delivered enterprise-wide training, including first contact cancer support training, to all frontline colleagues and delivered an 'always on' social media campaign which has reached 3 million customers.

As we come to the end of our 3-year partnership with Macmillan, we're delighted to announce that we've raised £346k during FY23, with fundraising over the past 2 years of £656k against our £500k target. This takes the total raised throughout the 3 years of partnership to over £1.5 million, which is the sum of all the fundraising and additional donations.

Key challenges and what's next

Customers

Helping households with the increased cost of living will continue to be an important challenge facing the UK for the foreseeable future. Our customers remain at the heart of our Purpose and by helping people become more digitally enabled, we aim to improve their lives for the better. Focusing on our super themes of digital inclusion and financial education, we will increase digital access, opportunity, training and resources across the UK to benefit those who need it most.

We remain committed to tackling the poverty premium, which is currently paid by about one fifth of the population, and continue to aspire towards it's eradication for our customers. Over the next five years we aim 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.

We are working with the Smart Data Foundry to establish triggers of the poverty premium and impacts of the cost of living to better develop drivers and develop solutions for our customers.

We are extending our partnership with Turn2us for a further twelve months and will be expanding our relationship to promote their social grants tool alongside the benefits calculator.

Our Customer Care team will continue to identify and contact customers who may be impacted by our digital ambitions, supporting customers with digital education and making sure no customers are left behind.

By the end of FY24, we will offer Databank support through all our stores and explore more initiatives to ease the strain of cost-of-living crisis, building digitally-enabled money management tools, developing digital partnerships and new propositions, all supporting our super themes of digital inclusion and financial education.

Colleagues

We'll be embedding our BRAVER framework in our colleague experience across the bank and recognising colleagues who are showing great bravery and leadership by making their BRAVER promise. We will introduce our brand new BRAVER Influencers – colleagues who care deeply about our culture at Virgin Money, who make it a place where all colleagues can be themselves and thrive, people who love to challenge the status quo and who can influence others to invest in becoming BRAVER every day.

We are building a BRAVER mentoring programme to attract and advance underrepresented talent, and we'll be hosting a 'Steps to Success' career event in collaboration with Black Professionals Scotland in January. Ensuring we attract and retain good representation at all levels of the Group is one of our key metrics under Goal 3. You can read more on this in Colleagues, pages 22 to 24.

To mark World Mental Health Day on Tuesday 10 October, our Vibrant network will team up with Stonewall to shine the spotlight on mental health in the LGBTQI+ community. In this 60-minute interactive workshop, colleagues will be shown stats to reflect on and learn how to be a better ally and support positive LGBTQI+ mental wellbeing.

With more and more people experiencing mental health issues, it's important we can all spot the signs and be mental health advocates for ourselves and others.

Our annual financial inclusion event for colleagues will be hosted in December, with the aim of showing the impact colleagues can

Databank Case Study

Montrose store were delighted to be selected for the initial Databank pilot and, once training was complete, reached out to their local community groups to raise awareness of the programme. The store has a great relationship with the local Job Centre, who were keen to hear more about the Databank and the overall work from Good Things Foundation.

The first introduction was an individual who had no mobile data, which was directly impacting their ability to look for work or complete job applications, and were currently reliant on the local library for internet access.

Following the referral, the Job Centre reported that the individual had been able to invest more time on their job application and had been successful in securing a job.

Through the Databank support, we were able to provide 6 months mobile data and provide a much needed lifeline. The individual was so impressed with our service, they've subsequently opened a current account to receive their new salary.

Strategic report

Environmental, social and governance

3 Open doors continued

have on customers in vulnerable circumstances when we get it right, as well as learning about external support that is available for customers.

Communities

Our Purpose of Making you happier about money drives us to put what we know about money to better use for those in our communities who need it most. Through our super-themes of digital inclusion and financial education, we are increasing digital access, opportunity and resources and helping people to make improved decisions about their money; with the aim of improving social inclusion and financial confidence from school age and beyond.

Through our charitable donation, the Virgin Money Foundation will continue to work to make a real and lasting difference in the places that need it most, by working in partnership with organisations that are tackling digital exclusion in local communities and by investing in community activities that close the digital divide.

We're proud to announce that Mind, the leading mental health charity across England and Wales, and SAMH (Scottish Action for Mental Health) are our new charity partners for FY24. We've already begun working with Mind and SAMH to define and implement a programme of volunteering and fundraising events driven by our Purpose and to deliver on our super-themes of digital inclusion and financial education.

As a legacy of our Macmillan relationship and Macmillan Guides, work is ongoing in our Vulnerable Customers and Inclusion team to establish a long term support solution for other vulnerable customer groups. We will learn from the invaluable experience of working with Macmillan to influence the design and implementation of an escalated 1-2-1 support model.

We'll continue to deliver our flagship financial education programme, Make £5 Grow, to make young people feel happier about money. We'll be looking to identify new partners to broaden our financial education offering and to reach as many young people as possible to support them with their money.

Progress against aspirations and targets

2030 Aspirations

Empower and enable those most in need to gain vital skills and digital access to better manage their finances.

Work towards the eradication of the poverty premium for our customers

Sponsor diverse talent at every level and achieve a diverse top-quartile of the organisation

FY24 Goal

£200k Charity Partnership fundraising.

FY24 Goal

Support 51k[1] individuals with financial and digital wellbeing resources

(1) 51k includes pupils participating in Make £5 Grow scheme

FY24 Goal

Senior Gender Diversity 45-55%

Overall Ethnic Representation: 10% by FY25, 14% by FY30

Overall LGBTQ+: 4% by FY25, 5% by FY30

Overall Disability: 8% by FY25, 10% by FY30

Environmental, social and governance

4

Straight-up ESG

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

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

Approach

Straight-up ESG means strong support and accountability across the Virgin Money Leadership Team, with ESG and climate leadership embedded throughout our Governance framework.

The ESG hub on our Corporate Website contains links to our ESG-related statements and policies to help all stakeholders understand what we're doing to be a responsible business. We're committed to being transparent about our progress and challenges through our reporting and disclosures and, given the increasing external expectations on sustainability-related disclosure, we know that aspiring for environmental and social change is not enough: we must hold ourselves accountable for achieving our goals.

Key achievements in 2023

Governance

Our Board has oversight of climate change risk and holds our business to account on ESG.

We have continued to embed Climate and ESG into all relevant Board and sub-Board committees and provide quarterly updates on our ESG Goals and Climate strategy, with Board and the Board Risk Committee (BRC) overseeing the Groups performance as a responsible business.

We have a dedicated monthly Environment Committee, chaired by the Group Chief Financial Officer, which provides direction on our climate strategy, oversees execution, and tracks progress against targets. Throughout FY23 the Environment Committee has approved new policies to underpin our approach to climate-related credit risk, and agreed the proposed methodology and approaches for calculation of financed emissions. More detail on these can be found in our Risk Management section of the Climate-related disclosures, pages 261 to 265.

The Committee also discusses the Group's sustainability-related performance against peers and is kept updated with expectations from external regulations and emerging standards, ensuring Virgin Money maintains compliance.

We have a well-established ESG working group that act as custodians of the ESG strategy and drive delivery of all related activity and targets. The working group, which meets monthly, is a collaborative forum at practitioner level, encouraging business leads to share progress and updates on plans, provide challenge and bring a coordinated approach to the delivery of our ESG strategy.

The ESG working group works closely with the Purpose Council to ensure the Group's ESG strategy and our Purpose are fully integrated.

Colleague Engagement

Across the Group, we have highly engaged, customer focused colleagues with significant expertise and experience and we want to keep building on that. Our Sustainability hub was designed with colleagues in mind and includes helpful and educational resources to inspire colleagues, and improve knowledge and understanding of our strategy and four goals.

All colleagues complete regular training on ESG related topics through our Professional Passports and throughout FY23, we've undertaken bespoke training within specific areas of the business to upskill, including: training our Supplier Relationship Managers on CDP; Business Relationship Managers trained on new Sustainable Business Coach functionality; our customer-facing Agri team have completed RSABIs first mental health training, specifically focused on supporting their farming customers; and more broad and general upskilling on Sustainability across our Stores Network and through our Learning in a life more Virgin framework.

Environmental, social and governance

4 Straight-up ESG continued

We've been tracking colleague sentiment throughout the year as part of our quarterly engagement surveys and have seen an uplift of 4 points in response to the visibility of sustainability in decision making: we know we have more to do in this space.

Disclosure
The evolving nature of sustainability and climate disclosure recommendations continues to be a key consideration for the Group.

We comply with all relevant ESG related regulation and standards, including the Task Force on Climate-related Financial Disclosures (TCFD) standards, NZBA, United Nations Principles of Responsible Banking (UN PRB), Modern Slavery Government Registry, and Women in Finance Charter. We have embedded the principles within our policies and procedures, in line with regulatory expectations, including through our robust governance framework. For more detail on our Climate-related disclosure (TCFD) summary, please see pages 52 to 53.

We're committed to increasing visibility of the actions we're taking to deliver against our Purpose and be a responsible business. We continuously review the policies and positioning statements within our external facing ESG hub and maintain a watching brief on the regulatory landscape for both imminent and emerging sustainability-related standards and regulations, ensuring we remain compliant and identifying where we can take a more proactive approach.

We recognise the importance of globally established ESG rating agencies in helping to give our investors an accurate, fair and transparent view of our ESG performance. Throughout the year we have continued to proactively respond to several key ESG surveys and sustainability assessments, earning a stable rating from Moody's Analytics and retaining our 'Low' risk rating with Sustainalytics.

FY23 is our fourth submission as a signatory to the United Nations Principles of Responsible Banking, which requires the Group to obtain limited assurance on questions 2.1, 2.2, 2.3 and 5.1 of the UN PRB response. We have engaged EY – as our current auditors – to undertake this activity and their report can be found within our ESG hub. The full UN PRB report can be found on pages 338 to 365.

Modern Slavery
In March, the Board approved an updated Modern Slavery Statement. Virgin Money has a zero-tolerance approach to modern slavery, and we are committed to doing business with honesty and integrity. We do not tolerate slavery, trafficking or forced labour in any part of our business or any supply chain.

We are continuing to progress observations from the PWC review of our Modern Slavery governance, to enhance our approach through our Modern Slavery working group. For FY24 the working group will take a closer look into our processes, supply chain and ways to raise awareness of Modern Slavery indicators.

During FY23 we revisited our definition of 'high risk' suppliers to ensure we continue to maintain appropriate focus on Modern Slavery within the supplier relationship manager processes.

Further information on how we manage risk in our supply chain can be found in the ESG hub: https://www.virginmoneyukplc.com/downloads/pdf/VM014-Supplier-Code-of-Conduct.pdf.

Modern slavery and human trafficking are included in our bespoke Modern Slavery learning module which is mandatory for colleagues to complete on an annual basis. Our Modern Slavery Statement can be accessed here: https://www.virginmoneyukplc.com/corporate-sustainability/modern-slavery-statement/.

Key Challenges and what's next

Governance

As we augment our Goal 3 delivery plans around our super themes of Digital Inclusion and Financial Education, we will be incorporating targets, reporting requirements and overall governance within our existing frameworks. We will continue to further embed climate and broader sustainability principles through our committees, risk framework, credit policies and supplier engagement processes.

We will track and report progress on our ESG Goals and Climate related KPIs through the governance framework outlined on page 256 of the Climate-related disclosures.

We have built sustainability targets within our annual scorecards and embedded an ESG scorecard within Leadership Team remuneration (LTIP), which incorporates a carbon emissions Scope 1 & 2 target alongside measures for colleague engagement and leadership diversity.

The ESG scorecard contributes a 15% weighting to the overall FY23 LTIP, and the table below includes the metrics we will use to measure and track the Group's performance, maintaining 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.

Colleague Engagement

We will deliver a series of sustainability related 'campaigns' to engage colleagues around key themes throughout the year. We will review the current approach to assessing colleague engagement in sustainability and use this to inform our engagement approach for FY24 and beyond.

We are committed to ensuring colleagues have the necessary training and access to resources which enable them to support our customers through these challenging economic times.

Colleagues will undertake regular ESG related compliance training with 4 professional passports delivered quarterly – all contain ESG related material plus an ESG specific training module once a year. An important element in achieving our ESG strategy relies on our colleagues feeling empowered and informed. We want to create an inclusive culture where all colleagues can be a driving force, contributing to and proud of our success, so our sustainability team will support the business areas in responding to training needs throughout FY24.

As part of our sustainability building inspections (AI's), Regional facility managers (RFMs) will be delivering a recycling training and awareness programme through our site sustainability champions. RFMs will be feeding back to champions on site visits, highlighting any identified sustainability opportunities and risks, enabling us to identify and manage improvements across our stores and hubs.

Disclosure

FY24 will be our 5th year of reporting progress to the United Nations Principles of Responsible Banking. Throughout the year we will look to refresh our impact assessment as a means to validating our key areas of sustainability-related focus. We will also be preparing for an expanded scope of Limited Assurance on our ESG targets and disclosures.

The Group is also preparing for the launch of the UK Government's Sustainability Disclosure Standards (UK SDS) due July 2024, which will be based on International Sustainability Standards Board (ISSB) Standards. The ISSB Standards fully incorporate the recommendations of the Climate-related disclosure framework, as well as consolidating key elements from other market-leading investor-focused sustainability reporting initiatives, to deliver a global baseline. UK SDS will only divert from this baseline if absolutely necessary for UK-specific matters. In the meantime, we will remain consistent with the updated 2021 Climate-related disclosure recommendations.

We are considering the development of additional environmental reporting, such as the Taskforce on Nature-related Financial Disclosures (TNFD) and the impact our Business has on nature. We recognise it is a complex topic with cross dependencies on our Climate ambitions, so will develop our understanding and plans in line with emerging guidelines and standards.

More information can be found within our Climate-related disclosures on pages 240-272.

Our ESG resource hub is a great tool for raising the visibility of ESG and the processes which guide our decision-making. We will continue to work with stakeholders across the business to enhance our disclosures and add more positioning statements and policy summaries, covering topics that we believe are relevant to our businesses and that are of interest to investors and other stakeholders.

Modern slavery

Our Modern slavery working group will continue to review areas of enhanced governance which includes a closer look into our processes and supply chain and working through the PWC recommendations highlighted in their report to implement suggestions where possible. The design and delivery of a Purpose and Modern Slavery refresher training pack will support supplier managers with supplier interactions and risk identification.

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.

Environmental, social and governance

4 Straight-up ESG continued

Making lives happier

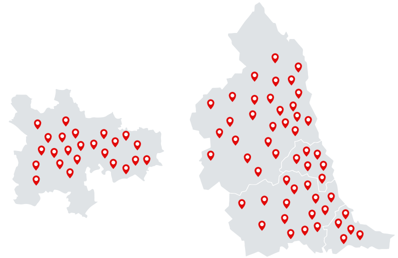
The Virgin Money Foundation provides grant funding and leadership support to local charities based in communities within the top 20% of the Index of Multiple Deprivation (IMD), helping people to create positive and lasting change in their neighbourhood.

Our impact in FY23 | What we’ve done

£1,643,592
awarded in grants to make a difference

20 Community Enterprise Leaders
Awarded grants and leadership development through Leading The Way

40 Community Anchors
given grants for vital work to support neighbourhoods impacted by the cost of living crisis. Across Glasgow and the North East of England, these community anchors have worked with over 85,000 households.



Glasgow

North East England

11 Young Change Makers
awarded grants and leadership development to grow their initiatives

350 grants awarded

347 neighbourhoods helped across the UK

76% awarded to communities in top 5% of IMD

Here’s to changing even more lives next year

MONEY FOUNDATION

The Virgin Money Foundation exists to make a real and lasting difference in communities that need it most. It does this by working in partnership with organisations that are committed to regenerating their local areas and investing in community activities that have a meaningful impact.

Established in 2015, the Virgin Money Foundation has now awarded more than £13 million in funding to incredible initiatives over the last seven years. This money has supported projects and programmes that tackle poverty, support people experiencing homelessness, help address racial inequity, and promote social change in local communities.

As we move into FY24, the Bank and Foundation will be working even more closely together, utilising knowledge and expertise across both organisations, leveraging our combined strengths to increase our impact within communities.

Virgin Money CEO David Duffy said: “The Virgin Money Foundation helps Virgin Money to live out our purpose. They bring that purpose to life by supporting communities who have a vision for change in their area – whether that is through supporting projects that help people through tough economic times, enabling Virgin Money colleagues to volunteer their time or skills, or by providing much needed money to enable community leaders to make a real impact in their neighbourhoods. They have programmes which go right to the heart of communities. And they really do show that big changes do start locally.”

Non-financial and Sustainability Information Statement

We continue to evolve our non-financial disclosures in line with emerging recommendations and principles, ensuring we remain compliant with the reporting requirements in sections 414CA and 414CB of the Companies Act.

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^	ESG How we manage risk Climate-related Disclosures Stakeholder engagement Climate risk	31-50 68-72 240-272 98-104, 254 72, 238
Colleagues	Code of Conduct Health & Safety Policy Physical & Personal Security Policy^ Whistleblowing Policy Fit and Proper Diversity and Inclusion Policy A Life More Virgin^	Colleagues ESG How we manage risk People risk Governance Conduct risk	22-24 31-50 68-72 235 73-164 70, 126, 233
Human rights	Modern Slavery Statement Data Privacy Policy Supplier Code of Conduct Information Security Policy Data Protection policy	ESG Governance Regulatory and compliance risk Risk Committee report Operational Risk	31-50 73-164 72, 126, 233 123-127 71, 234-236
Governance	ESG Governance and Committee Charters^ Purpose Framework^ Climate Change Policy Sensitive Sector Statement	ESG Our Purpose Climate-related Governance	31-50, 89 3-7 256-260

^ Internal policies

The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 amend sections 414C, 414CA and 414CB of the Companies Act 2006, placing requirements on the Group to incorporate climate disclosures in our annual report. We believe these have been addressed within this years climate-related disclosures on pages 240 to 272, and as such we have referenced the location of each disclosure within Our TCFD summary overleaf.

Reporting requirement	Policies and standards which govern our approach	Risk management and additional information	Page
Social matters	Open Doors Policy Political Involvement, communications and Donations Policy Volunteering Policy^	Colleagues ESG Stakeholder engagement Director's report How we manage risk Risk Committee report Credit risk Economic crime risk Strategic and enterprise risk	22-24 31-50 98-104 159-164 68-72 123-127 171-208 72, 236 71
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 Economic crime risk Operational Risk	68-72 123-127 72, 236 71, 234-236
Stakeholders	Third Party Risk Management Supplier Code of Conduct	Stakeholder Engagement	98-104
Policy embedding due diligence and outcome		How we manage risk Risk report	68-72 166-238
Description of principal risks and impact on business activity		How we manage risk Risk report	68-72 166-238
Description of the business model		We are Virgin Money Creating value for stakeholders	2 18-19
Non-financial KPIs		Our strategic priorities ESG Commercial review CFO review	19-30 31-50 54-58 59-67

Our TCFD summary

In compliance with the FCA's Listing Rules, the Group has made disclosures consistent with the TCFD 2021 Recommendations and Recommended Disclosures, including the appropriate annexes and supporting guidance. Additionally, following amendment of sections 414C, 414CA and 414CB of the Companies Act 2006, the Group has indicated in the below table which of the climate-related disclosures, outlined in Section 414CB, are addressed by the TCFD recommended disclosures, alongside the pages of the 2023 Annual Report and Accounts where these are located.

Key points	Future focus	Location	CA 414CB
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) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.			
> The Group has published its first transition plan, aligned to the Transition Plan Taskforce (TPT) draft guidelines, outlining the risks and opportunities in each high-risk sector. > Climate-related risks and opportunities have been identified and assigned potential time horizons.	> The initial transition plan will be progressed in line with final TPT guidance. > Enhancements to data capture and quality to support the identification, quantification and mitigation of climate-related risks and opportunities. > Continue to develop and identify propositions to provide support and education to decarbonise.	241-251; 261-263	(d)
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.			
> The Group has considered the potential impact of climate-related risks and opportunities on the Group's financial position and performance. > Published transition plans cover 85% of total customer lending and provide a forward-looking view across the high-risk sectors identified by the NZBA of our journey to net zero.	> Further embedding of climate change within the financial planning process. The Group does not have an internal carbon pricing framework, but continues to consider the implementation of appropriate tools and methodologies that may support delivery of our climate strategy. > Continue analysing high-risk sectors, with increased engagement across our customer bases and new sector-specific green propositions.	241-254	(e)
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.			
> A base scenario analysis capability has been established. The exercise was not refreshed for FY23, given the lack of material changes to the inputs and business model since last year. > Scenario analysis insights used to inform forecasts, plans and the measurement of impacts to the Internal Capital Adequacy Assessment Process (ICAAP) and in financial reporting.	> Continue to implement improvements and address modelling limitations, to develop second-generation climate scenario analysis models. > Enhance scenario analysis and interrogate outputs to assess financial impacts and implications for strategic planning, including delivery of our net zero commitments.	265	(f)
Governance: Disclose the organisation's governance around climate-related risks and opportunities.			
a) Describe the Board's oversight of climate-related risks and opportunities.			
> The Board monitored the Group's progress towards its climate-related targets on a monthly basis and received updates on the execution of our net zero strategy on a quarterly basis. > Consideration and approval of key climate-related topics, including the Group's FY23 net zero strategy and targets and the FY23 Climate Risk Assessment.	> The Board will continue its regular oversight, engagement and challenge on climate-related strategy and activity. > The Group's governance framework will be reviewed to ensure it includes sufficient focus on ESG topics, including climate-related risks and opportunities.	256-257	(a)
b) Describe management's role in assessing and managing climate-related risks and opportunities.			
> Senior Management Regime responsibilities have been simplified, with the Chief Financial Officer now assuming sole responsibility for climate-related matters. > The Environment Committee, and other relevant forums, have made significant progress with the Group's climate-related goals, strategy and targets.	> Management's role in assessing climate risk will be enhanced by improved data coverage. > There will be focus on collating, enhancing and automating ESG and climate-related activity, reporting and disclosures.	258-260	(a)

Key points	Future focus	Location	CA 414CB
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.			
> Our annual Group-wide Climate Risk Assessment was carried out, identifying climate risk drivers and potential impacts on principal risks across differing time horizons. > Portfolio data is modelled by third-party specialist providers and monitored for mortgages to understand climate risk drivers across the portfolio. > Larger Business lending customers continue to complete our 'climate risk survey', which helps provide information on the proportion of borrowers taking action to reduce emissions.	> Continue to develop methodologies to identify, assess and manage climate-related risks. > In FY24, we will analyse the outputs from our second-generation climate scenario analysis models to support climate risk management. > Climate-related data will be improved, with better availability, coverage and quality. > Further embedding of climate-related controls across the business.	261-263	(b)
b) Describe the organisation's processes for managing climate-related risks.			
> The Group has an engagement strategy approach for each high-risk sector. > Credit assessments for larger Business customers consider qualitative climate risk aspects. > ESG impacts are considered as part of the Group's change risk assessments.	> Starting in FY24, we will require emission reduction plans for new lending to Business customers in certain higher-emitting sectors. > Progress future incorporation of climate-related data in credit decisioning processes for Mortgages.	263-264	(b)
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.			
> Climate risk has been embedded in our RMF and three lines of defence model. > Risk Appetite Statement (RAS) measures have been developed alongside a Climate Risk Policy Statement and Standard, which sets out minimum controls, roles and responsibilities.	> Further consideration of controls to mitigate against greenwashing. > Further development of RAS and other management information and metrics to support the monitoring of climate-related risks.	261	(c)
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) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.			
> Climate-related metrics across the Group's operations, supply chain, financed emissions and sustainable financing are all monitored with regular reporting through governance forums. > ESG objectives and metrics are embedded within Group and functional scorecards. ESG-related LTIP metrics are vesting for the first time this year and continue to be included in scorecards going forward.	> The Group will continue to identify and track appropriate metrics to measure progress against our climate ambitions. > Continue to enhance data and metrics to assess climate-related risks and opportunities and to monitor progress against targets.	243-253; 260-266	(h)
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.			
> Disclosure of Scope 1, 2 and 3 emissions, with additional Scope 3 categories included in FY23 and enhancements to methodology and data quality. > Supply chain disclosures have been enhanced to include supplier emissions and further information on our CDP Supplier Engagement Programme, including target setting.	> Continue to enhance emissions calculations, improve data quality and expand coverage. > Strengthen the focus on sustainability within the supplier tendering and selection process, including climate-related enhancements to our Supplier Performance Management Programme.	252-253; 266-271	(h)
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.			
> We continue to have targets in place in relation to our own operations and financed emissions. > Financed emissions targets and baselines have been updated to reflect improvements in our FY23 modelling. > Our 2030 and 2050 net zero aspirations were recalibrated, so that we now achieve net zero direct emissions by 2030, and indirect emissions by 2050.	> Continue to expand coverage within the sectors disclosed across Scope 3. > The Group will continue to monitor performance against science-based targets and revise these in line with available science and the latest and most ambitious pathways.	243-253; 266; 271-272	(g)

Commercial review

Growing in our target segments

Mortgages

Story of the year

The mortgage market has been weaker during 2023, given higher interest rates which have dampened consumer demand, alongside wider cost of living challenges. This is demonstrated by mortgage approvals across the industry being down c.30% compared to last year. As a result, across the market gross lending in calendar 2023 is expected to be below the UK Finance forecast from December 2022 of £275bn.

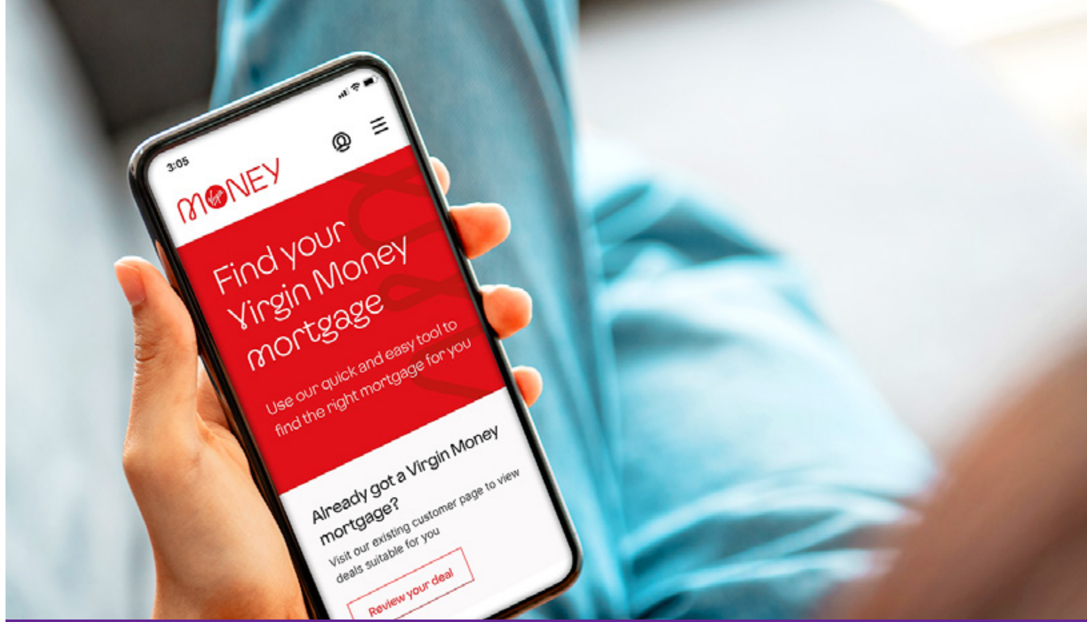
With mortgage rates resetting at a much higher level than customers have enjoyed over the last decade, the resulting impact on customer affordability has driven lower demand for new house purchases. This has also started to exert some limited downwards pressure on house prices.

Given the changing rate environment customer product rates have also been volatile. There was a particular period of market disruption following the mini-budget at the start of our financial year, and again in the second half of the year, as swap rates moved appreciably higher on both occasions.

With lower housing market activity and consumer demand, competition has remained intense throughout the year. The long-running trend of excess liquidity being deployed into mortgages at scale by the large UK banks has continued, meaning that customer rate increases have not always kept pace with the increases in swap rates. This has added further pressure to mortgage margins and returns.

Against this backdrop, the Group has continued to optimise for long-term value in Mortgages. Our gross lending for the year was c.£8bn (2022: £9.5bn) and balances reduced by 1% to end the year at £57.5bn. This was reflected in a broadly stable market share of 3.5%. In common with peers, we remained focused on maximising retention and support of existing customers. The product transfer market has increased in size as the higher rate environment has created potential affordability hurdles for customers looking to move to a new lender. Against that backdrop, the Group delivered a retention rate of 74% during 2023 (2022: 73%).

While continuing to trade for value, we have optimised our proposition to support our customers. This includes improvements to our residential stress testing approach, as well as multiple propositional enhancements to optimise our trading performance in a competitive market.



Purpose in action

Mortgage charter adoption

At Virgin Money, we have always sought to help customers in difficult times, in line with our Purpose. The recent rapid increases in interest rates have created challenges for customers faced with significantly higher mortgage payments when either their variable rate increases, or their current fixed rate deal, written during a time of historically low rates, ends.

Thankfully, given our prudent underwriting and the higher standards across the industry generally since the GFC, the vast majority of customers have been able to meet their new higher repayments.

Working with the government and the other major lenders, Virgin Money has also signed up to a new Mortgage charter designed to provide additional support and peace of mind for mortgage customers concerned about higher rates. We also made a financial contribution to support an extensive marketing campaign across the UK to promote customer awareness of the charter.

The charter was launched on 26 June, and Virgin Money worked rapidly to implement it on 19 July, ahead of the government's 28 July deadline. While we already offered our customers a number of the charter's requirements, such as tailored support, product switching without affordability checks and providing information well ahead of the end of existing deals, we supported the charter's aim to raise customer awareness of these facilities. In addition, we signed up to new charter commitments, promising to give customers at least one year from their first missed payment before we repossess a property they are living in, while also allowing customers to switch to interest-only payments for six months or extend their mortgage terms without penalty.

So far, we're glad to report that only a low number of our existing customers have needed to use these facilities, but our customers are aware that we are here to help them and provide tailored support, if they need it.

Commercial review

Mortgages continued

We recognise some of our mortgage customers are dealing with challenges to their budgets from a higher cost of repayments. During the year, we have improved our processes to better support customers impacted by the increased cost of living. Our online cost of living support hub was launched and we have also undertaken pro-active outreach to potentially impacted customers to signpost help and support available. While already having forbearance policies in place, we also successfully adopted the Mortgage Charter in July in order to help residential mortgage borrowers worried about higher rates (see the Purpose in action box on the previous page for more).

Despite the higher rate environment, asset quality remains strong with three-month plus arrears of 0.6%, below the industry average of 0.8%. Overall, the mortgage book is weighted towards owner occupied (74%) with an average loan to value (LTV) of 53% and less than 1% of balances greater than 90% LTV. 91.5% of the portfolio remain on fixed rates, meaning the vast majority of customers have certainty on their repayments. Our underwriting criteria remain consistent; average loan-to-income on residential approvals in 2023 was <3x and we maintain prudent rental and borrower income requirements for BTL customers.

Looking ahead

While the economy has been resilient to inflationary pressures, house purchase approvals are likely to remain subdued given the combination of higher interest rates and cost of living pressures weighing on demand.

Customers will still need to re-finance as existing product deals reach the end of their terms and this will support product transfer and remortgage volumes.

Taken together, we expect market sentiment to remain muted over the course of the next financial year.

Supporting our customers through the recent cost of living challenge has been a key focus this year and this will continue to be the case. Our prudent approach to underwriting gives us confidence that maturing customers will be able to manage higher rates from an affordability perspective, however we remain on hand to support customers that show signs of financial difficulty.

We expect margins to remain tight in the near term as lenders continue to compete. Certain market segments such as first time buyers have seen stronger margins and these underserved segments present opportunities to target higher risk-adjusted returns. We will continue to optimise for value and will seek to maintain our share of the market in the medium term.

Following an assessment of the progress of the project to upgrade the mortgage platform and challenges identified during testing, we now anticipate a significant deferral and redesign as we implement the upgraded capability. We remain committed to launching improved capability for our mortgage customers and brokers over time, and there remains no impact on day-to-day trading.

From a sustainability perspective, delivering our green agenda remains a key long-term ambition. Our 'Green rewards' incentive offers cashback to existing customers that are taking additional borrowing for energy efficiency measures. We are also pleased to be partnering with Sero and Rightmove to help customers make their homes more energy efficient, which will also support our net zero aspirations.

Unsecured

Story of the year

The market for unsecured credit remains strong and continued to grow in 2023. During 2023, there were c.6m credit card sales, broadly stable year-on-year. Credit card industry balances grew c.9% year-on-year to £68bn, albeit still c.£5bn below the pre-COVID peak, with balance growth a function of higher retail spend and balance transfers.

Against this market backdrop, we moderated our rate of growth this year, as we have tightened credit policy and implemented pricing changes to manage the book for profitability. As a result, our credit card balances grew £0.6bn (11%) in FY23 (2022: 21%), as we steadily increased our market share of credit card balances to c.8.5%. Our personal loans and overdraft balances reduced by £0.2bn (or 24%), while we work to re-purpose and improve the overall proposition ahead of a future re-launch.

In the cards market, balance growth has been supported by strong customer behaviours in retail spend and refinancing through balance transfers. Our co-branded Virgin Atlantic card partnership also continues to perform well, with balances in this segment up 21% this year. This reflects that spend on these cards is more geared to travel which has picked up this year as consumers have looked to travel more.

During 2023, we also continued with our diversification strategy, including measured growth to customers with historic impaired credit, via appropriate pricing for risk. We also fully launched Slyce, supporting around 30k customers with Buy Now Pay Later functionality in a regulated credit environment. Together, these balances comprised c.1% of card lending at FY23 and we'll continue to use customer data to calibrate our offering going forward.

Our app-based cashback proposition also continues to be well received, giving customers access to cashback across 60+ retailers. Almost 600,000 cards customers are now enjoying access to this facility (2022: c.500k).

Our credit card customers remain digitally engaged, with c.99% of all service interactions executed digitally and we have continued to invest to improve the customer experience further. During the year, we fully launched Redi, our AI virtual assistant, with over half a million customers having already used the functionality in the first six months since launch. The virtual assistant is now linked to our core systems, enabling real-time changes to customer accounts and has improved servicing while reducing cost.

We recognise that higher living costs and the uncertain economic environment are adding pressures to individuals in the UK. This year, we have undertaken pre-emptive tightening of underwriting to further support credit quality. Overall, retail spend per active customer is broadly stable year-on-year, despite inflation, as our customers are managing their total outlays and adjusting behaviour accordingly. Repayment rates have also remained stable, with performance as expected, given the more affluent nature of our customer base.

This year, the arrears rate on our cards book has risen from low levels, with 30-day plus arrears increasing to 1.9% (2022: 1.3%) against the industry average at 1.7%. This reflects the age profile of our book and recent diversification strategy. Our arrears performance on most recent cohorts is typically lower than the industry average, however our cards book comprises a higher percentage of balances from recent originations that have a higher rate of arrears, relative to more mature

balances, where arrears are lowest. Personal loan and overdraft 30-day plus arrears are now 1.6% (2022: 1.5%).

Through the IFRS 9 models, the Group has increased coverage on the unsecured portfolio from 4.8% to 6.9% over the course of the year, driven by updated economics and bureau data. The provision anticipates a continued increase in credit card arrears, but we remain well protected.

Looking ahead

In line with our strategy, we will continue to target measured growth in Unsecured lending in 2024, within our existing risk appetite, with a continued overall weighting of new card acquisition towards low risk segments.

We are also working hard to refresh our Personal Loan proposition as we re-enter the market for new business in 2024 to support expansion of our overall Unsecured market share, with a fully digitised end-to-end proposition.

We have a strong pipeline of propositions to drive further efficiencies into 2024. These include an Agile decisioning system, and utilising enhanced data across the UK consumer base to optimise our credit policy and maximise our opportunities.

We are planning to further enhance our capabilities around the Mobile App and Redi to support proactive servicing, in-app approvals, Open Banking payments and other tailored content.

During 2024, we will also aim to deliver virtual credit card issuance. This will enable instant issuance to customers, while delivering cost efficiencies and sustainability benefits through lower use of physical plastic.

Business

Story of the year

Over the course of the year, we have driven further customer growth in Business Banking alongside continued improvements to the digital proposition and customer experience. We have delivered growth in both lending and deposits, a strong performance against a weaker market backdrop where competition remains significant.

Our BCA continues to be a cornerstone product, offering a fee-free period, debit card cashback, free business management tools and discounts to accountancy packages. It enjoys a 5-star rating from Moneyfacts and the strength of this proposition has driven an 18% increase in BCA sales year-on-year, with 22 consecutive months of net account inflows since the product was launched.

In our lending franchise, we continue to target defensive segments where we have specialised expertise and a strong franchise. Overall, business lending balances increased by 6% during the year to £8.7bn, despite the continued reduction in government scheme lending, as we increased our market share of balances in a subdued overall market that reduced by c.3%.

During the year, we have maintained a focus on optimising onboarding and servicing journeys in order to improve the customer experience. As a consequence, we have seen an increase in the percentage of calls answered, reduced the average time to answer and improved our digital onboarding and Business Internet Banking Smile scores.

Asset quality has remained strong during the year; 30+ days past due (DPD) levels (excluding government scheme lending) remained stable at 0.3% (2022: 0.3%).

We recognise the pressures businesses are facing in the current economic environment, and will continue to support customers with our business lending expertise, using our relationship model to offer advice. We remain defensively positioned with a lending portfolio that is diversified across a number of different sectors.

Despite challenging operating conditions, we continue to see a stable trading performance amongst the majority of businesses in our portfolio. While interest rate and consumer demand pressures are impacting businesses, our customers are continuing to demonstrate resilience to inflation, and the ability to pass price rises on to protect profitability.

We remain underweight in Commercial Real Estate exposures relative to the market at c.1% of overall Group lending and we maintain limited exposures to retail and entertainment sectors, which are being disproportionately impacted by consumer cost of living pressures.

Looking ahead

We will continue with our strategy to grow BCA volumes, building a larger customer base with account primacy. We will acquire more customers through further optimising the digital BCA and onboarding journey.

We remain focused on supporting customers with enhanced digital functionality, supporting easier self-service. Beyond next year, we will also build and launch digital deposits as we look to optimise the cost of our overall funding base.

During 2024, we will refresh our existing propositions, including our BCA, as we target further growth in relationship deposits and we will also launch new Business Marketplace offers.

While we do expect demand for business lending to remain muted given the backdrop, we are confident we will be able to deliver further growth in our lending in 2024, offsetting the ongoing run-off of Government scheme lending. We will aim to continue our strong momentum from this year by focusing on our existing resilient segments, while also deepening our expertise.

Commercial review

Current accounts and Personal deposits

Story of the year
As interest rates have picked up through 2023, the UK savings market has seen a material shift out of household current and instant access deposit accounts into term deposits, given the more attractive rates on offer. Alongside this mix shift, the annual rate of growth for household deposits has slowed to 1.7%, below the c.3% rate of growth last year.

Against that market backdrop, competition has intensified with rates on term deposits gradually increasing with higher swap rates, while rate pass through on instant access accounts has also increased. At the same time, the PCA market has remained competitive, with banks offering up-front cash incentives to attract customers to switch.

We've been pleased with our deposit growth this year, given the challenging backdrop. During 2023, we have continued with our strategy to grow relationship deposits, despite the market-wide headwinds from deposit migration. Overall, relationship deposits increased 2% during the year to £35.4bn, and continue to make up 53% of total customer deposits. Within that, personal relationship deposits have grown by 4% this year. This performance has been supported by the strength of our core PCA proposition, which includes a digital on-boarding and servicing experience, competitive rates including an attractive linked saver account, and access to exclusive products. We were pleased to be awarded Best Current Account Provider by Moneyfacts for the second year in a row, reflecting the strength of this proposition.

During 2023, we proactively increased our participation in the market for term deposits early in the year, recognising deposit migration would intensify at higher rates. This strategy enabled us to lock in term funding at attractive spreads from the start of our financial year. Consequently, personal term deposits increased by 59% during the year to £20.2bn. This helped to offset balance attrition and churn from non-linked savings accounts where balances reduced by 46% in the year.

Looking ahead
We expect the deposit market to remain competitive and expect to see customers continue to seek value, reflecting the rate environment and as they deal with higher living costs. Against this backdrop, we feel we are more defensively positioned relative to some in the market, given our existing, higher mix of term deposits and given the rates we offer our customers, which have tended to be generally higher than other major market participants.

We will continue with our longer-term strategy to increase the level and mix of relationship deposits within overall customer deposits, although we expect this to be delivered at a slower pace in the short term relative to our performance over the last few years. We will also continue to participate in the market for term deposits and variable savings where it remains economic to do so.

Our ambition is to deepen and broaden our customer relationships and transform how we serve customers to become their preferred digital banking partner, delivering on our Purpose of Making our customers feel happier about money.

Purpose in action

Our commitment to supporting customers
At Virgin Money, we are committed to helping savers. Our award-winning products include market leading ISA rates, as well as highly competitive savings and current account interest rates. We are increasing our proactive communication with our customers to help them get better rates, and have actively managed our book to significantly reduce balances in non-interest bearing accounts.

This year, we have had over seven million customer contacts, via email, social media, and in-app messaging, promoting our best savings rates and price increases. Over time, we have reduced non-interest bearing accounts to now stand at just 1% of our total book, in contrast to much higher proportions at a number of high-street banks.

All of our new current accounts come with a linked saver, that is attractively priced and our M Plus and Club M current accounts both pay interest on the first £1k. We are proactively engaging with our savers to check their account and interest rate, and encourage them to consider their options. We are particularly focused on historical, low interest accounts to ensure customers know about alternative higher interest accounts we have available.

Strategic report

Chief Financial Officer's review

Resilient performance despite a challenging operating environment

Clifford Abrahams
Chief Financial Officer

We've delivered a strong operating performance in FY23 and enter FY24 with good business momentum. We're investing to safeguard the Bank and customers, supporting sustainable returns over time.

2023 was an important year as we demonstrated momentum in strategic delivery and profitable growth, while maintaining a robust balance sheet, funding and capital position.

CFO review contents **Page**

Review of the year

The Group performed resiliently this year, with solid financial momentum and further strategic delivery. During the year, the Group made further improvements to customer propositions, supporting a 5% growth in total active relationship customer accounts to 3.8m customers. Operating profit improved relative to 2022, supported by the combination of the higher rate environment and growth in targeted lending and deposits. Alongside this, an increased credit impairment charge and higher adjusting items relative to last year resulted in lower statutory profit and a statutory RoTE of 3.9%, down from 10.3% in FY22. Capital remained strong during the period, with CET1 at 14.7% (2022: 15.0%), supporting total returns to shareholders of £272m, including a full year dividend of 5.3p and the announcement of a total of £200m of share buybacks for FY23.

We were pleased to deliver lending growth in our target areas during the year, while overall customer lending was stable at £72.8bn. Mortgage balances reduced 1.1% during the period to £57.5bn, as the higher rate environment and wider cost of living pressures tempered purchase activity. Business lending increased 6% overall, as growth in BAU balances offset ongoing reductions in government-backed lending. Unsecured balances continued to perform strongly, growing 6% during the year to £6.5bn. This year, we reduced the pace of growth in Unsecured lending relative to 2022, reflecting a disciplined approach to profitability. We continued to attract new deposits during the year, despite a competitive backdrop, supporting overall deposit growth of 1.9%.

The Group maintained a conservative balance sheet position, including strengthened provision coverage and robust funding and liquidity. Credit provisions of £617m (2022: £457m)

Financial highlights

Statutory profit before tax £345m 2022: £595m	NIM 1.91% 2022: 1.85%	CET1 ratio 14.7% 2022: 15.0%	LCR (12-month average) 146% 2022: 140%
Underlying profit before tax £593m 2022 (restated)[1]: £776m	Underlying cost: income ratio 51.9% 2022: 52.5%	Capital distributions announced £272m 2022: £267m	NSFR (12-month average) 136% 2022: 134%
Statutory RoTE 3.9% 2022: 10.3%	Cost of risk 42bps 2022: 7bps	Dividend per share 5.3p 2022: 10p	Relationship deposit growth +2% 2022: +13%

(1) Hedge ineffectiveness is now presented as an adjustment to underlying earnings as detailed on page 381. The comparative period has been adjusted accordingly. This restatement does not impact the statutory results of the Group.

Basis of preparation note

Statutory basis: The statutory results are set out at the end of this section on page 67.

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 67 and rationale for the adjustments is shown on page 381.

are equivalent to a coverage ratio of 0.84% (2022: 0.62%). Funding and liquidity remain strong, with the 12-month average LCR ratio increasing to 146% (2022: 140%) and 12-month average NSFR stable at 136% (2022: 134%).

Underlying profit before tax in 2023 was £593m, a reduction compared to last year (2022: £776m), as higher operating income was more than offset by a higher level of impairments compared to last year's low charge. NIM of 1.91% (2022: 1.85%) improved year-on-year, given the higher rate environment and strategic execution, supporting growth in underlying income of 8% relative to 2022. Underlying costs were 6% higher compared to 2022 as gross cost savings from the restructuring programme helped to mitigate inflation, but with higher investment and temporary customer service related costs. Taken together, this resulted in a stable underlying cost:income ratio of 52% (2022: 52%). Credit impairments of £309m (2022: £52m) were significantly higher year-on-year, mainly reflecting higher modelled ECL given updated macroeconomic assumptions and bureau data, in anticipation of a continued increase in arrears, resulting in an increased level of provision coverage overall.

The Group continues to expect to return to its target CET1 range of 13 – 13.5% in FY24, as capital generation through profitable growth supports ongoing shareholder distributions, growth and investment back into the business. The £150m share buyback announced at FY23, which adds to the £50m share buyback announced in August, will be deducted from CET1 in Q1 2024.

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

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

Underlying income

	2023 £m	Restated 2022 £m	Change
Underlying net interest income	**1,716**	1,592	8%
Underlying non-interest income[(1)]	**157**	150	5%
Total underlying operating income	**1,873**	1,742	8%
NIM	**1.91%**	1.85%	6bps
Average interest-earning assets	**89,810**	86,275	4%

(1) Hedge ineffectiveness is now presented as an adjustment to underlying non-interest income as detailed on page 381. The comparative period has been adjusted accordingly. This restatement does not impact the statutory results of the Group.

NII and NIM

NII increased by £124m or 8% relative to 2022, driven by an expansion of the Group's NIM as it continued to benefit from higher rates, including from the reinvestment of the structural hedge.

Asset yields increased 171bps compared to 2022, reflecting the rising interest rate environment throughout the year. Average mortgage lending was broadly stable during the period, reflecting weaker market demand in light of higher rates and lower new purchase activity. Customer rates for new and retained mortgages increased as a function of the base rate environment, though spreads remained tighter reflecting continued strong competition. Taken together, the average mortgage yield increased by 46bps, supporting higher mortgage interest income. In Business, interest income increased by £251m in the year, driven by higher average balances, while the yield of the book also improved, given the rate environment and a reduced proportion of lower-yielding government-backed lending. In Unsecured, interest income increased by £67m in the year, driven by growth in average balances, owing mainly to growth in the credit card book. Elsewhere, the average yield on the Group's liquid assets increased 321bps reflecting the higher rate environment across the financial year.

The balance of the Group's structural hedge reduced in the second half of the year from c.£32.0bn to c.£29.5bn, reflecting the impact of deposit migration from behaviourally stable deposits. During the year, the Group generated £401m of total gross interest income from the structural hedge, including the legacy hedge contribution, benefiting from ongoing hedge reinvestment at higher prevailing rates.

Liability rates on average interest bearing liabilities increased 185bps relative to 2022. During the year, the Group continued with its strategy to grow relationship deposits, and these balances grew by 2%. This was despite the impact of the higher rate environment, which drove increased levels of deposit migration from current accounts across the industry. The Group also participated in the market for term funding during the year, offsetting migration from non-linked variable savings balances. Wholesale funding costs increased in the year, driven by higher average balances, change in mix following issuance throughout the year, and higher rates corresponding to the rate environment.

Non-interest income

Non-interest income of £157m was 5% higher when compared with 2022 and 7% lower when excluding fair value movements. Mortgage fee income was broadly stable during the period, while Unsecured fee income was modestly lower in the second half of the year, reflecting changes to packaged accounts and reduced associated fees, aligned with Consumer Duty regulations. Business fee income was lower relative to 2022, following the strategic decision by the Group to change its payments partner and expand its relationship with Global Payments, resulting in an initial reduction of merchant services income.

Average balance sheet	2023 Average balance £m	2023 Interest income/ (expense) £m	2023 Average yield/(rate) %	2022 Average balance £m	2022 Interest income/ (expense) £m	2022 Average yield/(rate) %
Interest earning assets						
Mortgages	**57,980**	**1,537**	**2.65**	57,996	1,272	2.19
Unsecured lending	**6,547**	**474**	**7.24**	6,100	407	6.67
Business lending[(1)]	**8,496**	**582**	**6.85**	8,263	331	4.00
Liquid assets	**16,000**	**657**	**4.11**	13,059	117	0.90
Due from other banks	**782**	**13**	**1.67**	853	2	0.22
Swap income/other	**–**	**600**	**n/a**	–	104	n/a
Other interest earning assets	**5**	**–**	**n/a**	4	–	n/a
Total average interest earning assets	**89,810**	**3,863**	**4.30**	86,275	2,233	2.59
Total average non-interest earning assets	**2,378**			3,229		
Total average assets	**92,188**			89,504		
Interest bearing liabilities						
Current accounts	**15,739**	**(203)**	**(1.29)**	15,829	(46)	(0.29)
Savings accounts	**26,005**	**(433)**	**(1.67)**	30,895	(147)	(0.48)
Term deposits	**19,603**	**(597)**	**(3.05)**	12,894	(149)	(1.16)
Wholesale funding	**18,321**	**(909)**	**(4.96)**	16,169	(296)	(1.83)
Other interest bearing liabilities	**170**	**(5)**	**n/a**	145	(3)	n/a
Total average interest bearing liabilities	**79,838**	**(2,147)**	**(2.69)**	75,932	(641)	(0.84)
Total average non-interest bearing liabilities	**6,531**			7,903		
Total average liabilities	**86,369**			83,835		
Total average equity	**5,819**			5,669		
Total average liabilities and average equity	**92,188**			89,504		
Net interest income		**1,716**	**1.91**		1,592	1.85

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

Strategic report

Underlying costs

For the year ended 30 September	2023 £m	2022 £m	Change
Staff costs	**367**	375	(2)%
Property and infrastructure	**40**	42	(5)%
Technology and communications	**126**	116	9%
Corporate and professional services	**173**	114	51%
Depreciation, amortisation and impairment	**95**	116	(18)%
Other expenses	**170**	151	12%
Total underlying operating and administrative expenses	**971**	914	6%
Underlying cost: income ratio	**51.9%**	52.5%	(0.6)%pts

Underlying operating expenses increased 6% year-on-year to £971m, while the cost:income ratio remained stable at 52%. During the year, the Group's restructuring activity delivered further cost-efficiencies, taking the total annualised gross savings since FY21 to £130m. Relative to last year, the Group also benefited from a c.£25m higher net pension benefit, and a lower depreciation charge following past changes to depreciation and amortisation practices. These benefits were offset, mainly by higher staff costs (net of the pension benefit), given wage inflation and higher corporate and professional services fees, mainly reflecting additional resource to support the improvement of customer service levels, and additional regulatory related investment.

Impairments

As at 30 September 2023	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	**57**	**57.8**	**10**	**–**	**4.7**	**1.0**
Unsecured:	**429**	**6.8**	**665**	**430**	**24.1**	**1.7**
of which credit cards	***392***	***6.1***	***688***	***483***	***21.7***	***1.8***
of which personal loans and overdrafts	***37***	***0.7***	***488***	***86***	***44.3***	***0.9***
Business	**131**	**8.7**	**160**[(1)]	**44**	**22.8**	**4.7**
Total	**617**	**73.3**	**84**	**42**	**8.6**	**1.5**
of which Stage 2	***400***	***6.3***	***633***			
of which Stage 3	***128***	***1.1***	***1,393***			

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

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.

ECL provisions increased to £617m at FY23 (2022: £457m), resulting in higher aggregate provision coverage of 84bps (2022: 62bps). This was mainly due to higher modelled ECL, particularly in credit cards, in anticipation of a continued increase in arrears and reflecting revised macroeconomic assumptions and credit bureau data. The updated economic outlook forecasts a slower recovery in the outer years compared to September 2022, whilst updated credit bureau data was also weaker. Accordingly, the modelled and individually assessed (IA) ECL increased by £168m to £540m (2022: £372m), while Management Adjustments (MAs) reduced to £76m (2022: £85m). The combination of these factors resulted in a £309m impairment charge during the period (2022: £52m), equivalent to a cost of risk of 42bps (2022: 7bps).

Chief Financial Officer's review

The key macroeconomic assumptions used in the Group's IFRS 9 modelling were updated based on scenarios provided by our third party provider Oxford Economics. The weightings applied to the scenarios were unchanged from FY22 and included 10% to the Upside scenario, 55% to the Base scenario and 35% to the Downside scenario. The weighted macroeconomic scenario includes a 0.6% contraction in GDP in 2024, peak unemployment of 5.1% in 2025 and a decline in the HPI across 2023-2025.

To supplement the modelled ECL provision, the Group applied expert credit risk judgement through MAs, designed to account for factors that the models do not incorporate. Through this process, the Group applied MAs of £76m (2022: £85m). These include cost of living MAs of £15m (2022: £57m), which were lower in the year given these impacts are now better reflected in the modelled ECL outcome. During the period, the new Loss Given Default (LGD) model in Business lending was fully implemented, resulting in the removal of a negative MA (£(15)m) that was held at 2022, given it is now reflected in the modelled output. There was also an increase in Unsecured MAs, relating to a revised debt sale agreement.

During the year, loans classified as Stage 2 increased from 8% of the portfolio at FY22 to 9%. 96% of stage 2 balances remain <30 DPD. Stage 3 assets as a percentage of Group lending remained broadly stable at 1.5% (2022: 1.4%). The Group's credit provisioning assumes that arrears continue to increase over the next financial year.

Across all portfolios, the Group has provision coverage that remains above pre-pandemic levels. In Mortgages, the coverage ratio of 10bps is considered appropriate. The portfolio continues to evidence good underlying credit performance, with no significant deterioration in asset quality, despite a marginal increase in late-stage arrears.

Unsecured lending book coverage ratio of 665bps encompasses both the 688bps of coverage for our credit card portfolio, and 488bps of coverage for our smaller personal loans and overdrafts book. In addition to the impact of current macroeconomics, the modelled provision increased due to a weakening of credit bureau data, and higher early-stage arrears compared with prior years. Overall arrears levels remain modest across the portfolio with 97% of balances not past due (2022: 98%).

In Business, the coverage ratio of 160bps is stable relative to FY22. There has been a limited change in underlying asset quality performance and, as yet, no significant increase in specific provision recognition. The lending book continues to be biased away from sectors likely to experience more disruption from higher inflation such as hospitality and retail, towards sectors expected to be resilient, such as agriculture, health and social care.

Adjusting items and statutory profit

	2023 £m	Restated 2022 £m
Underlying profit on ordinary activities before tax	**593**	776
Adjusting items		
– Restructuring charges	**(131)**	(82)
– Acquisition accounting unwinds	**(29)**	(35)
– Legacy conduct costs	**(12)**	(8)
– Hedge ineffectiveness[1]	**(16)**	13
– Other items	**(60)**	(69)
Statutory profit on ordinary activities before tax	**345**	595
Tax expense	**(99)**	(58)
Statutory profit for the year	**246**	537
Underlying RoTE	**7.6%**	13.3%
Statutory RoTE	**3.9%**	10.3%
TNAV per share	**359.8p**	383.0p

(1) Hedge ineffectiveness is now presented as an adjustment to underlying as detailed on page 381. The comparative period has been adjusted accordingly. This restatement does not impact the statutory results of the Group.

Overview

The Group made a statutory profit before tax of £345m (2022: £595m) after deducting £248m of adjusting items (2022: £181m).

TNAV per share reduced 23.2p in 2023 to 359.8p. The key drivers of the reduction were -14.4p of negative cash flow hedge reserve movements in the year, given rate changes and -25.2p from a lower pension surplus, offsetting +9.8p from retained earnings and +8.4p from share buybacks during the year.

Restructuring charges

Restructuring charges totalled £131m in the year, driven by charges related to the Group's digital investment. This included c.£58m for the delivery of IT changes and c.£73m for the closure of stores, changes to the operating model and lower 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; after spending £213m to date, the majority of the remaining costs are expected to be incurred in FY24.

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. The £29m charge during the year included an £8m accelerated charge related to mortgage balances which were in their promotional period on the date of acquisition but have now expired. There are now c.£15m of IFRS 3 balances remaining, which are expected to materially unwind in 2024.

Strategic report

Legacy conduct
Charges of £12m were incurred relating to legal proceedings and legacy claims arising in the ordinary course of the Group's business.

Hedge ineffectiveness
Hedge ineffectiveness largely represents timing differences that will reverse out over the lives of derivatives that are used in economic hedges but can result in volatility between reporting periods. Charges of £16m were incurred in respect of hedge ineffectiveness and rate volatility in the period.

Other items
Other items includes a c.£45m intangible write-off recognised in the year in relation to the Group's mortgage digitisation programme. This follows challenges identified during testing, resulting in a significant deferral and redesign as we implement the upgraded capability.

Taxation
There was a £99m tax charge in respect of £345m of statutory profit before tax, reflecting an effective tax rate of 29%.

Balance sheet

As at 30 September	2023	2022	Change
Mortgages	**57,497**	58,155	(1.1)%
Unsecured	**6,519**	6,163	5.8%
Business[(1)]	**8,738**	8,247	6.0%
Total customer lending	**72,754**	72,565	0.3%
Relationship deposits[(2)]	**35,394**	34,649	2.2%
Non-linked savings	**9,741**	17,048	(42.9)%
Term deposits	**21,474**	13,663	57.2%
Total customer deposits	**66,609**	65,360	1.9%
Wholesale funding	**16,658**	17,012	(2.1)%
of which TFSME	***6,200***	*7,200*	*(13.9)%*
Loan to deposit ratio (LDR)	**109%**	111%	(2)%pts
Liquidity coverage ratio (LCR) (12-month average)	**146%**	140%	6%pts

(1) Of which, £625m government lending (2022: £963m).
(2) Current account and linked savings balances.

Customer lending and deposits
At an aggregate level, Group lending was broadly stable at £72.8bn, as growth in Business and Unsecured lending offset a reduction in Mortgages. Total customer deposits increased by 1.9% to £66.6bn.

Mortgage balances reduced 1.1% to £57.5bn, with reduced demand reflecting slower market activity and demand, owing to the higher rate environment, affordability pressures and wider cost of living considerations. Against this subdued market backdrop, the Group traded to preserve profitability, although competition remained intense resulting in completion spreads remaining below book spreads during the financial year.

Business lending increased overall by 6.0% during the year to £8.7bn, driven by growth in non-government scheme lending, which increased by 11.4% to £8.1bn. This performance was supported by the strength of our franchise and sector specialisms in our target market segments. Government-scheme balances declined 35.1% to £0.6bn as expected, as borrowers made contractual repayments.

Unsecured lending increased 5.8% in the year, driven mainly by credit card growth. This performance was supported by resilient demand from existing customers and ongoing new credit card sales as the Group maintained its c.8% market share of balances. During the year, the Group observed customer behavioural activity outperforming assumptions, resulting in the card EIR asset performing better than expected. Personal loans and overdraft balances reduced £0.2bn during the year to £0.7bn, in line with expectations.

Customer deposits increased by £1.2bn or 1.9% during the financial year to £66.6bn. The Group continued to execute against its strategy and optimise its mix of deposits during the period, as relationship deposits grew by £0.7bn, supported by strong customer propositions and competitive rates. The Group actively increased its participation in the term deposit market early in the year to offset deposit migration. Term deposits increased by £7.8bn and were acquired at attractive spreads, locking in term funding at pricing below swaps. Non-linked saving balances reduced by £7.3bn during the period, given higher attrition and churn from the back book and as the Group prioritised the good value opportunities initially available in the term deposit market.

Wholesale funding and liquidity
During the period, the Group's LDR reduced to 109% (2022: 111%). The Group has a stable funding base with customer deposits representing c.80% of total funding. The Group's customer deposits are weighted towards retail customers (75%), with the balance being from business customers, predominantly small and medium sized enterprises. Of the total customer deposit book, 72% is insured via the Financial Services Compensation Scheme. Of balances that are uninsured, a proportion are fixed term and/or would incur a charge if customers wanted to withdraw their money.

The Group has a number of well-established wholesale funding programmes and proven markets access. During the year, the Group successfully issued €500m and 300m of MREL senior notes and c.£1.8bn of residential mortgage-backed securities (RMBS) and covered bonds, while at the same time repaying £1.0bn of its TFSME drawings (£6.2bn outstanding as at 30 September 2023). On an overall basis, wholesale funding reduced from £17.0bn at FY22 to £16.7bn as at FY23. Of our total debt securities in issue, only 19% (£1.9bn) has less than one year to effective maturity, reflecting term issuance roll-downs (the Group has negligible short-term wholesale funding). The Group has £0.3bn of TFSME maturing in FY24, £2.5bn maturing in FY25, and £2.5bn maturing in FY26, with the remaining £0.9bn subject to term extension beyond FY26. The Group plans to continue to repay TFSME well ahead of contractual maturity to reduce the refinancing risk further.

Strategic report

The stability of the Group's funding sources is highlighted in its NSFR ratio, which remained stable on a 12-month average basis at 136%. The Group's 12-month average LCR increased 6% points to 146% (2022: 140%), continuing to comfortably exceed both regulatory requirements and the Group's more prudent internal risk appetite metrics. The Group's c.£14bn prime liquid asset portfolio is primarily comprised of cash at the BoE (c.65%), UK Government securities (Gilts) (c.10%) and AAA rated listed securities (e.g. bonds issued by supra-nationals and corporate covered bonds) (c.25%). The liquid asset portfolio is fully hedged from an interest rate, inflation and FX risk perspective and any movements in fair value are recognised in CET1 via the Income Statement or FVOCI reserve.

The Group also has unencumbered pre-positioned collateral at the BoE representing c.£6.9bn of secondary liquidity drawing capacity via the Bank's Sterling Monetary Framework, which does not form part of the liquid asset portfolio for LCR or internal stressed outflow purposes. This has increased from c.£4.3bn at FY19 and over time, the stock of unencumbered pre-positioned collateral will increase as remaining TFSME drawings are repaid. In addition, the Group has a further c.£18.4bn of unencumbered assets eligible and readily available but not currently pre-positioned at the BoE.

Capital

	2023	2022	Change
CET1 ratio (IFRS 9 transitional)	**14.7%**	15.0%	(0.3)%pts
CET1 ratio (IFRS 9 fully loaded)	**14.3%**	14.6%	(0.3)%pts
Total capital ratio	**21.2%**	22.0%	(0.8)%pts
MREL ratio	**31.9%**	32.1%	(0.2)%pts
UK leverage ratio(1)	**5.0%**	5.0%	–%pts
Risk-weighted assets (RWAs) (£m)	**25,176**	24,148	4.3%
of which Mortgages (£m)	***9,072***	*9,155*	*(0.9)%*
of which Unsecured (£m)	***4,819***	*4,817*	*–%*
of which Business (£m)	***6,990***	*6,196*	*12.8%*

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

(1) The prior year leverage ratio has been restated from 5.1% following an adjustment to exclude encumbered note cover and payments system collateral balances.

Overview

The Group maintained a robust capital position with a CET1 ratio of 14.7% and a total capital ratio of 21.2% (IFRS 9 transitional basis). The Group's CET1 ratio on an IFRS 9 fully loaded basis was 14.3%. The Group's latest Pillar 2A requirement has a CET1 element of 1.7%. Overall, the Group continues to maintain a significant surplus above its CRD IV CET1 capital requirement, inclusive of the combined capital buffer (or MDA threshold) of 10.7%.

CET1 capital

The Group's transitional CET1 ratio reduced by 30bps over the year. Total underlying capital generation of 145bps was driven by 199bps of underlying profit, offset by 38bps from higher RWAs (including the anticipated impact of implementing mortgage hybrid models) and 16bps of Additional Tier 1 (AT1) distributions and related costs. Adjusting items consumed c.60bps while there was 29bps of accrual for expected dividends and 41bps from £100m of share buybacks announced during the period. Dividends of c.£72m relating to FY23 resulted in a payout level of 37%. This is higher than the Group's 30% payout level in its dividend policy, reflecting a one-off adjustment in FY23 for certain non-cash adjusting items. The announcement of an additional £150m share buyback will reduce CET1 resources in Q1 2024.

RWAs

Overall, RWAs increased by c.4% during 2023 to £25.2bn. In Mortgages, RWAs reduced by £0.1bn as the impact of lower exposures and stronger HPI more than offset a c.£0.4bn post model adjustment for the expected impact of implementing mortgage hybrid models.

In Business, RWAs increased by c.£0.8bn mainly as a result of higher customer balances, excluding government-backed balances that carry a 0% risk weight. Unsecured RWAs were broadly stable in the period, despite the increase in customer lending during the financial year, due to higher provisions reducing the EAD for the cards portfolio. Non-credit RWAs were £3.3bn, c.£0.2bn higher than 2022, driven by higher operational risk RWAs.

MREL

The Group's transitional MREL ratio remained broadly stable during the period at 9.3% (2022: 9.0%) of Leverage Exposures, or 31.9% when expressed as a percentage of RWAs (2022: 32.1%). This provides prudent headroom of £1.3bn or 1.5% above the binding loss-absorbing capacity (LAC) requirement of 7.8% of Leverage Exposures, or 5.3% above the binding LAC requirement of 26.6% when expressed as a percentage of RWAs.

CET1 capital movements(1)	2023
Opening CET1 ratio	**15.0%**
Capital generated (bps)	**199**
RWA growth (bps)	**(38)**
AT1 distributions (bps)	**(16)**
Underlying capital generated (bps)	**145**
Restructuring charges (bps)	**(40)**
Acquisition accounting unwind (bps)	**(9)**
Conduct (bps)	**(4)**
Hedge ineffectiveness (bps)	**(5)**
Hybrid mortgage impact (bps)	**(28)**
Foreseeable ordinary dividends (bps)	**(29)**
Share buyback (bps)	**(41)**
Other (bps)	**(19)**
Net capital absorbed (bps)	**(30)**
Closing CET1 ratio	**14.7%**

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

FY24 outlook
In FY24, we anticipate full year NIM of 190-195bps, reflecting the benefit of structural hedge reinvestment and a higher yielding asset mix, offset by ongoing competitive pricing pressures in mortgages and deposits.

The Group continues to expect to incur restructuring charges reflecting its ongoing digitisation programme, with the majority of the remaining c.£60m expected to be incurred in FY24. We now expect our strategy to digitise the Bank to deliver around £200m (previously c.£175m) of annualised gross cost savings, generating headroom to absorb inflation and reinvestment, as we focus on improving legacy components of our infrastructure. The Group will also invest c.£130m across FY24-26 in its financial crime prevention programme, of which c.£40m is expected to be incurred in FY24.

The Group now expects to deliver a broadly stable underlying cost: income ratio in FY24. This excludes the additional costs associated with the financial crime prevention programme in FY24, which will be excluded from underlying performance and reported separately as a notable item. The Group expects its cost of risk for FY24 to normalise around its through the cycle average of c.30-35bps.

Consistent with our strategy to diversify the balance sheet, we anticipate 5-10% growth in target lending segments of Unsecured and Business relative to FY23 and to trade tactically in the mortgage market to maintain market share across the medium term.

The Group expects to issue £1.5bn-2.0bn of secured issuance in FY24 subject to deposit flows and relative cost. Capital and MREL issuance is expected to be broadly limited to maintaining the current surplus to regulatory requirements.

By FY24, the Group expects to be operating in its target CET1 range of 13-13.5%. The Group anticipates nominal shareholder distributions in FY24 around the same level as FY23, comprising a target 30% full year dividend payout level, supplemented with buybacks, which will be subject to Board and regulatory approval, reflecting an ongoing assessment of surplus capital, regulatory developments, market conditions and the macroeconomic outlook.

Overall, the Group now expects to deliver a c.10% underlying RoTE in FY24, excluding costs associated with the financial crime prevention programme and the cash flow hedge reserve. The Group expects to deliver a c.8% statutory RoTE in FY24.

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.

The Group continues to target an underlying cost:income ratio of <50%, while we are committed to delivering sustainable double-digit statutory returns in the medium-term, with further detail to be provided at a Capital Markets Day during FY24.

Clifford Abrahams
Chief Financial Officer
22 November 2023

Guidance

	FY24 outlook	Medium-term outlook
NIM / Income	**NIM** FY24 NIM of 190-195bps	**Income** Volume growth and improving margin to drive expansion
Underlying costs	Cost:income to remain broadly stable in FY24[1]	Cost:income ratio to reduce below 50%
Cost of risk / Growth	**Cost of risk** Cost of risk to be in the range of 30-35bps	**Growth** Targeting lending growth in Unsecured and Business; maintaining mortgage market share over medium term
Investment	c.£275m across FY22-24; majority of remaining c.£60m to be incurred in FY24 Expect to spend c.£40m in financial crime prevention programme in FY24	Expect to spend c.£130m in financial crime prevention programme between FY24-26
CET 1	CET1 in target range of 13–13.5%	Remain in target CET1 range
Capital distribution / RoTE	**Capital distribution** FY24 distributions around FY23 nominal level; dividends (30% payout); buybacks subject to Board and regulatory approval	**RoTE** Committed to generating sustainable double-digit statutory returns
RoTE	Underlying RoTE of c. 10%[2] Statutory RoTE of c.8%	

(1) Excluding financial crime prevention programme from FY24.
(2) Excluding financial crime prevention programme from FY24 and cash flow hedge reserve.

Chief Financial Officer's review

Strategic report

Summary income statement – statutory basis

For the year ended 30 September	2023 £m	2022 £m
Net interest income	**1,687**	1,576
Non-interest income	**140**	140
Total operating income	**1,827**	1,716
Operating and administrative expenses	**(1,173)**	(1,069)
Operating profit before impairment losses	**654**	647
Impairment losses on credit exposures	**(309)**	(52)
Statutory profit on ordinary activities before tax	**345**	595
Tax expense	**(99)**	(58)
Statutory profit after tax	**246**	537

The Group has recognised a statutory profit before tax of £345m (2022: £595m). The reduction in statutory profit is primarily driven by higher credit impairment losses, following the low charge last year and higher adjusting items, primarily reflecting restructuring costs in the year. From FY24, the Group will no longer report on both an underlying and a statutory basis; the income statement will be reported on a statutory basis, with notable items separated out to enable the reporting of Adjusted Income and Expenditure.

Performance measures[1]

	2023	2022	Change
Profitability			
RoTE	**3.9%**	10.3%	(6.4)%pts
Cost: income ratio	**64%**	62%	2%pts
Return on assets	**0.27%**	0.60%	(0.33)%pts
Basic earnings per share (EPS)	**14.0p**	32.4p	(18.4)p

(1) For a definition of each of the performance measures, refer to 'Measuring the Group's performance' on pages 372 to 380.

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 381.

2023 income statement	Statutory results £m	Restructuring charges £m	Acquisition accounting unwinds £m	Legacy conduct £m	Hedge ineffectiveness[1] £m	Other £m	Underlying results £m
Net interest income	**1,687**	**–**	**29**	**–**	**–**	**–**	**1,716**
Non-interest income	**140**	**–**	**–**	**–**	**16**	**1**	**157**
Total operating income	**1,827**	**–**	**29**	**–**	**16**	**1**	**1,873**
Total operating and administrative expenses before impairment losses	**(1,173)**	**131**	**–**	**12**	**–**	**59**	**(971)**
Operating profit before impairment losses	**654**	**131**	**29**	**12**	**16**	**60**	**902**
Impairment losses on credit exposures	**(309)**	**–**	**–**	**–**	**–**	**–**	**(309)**
Profit on ordinary activities before tax	**345**	**131**	**29**	**12**	**16**	**60**	**593**
Financial performance measures							
RoTE	**3.9%**	**2.0%**	**0.4%**	**0.2%**	**0.2%**	**0.9%**	**7.6%**
Cost: income ratio	**64.2%**	**(6.5)%**	**(1.5)%**	**(0.6)%**	**(0.7)%**	**(3.0)%**	**51.9%**
Basic EPS	**14.0p**	**7.1p**	**1.6p**	**0.6p**	**0.9p**	**3.2p**	**27.4p**

2022 income statement	Statutory results £m	Restructuring charges £m	Acquisition accounting unwinds £m	Legacy conduct £m	Hedge ineffectiveness[1] £m	Other £m	Restated underlying results £m
Net interest income	1,576	–	16	–	–	–	1,592
Non-interest income	140	–	16	–	(13)	7	150
Total operating income	1,716	–	32	–	(13)	7	1,742
Total operating and administrative expenses before impairment losses	(1,069)	82	3	8	–	62	(914)
Operating profit before impairment losses	647	82	35	8	(13)	69	828
Impairment losses on credit exposures	(52)	–	–	–	–	–	(52)
Profit on ordinary activities before tax	595	82	35	8	(13)	69	776
Financial performance measures							
RoTE	10.3%	1.4%	0.6%	0.1%	(0.2)%	1.1%	13.3%
Cost: income ratio	62.3%	(4.5)%	(1.9)%	(0.4)%	0.7%	(3.7)%	52.5%
Basic EPS	32.4p	4.3p	1.8p	0.4p	(0.7)p	3.6p	41.8p

(1) Hedge ineffectiveness is now presented as an adjustment to underlying non-interest income as detailed on page 381. The comparative period has been adjusted accordingly. This restatement does not impact the statutory results of the Group.

How we manage risk

Data-driven risk management

Susan Poot
Chief Risk Officer

Driving better outcomes for our stakeholders through impactful risk management.

Effective risk management supports the delivery of our strategic objectives and fulfils our Purpose

With greater challenges from factors such as the cost of living, increasingly demanding regulatory expectations, geopolitical uncertainty, the pace of technological change and higher incidences of fraud and financial crime, our focus is on supporting our stakeholders by continually improving the risk profile of the bank. We focus on driving better outcomes through more impactful risk management, meaning that we continue to build capability by investing in our data and systems and challenging how risks are managed.

Our approach to risk management

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. Our culture is shifting favourably, with clear roles and responsibilities as defined in our refreshed three lines of defence model, and a higher level of challenge through assurance and documented risk opinions, to help drive better and more sustainable risk outcomes.

The Group uses its Risk Management Framework (RMF) to manage and control risk, which helps to:

- support decision making, planning and prioritisation through providing a greater understanding of business activity and volatility;
- provide a consistent approach to risk management activities including clear roles and responsibilities, insightful reporting and appropriate oversight; and
- support 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 on an annual basis and is subject to ongoing review to ensure that it remains fit for purpose.

Risk appetite

Risk performance is measured through 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.

Emerging and evolving risks

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

2023 developments

In 2023, we refreshed elements of the RMF, with the introduction of new risk and control taxonomies and enhanced impact analysis. These updates will be rolled out along with a new integrated risk management system in 2024, helping drive improvements to our data driven control effectiveness assessments.

With increasing sophistication of fraudsters and cyber criminals, we are investing more into our fraud, financial crime and cyber capabilities, bringing improved skills as well as technology. This supports managing risks as our digital strategy builds momentum and also recognises the increasing regulatory drive to strengthen controls.

Risk has overseen key regulatory developments, including Consumer Duty, and complex change programmes, in support of our strategic objectives. Additional focus has been given to: IT infrastructure and boosting digital capabilities; change risk management; strengthening operational risk and model risk disciplines; and enhancing the economic crime operating framework.

The RAS was refined and continues to support the Group, ensuring the appropriate balance between supporting growth objectives and operating within acceptable risk levels, considering the uncertain macroeconomic environment with higher interest rates. Our Risk teams are becoming more impactful, with data driven approaches and a renewed focus on our control environment, through improved guidance and increased monitoring of testing, supporting effective risk management and better outcomes for our stakeholders.

Strategic report

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

Emerging and evolving risks

Risk trend since 2022 ^ Increase

^ Economic & political risks

The tightening of monetary policy could lead to a further slowdown in economic growth and a technical recession in the UK. Economic weakness in the higher rate environment is impacting consumer confidence and has led to subdued housing market activity. These risks, in aggregate, could further impact customer resilience and consequently debt affordability.

Geopolitical tensions have increased with ongoing conflict in Ukraine and the outbreak of hostilities in the Middle East. There is an increased risk that events will escalate and although the Group's direct exposures to these areas is very limited, there is the risk of a broader macro shock from conflict. The economic impact to date has fuelled inflationary pressures to the price of goods and services, further contributing to the rising cost of living.

Political risks are closely monitored and the forthcoming general election could drive changes to the UK political environment, which could have wide ranging implications for the Group that must be carefully managed.

The Group maintains robust capital and liquidity levels, with stress testing against a range of severe but plausible market scenarios performed to understand and mitigate risks to financial resilience.

^ Regulatory change

Firms remain subject to high levels of oversight and a complex programme of regulatory change from a number of different regulatory bodies. In particular, evolving financial crime regulation and changing expectations of customer interventions, alongside continued technological change, is driving a need for investment to protect our customers and to enhance our resilience and capability in these areas.

The regulatory landscape requires ongoing responses, specialist resource and funding to execute multifaceted and large-scale change projects, to ensure compliance. The Group's designation as an Other Systemically Important Institution (O-SII) in December 2022 heightens this risk.

The Group works with regulators to ensure it meets its obligations and any implications from upcoming regulatory activity are incorporated into the strategic planning cycle.

^ Third-party risk

There are complex and significant dependencies on third-party suppliers, including outsourcing of certain activities, which require effective management of the levels of risk that arise as a result, particularly for key activities that could impact operational resilience.

Dependencies on a particular supplier for multiple business capabilities could mean a single failure disrupts multiple aspects of the business. These risks are closely managed and mitigated through our third-party RMF.

^ Technological change

Technological developments, such as generative Artificial intelligence (AI), continue to accelerate and could progress before associated risks and opportunities are fully understood. In turn, the landscape of security threats we must face into is also expanded. Managing and replacing ageing technology platforms at the required volume, pace and scale is complex and needs careful management.
Delivering change sustainably and managing execution risk is a priority for the Group. Stable, scalable, and secure technology architecture is essential to ensure our customers are provided with the best level of sustained service, while supporting the bank's growth strategies and digital ambitions. The Group has a multi-year programme of investment to upgrade propositions across key areas such as financial crime prevention and cyber defence.

^ Data stewardship

The Group's digitisation strategy, combined with changing regulatory requirements and technological advancements such as Cloud solutions, places increasing importance on the effective use of quality and timely data. This, combined with a clear governance and ownership structure around data is central to our digital success.
Risks and opportunities, including in relation to data ethics need to be fully understood, even more so as we face into rapid AI developments. The Group is developing AI use cases responsibly by mitigating the inherent bias and ethical risks. A comprehensive framework of controls is in place to manage and mitigate data risks, with continued investment into data management capabilities.

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 consistent with those outlined in the Interim Financial Results 2023. An overview of the Group's principal risks and mitigating actions is set out below and overleaf, while further information on all of the Group's principal risks can be found on pages 171 to 238 of the Risk report.

Credit risk

The risk that a retail or business customer or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk needs to be managed through the life cycle of each loan from origination to repayment, redemption, write-off or sale. It manifests in the 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, credit strategies and standards which outline the approach to lending, underwriting, concentration limits and product terms.
- Credit risk is managed through risk appetite and risk limits reflected in approved credit frameworks, policies and controls.
- The Group carries out ongoing monitoring and approval of individual transactions, regular asset quality reviews and independent oversight of credit decisions and portfolios.
- Significant portfolio monitoring and assessment of aggregate risks is in place to remain close to any signs of portfolio deterioration, covering areas such as product, industry, geographical concentrations and delinquency trends.
- Stress test scenarios are prepared regularly to assess the adequacy of the Group's impairment provisions and the impact on RWAs and capital.

Focus

- The Group remains focused on continued and timely support for customers experiencing financial difficulty, as well as horizon scanning in relation to expected events and outcomes, given the ever-changing external environment.
- The Group will put in place all necessary measures to ensure readiness for any potential economic downturn and consequent customer support.

Financial risk

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 Process (ILAAP), strategic funding plans and recovery planning.
- The Group completes an annual ICAAP which assesses the impact of severe, yet plausible, stress events to ensure that the appropriate level and type of capital underpins the strength of the balance sheet in both normal and stressed conditions. The Group also participates in the BoE ACS, which tests the resilience of major UK banks to a severe stress scenario.
- Board-approved risk appetite measures ensure financial risks are monitored and managed in accordance with internal and regulatory requirements and in support of the Group's strategy.
- Market risks (interest rate and foreign exchange risks) are managed in line with established policies and allocation of capital.
- Pension risk is overseen by the Asset and Liability Committee (ALCO) and is considered in detail as part of the ICAAP with ongoing reports provided to the Board Risk Committee.

Focus

- The Group's focus is to manage the balance sheet through the uncertain economic environment and cost of living crisis.
- The economic environment creates interest rate uncertainty, which presents potential for adverse operational impacts, changes to customer behaviour and pressure on margins.
- The PRA timeline for implementing Basel 3.1 has been extended. We will look to understand potential impacts on capital requirements across, for example, operational and credit risks.
- The ways climate risk can be incorporated into capital models will be a 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.

Conduct risk

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

Mitigating actions

- Clearly defined conduct risk policy framework requirements and policies.
- Continuing development of a customer-centric culture aligned to the Group's Purpose, to deliver good customer outcomes.
- Ongoing reporting of risk appetite measures to the Executive Risk Committee and the Board.
- Consideration of conduct risk in product and proposition development.
- Risk-based monitoring of compliance with regulation and assessment of customer outcomes.

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 with good outcomes, including vulnerable customer groups, and in line with the FCA's New Consumer Duty.

How we manage risk

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.
- A suitably qualified Independent Model Validation function conducts model validations prior to model implementation, both when a model is changed and on a periodic basis.
- The Model Risk Management team has been strengthened, with recruitment of a new Head of Model Risk to enhance our capabilities and to increase focus on key regulatory projects.

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 Supervisory Statement 1/23 Model Risk Management Principles for Banks, is an important development in the management of model risk. A self-assessment is in progress and a new Model Inventory solution is being developed for 2024.
- Model monitoring is an important part of our framework and will support our assessment of any long-term effects from COVID-19 and risks from increased cost of living/inflation.

Strategic and enterprise risk

The risk of significant loss of earnings or damage from decisions or actions that impact the long-term interests of the Group's stakeholders; or from an inability to fund or manage required change projects, or adapt to external developments.

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 delivering on our Purpose and strategy.
- The Group considers strategic and enterprise risk as part of ongoing risk reporting. The management of identified strategic risks is allocated to members of the Group's Executive Leadership Team by the CEO.

Focus

- Continue to enhance strategic risk oversight capability and provide targeted assurance on Group strategy.

Operational 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.
- A framework is in place to ensure risks from individual changes are managed effectively, in line with the Group's risk appetite, with appropriate second-line oversight.
- Policies, controls and frameworks are in place to mitigate cyber and information security risks. The Group continues to invest in developing and enhancing its controls and defences, and carries out robust due diligence prior to working with third parties.

Focus

- The implementation of a new integrated risk management system will be the catalyst for improvements in risk identification and control assessments, that will enrich data and enable process-driven control monitoring and testing.
- The Group will focus on management of resilience risks arising from the increasing change portfolio. It will build on delivery of compliance with resilience regulations this year, which included mapping of Important Business Services and stress testing exercises.
- Continued focus of supplier management is required to safeguard the provision, enablement and delivery of critical processes through third parties.
- A 3-year programme will commence in 2024 to further our cyber security capabilities, focusing on a centralised control path.
- A programme will start in FY24 to reduce complexity of legacy systems, as well as increase stability and effectiveness of funding, gradually over the next 5 years.

Regulatory and compliance risk

The risk of failing to comply with relevant regulatory requirements and changes in the regulatory environment, or failing to manage a constructive relationship with our regulators.

Mitigating actions

- Clearly defined regulatory and compliance policy framework requirements and policies.
- Ongoing reporting of RAS measures to the Executive Risk Committee and the Board.
- Proactive and coordinated engagement with the Group's key regulators.
- Oversight of regulatory and compliance risks and issues in relevant governance bodies.
- Continual assessment of evolving regulatory requirements, including regulatory business plans and thematic reviews.

Focus

- The Group will continue to respond to regulatory change and associated requirements for system and process developments as these evolve across the banking industry, covering both the prudential and conduct risk agenda.
- Prioritisation and development will continue with enhancements to existing regulatory capabilities and systems, and implementation of regulatory changes and new regulatory requirements.

Economic crime risk

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 RAS measures reported to the Executive Risk Committee and the Board.
- Continued monitoring of existing, new and emerging risks and threats as a result of new laws and regulations, industry trends and economic and environmental factors.
- Increased resource and capability within the Economic Crime Risk team.
- Operation of a framework of risk-based systems and controls, to minimise the extent to which products and services can be used to commit or be subject to financial crime.
- The Group has become an approved signatory to the Contingent Reimbursement Model Code and successfully implemented Confirmation of Payee, both supporting better outcomes for our customers.

Focus

- Implementing the Group's 3-year c.£130m investment programme in financial crime prevention and cyber defence systems, to strengthen our capabilities and to protect our customers.
- Continued enhancement of systems and controls in response to the known threat of economic crime within the UK and the increasingly demanding regulatory expectations.
- Monitoring of emerging fraud and financial crime regulation and careful management of any customer interventions.
- Maintain focus on improving our operating model and economic crime control environment, with improved payment profiling and targeted interventions to mitigate fraud risks.

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.
- The Group maintains a sensitive sector policy which outlines the Groups appetite to sensitive sectors.
- An ESG focused Group-wide data programme supports our improvement of our climate data availability and quality.
- A Group-wide Climate Risk Assessment is undertaken to support first line identification of climate-related risk drivers.
- RAS 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.

Focus

- The Group will continue to develop capability to identify, manage and monitor climate risk.
- Continued investment to further develop data capability to inform strategy and support customers' transition to a low carbon economy.
- Continued development of models and methodologies to support quantification of climate risk.
- We will maintain focus on the Group's net-zero ambitions.
- Monitoring of emerging regulation, disclosure standards and market practice.

Governance

Giovanni
Digital & Innovation

Giovanni is one of our upcoming digital apprentices helping us on our mission to be the UK's best digital bank.

Board Chair's introduction

David Bennett
Board Chair

The Board has continued to focus on overseeing the delivery of the Group's strategy for the benefit of all of our stakeholders.

Introduction

I am pleased to present the Governance report for 2023.

Good corporate governance underpins a culture focused on delivering the long-term sustainable success of Virgin Money. During the year the Board has continued to focus on overseeing the delivery of the Group's strategy for the benefit of all of our stakeholders. In this Governance report we have set out how the Board operated during the year, its key areas of focus in Board meetings and how the Board has taken into account different stakeholder interests in its decision making, driven by our Purpose.

Board oversight of strategy and support for customers in challenging times

As Virgin Money moves into the final year of the strategy set out at our Capital Markets Day in 2019, the Board has continued to monitor progress on our digital transformation while continuing to safeguard service and improve customer experience.

In line with our strong customer focus, during the year the Board has been kept updated on how Virgin Money is supporting customers recognising the ongoing challenging external environment including the impact of rising interest rates and cost of living pressures. The Board is fully committed to doing the right thing by our customers through competitive rates, innovative products and proactive communication. You can read more in the Stakeholder engagement and Board decision making section of this report beginning on page 98.

Stronger consumer outcomes driven by our Purpose

As described on page 95, the Board was closely engaged throughout the year on the progress made in embedding the FCA's new Consumer Duty requirements, which came into effect in July. Our Purpose of Making you happier about money is synonymous with providing good customer outcomes.

Corporate governance focus

From a governance perspective, the Board – supported by the Governance and Nomination Committee – undertook in-depth reviews of the Board succession plan covering both contingency arrangements and medium and longer-term changes. The Board has now agreed a detailed timetable of succession plan activity to ensure an orderly process. In line with the Board succession plan, we confirmed in an announcement in May 2023 that Darren Pope will step down as Chair of the Remuneration Committee when a successor is appointed and he will thereafter remain on the Board as a non-executive director. The process to appoint his successor is now in the final stages.

An externally facilitated Board Performance Review was conducted by Korn Ferry this year, which also included an evaluation of the Board's committees. The process followed and the key recommendations and actions agreed by the Board are described in the Governance and Nomination Committee report beginning on page 108. Korn Ferry concluded that the Board is effective and no significant concerns or issues were raised.

Making the most of time together

The Board benefited from holding more meetings in person during 2023 at key points in the financial calendar which also meant that more informal sessions could be arranged, including strategy sessions, deep dives and briefings. Importantly, the Board was also able to resume in person colleague sessions as part of the broader Workforce Engagement Programme to hear first hand colleagues' feedback on working at Virgin Money. The Workforce Engagement Programme is a critical part of the Board's calendar and you can read more about what we covered during the year on page 93.

The Board was also pleased to hold another physical Annual General Meeting (AGM) in London in February and members of the Board met with investors, customers and other stakeholders throughout the year.

Corporate Governance Code

The Company's statement of compliance with the UK Corporate Governance Code 2018 is on page 79.

During the year the Board and its committees considered the Financial Reporting Council's (FRC) consultation on the proposed changes to the Code. The Board awaits the updated Code when it is published in 2024 which will be a key consideration in continuing to evolve the Group's corporate governance framework.

In closing, I would like to thank my Board colleagues for their contribution and commitment during the year.

David Bennett
Board Chair
22 November 2023

Our Board in 2023

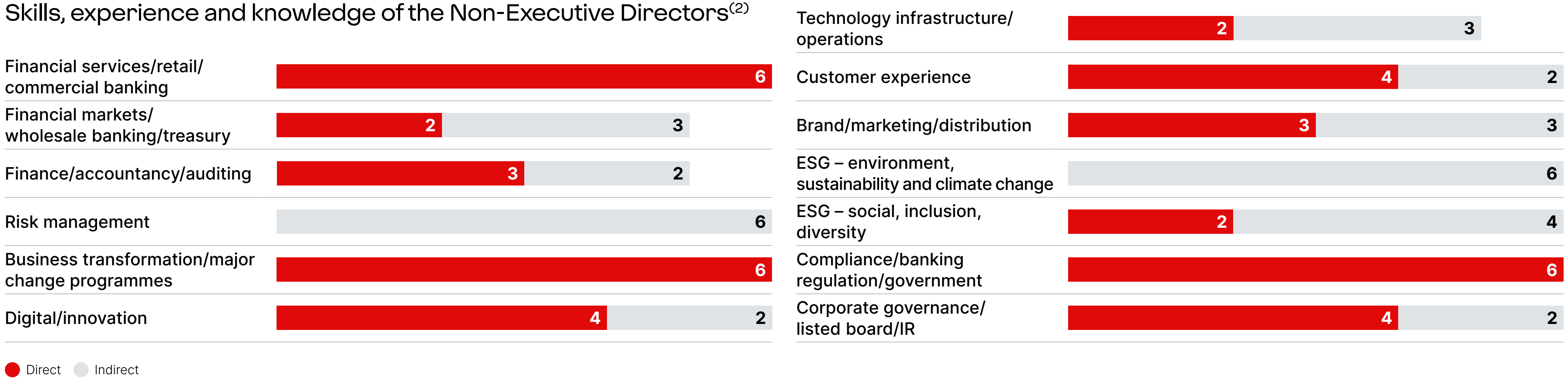
Board and committee composition and attendance at scheduled meetings from 1 October 2022 to 30 September 2023[1]

Board member	Board	Governance and Nomination Committee	Audit Committee	Risk Committee	Remuneration Committee	Independent
David Bennett (Board Chair)	10/10	5/5	–	–	7/7	(on appointment)
Executive Directors						
Clifford Abrahams	10/10	–	–	–	–	No
David Duffy	10/10	–	–	–	–	No
Non-Executive Directors						
Geeta Gopalan	10/10	5/5	6/6	7/7	7/7	Yes
Elena Novokreshchenova	10/10	5/5	6/6	7/7	7/7	Yes
Darren Pope	10/10	5/5	6/6	7/7	7/7	Yes
Tim Wade	10/10	5/5	6/6	7/7	7/7	Yes
Sara Weller	10/10	5/5	–	–	–	No

(1) Data is based on scheduled meetings from 1 October 2022 to 30 September 2023. Additionally, the Risk and Audit Committees held two joint meetings during the year and also ad hoc meetings of the Board and Board committees took place.

(2) The Board comprises Non-Executive Directors that provide an appropriate combination of skills, experience and knowledge. The chart below shows the skills, experience and knowledge on the Board as at 30 September 2023 based on Directors' self-assessment. Only direct or practical career experience is reported – the majority of Non-Executive Directors have indirect experience across all categories, for example gained from other Board positions. The skills matrix is reviewed annually by the Governance and Nomination Committee and Board.

Skills, experience and knowledge of the Non-Executive Directors[2]



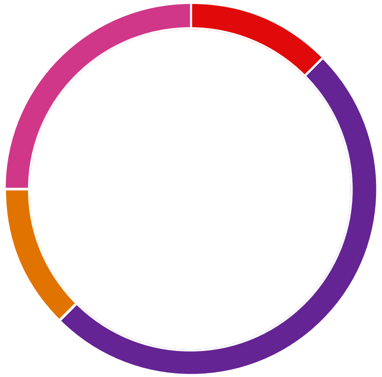
Our Board in 2023

Board composition as at 30 September 2023
The charts on the right illustrate the Board composition as at 30 September 2023. When measured against the targets in the Board Diversity and Inclusion Policy (Policy) which applied for FY23, 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 37.5%, which falls slightly short of our 40% target, none of the senior Board positions were held by a woman.

Further details of the Board's approach to diversity and inclusion and the Policy and targets to apply for FY24 are set out on pages 109 and 110 of the Governance and Nomination Committee report.

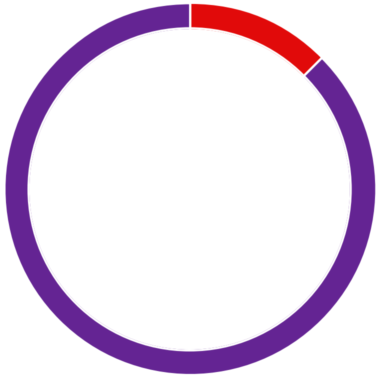
Director tenure
As at the date of this report, all Directors have a tenure not exceeding nine years(3). Each Director's date of joining the Group is included in their biography on pages 80 to 84.

Composition by role



Board Chair	1
Independent Non-Executive Directors	4
Non-Executive Directors	1
Executive Directors	2

Composition by age



55 and below	1
56 and over	7

Composition by tenure(3)

0 to 3 years	37.5%
3 to 6 years	12.5%
6 to 9 years	50%

Composition by gender diversity

Female 3 Male 5

(3) 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 (UK) Limited). Virgin Money UK PLC (formerly CYBG PLC) acquired Virgin Money Holdings (UK) PLC on 15 October 2018.

Board and Executive Management Diversity

Reporting table on gender identity or sex as at 30 September 2023[(1)(2)]

	Number of Board members	Percentage of Board members	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Principal Board committees: Governance and Nomination Committee	Percentage of Governance and Nomination Committee members	Audit Committee	Percentage of Audit Committee members	Risk Committee	Percentage of Risk Committee members	Remuneration Committee	Percentage of Remuneration Committee members	Number in executive management	Percentage of executive management
Men	5	62.5%	4	3	50%	2	50%	2	50%	3	60%	3	42.9%
Women	3	37.5%	0	3	50%	2	50%	2	50%	2	40%	4	57.1%
Not specified/prefer not to say	0	0%	0	0	0%	0	0%	0	0%	0	0%	0	0%

Reporting table on ethnic background as at 30 September 2023[(1)(2)]

	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	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	7	87%	4	5	3	3	4	6	86%
Mixed/Multiple Ethnic Groups	0	0%	0	0	0	0	0	0	0%
Asian/Asian British	1	13%	0	1	1	1	1	0	0%
Black/African/Caribbean/Black British	0	0%	0	0	0	0	0	1	14%
Other ethnic group, including Arab	0	0%	0	0	0	0	0	0	0%
Not specified/prefer not to say	0	0%	0	0	0	0	0	0	0%

(1) 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.

(2) Executive management members who are not also Board members were requested to disclose their gender identity and ethnicity data individually. The data in respect of the two executive management members who are also Board members have been included in both the Board data and in the executive management data in the tables above.

The UK Corporate Governance Code 2018

Our compliance with the Code

The Board confirms that throughout the financial year ended 30 September 2023 Virgin Money has complied with all relevant provisions of the UK Corporate Governance Code 2018 (Code), which is available at www.frc.org.uk

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 of the Governance report 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. During his time at easyJet plc, David advocated research into alternatives to jet fuel and reducing fuel consumption in order to reduce the impact aviation has on climate change. David has experience working with various charities, supporting and promoting sustainability throughout the industry.

External appointments
Chairman of Allfunds Group plc, Non-Executive Director of PayPal (Europe) S.a.r.l. et Cie, S.C.A., Chair of Paypal UK Ltd and Non-Executive Board member of the Department for Work and 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 significant international banking and financial services experience in developed and emerging markets, gained from a career spanning over three decades. During his career David has lived and worked in Europe, the Americas, Asia and Africa. 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. David is committed to driving positive social and environmental impacts across all areas of Virgin Money, further supported by his role as Senior Independent Director (SID), Nominations and Remuneration Committee Chair and Appeals Committee Chair of UK Finance Limited, advocating firms to embed climate responsibility into their governance and strategy.

Prior to joining the Group, David was appointed to the role of CEO at Allied Irish Banks plc (AIB) by the Irish Government where he led the restructuring and recovery of AIB following the financial crisis. David was also previously the CEO of Standard Bank International where he had responsibility for operations in the UK, Europe, Latin America and Asia. Prior to this role David was the Head of Global Wholesale Banking Network with ING Group with responsibility for all regional CEOs in the global network and President and Chief Executive of the ING wholesale franchises in the United States and Latin America.

David was previously a member of TheCityUK Advisory Council, a past president of the Banking and Payments Federation of Ireland, a former Director of the European Banking Federation and previously held the role of HM Treasury Fintech Envoy for England, supporting the Chancellor and the late Her Majesty's Treasury by advocating the Fintech industry across England.

External appointments
David is Senior Independent Director, Nominations and Remuneration Committee Chair and Appeals Committee Chair of UK Finance Limited, the industry body representing leading firms providing finance, banking, markets and payments-related services in or from the UK, and a Board member of The Northern Powerhouse Partnership.

Executive Directors

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 responsible for financial management and reporting, strategy, investor relations and sustainability. 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, most 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 Chief Financial Officer (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. Tim's current roles are within companies in the financial services industry which have detailed commitments and programmes of work relating to ESG matters. 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. Earlier in his career he was Group CFO at Colonial Limited in Melbourne, Australia where he oversaw the company's 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 and Senior Independent Director and Chair of the Audit Committee of ClearBank Group Holdings Limited.

Non-Executive Directors

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, Non-Executive Director and Chair of the Risk Committee at Wizink Bank S.A., 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 Remuneration Committee of Dechra Pharmaceuticals PLC, Non-Executive Director of Intrum AB (publ) and Trustee of the Old Vic Theatre Trust 2000.

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 Managing Director Europe Digital at Entain plc and before that she 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 tech 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. Elena has hired, scaled and managed multi-culture, ethnic, gender diverse pan-European teams and implemented a number of diversity and inclusion initiatives across the organisations she has worked in.

External appointments
None.

Our Board of Directors

Non-Executive Directors

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 Chief Financial Officer (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. At Network International Holdings plc, Darren has led the board on the development and monitoring of all components of the ESG strategy and has provided input to the ESG strategies of other boards he is involved in. 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 led 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 HSBC Innovation Bank Limited and Non-Executive Director and Chair of the Audit Committee at Hargreaves Lansdown plc.

Sara Weller CBE
Non-Executive Director

GOV

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 the Representative Director of Virgin Enterprises Limited.

Sara is an independent Non-Executive Director of BT Group plc (BT) and a member of BT's Audit & Risk and Nominations Committees and she chairs the Responsible Business Committee. This committee develops and oversees BT's business approach to sustainability, including environmental commitments, diversity targets and social inclusion programmes. Sara is the Chair of the Money and Pensions Service, an arm's length body of the Department for Work and Pensions focused on improving financial capability and decision making of those most in need of help. Sara is also currently Chair of the Remuneration Committee at New College, University of Oxford. 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, United Utilities Group from March 2012 to July 2020 and she was also a member of the Stop MS Campaign Board, part of the MS Society charity until July 2023. She was also the lead non-executive director at the Department for Work and 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, Chair of the Money and Pensions Service board and Chair of the Remuneration Committee at New College, University of Oxford.

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

Allegra Patrizi
Managing Director, Business and Commercial

James Peirson
General Counsel and Purpose Officer

Susan Poot
Chief Risk Officer

Sarah Wilkinson
Chief Operating Officer

Board leadership and Company Purpose

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, 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 98 to 104.

At the date of this report, the Board comprises eight members, being 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 and their significant external, including director, appointments are on pages 80 to 84.

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 Performance Review

Read more on pages 108 to 114.

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 115 to 122.

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 123 to 127.

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 129 to 158.

(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. The Board established a Digital & Technology Committee in FY23 to undertake specific oversight and deep dive reviews of major technology change programmes. See page 113 for more information on the Digital & Technology Committee.

Board leadership and Company Purpose

How our Board operates continued

The Board's role is to provide leadership of the Company and to set the Group's strategy, including our ESG strategy, ensuring the necessary resources, policies and procedures are in place for the Group to meet its strategic priorities and to monitor and measure performance against them. The Board establishes and maintains an effective risk management and internal control framework and determines the nature and extent of the risks the Group is willing to take to achieve its long-term strategic ambition through the approval of the Group's risk appetite. The Board is responsible for setting the Group's Purpose, values and behaviours and under the leadership of the Board Chair, establishes the Company's culture regularly assessing and monitoring culture for alignment with our Purpose and values. You can read more about how the Board discharged its role during the year in the Board activities section of this report starting on page 92, which sets out the key focus areas and decisions of the Board.

Our governance framework, encompassing the Board, Board committees and the executive committees (described on page 168) facilitates the delivery of Virgin Money's Purpose-driven strategy and decision making. The Board is the ultimate decision-making body for matters of Group-wide strategic, financial, regulatory, cultural, governance or reputational significance and the decisions reserved solely for the Board are set out in the Board Charter available on our website (www.virginmoneyukplc.com).

The Board is supported in its work by its committees, as illustrated in the 'Board governance framework' diagram on page 87, which make decisions and recommendations on matters delegated to them as set out in each committee Charter (available at www.virginmoneyukplc.com). Each Board committee has a membership comprising Non-Executive Directors only and has an experienced Chair. The Board agenda includes time at the start 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. You can read more about the focus areas of each Board committee in their own reports beginning on page 108.

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 is supported by the 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 ESG strategy and driving a positive social and environmental impact is a core part of our broader Group strategy and there is clear alignment between our ESG goals and our strategic priorities. The Board governance framework supports the Board in overseeing the progress being made against these goals and the future areas of focus through regular updates at Board and committee meetings, informed by external insights when required. Through the strategic planning process the Board reviews and challenges whether our ESG priorities remain the right ones when considering stakeholder perspectives. You can read more about our ESG goals, key achievements in 2023 and areas of future focus, including specific climate-related risks and opportunities, on pages 31 to 53.

Board members possess a variety of skills and experience relating to ESG matters which are highlighted in the Directors' biographies on pages 80 to 84.

The Board delegates some ESG oversight and decision making to the principal Board committees as outlined in the diagram on page 89 and further information on each committee's ESG activities during the year is included in their individual reports beginning on page 108.

Board and committee operations

The Board held ten scheduled meetings during the year and attendance is set out on page 76. During the year the Board switched to a hybrid approach to its meetings, holding an increasing number in person in October, March, May, June, July and September with the others taking place virtually. 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 continued the practice of holding several meetings of 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 Group Company Secretary who maintains a rolling calendar of items to be covered by the Board during the year. The 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 invited for specific agenda items to participate in the discussion, respond to any questions arising and to ensure they can quickly take forward any follow-up actions. Depending on the topic, internal and external subject matter experts are also invited to join Board and committee meetings which provides Directors with the opportunity to gain deeper insight and build their knowledge.

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 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 to ESG matters) 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 and 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 and 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 and 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 are regularly reviewed as part of the Board Performance Review with improvements made where necessary to ensure the ongoing effectiveness of the Board. During the year an externally facilitated Board Performance Review was conducted which is described in detail in the Governance and Nomination Committee report on page 108.

During Board days, time is also allowed for committee meetings, strategy sessions, deep dives and other more informal sessions 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 76 and you can read about committee activities during the year in each committee report beginning on page 108.

Board leadership and Company Purpose

How our Board operates continued

Board agenda setting and meeting process

Start of the Board year	The Board Chair and Group Company Secretary agree a calendar of Board agenda items for the year; the Chief Executive Officer and Executive Leadership Team also input.
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, working with 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 to inform sound decision making and to promote the success of Virgin Money. In addition to the main Board papers, supplementary background material is regularly provided via a Board Library on the electronic Board portal and Directors can seek clarification or further detail from management where necessary. All Directors have access to the advice of the Group Company Secretary and other resources to support them in performing their role. Additionally, 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.

Professional development and induction

The Board Chair is responsible for leading the development and training of the Board taking into account a range of factors including the output of the annual Board Performance Review and the evaluation of each Director's own performance. Directors have access to a wide range of briefing and training sessions and other professional development opportunities. Directors are committed to their own professional development and undertake the training they consider necessary to assist them in carrying out their duties and responsibilities. The Group Company Secretary maintains a training and development log for each Non-Executive Director which is an input to the periodic review of their training and development needs with the Board Chair and she also coordinates Board training activities for the year.

During 2023, collective Board training topics reflected the areas of focus for the Board and included externally facilitated sessions to test how the Group would respond to a resolution scenario in relation to the BoE's Resolvability Assessment Framework including the Board and senior management responsibilities; a session focusing on cybersecurity capabilities and industry standards; and an incident management exercise focusing on a cyberattack. Internally facilitated training included a session focusing on the new Consumer Duty requirements and the work to embed the duty across Virgin Money and additionally Directors undertook the same online 'Professional Passport' training as colleagues which in 2023 covered topics such as the Code of Conduct; ESG; anti-bribery, fighting fraud, financial crime and tax evasion; vulnerable customers; and the Group's whistleblowing programme. Committee specific training is agreed with committee Chairs as needed.

The Board Chair ensures that each new Director receives a formal induction tailored to their individual requirements, skills and experience which the Group Company Secretary coordinates. The aim of the induction is to bring Virgin Money and its strategic journey to life and to equip the new Director with the knowledge necessary to perform their role. Induction activity therefore aims to build an understanding of the Group's strategy, business and markets; an awareness of current challenges and opportunities; a link with colleagues both at leadership and operational level; an understanding of the Group's main stakeholder relationships and areas of focus including regulators, government, major shareholders including Virgin Group Holdings Limited; and an appreciation of the framework within which the Board operates

Board leadership and Company Purpose

How our Board operates continued

including Virgin Money's culture. Additionally, a Director taking on a senior management function role as prescribed under the Senior Managers and Certification Regime undertakes a full and formally documented handover of responsibilities with the outgoing role holder and induction is also tailored if any new or serving Director is taking on a specific Board role such as a committee Chair.

Various delivery methods are used for induction activity including meetings and deep dive sessions with members of the Executive Leadership Team and other internal or external subject matter experts where appropriate including the External Auditor and advisers; site visits to stores and operational areas; tailored reading and briefing packs and external training. All new Directors receive a copy of the Group's Non-Executive Director Handbook which provides a single reference source for information about the corporate governance of the Group, their role as a Director, Board and committee operations and Board policies and operations. The induction plan and Handbook are supported by additional reference material, including past Board and committee papers, available on the Board portal. Depending on an incoming Director's experience, a serving Non-Executive Director may act as mentor to provide additional support during their first few months and regular one-to-one meetings take place with the Board Chair throughout the induction period to check progress.

Sara Weller, who joined the Board on 3 October 2022, received a tailored induction following the approach and covering the topics outlined above.

Monitoring time commitment

Non-Executive Directors are informed of the minimum time commitment required prior to their appointment and they are expected to devote sufficient time to the Company to discharge their duties effectively. A Director's preparation for, and attendance at, Board and Board committee meetings is only part of their role as time is also required for meetings with customers, shareholders, regulators and colleague events and for professional development and training, for example.

When making new appointments, the Board considers other demands on a Director's time and prior to appointment a prospective new Director must disclose all of their existing significant commitments including significant director appointments, as defined in the Board Charter, and other appointments along with the time involved. An analysis is undertaken of the time a Director will have available for their Virgin Money Board role given the other demands on their time, the output of which is reported to the Governance and Nomination Committee. Any concerns about capacity or potential over-boarding are discussed with the incoming Director and actions to address these concerns are agreed, such as reducing the number of external commitments. For serving Directors, proposed external appointments must be agreed with the Board Chair and disclosed to the Board before taking on the role and similarly to incoming Directors an assessment is also undertaken of a range of factors including capacity and time commitment, independence and conflicts of interest. The Board reviews the expected minimum time commitment for Virgin Money roles annually and the Governance and Nomination Committee periodically reviews the number of external appointments held by each Director reporting to the Board.

External appointments, including significant director appointments, are set out in each Director's biography on pages 80 to 84. No Director took on a new significant director appointment, as defined in the Board Charter, during the year and no Executive Director has either taken up more than one non-executive director role at a FTSE 100 company or other significant appointment. Following this year's general review, the Board is satisfied that all external appointments held by Directors are appropriate and that each Director has sufficient time to undertake their Virgin Money roles effectively taking into account their other commitments.

Managing conflicts of interest

There is a well-embedded process for the Board's management of conflicts of interest and authorisation of certain conflicts as permitted under its powers. Each Director is required to notify the Board of any actual or potential situational or transactional conflicts of interest and must keep the Board updated on any changes to the factors and circumstances surrounding such conflicts. Actual or potential conflicts of interest are assessed when a new Director joins the Board and are periodically reviewed, with time at the outset of each Board meeting for Directors to declare any conflicts in relation to the matters on the Board's agenda. Situational conflicts can be authorised by the Board in accordance with the Companies Act 2006 and the Company's Articles of Association. The Board considers each request for authorisation on a case-by-case basis and has the power to impose conditions or limitations on any authorisation it grants. Details of all Directors' conflicts of interest are recorded in a register maintained by the Group Company Secretary and reviewed by the Board annually.

Board performance

The effectiveness of the Board governance framework incorporating the Board, its committees and individual Directors is reviewed annually in line with the requirements of the Code. You can read more about the 2023 Board Performance Review in the report of the Governance and Nomination Committee on page 111 and in the reports from each other Board committee.

Board activities

The Board's engagement in the strategic planning process

Building on the operating rhythm established in prior years, the Board participated in a series of strategy focused discussions leading to the production of the final Strategic and Financial Plan approved by the Board in October.
This included round table discussions in May, July and September informed by management presentations and stakeholder input and more informal updates and information sharing sessions. Further information on the Group's strategy is set out on pages 18 to 30 of the Strategic report. The Board retained its focus on overseeing and monitoring execution of the Strategic and Financial Plan through receiving regular reports and monitoring KPIs as noted in the 'Key areas of focus in FY23' section below.

Throughout this year's strategic planning process the Board considered the Group's strategy in the context of a volatile macroeconomic and changing geo-political environment. While the outlook remains uncertain in the short term, the Board agreed that the Group's prudent risk appetite and positioning on liquidity, funding and capital and the ongoing focus on customers and digitisation positions Virgin Money for success and that the Purpose-led, digital strategy remains the right one despite the changing environment.

In considering strategic matters the Board also considered the views and interests of shareholders and other stakeholders, which remains a key area of focus for the Board, and you can read more about this in our stakeholder engagement and Board decision making section of this report beginning on page 98. The Board had particular regard to the financial pressures customers may face given the challenges on cost of living due to inflation and rising interest rates and was kept informed on the support being delivered for our customers. The Board heard about various support measures including our cost of living hub driven by our Purpose, which anyone can access on Virgin Money's website, offering competitive savings rates and boosting our support through government initiatives such as the Mortgage Charter. You can read more about how we are supporting customers in the Strategic report on page 20.

Board leadership and Company Purpose

Board activities continued

Key – Group strategic priorities

Super straightforward efficiency

Delighted customers and colleagues

Discipline and sustainability

Pioneering growth

Stakeholders

CU Customers

CO Colleagues

S Society

I Investors

PS Partners and suppliers

GR Government and regulators

Set out on the following pages are some of the key focus areas and decisions of the Board during the year and the links to our strategic priorities and the stakeholder groups central to those focus areas.

Key areas of focus in FY23

	Matters approved	Other matters considered	Strategic priority	Stakeholder
Strategy setting and monitoring	> Group's Strategic and Financial Plan > Agreed a multi-year investment programme for the Group including specific investment focused on improving regulatory resilience	> Held strategy sessions with management throughout the strategic planning process for FY24 > Oversaw execution of the Strategic and Financial Plan > Received updates on major projects initiated to further simplify and strengthen operations, IT infrastructure, cybersecurity and governance		CU CO S I PS GR
Building an inclusive and equitable culture driven by our Purpose	> Supported the five-year People vision and strategy > Agreed the Workforce Engagement Programme for the year > Updated the Board Diversity and Inclusion Policy and targets	> Reviewed the annual MyVoice colleague engagement survey results and Pulse updates > Received reports on the strength and depth of talent and succession plans and on Virgin Money's DE&I ambitions and progress > Received reports from the Whistleblowers' Champion including on the whistleblowing process and activity > Kept updated on the evolution of the A Life More Virgin colleague proposition including the financial, wellness and career journey support for colleagues > Tracked progress in continuing to embed our Purpose of Making you happier about money		CO S
Customers	> Agreed the Consumer Duty implementation plan > Supported the next phase of the Virgin Money Store strategy > Supported proposed management actions to improve customer experience and complaints management	> Kept updated on customer support strategies, including for vulnerable customers, in view of cost of living pressures > Had an in-depth session on complaints management and improvements needed > Deep dive on the customer proposition and progress in Business lending > Received reports on progress in personal and business lending > Received reports from the Chief Operating Officer on customer service, complaints, IT and operations		CU CO S GR

Board leadership and Company Purpose

Board activities continued

	Matters approved	Other matters considered	Strategic priority	Stakeholder
Finance	> Strategic and Financial Plan, capital and funding plans > BoE 2022 ACS Stress Test Results > ICAAP and ILAAP > Launched further share buyback programmes > Recommended the FY22 final dividend to shareholders and approved the FY23 interim dividend > Annual Report and Accounts (ARA), interim results and trading updates and Pillar 3 disclosures > Material Investments	> Received financial updates from the Chief Financial Officer including key financial and KPI highlights, asset quality and capital, funding and liquidity metrics > Engaged on the corporate broker selection and appointment process > Reviewed macroeconomic, geo-political and market conditions and the impact of these on the Group's performance and strategy and the response		CU CO S I PS GR
Sustainability and climate	> Reconfirmed the ESG Strategy, big goals and approved the net zero strategy and targets > ESG report and climate-related disclosures in the ARA > 2023 Modern Slavery Statement > Agreed the Board statement on tax transparency	> Received regular reports on progress with the ESG strategy > Considered an independent report from Risk on the ESG strategy > Reviewed the Group's position relative to PRA expectations on the management of climate-related financial risk		CU CO S I PS GR
Risk, regulatory and governance	> The annual RAS and in-year changes > RMF > The self-assessment of operational resilience capability and the operational resilience strategy > BoE Resolvability Assessment Framework self-assessment > Finalised the AGM Notice of Meeting and arrangements > Agreed an action plan responding to recommendations from the Board Performance Review	> Monitored the Group's risk profile via reports from the Chief Risk Officer > Had an in-depth session on cybersecurity and risk > Received reports on the Group's participation in the BoE cyber stress test > Discussed regulatory matters including the PRA Periodic Summary Meeting letter with the PRA		CU I GR

Governance spotlights

Delivering good customer outcomes

The FCA's new Consumer Duty, which sets higher and clearer standards of consumer protection across financial services, came into force in July 2023 requiring firms to provide customers with products and services that meet their needs and offer fair value supported by information and communications they can understand and the help they need, when they need it. Our Purpose of Making you happier about money is synonymous with providing good customer outcomes and at Virgin Money we've adopted the new Consumer Duty by taking a Purpose-focused, data-led decision-making approach ensuring the Consumer Duty weaves throughout everything we do from the conversations we have with customers, to the products we design, the policies we operate and the suppliers we work with.

During the year the Board closely monitored the implementation of Consumer Duty with the Board Risk Committee overseeing related risks. At the start of the implementation programme in 2022 the Board appointed Non-Executive Director Elena Novokreshchenova as Consumer Duty Champion who worked with the Board Chair, Chief Executive Officer and Chief Operating Officer to ensure the topic received focus in Board and senior stakeholder discussions in addition to providing support to management and attending and reporting back on industry forums on the subject. The timeline on the right shows how the Board was kept engaged throughout the programme by the Chief Operating Officer and senior management.

Looking ahead, now that Virgin Money has met the initial FCA requirements, there will be more work to do over the coming months to meet the second phase requirements by Summer 2024, to further develop our product and service design protocols, to mature the Customer Outcomes Testing function and to ensure the principles of Consumer Duty are deeply embedded in every aspect of the way we conduct business. The Board will continue to keep closely involved in overseeing progress.

Focus of Board discussion or update

September 2022	> Briefing on programme mobilisation, key considerations and challenges; overview of Board responsibilities
October 2022	> Approved the implementation plan and approach; overviewed risks and risk mitigation
February 2023	> Deep dive on product and service assessments and gaps to Consumer Duty outcomes
March 2023	> Programme progress report; reviewed the proposed Customer Outcomes Testing operating model
April 2023	> Programme progress report; reviewed the refreshed materiality framework for assessing product and service gaps
May 2023	> Programme progress report; update on gaps identified from refreshed materiality framework; update on risks and risk mitigation > Consumer Duty training module launched for completion by all colleagues, also completed by Directors
June 2023	> Programme progress report; reviewed progress in remediating product and service gaps, price and fair value assessments and customer communications; update on establishing Customer Outcomes Testing function > All people leaders hosted a discussion on what embedding Consumer Duty means for their team > Role specific training and communications including for colleagues interacting directly with customers
July 2023	> Programme progress report; reviewed independent reports from Risk and Internal Audit > Virgin Money meets the FCA's 31 July deadline for Consumer Duty
September 2023	> Deep dive on looking ahead to fully embed the Consumer Duty governance and operating model including on outcomes testing and price and fair value assessments

Board leadership and Company Purpose

Governance spotlights continued

Evolving our governance framework aligned to our strategic priorities

The Group remains highly focused on driving efficiency across the organisation and during the year the Board provided input to a review of the Group's governance arrangements initiated by the Chief Executive Officer. The aim of the review, principally focused at the executive committee level, was to ensure that the governance framework supports better execution at pace in a more agile manner, removing duplication, improving productivity, enhancing control with clarity on roles, responsibilities and decision-making authority.

The governance review is part of a broader programme of work receiving Board focus as we strengthen and improve our oversight, risk management and operational competence to meet the regulatory expectations of Virgin Money as a systemically important firm.

Initial findings, opportunities and recommendations were reported to the Executive Leadership Team in March 2023 and covered committee structure; committee use; providing clarity on how the governance framework is used and where authority for decision making and oversight sits; the interplay with Agile ways of working; and resetting cultural expectations. Additionally a working group was established to focus on process improvement opportunities.

Implementation plans taking forward the recommendations were then mobilised overseen by the General Counsel & Purpose Officer on behalf of the Chief Executive Officer with regular progress reports to the Executive Leadership Team and Board throughout the year.

Some of the key changes delivered included:

- setting up a new Operating Committee chaired by the Chief Operating Officer tasked with ensuring Virgin Money is well run with an agenda spanning operational performance, product and service quality, oversight of major investment programmes, customer experience and customer outcomes;
- realigning the Executive Leadership Team to have a stronger focus on setting the Strategic and Financial Plan and overseeing its implementation and delivery;
- removing four committees and other steering groups from the framework and transferring their responsibilities principally to the new Operating Committee or to other existing committees;
- reviewing the risk, customer, conduct and cost governance arrangements to ensure the right level of oversight and controls are in place while removing duplication. This has included expanding the remit of the Operational Risk Committee to be the Non-Financial Risk Committee to cover all non-financial risks; and
- refreshing the guidance provided for Board and committee reporting to ensure papers are appropriately clear and focused with the aim of materially reducing the volume of papers produced for governance reporting while improving quality.

In addition to this enterprise-wide review, the Board and Board committees have kept the Board governance framework under review throughout the year including through the Board Performance Review process described in the Governance and Nomination Committee report beginning on page 108.

The Board's role in leading the development of the Group's culture, values and behaviours

The Board leads the development of Virgin Money's culture, values and behaviours led by our Purpose which establishes us as a bold, proactive, customer, colleague and community focused business. The Board assesses and monitors culture in various ways to satisfy itself that the Company's purpose, values, strategy and culture are aligned.

In October 2022 the Board was briefed on the five-year People vision and strategy covering colleague experience, enabling growth and championing innovation themes. Then in March 2023 the Group Chief People and Communications Officer presented the DE&I Strategy to the Board setting out a series of practical ways to drive delivery against the representation targets Virgin Money has set itself. The Board has monitored progress against these strategies throughout the year.

Annually, in September, the Board receives an in-depth report on the results of the MyVoice colleague engagement survey which measures employee sentiment and gives insights on how colleagues feel about working at Virgin Money. The Board was pleased to learn that for 2023 sustainable engagement had improved to 80% (from 79% the previous year) with 82% of colleagues reporting that they are proud to work at Virgin Money. Throughout the year updates following the Winter and Spring Pulse surveys provided a check point on how engagement is tracking and areas where focus is needed, particularly as colleagues feel the impact of the significant change and transformation programmes underway internally and the ongoing general economic conditions and cost of living pressures.

Insights are also provided from the Culture Assessments conducted by Internal Audit which provide an independent analysis of the culture in specific business areas supplementing other culture measurement tools. Culture Assessments use a combination of surveys, leadership and broader colleague focus groups and selective in-depth interviews to measure the alignment between Virgin Money's intended culture and the culture that colleagues experience on the ground. Actionable insights and areas of good practice are identified. During the year the Culture Assessment approach was refreshed and a review was undertaken in the Business Operations area with the outcomes reported to the Audit Committee.

Our Workforce Engagement Programme also provides Directors with insights on the colleague experience at all levels across Virgin Money. Board members engage directly with colleagues on strategic and other topics with outputs reported at the next scheduled Board meeting following each session 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 98. The key elements of our Workforce Engagement Programme are illustrated in the table on the right and the combination of methods aims to provide representation from across Virgin Money ensuring the Board hears the broadest spectrum of views. During the year the Board hosted an in-person Colleague Connect session at our Gosforth hub and members of the Executive Leadership Team also hosted events combining an in-person Q&A session and an online element to maximise the opportunities for colleagues to get involved.

Additional insight on the health of the Company's culture is gained from Board level reporting from executives and includes insights on colleague well-being, whistleblowing disclosures, feedback following leadership and organisational change and on Virgin Money's journey to building a fully inclusive workforce and to improve diversity metrics. You can read more about our inclusive workforce and culture priorities in the Strategic report on page 23.

Key elements of our Workforce Engagement Programme

Purpose Council	Our Purpose Council oversees and manages the factors that are critical to Virgin Money being a successful Purpose-led business. Non-Executive Directors are each invited to attend at least one Purpose Council meeting annually. Topics discussed during the year at meetings attended by Directors have included the output from Purpose Squad Hits reviewing how Purpose is being embedded in different teams; an update following the annual colleague PurposeFest event; the People Leader 'Lead with Purpose' development programme; an overview of the relationship between Purpose and the Consumer Duty and an update from Virgin Group on the Better Business Act.
Colleague Connect	A refreshed approach to colleague listening sessions was introduced during 2023 with the launch of Colleague Connect sessions. Through both in-person and virtual sessions Non-Executive Directors meet with colleagues for a focused discussion on topical issues which has included how the A Life More Virgin (ALMV) colleague proposition is evolving including team rhythms and hybrid working; cultural changes the new Consumer Duty will bring about; and key themes from the colleague engagement surveys. In May, Directors met in person at our Gosforth Collaboration hub with colleagues from Finance, Customer Transformation and Operations and Commercial teams to share views on current priorities and opportunities including customer service, supporting vulnerable customers and ongoing digital transformation.
Leadership conversations	These sessions bring together a panel of Non-Executive Directors with a small group of senior leaders on a quarterly basis to discuss leadership challenges and opportunities across the Group. They also provide an opportunity for Non-Executive Directors to get to know potential executive level successors. During the year discussion topics have included how the ALMV colleague proposition is embedding; views on what Virgin Money's strategic ambition means in practice; customer experience and customer outcomes; leveraging the Virgin brand; and how to ensure effective delivery of strategic priorities.
Focus groups	Focus groups are held with colleagues where more detailed and specific insights are sought beyond the more general conversations that take place elsewhere in the Workforce Engagement Programme. Examples during the year include colleague listening sessions on refining the ALMV colleague proposition with outputs reported to the Board in March and the remuneration focused sessions hosted by the Chair of the Remuneration Committee and Head of Reward and Employee Relations in September to seek views on remuneration topics with key themes reported to and discussed by the committee. Further analysis into these themes will be undertaken and suggested actions reported back to the committee.

The definition of 'workforce' includes permanent, fixed term and zero hours colleagues along with contractors and agency workers.

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 Board has concluded that the current approach, described above, is effective. The Board has therefore decided to continue leveraging existing channels of colleague engagement and utilising the formal elements of the Workforce Engagement Programme through FY24 rather than adopting one of the methods described in the Code.

Board leadership and Company Purpose

Stakeholder engagement and Board decision making

s.172 factor	Report section	Page
Consequence of any decision in the long term	Strategy	18-30
	Significant progress in our ESG strategy	31-53
Interests of employees	Our workforce engagement and culture	96-97
	Colleagues	100
Fostering business relationships with suppliers, customers and others	Stakeholder engagement	98-106
Impact of operations on the community and the environment	Significant progress in our ESG strategy	31-53
	Climate-related disclosures	239-272
Maintaining a reputation for high standard of business conduct	Governance – How our Board operates	87-91
	Straight-up ESG	47-50
Acting fairly between members of the Company	Directors' report	159-164

How the Board has regard to the views of stakeholders

Building and maintaining strong relationships with our stakeholders is central to Virgin Money's Purpose-led strategy and culture and is embedded in the Board's responsibilities and decision making. The Board is mindful of its duty to act in good faith and to promote the success of Virgin Money for the benefit of its shareholders and with regard to the interests of all of its stakeholders including colleagues, customers, partners and suppliers, government and regulators and the communities we operate in and serve.

The Board is kept updated on all material issues affecting stakeholders and stakeholder interests and views through direct engagement and through the reports and updates it receives from management and external advisers.

s.172(1) statement

In the sections below we outline how Virgin Money and its Board members engaged with stakeholders during the year, and in doing so, how Directors discharged their duties under s.172(1)(a) to (f) of the Companies Act 2006 to promote the success of the Company for the benefit of its shareholders as a whole. The Board decision spotlights on pages 105 to 106 give further insight into the Board's decision making and stakeholder considerations. Balancing the needs and expectations of different stakeholders is always at the forefront of Directors' minds and the Board acknowledges that some decisions may result in different outcomes for each stakeholder group. More information on the key areas of focus for the Board in FY23 is set out in the 'Board activities' section beginning on page 92, in the Board committee reports later in this Governance report and elsewhere in this Annual Report and Accounts as signposted in the table on the left.

During the year the Directors continued to exercise all their duties while having regard to s.172 factors and other factors as they considered proposals from management and governed the Company on behalf of its shareholders through the Board.

Customers

We are committed to delivering outstanding customer experiences and to making positive changes every day for our customers, making them feel happier about money.

How the Board has engaged with customers

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

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

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

The Board has also been kept informed of progress in embedding the new FCA Consumer Duty, ensuring Virgin Money provides customers with products and services that meet their needs and offer fair value. You can read more in the Governance spotlight on page 95.

For more information on our 'Delighted customers and colleagues' strategic priority, see the section on page 20.

Outcomes following engagement with customers

- Ensured that customers have access to additional support to help manage cost of living challenges including signing up to the Government's new Mortgage Charter; reviewing and improving savings rates with proactive customer contact to encourage customers to move to a higher interest paying product; access to the cost of living hub and the Turn2us Benefits Calculator on the Virgin Money website; and partnering with Youtility to help customers save money on their bills.
- Approved the plans to implement the new Consumer Duty across Virgin Money products and services and undertook a deep dive to understand how outcomes testing and price and fair value assessments will operate going forward to ensure ongoing protection for customers.
- Ensured the strategic and financial planning process, and ongoing Board reporting, considers lead indicators about customer behaviour given the ongoing economic volatility and the uncertain outlook.
- Launched and enhanced products and services aimed at helping customers make a positive impact on society and the environment including the Green Mortgage Reward offer, Sustainable Business Coach app and the Agri E Fund.
- Launched the new conversational virtual assistant, Redi, providing 24/7 customer support.
- Significantly reduced onboarding journey timescales and manual processing for business customers.
- Launched Virgin Money Investments giving customers access to a new digital platform with a range of straightforward investment products.
- Renewed our commitment to Cash Access UK providing access to cash and basic banking services in hubs across the UK.

Colleagues

Colleagues who feel engaged and enthusiastic about the work they do are critical to delivering the best experience for our customers.

How the Board has engaged with colleagues
We want our colleagues to feel engaged and motivated by the work they do and the Board and its committees have various channels by which it keeps itself engaged with colleagues' views and sentiments.

The Workforce Engagement Programme provides regular opportunities for interactive communication between Directors and colleagues throughout the year and is designed to involve colleagues working at all levels and in all functions across Virgin Money. At the start of each Board meeting there is an opportunity for Directors to report back on key messages from any recent workforce engagement events to ensure that, as appropriate, colleague views are taken into account during Board discussions and decision making. The Chief Executive Officer and members of the Executive Leadership Team also report on key messages from colleague sessions they host whether at an enterprise or local level. The Board keeps the effectiveness of the Workforce Engagement Programme under review and continues to evolve it in line with the broader operating rhythm. For example, in 2023 more in-person sessions were introduced in colleague Hubs. You can read more about the Workforce Engagement Programme in the Governance spotlight on pages 96 and 97.

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

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

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

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

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

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

Outcomes following engagement with colleagues

- Having heard feedback from the ALMV colleague listening programme, a guide was created for all colleagues and people leaders to use for reviewing team rhythms to help find the right balance between delivering for our customers and business, and the individual needs of our colleagues.
- The new Career Journey Framework was launched to which the bonus scheme was also aligned; other colleague policies were refreshed and simplified.
- The Remuneration Committee supported a 10% pay increase for the majority of colleagues for 2023 set against increasing cost of living pressures and economic uncertainty.
- The Board approved the revised People strategy which, among its deliverables, seeks to attract a more representative and skilled workforce.

For more information on our 'Delighted customers and colleagues' strategic priority, see the section on page 20.

Investors

The Board has regular engagement with shareholders to understand their expectations and gain feedback on the Group's overall strategic goals and ambitions.

How the Board has engaged with investors
There is a comprehensive investor engagement programme in place. Board members, along with Investor Relations colleagues, held over 90 meetings with investors during the year covering various topics including financial results, delivery against strategy, wholesale debt issuance programmes, our approach to capital distributions, including share buybacks, and input on key elements of the remuneration policy.

Our debt investor programme continued along with our investor diversification strategy, meeting with over 70 debt investors in nine different countries over the year. The Chief Financial Officer hosted the annual round table event with our largest debt investors with the event highlighting the crossover of interest of debt and equity investors and the importance of continuous open dialogue.

The Board receives regular reporting from the Chief Executive Officer, Chief Financial Officer and the Head of Investor Relations to ensure Board members are kept up to date with market and economic conditions and trends relevant to the Group, along with expectations. Reporting has highlighted investor sentiment on share buybacks, capital distribution policy and thematic questions on financial ratios, measures, drivers of NIM, and capital trajectory. Perspectives from brokers on market conditions, and opportunities and headwinds for the Group are taken into consideration by the Board and a deep dive session with the Company's broker was held to discuss challenges and strategic options.

The Board was pleased to invite shareholders to attend the AGM held in London in February 2023, providing an opportunity for investors to interact directly with the Board. Additionally, shareholders were once again provided with the option to submit questions prior to the meeting.

Outcomes following engagement with investors

- Feedback from investors helped shape the strategic plan ensuring alignment with shareholder interests.
- The Board approved the launch of the initial repurchase of £75m of ordinary shares in June 2022 and an extension to the programme for a further £50m of ordinary shares in November 2022. A further ordinary share buyback of £50m was launched in August 2023 following the Q3 trading update.
- Recommended a final dividend of 7.5p per ordinary share for FY22 to shareholders for approval at the 2023 AGM; and declared an interim dividend for FY23 of 3.3p per ordinary share.
- Approved the arrangements for the 2023 AGM, including a facility for shareholders to submit questions in advance; feedback received will help shape plans for future AGMs.
- The Directors' Remuneration Policy, approved by over 97% of shareholders at the 2023 AGM, reflected feedback from investors to include a more extensive summary on the personal scorecard element for Executive Directors.
- Debt programmes issued during the year attracted a number of new investors and were over subscribed in challenging markets.

Partners and suppliers

We are able to deliver our strategy and serve our customers with the support of our partners and suppliers.

How the Board has engaged with partners and suppliers

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

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

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

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

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

Outcomes following engagement with partners and suppliers

- Approved the Modern Slavery Statement available on our website at virginmoneyukplc.com
- Successfully launched the new Virgin Money Investments proposition with our JV partner abrdn, along with our new Fintech partner and investment platform provider FNZ.
- Supported the recommendation to retain Goldman Sachs and appoint JPMorgan as the corporate brokers following a robust selection process.
- Relaunched the partnership with our insurtech partner Hood Group delivering a digitised travel insurance proposition.
- Approved a service agreement with E.Surv Limited to ensure there is one single panel and valuation supplier over the next three years.
- Expanded the Levelling Upstarts programme giving Business customers the opportunity to partner with MBA and master's students from leading universities through digital workshops to address barriers to productivity.

Government and regulators

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

How the Board has engaged with government and regulators

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

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

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

Outcomes following engagement with government and regulators

- Recognising the increased regulatory expectations for Virgin Money as a Tier 1 bank, the Board and committees ensured agendas were focused on priority areas and that additional time was allowed for fulsome discussions on a range of topics including FCA Consumer Duty, the Periodic Summary Assessment letter and on the change and transformation programmes to deliver the capability expected by the regulators.
- Action plans were produced to respond to regulatory reviews and the Board was kept updated on progress.
- Changes were made to Virgin Money interest-paying products reflective of the increase in the BoE base rate.
- The second Resolvability Assessment Framework self-assessment was approved taking into account BoE feedback on the first assessment.
- The ICAAP and the BoE's ACS stress test exercise were completed reflective of regulatory expectations.

Society

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

How the Board has engaged with our communities

As part of our ESG strategy, we work with customers, colleagues and communities to encourage sustainable practices and economic activity that creates shared prosperity. Our charity partnership with Macmillan continued throughout the year in addition to colleague fundraising activity supporting charities locally. The Board and management actively encourage and fully support our community work and colleagues can make use of two volunteering days, in addition to volunteering in their own time, to give something back to their communities or charities close to their heart. The Board is kept updated through periodic reports on progress with the ESG strategy and on specific initiatives. You can read more in the ESG section of the Strategic report beginning on page 31.

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

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

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

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

Outcomes following engagement with our communities

- The Board approved the FY23 ESG strategy and targets and was updated on the progress made on these targets throughout the year.
- The Virgin Money Foundation achieved funding milestones of over £10m to organisations based in the Northeast of England and over £1m to organisations in and around Glasgow. The Foundation also provided a one-off 10% increase on Community Anchors' Fund and Community Anchors' Glasgow Fund grants awarded or drawn down during 2022 in response to the increasing cost of living.
- The Foundation's Colleagues in the Community fund continued to provide grants of up to £500 to charities and community organisations which colleagues support through volunteering activity.
- The Foundation revamped its website, considering user experience, accessibility, design and stories.

Board decision spotlights

The Board recognises that considering our stakeholders in key business decisions is fundamental to our ability to deliver Virgin Money's strategy to be the best UK digital bank, to improve performance and to generate long-term sustainable value. Balancing the needs and expectations of our stakeholders is always at the forefront of the Board's thinking and it has remained a priority given the challenging macroeconomic environment in 2023 and the uncertain outlook that remains. The Board acknowledges that some decisions it makes will result in different outcomes for each stakeholder, but always uses our Purpose to guide its decision making and strives for a balanced and fair outcome for all.

Board decision spotlight – the Mortgage Charter

Virgin Money has signed up to the Government's Mortgage Charter (Charter) which was announced by the Chancellor of the Exchequer on 23 June 2023. The Charter is intended to support mortgage customers impacted by higher mortgage interest rates, particularly those on fixed term rates which were due to end in the immediate future. Virgin Money has been proactive in supporting its mortgage customers and already offered a comprehensive range of mortgage support options. However, the Board has welcomed the opportunity to enhance and add to these existing options.

The new and enhanced measures and tailored solutions for customers include:

- Customers approaching the end of a fixed rate mortgage have the chance to lock in a new deal up to six months ahead.
- Customers will not be forced to leave their home without consent (unless in exceptional circumstances) in less than a year from their first missed payment.
- Customers can switch to interest-only payments for six months.

In addition to providing support in shaping the various measures put in place as part of the Charter, the Board has monitored customer demand and impact resulting from the Charter options. As part of a spotlight update from the Chief Risk Officer in July 2023, the Board's Risk Committee considered the levels of early customer demand for mortgage term extensions and temporary switches to interest-only mortgages as well as the potential impact on forbearance volumes resulting from the availability of these Charter measures. Aligned to Virgin Money's digital strategy, the Board welcomed the digitisation work undertaken to enable customers to self-serve, which also helps Virgin Money service customer demand effectively.

Virgin Money continues to support customers with the management of their mortgage repayments with the ultimate aim of delivering better outcomes for our customers.

Board decision spotlight – store closures and access to cash

As customers change the way they choose to bank by switching more to online channels, there has been less demand for a physical presence in some areas in our Store network. Reflecting this change in customer behaviour, earlier this year the Board approved the closure of 39 Virgin Money Stores in locations where there had been a significant decline in customers transacting in-store.

The store closure decision was taken with our Purpose firmly in mind and work was undertaken with LINK, the UK's largest cash machine network, on behalf of Cash Access UK to ensure no community was left without the cash access and deposit service it needed.

A detailed customer impact analysis was undertaken based on the characteristics of the stores and how they were being used by customers. Each store was assessed on an individual basis, with careful consideration of the impact on the local area, as well as the needs of vulnerable customers and the accessibility of alternative services such as free-to-use ATMs and Post Offices. Other factors taken into account included footfall and transaction volumes. The application of the new Consumer Duty standards was critical in the development of customer treatment strategies, with the overall aim of achieving good customer outcomes. MI and insight data was produced to enable progress to be tracked and the quality of treatment strategies to be measured.

Particular consideration was given as to how best to support any known vulnerable or potentially vulnerable customers through the changes. This led to the establishment of a dedicated team of colleagues who proactively provided enhanced, bespoke care for vulnerable customers throughout the closure process. Ahead of the closures, a range of support services including digital workshops and Post Office pop-up sessions were also held to highlight the services available.

Stores continue to play a role in Virgin Money's business and the Bank has continued to invest in its network, refurbishing stores and ensuring colleagues have the tools they require to support customers.

Board decision spotlights continued

Board decision spotlight – supporting customers with cost of living pressures

A key area of focus for the Board throughout the year has been the initiatives designed to ease the strain of cost of living pressures for customers.

The Board heard how Virgin Money is continuing to support customers through a dedicated cost of living hub. Accessed via our website, it enables customers to quickly and easily access tips, tools, expert advice and other support to manage their finances. During the year we continued to deliver on our cost of living strategy and an internal taskforce prioritised a series of immediate and longer-term actions.

The Board supported work focused on ensuring Virgin Money continues to offer competitive rates for savers. Our award-winning options include market-leading ISA rates, as well as highly competitive savings and current account interest rates. We are increasing our proactive communication with customers to encourage them to move to a product offering a better savings rate, and we have actively managed our book to significantly reduce balances in non-interest bearing accounts.

With rising base rates impacting the mortgage market, we are extending our product range to increase options, making transfer across to new products easier than ever, and proactively ensuring that we identify, contact and help customers in potential difficulty.

We are focused on growth and optimising support for our business customers. This includes our continued commitment to supporting SMEs by offering access to finance with growth in lending reported across our book. Alongside this we are continuing to invest in our digital offering to help customers overcome barriers to productivity and promote growth.

In addition to direct support for customers, the Board was kept updated on the work with industry bodies and third parties to achieve a more inclusive banking sector that eradicates inequity and provides assistance to those most in need. The Board remains committed to working closely with government and industry bodies and doing more to help customers through this difficult period.

Board decision spotlight – share buyback programme

Following the inaugural share buyback launched in June 2022, the programme was extended in November 2022 and continued through FY23 with a £50m programme launched in August 2023.

The Board received briefings throughout the year on the capital plan and the indicators relevant to deciding to extend or launch new programmes. These included regular updates from the Chief Financial Officer on the ongoing assessment of the surplus of capital, the resilience of the capital position, market conditions and the progress of regulatory approval. The strong outcome of the BoE's ACS stress test was a key component of the Board's decision to continue to return surplus capital to shareholders.

Division of responsibilities

Board roles

In line with the provisions of the Code there is a clear division of responsibilities between the Board Chair's leadership of the Board and the executive leadership of the Group. The composition of the Board, which includes an appropriate balance of Executive and Non-Executive Directors, ensures that no one individual or small group of individuals dominates the Board's decision making. The diversity of skills, experience and background on the Board, as described in Directors' biographies on pages 80 to 84 enables the Board to provide constructive challenge and strategic guidance from a broad and varied knowledge base.

A summary of the responsibilities of the Board Chair, Senior Independent Non-Executive Director, Chief Executive Officer and Non-Executive Directors is set out in the table opposite. The detailed responsibilities, expected competencies, behaviours and minimum time commitment for all Board roles are agreed by the Board, periodically reviewed and documented in the Charter of Key Board Roles and Expectations.

	Role	Responsibility
	Board Chair	David Bennett leads the Board, is responsible for its overall effectiveness and for promoting high standards of corporate governance. He leads in building an effective and complementary Board and sets the Board agenda. He promotes a culture of openness and inclusion and encourages open constructive debate between all Directors which challenges executives where appropriate. The Board Chair also leads Board succession planning and ensures new Non-Executive Directors receive a formal, tailored induction in addition to ongoing professional development for serving Directors. He seeks to ensure effective communication with shareholders and that the entire Board has an understanding of their views.
	Senior Independent Non-Executive Director	Tim Wade provides a sounding board for the Board Chair, acts as a conduit for the views of other Directors and shareholders when necessary, being available if shareholders have any concerns which contact through the normal engagement channels has failed to resolve. Annually, Tim evaluates the Board Chair's performance in conjunction with the Non-Executive Directors.
	Chief Executive Officer (Executive Director)	David Duffy manages and leads the Group day-to-day. Supported by the Executive Leadership Team he makes decisions on matters impacting the operations and performance of Virgin Money and leads the delivery of the Strategic and Financial Plan approved by the Board. He assists the Board in considering strategic issues, with the input of the experts on the Executive Leadership Team and following the Board's lead actively promotes the development of Virgin Money's culture demonstrating the Group's values and behaviours led by our Purpose.
	Non-Executive Directors	Non-Executive Directors provide effective oversight, strategic guidance and constructive challenge enabled by their diverse business and commercial experience, objective judgement and specialist advice. They help develop and set the Group's strategy, monitor its delivery and constructively challenge Executive Directors holding them and management to account for the performance of the Group against agreed performance measures. 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.

Composition, succession and evaluation

Governance and Nomination Committee report

David Bennett
Chair of the Governance and Nomination Committee

The Committee ensures the Board has the right balance of skills, experience and diversity of viewpoints and that there is effective succession planning in place to support Virgin Money's continued strategic journey.

Introduction

As Chair of the Board and of the Governance and Nomination Committee (Committee) I am pleased to present the report on the Committee's activity during the year.

Committee purpose 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 an appropriate balance of skills, experience, knowledge, diversity and independence;
- reviewing succession planning 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;
- overseeing the annual Board Performance Review; and
- monitoring developments in corporate governance and the impact on Virgin Money's governance framework.

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 and experience

All Non-Executive Directors are members of the Committee. The Chief Executive Officer, Group Chief People and Communications Officer and Group Company Secretary, who is secretary to the Committee, attend all meetings.

Committee operations

During the year, five scheduled meetings were held and there were three additional meetings to consider Board and Executive Leadership Team succession plan matters.

Further information on Committee members, their skills and experience and meeting attendance is in the 'Our Board in 2023' section on page 76 and in the Directors' biographies on pages 80 to 84.

The Committee reviews its effectiveness each year as part of the annual Board Performance Review process, which in 2023 was externally facilitated by Korn Ferry and is described in the 'Board and committee performance review' section of this report on page 111. Additionally, a review of the Committee's activity relative to its Charter was undertaken.

Composition, succession and evaluation

Governance and Nomination Committee report continued

The results of the review confirmed that the Committee is operating effectively with no material recommendations identified for follow-up or action. The feedback gathered by Korn Ferry acknowledged the crucial role of the Committee in relation to succession planning and that the Committee and Board would benefit from refreshed reporting on executive and senior management succession planning, talent and diversity, equity and inclusion under the leadership of the Group Chief People and Communications Officer which has been introduced during the year.

The review also concluded that the Committee operated and carried out its duties in line with its Charter throughout the year. The Committee Chair will continue to report to the Board on the work of the Committee, ensuring all Directors are fully sighted, including on Board succession planning, which will continue to be a key priority for the Committee in the coming year.

What was on the Committee's agenda in FY23?

Key areas of focus for the Committee during the year

- Round table discussions on the Board succession plan and agreed the succession priorities; progressed initial phases of Board succession plan activity; received updates on executive and senior management succession planning; and supported the appointment of Allegra Patrizi as Managing Director, Business and Commercial.
- Oversaw the FY23 Board and committee performance review process, recommended to the Board an action plan to address key findings and monitored its progress.
- Progressed the search process to identify a candidate to succeed Darren Pope as Remuneration Committee Chair.
- Reviewed corporate governance developments including a report on proposed changes to the Code.
- Monitored progress being made on broadening diversity and inclusion across the Group.

More detail on the Committee's activities during the year is contained in the following pages.

Activities during the year

Board and committee changes

Sara Weller joined the Board on 3 October 2022 as the Representative Director of Virgin Enterprises Limited under the terms of the Brand Licence Agreement between Virgin Enterprises Limited and the Company. Sara also became a member of the Committee on this date.

Composition

A key responsibility of the Committee is to regularly review Board and Board committee composition to ensure Directors provide the appropriate combination of skills, experience, knowledge, diversity and independence.

Board size

Following feedback from the annual Board Performance Review that the Board could consider expanding its composition by one or two members to create more capacity, the Committee discussed optimal Board size and agreed that overall, and taking into account future Board changes, the size of the Board continues to be effective, and is small enough to operate efficiently and collaboratively as a unit.

Skills and experience

During the year the Committee also reviewed the Board skills matrix, reflecting Directors' self-assessment of the skills and experience they bring to the Board and considered the collective skills profile relative to Virgin Money's current and future needs to identify any gaps. The review was also informed by the outcomes of the Board Performance Review process.

The Committee was satisfied that the Board comprises members with skills, experience and competencies aligned to the Group's strategic priorities and relevant to Virgin Money's business as a financial services provider. Non-Executive Directors also bring broader 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.

Diversity

In reviewing Board and Board committee composition, due consideration is also given to the diversity profile and the Group's diversity and inclusion commitments. The Board is committed to ensuring that its membership is representative of the diverse societies and communities it operates in. Recruitment of Board members will consider candidates from a wide pool including women, people from a minority ethnic background, those with a disability, in addition to drawing on other differences and experiences such as in knowledge and skills; age; educational, professional and socio-economic background; and cognitive and personal strengths. The Board firmly believes that creating and sustaining a diverse workforce at all levels in Virgin Money and building a fully inclusive culture is critical to the Group's long-term sustainable success, to foster decision making that represents the broadest set of views and perspective and to mitigate the risk of 'group think'.

Composition, succession and evaluation

Governance and Nomination Committee report continued

As we reported in the FY22 Annual Report and Accounts, the Board approved a revised Board diversity and Inclusion Policy (Policy) reflecting updated aspirational targets for gender and ethnicity aligned to recommendations in the FTSE Women Leaders Review and subsequently in the amendments to the Listing Rules published by the FCA in April 2022. This Policy was reviewed during the year and is available on our website at www.virginmoneyukplc.com. The Policy targets applied during the year are set out in the table below along with performance against these targets as at 30 September 2023.

The Board aspires to have:	Performance as at 30 September 2023
> a membership comprising at least 40% women Directors by the end of 2023	37.5% of Directors are women
> at least one of the senior Board positions (Chair, Senior Independent Director, Chief Executive Officer or Chief Financial Officer) held by a woman	None of the senior Board positions are held by a woman
> at least one member of the Board who is from a minority ethnic background	One member of the Board is from a minority ethnic background

In setting the Policy targets the Board recognises that due to its relatively small size the appointment or departure of a single Director can have a significant impact on the achievement of its targets and therefore it is acknowledged that in periods of Board change there may be times when these targets are not met.

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.

Additionally, the Board aspires that the membership of the Committee and each of the Audit, Remuneration and Risk Committees comprises at least 40% women with one committee member in each case being from a minority ethnic background. The reporting tables on page 78 of the Governance report set out the gender and ethnicity profile of each principal Board committee as at 30 September 2023.

Based on current Board composition, the Board recognises that its membership falls short of its 40% target for female representation and that none of the senior Board positions are held by a woman. However, through the succession planning process, the Committee and Board remain focused on meeting these targets in the near term while continuing to ensure that Board appointments are based on merit against objective criteria.

Throughout the year one member of the Board has been from a minority ethnic background, meeting the target in the Policy.

The Committee will continue to keep Board and Board committee composition under review during 2024 as part of its succession planning activity.

At a Group level, Virgin Money remains committed to building a diverse and inclusive workforce and culture. The Committee and Board monitor progress through regular reports from the Group Chief People and Communications Officer and through other means as described in the stakeholder engagement section of this report. You can read more about DE&I at Virgin Money in the Strategic report, and see our progress in the graphs, on pages 22 to 24.

Independence, election and re-election of Directors

A majority of the Board comprises independent Non-Executive Directors in line with the requirements of the Code. The Committee reviews the independence of Non-Executive Directors annually having regard to the independence criteria set out in the Code. As part of this process the Committee reviews the length of tenure of each Director in addition to considering skills and experience, time commitment and conflicts of interest leading to the Committee recommending Directors for election and re-election.

As a result of this year's review, the Committee and the Board judged all serving Non-Executive Directors to be independent in line with the Code except for Sara Weller, given her role as the Representative Director of Virgin Enterprises Limited. David Bennett was considered independent on appointment as Board Chair in May 2020.

The Board is of the view that all Directors bring considerable knowledge, wide ranging skills and experience to the Board, each making a valued contribution and being effective and committed to their roles. On this basis the Board intends to recommend all serving Directors for re-election at the 2024 AGM.

Succession planning

Ensuring robust plans are in place for orderly succession to both Board, Executive Leadership Team and senior roles is a key responsibility of the Committee in addition to overseeing the development of a diverse talent pool with succession potential.

Effective succession planning helps Virgin Money deliver on its strategic objectives now and in the future by ensuring the Board and Executive Leadership Team comprise the right mix of knowledge, skills, experience and diversity. The Committee and Board also maintain a keen focus on attracting and developing talented colleagues who have the potential to become successors for key senior and executive roles in the future.

Building on its work in 2022 and following recommendations in this year's Board Performance Review, the Committee undertook a further detailed review of the Board succession plan covering contingency arrangements for short-term unexpected absences and for both medium and longer-term changes. In undertaking this review, the Committee considered the tenure 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. Following this review the Committee agreed a detailed timetable of succession plan activity to ensure an orderly process allowing for sufficient transition time between current and incoming Directors and reviewed progress against this timetable at regular intervals. As a result of this work the Board initiated a project to profile, identify and appoint a successor to Darren Pope as Chair of the Remuneration Committee and, recognising that Geeta Gopalan will reach her nine-year tenure in mid-2024, succession activity in relation to the Chair of the Risk Committee role was also initiated.

The Board Chair is responsible for developing and maintaining a succession plan for the Chief Executive Officer who in turn develops and maintains plans for the Executive Leadership Team. The Group Chief People and Communications Officer works with Leadership Team members to ensure there are succession plans in place for each of the key roles in their individual areas including having candidates capable of providing immediate caretaker cover, candidates who are ready to take on succession positions now and those who will be in two or three years' time. During the year the Committee and Board kept the leadership and succession needs of the business under review including monitoring the depth and diversity of the succession pipeline. As part of this work the Chief Executive Officer kept the Committee updated on the evolution of the Commercial function as Virgin Money moves into the next phase of its development and journey to be the UK's leading digital bank, and in this context supported the appointment of Allegra Patrizi to the new role of Managing Director, Business and Commercial.

More broadly, the Committee and Board also discussed the different skill sets Virgin Money will need in the future as it increasingly digitises the business and the changes to the operating model this will bring about and spent time discussing changes in the Chief Operating Officer's area in particular. During the year, the Workforce Engagement Programme (which is described on page 97) 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.

Board and committee performance review

A review of the performance of the Board, its Committees, the Board Chair and of individual Directors takes place annually and is led by the Board Chair with support from the Committee.

The annual evaluation is an opportunity to identify ways to improve the efficiency of the Board by maximising strengths and highlighting areas for development as part of the Board's commitment to continuously improve its performance. The FY23 Board Performance Review was externally facilitated by Korn Ferry (UK) Limited (Korn Ferry) who was appointed following a selection process overseen by the Committee. Korn Ferry has no other connection with the Company or individual Directors other than in the context of some prior executive recruitment and Board skills review projects.

The 2023 review was conducted during a period in which the Board was able to reflect on the performance of the business and Board during the COVID-19 pandemic and the emergence into a hybrid working environment. This period coincided with significant changes in the Executive Leadership Team, ongoing integration activity and the continued implementation of Virgin Money's digital-first bank strategy. The review sought the views of Directors on a range of topics including: Board composition and dynamics; succession planning; governance and information; Board responsibilities and overall mandate; and strategy and direction.

As part of the review, Directors were asked to reflect on the role and effectiveness of each of the committees in supporting the Board to discharge its duties. Reports relating to the Board committees were shared with the relevant committee Chair for discussion at a committee meeting. Further details on the committee reviews are provided in each committee's own report within this Governance report.

All Directors in office at the start of 2023 were subject to an individual effectiveness review. Feedback on individual Directors was shared with the Chair to discuss in one-to-one meetings with Directors to inform individual and continuing development. Similarly, Korn Ferry provided Tim Wade, Senior Independent Non-Executive Director, with feedback on the Board Chair which Tim discussed in a one-to-one meeting with David Bennett. All Directors demonstrated commitment to their roles and were deemed to be operating effectively.

Set out overleaf are details of how the external review was conducted.

Conclusions from the 2023 external Board Performance Review

- The Board is an effective one and no significant concerns or issues were raised.
- The Board discharged its duties in respect of among other matters regulatory and governance, compliance, risk oversight, audit and remuneration monitoring with discipline and rigour.
- The Board operated well during the difficult period of the pandemic and through the transition to a hybrid model, and played an important role in supporting and challenging management on the delivery of the Group's strategy, engaging with the business as required.
- There is a strong and collaborative Board culture operating.

Composition, succession and evaluation

Governance and Nomination Committee report continued

The FY23 Board Performance Review

Selecting an external evaluator (February-May 2022)	> The Committee agreed the scope and aims of the performance review which included an assessment of the Board's effectiveness relative to good corporate governance practice, an appraisal of how well the Board is positioned to oversee and effectively govern delivery of Virgin Money's strategy and a view on how the Board and Directors align to organisational Purpose, values and behaviours. > Several firms were asked to submit a proposal based on the review scope. > Meetings were held with short listed firms to discuss their proposals for conducting the review; the Committee recommended, and the Board subsequently approved, the appointment of Korn Ferry as external facilitator.
Scoping and planning (June-September 2022)	> The Board Chair and Group Company Secretary held briefing calls with Korn Ferry to discuss and agree the context and parameters of the review; the process to be followed and the timelines to be met; the Korn Ferry personnel to be involved; and the key deliverables the review should aim to achieve. > A schedule of documents to be provided as part of the review was agreed. > A timetable of one-to-one meetings with all Directors and key executives was prepared.
One-to-one meetings (October 2022)	> Korn Ferry met individually with each Director, the Group Company Secretary and relevant executives. > A range of topics were discussed including the participant's perspective on Virgin Money's strategy, challenges and opportunities; the mandate of the Board; Board composition; Directors' contribution; Board dynamics and culture; support provided to the Board and the performance and operation of the Board's principal committees.
Observing meetings (October 2022)	> Members of the Korn Ferry team observed the proceedings of a Board meeting and meetings of the Audit, Risk and Remuneration Committees during October 2022. > Korn Ferry were provided with the papers for these meetings to inform an assessment of the quality of the information provided to the Board; other relevant corporate governance documents were also provided.
Draft report, final report and action plan (November 2022-March 2023)	> Korn Ferry's report set out their independent analysis of Board and committee effectiveness based on learnings from individual meetings, observations from Board and committee meetings and insights from reviewing Board and committee papers and other documents. > The report included Korn Ferry's view of the areas of potential improvement in Board effectiveness and their recommendations. > The draft report was first reviewed with the Board Chair and Group Company Secretary and was then circulated to the Board for discussion in a feedback session attended by Korn Ferry. > The report was finalised following the Board discussion and an action plan responding to the key recommendations was prepared by the Group Company Secretary, supported by the Committee and approved by the Board. > The Committee has monitored the progress of the action plan, periodically reporting to the Board.

Composition, succession and evaluation

Governance and Nomination Committee report continued

Key areas of feedback and actions agreed

As part of their report, Korn Ferry set out their recommendations for continuous Board improvement aimed at further strengthening Board effectiveness. These recommendations were a combination of Directors' own suggestions and Korn Ferry's experience of working with other boards. A summary of the key recommendations, actions agreed by the Board and progress made is provided in the table below.

Area of feedback	Key recommendations from the 2023 performance review	Progress and actions taken
Board succession plan	The Board should prioritise the continuing development of a comprehensive Board succession plan, which will give consideration to future Board size, committee membership and future successors to key Board roles.	The Committee undertook detailed reviews of the Board succession plan and agreed a timetable of priority succession plan activity including the target timing of Board appointments to provide for an orderly period of handover and transition. During these reviews consideration was given to optimal Board size; the skills and experience needed on the Board in the future including gaps that may arise when Directors rotate off; and the diversity profile of the Board and its committees. Initial phases of succession plan activity were progressed.
Board and committee meetings	Review the balance of in-person and virtual meetings given the different dynamic when Directors meet in person which allows for a more fluid conversation.	The Board Chair and Group Company Secretary reviewed the schedule of meetings and an additional in-person Board day was added, meaning that for FY23 the Board will have held six physical meetings timed at key points in the corporate calendar, including to coincide with strategy sessions. Additionally, when the Board has met in-person, opportunities for informal interactions have been arranged including Board dinners, deep dives with members of the executive team and colleague sessions as part of the Board's broader Workforce Engagement Programme, all of which benefit Board and broader stakeholder relationships. This pattern of a combination of in-person and virtual meetings will be repeated in subsequent years. The Board Chair keeps the use of virtual meetings under review to ensure they remain effective.
	Agree the remit, focus and composition of a forum to improve Board oversight of technology transformation and risk.	The Board established the Digital and Technology Committee as a short-term special purpose committee chaired by Elena Novokreshchenova to assist the Board in overseeing, supporting and challenging the plans to digitise Virgin Money including in relation to the delivery of major technology change programmes and the execution risk. The committee worked closely with the new Chief Operating Officer throughout the year and provided support as major change programmes were reviewed and rescoped and as investments were prioritised.
	Consider areas where the Board would benefit from obtaining external insights in respect of key matters.	Peer and industry perspectives were discussed as part of the strategic planning process. Subsequently, external insights were provided through the externally facilitated sessions described in the 'Professional development and induction' section and elsewhere in the Governance report.

Composition, succession and evaluation

Governance and Nomination Committee report continued

Area of feedback	Key recommendations from the 2023 performance review	Progress and actions taken
Board leadership and engagement with the management team	Ensure Non-Executive Directors continue to challenge and support the Executive Leadership Team in the delivery of key outcomes for 2023.	Additional Board agenda time was allocated to topics within the remit of the new Chief Operating Officer, recognising this is a critical role with a large focus; specific sessions were held on customer experience and complaints; FCA Consumer Duty; major technology change programmes and cyber security. Members of the Executive Leadership Team attend Board and committee meetings to present papers on matters within their area of responsibility and to provide the Board with an opportunity to challenge and ask questions of management and likewise for management to seek input from the Board. Deep dives and strategy sessions were used as means to get underneath particular matters attended by executives and with external input.
	Continue to ensure that issues for the Board's attention are clear in Board and committee papers and that papers are outcome focused.	The Board Chair and Group Company Secretary continue to review and challenge the quality of Board papers to ensure they are concise and focused on the matters of relevance to the Board clearly drawing out key points, stakeholder considerations, questions for the Board and the input or decision required; report templates and guidance notes have been reviewed. Specific improvements have been made to the reporting of progress of major change programmes including risk registers.

Conclusion and next steps

The Board recognises that the Group is entering the final year of the Strategic and Financial Plan it set out at the Capital Markets Day in 2019 and therefore remains focused on holding management to account in the delivery of key projects and milestones. The Board will also continue to take action to improve its performance, particularly across the areas of focus highlighted in the 2023 Board Performance Review, such as further progressing elements of the Board succession plan and future Board composition, and will undertake an internal review in FY24 to check progress.

Looking ahead

The Committee will continue to focus on ensuring the Group has effective Board, Board committee and executive management composition and succession plans in place to support the delivery of the next phase of Virgin Money's strategy.

David Bennett
Chair, Governance and Nomination Committee

Audit, risk and internal control

Audit Committee report

Tim Wade
Chair of the Audit Committee

As part of its work, the Audit Committee oversees and challenges the management of financial and regulatory reporting in place across the Group to help deliver and sustain an effective control environment.

Introduction

I am pleased to present the Audit Committee (Committee) report for the year ended 30 September 2023 detailing the Committee's activities during the year and how it has discharged its responsibilities and driven positive outcomes. After each Committee meeting I update the Board on these activities and advance any matters or issues arising from those meetings that require the Board's attention or approval. As Chair, I meet regularly with the external audit lead partner, Group Director Internal Audit (GDIA) and management to discuss specific items of focus.

Committee purpose and responsibilities

The Committee's role is to review and evaluate the quality and integrity of the Group's financial reporting, processes, policies and disclosures, and to oversee and drive an effective and efficient financial control environment within the Group on behalf of the Board. The Committee is responsible for monitoring and scrutinising the activities and effectiveness of the Group's external auditor (External Auditor) and the Group's Internal Audit function, and also reviews and monitors the whistleblowing procedures of the Group.

The charter for the Committee, which sets out more details on the Committee's scope, membership and attendance, management, responsibilities, reporting and governance, is available on the Group's website (www.virginmoneyukplc.com).

Committee membership, skills and experience

The Committee is comprised of the independent Non-Executive Directors, other than the Board Chair. This enables the Committee to act independently of management and focus on protecting the interests of shareholders in relation to financial reporting and long-term value. The Committee members also sit on the other Board committees which promotes efficiencies and alignment of outputs and outcomes across all finance, risk, remuneration and governance and nomination matters.

The Board Chair, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Group Financial Controller, GDIA and the External Auditor also attend all meetings. Additional representatives from across the Group attend for specific agenda items to provide additional input as appropriate, including the Head of Chief Compliance Office and the Head of Tax.

Tim Wade, Chair of the Committee, an experienced Chief Financial Officer and a chartered accountant, is deemed to have recent and relevant financial experience for the purposes of the Code. Information on each of the Committee members, including their skills and experience and meeting attendance, is set out in the 'Our Board in 2023' section on pages 76 to 78 and in the Directors' biographies on pages 80 to 84.

Audit, risk and internal control

Audit Committee report continued

Committee operations

During the year, the Committee held six scheduled meetings and there was one additional meeting focusing on regulatory reporting specifically. 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 FY22 Annual Report and Accounts and the Pillar 3 disclosures were discussed and recommended to the Board, and the Risk Management Assurance Plan and Internal Audit Plan were discussed and approved.

Driven by our Purpose we seek to regularly validate and take steps to enhance the operation of the Committee for the benefit of all stakeholders impacted by its decisions. Ensuring that the Committee has appropriate opportunity, resources, skills and experience to discharge its responsibilities is key to this.

This year, an externally facilitated Board effectiveness review was carried out by Korn Ferry, which included a review of the role and effectiveness of the Committee. The review concluded that the Committee is operating effectively and has the appropriate degree of oversight and right level of balance in its discussions leveraging the input of both non-executives and executives as part of discussions. While it has a busy set of responsibilities, the review found that these are dealt with in a measured, delivery focused and constructive way. No material recommendations were made requiring specific action, however the Committee will continue to keep its effectiveness under review and take action as necessary in the spirit of continuous improvement.

As has become routine, at the start of the year the Committee also carried out a review of its activity during the prior 12 months relative to its Charter, which concluded that the Committee operated and carried out its duties as specified in its Charter and has been well supported by management, the Internal Audit function and the External Auditor over the period. It continues to receive reliable and robust information from management and Committee discussions have been open, inclusive and constructive with good engagement and challenge from Committee members. The review did not identify any significant developments that impact the Charter.

What was on the Committee's agenda in FY23?

Key areas of focus for the Committee during the year

- Reviewing the integrity and quality of the Group's published financial information, including the interim and full year results announcements, the Annual Report and Accounts and Pillar 3 disclosures.
- Assessing the effectiveness of the external audit process during FY23 and overseeing the plan for the transition from Ernst & Young LLP (EY) to PricewaterhouseCoopers LLP (PwC) as External Auditor in accordance with mandatory tender requirements.
- Responding to the evolving disclosure requirements, including the climate-related reporting and net zero strategy.
- Reviewing and challenging the calculation of ECL provisioning outcomes, management adjustments and the assessment and disclosure of other critical accounting estimates and judgements including EIR.
- Assessing the design and progress of development plans intended to evolve and adapt the Group's IFRS 9 approach and processes to enhance and rationalise the model landscape.
- Reviewing the s.166 Skilled Persons Review produced for the PRA in connection with regulatory capital reporting.

More detail on the Committee's activities during the year is contained in the following pages.

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, 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. Through the activities described below, the Committee has ensured that appropriate rigour has been applied to the 2023 Annual Report and Accounts.

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 and Accounts, related results announcements, quarterly trading updates 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, which included monitoring the procedures in place to ensure that all contributors attested to the completeness, accuracy and appropriateness of the disclosures; > considered the impact of any unusual items or matters brought to its attention on the Group's financial statements and announcements; > considered carefully if the external reporting met the requirements to be suitably 'fair, balanced and understandable'; and > considered carefully whether the financial statements provided a true and fair view of the state of affairs and profit or loss of the Group
Accounting policies and practices	The material 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 and Accounts commencing on page 372.	**The Committee:** > reviewed, with both management and the External Auditor, the material accounting estimates and judgements, significant accounting policies and disclosures for the Group's interim and annual financial statements; > 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, which provided evidence of how the Group's financial performance on a statutory basis reconciled to the underlying view as presented by management; > agreed with management's conclusions on the items to be adjusted in presenting an underlying position including the addition of 'hedge ineffectiveness' as an adjusting item in the year; and > continued to emphasise the importance of placement and prominence of the statutory reporting basis over APMs and monitored the Group's compliance with the guidelines on the disclosure of 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 (PD), macroeconomic indicators, scenarios and weightings in arriving at a probability weighted forward-looking ECL allowance, and the use of management adjustments to augment the modelled output where appropriate. The Group's ECL allowance reflects the impact of economic uncertainty, inflationary and cost of living pressures and how these have affected our customers in 2023. 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 171 and in note 3.1.1.1.	**The Committee:** > reviewed regular reports from management in relation to the level of ECL impairment provisioning and assessed the assumptions underpinning the ECL allowance, such as the economic uncertainty and the emergence of the inflationary and cost of living pressures on the Group's customers; > 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 management adjustments included within the ECL impairment allowance and the rationale for their inclusion, including the decisioning around whether to refresh economic scenarios applied; > monitored and challenged the approach and progress of the plans to redevelop the IFRS 9 model landscape; > assessed outputs against peer and wider industry benchmarks including the enhanced disclosures recommended by the Taskforce on Disclosures about Expected Credit Losses (DECL III) issued in September 2022; and > agreed that the judgements and assumptions used were necessary and appropriate as at 30 September 2023.

Audit, risk and internal control

Audit Committee report continued

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 2.1.	**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 repayment profiles and behaviours; > reviewed and challenged the inputs, methodologies and assumptions in the model risk reserve review; and > was satisfied that the inputs, methodologies and assumptions used by management in operating EIR accounting for the Group as at 30 September 2023 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 2.4.	**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 2023 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 3.3.	**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 2023 were appropriate.
Going concern and long-term viability	The Board is required to confirm whether it has a reasonable expectation that the Company and 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 the assessments of the Group's capital, liquidity and funding position and consideration of the principal risks and uncertainties set out on pages 70 to 72; > 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; > 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 2023 Annual Report and 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 pages 161 to 163) to the Board for approval.

Other significant issues considered by the Committee during the year

Assessment of fair, balanced and understandable reporting

One of the Committee's key roles is to consider whether the 2023 Annual Report and Accounts is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy. In order to reach its conclusion, the Committee performed a comprehensive and robust review and oversight process.

The production of the 2023 Annual Report and 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. Contributions were assessed to ensure disclosures, taken as a whole, were accurate, balanced and verifiable. The Committee then formally appraised the draft 2023 Annual Report and Accounts recommending the viability statement, income statement and draft 2023 Annual Report and Accounts to the Board for approval.

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? > Are there any significant matters omitted that should have been included? > Are disclosures backed up by facts? > Is there a clear link between the activities undertaken and the outputs and results achieved? > Is the narrative in the financial statements 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 the Annual Report and Accounts as a whole and the Group's other external reporting? > Are the Group's strategy, business model and KPIs accurately described?	> Are the statutory and adjusted measures well-defined 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 congruous with the disclosures set out in the financial statements?	> Is the structure and framework of the report appropriate and comprehensible? > Is the layout clear and linked throughout enabling the whole story to be understood? > Has the data and management interpretation of data been explained? > Are important messages sufficiently highlighted throughout the document? > Is the information presented in a clear and concise manner, illustrated by appropriate KPIs to facilitate the reader's 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 2023 Annual Report and Accounts is fair, balanced and understandable and confirmed that view to the Board along with its recommendation that the 2023 Annual Report and Accounts be approved.

Internal Audit

The Committee is responsible for monitoring and challenging the role and effectiveness of the Group's Internal Audit function (including the role of the GDIA). It receives and reviews the Internal Audit function's findings on the overall effectiveness of the governance, risk management and internal control framework and systems, including identified issues and remediation activity.

During the year, the Committee:

- considered, challenged, approved and monitored the Internal Audit plan, including any material changes and progress towards its delivery;
- regularly met 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, including a six-monthly assessment of the Group's governance, risk and control frameworks;
- provided detailed in and out-of-meeting challenge in relation to major findings, and the responses to these from management;
- reviewed the outcome of a culture assessment recently undertaken to understand how a business unit's culture was aligned to the Group's value and behaviours;
- 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;

- reviewed the adequacy, effectiveness, objectivity, independence and influence of the Internal Audit function and assessed whether it obtains the appropriate level of access to management and 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 Internal Audit function.

The Committee concluded that the Internal Audit function was independent and sufficiently resourced and skilled to meet its accountabilities.

External Auditor

The Committee is also responsible for overseeing and assessing the effectiveness of the audit process and the Group's relationship with the External Auditor, including monitoring the External Auditor's independence and objectivity and approving the scope and results of the audit.

Andrew Bates of EY has fulfilled the role of Senior Statutory Auditor since 2021 and was replaced by Carl Sizer of PwC from 1 October 2023, in accordance with mandatory tender requirements and subject to shareholder approval at the 2024 AGM. All other audit partners and audit senior management are required to rotate at least every seven years. More detail on the transition to PwC as External Auditor is included on page 111 of the Group's 2022 Annual Report and Accounts.

During the year, the Committee:

- approved the annual external audit plan and received updates on the progress of the audit;
- had regular interactions with the External Auditor without management present to discuss the External Auditor's remit and any issues arising from the audit, including private sessions with the Committee and Committee Chair;
- reviewed the external auditor engagement letter and agreed the External Auditor's remuneration (the Committee was authorised by shareholders at the 2023 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, any non-compliance and any other findings identified by the External Auditor;
- considered the wider external audit market generally, assessing relevant industry specific information and events;
- reviewed a copy of the Written Auditor Report (WAR) produced by the External Auditor for the PRA in accordance with the PRA's supervisory statement SS1/16, which focused on the Group's approach to IFRS 9 and climate change risk; and
- provided oversight of the plan for the transition from EY to PwC as External Auditor effective from 1 October 2023, subject to shareholder approval at the 2024 AGM.

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 the External Auditor's performance was in all respects effective. However, pursuant to mandatory rotation rules, the Committee recommended to the Board and the Board has approved, subject to shareholder approval at the 2024 AGM, the appointment of PwC as External Auditor with effect from the audit for the year ending 30 September 2024.

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 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. It is reviewed annually to determine whether any updates are required in response to any changes in the external or internal environment.

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 2023 was £5,776,000 (2022: £6,834,000). 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 £838,000 (2022: £2,139,000) performed by the External Auditor during the year included UN PRB and the second Payment Services Directive assurance, the review of the Interim Financial Report, PRA Written Auditor Reporting, comfort letters for the global medium-term note and covered bond programmes, client money reviews and profit attestations. Payments by the Group for both audit and non-audit services provided in 2023 and 2022 are further detailed in note 2.3 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 FY23 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.

As detailed on page 111 of the Group's 2022 Annual Report and Accounts, EY will step down as the Group's External Auditor following the signing of the Annual Report and Accounts and all subsidiary financial statements for the year ended 30 September 2023. Subject to approval from shareholders at the forthcoming AGM in 2024, PwC will be appointed as External Auditor in place of EY with effect from the audit for the year commencing 1 October 2023. Transition planning activities have been progressing throughout the year to ensure a smooth transition from EY, supported by the Group's finance function and overseen by the Committee.

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 165 to 230. In considering the effectiveness of internal controls, the Committee received and discussed reports from Internal Audit and the External Auditor.

During the year the Committee reviewed the output of Internal Audit reports (including a six-monthly assessment of the Group's governance, risk and control frameworks) to inform an assessment of the effectiveness of the Group's internal control and risk management systems and environment. This regular monitoring ensured timely identification of issues and formal tracking of remediation plans. The Committee challenged management where appropriate on the timeframe for delivery of actions. In its assessment of the Group's risk management and internal control systems the Committee took into account the three lines of defence assurance plans and the findings of the External Auditor.

The Committee concluded that it was content that financial reporting internal controls were sufficiently robust and were operating effectively.

Regulatory compliance

The Committee provides oversight of the Group's compliance with all necessary regulatory reporting and the requirements and recommendations of the external regulators. This has included reviewing the integrity of the Pillar 3 disclosures and recommending approval to the Board.

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 s.166 Skilled Person Reviews being commissioned throughout the industry looking at the governance, controls and processes supporting the regulatory reporting framework. In July 2022 EY was appointed as the Skilled Person to undertake such a review in relation to the completeness and accuracy of certain consolidated regulatory returns prepared by the Group. EY provided regular updates to the Committee throughout the six-month review. Following delivery of its final report to the PRA in January 2023, EY provided a copy of the report to the Group and presented its findings at a meeting of the Committee. While the report did not identify any material failings, the Group has developed an action plan to progress the recommendations contained in the report which the Committee reviewed and continues to monitor.

Whistleblowing

The Committee and Board place great importance on having arrangements in place whereby every Virgin Money colleague feels confident in speaking up, safe in the knowledge that they will be protected from any reprisal for raising concerns and that their concerns will be taken seriously. The Group operates a Whistleblowing Programme, which provides an anonymous, secure and easy way for colleagues to raise any concerns, through a number of confidential channels, including an independent external whistleblowing hotline available 24/7. Robust structures are in place to process whistleblower reports that include a dedicated team that receives reports and ensures 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 on a confidential and anonymous basis, and ensure any necessary remedial action is taken.

The Committee Chair is the Group Whistleblowers' 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 is responsible for ensuring appropriate and effective arrangements are in place for the confidential disclosure of reportable concerns by whistleblowers and for overseeing the integrity, independence and effectiveness of the Whistleblowing Policy Standard and operational framework. 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, the activity to ensure colleagues are aware of the Whistleblowing Programme and regulatory and industry developments. 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 Whistleblowers' Champion also reports biannually to the Board on the Group's whistleblowing arrangements.

Proposed audit and corporate governance reform

The Committee considered various corporate governance developments and reforms during the year. The Committee welcomed the FRC's consultation on 'Minimum Standards for Audit Committees' which closed in February and the subsequent 'Audit Committees and the External Audit: Minimum Standard' (Minimum Standard) published in May 2023 which took effect immediately. The Committee understands that the Minimum Standard was designed to enhance performance and under the proposed changes to the UK Corporate Governance Code (Code) the Minimum Standard would apply to all companies subject to the Code on a 'comply or explain' basis.

The Committee will review the changes to the Code when it is published by the FRC in 2024.

The Group continues to progress a programme of work to prepare for the updated Code and earlier in the year representatives from the Group attended a UK Finance Corporate Governance & Audit (CGAR) Working Group where the FRC's Code consultation was considered and through which an industry-wide response to the consultation was submitted to the FRC.

Climate-related disclosures

The climate-related and ESG disclosures more broadly continue to be subject to increased focus, with evolving external reporting requirements that the Group is tracking. During the year the Committee considered and provided oversight of the Group's climate-related disclosures. It reviewed the Group's progress in disclosing against the TCFD recommendations and its compliance with FCA Listing Rules, with the Committee being in agreement with management's assessment that transition and physical risks could cause impairment and changes to ECLs and that there was no material impact on the Group's consolidated financial statements for the year ended 30 September 2023.

The Committee provided oversight of improvements to climate-related controls, governance and data which continue to underpin enhancements to the Group's reporting capabilities and its understanding of climate-related risks, opportunities and impacts. During the year, the Committee endorsed management's decision to source limited assurance over selected ESG-related disclosures. This external review will further help to ensure the Group's sustainability reporting continues to be fair, balanced, accurate and consistent.

Looking ahead

As well as ensuring attention continues to be given to the Committee's key responsibilities, in the next financial year the Committee will maintain a focus on furthering the relationship with PwC as the Group's new External Auditor, the Group's preparations for the updated Code and the progress of the IFRS 9 model development plans.

Tim Wade
Chair, Audit Committee

Audit, risk and internal control

Risk Committee report

Geeta Gopalan
Chair of the Risk Committee

The Risk Committee focused on oversight of technology and data risks, keeping customer outcomes at the forefront, as Virgin Money continues the investment programme to keep the Group safe and support its digital ambition.

Introduction

On behalf of the Board I am pleased to present my report as Chair of the Risk Committee (Committee). This report details how the Committee discharged its responsibilities during the year and the key matters it dealt with during the period.

This year the Committee has continued to be cognisant of the challenges facing the Group as a result of both internal and external factors. Macroeconomic risks have increased due to higher inflation, the UK is still experiencing high energy market prices, and interest rates have risen steadily throughout 2023, all of which has resulted in the Group requiring to keep close to the impacts of increased affordability pressures for our customers. The Committee continues to keep this front of mind throughout all discussions, for example, in relation to the performance of the Group's Mortgages, Unsecured or Business portfolios or when considering the various principal and emerging risks presented to each meeting.

The Committee has significantly increased its focus on technology and cyber risk and considered various internal and external reviews presented by the management team. While these risks continue to be managed and mitigated, the Committee exercised oversight on the proposed investment and change programmes presented by the Chief Operating Officer, to build an upgraded robust infrastructure. Resilience risks arising from complexities of change management of aging infrastructure and upgrade investments, were considered at the Committee throughout the year. The risks to the Group associated with financial and economic crime, which is becoming increasingly sophisticated and prevalent for businesses to deal with, was also a key and regular discussion topic throughout the year. The Committee has also driven the delivery of enhanced reporting during the year with regard to the principal and emerging risks presented by the Chief Risk Officer facing the Group which is even more important during the uncertain economic environment I have touched on above.

I have been encouraged by the discussions held at Committee meetings led by a strong set of Committee members and attendees who continue to drive the monitoring of the key risks facing the Group and are able to challenge views and input to proposals as required.
I report to the Board after each Committee meeting on the main issues discussed and matters for recommendation to the Board and as Chair, I interact regularly with the Chief Risk Officer and other members of the management team as appropriate, to discuss key items in focus.

Audit, risk and internal control

Risk Committee report continued

It appears that the macroeconomic conditions being experienced in the UK and the heightened geo-political risks being seen around the world are likely to continue during 2024, which will lead to future challenges and opportunities for the business. The Committee will continue to provide valuable oversight and input on the related risks and issues that have been identified in this regard while being watchful of new emerging risks and will continue to work with management to ensure the Group positions itself appropriately with respect to its risk appetite taking into account a range of factors.

Set out below is a more detailed view of the Committee's work and performance during the year.

Committee purpose 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 and experience

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, Chief Operating Officer, Managing Director, Business and Commercial and GDIA regularly attend Committee meetings. The External Auditor is also invited to be represented at all meetings.

Committee operations

During the year, seven scheduled meetings were held along with five additional meetings to consider and recommend the ACS, ICAAP and ILAAP documents 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 control issues relevant to both the Committee and the Audit Committee, two joint Audit and Risk Committee meetings were also held in the year where matters including the Risk Management Assurance Plan and Internal Audit Plan were discussed and approved and Annual Report and Accounts disclosures were reviewed.

Further information on Committee members, their skills and experience and meeting attendance is in the 'Our Board in 2023' section on page 76 and in the Directors' biographies on pages 80 to 84.

Each year the Committee undertakes a review of its activity relevant to its Charter and its effectiveness. This year an external review of the Committee's effectiveness was carried out by Korn Ferry as part of its broader review of Board performance. This was supplemented by an internal review of whether the Committee had met its key objectives and discharged its responsibilities in line with its Charter. The outputs of both reviews were considered by the Committee in a meeting. The external review highlighted that the Committee has a wide remit and often has very busy agendas but it is driving the submission of enhanced management information to enable it to focus on the key issues facing the business.

The review also highlighted that the Committee wished to see a greater focus on escalation and mitigation of key risks and sought more analysis and commentary on the information it was provided with to ensure the most important issues were surfaced timeously. This has been a key area of enhancement for the Committee during FY23 with the Chief Risk Officer's report and reporting in relating to risk appetite metrics being improved. The review also highlighted the welcome presence of first line of defence representatives at Committee meetings to allow more rounded and effective discussions to take place. The output of the Charter review concluded that the Committee operated in line with the requirements of the Charter throughout the year. Following consideration of both reviews, the Committee concluded that it had operated effectively overall and agreed that effectiveness will continue to be kept under review throughout FY24 with improvement actions implemented if necessary.

What was on the Committee's agenda in FY23?

Key areas for focus for the Committee during the year

- Reviewing risk appetite, limits and tolerances.
- Credit risk matters related to ongoing uncertain macroeconomic factors and customer resilience.
- Operational resilience and stress testing including reviewing the Group's ACS, ICAAP, ILAAP and RAF self-assessment regulatory submissions and recommending these to the Board for approval.
- Technology and cyber risk with a particular focus on the change programme and the Group's financial crime control framework.

More detail on the Committee's activities during the year is contained in the following pages.

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 70 to 72.

Principal risk		Key discussions, decisions and recommendations
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.	> **CREDIT AND MARKET RISK** – regularly reviewed the performance of the loan portfolio, which is important for the Group given the uncertain macroeconomic environment, higher inflation levels in the UK and BoE interest rate rises seen throughout 2023. > **KEY PORTFOLIO DEEP DIVES** – deep dive sessions were held to review analysis on the Group's Mortgages, Unsecured and Business credit portfolios which included portfolio resilience, asset quality, emerging risks and credit loss expectations. These sessions allowed the Committee to spend time seeking further detail or clarification from management on any trends that were being seen, such as higher indebtedness, and what actions were being taken in scenarios such as when mortgage customers were reaching the end of their fixed term deals and were due to move on to the higher standard variable rate. > **FOCUSED REVIEW OF A KEY CUSTOMER CONNECTION** – kept under review the management of a restructure relating to a major credit exposure. It considered the associated credit risks in detail and asked questions of key management personnel (KMP) as to the actions being taken and longer-term plans. Management have since reported an outcome of an improvement in the connection's default rate during the year. > **CREDIT CARD PERFORMANCE** – considered a detailed report on credit card risk performance, collections trends and IFRS 9 impacts. The Committee provided guidance and insight to supplement the key actions that had been put in place to manage an expected increase in portfolio arrears.
Financial risk	The 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.	> **ICAAP, ILAAP AND ACS** – following a detailed review of the process and outcomes of the related stress tests, the Committee provided input to and recommended the ICAAP, ILAAP and ACS documents for Board approval prior to their submission to the PRA. > **LIQUIDITY RISK** – liquidity risk matters were discussed by the Committee at several meetings during the year. The Treasurer provided details of how events such as recent bank failures in the US and Europe, increased competition in deposit pricing and additional regulatory requirements as a result of being a Tier 1 bank had impacted the Group's liquidity risk. > **FUNDING AND CAPITAL** – 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. > **RAF** – maintained oversight of the engagement with the BoE in relation to the Group's second RAF cycle and sought further detail of the options chosen by the Group in respect of its self-assessment exercise given the importance of the work in light of the volatile environment and the increased focus on Funding in Resolution. > **PENSION RISK** – the Treasurer provided regular updates on the Group's exposure to pension risk and discussed strategic options to manage pension risk, including the triennial valuation.
Model risk	The risk of adverse consequences from decisions based on incorrect or misused model outputs and reports.	> **MODEL PERFORMANCE** – monitored the current and emerging model performance risks. New and revised RAS measures were introduced during the year to appropriately tighten thresholds and support model monitoring risks. The Committee requested developments be made to model risk reporting. > **MODEL DEVELOPMENTS** – received an update from the Model Risk team on the strategic objectives of the Risk Analytics Centre of Excellence (RACE); the hybrid mortgage model submission to the PRA; and a reminder of the roles and responsibilities for all Model stakeholders across the Group in line with the VMUK Model RMF, including Board and executive management. The Committee sought clarity on the enablers to success for the RACE strategic objectives and the resources required to successfully deliver these objectives. > **MODEL RISK POLICY** – approved the refreshed Group Model Risk Management Policy.

Audit, risk and internal control

Risk Committee report continued

Principal risk		Key discussions, decisions and recommendations
Regulatory and compliance risk	The risk of failing to comply with relevant regulatory requirements and changes in the regulatory environment, or failing to manage a constructive relationship with our regulators.	> **GDPR** – received updates on matters relating to General Data Protection Regulation (GDPR) compliance and assurance activity. > **RISK ASSURANCE PLAN** – in conjunction with the Audit Committee, reviewed and approved the FY24 first and second line Risk Assurance Plans; provided oversight of progress with the FY23 Risk Assurance Plan including ad hoc changes to the Plan following its initial presentation to the Committee for approval; > **CONSUMER DUTY** – provided oversight of the Group's path to compliance with the new FCA Consumer Duty rules by 31 July 2023. This included seeking details from the Chief Operating Officer of the risks, impacts and mitigating and remediation actions including seeking input from the second line of defence and third line of defence on progress being made towards compliance. > **CONTROL EFFECTIVENESS STATEMENT** – received and considered the interim and year-end consolidated Control Effectiveness Statement (CES). The assessment supporting the CES is completed by business units providing progress against material actions and rating the control effectiveness for each principal risk type. The Committee received confirmation that the internal control environment remains stable, with ineffective controls escalated appropriately and adequate action plans in place where required.
Conduct risk	The risk of undertaking business in a way which fails to deliver good customer outcomes and causes customer harm, and may result in regulatory censure, redress costs and/or reputational damage.	> **VULNERABLE CUSTOMERS** – received regular updates on the actions being taken to enhance the Group's products and services for vulnerable customers, including reviewing the conclusions reached from the Conduct Risk Assurance review carried out by the second line of defence and findings from Internal Audit reports. An amendment to RAS measures in March 2023 saw the Committee thereafter receive data which includes how vulnerable customers are being supported and VMUK's ability to correctly identify potential vulnerabilities in our day-to-day engagements with customers. > **CUSTOMER HARM ASSESSMENTS** – reviewed results from potential customer harm assessments and all other broader conduct matters kept under discussion at the executive-level Enterprise Conduct Committee. > **REWARD RISK ADJUSTMENT** – 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.
Operational 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.	> **OPERATIONAL RISK MI** – considered the regular updates from the Chief Risk Officer and Head of Operational Risk on the processes and controls in place within the Group to manage its operational risks. The Committee also provided feedback on the proposed initiatives for improving operational risk management during the year which it viewed as extremely important over the coming years. > **OPERATIONAL RISK SCENARIO ANALYSIS PROGRAMME** – challenged and approved the operational risk scenarios and their resulting output for inclusion in the ICAAP to support the operational risk capital calculation. > **FCA OPERATIONAL RESILIENCE QUESTIONNAIRE SUBMISSION** – reviewed, and recommended to the Board for approval, the FCA ORQUEST operational resilience self-assessment questionnaire in respect of the Group's operational resilience capabilities. The Committee assured itself that the responses were in line with what had been evidenced through third line of defence reviews. > **OPERATIONAL RESILIENCE** – reviewed regular updates on the status of operational resilience within the Group and approved amendments to the Operational and Resilience Risk assurance activity plan to allow a Data Strategy Diagnostic to be conducted during the year given that the availability and quality of data will be a key success factor for multiple activities across the Group.
Economic crime 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.	> **ANTI-MONEY LAUNDERING CONTROLS** – requested that the findings of a gap analysis exercise that was carried out in respect of the Group's anti-money laundering controls be considered following the key control weaknesses identified by the FCA at certain Group peers. The initial gap analysis exercise outcomes identified that there were areas within VMUK's control framework where there was a need for improvement and the Committee maintained oversight of the actions being taken to address these via a follow-up paper later in the year. > **FINANCIAL CRIME PRIORITISATION** – the Money Laundering Reporting Officer (MLRO) presented to the Committee to provide details of the progress being made in relation to financial crime priorities and what his main priorities were for the year ahead. The Committee received details of the risk level within the Group's financial crime processes at present and the effectiveness of related controls. > **ANNUAL MLRO REPORT** – reviewed and approved the annual MLRO report.

Audit, risk and internal control

Risk Committee report continued

Principal risk		Key discussions, decisions and recommendations
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.	> **INVESTMENT PORTFOLIO RISK** – an update on the risk implications of the FY23 regulatory maintenance programmes was provided to the Committee, at which it asked management to consider the cumulative impact of issues arising within several projects at once and obtained assurances that areas where operational resilience could be significantly impacted had been considered as part of the review. > **STRATEGIC RISK ASSESSMENT** – provided with an updated view of the risks highlighted as part of the initial risk assessment of the FY23 Strategic and Financial Plan which included risk trajectory RAG ratings. The Committee requested insight as to the key area of focus for Risk in this regard and was pleased to see that execution risk had been closely considered via the review of the overall funding and prioritisation of the Group's One Plan. > **STRATEGIC AND ENTERPRISE RISK MI** – considered the regular updates from the Chief Risk Officer on strategic and enterprise risks.
Climate risk	The risk of exposure to physical and transition risks arising from climate change.	> **TCFD DISCLOSURES** – endorsed the proposed updates to the Risk report within the Annual Report and Accounts and the updated TCFD disclosures in order to continue to enhance the Group's climate-related risk disclosures for FY23 reporting. > **CLIMATE RISK ASSESSMENT** – received an update on the output of a Group-wide Climate Risk Assessment to identify the impact to the Group from physical and transitional climate-related risks, including materiality and associated time horizons. Output from this assessment supported a broad range of activity from the development of policy to including the potential impact of climate risk in the Group's financial statements. > **NET ZERO STRATEGY** – considered and approved the Group's expanded net zero targets covering the new operational emissions net zero target, and the updated Mortgage and expanded Business portfolio targets for use in FY23 disclosures.

Emerging and evolving risks

The Committee also maintained oversight of emerging and evolving risks that could potentially impact the Group as detailed in the Chief Risk Officer's Report to the Committee. Further detail on the emerging and evolving risks, along with additional information on the Group's principal risks, can be found in the Strategic report on page 68 to 72 and more detailed information on the Group's approach to risk appetite, risk culture and the RMF, can be found in the Risk report beginning on page 165.

Looking ahead

The challenges and risks which have arisen because of heightened macroeconomic uncertainty and geo-political risk will continue to be at the forefront of the Committee's mind in the next financial year. The multi-year investment programme to digitise the Bank and upgrade the infrastructure will continue to be reviewed by the Committee and, as ever, the Committee will work with management to ensure that the Group is positioned to be able to respond to these challenges while remaining watchful and ready to respond to any emerging and evolving risks.

Geeta Gopalan
Chair, Risk Committee

Internal control

Board responsibility

The Board, through delegated authority assigned to the Risk Committee and the Audit Committee, assumes responsibility for the Group's systems of internal control. The internal control framework is designed to facilitate effective and efficient operations, ensure a high quality of internal and external reporting, and ensure compliance with applicable laws and regulations. The Directors and management are committed to maintaining a robust control framework as the foundation for the delivery of effective risk management. 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 2023 and up to the date of approval of this Annual Report and Accounts, there have been rigorous processes in place to identify, evaluate and manage the principal and emerging risks faced by the Group, including those that would threaten its business model, future performance, solvency or liquidity, the likelihood of a risk occurring and the costs of control in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the FRC.

The Board has authorised the Risk 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 165 to 170.

Board review

A review of the effectiveness of key controls is regularly undertaken across the Group, providing an assessment and statement on the effectiveness of the Group's control environment. 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 the second line of defence. The outputs from this work are reviewed at least six monthly by the Risk Committee which provides assurance to the Board as to the effectiveness of the control environment, including where robust management actions are in pace to address specific known gaps. Going forward, the Control Effectiveness Statement process will be reviewed and updated in line with Corporate Governance Code requirements.

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 Control Effectiveness Statement concludes that the control environment requires strengthening in line with the Group's emerging risk profile and specific priority actions are underway within business units, with risk management activity planned to monitor these through to completion. Overall, the control environment remains stable with ineffective controls escalated appropriately and adequate action plans in place where required.

The Risk 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.

Directors' remuneration report

Statement by the Chair of the Remuneration Committee

Darren Pope
Chair, Remuneration Committee

The implementation of the policy for the year ahead will remain focused on ensuring that the Group's remuneration framework supports the delivery of our Digital Strategy, our 2030 net zero ambitions and ESG goals.

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 2023 which includes:

- a summary of the forward-looking Directors' remuneration policy which was approved by shareholders at the February 2023 AGM and is applied for three years commencing 1 October 2022; and
- the annual report on remuneration which summarises how the Committee addressed its responsibilities during the year and explains the rationale for its decision making.

2023 AGM and engagement with shareholders

This report provides an update on the first implementation year of our new remuneration policy, which was approved by shareholders at the February 2023 AGM. The Committee appreciated the high level of shareholder support for the remuneration policy and the remuneration report, receiving 97.88% and 97.03% of votes in favour, respectively.

We are grateful for our ongoing dialogue with investors. During 2023, this included positive and supportive engagement with some of our largest shareholders ahead of the AGM on the Directors' Remuneration Policy and on the small number of amendments to our incentive plan measures for 2023.

Our Remuneration Policy and alignment with stakeholders

When determining both the design and implementation of our Remuneration Policy, the Committee ensures that this should drive sustainable long-term performance for the benefit of all stakeholder groups.

As our remuneration policy enters its second year of implementation, there are no proposed amendments to our incentive plans for 2024. The implementation of the policy for the year ahead will remain focused on ensuring that the Group's remuneration framework supports the delivery of our Digital Strategy, our 2030 net zero ambitions and ESG goals. Further details on our forward-looking incentive measures are on pages 132 and 135.

The Committee notes that the PRA and FCA published their policy statement confirming the removal of the regulatory cap on variable pay at the end of October 2023, ahead of the publication of this report but after the end of the 2023 reporting year.

For 2023, awards will continue to be made in line with our Policy, as approved by shareholders at the 2023 AGM, and in line with the approach taken in previous years.

We will review the impact of the changes during 2024 and will consult with shareholders if we consider changes to our Policy to be in all stakeholders' interests. It is our current intention that there will be no material changes to the way in which our policy is operated in the short-term, and that the award opportunities for FY24 will continue to be in line with those used to date as illustrated in our current policy and using a notional 2:1 cap and discount factor in line with the existing methodology.

As we complete our review work, a new Policy may be put forward to shareholder vote in 2025, which would be one year earlier than the typical three year cycle, in order to address any potential amendments required as a result of regulatory change.

Remuneration for the year under review

As reflected elsewhere in this year's Annual Report, the Group has continued to focus on executing its strategy and supporting customers with the consequences of sustained levels of inflation and the higher interest rate environment. The Committee's decision making during 2023 has remained focused on overseeing fair outcomes for all colleagues with due consideration given to overall stakeholder experience. The Group's performance has been assessed holistically taking account of a range of stakeholder perspectives.

Customers	The Group has recovered service levels over the course of the second half of the year, after a more challenging H1. After actions taken, including additional resources and temporary third party support, customer experience, including call waiting times, and complaints volumes have improved. Smile scores are now showing early signs of improvement and the Group remains committed to automating customers' journeys to drive further improvement in service levels. With our Purpose in mind and in response to the continuing cost of living crisis the Group has also invested in customer support programmes, such as the Group's cost of living hub, supporting customers with money saving suggestions, budgeting tools and links to external resources, continuing to enhance our customer (and colleague) support.
Colleagues	Throughout the year, the Group has demonstrated how highly it values its colleagues. This has included finalising the roll-out of the new colleague proposition and responding to the cost of living crisis with an annual pay review of 10%, delivered in two tranches in January 2023 and July 2023 (see Spotlight on 'Supporting colleagues with the cost of living' on page 145). The Committee felt that the positive impact of this action is reflected in sustained high levels of engagement across the Group, lower attrition, and more applications for vacant roles.
Government and Regulators	Against a backdrop of volatility in the banking market, the Group has maintained a resilient balance sheet with a strong funding, liquidity and capital position throughout the year. Virgin Money successfully passed its second ACS stress test and continues to focus on driving further efficiencies. The Group participated in UK sector discussions on mortgages earlier in the year and was a signatory to the Mortgages Charter. The Group remains committed to supporting all our customers and is focused on offering good value products to our depositors. Consumer Duty regulations came into force in July on front book customers and the Group has fully implemented these requirements after reviewing relevant communications and products.
Investors	The Group remains focused on driving stronger returns over time and ensuring that capital is returned to investors in line with the capital framework outlined previously. Returns to investors over the year have incorporated a dividend adjusted for certain below-the-line items in the year to leave the statutory payout ratio at 37%, supplemented by a higher level of buybacks announced than previously guided in respect of FY23. Whilst short-term financial ambitions have not been fully achieved and three-year share price performance has been below expectations, during FY23, alongside the FTSE 350 banks and the FTSE 250 Index more broadly, the share price has trended positively (see chart on page 156).
Communities/ environment	The Group is on track to deliver the sustainability commitments made in 2022 and our net zero ambitions for 2030. With our carbon reduction programmes running ahead of plan, 2023 saw us expand our Operational and key Commercial Sector targets. 2024 will see us refine these further as we learn more and define our 'Social' strategy.

2023 annual bonus

The STIP, or annual bonus, is determined based on the Group's performance against a Strategic scorecard encompassing a range of financial and non-financial targets set at the beginning of the year.

Despite the economic backdrop the Group has continued to see strong growth in the target segments of Unsecured and Business lending, reflected in the above plan achievement of c.9% growth in these areas for 2023. Good progress has also been made against non-financial targets, with colleague engagement increasing for the second consecutive year and remaining above anticipated levels, and progress made towards digital and customer ambitions. The Group did not, however, achieve its PBT, cost:income ratio or RoTE targets with outcomes impacted by the Group's overall cost performance, a higher impairment charge as the Group increased coverage levels and higher adjusting items reflecting our ongoing restructuring activity.

Overall performance translated into a below target outcome against the Group's scorecard this year of 26.9% of maximum. In reaching a final decision on the Group bonus outcome for the year, the Committee concluded that the formulaic scorecard outcome represented a fair reflection of the Group's performance and overall stakeholder experience during the year. Page 136 provides more detail on the formulaic assessment of the scorecard performance. As demonstrated in the table on page 136, this outcome will be applied consistently in all material respects across all-colleague populations. No discretion has been applied to the scorecard outcome.

While the Group's strategic 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 against objectives established at the start of the year. Following an assessment of the personal performance and taking account of the below target Group scorecard outcome, in conjunction with Management the Committee concluded that the personal element of the bonus should be capped at five out of 20. The final bonus outcomes for 2023 were therefore 26.5% of maximum for both the CEO and CFO just below the Group scorecard outcome of 26.9% of maximum. An overview of Executive Director bonus outcomes is provided on page 136 with a detailed summary of personal performance provided on page 150.

2020 Long-term Incentive Plan (LTIP)

Following the end of the three-year performance period applicable to the 2020 LTIP awards, the Committee assessed outcomes against the financial and non-financial performance targets set during the pandemic. The challenging environment continues to impact on the Group's ability to achieve its ambitions, in particular, the financial targets underpinning this award. Both RoTE and cost outcomes failed to reach anticipated levels and cost:income ratio fell short of the target level set. While incremental progress has been made to enhance customer experience over the three years of the plan, there remains more to do to improve our relative ranking in our customer metric. The Group has, however, exceeded its ambitions on Relationship Deposit Growth and has seen positive outcomes across our ESG scorecard, with colleague engagement sustained at high levels and the diversity of our senior team continuing to improve. Our net zero ambitions are also a step closer with positive action taken and a reported reduction in our Scope 1 and 2 carbon emissions, putting us ahead of where we anticipated being at this stage of our journey to 2030.

Taking these outcomes into account, and following an assessment of the Risk scorecard (see page 153), the Committee approved a final 2020 LTIP outcome of 41%, with no discretion applied. The vesting of the 2020 LTIP is included in the Single Figure Table for the CEO for the year, with awards being released in five instalments up to 2027. 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 2020 LTIP Award.

The Committee also assessed whether participants in the 2020 LTIP had benefited from any windfall gain in respect of this award but concluded that no adjustment was necessary. In particular, the Committee noted that the timing of the grant of awards was in line with the usual annual process, that volatility in share price between successive grants was not in itself unusual, and the share price at award versus a share price as at the time of assessment was not in itself unreasonable and correlated with inflation over the same period.

All-colleague remuneration

The Committee's oversight of remuneration across the wider colleague population continued to feature prominently in the agenda for 2023. Beyond its involvement in the year-end pay and incentives process and the regular review of both pay gap and equal pay data, the Committee continued engagement sessions with a representative population of colleagues from across the Group with the outputs from the discussions featuring in Committee agenda. Further insight on colleague sentiment more broadly was gathered by our Committee members during the year from the sessions held with colleagues on strategy, as regular attendees at our Purpose Council Meetings and as participants in our inclusion network events.

During the year the Committee monitored the impact of the cost of living on colleagues and considered how best to support them through the current inflationary environment. While the 10% pay budget approved by the Committee and administered during the year was universally welcomed by colleagues, the Committee continued to review the other elements of the reward proposition. This included the implementation of the colleague proposition A Life More Virgin (discussed in last year's Annual Report on page 139) and other aspects of non-financial support offered to colleagues, such as financial webinars and coaching sessions and the launch of the My Discounts app, the latter giving colleagues access to high street discounts.

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 2023 on the ratio of CEO pay to that of the median colleague is an increase from 59:1 in 2022 to 66:1 in 2023. The CEO’s fixed pay level reduced in 2023, the result of the reduction in his pension to align this with all colleagues as per our new policy. There was also a decrease year-on-year in the CEO’s bonus award, aligned with a similar fall in the levels of awards for all colleagues. The increase in his total variable remuneration and thus the pay ratio is therefore due to a higher out-turn for the 2020 LTIP (41%), compared to that of the 2019 LTIP in 2022 (32%). A degree of variance in income under the LTIP awards is to be expected given the more volatile nature of multi-year awards.

Remuneration for the year ahead

Executive Directors’ salaries and Non-Executive Directors fees

For Executive Directors, the Committee proposes to award a c.3% increase to both the CEO and CFO. This will apply from 1 January 2024 and as per our approved policy will align with the lower end of the range of proposed salary increases recommended for colleagues. It should be noted that at the time of publication the Group has yet to conclude the annual pay review programme, and the final salary budget for 2024 and the Group’s approach to the distribution of salary increases to be applied across the colleague population remain subject to negotiation with our union, Unite. However, we anticipate that the average salary increase for colleagues will be above the rate applied to the CEO and CFO.

Non-Executive Directors’ fees are reviewed by the Remuneration Committee and approved by the Board annually. Following this year’s review, it was decided to keep fees flat for 2024. The same approach was approved by the Committee in respect of the Board Chair, for whom the Committee sets the fee. Details of the Non-Executive Directors and Board Chair’s fees are detailed on page 142. A more detailed review of Non-Executive Directors’ fees will be undertaken during FY24 to inform a recommendation about fees as they may apply for FY25.

Forwarding Looking Incentive Targets

During the normal course of the year, the Committee reviewed the performance measures that apply to both the short and long-term incentive plans ensuring these remain aligned with the delivery of the Group’s Strategy, purpose and ambitions for FY24 to FY26. Following the comprehensive review of performance measures carried out during 2022, the Committee concluded that the current design of the plans continues to align with the Group’s Strategy. Accordingly, the LTIP and STIP measures are to be retained for the coming year.

For the LTIP, financial measures accounting for 65% of the overall opportunity continue to focus on Statutory RoTE and Total Shareholder Return (TSR), with the latter tracking the Group’s performance relative to FTSE 350 Financial Services companies. Statutory RoTE targets take account of an extended period of high inflation as well as the additional investments described in the CEO report. The non-financial element of the LTIP retains the ESG and risk scorecards, tracking the Group’s progress towards its ESG goals and monitoring prudent risk management.

The financial elements of the STIP scorecard for 2024 account for 70% of the overall opportunity and focus on the achievement of Statutory RoTE, Statutory Profit, underlying cost:income ratio targets and Lending Asset Growth, with the latter reflecting the Group’s growth ambitions and recognising the strategy to rebalance its product mix, specifically targeted at unsecured and business lending. 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.

A summary of the 2024 STIP and 2023 LTIP performance measures is provided on page 135, with a detailed disclosure of the 2023 LTIP measures, weightings and targets provided on pages 154 and 155.

2023 LTIP awards

2023 LTIP Awards will be made to Executive Directors and senior leaders in December 2023. Performance measures will be assessed over the three-year period to 30 September 2026, with awards released from December 2026 to December 2030 and subject to post-release holding requirements. Following the pre-grant assessment of performance, and 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 2023 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

The provisions of the 2018 Code are already embedded into Group Remuneration practice. During the year the Committee considered the FRC’s consultation into proposed changes to the Code, particularly those relating to remuneration. Whilst the final changes have yet to be confirmed, the Committee considered this year’s report in light of the proposals and noted that it is already materially aligned. We will continue to review the updated Code once published and address any gaps in line with the implementation timeframe.

Finally, I would express my gratitude to investors for their engagement over the course of this year, which gives me assurance that the existing policy is in the interests of the Group and its shareholders. The 2023 Directors’ remuneration report will be subject to an advisory vote at the 2024 AGM. I am pleased to recommend the report and this statement, to you ahead of the 2024 AGM.

Darren Pope
Chair, Remuneration Committee
22 November 2023

Directors' remuneration report

Statement by the Chair of the Remuneration Committee continued

Committee purpose 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 and members of the Executive Leadership Team; 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

The Committee undertakes an annual review of its performance as part of its focus on continually improving its effectiveness. This year an externally facilitated Board Performance Review was carried out by Korn Ferry, following the process described in the Governance and Nomination Committee report, which also included a review of the Committee. The review concluded that the Committee is operating effectively and is discharging its duties and responsibilities making good use of its advisers and benefiting from the good working relationship developed with the Group Chief People & Communications Officer and her team. Committee members felt that there was good communication from the Chair who was effective in running meetings of the Committee. No material recommendations were made requiring specific action however the Committee will continue to keep its effectiveness under review and take improvement action as necessary. Additionally, a review of the Committee's activity over the last 12 months relative to its charter was carried out which concluded that the Committee operated and carried out its duties as specified in its charter with no gaps identified.

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.

Darren Pope joined the VMUK Remuneration Committee as a member on 3 February 2020 and became Chair of it on 2 May 2020. Prior to that he had served on the Remuneration Committee of Virgin Money Holdings (UK) PLC. Further information on Committee members, their skills and experience and meeting attendance is in the 'Our Board in 2023' section on page 76 and in the Directors' biographies on pages 80 to 85.

During the year, seven scheduled meetings were held. Details of significant matters addressed by the Committee are discussed below. Other attendees at Committee meetings during the year included: the Chief Executive Officer, the Chief Financial Officer, the Group Chief People and Communications Officer, Chief Risk Officer, Head of Reward and Employee Relations, and the Group Company Secretary, except when issues relating to their own remuneration were being decided. The Virgin Representative Director Sara Weller and the Committee's independent remuneration adviser also attend Committee meetings as appropriate depending on the Committee's business.

Key areas of focus for the Committee during the year

The significant matters addressed by the Committee during the financial year ended 30 September 2023 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 2022 financial year. > Approved annual pay budget of 10% for all colleagues for 2023. > Considered 2023 gender and ethnicity pay gaps and Equal Pay across all colleagues. > 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 2023 Annual Bonus. > Considered feedback from colleague engagement sessions.
Executive Director and senior management remuneration	> Approved 2022 variable remuneration awards for Executive Directors, other senior management and Material Risk Takers (MRTs). > Reviewed and approved salary proposals for individual Executive Directors (5% increase) and senior management for 2023. > Approved the performance outcome of the 2019 LTIP award granted in December 2019. > Reviewed and approved the Group scorecard performance measures and targets for the 2023 Annual Bonus. > Considered and approved the 2022 LTIP awards performance measures and targets. > Approved the LTIP awards granted in December 2022. > Considered and noted Executive Director personal objectives for 2023. > 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	> Approved the 2022 Directors' remuneration report. > Reviewed and approved changes and confirmed MRT population throughout the year. > Considered all regulatory requirements, emerging requirements under the FRC's Corporate Governance Code and proposed changes to the 2:1 bonus cap. > 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 2023 planned activities. > Reviewed the Committee's charter.

Directors' remuneration report

Statement by the Chair of the Remuneration Committee continued

Following the end of the 2023 financial year, Committee meetings have taken place at which final 2023 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 2020 LTIP award following completion of the three-year performance period on 30 September 2023.

Advisers to the Committee

During 2023 the Committee appointed new independent advisors Deloitte LLP (Deloitte). For the first half of the year, our remuneration advisers were PricewaterhouseCoopers LLP (PwC), first appointed by the Committee as independent advisers in 2015. As PwC will become the Group's external auditor from 1 October 2023, a tender process identified Deloitte as the preferred successor. Deloitte therefore acted as independent advisors for the second half of the year.

During the 2023 financial year, PwC and then Deloitte advised the Committee on all aspects of the Directors' remuneration policy. PwC also provided professional services in the ordinary course of business including assurance, advisory, tax and legal advice and Deloitte provided support to the Bank in relation to Cyber, Internal Audit, Finance and Operations related projects. There are processes in place to ensure no conflict of interest exists in the provisions of these services. Both PwC and Deloitte are members of the Remuneration Consultants Group, whose voluntary code of conduct is designed to ensure objective and independent advice is given to remuneration committees. Fees paid to PwC for advice to the Committee during the first half of the year amounted to £93,275 excluding VAT on a part fixed fee and part time and materials basis. For the second half of the year fees paid to Deloitte on a time and materials basis amounted to £65,950 excluding VAT. Therefore, total fees for the year were £159,225 excluding VAT (2022: £179,700).

Voting from AGM

	Votes for		Votes against		Withheld
	Number of shares	% of votes	Number of shares	% of votes	Number of shares
Directors' remuneration policy (2023 AGM)	990,116,228	97.88	21,466,079	2.12	242,944
Directors' remuneration report (2023 AGM)	975,602,009	97.03	29,868,643	2.97	6,354,401

Remuneration at a glance

How does our remuneration framework align to our strategy?

Our strategic priorities	2024 Annual Bonus – performance measures and weightings[1]	2023 LTIP – performance measures and weightings	All colleague remuneration alignment with ESG Goals
Delighted customers and colleagues	Smile Score 10% Colleague Engagement 10% Digital scorecard 10%	ESG scorecard 15%	**Open doors** > Gender Pay Gap reporting > Colleague 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 Cost:income ratio [2] 20%		**Put our (carbon) foot down** > LTIP targets to reduce Scope 1 emissions, improve the energy efficiency of our mortgage portfolio and increase lending to businesses that help others to operate in a more environmentally or socially friendly way > ESG pension investments for 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.

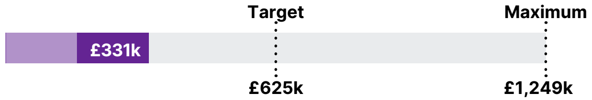
(1) The percentages represent the weighting attributable to each performance measure included in the Group scorecard. Performance against the Group scorecard accounts for 80% of Executive Director bonus opportunity with a further 20% weighting attributable to personal performance.
(2) Excludes the impact of the financial crime prevention programme.

Directors' remuneration report

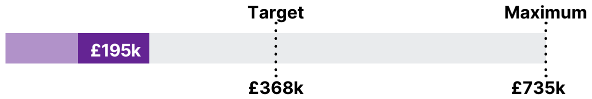
Remuneration at a glance continued

2023 Annual bonus

David Duffy
£331k



Clifford Abrahams
£195k



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 target and maximum outcomes are also provided as a comparison.

While no discretion was applied to the Group scorecard outcome, in conjunction with Management the Remuneration Committee concluded that the personal element of the bonus should be capped at five out of 20.

2023 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 customer and colleagues	Smile score	8%	47%	53%	59%	Actual: 49%	3.2%	3.2%
	Colleague engagement	8%	76	78	81	Actual: 80	6.7%	6.7%
	Journey digitisation	4%	48%	50%	52%	Actual: 50%	2.0%	2.0%
	Digital primacy	4%	60%	62%	64%	Actual: 60.7%	1.6%	1.6%
Pioneering growth	Customer lending asset growth	8%	4.0%	5.0%	7.0%	Actual: 8.8%	8.0%	8.0%
Super straightforward efficiency	Statutory PBT	12%	£465m	£550m	£660m	Actual: £330m	0.0%	0.0%
	Underlying cost:income ratio	16%	52%	50%	48%	Actual: 51.9%(1)	0.0%	0.0%
Disciplined and sustainable	Statutory RoTE	20%	7%	8%	10%	Actual: 3.6%	0.0%	0.0%
Group scorecard outcome		80%					21.5%	21.5%
Personal performance		20%	Summary of personal performance on page 150.				5.0%	5.0%
Final outcome		100%					**26.5%**	**26.5%**

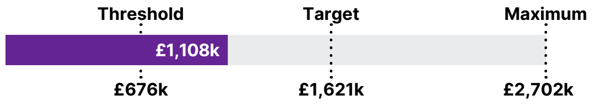
(1) Although the final cost:income ratio outcome for 2023 was marginally ahead of the threshold target level, funding the overall bonus scorecard at that level would result in the cost:income ratio outcome falling below threshold levels, thus while reported at actual levels contributes 0.0% to the bonus pool.

Directors' remuneration report

Remuneration at a glance continued

2020 LTIP

David Duffy
£1,108k^



^ Delivered in shares and deferred up to 2027 with net shares subject to a further regulatory hold period as required.

The average share price between 1 July 2023 and 30 September 2023 of 165.5p has been used to calculate the value of the 2020 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 increased the valuation of the award by £202k compared to the corresponding value at the time of grant.

Clifford Abrahams joined the Group in March 2021 and therefore did not receive a 2020 LTIP Award.

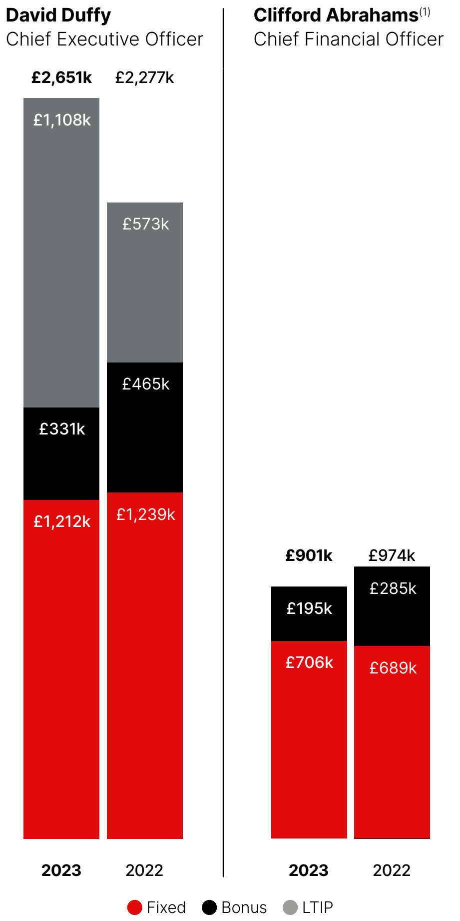
2020 LTIP performance (1 October 2020 – 30 September 2023)

Category	Measure	Weighting	Performance achievement versus targets: Threshold	Target	Maximum	Outcome as % maximum opportunity
Delighted customers and colleagues	Colleague engagement	5.0%	76	79 Actual: 80	80	5.0%
	Senior leadership diversity	5.0%	41	43 Actual: 48	45	5.0%
	Carbon emissions (Scope 1 & 2)	5.0%	8%	8% Actual: 16%	12%	5.0%
	CMA ranking BCA (Top #)	5.0%	5	3 Actual: 13 (Threshold not met)	2	0.0%
	CMA ranking PCA (Top #)	5.0%	5	3 Actual: 15 (Threshold not met)	2	0.0%
Pioneering growth	Relationship deposit growth	10%	4.0%	5.5% Actual: 11.3%	7.0%	10%
Super straightforward efficiency	Underlying cost:income ratio	10%	53% Actual: 51.9%	50%	47%	3.5%
	Underlying cost outcome	10%	£810m	£780 Actual: £971m (Threshold not met)	£750m	0.0%
Discipline and sustainability	Statutory RoTE	25%	6%	8% Actual: 3.6% (Threshold not met)	10%	0.0%
	Risk scorecard	20%	Actual: Target outcome (see below)			12.0%
Final outcome		100%				**41%**

Further information on the 2020 LTIP performance outcome, including a summary of performance against the Risk scorecard, is provided on page 153.

How does executive remuneration align to performance?

Single figure total remuneration



(1) Clifford Abrahams joined the Group in March 2021 and did not receive LTIP awards in 2019 and 2020. Therefore, he did not have income from LTIP vestings in 2022 or 2023.

Directors' remuneration report

Remuneration at a glance continued

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:

Total remuneration

Variable remuneration

59% of total remuneration is variable and based on performance

82% of variable remuneration is awarded in shares which are deferred and held over a period of up to eight years

64% of variable remuneration is based on long-term performance

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?

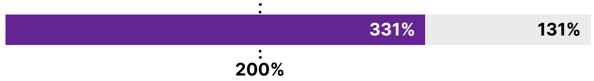
	Executive Directors	All colleagues
Salary	**2024 Salary increase** Executive Directors to receive a c.3% increase, aligned to the lower end in the proposed range of awards applied across all colleagues.	**2024 Salary increase** At the time of publication, the Group had not concluded its annual pay review process for all colleagues including negotiations with the Unite Union. However, the expectation at this time, is that the average pay increase for colleagues will be above the rate applied to Executive Directors.
Bonus	**2023 Bonus outcome** Annual bonus award of 26.5% of maximum for both the CEO and for the CFO. 50% of bonus awards are delivered in shares. Cap on personal element of bonus at five out of 20 applied	**2023 Bonus outcome** Annual bonus award made to all eligible colleagues with the majority of colleagues to receive bonus award of 26.9% of maximum (equivalent to 53.7% of target).
LTIP	**2020 LTIP outcome** The CEO's 2020 LTIP award, granted in December 2020, vested at 41% and will be released in line with regulatory deferral requirements. The CFO joined the Group in 2021 and therefore did not receive a 2020 LTIP award. **2023 LTIP award** 2023 LTIP to be granted in December 2023.	**2020 LTIP outcome** Some senior managers are eligible to participate in the LTIP. Vesting outcome at 41% for senior managers who received 2020 LTIP awards in December 2020. **2023 LTIP award** 2023 LTIP to be granted in December 2023 to senior managers who are eligible to participate in the LTIP. 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 145) for further details.

Executive Director share interests

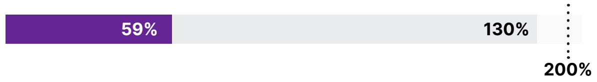
David Duffy

The chart below shows that as at 30 September 2023, 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 share plans and from market purchases since then. Clifford has not met his shareholding requirement this year. Under the Directors' remuneration policy, Executive Directors 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 157.

Directors' remuneration policy – abridged

In this section, we provide a summary of the key elements of the remuneration policy, which was formally approved by shareholders at the AGM on 21 February 2023. It is intended that approval of the remuneration policy will be sought at three-yearly intervals, unless amendments are required in the interim, in which case appropriate shareholder approval will be sought. The full policy can be found on pages 129 to 138 of the 2022 Directors' remuneration report, included in the 2022 Annual Report and Accounts, available at www.virginmoneyukplc.com

The tables below summarise the key elements of the remuneration framework for Executive Directors, including how this was implemented in 2023 and how we intend to implement it in 2024.

Element and purpose		Operation
Salary	Recruit, reward, retain and recognise role responsibilities	Base salaries are paid monthly and reviewed annually with any increases normally aligned in percentage terms with increases awarded to other colleagues.
Pension	Recruit, reward, retain and contribute towards 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 13% of salary.
Benefits	To provide competitive benefits	A range of benefits are provided to Executive Directors including private medical insurance, health assessments, life assurance, car allowance, 30 days' holiday and five paid well-being days per year.
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. 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. Taken together with the LTIP and any relevant awards under the all-employee Share Incentive Plan, the total variable remuneration opportunity in respect of a financial year is limited by the 2:1 ratio of variable pay to fixed pay (including the impact of any discount factor and excluding recruitment awards), subject to the LTIP opportunity being at least half of the total variable pay opportunity. The Committee can, at its discretion, apply malus and/or clawback to all or part of any bonus award.

Directors' remuneration report

Directors' remuneration policy – abridged continued

Element and purpose		Operation
LTIP	Delivery of the Group's strategy and growth in shareholder value	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. The Committee has discretion, in exceptional circumstances, to amend targets, measures or weightings if a corporate event takes place (for example a major transaction, including a change of control, or capital raising) that in the opinion of the Committee causes the targets, measures or weightings to be no longer appropriate or such adjustment to be reasonable. The Committee can, at its discretion, apply malus and/or clawback to all or part of any LTIP award. Taken together with the annual bonus opportunity and any relevant awards under the all-employee Share Incentive Plan, the total variable remuneration in respect of a financial year is limited by the 2:1 ratio of variable pay to fixed pay (including the impact of any discount factor and excluding recruitment awards), subject to the LTIP opportunity being at least half of the total variable pay opportunity.
Shareholding guidelines	To align Executive Directors' interests with those of shareholders	Executive Directors 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. Post-employment: Executive Directors are 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.

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.

Directors' remuneration report

Directors' remuneration policy – abridged continued

	Implementation in 2023		Implementation in 2024	
Salary	**David Duffy** **£1,071,000 p.a.** (5% increase effective 1 January 2023)	**Clifford Abrahams** **£630,000 p.a.**	**David Duffy** **£1,104,000 p.a.** (c.3% increase effective 1 January 2024)	**Clifford Abrahams** **£650,000 p.a.**
Pension	**David Duffy** **13% of salary**	**Clifford Abrahams** **13% of salary**	**David Duffy** **13% of salary**	**Clifford Abrahams** **13% of salary**
Benefits	Including car allowance, private medical insurance and other taxable benefits		**No change**	
Bonus	Maximum opportunity (% of salary): **David Duffy** **118%** Executive Directors awarded bonuses of: **David Duffy** **£331k** **Performance against 2023 scorecard can be found on page 136**	 **Clifford Abrahams** **118%** **Clifford Abrahams** **£195k**	Maximum opportunity (% of salary): **David Duffy** **118%** **No change to type of performance conditions or the respective weighting (see page 135) or maximum bonus potential.** **Performance targets are considered commercially sensitive and will be disclosed on a retrospective basis following the end of the performance period in the 2024 Annual Report and Accounts.**	 **Clifford Abrahams** **118%**
LTIP	2020 LTIP vesting in 2023 **David Duffy** **£1,108k** 2023 LTIP award to be granted in December 2023: **David Duffy** **Award of 177% of salary** **Details of 2023 LTIP award are provided on page 154**	 **Clifford Abrahams** **n/a** **Clifford Abrahams** **Award of 177% of salary**	Maximum opportunity in 2024: **No change to maximum LTIP opportunities or the performance conditions are currently proposed.** **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 2024 Directors' remuneration report ahead of any awards being made.**	
Share-holdings	**David Duffy** **200% of salary** **Requirement met** **Details of Director shareholdings can be found on page 157**	**Clifford Abrahams** **200% of salary** **Requirement not yet met**	**No change in shareholding requirement.**	

Directors' remuneration policy – abridged continued

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;
- 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.

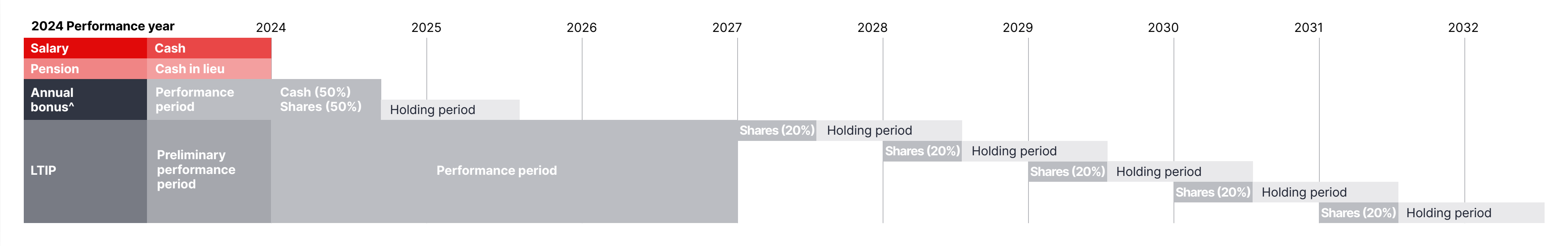
Non-Executive Directors

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 2024, in line with the rates that were approved by the Board in September 2023 and that are reviewed annually. 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 from January 2023	Implementation from July 2023	Implementation in 2024
Board Chair[1]	£393,750	£412,500	**£412,500**
Non-Executive Director	£78,750	£82,500	**£82,500**
Senior Independent Director	£31,500	£33,000	**£33,000**
Chair Audit Committee	£36,750	£38,500	**£38,500**
Chair Risk Committee	£36,750	£38,500	**£38,500**
Chair Remuneration Committee	£36,750	£38,500	**£38,500**
Member Audit Committee	£15,750	£16,500	**£16,500**
Member Risk Committee	£15,750	£16,500	**£16,500**
Member Remuneration Committee	£15,750	£16,500	**£16,500**
Chair Governance and Nomination Committee	£36,750	£38,500	**£38,500**
Member Governance and Nomination Committee	£15,750	£16,500	**£16,500**

(1) Paid as a combined fee for the role as Chair and Chair of the Governance and Nomination Committee.

Illustration of delivery time frame for 2024 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 that 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.

Directors' remuneration report

Directors' remuneration policy – abridged continued

Service contracts and provisions

	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 Chairman 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 biographies section of the Governance report.

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

The dates of current Non-Executive Directors' letters of appointment are shown below:

Non-Executive Directors	
David Bennett	23 November 2015
Geeta Gopalan	24 July 2018
Elena Novokreshchenova	22 March 2021
Darren Pope	26 July 2018
Tim Wade	8 September 2016
Sara Weller	3 October 2022
Amy Stirling (Resigned 5 May 2022)	30 July 2018
Paul Coby (Resigned 30 June 2022)	19 May 2016

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, strategic priorities and the Group's ESG goals. These include non-financial metrics linked to the Group's Purpose and Values such as Smile score and colleague engagement. See page 135.

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 as well as a 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 policy is described in detail in last year's Remuneration Report on page 129. No director is involved in deciding their own remuneration outcome.

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. Details of the Committee's consideration of individual performance is shown on page 150 and of stakeholder experiences is shown on page 130.

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 138 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.
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 Committee 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 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 of last year's Remuneration report 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 142.

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 how we supported colleagues with cost of living pressures.

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 table on page 146, 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 2023, key focus areas have included the Group's continued support for colleagues during the current cost of living crisis and its approach to pay, including from both an equal pay and gender pay gap perspective.

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 how the Board considered all aspects of colleague pay and benefits, colleague experience during 2023 and its influence on decision making, how the Group responded to the main themes from previous sessions and how Directors' remuneration aligns with the all-colleague 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.

Supporting colleagues with the cost of living crisis

The cost of living crisis is affecting everyone across the UK, some more than others. We recognise that this is a challenging time, guided by our Purpose, we have considered how we can best support our colleagues.

In August 2022, we made a special one-off payment of £1,000 to help eligible colleagues in the immediate term but with inflation remaining volatile, we knew we needed to do more to support our colleagues and their families.

Last year the Group agreed with Unite to apply the 2023 pay increase in two parts, with the first instalment delivered in January, and a second instalment to follow in July. This exceptional approach took account of the ongoing cost of living pressures facing colleagues and meant that we could support colleagues throughout the year by delivering a market-leading pay award. Following the 5% increase received in January 2023, all eligible colleagues received a further salary increase or one off payment at the start of July 2023 of between 4%-6%. This equalled a total uplift for colleagues of between 9% and 11% of their salary. We also paid a bonus to all eligible colleagues last year.

Taken together, our pay and bonus offerings represent our strong desire to ensure colleagues across Virgin Money are recognised and rewarded for the role they play in our success, set against increasing cost of living pressures and economic uncertainty.

In addition to the above financial support, we also offer non-financial support to help our colleagues, including advice and guidance on financial wellbeing and managing money. Money worries can significantly impact our mental health and wellbeing. It's important we help not only our customers to feel financially fit but to support colleagues to be financially stable and confident.

We are really proud of our financial care hub where we've gathered the following support, services and resources for colleagues:

Financial care team	Our Financial Care Team offer flexible solutions to support colleagues, who are customers, and who may be struggling to pay their overdraft, credit card, loan or mortgage with us. While they can't always help colleagues who bank elsewhere, they can refer them for debt advice.
Virgin Money Minded	Money Minded, is designed to help answer the most common questions you might have about all aspects of dealing with money. There is helpful content on common money worries, like debt, spending and saving, mortgages, renting and tax as well as planning for the future and looking after loved ones.
Employee Assistance Programme	The Carefirst service can give practical, impartial support on home and family issues, financial and legal matters such as dealing with debt, buying a house or consumer rights. It also has a managers area on the website.
Other	Details and helpful links for colleagues, for example to the Bank workers charity and the Virgin Family discounts for colleagues.

Directors' remuneration report

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. 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 Share Incentive Plan. 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	Details	Board and Committee areas of focus
All colleagues 8,222 colleagues at 30 Sep 2023	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
	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. 98.4% 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 135. 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
	Share Incentive Plan	All colleagues are able to participate in the Share Incentive Plan. The Share Incentive Plan 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.53 colleagues at 30 Sep 2023	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 7 colleagues at 30 Sep 2023	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. Executive Directors are required to retain a fixed number of shares for at least two years after leaving Group service.	> Actual shareholding versus requirements

Directors' remuneration report

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 2022 and 2023			% 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	Salary/Fee	Benefits	Bonus
All colleagues[1]	**11%**	**22%**	**(35%)**	8%	2%	72%	3%	9%	458%	3%	12%	(67%)
David Duffy (CEO)	**4%**	**(6%)**	**(29%)**	0%	2%	232%	0%	(38%)	n/a	0%	10%	(100%)
Clifford Abrahams (CFO)	**4%**	**(39%)**	**(32%)**	75%	401%	520%	n/a	n/a	n/a	n/a	n/a	n/a
David Bennett	**5%**	**0%**	**n/a**	0%	0%	n/a	33%	0%	n/a	15%	0%	n/a
Geeta Gopalan	**5%**	**0%**	**n/a**	0%	0%	n/a	19%	0%	n/a	(4%)	0%	n/a
Elena Novokreshchenova	**5%**	**0%**	**n/a**	121%	0%	n/a	n/a	n/a	n/a	–	–	–
Darren Pope	**5%**	**0%**	**n/a**	0%	0%	n/a	29%	0%	n/a	(11%)	0%	n/a
Tim Wade	**5%**	**0%**	**n/a**	0%	0%	n/a	16%	0%	n/a	3%	0%	n/a
Sara Weller (Joined 3 October 2022)	**n/a**	**0%**	**n/a**	–	–	–	–	–	–	–	–	–
Amy Stirling (Resigned 5 May 2022)	**n/a**	**n/a**	**n/a**	n/a	0%	n/a	n/a	0%	n/a	n/a	0%	n/a
Paul Coby (Resigned 30 June 2022)	**n/a**	**n/a**	**n/a**	(25%)	0%	n/a	31%	0%	n/a	(6%)	0%	n/a

(1) The percentages for 'All colleagues' reflect the average percentage change in FTE salary, taxable benefits and allowances (including acting-up/deputising allowances), and bonus for colleagues (excluding Directors) employed by Clydesdale Bank PLC at 30 September of each relevant financial year. 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 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 changes to benefits for the CEO and CFO, taxable security costs for the CEO were settled in 2022 and the one off relocation cost associated with the CFO's move to the UK applied only in his first year of employment with the Group. On bonus, the percentage change year-on-year, reflects the lower bonus scorecard outcome in 2023 compared to 2022.

Directors' remuneration report

Colleague remuneration continued

CEO pay ratio

The Group's approach to remuneration is consistent for all colleagues as outlined on pages 145 and 146. 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	A	80:1	59:1	38:1
2023[2]	**A**	**91:1**	**66:1**	**42:1**

(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 2023 and 30 September 2023 of 165.5p has been used to indicate the value of shares vesting under the 2020 LTIP.

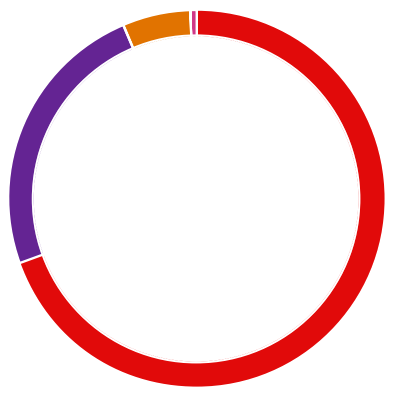
The pay at each quartile used to calculate the ratio is set out in the table below:

	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
2023	**£29,118**	**£24,503**	**£40,254**	**£31,590**	**£63,629**	**£52,907**

The median pay ratio has increased from 59:1 in 2022 to 66:1 in 2023. The year-on-year change is primarily driven by an increase in the total pay reportable in the CEO's single figure total for 2023. While the CEO's fixed pay reduced, as his pension allowance was adjusted to match that of all colleagues, and his annual bonus award decreased to 26.5% of maximum (38.6% in 2022), his total variable pay increased due to the higher out-turn for the 2020 LTIP of 41%. 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 34:1 (33:1 in 2022).

The CEO pay ratio is one of a number of data points that the Committee considers in ensuring a fair reward framework for all colleagues. The Committee also regularly reviews gender and ethnicity pay gap data. On gender pay, our mean pay gap reduced to 26.4% from 28.5% in the prior year. For more detail, see our 2023 gender pay gap report www.virginmoneyukplc.com

Summary of remuneration levels for colleagues in FY23



- 6,159 employees earned total remuneration up to £50,000
- 2,149 employees earned total remuneration between £50,000 and £100,000
- 510 employees earned total remuneration between £100,000 and £250,000
- 48 employees earned total remuneration over £250,000

The disclosure of remuneration levels for employees includes anyone employed by the Group during the year.

Annual report on remuneration

Implementation of the policy in 2023

In this section we provide greater detail on how the remuneration policy was implemented in 2023.

Outcomes for 2023

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 2023 and prior year comparison. The subsequent sections detail additional information for each element of remuneration.

	David Duffy		Clifford Abrahams	
£000s	2023	2022	2023	2022
Salary	**1,058**	1,020	**622**	600
Benefits and allowances	**33**	35	**13**	21
Pension and pension allowance	**121**	184	**71**	68
Total fixed remuneration	**1,212**	1,239	**706**	689
Annual bonus	**331**	465	**195**	285
LTIP[(1)(2)]	**1,108**	573	**–**	–
Total variable remuneration	**1,439**	1,038	**195**	285
Total remuneration	**2,651**	2,277	**901**	974

(1) The average share price between 1 July 2023 and 30 September 2023 of 165.5p has been used to indicate the value of the 2020 LTIP. The award was granted in 2020 based on a share price of 135.4p. Following application of the 41% performance outcome, 669,270 shares are due to be released in tranches up to December 2027. Share price movement has increased the gross valuation of the award by £202k compared with the corresponding value at the time of grant.

(2) The values for the 2019 LTIP included as 2022 remuneration have been restated to reflect the share price on the date of vesting (176.8p) on 9 December 2022.

Salary

As disclosed in last year's report, the Executive Directors received a 5% salary increase effective 1 January 2023.

Benefits

Executive Directors receive private medical cover, health assessment and life assurance. In addition, during 2023, David Duffy received a car allowance of £30,000 (2022: £30,000) and other taxable benefits totalling £2,035 (2022: £4,195). Clifford Abrahams received an allowance of £9,340 (2022: £8,175) and other taxable benefits totalling £1,795 (2022: £11,594).

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 2023 was 118% of salary for the CEO and CFO. David Duffy was awarded an annual bonus of £330,665 (26.5% of maximum) and Clifford Abrahams was awarded an annual bonus of £194,509 (26.5% 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 (page 136).

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. Taking account of the below target Group Scorecard outcome of 26.9% of maximum, in conjunction with Management, the Committee concluded that the personal element of the bonus should be capped at five out of 20.

Executive Directors' shared objectives

Strategic priority	Achievements in the year	Assessment
Delighted customers and colleagues	**Become an employer of choice in financial services** > Continued to evolve our A Life More Virgin colleague proposition, supporting continued high engagement scores and increases in the number of external applications (86%). > Progressed our Diversity and Inclusion Strategy with introduction of BRAVER and launch of VM's BRAVER hub in National Inclusion Week. > Our gender representation targets have been achieved, but more work is required to ensure we see similar progress on ethnicity representation. > Continued to support colleagues with the increased cost of living, including a 10% annual salary review budget and providing other non-financial support (financial coaching).	**Objective met**
	Deliver outstanding customer experiences that are underpinned by effective digital sales and servicing journeys > The digitisation of customer journeys continues to progress with 50% now fully automated and with work to identify further improvements in E2E journeys for FY24 planned. > Improved Digital Primacy rates across both PCAs and Credit Cards (61% 2023 vs 56% 2022) and deployed the Redi chatbot across credit card customers followed by a further roll out to PCA customers. > Operational SLAs and customer complaints remain elevated albeit on an improving trend. > Work to embed Consumer Duty continues at pace, with the initial requirements implemented successfully during the year. > Deferral of the mortgage platform programme (and subsequent write off) meant new digital propositions underperformed despite good progress on the all-encompassing integrated app for Virgin Money. > Customer inclusion strategy accelerated throughout FY23, extending partnerships with *'Good Things Foundation'* and enhancing partnerships with *'Turn2us'.* > Development of the cost of living hub and fully implemented the requirements of the Mortgage Charter ahead of the deadline. > An improved service position, reversing the trend of decline in our key customer service metrics including Smile score. However, improvements have yet to be reflected in our positioning in the CMA market surveys.	**Objective partially met**
Pioneering growth	**Execute Commercial Strategy to deliver agreed financial outcomes within agreed risk appetite** > Targeted customer lending asset growth remained strong. > Business lending and deposits continue to perform strongly, with net new BCA accounts outperforming FY22 and our assets ending the year with an increased market share. > Broader group relationships remain strong and ongoing engagement mean they will be increasingly unlocked by the all-encompassing integrated app for Virgin Money/Rewards programmes over time. > Customer liability balances on personal deposits increased by 59% during the year, with relationship deposits making up 53% of total customer deposits. Brand awareness finished 89% (4pts) higher than target.	**Objective partially met**

Directors' remuneration report

Annual report on remuneration continued

Super straightforward efficiency

Become more efficient and effective by leveraging technology data and simplified architecture and by improving processes and ways of working — **Objective partially met**

- Mixed progress on delivery of required strategic capabilities against plan as regulatory, risk and maintenance agendas were prioritised.
- Defined the over arching enterprise architecture and identified optimal roadmap for delivering the multiple individual initiatives needed, with phase 1 completed.
- Agile methodologies in place enabling future delivery at pace.

Discipline and sustainability

Maintain strong capitalised and resilient balance sheet to deliver strong profitability — **Objective partially met**

- Strong capital and funding position enabling ongoing share buy-back programme.
- Delivery of regulatory programme has impacted on cost performance. PBT adverse to scorecard targets, reflecting higher expenses and higher CTA although partially offset by increased NII.
- RoTE lower than scorecard targets, reflecting higher than planned costs, impairment charges, tax and tangible equity while OOI is below plan, partly offset by higher NII.

Deliver operations and processes that drive resilience, positive customer outcomes and address regulatory priorities — **Objective partially met**

- Organisational risk management capabilities have been strengthened considerably, albeit new capabilities still have work to do to fully align with regulatory priorities and requirements to deliver on the enhanced Tier 1 requirements.
- Increased oversight as a Tier 1 bank being well managed with core resilience reporting (ACS, Resolution and recovery Plan) at Tier 1 standard and clear alignment on where risk and regulatory maturity needs to proportionally increase.

Deliver sustainable, positive outcomes for society — **Objective met**

- ESG strategy and carbon reduction programmes running ahead of plan (Scope 1 and 2, 16% reduction v 10% target).
- Macmillan fundraising target of £500,000 exceeded, with over £1.5m raised and donated over the three year partnership.

Directors' remuneration report

Annual report on remuneration continued

Executive Directors' personal objectives

Strategic priority	Achievements in the year	Assessment
CEO personal objectives	> Strengthened Leadership Team with key appointments for the next phase of the strategy, onboarding of the Chief Operating Officer and Managing Director Business & Commercial improving succession planning at the top of the bank. > Enhanced Group's external reputation with strong media profile, increasingly positive regulator feedback on Tier 1 transition and good political relationships. > Continuing to work with the industry and Government, played a leading role in convening like-minded businesses to consider ways in which to eradicate the poverty premium.	**Objective met**
CFO personal objectives	> Sustained high colleague engagement scores in the Finance function and improved ethnicity representation, currently tracking ahead of FY25 targets. > Maintaining profitable, safe growth in target segments despite the macroeconomic environment. > Executed regular, proactive investor engagement throughout the year and delivery of the Capital Buyback and Dividend Strategy.	**Objective met**

Summary of Executive Director 2023 bonus outcomes

	David Duffy: CEO	Clifford Abrahams: CFO
Group scorecard Outcome (out of 80%):	**21.5%**	**21.5%**
Personal scorecard Outcome (out of 20%)[(1)]:	**5%**	**5%**
Total scorecard Outcome (out of 100%):	**26.5%**	**26.5%**

(1) Subject to the cap of five out of 20 as reflected in the Chair's Statement page 131.

LTIP

(i) LTIP awards included in 2023 Single Figure Table

2020 LTIP award (granted December 2020)

David Duffy was granted awards over 1,632,368 shares to the value of 177% of salary on 9 December 2020 with performance conditions tested over the three financial years to 30 September 2023. Performance against the targets set at grant has achieved an outcome of 41% of maximum. A breakdown of the performance outcome against each target is included in the 'Remuneration at a glance' section on page 137 with further information on the Risk scorecard outcome provided below. Share awards granted under this award will be released in tranches from December 2023 to December 2027 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. The Committee also assessed whether participants in the 2020 LTIP had benefited from any windfall gain in respect of this award but concluded that no adjustment was necessary, further information on the assessment is provided on page 131.

Performance against 2020 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 Group 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. Consideration was also given to the overall risk culture including the increased and improved risk awareness and risk identification.

Customer complaint handling has been an ongoing issue for the Group during the performance period with complaints per thousand broadly static over the period. Performance has been influenced by a combination of customer servicing challenges and systems related incidents, however the Group has recovered service levels over the course of the FY23 and customer experience, including call waiting times and complaints volumes have improved following actions taken. On operational risk losses, the Group's net loss position has been on an improving trend across the period. Cost of risk has been impacted by external factors over the last three years however, customers and portfolios have been well managed throughout the period and closely monitored with strategy and decision making being adapted as required to protect both customers and the Group alike.

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

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	Cost:income ratio[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) Cost:income ratio 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.

Directors' remuneration report

Annual report on remuneration continued

2022 LTIP award (granted December 2022)

Performance measures 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 award was granted on 9 December 2022 and will vest based on the performance over the period from 1 October 2022 to 30 September 2025. 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 FY24

2023 LTIP award (to be granted December 2023)

The following award will be made to Executive Directors in December 2023.

2023 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%	£1,895,670	Conditional rights to VMUK PLC shares	30 Sep 2026	25%	60%
Clifford Abrahams	177%	£1,115,100	Conditional rights to VMUK PLC shares	30 Sep 2026	25%	60%

(1) The award will be based on a percentage of salary as at 30 September 2023. 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 2023 to 30 September 2026 (2024 to 2026 financial years). Subject to performance outcomes, the awards will vest from December 2026 to December 2030 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.

Performance measures for the 2023 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%	6%	8%	10%
	Risk scorecard[3]	20%			

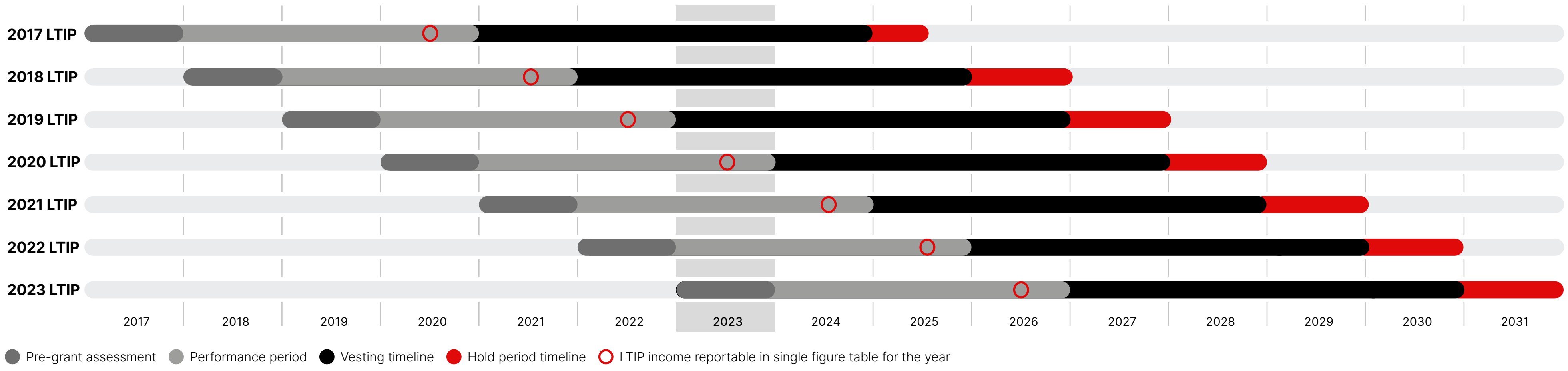
The 2023 LTIP measures have been formulated to align with the delivery of the Group's strategy and to deliver sustainable financial performance within an acceptable risk appetite, coupled with stretching ESG targets that ensure continued operational carbon reductions (Scope 1), lending targeted at business customers whose core goods or services enable others to operate in a more environmentally or socially friendly way, improving the energy efficiency of our mortgage portfolio, increasing diversity and sustained levels of colleague engagement. The continued inclusion of a relative Total Shareholder Return measure ensures that the Group retains focus on performance in comparison to FTSE 350 Financial Services companies.

(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.

LTIP deferral timeline



Directors' remuneration report

Annual report on remuneration continued

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 2023.

	2023 Fees £000	2023 Benefits £000	2022 Fees £000	2022 Benefits £000
David Bennett(1)	**409**	**–**	390	–
Geeta Gopalan(1)	**163**	**–**	155	–
Elena Novokreshchenova(1)(2)	**142**	**–**	135	–
Darren Pope(1)	**163**	**–**	155	–
Tim Wade(1)	**194**	**–**	185	–
Sara Weller(2)(3)	**–**	**–**	–	–
Paul Coby(1)(2)	**–**	**–**	101	–
Amy Stirling(2)(3)	**–**	**–**	–	–
Total	**1,071**	**–**	1,121	–

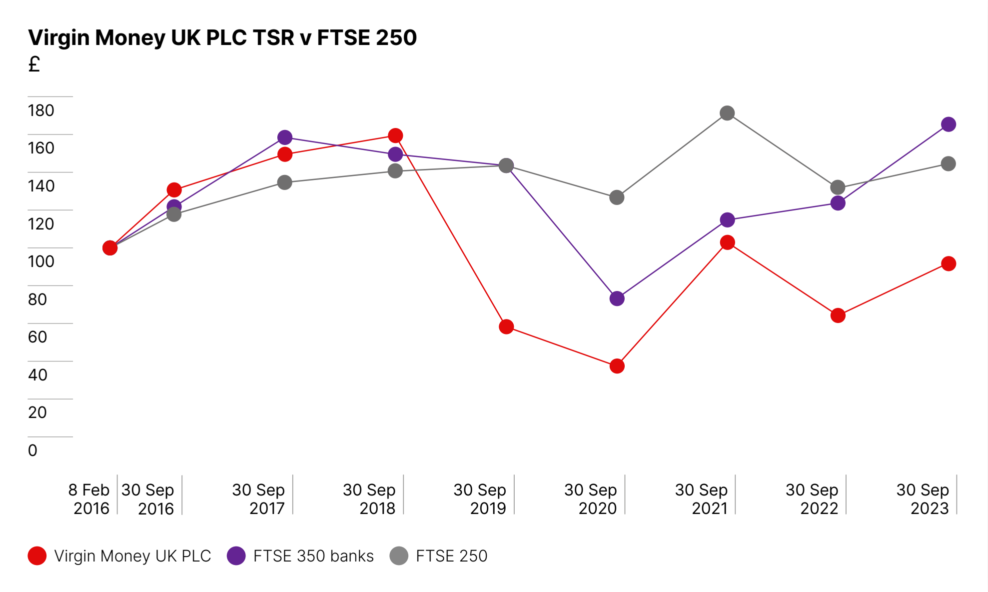
(1) Fees are paid to Board and Committee members in line with the Chair and Non-Executive Directors' remuneration policy and in line with the fees approved by the Board in September 2023 as set out on page 142. Non-Executive Directors' and the Chair may be reimbursed for expenses incurred in performing 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. Sara Weller joined the Board on 3 October 2022.

(3) As Virgin's Representative Director neither Amy Stirling nor Sara Weller were paid any fees by the Group.

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.



Directors' remuneration report

Annual report on remuneration continued

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	2023
Total single figure (£000)(1)	2,048	2,056	1,833	3,374	1,351	2,747	2,288	**2,651**
Annual short-term incentive payment level achieved(2)	80%	82%	62%	37%	0%	12%	39%	**27%**
Demerger award(2)	n/a	n/a	n/a	100%	n/a	n/a	n/a	**n/a**
Long-term incentive vesting level achieved(2)(3)	–	–	–	62%	32%	60%	32%	**41%**

(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.

Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in the 2023 financial year:

Overall spend	Disbursements from profit in 2023 financial year £m	Disbursements from profit in 2022 financial year £m	Disbursements from profit in 2021 financial year £m
Distributions to shareholders(1)	**258**	100	–
Overall spend on pay including Executive Directors(2)	**432**	435	426

(1) Dividends of 10.8p (2022: 3.5p) per share were paid during the year ended 30 September 2023 (7.5p relating to the FY22 full year dividend paid in March 2023 and 3.3p relating to the interim dividend paid in June 2023). This amounted to £148m (2022: £50m). In addition, £110m (2022: £50m) was returned to shareholders through share buybacks giving a total of £258m (2022: £100m) per above.

(2) 2022 and 2023 numbers as per note 2.3 of the consolidated financial statements.

CEO pay ratio

For details of the CEO pay ratio see pages 148.

Change in Directors' remuneration compared with colleagues

For details on the change in Directors' remuneration compared with colleagues see page 147.

Statement of Directors' shareholding and share interests (audited)

Share interests at 30 September 2023 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 2023 and the date of this report.

	Shares owned outright at 30 September 2023(1)	Unvested: Subject to Performance(2)	Unvested: Not subject to performance(3)	Shareholding requirement as a % of salary	Current shareholding as a % of salary(4)
David Duffy	1,333,375	2,617,555	1,456,045	200%	331%
Clifford Abrahams	219,667	1,531,036	–	200%	59%
David Bennett	40,388				
Geeta Gopalan	7,932				
Elena Novokreshchenova	–				
Darren Pope	11,785				
Tim Wade	50,505				
Sara Weller	20,000				

(1) Ordinary shares beneficially-owned and holdings of connected persons on 30 September 2023 (or date of cessation if earlier). This includes shares held via the Group Share Incentive Plan – David Duffy (661 shares) and CHESS Depositary Interests (CDIs) which represent interests in ordinary shares beneficially-owned by David Duffy (4,080 shares).

(2) Conditional share awards granted under the 2021 LTIP and 2022 LTIP. Subject to ongoing performance and service conditions.

(3) Conditional share awards granted under 2017 LTIP, 2018 LTIP, 2019 LTIP and 2020 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 2023 closing price of 168.35p.

Directors' remuneration report

Annual report on remuneration continued

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 (2022: 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									
2022 DEP	–	131,483	131,483	–	**–**	9 Dec 22	176.8	232	December 2022
2017 LTIP	76,748	–	25,582	–	**51,166**	24 Nov 17	313.2	1,000	December 2020 to June 2025
2018 LTIP	548,360	–	137,090	–	**411,270**	20 Dec 18	189.7	2,167	December 2021 to December 2025
2019 LTIP	405,423	–	81,084	–	**324,339**	9 Dec 19	174.5	2,211	December 2022 to December 2026
2020 LTIP	1,632,368	–	–	963,098	**669,270**	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
2022 LTIP	–	1,337,130	–	–	**1,337,130**	9 Dec 22	176.8	2,363	December 2025 to December 2029
Clifford Abrahams									
2022 DEP	–	80,684	80,684	–	**–**	9 Dec 22	176.8	143	December 2022
2021 LTIP	748,936	–	–	–	**748,936**	9 Dec 21	172.6	1,293	December 2024 to December 2028
2022 LTIP	–	782,100	–	–	**782,100**	9 Dec 22	176.8	1,382	December 2025 to December 2029

(1) Represents the value of the total number of shares awarded at the date of grant.

DEP

Conditional share awards were granted under the DEP in December 2022 in respect of 2022. The face value of the portion of David Duffy and Clifford Abrahams' annual bonus awards that were delivered via the DEP was £232,397 and £142,610 respectively. 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, being 176.8p. The awards vest immediately, with resultant shares (post taxation) subject to a 12-month holding period. Awards remain subject to clawback provisions.

LTIP

Conditional share awards were made to Executive Directors under the LTIP in December 2022. 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 154) 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 2025. 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 2020 and 2021.

Share Incentive Plan

Neither Executive Director participates in the monthly purchase of shares through the Share Incentive Plan.

Save As You Earn (SAYE)

No offers under the SAYE plan have been made (2022: 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 22 November 2023.

On behalf of the Board

Darren Pope
Chair, Remuneration Committee
22 November 2023

Directors' report

Governance report

The Governance report, on pages 73 to 164 together with this Director's 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 80 to 84 and include their relevant experience within the sector.

Particulars of Directors' emoluments and interests in shares in the Company are given on pages 149 to 158 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 (AGM)

The Company's 2024 AGM will be held on 1 March 2024. 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 re-election at the next AGM.

Board composition changes

Changes to the composition of the Board since 1 October 2022 up to the date of this report are shown in the table below.

Name	Role	Date of appointment	Date of resignation
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 2023 amounted to £345m (2022: £595m). The profit attributable to the ordinary shareholders for the year ended 30 September 2023 amounted to £192m (2022: £467m). As at 30 September 2023, the distributable reserves of the Company were £1,044m (2022: £1,056m). The Directors recommended a final dividend in respect of the year ended 30 September 2023 of 2.0p per ordinary share in the Company to be paid on 20 March 2024. The payment of the final dividend is subject to approval of the shareholders at the 2024 AGM.

Share capital, control and Directors' powers

Shares in the Company are listed on both the London Stock Exchange (LSE) and the Australian Securities Exchange (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 Employee Benefit Trusts (EBTs), which hold ordinary shares on trust for the benefit of employees and former employees of the Group, and their dependants, and which is used in conjunction with the Group's employee share schemes. While ordinary shares are held in the EBTs, the voting rights in respect of these ordinary shares are exercised by the trustees of the EBTs.

Where participants in an employee Share Incentive Plan 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 Share Incentive Plan there are no restrictions that exist on transferring or holding 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 21 February 2023 a resolution was passed that the Directors were authorised to purchase up to a maximum of 206,135,208 ordinary shares representing approximately 14.99% 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

As part of the capital return policy announced by the Company in May 2022, the Group commenced 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 (Initial Buyback), intending to repurchase shares and CDIs in approximately equal proportions. The Initial Buyback was completed in December 2022. On 21 November 2022 the Company announced an extension to the Initial Buyback with an intent to repurchase a further £50m in aggregate of shares and CDIs (Extended Buyback) and the Extended Buyback was completed in March 2023.

On 2 August 2023 the Company announced a further share buyback programme with the intention to purchase up to £50m in aggregate between ordinary shares of £0.10 each and CDIs (Further Buyback) in approximately equal proportions. The Further Buyback completed on 22 November 2023.

Each buyback described in the preceding paragraphs has been effected in accordance with the scope of the authority to repurchase ordinary shares conferred on the Company either at its February 2022 AGM or at its February 2023 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 2023. The share buyback programme is subject to the continuing approval of the PRA.

Further information on the buyback programme is included in note 4.1 to the financial statements on page 321.

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 of the Company held on 21 February 2023, 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 and 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 128 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 165 to 238.

Post-balance sheet events

On 23 November 2023 the company announced a further share buyback with an intent to repurchase £150m in aggregate of shares and CDIs, ending no later than 16 May 2024.

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	2-72
Engagement with colleagues, customers, suppliers and others	98-106
Equality of employment opportunities	22-24
Summary of Group results	59-67
Directors' biographies and Directors during the year	76, 80-84
Principal risks and uncertainties	68-72
Streamlined Energy and Carbon Reporting (SECR)	34-37

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 21 November 2023, being the latest practicable date prior to the publication of this Annual Report and Accounts, 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	14.07	Direct
Firetrail Investments Pty Limited	68,301,461	5.11	Direct
Blackrock, Inc	67,929,241	5.08	Indirect
Perpetual Limited and Subsidiaries	60,787,499	4.55	Direct
Investors Mutual Limited	53,659,761	4.02	Direct
Schroders PLC	44,572,459	3.34	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 1.3 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 and 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 2026 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 128 and the Risk report on page 168, 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 165 to 238.

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:

- Continued significant uncertainty linked to the UK economic outlook, with the tightening of monetary policy potentially leading to a further slowdown in growth and a technical recession. Economic weakness in the higher rate environment is impacting consumer confidence with resultant subdued housing market activity and the threat that risks in aggregate could further impact customer resilience and debt affordability.
- UK political risks, including the forthcoming general election which could drive changes to the UK political environment with wide-ranging implications for the Group.
- Geopolitical tensions, including the ongoing conflict in Ukraine and the outbreak of hostilities in the Middle East, are creating volatility within domestic and global markets, leading to wide-ranging impacts affecting global trade and risking broader macro shocks.

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 invested in its modelling approach and capabilities and 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 Climate-related disclosures on pages 239 to 272.

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 uses 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 of which are discussed below.

The Group previously participated in the Bank of England's Annual Concurrent Stress Test for the first time in 2021, through the Solvency Stress Test (SST21), and the Group has since participated in the BoE's 2022 Annual Cyclical Scenario (ACS22) stress test with results published in July 2023.

The ICAAP process included a series of internal stress tests in the year. The ICAAP scenarios considered the impacts of:

- A severe stress aligned to the parameters of ACS22, reflecting an intense global and domestic recessional stress with high and persistent inflation, significant GDP contraction, an unemployment spike and dramatic residential property price falls.
- A more moderate housing shock scenario, centred on a crash in house prices with a sustained drop in HPI and economic impacts compounded by GDP contraction and a spike in unemployment.

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, whilst 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 2023. 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 2026. 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 2022 ICAAP and 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 and Accounts:

- A financial summary, including a review of the latest income statement and balance sheet is provided in the financial results section pages 59 to 67.
- The Group's capital position is included in the balance sheet and prudential regulation risks section of the Risk report pages 211 to 231.
- The Group's liquidity position is described in the balance sheet and prudential regulation risks section of the Risk report pages 211 to 231.
- The Group's principal risks and policies and processes for managing those risks are described in the Risk report and summarised on pages 68 to 72.
- The Group's business model and strategy are described in the Strategic report pages 2 to 50.
- The Group's approach to stress testing and reverse stress testing are described in the Risk report on page 170.

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 129 to 158), Risk report (pages 165 to 238), and the Additional information section (pages 337 to 391) are unaudited unless otherwise stated.
Allotment of equity securities	321
Significant contracts	335 to 336

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.
- A Trade Mark Licence Agreement with Virgin Enterprises Limited (Virgin Enterprises) under which Virgin Enterprises has granted a licence to Virgin Money UK PLC to use the 'Virgin' and 'Virgin Money' trademarks. Virgin Enterprises 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 Enterprises in writing. Virgin Enterprises can withhold consent only in the event that the third-party purchaser is a direct competitor of Virgin Enterprises 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 DTR.

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:

- 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;
- 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
- 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 80 to 84. 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 appoint PricewaterhouseCoopers LLP as External Auditor, and to authorise the Audit Committee to agree the remuneration of the External Auditor, will be proposed at the 2024 AGM.

On behalf of the Board

Lorna McMillan
Group Company Secretary
22 November 2023

Virgin Money UK PLC. Registered No. 09595911

Risk report

Victoria
Culture & Capability

It's up to Victoria to ensure our digital teams have the right skills and mindset to deliver great customer outcomes.

Risk report

Supporting customers and colleagues through change

Effective data driven risk management is critical to realising the Group's Digital-First strategy. 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 culture

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

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

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

Culture is shaped by many aspects including:

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

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

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

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

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

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 risk appetite framework sets out the mandatory governance requirements for the creation, management and oversight of the RAS.

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

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

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.

The RMF includes key risk principles for the effective management of all material risks. Policies define the minimum control requirements that 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 and 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.

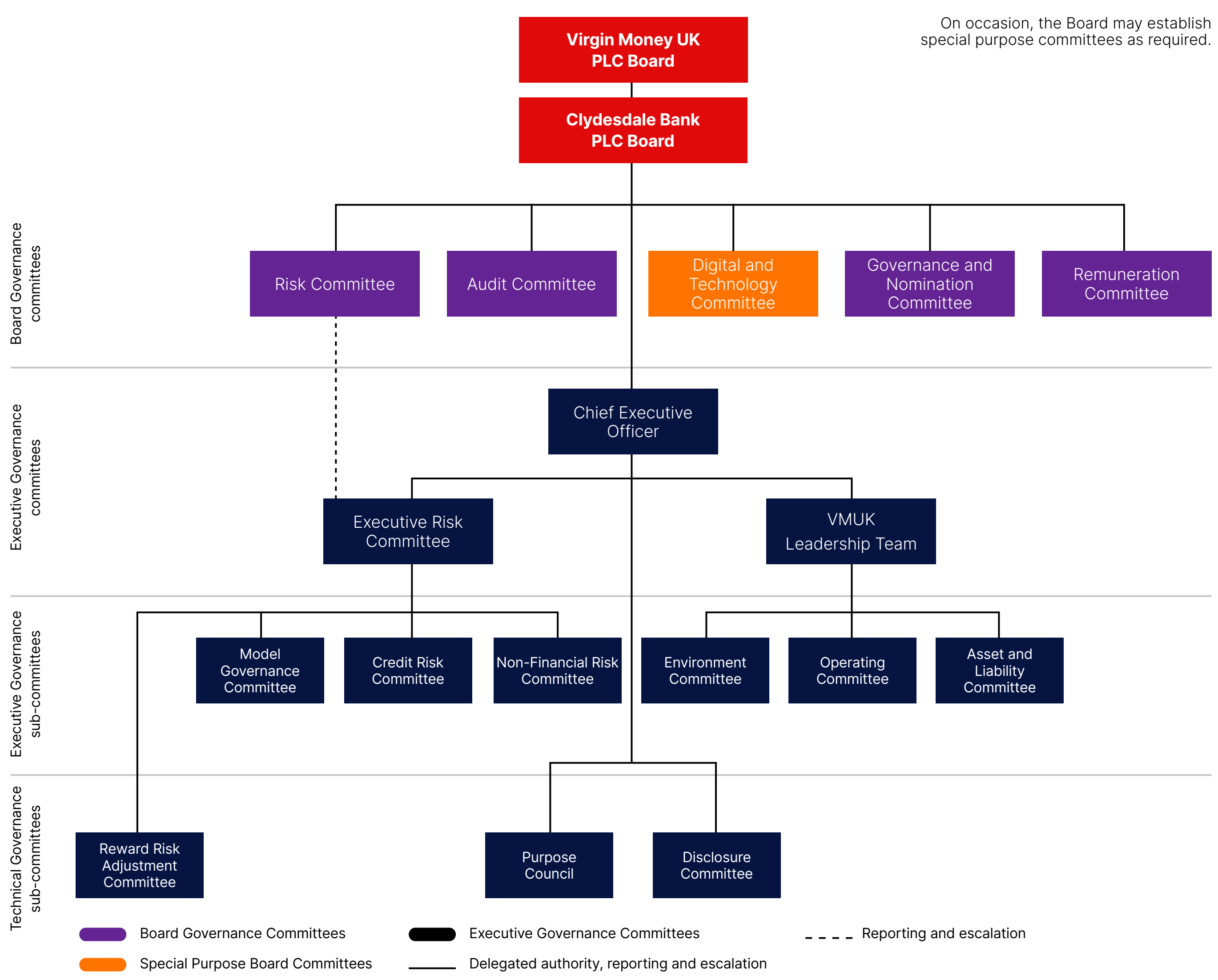
Risk report

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.

Governance committee framework



Risk report

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

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

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

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.

Three lines of defence

3rd Line of Defence

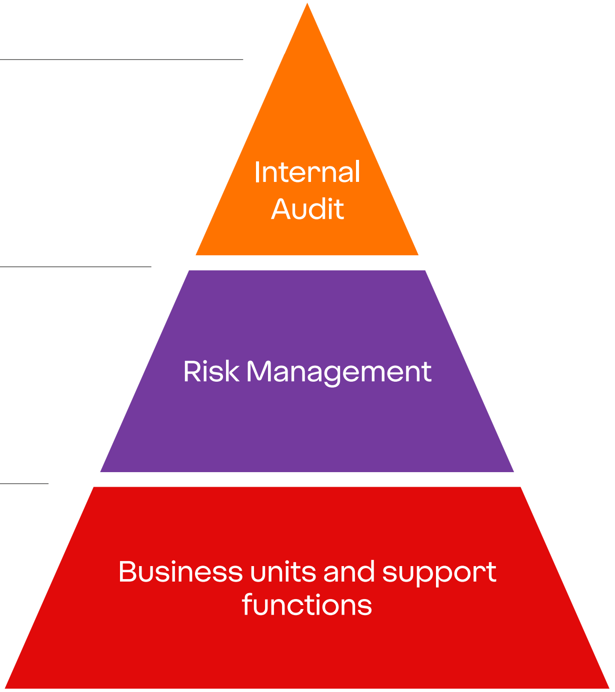
Internal Audit provides independent assurance over the risk management, governance and internal control processes.

2nd Line of Defence

Risk Management designs and owns the risk methodologies, Risk Management Strategy, RAS, policy and RMF, as well as providing oversight, challenge, assurance and advice, with appropriate escalation and reporting.

1st Line of Defence

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



Principal and emerging and evolving risk categories

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

Risk classes

Credit risk

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 retail or business borrower or counterparty fails to pay the interest or capital due on a loan, or other financial instrument. Credit risk needs to be managed through the life cycle of each loan from origination to repayment, redemption, write off or sale. Credit risk manifests itself in the financial instruments and products that the Group offers, and in which it invests, and can arise in respect of both on- and off-balance sheet exposures.

Close monitoring, clear policies and a disciplined approach to credit risk management support the Group's operations, and have underpinned its resilience in recently challenging times. The emergence of the significant inflationary headwinds and cost of living pressures have the potential to affect customer resilience and debt affordability. The Group has taken a number of steps to support customers through this period of heightened affordability pressure, and ensure that its credit risk framework and associated policies and credit strategies remain effective and appropriate.

Managing credit risk within our asset portfolios

Risk appetite

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

The Group maintained a controlled approach to portfolio management and appetite for new lending origination in an increasing inflationary environment, with updates to underwriting lending assessment to reflect the uncertain economic environment and interest rate pressures. The FY24 RAS continues to consider the impact of higher interest rates combined with inflationary headwinds and cost of living pressures, and is focused on supporting customers through this challenging period. Climate risk is an increasingly important component of the broader RMF and we have recognised this through the inclusion of climate risk as a principal risk. The framework has been updated to embed climate risk considerations across various aspects of customer lending and credit risk management practices. Further detail on the identification, measurement and management of climate risk is provided in the Climate-related disclosures report on pages 239 to 272.

Measurement

The Group uses a range of statistical models, supported by both internal and external data, to assess credit risk exposures. These models underpin the internal ratings-based (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 176.

As highlighted on page 69 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 200 to 208.

Mitigation

The Group maintains a dynamic approach to credit management and takes appropriate steps if individual issues are identified, or if credit performance has, or is expected to, deteriorate due to borrower, economic or sector-specific weaknesses.

The mitigation of credit risk within the Group is achieved through approval and monitoring of automated credit strategies, individual transactions, asset quality, analysis of the performance of the various credit portfolios, and oversight of credit portfolios across the Group. Portfolio monitoring techniques include customer, product, industry, geographic concentrations, and delinquency trends, as well as considering layered risks where customers may have more than one higher risk characteristic.

The Group has taken additional steps to update affordability assessments in response to the inflationary and cost of living pressures facing customers. Credit risk mitigation is also supported, in part, by obtaining collateral, and corporate and personal guarantees where appropriate.

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 as well as internal information. Manual underwriting assessments are also used as and when required. The Group also utilises quantitative thresholds, for example debt to income ratios, as well as the ratio of borrowing to collateral. Some of these limits relate to internal approval levels and others are hard limits above which the Group will reject the application.

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

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

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

Credit strategy and policy
Credit risks associated with lending are managed through the application of detailed lending policies and standards that outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms.

For complex credit products and services, the Chief Credit Officer and Credit Risk Committee provide a policy framework that identifies, quantifies and mitigates credit risk. These policies and frameworks are delegated to, and disseminated under, the guidance and control of the Board and senior management, with appropriate oversight through governance committees.

Specialist credit teams provide oversight of credit portfolio performance as well as adherence to credit risk policies and standards. Activities include targeted risk-based reviews, providing an assessment of the effectiveness of internal controls and risk management practices. Bespoke assignments are also undertaken in response to emerging risks and regulatory requirements. Independent assurance reviews are regularly undertaken by Internal Audit.

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

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

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

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

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

Risk classes

Credit risk continued

Collateral

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

Residential mortgages

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

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

Commercial property

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

Non-property related collateral

In addition to residential and commercial property-based security, the Group also takes other forms of collateral when lending. This collateral can involve obtaining security against the underlying loan through the use of cash collateral and/or netting agreements, both of which reduce the original exposure by the amount of collateral held, subject to volatility and maturity adjustments where applicable. It can also include specific or interlocking guarantees, and loan agreements, which include affirmative and negative covenants and, in some instances, guarantees of counterparty obligations.

The Group also provides asset-backed lending in the form of asset and invoice finance. Security for these exposures is held in the form of direct recourse to the underlying asset financed.

Generally, the Group does not take possession of collateral it holds as security, or call on other credit enhancements, that would result in recognition of an asset on its balance sheet.

Monitoring

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

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

Forbearance

Forbearance is considered to exist where customers are experiencing, or about to experience, financial difficulty and the Group grants a concession on a non-commercial basis. The Group's forbearance policies and definitions comply with the guidance established by the European Banking Authority (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.

Risk classes

Credit risk continued

Measuring credit risk within asset portfolios

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

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

ECL methodology

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

The calculated model ECL is determined using the following classifications:

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

A Stage 2 ECL is required where a SICR has been identified, such as a deterioration in the PD since origination. Absent any specific SICR factors, the Group operates a 30 DPD backstop for classification as Stage 2, and 90 DPD for Stage 3. Forborne exposures can be classed as either Stage 2 or Stage 3 depending on the type of forbearance programme that has been applied to the customer. IA provisions are classed as Stage 3. When a loan is deemed uncollectable, and all necessary internal procedures have been completed, it is written off against the related impairment loss. Subsequent recoveries of amounts previously written off reduce the expense in the income statement.

Purchased or originated credit-impaired (POCI) financial assets are those that are assessed as being credit-impaired upon initial recognition, and once classified as POCI, remain in Stage 3 until derecognition irrespective of any change in credit quality. The Group regards the date of acquisition as the origination date for purchased portfolios.

SICR criteria and triggers are parameters subject to the same governance pathway as the Group's IFRS 9 models; with changes to triggers initially submitted to and endorsed by the Credit Model Technical Forum and formal approval provided by the MGC.

The Credit Risk Committee provides oversight on the adequacy of ECL provisioning with reviews and robust challenge of the calculation and management judgement recommendations. This includes the rationale behind the inclusion of MAs. The Boards' Audit Committee provides oversight to the ECL calculation and measurement, with reviews and robust challenge of all calculated outcomes and management judgements.

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

Accounting and regulatory credit loss frameworks

The approach to calculating credit losses differs between the accounting and regulatory frameworks applicable to the Group, with the most significant difference being that the concept of SICR, which moves exposures from a 12-month to a lifetime ECL calculation in the accounting framework, does not exist under the regulatory framework. The approach to staging under IFRS 9 is also not applicable under regulatory credit loss reporting.

Both frameworks calculate credit losses under a PD x LGD x EAD approach, with the regulatory IRB approach assessing these in the next 12 months, whereas the accounting framework under IFRS 9 requires these losses to be assessed on a forward-looking view, with a lifetime loss calculated where appropriate. Credit losses are supplemented by MAs, where required, under the accounting framework.

Both the accounting and regulatory definitions of default are materially aligned, with default being triggered at 90 DPD, with the exception of the heritage Virgin Money mortgage models, that apply a 180 DPD regulatory default trigger under existing approved permissions. The definition of default will be fully aligned to 90 DPD when the regulatory models are updated in line with the hybrid model adoption, which is anticipated in FY24.

Cure periods

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

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

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

	2023			2022		
	Gross loans and advances to customers £m	Credit-related commitments £m	Total £m	Gross loans and advances to customers £m	Credit-related commitments £m	Total £m
Mortgages	**57,797**	**2,685**	**60,482**	58,464	4,200	62,664
Unsecured	**6,814**	**11,242**	**18,056**	6,513	11,057	17,570
Business	**8,684**	**4,073**	**12,757**	8,169	4,102	12,271
Total	**73,295**	**18,000**	**91,295**	73,146	19,359	92,505
Impairment provisions on credit exposures[1]	**(612)**	**(5)**	**(617)**	(454)	(3)	(457)
Fair value hedge adjustment	**(492)**	**–**	**(492)**	(941)	–	(941)
Maximum credit risk exposure on lending assets	**72,191**	**17,995**	**90,186**	71,751	19,356	91,107
Cash and balances with central banks			**11,282**			12,221
Financial instruments at FVOCI			**6,184**			5,064
Due from other banks			**667**			656
Other financial assets at fair value			**61**			78
Derivative financial assets			**135**			342
Maximum credit risk exposure on all financial assets[2]			**108,515**			109,468

(1) The total ECL provision covers both on and off-balance sheet exposures, which are reflected in notes 3.1.1.1 and 3.7 respectively. All tables and ratios that follow are calculated using the combined on- and off-balance sheet ECL, which is consistent for all periods reported.
(2) Unless otherwise noted, the amount that best represents the maximum credit exposure at the reporting date is the carrying value of the financial asset.

Risk classes

Credit risk continued

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

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

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

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

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

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

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

The selection of appropriate MAs is a major component in determining the Group's ECL; a detailed analysis is shown on page 206.

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

Risk classes

Credit risk continued

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

	Mortgages		Unsecured: Cards		Unsecured: Loans and Overdrafts		Unsecured: Combined		Business[2]		Total	
2023	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1	54,540	94.3%	4,658	76.5%	398	54.8%	5,056	74.2%	6,293	72.5%	65,889	89.9%
Stage 2 – total	2,704	4.7%	1,321	21.7%	321	44.3%	1,642	24.1%	1,980	22.8%	6,326	8.6%
Stage 2: 0 DPD	2,405	4.2%	1,250	20.5%	316	43.6%	1,566	23.0%	1,951	22.4%	5,922	8.1%
Stage 2: <30 DPD	98	0.2%	37	0.6%	2	0.3%	39	0.6%	14	0.2%	151	0.2%
Stage 2: >30 DPD	201	0.3%	34	0.6%	3	0.4%	37	0.5%	15	0.2%	253	0.3%
Stage 3[3]	553	1.0%	109	1.8%	7	0.9%	116	1.7%	411	4.7%	1,080	1.5%
	57,797	100%	6,088	100%	726	100%	6,814	100%	8,684	100%	73,295	100%
ECLs[4]												
Stage 1	13	22.6%	42	10.8%	4	12.1%	46	10.9%	30	22.6%	89	14.5%
Stage 2 – total	27	47.9%	294	74.9%	28	73.5%	322	74.8%	51	39.4%	400	64.7%
Stage 2: 0 DPD	23	42.0%	256	65.3%	25	67.1%	281	65.5%	51	39.2%	355	57.6%
Stage 2: <30 DPD	1	1.3%	17	4.3%	1	1.9%	18	4.1%	–	0.2%	19	3.0%
Stage 2: >30 DPD	3	4.6%	21	5.3%	2	4.5%	23	5.2%	–	–	26	4.1%
Stage 3[3]	17	29.5%	56	14.3%	5	14.4%	61	14.3%	50	38.0%	128	20.8%
	57	100%	392	100%	37	100%	429	100%	131	100%	617	100%
Coverage												
Stage 1		0.02%		0.98%		1.07%		0.99%		0.49%		0.13%
Stage 2 – total		0.99%		23.16%		8.16%		20.07%		2.66%		6.33%
Stage 2: 0 DPD		0.98%		21.31%		7.56%		18.38%		2.67%		6.02%
Stage 2: <30 DPD		0.74%		48.66%		35.30%		47.94%		1.56%		12.19%
Stage 2: >30 DPD		1.28%		64.90%		56.02%		64.16%		0.95%		10.38%
Stage 3[3]		3.03%		54.15%		77.16%		55.57%		19.76%		13.93%
		0.10%		6.88%		4.88%		6.65%		1.60%		0.84%
Undrawn exposures												
Stage 1	2,560	95.4%	10,493	96.2%	280	82.1%	10,773	95.8%	3,453	84.7%	16,786	93.3%
Stage 2	114	4.2%	387	3.6%	60	17.6%	447	4.0%	597	14.7%	1,158	6.4%
Stage 3[3]	11	0.4%	21	0.2%	1	0.3%	22	0.2%	23	0.6%	56	0.3%
	2,685	100.0%	10,901	100.0%	341	100.0%	11,242	100.0%	4,073	100.0%	18,000	100.0%

Risk classes

Credit risk continued

			Unsecured									
	Mortgages		Cards		Loans and Overdrafts		Combined		Business[2]		Total	
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[4]												
Stage 1	10	17.9%	57	23.2%	6	15.8%	63	22.2%	12	10.3%	85	18.6%
Stage 2 – total	32	57.1%	156	63.4%	25	65.8%	181	63.7%	55	47.0%	268	58.6%
Stage 2: 0 DPD	28	49.9%	129	52.4%	22	57.9%	151	53.1%	55	47.0%	234	51.2%
Stage 2: <30 DPD	2	3.6%	14	5.7%	1	2.6%	15	5.3%	–	–	17	3.7%
Stage 2: >30 DPD	2	3.6%	13	5.3%	2	5.3%	15	5.3%	–	–	17	3.7%
Stage 3[3]	14	25.0%	33	13.4%	7	18.4%	40	14.1%	50	42.7%	104	22.8%
	56	100.0%	246	100.0%	38	100.0%	284	100.0%	117	100.0%	457	100.0%
Coverage												
Stage 1		0.02%		1.29%		1.06%		1.26%		0.22%		0.13%
Stage 2 – total		1.02%		21.94%		7.29%		17.22%		3.75%		4.72%
Stage 2: 0 DPD		1.02%		19.41%		6.41%		15.09%		3.76%		4.43%
Stage 2: <30 DPD		0.81%		57.37%		33.67%		54.48%		3.57%		8.53%
Stage 2: >30 DPD		1.25%		59.03%		52.92%		58.01%		1.47%		8.57%
Stage 3[3]		2.28%		50.96%		73.14%		53.51%		19.96%		11.24%
		0.09%		4.81%		3.88%		4.66%		1.59%		0.62%
Undrawn exposures												
Stage 1	4,060	96.7%	10,494	97.8%	288	89.5%	10,782	97.5%	3,612	88.1%	18,454	95.3%
Stage 2	132	3.1%	236	2.2%	33	10.2%	269	2.4%	464	11.3%	865	4.5%
Stage 3[3]	8	0.2%	5	0.0%	1	0.3%	6	0.1%	26	0.6%	40	0.2%
	4,200	100.0%	10,735	100.0%	322	100.0%	11,057	100.0%	4,102	100.0%	19,359	100.0%

(1) Excludes loans designated at fair value through profit or loss (FVTPL), balances due from customers on acceptances, accrued interest and deferred and unamortised fee income.

(2) Business and total coverage ratio excludes the guaranteed element of government-backed loans.

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

(4) Includes £5m ECL held for the undrawn exposures shown (2022: £3m), of which £1m (2022:1m) is held under Stage 1 and £4m (2022: £2m) under Stage 2.

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

			Personal									
	Mortgages		Cards		Loans and Overdrafts		Combined		Business		Total	
2022	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD deterioration	2,084	69%	401	52%	329	99%	730	66%	826	55%	3,640	64%
Forbearance	106	3%	9	1%	1	–	10	1%	235	15%	351	6%
AFD or Watch List(1)	6	–	–	–	–	–	–	–	447	29%	453	8%
>30 DPD	169	5%	24	3%	5	1%	29	3%	18	1%	216	4%
Other(2)	725	23%	340	44%	–	–	340	30%	–	–	1,065	18%
	3,090	100%	774	100%	335	100%	1,109	100%	1,526	100%	5,725	100%
ECLs												
PD deterioration	18	55%	73	47%	23	92%	96	53%	26	47%	140	53%
Forbearance	5	16%	3	2%	–	–	3	2%	12	22%	20	7%
AFD or Watch List(1)	–	–	–	–	–	–	–	–	17	31%	17	6%
>30 DPD	2	6%	13	8%	2	8%	15	8%	–	–	17	6%
Other(2)	7	23%	67	43%	–	–	67	37%	–	–	74	28%
	32	100%	156	100%	25	100%	181	100%	55	100%	268	100%

(1) Approaching Financial Difficulty (AFD) and Watch markers are early warning indicators of Business customers who may be approaching financial difficulties. If these indicators are not reversed, they may lead to a requirement for more proactive management by the Group.
(2) Other refers primarily to rules using additional credit reference agency data as well a number of smaller value drivers.

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

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

Risk classes

Credit risk continued

2022		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 Lending £m	Total 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
		6,270	12	1,526	55	373	50	8,169	117

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

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

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

Risk classes

Credit risk continued

IFRS 9 staging (audited)

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

	Stage 1		Stage 2		Stage 3[(1)]				
2023	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m	Income statement £m
Opening balance at 1 October 2022	**66,385**	**85**	**5,725**	**268**	**1,036**	**104**	**73,146**	**457**	
Transfers from Stage 1 to Stage 2	**(8,561)**	**(46)**	**8,535**	**414**	**–**	**–**	**(26)**	**368**	**368**
Transfers from Stage 2 to Stage 1	**6,077**	**16**	**(6,125)**	**(129)**	**–**	**–**	**(48)**	**(113)**	**(113)**
Transfers to Stage 3	**(96)**	**–**	**(586)**	**(109)**	**686**	**138**	**4**	**29**	**29**
Transfers from Stage 3	**121**	**–**	**134**	**8**	**(266)**	**(10)**	**(11)**	**(2)**	**(2)**
Net movement	**(2,459)**	**(30)**	**1,958**	**184**	**420**	**128**	**(81)**	**282**	**282**
Changes to model methodology	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
New assets originated or purchased[(2)]	**20,489**	**57**	**629**	**44**	**161**	**34**	**21,279**	**135**	**135**
Repayments and other movements[(3)]	**(2,990)**	**12**	**(558)**	**(22)**	**140**	**(4)**	**(3,408)**	**(14)**	**(14)**
Repaid or derecognised[(3)]	**(15,536)**	**(35)**	**(1,428)**	**(74)**	**(490)**	**(127)**	**(17,454)**	**(236)**	**(236)**
Write-offs	**–**	**–**	**–**	**–**	**(187)**	**(187)**	**(187)**	**(187)**	**–**
Cash recoveries	**–**	**–**	**–**	**–**	**–**	**38**	**–**	**38**	**–**
Individually assessed impairment charge	**–**	**–**	**–**	**–**	**–**	**142**	**–**	**142**	**142**
Closing balance at 30 September 2023	**65,889**	**89**	**6,326**	**400**	**1,080**	**128**	**73,295**	**617**	**309**

	Stage 1		Stage 2		Stage 3[(1)]				
2022	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m	Income statement £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	249
Transfers from Stage 2 to Stage 1	10,218	27	(10,282)	(145)	–	–	(64)	(118)	(118)
Transfers to Stage 3	(91)	–	(562)	(84)	650	101	(3)	17	17
Transfers from Stage 3	42	–	137	8	(187)	(12)	(8)	(4)	(4)
Net movement	1,882	(18)	(2,480)	73	463	89	(135)	144	144
Changes to model methodology	443	1	(442)	(8)	–	–	1	(7)	(7)
New assets originated or purchased[(2)]	22,162	187	2,055	159	187	32	24,404	378	378
Repayments and other movements[(3)]	(3,434)	(42)	(155)	(65)	56	(15)	(3,533)	(122)	(122)
Repaid or derecognised[(3)]	(16,084)	(154)	(3,431)	(193)	(498)	(101)	(20,013)	(448)	(448)
Write-offs	–	–	–	–	(129)	(129)	(129)	(129)	
Cash recoveries	–	–	–	–	–	30	–	30	
Individually assessed impairment charge	–	–	–	–	–	107	–	107	107
Closing balance at 30 September 2022	66,385	85	5,725	268	1,036	104	73,146	457	52

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

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

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

Risk classes

Credit risk continued

The IFRS 9 staging movements are driven by a variety of factors at individual product portfolio levels, with further detail provided in the following portfolio performance pages. Overall portfolio activity remains in line with expectations, with the net movements across staging slightly higher than prior year with gross flows in and out of Stage 2 the predominant movement. The increase in write offs has been primarily driven from the credit card portfolio in addition to a small number of individually significant business write offs. The levels of default across the portfolio remain low.

The contractual amount outstanding on loans and advances that were written off during the reporting period or are still subject to enforcement activity was £5.1m (2022: £4.3m). The Group has not purchased any lending assets in the year (2022: none). Further information on staging profile is provided at a portfolio level in the respective portfolio performance section on the following pages.

Mortgage credit performance

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

Breakdown of Mortgage portfolio (audited)

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

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

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

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

The selection of appropriate MAs is a major component in determining the Group's ECL, a detailed analysis of which is shown on page 206. Asset quality metrics for the BTL mortgage book remain robust, but the Group continues to hold a prudent level of provisioning for this customer cohort, with the related MA held stable at £25m (2022: £25m). A £5m MA for economic uncertainty was introduced during the year to reflect the economic circumstances and cost of living pressures such as rising interest rates and inflation which may impact customers. Other small MAs totalling £2m (2022: £4m) have been retained, taking total MAs held to £32m, down from £34m at 30 September 2022.

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

Risk classes

Credit risk continued

Mortgage Portfolio – interest rate profile (audited)

	2023		2022	
	£m	%	£m	%
Fixed rate	**52,841**	**91.5%**	53,387	91.3%
Variable rate	**3,081**	**5.3%**	2,106	3.6%
Standard variable rate	**1,875**	**3.2%**	2,971	5.1%
Total	**57,797**	**100.0%**	58,464	100.0%

The Group is a signatory to the government Mortgage Charter announced by the Chancellor of the Exchequer on 23 June 2023, to support regulated residential mortgage borrowers impacted by higher mortgage interest rates, in particular borrowers whose existing fixed rate deal is due to end in the immediate future.

During FY23 there has been a shift and increase in the volume of customers opening tracker mortgages as customers monitor the interest rate movements. The increase in interest rates has also driven a reduction in the volume of customers on the standard variable rate.

Risk classes

Credit risk continued

Collateral

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

Average LTV of Mortgage portfolio by staging (audited)

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

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

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

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

The Mortgage portfolio remains highly secured with 91.1% of mortgages, by loan value, having an indexed LTV of less than 75% (2022: 92.3%), and an average portfolio LTV of 52.9% (2022: 52.7%). The total portfolio has reduced by 1.1% with the highest reduction in proportion and value in Stage 2.

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

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

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

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.

	Stage 1		Stage 2		Stage 3[1]				
2023	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m	Income statement £m
Opening balance at 1 October 2022	**54,791**	**10**	**3,090**	**32**	**583**	**14**	**58,464**	**56**	
Transfers from Stage 1 to Stage 2	**(5,237)**	**(3)**	**5,203**	**63**	**–**	**–**	**(34)**	**60**	**60**
Transfers from Stage 2 to Stage 1	**4,827**	**1**	**(4,852)**	**(49)**	**–**	**–**	**(25)**	**(48)**	**(48)**
Transfers to Stage 3	**(58)**	**–**	**(273)**	**(5)**	**328**	**7**	**(3)**	**2**	**2**
Transfers from Stage 3	**112**	**–**	**104**	**7**	**(222)**	**(3)**	**(6)**	**4**	**4**
Net movement	**(356)**	**(2)**	**182**	**16**	**106**	**4**	**(68)**	**18**	**18**
Changes to model methodology	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
New assets originated or purchased[2]	**8,372**	**2**	**–**	**–**	**–**	**–**	**8,372**	**2**	**2**
Repayments and other movements[3]	**(2,366)**	**4**	**(99)**	**(15)**	**(9)**	**3**	**(2,474)**	**(8)**	**(8)**
Repaid or derecognised[3]	**(5,901)**	**(1)**	**(469)**	**(6)**	**(126)**	**(3)**	**(6,496)**	**(10)**	**(10)**
Write-offs	**–**	**–**	**–**	**–**	**(1)**	**(1)**	**(1)**	**(1)**	**–**
Cash recoveries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Individually assessed impairment charge	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Closing balance at 30 September 2023	**54,540**	**13**	**2,704**	**27**	**553**	**17**	**57,797**	**57**	**2**
of which:									
Residential – capital repayment	**33,328**	**3**	**1,489**	**6**	**268**	**6**	**35,085**	**15**	
Residential – interest only	**6,651**	**1**	**657**	**2**	**195**	**6**	**7,503**	**9**	
BTL	**14,561**	**9**	**558**	**19**	**90**	**5**	**15,209**	**33**	

Risk classes

Credit risk continued

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 £m	Income statement £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	54
Transfers from Stage 2 to Stage 1	8,820	3	(8,851)	(55)	–	–	(31)	(52)	(52)
Transfers to Stage 3	(49)	–	(191)	(5)	238	4	(2)	(1)	(1)
Transfers from Stage 3	29	–	108	5	(140)	(3)	(3)	2	2
Net movement	2,946	2	(3,113)	–	98	1	(69)	3	3
Changes to model methodology	–	–	–	–	–	–	–	–	–
New assets originated or purchased[2]	9,971	1	7	–	1	–	9,979	1	1
Repayments and other movements[3]	(2,484)	4	(154)	(23)	(26)	(3)	(2,664)	(22)	(22)
Repaid or derecognised[3]	(6,238)	(1)	(842)	(9)	(142)	(2)	(7,222)	(12)	(12)
Write-offs	–	–	–	–	(1)	(1)	(1)	(1)	
Cash recoveries	–	–	–	–	–	–	–	–	–
Individually assessed impairment charge	–	–	–	–	–	–	–	–	–
Closing balance at 30 September 2022	54,791	10	3,090	32	583	14	58,464	56	(30)
of which:									
Residential – capital repayment	34,396	7	1,650	4	371	7	36,417	18	
Residential – interest only	6,063	2	838	1	140	1	7,041	4	
BTL	14,332	1	602	27	72	6	15,006	34	

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

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

(3) 'Repayments' comprises payments made on customer lending 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.

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

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

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

Risk classes

Credit risk continued

Unsecured credit performance

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

Breakdown of Unsecured credit portfolio (audited)

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

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

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

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

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

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

The selection of appropriate MAs is a major component in determining the Group's ECL, a detailed analysis of key factors on them is shown on page 206.

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

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

Risk classes

Credit risk continued

Forbearance (audited)

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

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

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

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

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]				
2023	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m	Income statement £m
Opening balance at 1 October 2022	5,324	63	1,109	181	80	40	6,513	284	
Transfers from Stage 1 to Stage 2	(1,621)	(39)	1,642	320	–	–	21	281	281
Transfers from Stage 2 to Stage 1	590	13	(608)	(69)	–	–	(18)	(56)	(56)
Transfers to Stage 3	(15)	–	(179)	(100)	200	121	6	21	21
Transfers from Stage 3	–	–	1	–	(5)	(5)	(4)	(5)	(5)
Net movement	(1,046)	(26)	856	151	195	116	5	241	241
Changes to model methodology	–	–	–	–	–	–	–	–	–
New assets originated or purchased[2]	1,101	12	1	–	2	2	1,104	14	14
Repayments and other movements[3]	(97)	–	(282)	2	152	(6)	(227)	(4)	(4)
Repaid or derecognised[3]	(226)	(3)	(42)	(12)	(152)	(91)	(420)	(106)	(106)
Write-offs	–	–	–	–	(161)	(161)	(161)	(161)	–
Cash recoveries	–	–	–	–	–	37	–	37	–
Individually assessed impairment charge	–	–	–	–	–	124	–	124	124
Closing balance at 30 September 2023	5,056	46	1,642	322	116	61	6,814	429	269

	Stage 1		Stage 2		Stage 3[1]				
2022	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m	Income statement £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	179
Transfers from Stage 2 to Stage 1	504	16	(523)	(62)	–	–	(19)	(46)	(46)
Transfers to Stage 3	(19)	–	(116)	(69)	139	83	4	14	14
Transfers from Stage 3	1	–	2	1	(8)	(7)	(5)	(6)	(6)
Net movement	(565)	(15)	422	80	131	76	(12)	141	141
Changes to model methodology	–	–	–	–	–	–	–	–	–
New assets originated or purchased[2]	1,708	20	11	4	7	5	1,726	29	29
Repayments and other movements[3]	(508)	26	166	(8)	104	(4)	(238)	14	14
Repaid or derecognised[3]	(459)	(9)	(43)	(13)	(117)	(72)	(619)	(94)	(94)
Write-offs	–	–	–	–	(114)	(114)	(114)	(114)	
Cash recoveries	–	–	–	–	–	26	–	26	
Individually assessed impairment charge	–	–	–	–	–	88	–	88	88
Closing balance at 30 September 2022	5,324	63	1,109	181	80	40	6,513	284	178

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

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

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

Risk classes

Credit risk continued

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

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

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

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)

2023	Gross lending £m	Government[1] £m	Total gross £m	Modelled & IA ECL £m	MA £m	Total ECL £m	Net lending £m	Coverage[2] %
Agriculture	**1,315**	**46**	**1,361**	**4**	**1**	**5**	**1,356**	**0.35%**
Business services	**1,153**	**212**	**1,365**	**38**	**3**	**41**	**1,324**	**3.45%**
Commercial Real Estate	**715**	**4**	**719**	**5**	**1**	**6**	**713**	**0.72%**
Government, health and education	**1,200**	**38**	**1,238**	**9**	**2**	**11**	**1,227**	**0.85%**
Hospitality	**779**	**60**	**839**	**3**	**1**	**4**	**835**	**0.50%**
Manufacturing	**669**	**77**	**746**	**17**	**3**	**20**	**726**	**2.87%**
Resources	**160**	**5**	**165**	**2**	**–**	**2**	**163**	**1.65%**
Retail and wholesale trade	**758**	**145**	**903**	**19**	**2**	**21**	**882**	**2.72%**
Transport and storage	**290**	**32**	**322**	**4**	**–**	**4**	**318**	**1.47%**
Other	**877**	**149**	**1,026**	**15**	**2**	**17**	**1,009**	**1.87%**
Total Business portfolio	**7,916**	**768**	**8,684**	**116**	**15**	**131**	**8,553**	**1.60%**

2022	Gross lending £m	Government[1] £m	Total gross £m	Modelled & IA ECL £m	MA £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	3	25	1,241	2.53%
Commercial Real Estate	597	10	607	3	–	3	604	0.54%
Government, health and education	1,008	54	1,062	8	2	10	1,052	0.95%
Hospitality	652	78	730	4	1	5	725	0.80%
Manufacturing	640	109	749	23	3	26	723	3.96%
Resources	133	8	141	3	1	4	137	2.37%
Retail and wholesale trade	696	198	894	15	3	18	876	2.38%
Transport and storage	291	56	347	4	1	5	342	1.44%
Other	723	192	915	12	3	15	900	2.03%
Total Business portfolio	7,112	1,057	8,169	99	18	117	8,052	1.59%

(1) Government includes all lending provided to business customers under UK Government schemes including Bounce back loan scheme (BBLS), Coronavirus business interruption loan scheme (CBILS), Coronavirus large business interruption loan scheme (CLBILS) and Recovery loan scheme (RLS). This excludes £143m (2022: £66m) of guarantee claim funds received from British Business Bank (BBB).

(2) Coverage ratio excludes the guaranteed element of government-backed loan schemes.

Risk classes

Credit risk continued

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

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

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

The updated MES is the primary driver of a net £17m increase in modelled provisions to £116m. Whilst there have been no material signs of stress across the portfolio, there has been an uptick in corporate insolvencies across the UK market, therefore an economic resilience MA of £15m has been retained. A new Business LGD model was brought into use in the Business ECL calculation during the year. The impact of this had been estimated during development, resulting in a negative MA of £15m being held last year, this has now been fully released. The MA composition is covered in more detail on the page 206. The specific provisions held on balance sheet have reduced to £25m (2022: £31m) primarily due to provision utilisation. This results in an overall provision of £131m (2022: £117m) and an impairment charge of £38m (2022: credit of £96m).

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

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

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

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	
2023	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Term extension	**150**	**112**	**1.22%**	**7.9**	**7.08%**
Payment holiday	**88**	**204**	**2.21%**	**30.3**	**14.91%**
Reduction in contracted interest rate	**1**	**–**	**–**	**–**	**–**
Alternative forms of payment	**–**	**–**	**–**	**–**	**–**
Debt forgiveness	**4**	**1**	**0.01%**	**0.4**	**47.66%**
Refinancing	**8**	**2**	**0.02%**	**0.0**	**1.85%**
Covenant breach/reset/waiver	**40**	**174**	**1.89%**	**6.4**	**3.65%**
Total Business forbearance	**291**	**493**	**5.35%**	**45.0**	**9.14%**

	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	81	193	2.23%	32.6	16.86%
Reduction in contracted interest rate	2	1	0.01%	–	1.33%
Alternative forms of payment	–	–	–	–	–
Debt forgiveness	2	1	0.01%	0.5	97.05%
Refinancing	9	2	0.02%	0.1	5.14%
Covenant breach/reset/waiver	41	133	1.53%	5.4	4.03%
Total Business forbearance	289	448	5.16%	43.5	9.71%

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

Customers within the forbearance portfolio have £29m of COVID-19 related support loans: £14m CBIL, £4m BBL and £11m RLS.

The table includes a portfolio of financial assets at fair value. The gross value of fair value loans subject to forbearance is £0.5m (2022: £4.7m), representing 0.01% of the total business portfolio (2022: 0.05%). The credit risk adjustment on these amounts is now immaterial. (2022: £0.1m).

Risk 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]				
2023	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m	Income statement £m
Opening balance at 1 October 2022	**6,270**	**12**	**1,526**	**55**	**373**	**50**	**8,169**	**117**	
Transfers from Stage 1 to Stage 2	**(1,703)**	**(4)**	**1,689**	**31**	**–**	**–**	**(14)**	**27**	**27**
Transfers from Stage 2 to Stage 1	**659**	**1**	**(666)**	**(11)**	**–**	**–**	**(7)**	**(10)**	**(10)**
Transfers to Stage 3	**(23)**	**–**	**(134)**	**(4)**	**158**	**10**	**1**	**6**	**6**
Transfers from Stage 3	**8**	**–**	**30**	**–**	**(40)**	**(2)**	**(2)**	**(2)**	**(2)**
Net movement	**(1,059)**	**(3)**	**919**	**16**	**118**	**8**	**(22)**	**21**	**21**
Changes to model methodology	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
New assets originated or purchased[1]	**11,017**	**43**	**627**	**44**	**159**	**32**	**11,803**	**119**	**119**
Repayments and other movements[2]	**(526)**	**8**	**(174)**	**(8)**	**(1)**	**(1)**	**(701)**	**(1)**	**(1)**
Repaid or derecognised[2]	**(9,409)**	**(30)**	**(918)**	**(56)**	**(213)**	**(33)**	**(10,540)**	**(119)**	**(119)**
Write-offs	**–**	**–**	**–**	**–**	**(25)**	**(25)**	**(25)**	**(25)**	**–**
Cash recoveries	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**1**	**–**
Individually assessed impairment charge	**–**	**–**	**–**	**–**	**–**	**18**	**–**	**18**	**18**
Closing balance at 30 September 2023	**6,293**	**30**	**1,980**	**51**	**411**	**50**	**8,684**	**131**	**38**

	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 £m	Income statement £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	16
Transfers from Stage 2 to Stage 1	894	8	(908)	(28)	–	–	(14)	(20)	(20)
Transfers to Stage 3	(23)	–	(255)	(10)	273	14	(5)	4	4
Transfers from Stage 3	12	–	28	2	(39)	(2)	1	–	–
Net movement	(499)	(5)	212	(7)	234	12	(53)	–	–
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	348
Repayments and other movements[2]	(442)	(72)	(167)	(34)	(22)	(8)	(631)	(114)	(114)
Repaid or derecognised[2]	(9,387)	(144)	(2,546)	(171)	(239)	(27)	(12,172)	(342)	(342)
Write-offs	–	–	–	–	(14)	(14)	(14)	(14)	
Cash recoveries	–	–	–	–	–	4	–	4	
Individually assessed impairment charge	–	–	–	–	–	19	–	19	19
Closing balance at 30 September 2022	6,270	12	1,526	55	373	50	8,169	117	(89)

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

Risk classes

Credit risk continued

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

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

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

Business collateral (audited)
The following table shows collateral held at 30 September 2023. The exposure amount shown is net of credit provisions that have some form of associated collateral and is not the total exposure for each asset class as this is disclosed elsewhere in the credit risk report.

A change was made this year where all collateral values captured have now been capped at the exposure value, which impacts the previously uncapped Other Physical Collateral & Receivables columns. We have also included Immovable Property collateral this year, as an enhancement to last year's table content.

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

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

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

Risk classes

Credit risk continued

Other credit risks

Offsetting of financial assets and liabilities (audited)

The table below presents information on recognised financial assets and financial liabilities that are offset on the balance sheet under IAS 32, as well as those that are subject to master netting or similar arrangements, irrespective of whether they are offset.

The Group reduces exposure to credit risk through central clearing for eligible derivatives, and daily posting of cash collateral on such transactions as detailed in note 3.1.3.2 to the financial statements. The amounts offset on the balance sheet, as shown below, mainly represent derivatives and variation margin collateral with central clearing houses, which meet the criteria for offsetting under IAS 32.

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

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

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

(1) The net position is offset against variation margin cash collateral with central clearing houses included within other assets or other liabilities.

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

Risk classes

Credit risk continued

Macroeconomic assumptions, scenarios, and weightings

The Group's ECL allowance at 30 September 2023 was £617m (2022: £457m).

Macroeconomic assumptions

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

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

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

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

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

Risk classes

Credit risk continued

The key macroeconomic assumptions used in the scenarios:

	Base (55%)	Upside (10%)	Downside (35%)
GDP	> Growth limited to sub 1% in all quarters until Q2 2025, but recession is avoided > Overall year-on-year growth in 2024 forecast at 0.4% with a modest recovery in 2025 of 1.5% > GDP increases to 2.3% in 2026 before falling back to 1.5% in 2027	> Growth of 2.9% in Q1 2024 contributes to year-on-year growth of 3.0% in 2024 > Overall year-on-year growth in 2025 is forecast to fall slightly to 2.6% before climbing back to 3.0% in 2026 > GDP falls back to 1.6% in 2027, moving towards the long run average forecast	> Negative GDP for six consecutive quarters, from Q4 2023, (1.6%), until Q1 2025, (0.5%) resulting in total contraction of 4.1% > Growth remains sluggish over the remaining forecast period, only recovering to pre-contraction levels in Q3 2027, with annual growth of 1.6%
Inflation	> Having peaked at 10.8% in Q4 2022, inflation falls back to 4.6% by Q4 2023 > Remains persistently above the BoE's 2% target throughout 2024 at 3.2% > In Q2 2025 inflation falls below the 2% target and remains so for the remainder of the forecast	> Having peaked at 10.8% in Q4 2022, inflation falls to 4.9% in Q4 2023 > Reverts back to sub 2.0% levels from Q3 2025 for the remainder of the forecast period, going as low as 0.9% in Q2 2026 rising to 1.8% by Q4 2027	> Having peaked at 10.8% in Q4 2022 before declining to 4.1% in Q4 2023 > Inflation continues to fall rapidly, dropping below 2% in Q2 2024 to a low of 0% in Q3 2025 > From Q4 2025 inflation rises steadily each quarter reaching 1.7% in Q3 2027
Base rate	> BoE base rate hits 5.5% in Q4 2023 and remains at that level until Q3 2024 > From then on the rate falls steadily at around 0.25% per quarter over the forecast period to 2.1% by Q4 2027	> BoE base rate continues to rise, peaking at 6.5% in Q2 2024 > The rate begins to fall in Q1 2025 and falls steadily by 0.25% per quarter thereafter to 3.6% by Q4 2027	> BoE base rate peaks at 5.2% in Q3 2023 before falling back in Q4 2023 > The rate falls steadily at 0.25% per quarter from Q2 2024 to Q3 2027, tapering to 1.25% in Q4 2027
HPI	> Shows steady decline, reaching a low point in Q3 2025 before rebounding slowly in each quarter after this until the end of the forecast period > Overall Q4 v Q4 year-on-year negative growth of 2.7% in 2023, 7.2% in 2024 and 2.9% in 2025 > Growth in the outer years recovers the value lost since Q3 2023 by the end of 2027	> With the exception of Q4 2023, HPI falls in each quarter until Q2 2025 before reversing and rising in each subsequent quarter > Overall, HPI sees Q4 v Q4 negative growth of 1.3% in 2023, 4.8% in 2024 and 0.9% in 2025 > Returns to positive growth of 6.6% in 2026 and 7.0% in 2027	> Falls steadily and deeply from Q1 2023 to Q2 2026 followed by modest increases in each quarter until the end of the forecast period > Overall, HPI sees a Q4 v Q4 negative growth of 4.7% in 2023, 12.7% in 2024 and 7.6% in 2025 > Modest growth in 2026 of 1.0% followed by 7.5% in 2027 leaves house prices well below the levels seen at the start of the forecast
Unemployment	> Peaks at 4.6% in Q3 2024 and remains there through Q4 2024 > From then, the rate falls back to 3.9% in Q2 2026 where it remains through the remainder of the forecast period	> Peaks in Q3 2023, at 4.3%, before falling back in the following quarter > From then, the rate slowly falls back to 3.7% by Q2 2026, where it remains	> Peaks at 7.0% in Q1 2026 and remains there throughout 2026 > From Q1 2027 the unemployment rate begins to fall slowly, closing the year at 6.7%

Risk classes

Credit risk continued

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

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

Year	Assumption	2022 %	2023 %	2024 %	2025 %	2026 %	2027 %
30 September 2023	Base rate		4.7	5.4	4.5	3.5	2.5
	Unemployment		4.2	4.5	4.3	3.9	3.9
	GDP		0.5	0.4	1.5	2.3	1.5
	Inflation		7.6	3.2	1.5	1.0	1.7
	HPI		(2.7)	(7.2)	(2.9)	4.6	7.1
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	

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

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

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

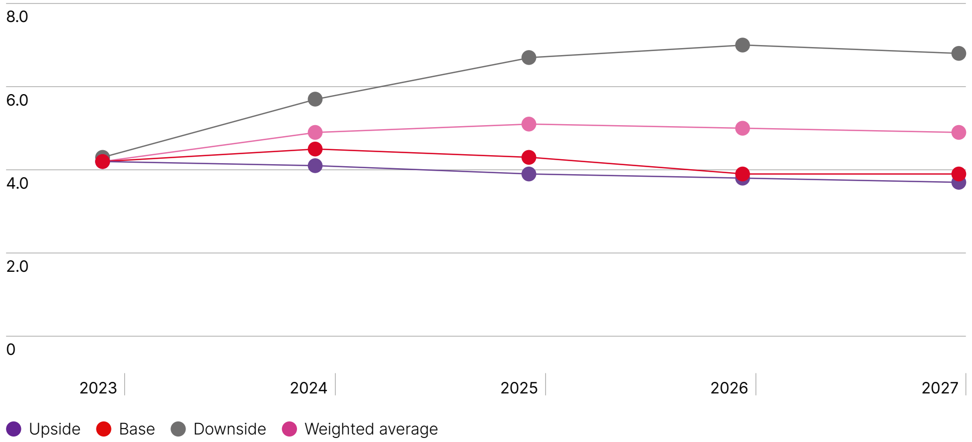
	Unemployment %	GDP %	HPI %
2023			
Upside	**3.9**	**2.2**	**1.3**
Base	**4.2**	**1.2**	**(0.2)**
Downside	**6.1**	**0.2**	**(3.3)**
2022			
Upside	3.9	3.1	3.3
Base	4.1	2.1	2.0
Downside	6.3	0.4	(3.4)

Risk classes

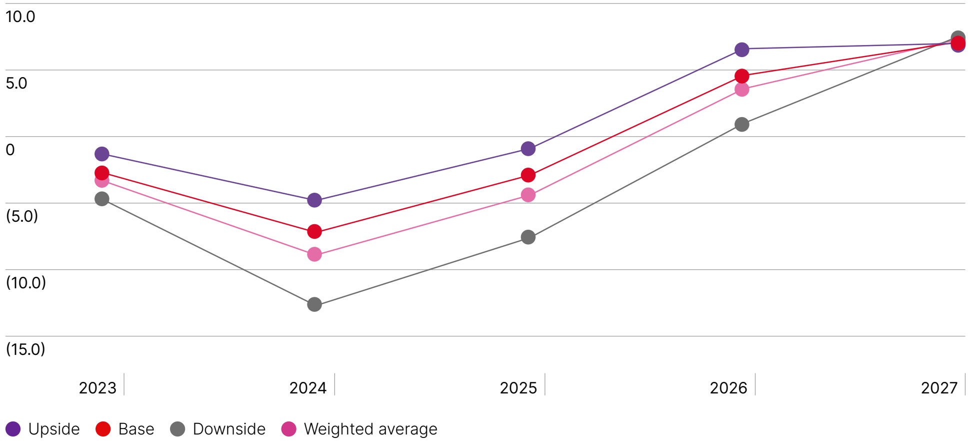
Credit risk continued

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

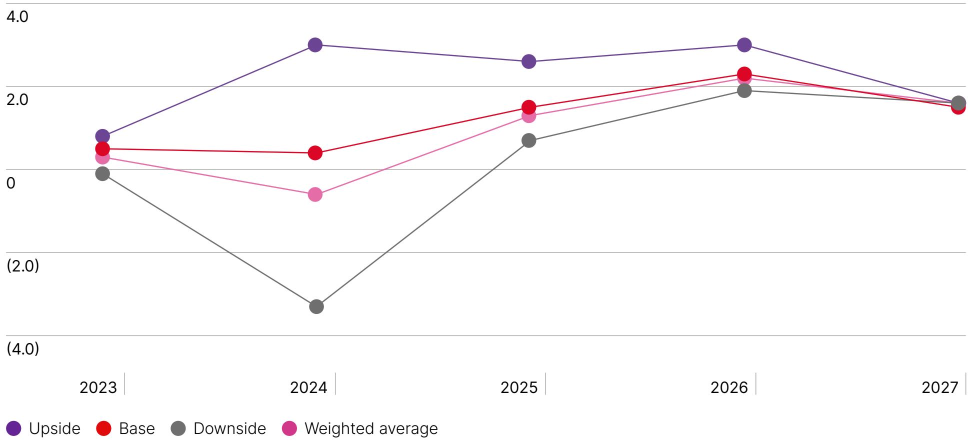
Unemployment – simple average %



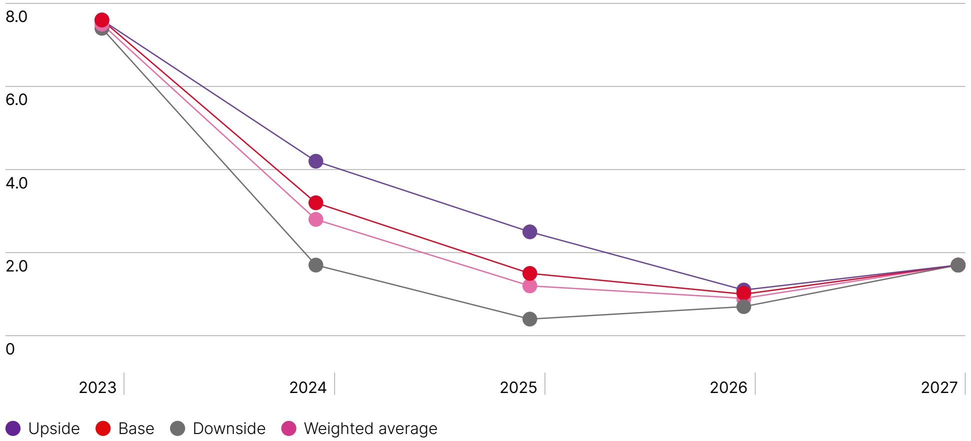
HPI – Q4 v Q4 movement %



GDP – year-on-year movement %



Inflation – simple average %



The full range of the key macroeconomic assumptions is included in the table on page 208.

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:

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

2022 (audited)	Probability Weighted £m	Upside £m	Base £m	Downside £m
Mortgages	15	12	13	23
Unsecured of which:	251	236	237	279
Cards	216	209[3]	208	233
Personal loans and overdrafts[2]	35	27	29	46
Business[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 £76m relative to MAs (2022: £85m) and £30m of individually assessed provision (2022: £38m).

(2) Salary Finance contributes more that 50% of the combined Personal Loans and overdrafts ECL.

(3) Due to a minor model interaction effect, the 100% ECL for Upside is marginally higher than the Base case.

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

Certain asset classes are less sensitive to specific macroeconomic factors, showing lower relative levels of sensitivity. To ensure appropriate levels of ECL, the relative lack of sensitivity is compensated for through the application of MAs, further detail of which can be found on page 206.

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

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

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

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

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

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

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

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

The use of judgement

SICR

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

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

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

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

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

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

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

Definition of default

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

MAs

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

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

Risk classes

Credit risk continued

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

2023[1] (audited)	Mortgages £m	Unsecured £m	Business £m	Total £m
ECL before judgemental adjustments (A)	**25.2**	**400.2**	**115.5**	**540.9**
Judgemental adjustments:				
To address the cost-of-living crisis	**–**	**–**	**–**	**–**
To address economic resilience	**5.0**	**–**	**15.0**	**20.0**
Impact of new LGD model	**–**	**–**	**–**	**–**
Additional BTL impact	**25.1**	**–**	**–**	**25.1**
Other credit card adjustments	**–**	**27.5**	**–**	**27.5**
Other judgemental adjustments	**1.7**	**1.3**	**0.5**	**3.5**
Total judgemental adjustments (B)	**31.8**	**28.8**	**15.5**	**76.1**
Total reported ECL (A + B)	**57.0**	**429.0**	**131.0**	**617.0**
% of total ECL (B / total reported ECL)	**56%**	**7%**	**12%**	**12%**
Coverage – total	**0.10%**	**6.65%**	**1.60%**	**0.84%**
Coverage – total ex MAs	**0.04%**	**5.87%**	**1.33%**	**0.74%**

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

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

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

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

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

2023

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

Risk classes

Credit risk continued

2022

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

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

(2) The percentages shown for base rate, unemployment and inflation are averages. GDP is the year-on-year movement, with HPI the Q4 v Q4 movement.

Financial risk

Risk classes

Financial risk continued

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 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 and time periods.

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

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

Capital risk

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

Mitigation

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

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

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

Measurement

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

- Retail mortgages: IRB.
- Business lending: FIRB.
- Specialised lending: IRB slotting.
- 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 classes

Financial risk continued

- Risk appetite – Parameters are included in the assessment of models and are analysed to inform the Group's risk capacity and appetite.
- Asset quality – Parameters are monitored to understand the product and segment performance of the Group's portfolios.

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

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

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

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

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

Ahead of the Group's implementation of mortgage IRB models (including hybrid PD), a model adjustment has been applied to increase RWAs and expected losses in advance of formal approval of models (see RWA movement commentary on page 214). There has been little movement in this adjustment since the Interim Financial Report was published.

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

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

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

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

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

Risk classes

Financial risk continued

Capital resources

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

Regulatory capital[1]	2023 £m	2022 £m
Statutory total equity	**5,607**	6,340
CET1 capital: regulatory adjustments[2]		
Other equity instruments	**(594)**	(666)
Defined benefit pension fund assets	**(333)**	(650)
Prudent valuation adjustment	**(5)**	(5)
Intangible assets	**(162)**	(256)
Goodwill	**(11)**	(11)
Deferred tax asset relying on future profitability	**(261)**	(302)
Cash flow hedge reserve	**(496)**	(699)
AT1 coupon accrual	**(12)**	(13)
Foreseeable dividend on ordinary shares	**(27)**	(106)
Excess expected losses	**(103)**	(100)
Share buyback	**–**	(13)
IFRS 9 transitional adjustments	**112**	114
Unconsolidated losses arising from joint venture	**(4)**	–
Total regulatory adjustments to CET1	**(1,896)**	(2,707)
Total CET1 capital	**3,711**	3,633
AT1 capital		
AT1 capital instruments	**594**	666
Total AT1 capital	**594**	666
Total Tier 1 capital	**4,305**	4,299
Tier 2 capital		
Subordinated debt	**1,022**	1,020
Total Tier 2 capital	**1,022**	1,020
Total regulatory capital	**5,327**	5,319

(1) Data in the table is reported under CRD IV on a fully loaded basis with IFRS 9 transitional arrangements applied.

(2) A number of regulatory adjustments to CET1 capital are required under CRD IV regulatory capital rules.

Regulatory capital flow of funds[1]	2023 £m	2022 £m
CET1 capital[2]		
CET1 capital at 1 October	**3,633**	3,616
Share issuance	**2**	2
Share buyback	**(99)**	(76)
Retained earnings and other reserves (including special purpose entities)	**(242)**	502
Amendment to software asset deduction rules[3]	**–**	(151)
Intangible assets	**94**	103
Deferred tax asset relying on future profitability	**41**	(44)
Defined benefit pension fund assets	**317**	(99)
Movement in AT1 foreseeable distribution	**1**	6
Foreseeable dividend on ordinary shares	**(27)**	(106)
Excess expected losses	**(3)**	(100)
IFRS 9 transitional adjustments	**(2)**	(20)
Unconsolidated losses arising from joint venture	**(4)**	–
Total CET1 capital at 30 September	**3,711**	3,633
AT1 capital		
AT1 capital at 1 October	**666**	697
AT1 instrument issued net of costs	**–**	346
AT1 instrument redeemed	**(72)**	(377)
Total AT1 capital at 30 September	**594**	666
Total Tier 1 capital at 30 September	**4,305**	4,299
Tier 2 capital		
Tier 2 capital at 1 October	**1,020**	1,019
Amortisation of issue costs	**2**	1
Tier 2 capital at 30 September	**1,022**	1,020
Total capital at 30 September	**5,327**	5,319

(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.

Risk classes

Financial risk continued

The Group's CET1 capital showed an increase of £78m during the year. The Group reported a profit after tax of £246m in the year, which together with reductions in intangible assets and deferred tax asset deductions of £135m, and after absorbing other movements, mostly in other reserves, of £80m, led to a net increase in CET1 of £301m. This net capital surplus was used to fund two share buyback programmes during the year totalling £100m, interim dividend payments of £45m, AT1 distributions of £54m, and a foreseeable ordinary dividend of £27m.

In December 2022, the Group redeemed £72m of AT1 securities (note 4.1.2).

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

RWA

	2023			2022		
Minimum capital requirements	Exposure £m	RWA £m	Minimum capital requirements £m	Exposure £m	RWA £m	Minimum capital requirements £m
Retail mortgages	**60,354**	**9,072**	**726**	62,545	9,155	732
Business lending	**12,635**	**6,990**	**559**	11,959	6,196	497
Other retail lending	**17,586**	**4,819**	**385**	17,408	4,817	385
Other lending	**18,328**	**364**	**29**	18,165	277	22
Other[1]	**592**	**674**	**54**	584	637	51
Total credit risk	**109,495**	**21,919**	**1,753**	110,661	21,082	1,687
Credit valuation adjustment		**278**	**22**		258	21
Operational risk		**2,833**	**227**		2,623	210
Counterparty credit risk		**146**	**12**		185	15
Total	**109,495**	**25,176**	**2,014**	110,661	24,148	1,933

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

	12 months to 30 September 2023					12 months to 30 September 2022				
RWA movements	IRB RWA £m	STD RWA £m	Non-credit risk RWA[2] £m	Total £m	Minimum capital requirements £m	IRB RWA £m	STD RWA £m	Non-credit risk RWA[2] £m	Total £m	Minimum capital requirements £m
Opening RWA	**14,943**	**6,139**	**3,066**	**24,148**	**1,933**	15,699	5,844	2,689	24,232	1,938
Asset size	**58**	**127**	**–**	**185**	**15**	267	575	–	842	68
Asset quality	**(1,011)**	**121**	**–**	**(890)**	**(71)**	(959)	4	–	(955)	(75)
Model updates[1]	**1,486**	**–**	**–**	**1,486**	**118**	(64)	–	–	(64)	(5)
Methodology and policy	**–**	**5**	**–**	**5**	**–**	–	(160)	–	(160)	(13)
Other	**–**	**51**	**191**	**242**	**19**	–	(124)	377	253	20
Closing RWA	**15,476**	**6,443**	**3,257**	**25,176**	**2,014**	14,943	6,139	3,066	24,148	1,933

(1) Model updates include MAs.

(2) Other RWA includes operational risk, credit valuation adjustment and counterparty credit risk.

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

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

Other RWA movements of £242m are mainly due to an operational risk RWA uplift of £210m due to a higher three-year average income position in commercial and retail banking compared to the FY22 three-year average. The remainder is predominantly a combination of movements within credit valuation adjustment and counterparty credit risk.

Risk classes

Financial risk continued

IFRS 9 transitional arrangements

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

	2023	
Available capital (amounts)	IFRS 9 Transitional basis £m	IFRS 9 Fully loaded basis £m
CET1 capital	**3,711**	**3,599**
Tier 1 capital	**4,305**	**4,193**
Total capital	**5,327**	**5,215**
RWA (amounts)		
Total RWA	**25,176**	**25,087**
Capital ratios		
CET1 (as a percentage of RWA)	**14.7%**	**14.3%**
Tier 1 (as a percentage of RWA)	**17.1%**	**16.7%**
Total capital (as a percentage of RWA)	**21.2%**	**20.8%**
Leverage ratio		
Leverage ratio total exposure measure	**86,554**	**86,442**
UK leverage ratio	**5.0%**	**4.9%**

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

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

Capital requirements

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

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

(1) The minimum amount of total capital under Pillar 1 of the regulatory framework is determined as 8% of RWA, of which at least 4.5% of RWA is required to be covered by CET1 capital.

(2) The Group may be subject to a PRA buffer as set by the PRA but is not permitted to disclose the level of any buffer.

The Group continues to maintain a significant surplus above its capital requirements. At September the Group maintained CET1 capital in excess of its requirements equal to 4.1% of RWAs (equivalent to £1,025m).

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.

In October 2022 the PRA communicated an update to the Group's Pillar 2A requirement setting it as 2.97% of RWAs, of which 1.67% must be met with CET1 capital (30 September 2022: £744m, of which £419m had to be met with CET1 capital). In line with previous guidance this requirement has been set as a percentage of RWAs, rather than the fixed nominal Pillar 2A requirements set during 2020 and 2021 in response to COVID-19. Applying this updated requirement in September 2023 resulted in a modest increase in total capital requirements of £4m and CET1 requirements of £2m. At 30 September 2023 this resulted in a TCR of 10.97% of RWAs (equivalent to £2,762m) of which 6.2% must be met with CET1 capital (equivalent to £1,554m).

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. As had been previously announced, the CCyB rate increased in the year to 1% in December 2022, rising to 2% in July 2023

Risk classes

Financial risk continued

to align with its guidance for the CCyB rate under standard risk conditions. The Financial Policy Committee (FPC) has noted the considerable uncertainties in relation to the economic outlook and will continue to monitor the situation and stands ready to vary the UK CCyB rate – in either direction – in line with the evolution of economic conditions, underlying vulnerabilities and the overall risk environment.

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

MREL

MREL position	2023 £m	2022 £m
Total capital resources[1][2]	5,327	5,319
Eligible senior unsecured securities issued by Virgin Money UK PLC[2]	2,707	2,423
Total MREL resources	8,034	7,742
RWA	25,176	24,148
Total MREL resources available as a percentage of RWA	31.9%	32.1%
UK leverage exposure measure[3]	86,554	85,934
Total MREL resources available as a percentage of UK leverage exposure measure[3]	9.3%	9.0%

(1) The capital position reflects the application of the transitional arrangements for 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.

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

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 two times the UK leverage ratio requirement. 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 2023, the Group's leverage based LAC requirement of 7.8% of leverage exposures (or 26.6% when expressed as a percentage of RWAs) was greater than the RWA based LAC requirement of 26.4% of RWAs, meaning the leverage measure is the binding requirement.

MREL resources were £8.0bn (2022: £7.7bn), equivalent to 9.3% of leverage exposures (2022: 9.0%) or 31.9% when expressed as a percentage of RWAs (2022: 32.1%). This provides prudent headroom of £1.3bn or 1.5% above the binding LAC requirement of 7.8% of leverage exposures, or 5.3% above the binding LAC requirement of 26.6% when expressed as a percentage of RWAs.

Dividend

Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements. At 30 September 2023, the Company had accumulated distributable reserves of £1,044m (2022: £1,056m).

The Board has recommended a final dividend for the financial year ended 30 September 2023 of 2.0p per share.

Share buyback

On 30 June 2022 the Company announced an inaugural 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. The Company repurchased shares and CDIs in approximately equal proportions; the buyback commenced on 30 June 2022 and ended on 9 December 2022.

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 ordinary shares and CDIs. The Company again repurchased shares and CDIs in approximately equal proportions; the buyback extension commenced on 21 November 2022 and ended on 7 March 2023.

On 2 August 2023 the Company announced a new share buyback to repurchase £50m in aggregate of ordinary shares and CDIs and subsequently repurchased shares and CDIs in approximately equal proportions; the buyback commenced on 2 August 2023 and ended on 22 November 2023.

On 23 November 2023 the Company announced a further share buyback with an intent to repurchase another £150m in aggregate of shares and CDIs, ending no later than 16 May 2024. Further details are disclosed on page 160 of the Directors' report.

Leverage

Leverage ratio	2023 £m	2022 £m
Total Tier 1 capital for the leverage ratio		
Total CET1 capital	3,711	3,633
AT1 capital	594	666
Total Tier 1 capital	4,305	4,299
Exposures for the leverage ratio		
Total assets	91,786	91,907
Adjustment for off-balance sheet items	2,999	3,204
Adjustment for derivative financial instruments[1]	706	522
Adjustment for securities financing transactions	2,261	2,974
Adjustment for qualifying central bank claims[2]	(9,052)	(9,792)
Regulatory deductions and other adjustments[1]	(2,146)	(2,881)
UK leverage ratio exposure[3]	86,554	85,934
UK leverage ratio[3]	5.0%	5.0%
Average UK leverage ratio exposure[4]	85,910	86,144
Average UK leverage ratio[4]	4.9%	4.9%

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

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

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

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

Risk classes

Financial risk continued

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.
- 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 5.0% (2022: 5.0%) exceeds the UK minimum ratio of 3.25%.

Funding and liquidity risk

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

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

Exposures

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

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

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

Measurement

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

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

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

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

Monitoring

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

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

Risk classes

Financial risk continued

Mitigation

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

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

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

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

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

Sources of funding (audited)

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

	2023 £m	2022 £m
Total assets	**91,786**	91,907
Less: other liabilities[1]	**(2,694)**	(3,122)
Funding requirement	**89,092**	88,785
Funded by:		
Customer deposits	**66,827**	65,434
Debt securities in issue	**9,719**	8,509
Due to other banks	**6,939**	8,502
of which:		
Secured loans	**6,291**	7,230
Securities sold under agreements to repurchase	**552**	1,205
Transaction balances with other banks	**19**	17
Deposits with other banks	**77**	50
Equity	**5,607**	6,340
Total funding	**89,092**	88,785

(1) Other liabilities include derivatives, deferred tax liabilities, provisions for liabilities and charges, and other liabilities as per the balance sheet line item.

The Group's funding objective is to prudently manage the sources and tenor of funds in order to provide a sound base from which to support sustainable lending. At 30 September 2023, the Group had a funding requirement of £89,092m (2022: £88,785m) 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 £66,827m (2022: £65,434m). Customer deposits comprise interest-bearing deposits, term deposits and non-interest-bearing demand deposits from a range of sources including Personal and Business customers.

Debt securities in issue

Growth in customer deposits has been supported by an increase in debt securities to £9,719m (2022: £8,509m). The wholesale funding has been primarily driven by issuance from our covered bond and medium-term note programmes.

Equity

Equity of £5,607m (2022: £6,340m) 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.

Risk classes

Financial risk continued

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk classes

Financial risk continued

Encumbered assets by asset category (audited)

2023	Assets encumbered with non-central bank counterparties				Positioned at the central bank (including encumbered) £m	Other assets				Total £m
						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	
Loans and advances to customers	**5,944**	**3,807**	**–**	**9,751**	**17,770**	**24,995**	**17,458**	**2,276**	**62,499**	**72,250**
Cash and balances with central banks	**–**	**–**	**–**	**–**	**2,797**	**8,485**	**–**	**–**	**11,282**	**11,282**
Due from other banks	**97**	**262**	**296**	**655**	**–**	**–**	**12**	**–**	**12**	**667**
Derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**135**	**135**	**135**
Financial instruments at FVOCI	**–**	**–**	**1,404**	**1,404**	**–**	**4,780**	**–**	**–**	**4,780**	**6,184**
Other assets	**–**	**–**	**14**	**14**	**–**	**–**	**186**	**1,068**	**1,254**	**1,268**
Total assets	**6,041**	**4,069**	**1,714**	**11,824**	**20,567**	**38,260**	**17,656**	**3,479**	**79,962**	**91,786**

2022	Assets encumbered with non-central bank counterparties				Positioned at the central bank (including encumbered) £m	Other assets				Total £m
						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	
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
Derivatives	–	–	–	–	–	–	–	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

The Group's total non-central bank asset encumbrance increased by £720m to £11,284m as at 30 September 2023. This was primarily due to an increase in encumbered mortgages, supporting Covered Bond funding.

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

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

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.

2023	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity[1] £m	Total £m
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	748	2,766	945	6,448	55,608	5,676	72,191
Cash and balances with central banks	10,193	–	–	–	–	1,089	11,282
Due from other banks	510	157	–	–	–	–	667
At FVOCI	–	506	712	2,196	2,770	–	6,184
At FVTPL							
Loans and advances to customers	–	1	–	16	42	–	59
Derivatives	3	92	10	25	5	–	135
Other	–	–	–	–	–	2	2
Other assets	–	4	149	1	1	1,111	1,266
Total assets	11,454	3,526	1,816	8,686	58,426	7,878	91,786
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	40,567	4,368	15,195	6,697	–	–	66,827
Debt securities in issue	–	441	1,441	7,837	–	–	9,719
Due to other banks	96	393	550	5,900	–	–	6,939
At FVTPL							
Derivatives	2	22	45	196	25	–	290
Other liabilities	1,675	66	119	49	114	381	2,404
Total liabilities	42,340	5,290	17,350	20,679	139	381	86,179
Off-balance sheet items							
Financial guarantees	–	12	18	9	40	–	79
Other credit commitments	17,921	–	–	–	–	–	17,921
Total off-balance sheet items	17,921	12	18	9	40	–	18,000

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

Risk classes

Financial risk continued

2022	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity[1] £m	Total £m
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	764	2,378	1,019	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
At FVOCI	–	620	602	1,917	1,925	–	5,064
At FVTPL							
Loans and advances to customers	–	2	1	21	46	–	70
Derivatives	2	46	71	190	33	–	342
Other	–	–	–	–	–	8	8
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 instruments							
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
At FVTPL							
Derivatives	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

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

2023	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity £m	Total £m
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	**40,567**	**4,384**	**15,647**	**6,874**	**–**	**–**	**67,472**
Debt securities in issue	**–**	**510**	**1,744**	**9,036**	**–**	**–**	**11,290**
Due to other banks	**96**	**399**	**837**	**6,304**	**–**	**–**	**7,636**
At FVTPL							
Trading derivatives	**–**	**16**	**29**	**37**	**8**	**–**	**90**
Hedging derivatives							
Contractual amounts payable	**–**	**65**	**556**	**1,668**	**–**	**–**	**2,289**
Contractual amounts receivable	**–**	**(21)**	**(463)**	**(1,500)**	**–**	**–**	**(1,984)**
Other liabilities	**1,675**	**66**	**119**	**49**	**114**	**381**	**2,404**
Total liabilities	**42,338**	**5,419**	**18,469**	**22,468**	**122**	**381**	**89,197**

2022	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity £m	Total £m
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	48,750	3,801	10,291	2,732	–	–	65,574
Debt securities in issue	–	521	1,294	7,863	315	–	9,993
Due to other banks	67	289	492	8,793	–	–	9,641
At FVTPL							
Trading derivatives	–	12	40	63	14	–	129
Hedging derivatives							
Contractual amounts payable	–	21	557	1,720	–	–	2,298
Contractual amounts receivable	–	(6)	(459)	(1,477)	–	–	(1,942)
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

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 2023 £m	Total 2022 £m
Covered bonds	**8**	**614**	**3,793**	**–**	**4,415**	3,467
Securitisation	**165**	**89**	**1,486**	**–**	**1,740**	1,880
Medium-term notes	**6**	**737**	**1,869**	**–**	**2,612**	2,249
Subordinated debt	**262**	**1**	**689**	**–**	**952**	913
Total debt securities in issue	**441**	**1,441**	**7,837**	**–**	**9,719**	8,509
Of which issued by Virgin Money UK PLC	**268**	**738**	**2,558**	**–**	**3,564**	3,162

External credit ratings

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

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

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

(2) Long-term deposit rating.

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

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

Market risk

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

Exposures

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

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

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

Measurement

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

Risk classes

Financial risk continued

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

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

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

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

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

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

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

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

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

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

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 rate pass on in line with internal scenario specific pass on assumptions. Any rate reduction in a rate fall scenario is subject to product floors with the assumption customer rates would not go negative.
> Additional commercial pricing responses and management actions are not included.
> While in practice hedging strategy would be reviewed in light of changing market conditions, the sensitivities assume no changes over the 12-month period.

Market risk linkage to the balance sheet (audited)
The following table shows the Group's principal market risks, linked to the balance sheet assets and liabilities.

	2023 £m	2022 £m	Interest rate duration	Optionality	Basis	Credit spread	Foreign exchange
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	**72,191**	71,751	•	•	•		•
Cash and balances with central banks	**11,282**	12,221	•		•		
Due from other banks	**667**	656	•		•		•
At FVOCI	**6,184**	5,064	•		•	•	•
At FVTPL							
Loans and advances to customers	**59**	70	•	•	•		•
Derivatives	**135**	342	•		•		•
Other	**2**	8	•				•
Other assets	**1,266**	1,795	•				•
Total assets	**91,786**	91,907					
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	**66,827**	65,434	•	•	•		•
Debt securities in issue	**9,719**	8,509	•		•		•
Due to other banks	**6,939**	8,502	•		•		•
At FVTPL							
Derivatives	**290**	327	•		•		•
Other liabilities	**2,404**	2,795	•				•
Total liabilities	**86,179**	85,567					

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.

2023	Overnight £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Non-interest bearing £m	Total £m
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	7,745	8,132	12,381	43,151	1,321	(539)	72,191
Cash and balances with central banks	9,903	35	105	140	–	1,099	11,282
Due from other banks	626	–	–	–	–	41	667
At FVOCI	1,635	475	568	881	2,440	185	6,184
At FVTPL							
Loans and advances to customers	–	2	5	23	29	–	59
Derivatives	–	–	–	–	–	135	135
Other assets	14	20	59	314	157	704	1,268
Total assets	**19,923**	**8,664**	**13,118**	**44,509**	**3,947**	**1,625**	**91,786**
Liabilities							
Financial instruments							
At amortised cost							
Customer deposits	7,935	16,096	18,254	23,085	1,229	228	66,827
Debt securities in issue	4,184	250	748	4,861	–	(324)	9,719
Due to other banks	6,783	10	33	–	–	113	6,939
At FVTPL							
Derivatives	–	–	–	–	–	290	290
Other liabilities	1,249	85	255	340	–	475	2,404
Equity	–	166	748	3,007	1,329	357	5,607
Total liabilities and equity	**20,151**	**16,607**	**20,038**	**31,293**	**2,558**	**1,139**	**91,786**
Notional value of derivatives managing interest rate sensitivity	5,417	1,655	8,595	(14,136)	(1,531)	–	–
Total interest rate gap	**5,189**	**(6,288)**	**1,675**	**(920)**	**(142)**	**486**	**–**
Cumulative interest rate gap	**5,189**	**(1,099)**	**575**	**(344)**	**(486)**	**–**	**–**

Risk classes

Financial risk continued

2022	Overnight £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Non-interest bearing £m	Total £m
Assets							
Financial instruments							
At amortised cost							
Loans and advances to customers	7,293	8,796	13,234	41,514	1,699	(785)	71,751
Cash and balances with central banks	10,765	12	37	196	–	1,211	12,221
Due from other banks	656	–	–	–	–	–	656
At FVOCI	1,265	525	320	1,159	1,733	62	5,064
At FVTPL							
Loans and advances to customers	–	30	4	16	20	–	70
Derivatives	–	–	–	–	–	342	342
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 instruments							
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
At FVTPL							
Derivatives	–	–	–	–	–	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

LIBOR replacement

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

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

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

Financial instruments linked to IBOR benchmark rates are summarised below:

Amounts referencing IBOR rates (audited)

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

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

(1) Gross carrying amount excluding allowances for ECLs.

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

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

Pension risk

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

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

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

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

Risk appetite

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

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

Risk classes

Financial risk continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk classes

Financial risk continued

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.

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

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

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

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

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

Model risk

Well managed and optimised model risk life cycle to generate positive outcomes for stakeholders.

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

The use of models invariably presents model risk, which is defined as the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.

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

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

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

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

The Group assesses model materiality using criteria of coverage, risk impact and complexity to define the level of risks associated with the model's use, purpose and strategic importance, adopting the relevant regulating rules and guidance (e.g. Supervisory Statement SS11/13 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 MGC and Board Risk Committee, with the level of model risk assessed through RAS reporting.

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

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

The Model Risk Management function conducts independent model validations prior to model implementation, when a new model is developed or changed, and on a periodic basis. The function assists with identifying model weaknesses or deficiencies and raises mitigating actions.

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

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

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

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

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

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

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

Conduct risk

Delivering good customer outcomes across all our customer channels.

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

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

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

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

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

- clearly defined conduct risk policy framework requirements, associated policies and Board-approved RAS;
- ongoing development, maintenance and reporting of conduct risk appetite measures to the Executive Risk Committee, the Board Risk Committee and the Board;
- operation of the new Consumer Duty framework, and oversight of remaining implementation requirements for 31 July 2024;
- consideration of conduct risk in product and proposition development;
- regular management review of conduct reporting, centred on core product areas and aligned to relevant businesses;

- oversight of conduct risks and issues through relevant governance bodies;
- analysis of customer experience data and complaint handling;
- continuing development of a customer-centric culture aligned to the Group's Purpose;
- ongoing review and tracking of known conduct issues and remediation actions being taken; and
- a risk-based monitoring framework, designed to monitor compliance with regulation and assess customer outcomes.

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

Operational risk

Proactive operational risk management with enhanced risk frameworks.

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

It is a core component of the RMF and is embedded in day-to-day business activities focused on enabling operational efficiencies. Requirements and responsibilities are set out in the operational risk policy statement and supporting operational risk framework policy standard that seeks to identify, assess, mitigate, monitor, and report the operational risks, events and issues that could impact the achievement of business objectives or impact core business processes.

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

Operational resilience is an outcome that benefits from the effective management of operational risk. The Group manages operational resilience through the identification and mapping of important business services and setting of impact tolerances.

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

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

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

Change risk
The risks associated with a failure to execute and deliver change that could result in an inability to meet our strategic objectives, including failing to meet our customer, regulator, colleague, or shareholder expectations, at a Group and local management level.

How this risk is managed – The Group uses a single integrated change governance framework which covers all levels of change management to ensure appropriate oversight and decision making across the change portfolio. As part of this, a centralised view of significant and material change is maintained. This approach ensures that the risks of individual changes are managed effectively and that change is prioritised to minimise the overall risks to the organisation in line with risk appetite.

Third-party risk
The risks associated with ensuring the Group's outsourced and offshoring arrangements are controlled more effectively, including the risk of failure to service existing and new customers; the potential cessation of specific activities; the risk of personally identifiable information or Group sensitive data being exposed or exploited; and the risk of financial, reputational and regulatory censure if the third party enters into any illegal or unethical activities.

How this risk is managed – The Group continues to enhance its third-party RMF and oversight approach, with ongoing performance management and assurance undertaken, to ensure that supplier relationships are controlled effectively.

Cyber and information security risk
The risks arising from inadequate internal and external information and cyber security, where failures impact the confidentiality, integrity and availability of electronic data.

How this risk is managed – We maintain and regularly update cyber and information security policies, and controls are in place and operating, with assurance carried out as a matter of course. This includes threat intelligence, education and awareness, and assurance of controls within the Group and our third parties. Our Security Operations Centre provides 24/7 monitoring and alerting in order that any security threats are quickly detected and addressed.

Physical and personal security risk

The risk to the safety and protection of colleagues, customers and physical assets arising from unauthorised access to buildings, theft, robbery, intimidation, blackmail, sabotage, terrorism and other physical security risks.

How this risk is managed – Physical and personal security standards are managed by the Group's Property & Procurement team. Controls are in place to protect physical assets, as well as the security of colleagues and customers.

IT resilience risk

The Group's ability to adapt to disruptions while maintaining continuous operations on critical processes and safeguarding technology in the face of adverse events, chronic disruptions or incremental changes. The Group recognises the significant regulatory focus on resilience with increased reliance on digital banking, remote working, and use of third-party and cloud solutions.

How this risk is managed – The Group is well placed to respond to new regulations and standards and develops technology with resilience inbuilt as a principle. A programme of continuous monitoring and maintenance of the currency of the technology estates, alongside disaster recovery testing, helps to minimise the likelihood of system failure. The Group maintains and tests critical end-to-end business recovery and contingency plans in the event that there is a system outage.

Payment creation, execution and settlement risk

The risk that transactions are not conducted in line with the instructions and parameters of a customer's payment, trading, clearing, settlement scheme or business requirements. This could lead to delays, inaccuracies, duplicates, failures or rejections as well as system-based restrictions and errors. The payments industry is planning for significant changes to infrastructure and processing protocols over the next 12-24 months, due to the implementation of ISO20022, Real-Time Gross Settlement Renewal and New Payments Architecture.

How this risk is managed – The payment risk framework outlines key scheme rules, regulations and compliance requirements alongside the risk-based approach to assurance oversight, control testing and change management, to ensure payment risk is managed within appetite and impact to customers is minimised. All three lines of defence are actively involved in changes being made.

Data management

Data underpins decision making at all levels of the organisation. Poor-quality data can lead to loss, customer disruption, potential misrepresentation in regulatory reporting, non-compliance with Data GDPR and unnecessary rework.

How this risk is managed – The Group has a data management framework governing the creation, storage, distribution, usage and retirement of data, aligned with data management industry standards and GDPR requirements.

People risk

People risk is defined as the risk of not having sufficiently skilled and motivated colleagues who are clear on their responsibilities and accountabilities and who behave in an ethical way. This could lead to inappropriate decision making that is detrimental to customers, colleagues or shareholders and could ultimately lead to regulatory sanction.

How this risk is managed – The Group has a range of RAS metrics in place which help to measure and report people risk. Operational controls are designed to mitigate the risks associated throughout each element of the colleague life cycle. Group-wide systems provide tools and online guidance to all colleagues to support them in discharging their accountabilities.

Measurement

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

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

Operational risk losses

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

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

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

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

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

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

The Group manages a multiyear programme of investment to upgrade propositions and to deliver key change initiatives, across areas such as cyber security and data management. Delivering change sustainably and managing execution risk is a priority for the Group.

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

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

Economic crime risk

Investing in our financial crime and fraud prevention capabilities.

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

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

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

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

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

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

Internal fraud
The Group has no appetite for internal fraud.

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

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

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

Mitigation
As a Tier 1 bank, we are proactively investing in financial crime and fraud prevention, in response to increasing public expectations and to protect our customers and the bank. We are focused on ensuring we play our part in safeguarding the financial sector and aim to continuously improve, whilst considering the rapidly evolving environment and expectations in the UK and are mindful of the challenges several of our peers have experienced.

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

- a clearly defined economic crime risk policy statement (with supporting technical standards) and RAS signed off by the Board;
- ongoing development, maintenance and reporting of risk appetite measures for economic crime risk to the Executive Risk Committee and the Board;
- key performance metrics relative to critical financial crime systems are kept under review and presented through governance to assess ongoing effectiveness;

Risk classes

- consideration of economic crime risk in the context of product and proposition development and associated appropriate governance;
- investment to maintain compliance and progress with key implementations;
- ongoing assessment of evolving regulatory policy requirements and ensuring the Group responds accordingly; and
- regular oversight and review of systems, controls, higher risk activities and customers takes place as part of a formal oversight plan.

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

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.

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

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

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

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

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

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

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

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

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

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

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

Climate risk

Developing climate resilience and supporting a safe transition to a lower carbon economy.

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

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

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

Transition risks arise from the adjustment towards a low-carbon economy and could lead to changes in appetite, strategy, policy, technology, and sentiment. These changes could prompt a reassessment of the value of a large range of assets and create increased financial exposures for the Group as the costs and opportunities arising from climate change become apparent. Reputation risks may also arise from a failure to meet changing and more demanding societal, investor or regulatory expectations.

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

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

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

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

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

Further detail on how the Group identifies, manages and mitigates climate risk is included in our Climate-related disclosures overleaf.

Climate-related disclosures

Abidur
Virgin Money Host

Abidur is part of our customer facing team, speaking with our customers every day and helping them feel happier about money.

Climate-related disclosures

At Virgin Money, we're proud to support our customers on their journey to net zero while transitioning our own operations.

Introduction

Our Purpose of Making you happier about money means making money simpler, easier and more sustainable for all. A core focus of the Group is tackling climate change in areas where we can make the most difference, reducing our own direct impacts and using our role as a trusted adviser and enabler to support all customers transition to a low-carbon economy.

In response to the UK Government's net-zero policy amendments, announced in September, the UK's Climate Change Committee (CCC) reaffirmed that achieving the UK's COP26 2030 commitment, to reduce emissions by 68%, requires emission reductions outside the power sector to quadruple. The CCC remain concerned about the likelihood of achieving the UK's future targets, showing that urgent action is required to accelerate technology development and scaling, changes in consumer behaviour and a commitment to sustained delivery of long-term policies from government. We recognise the important role banks play in facilitating this transition to net zero.

Assurance

The Group engaged Ernst & Young LLP (EY) to undertake an independent limited assurance engagement over selected metrics in the current year, highlighted with a *, using the assurance standards ISAE (UK) 3000. EY has issued an unqualified opinion over the selected information. EY's full assurance report is available at: virginmoneyukplc.com/corporate-sustainability/environment

Our climate aspirations for 2030

- Net zero: Direct operational emissions
- Reduce financed emissions by at least 50%

Our climate commitment for 2050

- Net zero: All direct and indirect emissions

Our progress against targets

10%
of all Business lending to sustainability changemakers by 2027
2023: 6.7% (2022: 5.3%)

£500m
Energy and Environment lending balance by 2025[1]
2023: £317m* (2022: £224m)

75%
of suppliers (by spend) to have committed to, or have approved, science-based targets by 2028
2022: 38%[2]

>50%
of the Mortgage portfolio to have EPC ratings of C+ by 2030[3]
2023: 39% (2022: 38%)

50%
reduction in location-based Scope 1 emissions by 2025[1]
2023: 28% (2022: 9%)

10%
reduction in market-based Scope 1 emissions by 2023
2023: 37%

(1) Measured from 30 September 2020.
(2) First year of reporting. Reporting period is 2022, based on CDP 2022 data, as this is the most recent year of measurement.
(3) Assumes unmatched proportion of Mortgage portfolio has consistent distribution with matched population.

For more information on progress against our wider ESG goals, refer to the ESG report on pages 31-50.

Climate-related disclosures

Strategy

Our transition plan to deliver on the Group's net-zero strategy.

Completing our net-zero plans
Guided by our Purpose of Making you happier about money, this year we delivered an extended set of net-zero plans and targets for our own operations, as well as continuing work decarbonising our lending portfolios.

Building on our 2022 TCFD report, the Group has set initial transition plans, taking into account the draft TPT framework and guidance from the UK CCC. We have further outlined the Group's transition plan across key sectors, providing a view of our journey to transition customers, suppliers and own operations to net zero. We recognise we are still in the earlier stages of that journey, navigating a rapidly evolving landscape that requires substantial advancements in data and technology capabilities, so will continue to refresh our transition plans during each financial planning cycle, to maintain alignment with our wider strategy and business model.

Given the nature of our balance sheet, and as a UK-based bank, we have an opportunity to make a real difference supporting our customers and colleagues across the country in making the transition to a low-carbon economy.

Meeting our targets
During 2023, we expanded our transition plans to cover c.85% of our total customer lending, across the most material lending sectors, as outlined by the NZBA.

The Group expanded the Business lending sectors covered in our financed emissions models and targets, as well as enhancing the modelling and methodology. Total financed emissions estimates show an 11% decrease from 2022, on a like-for-like basis. We will continue to improve our climate-related data, underpinned by our data project, responsible for enhancing and automating our capabilities.

Engaging and supporting customers through the transition remains fundamental. We developed policies to mitigate the greatest harm in our most material sub-sectors, which will be rolled out in a phased approach through 2024. This includes analysis of customers' own transition plans and ensures we provide transition funding to customers who are likely to make the biggest changes in emissions.

Given the challenge of suppliers setting pathways to net zero across varying timelines, we updated our 2030 aspiration to focus on Scope 1 and 2 emissions, where we have direct control. We continue to engage our supply chain to set science-based targets, aligned to net zero by 2050, in line with the goals of the Paris Agreement and many of our suppliers' own transition plans.

The Group is also considering the impact our Business has on nature, in line with TNFD. We recognise it is a complex topic, with cross-dependencies on our climate ambitions, so will work to develop our understanding in 2024.

Compliance
Per our TCFD summary on pages 52 to 53, our disclosures are consistent with the updated 2021 TCFD recommendations and recommended disclosures, complying with the applicable FCA Listing Rules, in addition to amendments 414C, 414CA and 414CB of the Companies Act 2006.

The final TPT disclosure framework was not available in time for this report, so the Group has used draft guidelines and the best available guidance to present a transparent plan. We expect to refine plans in line with TPT's final framework through 2024, providing updates to track progress through the Environment Committee, in addition to development updates provided to the Board Risk Committee.

The regulation and guidance on environmental reporting is a fast moving area, with the Group working hard to progress its journey in line with developments, such as the UK SDS, due in July 2024. UK SDS is based on the ISSB, which incorporate the recommendations of the TCFD framework and key elements from other market-leading sustainability reporting initiatives, to deliver a global baseline. The Group will review and consider the additional disclosures required under ISSB in preparation for their endorsement in the UK.

Risk types and time horizons
Our transition plan splits climate-related risks and opportunities into the following categories:

Risk types	Description
P Physical risk	Arising 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.
T Transition risk	Arising from the adjustment towards a low-carbon economy and could lead to changes in risk appetite, strategy, policy, technology and sentiment.

The following time horizons have also been used when considering climate-related risks and opportunities:

Time horizons	Description
S Short term	0-1 year
M Medium term	1-5 years
L Long term	>5 years

Many of the risks and opportunities cut across all three time horizons, representing both the immediate applicable actions, but also the longer-term emerging nature of climate matters and the related responses.

Implementation Strategy

Our climate framework

Our Group-wide 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

1

Put our (carbon) foot down

Reduce the impact our operations have on the environment

The Group 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 renewable energy and engaging our suppliers through the CDP Supplier Engagement Programme.

2

Build a brighter future

Support customers in their transition to a low-carbon economy

Given our position as the UK's sixth 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.

3

Open doors

Embed climate considerations into the Bank's culture and decision making

The threat posed by climate change requires a fundamental change in business models. 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 across all employees to ensure climate is embedded into corporate planning, and adjusted accordingly as external factors develop and internal processes mature.

4

Straight-up ESG

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.

Integrating climate data capability across the whole business

Enablers

- **Robust 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 we cannot do it alone: Addressing 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; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

1 NO POVERTY; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Mortgages

Supporting the decarbonisation of housing stock.

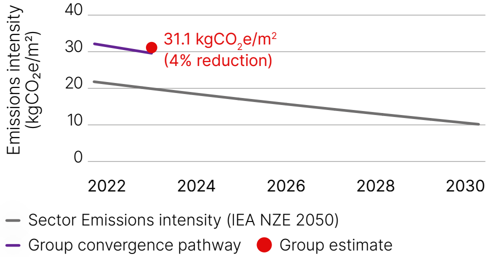
Summary metrics
£57.8bn gross Mortgage lending
> 74% Residential/26% BTL

Emissions intensity
2023: 31.1* $kgCO_2e/m^2$ (-4%)
2022: 32.3 $kgCO_2e/m^2$

Other targets
50% of portfolio EPC C+ by 2030
> 2023: 39% 2022: 38%

50% increase in greener lending each year by 2026
> 2023: 57%/£82m increase
2022: 908%/£118m increase

Science-based target



Overview
Buildings are the UK's second-highest emitting sector, accounting for 17% of total emissions[1]. Mortgages represent c.79% of the Group's total customer lending exposure and are therefore a material area of climate-related risk and opportunity for the Group.

In the UK, 80% of the houses that will be occupied by 2050 have already been built, and the country has the oldest housing stock in Europe[2]. A reliance on gas-based heating systems, combined with ageing, inefficient properties poses a significant challenge in achieving our net-zero target.

Improving the energy efficiency of homes, while installing lower carbon energy technology is fundamental to future-proofing homes. Retrofitting provides not only energy efficiency gains for customers, but also lowers running costs. Supporting customers to understand the available help, while providing knowledge and solutions to make their homes more efficient, is core to our strategy in decarbonising our customer portfolio.

While the Group continues to work with customers on decarbonising their properties, achieving our science-based emissions target relies on greater certainty and urgency of government policy and accelerated individual action. We made slower progress than planned this year due to the tougher mortgage environment and cost of living challenges.

Engagement strategy
Customer education is key to decarbonising the housing stock. We are developing a Green Hub with interactive tools and content to educate customers on creating a more energy efficient home, and will engage with individual customers to provide tailored net-zero pathways through the development of our retrofit makeover product, to drive action.

Recent research with our Mortgage customers highlighted how important education is in our net-zero strategy and contributed to our proposition development. Despite >50% of homeowners and landlords either planning to, or being interested in, including Greener measures in their homes in the next 2-5 years, when asked about retrofitting homes, we found:

> 75% of customers want to make energy efficient improvements, demonstrating demand.

> Limited knowledge of Green Mortgage products: only 2-3% had considered one.

> Only one in five were aware of the financial help available to improve energy efficiency.

Key initiatives to support transition

T S **Greener Mortgage lending:** Offering discounted lending rates for purchasing a new-build property with an EPC rating of A or B. In 2023, we achieved a 57% increase in greener lending, against a 50% target.

	30 Sept 2023	30 Sept 2022
No. of applications	**212**	723
No. of completed applications	**295**[3]	488
Total value of applications (£m)	**54.7**[3]	202.7
Total value of completed applications (£m)	**81.9**	131.0

Our plan to extend the proposition to BTL customers and existing homeowners have been paused given the tougher operating environment. This will be revisited as we continue exploring Greener Mortgage products and how to support customers to decarbonise their homes.

T S **Green Reward:** Launched in 2022 and extended through to December 2023, existing mortgage customers who spend at least £2,500 of additional borrowing on green home improvements receive £250 cashback.

T L **Green retrofit mortgage:** Our brand-new product, launching in 2024, developed with partners who will deliver an individualised net-zero pathway for homes and estimate the benefits of retrofitting the home, including future home market value. Virgin Money will then provide affordable finance options for making energy efficient improvements.

T S M L **Home Buying Coach:** The free-to-use app is primarily focused on supporting first-time buyers through the process of purchasing a home, which includes guidance on the various energy efficiency factors that homeowners should consider.

T L **Customer education:** Educational information to inform and build customer confidence in what transitioning to a net-zero home means for them. We are exploring an external net-zero hub, with interactive tools for homeowners and landlords, as part of our mortgage product to retrofit properties with greener solutions, through our GHFA project participation.

(1) Source: The Climate Change Committee – The Sixth Carbon Budget (Buildings).
(2) Source: UK Green Building Council – UKGBC responds to CCC housing report.
(3) Completions higher than applications due to 2022 pipeline.

Mortgages

Risks and dependencies

There is a fundamental dependency on the collective action by a number of stakeholders to facilitate the transition to net zero in homes. The key risks and dependencies we track include:

T L **Customer education:** While customer awareness continues to increase, individual action in the absence of clear regulation requires a greater public awareness of the retrofit measures available and the benefits of investing in them.

T S M **Policy delivery:** The greatest contributor to decarbonising the Mortgage book will be the influence of the UK Government in greening the electricity grid and stimulating fabric first and low-carbon heating installations. The UK CCC have noted that recent changes to the delivery timescales of government policy have created widespread uncertainty for consumers and supply chains, creating further challenges in decarbonising the housing stock.

T S M L **Skilled labour for installations:** A skilled UK workforce to assess UK properties and deliver the appropriate improvements is fundamental to delivering the changes required.

T S M L **Scalability of technology:** Availability of heat pump technology to reduce reliance on gas as a fuel source remains key, alongside other emerging low-carbon technologies. Incentives and subsidies are required to lower cost barriers for consumers and generate an uptake at the scale needed to reduce emissions over time and ultimately achieve our science-based target.

Measuring our climate-related risks

The Group receives property data from a third-party provider, to enhance our risk identification and monitoring processes. This includes data on fluvial, pluvial and tidal flooding, coastal erosion, subsidence, expected future insurability and EPC rating. The Risk Management section provides further information on how risks are identified, managed and monitored.

P S M L **EPC Property Ratings**

An EPC gives properties an energy efficiency rating, from A (most efficient) to G (least efficient). As we transition to a net-zero economy, more importance is placed on properties being better equipped to reduce their energy consumption.

The tables opposite shows EPC ratings by volume. Our data provider sources EPC data via the UK Government and matches it to the Group's mortgage data. 73.4% of mortgaged properties were matched to an EPC rating (70.2% Residential; 81.8% BTL), an increase of 5.8% from 2022. Of those properties where no EPC rating was matched, this would be due to properties either not being on the register, or located in Northern Ireland, which our data provider does not currently access.

The UK Government had plans for all new tenancies to have a minimum rating of C or above by 2025, and all existing tenancies by 2028. However, this was reversed in the September 2023 announcement, instead encouraging homeowners to do so where they can.

The EPC profile remains stable, with the largest proportion of properties rated C to E.

	31 March 2023			31 March 2022		
Current EPC ratings	Residential mortgages	BTL	Total mortgages*	Residential mortgages	BTL	Total mortgages
A	**0.2%**	**0.1%**	**0.1%**	0.1%	0.1%	0.1%
B	**8.6%**	**7.2%**	**8.2%**	7.9%	6.8%	7.6%
C	**17.3%**	**29.2%**	**20.6%**	15.0%	26.5%	18.1%
D	**29.6%**	**34.2%**	**30.9%**	27.0%	33.1%	28.7%
E	**11.4%**	**10.1%**	**11.1%**	10.8%	10.6%	10.7%
F	**2.6%**	**0.8%**	**2.1%**	2.4%	0.9%	2.0%
G	**0.5%**	**0.2%**	**0.4%**	0.5%	0.2%	0.4%
Total	**70.2%**	**81.8%**	**73.4%**	63.7%	78.2%	67.6%
Unmatched	**29.8%**	**18.2%**	**26.6%**	36.3%	21.8%	32.4%

	31 March 2023			31 March 2022		
Potential EPC ratings[1]	Residential mortgages	BTL	Total mortgages	Residential mortgages	BTL	Total mortgages
A	**5.8%**	**2.7%**	**4.9%**	5.2%	2.5%	4.5%
B	**34.4%**	**44.8%**	**37.2%**	30.4%	41.1%	33.3%
C	**23.3%**	**29.4%**	**25.0%**	21.4%	28.9%	23.4%
D	**5.2%**	**4.2%**	**5.0%**	5.2%	4.9%	5.1%
E	**1.2%**	**0.6%**	**1.0%**	1.2%	0.7%	1.1%
F	**0.2%**	**0.1%**	**0.2%**	0.2%	0.1%	0.2%
G	**0.1%**	**0.0%**	**0.1%**	0.1%	0.0%	0.1%
Total	**70.2%**	**81.8%**	**73.4%**	63.7%	78.2%	67.7%
Unmatched	**29.8%**	**18.2%**	**26.6%**	36.3%	21.8%	32.3%

(1) The potential rating a property can achieve if all improvement measures listed in the EPC recommendations report are undertaken.

Mortgages

P S M L Flood risk

The map opposite illustrates the potential flood risk for our Mortgage customers as at 31 March 2023, representing the proportion of lending by value at high or very high risk of flood in each region, modelled using a high emission scenario (Representative Concentration Pathway 8.5) over a 2050 time horizon. The ratings are a combination of the likelihood and severity of flood hazard for each property. 'High' scores have a high chance of shallow or moderate flooding and moderate chance of deep flooding, and 'very high' scores have a high probability of deep flooding. A property at 'high' risk is likely to be expensive to insure and for those at 'very high' risk, insurance may be unavailable unless the property qualifies for a scheme such as the current Flood Re scheme.

With 94% of properties matched to a flood risk rating, on a total value basis, properties at high risk of flooding represent 3% of the portfolio, with very high risk representing 1%, in line with 2022. This provides the Group with low current and future exposure to flood risk. Changes in climate risk and the impact on flood risk zones will continue to be monitored and the Group's exposure reassessed as required.

P S M L Coastal erosion

The risk to the Mortgage portfolio from coastal erosion is minimal, as illustrated in the table below.

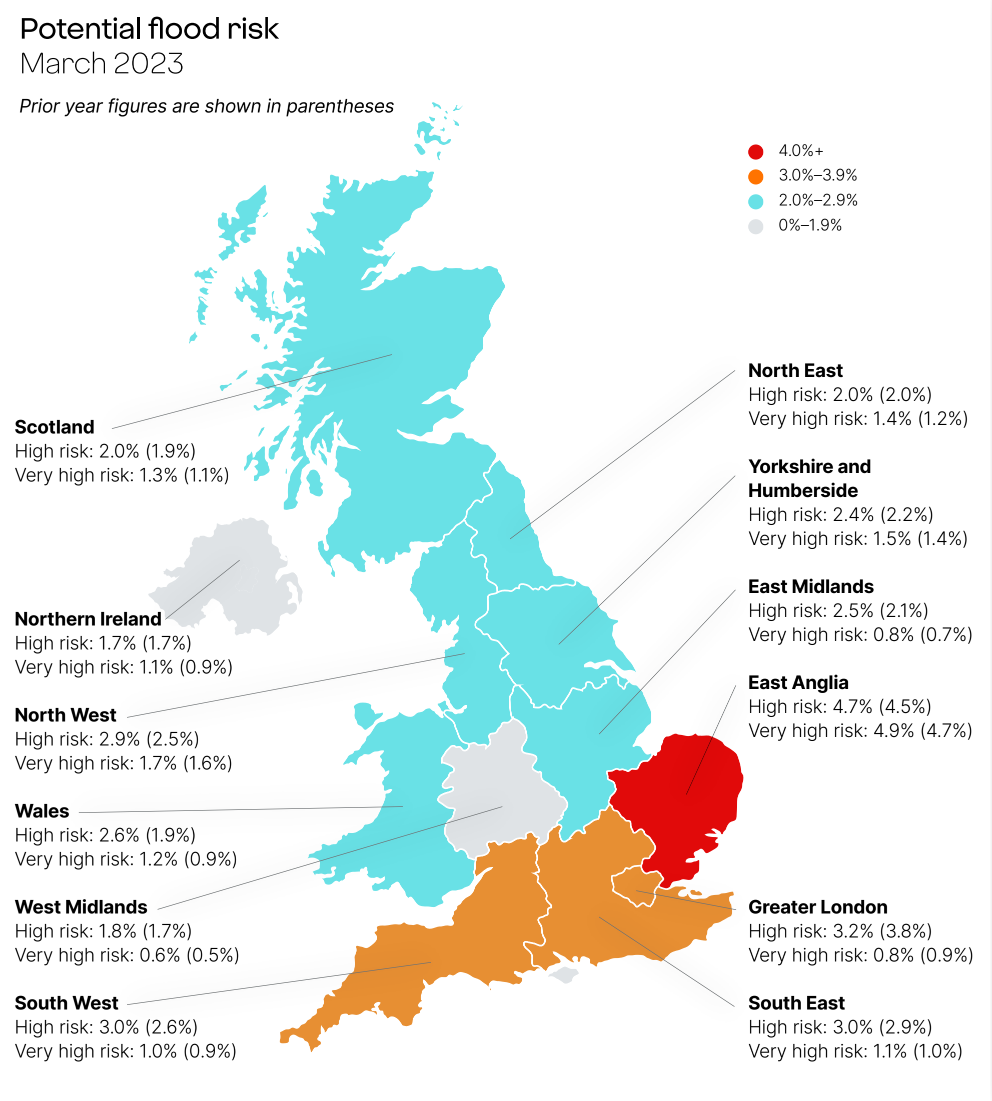
	31 March 2023			31 March 2022		
Risk rating	Residential mortgages	BTL	Total mortgages	Residential mortgages	BTL	Total mortgages
Negligible	**94.70%**	**88.72%**	**93.14%**	94.81%	88.09%	93.05%
Low	**–**	**–**	**–**	–	–	–
Medium	**0.02%**	**0.01%**	**0.02%**	0.02%	0.01%	0.01%
Very high	**0.02%**	**0.01%**	**0.02%**	–	–	–
Unmatched	**5.26%**	**11.26%**	**6.82%**	5.17%	11.90%	6.94%

Using a high emission scenario (Representative Concentration Pathway 8.5), modelled over a 2050 time horizon, c.93% of all mortgages continue to carry a negligible risk rating. The Group will monitor the impact of climate change on coastal erosion relative to its portfolio.

Other physical risks

Controls are in place around other environmental-related property issues, such as protected wildlife, Japanese knotweed, fracking, sewage and drainage, high voltage electrical supply apparatus, shale/contaminated fill, radon gas and contaminated land. In these instances, additional environmental reports may be required.

Further information on how we manage climate-related mortgage risks is available in the Risk Management section on pages 261 to 265.



Business lending

Supporting SMEs transition to net zero.

Summary metrics
£8.7bn gross Business lending
c.12% of total customer lending

Financing targets
£500m Energy & Environment lending by 2025
> 2023: £317m*
2022: £224m

10% of lending to sustainability changemakers by 2027
> 2023: 6.7%
2022: 5.3%

Proportion of Business lending to the highest emitting sectors to be less than 30% by 2030[(1)]
> 2023: 34%
2022: 37%

8 DECENT WORK AND ECONOMIC GROWTH
13 CLIMATE ACTION

For more information on the Group's financed emissions, by sector, please refer to the Metrics & Targets section on pages 267 to 271.

Overview

Virgin Money provides lending to >200k businesses, predominantly comprised of SME businesses, where customers with debt sizes >£1.5m are managed by our specialist population of relationship managers, and businesses with <£1.5m are supported through a remote digital model. The sectors we lend to are primarily lower risk, with limited lending to oil and gas field services. While we do have a significant Agriculture lending business, we have robust plans to support customers making the transition.

We know businesses have made varying degrees of progress in understanding their carbon footprint and putting in place reduction measures, which are often dependent on wider supply chain pressures and regulatory action. We are focusing our efforts on the areas where we can make the most difference through our specialist teams, in sectors and areas of the economy where we have the greatest share of customers. We are also supporting our Business customers with digital educational tools, which support action plans to manage their impacts.

Pages 249 to 251 contain the transition plans for our most material sectors, as well as lending balances as at 31 March 2023, in line with our financed emissions calculations.

Engagement strategy

Our primary model for engaging with larger customers is through our relationship managers, who provide advice and support to businesses borrowing >£1.5m. We recognise each sector requires a different engagement approach based on transition maturity, pace of technological change and policy development.

As a large proportion of our Business customers are privately owned and/or SMEs, few report against voluntary disclosure initiatives, such as CDP, TCFD or Sustainability Accounting Standards Board (SASB). As these businesses are key to the UK economy, the Group's focus will be on how it can support them with adaptation and mitigation.

In 2023, we began chairing the PCAF working group on Business Loans and Unlisted Equity, working with other banks to support SMEs with their transition plans. The Group's key aim is to explore the challenges in calculating SME emissions and present a recommendation to support the ongoing development of the PCAF standard.

Key initiatives to support transition

T M **Lending to sustainability changemakers[(2)]:** Using the Sustainable Business Coach to identify business activities that drive social or environmental change, such as supporting the transition to a net-zero economy or driving positive social change, in recognition of the importance of a 'just' transition.

We have set a target for 10% of the Group's Business lending to originate from sustainability changemakers by 2027. These are facilities to companies whose core goods or services (defined as >50% of business revenue) enable others to operate in a more economically and environmentally sustainable way.

T M **Energy and Environment Lending:** Delivering lending to businesses or projects that support the energy transition. Eligible projects include alternative power sources such as hydro, wind and other renewables. Full eligibility criteria for this lending can be found in our basis of preparation document, available at: virginmoneyukplc.com/corporate-sustainability/environment

T S M L **Sustainable Business Coach (SBC):** An interactive tool developed through our relationship with Future-Fit, a non-profit organisation whose mission is to help the transition to a society that is environmentally, socially and economically fair. The free-to-use app is available to any business and provides an 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 the Group's Business lending to originate from sustainability changemakers by 2027, with inclusion objectively assessed by the SBC.

Our SBC was launched in October 2021. It has since been embedded into our annual review process for customers with the potential to have the highest exposure to climate change risk, who are borrowing over £2.5m. Those businesses are also required to complete a climate survey, alongside the SBC response. SBC completion and scoring outcome is not a condition of lend.

To find out more, visit: benchmark.futurefitbusiness.org

(1) New target – Further information available on page 254.

(2) Customers included within the energy and environment sector satisfy the criteria and therefore are included within lending to sustainability changemakers.

Business lending

P T S M L **Climate survey:** The climate survey was introduced in 2022 for Business customers borrowing >£2.5m. The responses have been analysed to aid our understanding of how customers are approaching 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 preparations our customers are making to tackle these risks and will inform how the Group can support customers to transition as the landscape evolves.

During 2023, we maintained our Sustainable Business Coach and Climate Risk Survey. Questions from the survey focused on:

- climate strategies;
- assessments of climate-related risks;
- GHG emissions; and
- reduction targets.

This is key to the Group's understanding of its customer base, to identify areas where we can support businesses in their net-zero journey, and also to identify the trends across industries and sectors.

This year, the Group has seen a number of key changes since the 2022 responses:

- The number of businesses across our top five lending sectors that have a climate strategy integrated into their business strategy has increased by an average of 9%.
- Within the Agriculture sector, businesses now calculating Scope 1 and 2 emissions have increased by 25%.
- The volume of businesses across our top five lending sectors, by value, that have taken action to reduce GHG emissions in the last two years has increased by an average of 7% (14% for Agriculture).
- A more limited number of businesses have started calculating Scope 3 emissions (18%) or set emission reduction targets aligned with a recognised climate standard or initiative (32%).

Overall, the responses indicate that businesses are taking increased action to reduce greenhouse gas emissions and respond to climate change, however, some areas remain more challenging, especially for SMEs. Our climate survey is aimed at customers borrowing >£2.5m therefore is not necessarily reflective of SMEs in general.

As we develop our sector-level transition plans, the Group will use the insights gained from the climate surveys to develop propositions as well as identifying and managing potential risks.

As the Group continues its engagement with Business customers on climate-related matters, we will explore ways of capturing and using more granular data on their climate metrics and transition plans. We do not currently target our response rates, but as the Group and industries move along their net-zero journeys, the Group will review its position.

Climate survey responses

The table below summarises the positive responses on each question across our five largest lending sectors:

	30 Sept 2023						30 Sept 2022
	Agriculture	Business services	Healthcare	Hospitality	Manufacturing	Total	Total
Businesses with a climate strategy integrated into business strategy	**73%**	**64%**	**41%**	**43%**	**63%**	**64%**	50%
Physical risks from climate change assessed as a key risk	**73%**	**32%**	**34%**	**22%**	**39%**	**45%**	40%
Transition risks from climate change assessed as a key risk	**67%**	**33%**	**37%**	**36%**	**42%**	**47%**	44%
GHG emissions arising from operations calculated (i.e. Scope 1 and 2 emissions)	**57%**	**41%**	**15%**	**17%**	**40%**	**38%**	29%
GHG emissions arising from value chains calculated (i.e. Scope 3 emissions)	**12%**	**25%**	**5%**	**9%**	**27%**	**18%**	14%
Proportion of businesses with a plan in place to reduce GHG emissions over the next five years	**80%**	**65%**	**39%**	**60%**	**73%**	**67%**	57%
Emission reduction target(s) set to align with a recognised climate standard or initiative	**28%**	**30%**	**22%**	**28%**	**28%**	**32%**	29%
Businesses that have taken action to reduce GHG emissions in the last two years	**53%**	**60%**	**38%**	**45%**	**57%**	**56%**	46%

Business lending

Carbon-related assets

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 the non-financial groups: Agriculture, Food and Forest Products, Energy, Materials and Buildings, and Transportation. These 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 within our wider Business lending sectors is shown opposite.

Resources represents only 2% of total Business lending (£165m), with £123m of this balance made up of oil and gas field services. £167m of balances within the 'Other' Business lending sector relate to construction and utilities balances.

Risks and dependencies

The Group takes a consistent approach to manage climate risk across the Business portfolio, which includes the Group's:

- Sensitive Sector policy;
- Credit risk assessments;
- Policy Management Framework; and
- Climate risk modelling.

Further information on these processes, alongside our wider approach to credit risk in Business lending, is detailed in the Risk management section, on page 264.

There are also sector-specific risks that can arise. Further information on these is detailed across the next three pages.

		of which: carbon-related assets[1]					
30 Sept 2023[2][3]	Total gross £m	Agriculture, Food and Forest Products £m	Energy £m	Materials & Buildings £m	Transportation £m	Total £m	% of total Business lending
Agriculture	**1,361**	**1,361**	**–**	**–**	**–**	**1,361**	**15.7%**
Business services	**1,365**	**–**	**–**	**–**	**373**	**373**	**4.3%**
Commercial Real Estate	**719**	**–**	**–**	**533**	**–**	**533**	**6.1%**
Government, health and education	**1,238**	**–**	**–**	**–**	**–**	**–**	**0.0%**
Hospitality	**839**	**–**	**–**	**–**	**–**	**–**	**0.0%**
Manufacturing	**746**	**220**	**–**	**88**	**14**	**322**	**3.7%**
Resources	**165**	**–**	**137**	**28**	**–**	**165**	**1.9%**
Retail and wholesale trade	**903**	**–**	**–**	**–**	**120**	**120**	**1.4%**
Transport and storage	**322**	**–**	**–**	**–**	**313**	**313**	**3.6%**
Other	**1,026**	**–**	**7**	**160**	**–**	**167**	**1.9%**
Total	**8,684**	**1,581**	**144**	**809**	**820**	**3,354**	**38.6%**
30 Sept 2022[4]							
Agriculture	1,458	1,458	–	–	–	1,458	17.8%
Business services	1,266	–	–	–	246	246	3.0%
Commercial Real Estate	607	–	–	472	–	472	5.8%
Government, health and education	1,062	–	–	–	–	–	0.0%
Hospitality	730	–	–	–	–	–	0.0%
Manufacturing	749	189	–	83	16	288	3.5%
Resources	141	–	105	36	–	141	1.7%
Retail and wholesale trade	894	–	–	–	111	111	1.4%
Transport and storage	347	–	–	–	332	332	4.1%
Other	915	–	9	184	–	193	2.4%
Total	8,169	1,647	114	775	705	3,241	39.7%

(1) In line with TCFD guidance, water utilities and renewable electricity producer industries are excluded from carbon-related assets.

(2) The table has been aligned to TCFD guidance, based on the four non-financial groups noted above.

(3) The format of the 2023 carbon-related assets table has been updated for consistency with other Business lending disclosures within the Annual Report and Accounts.

(4) Prior year figures have been restated to present Business lending on the same basis as credit risk data.

Agriculture

Reducing farm emissions.

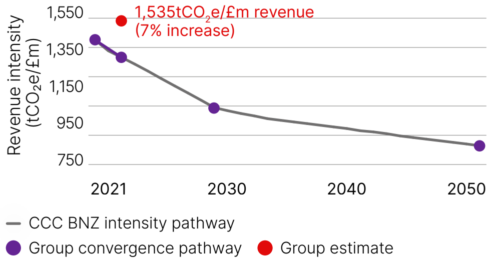
Summary metrics
£1,361m lending
c.16% of Business lending

Emissions intensity
2023: 1,535 tCO_2e/£m revenue (+7%)
2021: 1,431 tCO_2e/£m revenue[1]

(1) Baseline year.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
15 LIFE ON LAND

Science-based target



Overview

Agriculture is the Group's largest Business lending sector, accounting for £1,361m of borrowing and c.16% of Business lending. The Agriculture sector in the UK is responsible for c.12% of total UK emissions annually[1] and is fundamental in the transition to a low-carbon economy.

Delivering an agricultural transition requires an alignment across regulatory, financial and supply chain incentives for businesses to invest in low-carbon technology and practices. The Group is positioned in this sector with a specialist team to provide the support our customers need to make the necessary changes to their businesses.

Engagement strategy

We have a dedicated team of face-to-face relationship managers who regularly meet with farmers to understand how they can make efficiency improvements on their farms and the role finance can play in supporting them. We also sponsor and attend various Agriculture shows across the UK, using the opportunity to promote the Agri E Fund and the importance and benefits of carbon audits.

We have set a science-based target to reduce the emissions intensity of our Agriculture customer base by 26% by 2030, from our updated baseline of September 2021. Underlying calculated emissions have reduced by 7% year-on-year, but emissions intensity has increased by 7% due to lower than expected customer revenue attributed to the lending. For more details see page 272 of the Metrics and targets section.

Key initiatives to support transition

T S M L **Agri E Fund:** Our flagship Agri E Fund product, which provides lending for green projects with no arrangement fee if farmers undergo a carbon audit, continues to be the main lever to incentivise and educate customers on reducing carbon in the food supply chain. This will also improve the Group's ability to assess progress against targets and enhance data quality within our financed emissions calculations. In 2023, we continued to encourage the use of the E Fund and carbon audits, exploring ways to incentivise take-up and increase coverage across the customer base.

T S M L **Sustainable Business Coach:** The SBC also supports our Agriculture customers in identifying their high priority ESG goals, with suggested areas for improvement highlighted.

Risks and dependencies

We continue to explore the levers at our disposal to support the reduction in emissions aligned with the UK CCC pathway, however we have limited control over a number of external dependencies which are fundamental to an agricultural transition.

The CCC's 2023 progress update notes the recent UK Government Carbon Budget Delivery Plan has a high dependency on innovation and a reliance on voluntary measures which is stalling progress, indicating further action is required to meet the legally binding net-zero target within the sector. In the absence of these policy interventions, targets set for the sector look challenging.

Key factors we are tracking include:

P T L **Customer education:** Areas of significant opportunity such as regenerative farming, low-carbon technology and changes to land use to support abatement are in their infancy in the market. Engaging our customer base remains fundamental and our Head of Agriculture and wider team visited >30 customer conferences across the year to discuss net zero and increase awareness alongside other supply chain partners.

P T S M L **Low-carbon farming practices and technologies:** The availability of low-carbon farming technology, such as decarbonised vehicles and buildings, as well as broader productivity enhancements, including the adoption of regenerative farming, continue to present key opportunities.

P T M L **Land use changes:** The development of a single carbon market for farmers will continue to incentivise farmers to develop unused land to sequester carbon emissions, while providing an additional source of income to decarbonise their own operations.

(1) Source: The Climate Change Committee.

Energy

Supporting the transition to greener energy.

Renewable energy

Summary metrics
£317m lending*
c.4% of Business lending

Avoided emissions
2023: -44 $ktCO_2e$

P T S M L Overview
Renewable energy sources such as wind, solar, and hydropower will play a critical role in decarbonising the energy mix of the UK's electricity grid. The UK Government has committed to deliver fully decarbonised electricity by 2035 in its energy security plan and the support of Renewable businesses will be pivotal to achieving this goal.

The increasing supply of renewable electricity to the power grid will have a major impact on heating, transport, and our industries.

Engagement strategy
Our team of Energy & Environment relationship managers remain key to engaging customers in the renewables sector. As a new growth area, we remain focused on ensuring we have the best team to support our ambitions.

In 2024, the Group will explore opportunities to extend renewable project financing across other sectors, such as Agriculture, as well as exploring opportunities to fund technologies which support the renewables sector, such as battery storage and infrastructure investments.

The Group has no science-based target set for Utilities, as the portfolio is mostly renewables.

Key initiatives to support transition
Our project finance supports the development of renewables projects with a suite of Business lending products. We have targeted £500m of lending to the Energy & Environment sector by 2025, achieving £317m of loans in 2023. The Agri E Fund also supports farmers to invest in renewable energy projects to reduce emissions or act as an alternative source of revenue.

Risks and dependencies
Delivery of the UK Government's updated Energy Security Plan, which set an objective to generate up to 50 gigawatts (GW) of offshore wind energy by 2030 and 70GW of solar by 2035, will be critical to support the sector.

This year, the CCC noted that progress in onshore wind and solar development has been slow due in part to barriers in the planning system, despite being the cheapest source of electricity. Ongoing enablers such as sufficient network capacity and timely grid connections are noted as a critical priority, with a need to address supply-chain bottlenecks as they arise to avoid delaying investment.

Oil and gas

Summary metrics
£123m lending
1.4% of Business lending

Emissions intensity
2023: 1,059 tCO_2e/£m lent (-5%)
2021: 1,114.5 tCO_2e/£m lent[1]

(1) Baseline year.

P T S M L Overview
Decarbonisation of the sector is fundamental to achieving net zero and limiting warming to 1.5°C. UK Government plans to accelerate the deployment of renewables become critical to reduce reliance on imported energy, given the recent deterioration in energy security.

Due to our Sensitive Sectors policy, we do not have direct exposure to businesses generating revenue directly from oil and gas extraction. Group balances in this sector are to field services businesses, whose expertise and supply chain reach are crucial in the transition to renewable energy as a key power source.

Engagement strategy
In 2023, the Group developed a high-emitting sub-sector policy, which requires new lending in carbon-intensive sub-sectors, including oil and gas, to meet the following criteria:

> Measure emissions and supply the data to Virgin Money.
> Create and share a measurable transition plan, which demonstrates a reduction in emissions with annual progress updates.
> New term finance must be used to fund the business' emissions reduction plans.

The policy will be implemented through 2024 in a phased manner and monitored for suitability.

A science-based target was set to reduce the lending intensity by 52% by 2030, from our updated 2021 baseline. Emissions intensity reduced by 5% despite underlying emissions increasing, from increased lending to the sector at a lower emissions intensity, due to the nature of the businesses we are financing.

Key initiatives to support transition
We continue to make a suite of finance products available to businesses in the sector, with our Sensitive Sectors policy continuing to ensure the Group does not lend to extraction services, while our emissions reductions policy introduces carbon reduction as a condition of lend in the sector for the first time.

Risks and dependencies
As our customers are in the supply chain for oil and gas extraction, we expect emissions to reduce as businesses transition their models from fossil fuels to renewables. The CCC notes the best way to reduce the UK's exposure to volatile markets is through measures such as rapidly shifting to renewables, improving energy efficiency and electrifying end uses.

Transport

Delivering the transition in the transport sector.

Surface transport

Summary metrics
£163m lending
1.9% of Business lending

P T S M L Overview

The UK has a strong dependency on Surface Transport as a key method of transportation of people and goods. The CCC notes it remains the UK's highest emitting sector, responsible for 23% of total emissions. Its ability to transition is dependent on the take-up of low-carbon technologies and fuels, efficiency improvements in fossil fuel powered vehicles and behavioural changes to reduce travel demand and shift journeys to lower-carbon modes of transport.

The Group has a dedicated Asset Finance sales team responsible for managing our portfolio of Asset Finance customers, which comprise c.10% of the Business lending book.

Engagement strategy

Our Asset Finance team is an associate member of the British Vehicle Rental and Leasing Association, gaining insight and engaging on ESG development within asset finance, helping to translate this to green finance opportunities.

We set a science-based target to reduce the physical emissions intensity of our surface transport customer base in 2022, however, the exclusion of Asset Finance from our financed emissions calculations limited our ability to report progress against this target in 2023. This will be updated in 2024, once an Asset Finance model has been added.

Key initiatives to support transition

The Group offers both term lending and a range of asset finance facilities to the sector and explores risk appetite enhancements. As the UK Government continues to review its low carbon vehicle policies, we continue to work with customers to support their ability to transition to net zero.

Risks and dependencies

The expected take-up of low-emission EVs requires a low-cost and efficient charging infrastructure, scaled up to support demand. Although it increased by almost a third in 2022, the CCC notes concerns around reliability, cost and consistency. This may undermine public confidence in purchasing EVs, putting ownership targets over time at risk.

Delivery of the UK Government's mandate on vehicle manufacturers, placing a minimum requirement on the proportion of new electric car and van sales, will encourage production and take-up of EVs. This is key to delivering decarbonisation, particularly for van sales, which remain off-track from CCC's projections.

Shipping

Summary metrics
£142m lending
1.6% of Business lending

Emissions intensity
2023: 709 tCO_2e/£m lent (-63%)
2021: 1,934 tCO_2e/£m lent(1)

(1) Baseline year.

P T S M L Overview

The UK CCC notes the Shipping sector contributed 3% of UK total emissions and still does not have a clear decarbonisation pathway, being largely dependent on the adoption of low-carbon fuels.

Engagement strategy

The Group has a growing number of maritime customers who support offshore renewables, fundamental in the transition. We continue to engage with the sector to enable the purchase of more energy efficient vessels in the absence of commercially scaled low-carbon fuels.

The Group has set a high-emitting sub-sector policy, with the same criteria as oil and gas.

We have set a science-based target to reduce the economic emissions intensity of our Shipping customer base by 52% by 2030, from our updated baseline of September 2021. We achieved a 63% year-on-year reduction in emissions intensity (tCO_2e/£m lent), largely through improved data quality and from a relatively low base. The Group remains committed to updating its targets in line with the latest science and will continue to monitor external pathways for the Shipping sector.

Key initiatives to support transition

The Group's high emitting subsector policy (as outlined under Oil and gas on page 250) will cover the Shipping sector from 2024. Given the decarbonisation of the Shipping sector will require new technology development, including alternative fuels and electrification of propulsion and shore power, we will work closely with customers to assess the feasibility of Transition planning within the sector.

Risks and dependencies

Zero carbon fuels account for 87% of emissions savings from Shipping within the CCC's balanced net-zero pathway. The CCC noted in its 2023 progress report that take-up of low-carbon fuels and electrification are virtually zero, with no clear strategy to incentivise maritime operators to decarbonise the sector. There are 'significant risks' identified in the assessment of policies and plans for shipping.

The UK Government is due to publish its updated Clean Maritime plan in late 2023. The CCC notes this must address key issues such as the planned phaseout of the sale of non-zero emission domestic vessels and the viability of different low-carbon fuels.

Suppliers

Reducing the emissions in our supply chain.

Summary targets

75% of suppliers (by spend) committed to, or have approved, science-based targets by 2028

> 2022: 38%[1]

(1) First year of reporting. Reporting period is 2022 based on CDP 2022 data as this is the most recent year of measurement.

Scope 3 Category	Emissions (tCO_2e)[2]
Category 1: Purchased Goods and Services	48,544
Category 2: Capital Goods	2,039

(2) First year of reporting. Reporting period is 2021 based on 2021 spend and CDP 2022 data. This is the most recent year of measurement and CDP emissions intensity data is in arrears.

Targets

Given the challenge of suppliers having different timescales to net zero, we are updating our 2030 aspiration to focus on Scope 1 and 2 emissions, where we have direct control. We now expect to be net zero in terms of our own operational emissions for Scope 1 and 2 by 2030.

The Group has also set a target for 75% of suppliers (by spend) to have committed to or have approved science-based targets by 2028. Based on CDP's 2022 data, 42 of the Group's suppliers in the CDP Supplier Engagement Programme have committed to science-based targets, representing 38% of total 2021 spend.

As data and methodologies mature and settle, the Group will be in a better position to consider implementing targets over absolute emissions.

Supplier emissions

This year, we calculated an emissions baseline for the first time. This covered the following Scope 3 categories:

- **Category 1:** Purchased Goods and Services: all upstream emissions from the production of products (including both goods and services) purchased or acquired by the Group; and
- **Category 2:** Capital Goods: all capital goods that have an extended life, such as equipment, buildings, facilities, and vehicles.

A spend-based methodology was used for both categories. For suppliers disclosing to CDP, we receive detailed emissions intensity data. For non-CDP suppliers, sector average emissions data is provided by CDP. The emissions intensity values are then multiplied by spend.

CDP Supplier Engagement Programme

We continue to deliver the CDP Supplier Engagement Programme, requesting our suppliers to report their environmental data to CDP, who then provide us with the necessary climate-related data to understand our suppliers' emissions, progress, risks and opportunities.

In 2023, we obtained a response rate of 87% from 178 suppliers (2022: 94% of 100 suppliers), compared to an industry average of 63%. Suppliers that responded in 2023 cover 74% of total 2021 supplier spend, which is the data point we currently use in calculations.

The Group will look to use more recent data going forward as we embed and improve our processes. Additionally, as we continue to engage our suppliers and increase the number that disclose to CDP, this increases the accuracy and reliability of the Group's reporting.

Limitations

As with all Scope 3 emissions, the Group has less control and influence to achieve net zero as it does with Scope 1 and 2. While some suppliers are large corporations, which are already on net-zero journeys independent of Virgin Money, we also have smaller suppliers who may not have the resource or scope to embark on an ambitious net-zero programme.

Education

We educate and support suppliers disclosing to CDP by delivering webinars and providing access to resources. This was especially important for any suppliers who we did not engage to submit in the 2022 programme; of those we managed to encourage 78% of these additional suppliers to submit this year.

Future focus

Our commitment to develop the Group's CDP Supplier Engagement Programme will help our progress in developing our supplier roadmap to achieve net zero. It will also help improve data and track targets, as well as gain a better understanding of the environmental impacts and issues in our supply chain. The Group will continue to encourage suppliers to both set science-based targets and disclose to CDP.

In 2024, we will be strengthening our focus on sustainability within our supplier tendering and selection process and will be looking for suppliers to tell us how their proposed products and solutions are considering the environmental impact. The sustainability impact will feature in our scoring methodology and influence the final outcome of supplier selection.

Furthermore, we will be enhancing our Supplier Performance Management Programme, with our Supplier Relationship Managers working more closely with key suppliers to understand their sustainability roadmap and encouraging them to commit to setting science-based targets.

Property

Reducing our operational emissions.

Summary targets[1]

Reduce location-based Scope 1 and 2 emissions by 50% in 2025:

> 2023: 39%
> 2022: 28%

Reduce location-based energy consumption by 50% in 2025:

> 2023: 30%
> 2022: 21%

Reduce water consumption by 50% in 2025:

> 2023: 60%
> 2022: 54%

(1) Against a 2020 baseline.

Initiatives: The Group delivered a 21% and 13% reduction in location-based Scope 1 and 2 emissions respectively, against 10% targets for 2023. This was partly delivered through property efficiency programmes, which we continue to pursue further through LED lighting, more energy efficient heating/air conditioning and use of chemical-free cleaning products.

Property footprint: As we embed new ways of working, the Group has reduced its property footprint by c.50% since 2018. Furthermore, when closing large offices, we engage with local charities and community groups to donate our surplus furniture and kitchen equipment.

Energy: Where available and where we are responsible for the supply, 100% of the gas and electricity in our UK stores and offices is generated from renewable sources[2]. The continued sourcing of green energy enables the Group to maintain low levels of market-based emissions. We recognise our reliance on the UK energy grid becoming greener to continue reductions. Our Property strategy sets a clear path to continue reducing our location-based energy consumption by 50% in 2025 (2023: 30%, against a 2020 baseline).

Water: The Group has already surpassed its 2025 target to reduce water consumption to 45,000m^3 and achieved a further reduction to 35,900m^3 in 2023 (2022: 41,765m^3).

Waste: The Group and its suppliers continue to deliver zero waste to landfill, which has been consistent since 2014. We continue to pursue opportunities to reuse and recycle materials where possible to further reduce our waste.

Paper: In 2023, our stores, offices and print suppliers reduced paper usage by 18%, to c.449 tonnes (2022: c.544 tonnes). Prior year figures have been restated, due to refinements in how we track our usage, based on our procurement of paper and envelopes.

Additionally, this year we optimised our dedicated mail delivery routes between offices to remove c.340 miles off the road every day, equating to 54 tonnes of CO_2 annually.

(2) c.8% of the Group's energy utilisation is not from renewable sources, due to either a lack of control or availability.

Colleagues

Promoting greener ways of working.

Summary targets

Maintain travel carbon emissions (per FTE) below 50% of 2019 baseline:

> 2023: 38%
> 2022: 17%

Scope 3 Category	Emissions (tCO_2e)
Category 6: Business travel[3]	755
Category 7: Employee commuting and homeworking[4]	3,700

(3) Reporting period: July 2022 – June 2023.

(4) Based on February 2023 data, applied across 12 months.

Business travel: We recognise there is still a need for business travel, and as part of our team rhythms, which establishes when and where our teams work, we encourage colleagues to consider the environmental impact when arranging gatherings. We enhanced our travel policy to include more information about the environmental impact from different methods of travelling. Our travel booking tool also highlights more environmentally friendly travel options where available.

For Category 6, the Group calculated emissions using data from our travel booking tool. A target was set to maintain the travel carbon emissions (per FTE) below 50% of 2019 base level (FY19: 0.27tCO_2e per FTE).

Employee commuting and homeworking: Our A Life More Virgin colleague proposition continues to offer choice and flexibility on where and when colleagues work.

For Category 7, a methodology and data model has been developed, using the average-data method, which estimates emissions from employee commuting based on average (e.g. national) data on commuting patterns, combined with secondary colleague contract, transport and activity data.

Targets are optional for this category and as many choose to work remotely, impacting positively on GHG emissions, and existing working styles are not anticipated to change in the next 12 months, we have not set a target.

Sustainability Hub: We launched an internal Sustainability Hub to provide colleagues with a collaborative space to receive the tools, resources and education around sustainability in Virgin Money and beyond.

Sustainability champions: Our store network is supported by local sustainability champions, who promote sustainability within the network and look for greener ways of working.

'Going for Green' Teams channel: We have facilitated a Teams channel to provide a forum for colleagues to share their tips, triumphs and good news stories.

Engagement strategy and financial planning.

Embedding climate within financial planning

In developing our net-zero transition plans, we've embedded climate considerations across the financial planning process.

In 2023, we categorised our lending portfolio into high/medium/low-carbon intensive sectors, using our estimates of financed emissions (both absolute and intensities) and external guidance from NZBA and TCFD classified high priority sectors. These sectors were then analysed to understand the intensity impacts to FY30 using our sector emissions reductions targets to align our portfolio mix projections with a decarbonising economy. This is being measured through our newly established metric, for the proportion of Business lending to the highest emitting sectors to be less than 30% by 2030.

We will continue to refresh this analysis as we develop plans further and recognise the pace of intensity reductions will not be linear across each sector and that financing the transition may result in a short-term increase in balance sheet emissions intensity.

The Group has integrated a number of operational KPIs within the financial plan, recognising the future growth opportunities as we continue to assess changes to the products, services and business model as we develop our approach to Climate risks and opportunities.

We also require each business case request for investment to set out how this aligns with the Group's ESG strategy, considering the carbon impact of implementing the change. Key Climate KPIs have been integrated within the Group's ESG Balanced Scorecard, which is presented to the Environment Committee monthly, as well as executive remuneration.

The Group is on a journey to integrate climate into everything we do, and intends to further develop the link between our climate transition plan and financial plan, including enhancements to stress test modelling capabilities.

Information on our critical accounting estimates and judgements related to climate-related risks can be found on page 289.

Engagement strategy across government and industry

The Group continues to participate in a number of industry-led working groups to have influence and effective engagement on policy with the UK Government, in addition to working towards disclosure consistency with peers:

- **UK Finance:** The Group participates in a number of working groups, including on climate-related disclosures, alongside other UK banks. The groups work on promoting consistency in disclosures, most recently considering how ISSB S2 will be implemented in the UK Banking sector in the coming years.
- **PCAF:** The Group began chairing the working group on Business Loans and Unlisted Equity, working with other banks exploring the challenges in calculating SME emissions, with the aim of recommending ways to support the ongoing development of the PCAF Standard.

We also partnered with the following organisations to ensure a consistent and standard approach is applied to achieving net zero within Banking:

UN environment programme finance initiative – Principles for Responsible Banking	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 2023: 1. Impact analysis 2. Target setting 3. Reporting
RACE TO ZERO	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 DISCLOSURE INSIGHT ACTION	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, receiving disclosures from them to measure our indirect emissions. Additionally, the Group is assigned its own score each year, recently attaining a C for Climate Change 2022. This was based on our 2021 Annual Report and Accounts and heightened expectations across the sector. We expect to improve our position in 2023, following enhanced activity and disclosures in 2022.
PCAF Partnership for Carbon Accounting Financials	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	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.

Implementation strategy within other Group activities.

Embedding climate within other Group activities
Our net-zero plans and climate strategy cover our own operations and customer lending. However, there are other areas across the Group where climate-related risks and opportunities are considered.

Virgin Money Unit Trust Managers (VMUTM)
Our JV with abrdn, VMUTM is a regulated investment manager with a range of investment funds, totalling £3.6bn of assets, under management. These funds are distributed to retail customers via tax efficient stocks and shares ISA's and pensions, as well as general investment accounts.

All funds are currently being updated and aligned with VMUTM's investing approach, which requires the integration of material ESG risks and opportunities. The approach supports our belief that investing responsibly will provide better risk-adjusted returns, seeking to lower exposure to a broader consideration of risk, including climate, and increase opportunities in the transition to a low-carbon sustainable economy.

This year, VMUTM has updated its three growth funds, which are central to our customer proposition and pension scheme. These are multi-asset global fund of funds, which now incorporate ESG integration methods, including exclusions, ESG tilts, thematic investing and stewardship. The remaining funds are either in the process of being, or are planned to be, transitioned to ESG-integrated approaches. Funds are expected to have lower carbon emissions than a benchmark or comparator.

VMUTM outsources investment advice and fund management services to abrdn, who conduct climate scenario analysis and consider value-at-risk across our investment portfolio. Working with abrdn, the funds will continue to evolve their approach, including decarbonisation strategies.

VMUTM aims to be transparent on the changes made to funds as part of ESG integration. This year, dedicated responsible investing resources have been made available to customers and customer research has been carried out to ensure that changes are being communicated to customers effectively. This is alongside disclosures that will be made to customers in annual fund accounts and assessments of value.

Pensions
The Trustee has a primary objective to ensure that as a defined benefit scheme, the Yorkshire & Clydesdale Bank Pension Scheme has sufficient assets to provide benefits as they fall due. Managing the Scheme's investments to that objective is a fiduciary responsibility to protect the financial interests of its members. In exercising that responsibility, the Trustee believes that the risks and opportunities relating to climate change can have a material impact on the returns achieved from the Scheme's assets. Sustainable investment, including management of climate risk, has become an increasingly important focus for the Trustee when considering the construction of the Scheme's investment portfolio.

These assets are managed by external managers, whom the Trustee believes are best placed to take day-to-day decisions on their sustainability, and to take action on the Scheme's behalf. The Trustee's focus with the guidance of its investment adviser is on monitoring the managers' processes and managing any outsized risks at a total Scheme level, including those arising from climate considerations.

The Trustee will be publishing its first TCFD report by 30 April 2024, which will document the Trustee's position on each of the four core pillars set out by the TCFD. In preparation for the report, the Trustee has reviewed the four required metrics adopted to measure the impact of climate change and concluded they remain suitable for inclusion in the report. The Trustee's advisers have also updated the climate scenario analysis first undertaken in 2021, considering the impact of four separate climate change scenarios. The conclusion from the analysis is that the Scheme's low risk investment strategy means the Scheme is well positioned to absorb the climate-related financial impacts in a wide range of possible scenarios.

The Scheme's funding position has continued to improve, which has enabled the Trustee to implement further de-risking with the disposal of its allocation to broad market equities. This has further reduced the exposure to climate risk. The Scheme also completed a longevity swap transaction in April 2023 to hedge the longevity risk for current pensioners. This reduces the potential materiality of the climate impact on longevity and mortality risk. The Scheme maintains investments in UK solar assets and wind farms and is continuing to build up its investment in a fund financing the construction of renewable energy assets across the globe.

A governance structure has been put in place with the Trustee Board being responsible for the overarching aims and policies for managing climate risks and delegating responsibility to the Investment Sub-Committee for monitoring and managing these risks. An initial analysis has been undertaken to examine the impact of various future 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 set a long-term target of reaching net-zero greenhouse gas emissions by 2050.

Climate-related disclosures

Governance

Our governance around climate-related risks and opportunities.

Board
The Board is collectively responsible for promoting the long-term, sustainable success of the Group and generating value for its shareholders, ensuring the interests of all stakeholders and the Group's contribution to wider society are fully understood and considered. The Board's role is to provide leadership, and to set and oversee delivery of the Group's strategy, including the ESG strategy. It delegates some oversight and decision making to its Committees and receives updates on progress against the Group's four ESG goals on a quarterly basis.

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 Group's governance framework is continuously reviewed to ensure it includes sufficient focus on ESG topics, including climate risks and opportunities.

Addressing our climate strategy
The Board has been engaged in the development of the Group's net-zero strategy and receives regular updates on the execution of this from members of the Executive Leadership Team. In 2023, these updates covered expanded net-zero transition planning, including progress against climate targets and proposition delivery to achieve the 2030 aspirations.

During 2023, the Board considered the following climate-related matters:

- *October 2022:* Approved the Group's 2023 Commercial net-zero strategy and targets, the details of which can be found in the Strategic report on pages 241 to 253.
- *November 2022:* Confirmed its view that the 2022 Annual Report and Accounts, taken as a whole, including the TCFD report, was fair, balanced and understandable.
- *March 2023:* Received updates on how the Group's climate-related disclosures and targets align with industry practice and regulatory expectations; and on the Group's climate-related risk management activity, including an assessment of the Group's ability to meet expectations set in the October 2022 Dear CEO letter: 'Thematic feedback on the PRA's supervision of climate-related financial risk and the BoE's Climate Biennial Exploratory Scenario (CBES) exercise'.
- *June 2023:* Approved the 2022 ICAAP Final Results, which included financial risk arising from climate change.

Ongoing monitoring is achieved through the Board receiving monthly updates on our ESG Balanced Scorecard, which includes climate-related targets. In addition, quarterly updates are received on more in-depth ESG topics, covering metrics, targets and strategy delivery. The Board Risk Committee is also updated on an ad hoc basis as plans are developed, typically annually.

Please refer to the following pages in the Governance report for further information:
Pages 76 to 78 – Our Board composition, skills and experience
Pages 80 to 84 – Our Board member profiles and committee memberships
Pages 88 to 89 – ESG in our Governance Framework

Board committees

The table below shows the climate-related Board-level committees:

	Risk Committee	Audit Committee
Climate responsibilities	The Risk Committee has delegated authority to oversee the activity being undertaken to embed the identification, assessment and management of climate risk, taking a forward-looking perspective, anticipating changes in business conditions and promoting a risk awareness culture within the Group. Its remit includes risk appetite, framework and limits; policies; compliance; stress testing; and internal controls.	The Audit Committee has delegated authority to review disclosures made within the Annual Report and Accounts and responsibility for considering and approving climate-related disclosures and for advising the Board on whether the Annual Report and 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.
	Both Committees have responsibilities for the statement on risk management and internal controls (including climate risk) and the Climate-related disclosures within the Annual Report and Accounts.	
2023 activities	> considered a 2023 Climate Risk Assessment, which provided an overview of the risk assessment outcomes, including detail of high-rated risks; > heard about developments to the risk management practices associated with 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; > approved expanded net-zero targets covering the new operational emissions target and updated mortgage and business portfolio targets; and > received regular updates on climate risk as part of the CRO report, including: – current and planned assurance activity; – progress with the ESG and Climate Data Programme; – the status of Tier 1 climate risk RAS metrics; – responses to the FCA's Dear CEO and Dear CFO letters; and – other climate-related initiatives within Risk, such as refreshing roles and responsibilities.	> received regular Audit Reports from the External Auditors which referred to: – the External Auditor's enhancements in audit approach on climate risk; – the impact of climate change on financial reporting as an area of audit focus; – the creation of the climate policy framework; – the External Auditor's assessment of the disclosure of climate-related risks, including those to be made under TCFD as well as the risk assessment itself; – the External Auditor's general observations and conclusions on climate risk assessment; and – key elements for the Group to consider in its plans to develop climate capabilities, including as a result of the 2022 Dear CFO letter. > received an update on the methodology and key estimates and judgements used in the application of the Partnership for Carbon Accounting Financials (PCAF) Standard for the calculation of financed emissions.
	Both Committees received updates on the Group's Climate-related disclosures, including the outcome of benchmarking exercises, improvements to the disclosures, and the latest UK Government mortgage emissions update.	
Key MI used	CRO Reports	External Audit Reports
Informed by	Chief Risk Officer; Executive Risk Committee	Chief Financial Officer; External Auditors
Chair and membership	Pages 123 to 124 of the Risk Committee report	Page 115 of the Audit Committee report

Training

The Board received periodic updates from the Head of Investor Relations and other subject matter experts throughout the year on ESG topics, helping to 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. External support and insight was drawn upon to inform the Board updates and will continue to be valuable as the Group's ESG strategy evolves.

Board members also undertook the same online 'Professional Passport' training as all colleagues, which in 2023 included an in-depth module exploring ESG topics, our commitments and strategy, including 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 any 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, specifically those associated with environmental or climate areas. The Executive Leadership Team provide input and challenge, advising the Chief Executive Officer on the strategic ESG direction and focus areas including plans, targets and KPIs.

Under the Senior Managers and Certification Regime (SMCR), Senior Manager Responsibilities for climate-related matters have been simplified. Previously, climate-related responsibilities were split between Executive Leadership Team members. However, in line with the SMCR guidance, the Chief Financial Officer has assumed sole responsibility for climate-related matters, including:

- setting the overall net-zero targets, commitments and transition pathways;
- the calculation of financed emissions and co-ordination of stress testing exercises;
- setting metrics for our ESG Balanced Scorecard; and
- the overall ESG disclosures in the Annual Report and Accounts.

The Chief Financial Officer is supported by Executive Leadership Team members for day-to-day activities in the relevant areas:

- The Chief Risk Officer has ownership of 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 policies and minimum standards;
  - the development, maintenance and monitoring of climate-related models; and
  - coordinating and drafting the Group's annual Climate-related disclosures.
- The Managing Director, Business and Commercial, has ownership of climate-related risks arising from customer activity, including:
  - capturing relevant ESG data from customers;
  - carrying out climate risk assessments on selected Business customers;
  - the development and implementation of greener propositions; and
  - setting targets relating to the reduction of carbon emissions associated with Mortgage and Business lending.
- The Chief Operating Officer has ownership of climate-related risks arising from the Group's operations, including:
  - calculating operational emissions, including suppliers, and setting targets for reduction;
  - managing climate-related risks and impacts affecting customer experience; and
  - incorporating climate considerations in investment business cases.

Each Executive Leadership Team member presents reports on the above matters to the Executive Leadership Team and relevant Board Committees and Executive Committees when relevant.

Executive Leadership Team Committees

The Executive Leadership Team is supported in climate-related matters by its sub-committees, each of which has membership from the Executive Leadership Team as set out in the table below, in addition to other senior managers from specialist business areas.

	Environment Committee	Asset and Liability Committee
Chief Executive Officer		•
Chief Financial Officer	**Chair**	**Chair**
Chief Operating Officer	•	
Chief People & Communications Officer		
Chief Risk Officer	•	•
Managing Director, Business and Commercial	•	•
General Counsel & Purpose Officer		

The majority of the climate-related matters affecting the Group are considered by the Environment Committee, with other Executive Committees and Executive Sub-Committees also considering and escalating climate matters as appropriate, in line with their charters. This approach provides a clear and efficient pathway for climate-related risks and opportunities, and an effective refinement and execution of the Group's ESG strategy.

Further details on the activities of the Environment Committee and other Executive Committees and Executive Sub-Committees that have been particularly active in relation to climate-specific matters during the year are set out overleaf.

Environment Committee
The Environment Committee has delegated responsibility to oversee and monitor the management of environmental and climate change matters across the Group. It directs the implementation of the Group's environmental strategy; oversees the totality of investment in environmental initiatives, ensuring funding is used effectively across the Group; ensures the appropriate allocation of resource and training to embed environmental delivery into BAU activities; and monitors the Group's progress towards addressing risks and opportunities through internal targets and KPIs.

Membership includes members of the Executive Leadership Team (as set out on the previous page). Standing attendees include senior managers with responsibilities for climate-related matters, in particular, sponsorship of the Group's ESG goals. The Environment Committee met nine times during 2023 and is able to escalate matters to the Executive Leadership Team.

During the year, the Environment Committee was regularly updated on progress towards the Group's ESG Goals, Net-Zero Roadmap and Targets, and ESG Data and Climate Strategy. More specifically, the Environment Committee:

> regularly tracked financed emissions figures throughout the year, with particular attention to emerging market standards and high-carbon sub-sectors;
> approved the Group's net-zero plan for 2024;
> approved the application of the Financed Emissions Restatement Policy in the calculation and disclosure of financed emissions;
> monitored climate-related operational and supplier submissions;
> received an update on the outcomes of the internal climate risk assessment, which was then used to form the Climate Risk Policy Standard;
> approved the Group's Climate Risk Policy Standard;
> supported the Group's participation in the Green Homes Finance Acceleration Fund; and
> was updated on the Group's progress with climate-related reporting activities.

Asset and Liability Committee
The Asset and Liability Committee has delegated responsibility for providing oversight and management of the Group Balance Sheet, including execution of matters in line with the Group's funding and capital plans. As appropriate, this includes the impact of climate change.

Membership includes members of the Executive Leadership Team (as set out on the previous page), as well as the Treasurer, Head of Financial Risk and Head of Financial Planning & Analysis and Capital Management. Standing attendees include other Executive Leadership Team members and senior management from Treasury. The Asset and Liability Committee met 17 times (including 7 ad hoc meetings) during 2023 and is able to escalate matters to the Executive Leadership Team.

During the year, the Asset and Liability Committee recognised the increasing focus on climate-related risks, specifically for ICAAP, ILAAP and the PRA's 2023 priorities, including the expectation that firms take a proactive approach to address financial risks arising from climate change.

Executive Risk Committee
The Executive Risk Committee is responsible for setting and monitoring the Group's climate risk appetite, recommending the Group's approach to managing climate risks as defined in the RMF and overseeing the Group's exposures and approach to managing the financial risks arising from climate change.

All members of the Executive Leadership Team are members of the Executive Risk Committee. Standing attendees include senior managers from the Risk function and the GDIA. The Executive Risk Committee met 10 times during 2023 and is able to escalate to the Board and Board Risk Committee.

During the year, the Executive Risk Committee was updated on the latest climate-related regulatory developments, with particular emphasis on regulatory expectations outlined in the climate-related Dear CEO Letter, 'Thematic feedback on the PRA's supervision of climate-related financial risk and the BoE's CBES exercise'. Monthly updates on climate risk were also provided via the Chief Risk Officer reports and RAS reports.

The Executive Risk Committee is supported by its sub-committees, with membership from the Executive Leadership Team, as set out in the table below. The Executive sub-committees receive updates and papers from across the business, in particular from the Finance and Risk functions.

	Executive Risk Committee	Non-Financial Risk Committee	Model Governance Committee
Chief Executive Officer	•		
Chief Financial Officer	•		•
Chief Operating Officer	•	•	
Chief People & Communications Officer	•		
Chief Risk Officer	**Chair**	**Chair**	•
Managing Director, Business and Commercial	•	•	•
General Counsel & Purpose Officer	•		

Non-Financial Risk Committee

The Non-Financial Risk Committee (previously known as the Operational Risk Committee until an expanded remit was approved by the Executive Risk Committee in July 2023) is responsible for directing, providing decision, assessing, and managing non-financial risks. This includes reviewing and monitoring the risk profile associated with climate change, including impacts on third parties and ICAAP operational risk scenarios.

Membership includes members of the Executive Leadership Team (as set out on the previous page), as well as the Chief Control Officer, Chief Compliance Officer, Head of Operational Risk and the Money Laundering Reporting Officer. Standing attendees include relevant senior managers from the Risk and Audit functions. The Non-Financial Risk Committee met 10 times during 2023 and is able to escalate matters to the Executive Risk Committee.

It considered climate risk from an Operational Risk Scenario Analysis Programme perspective, providing oversight on the effectiveness of relevant controls. Updates were also provided in relation to assurance activity on financial risks arising from the Group's ESG & Climate Strategy; climate risk within in the Risk Transformation Programme; and development of the Risk Taxonomy, which included the risks from greenwashing.

Model Governance Committee

The Model Governance Committee has responsibility for ensuring the Group fulfils its governance responsibilities for material models and rating systems, including those related to climate change.

Membership includes members of the Executive Leadership Team (as set out on the previous page), the Head of Model Risk (who acts as Chair), and the Group Financial Controller, Chief Credit Officer, Head of Financial Planning & Analysis and Capital Management and Head of Risk Analytics. Standing attendees include relevant senior managers from the Risk function. Support is also provided by its delegated sub-committees, the Credit Models Technical Forum and Finance Models Technical Forum. The Model Governance Committee met 12 times during 2023 and is able to escalate matters to the Executive Risk Committee.

It discussed and endorsed models related to climate change. The Model Governance Committee also discussed and endorsed the Group's Model Risk Policy, which sets the requirements for an effective control environment for the development and maintenance of models, including our Climate Risk Models, which help to manage climate-related financial risks.

ESG-related Working Groups

ESG Working Group

The Working Group oversees delivery of the ESG strategy, focusing on evolving and refining the strategy and associated targets to keep pace with the Group's overall ambitions.

The Working Group is chaired by the Corporate Sustainability Programme Lead and attended by delivery leads from across the business. It meets monthly, with agenda items from members presenting topics from their area for either noting, endorsement or escalation to the Environment Committee.

During the year, the ESG Working Group covered various topics, including updates on the Group's climate-related goals; product propositions; emissions calculations; reporting regulations; and NZBA alignment.

Internal Audit

Internal Audit continuously considers climate risk and sustainability in the dynamic risk assessment process to inform internal audit planning priorities. Our Internal Audit team attend key climate risk committees and forums including the executive level Environment Committee providing real time assurance and challenge, in addition to specific engagements on the Internal Audit Plan. Internal Audit follows standards set by the Institute of Internal Auditors, has relevant climate risk and financial risk qualifications and knowledge, and maintains independence with a direct reporting line to the Board Audit Committee.

Assurance approach

Virgin Money UK PLC appointed EY to provide independent limited assurance over selected climate-related metrics, which are stated below and indicated with (*) in this section:

- Scope 1 and 2 location- and market-based emissions (tCO_2e);
- Scope 1 and 2 location- and market-based emissions intensity (tCO_2e/FTE);
- Scope 3 financed emissions: Mortgages (tCO_2e);
- Scope 3 financed emissions: Mortgages intensity (tCO_2e/£m lent & $kgCO_2e/m^2$); and
- % of Mortgage Portfolio by EPC rating.

EY's assurance report, which includes the basis of preparation for the scope and methodology of assured metrics, is available at: virginmoneyukplc.com/corporate-sustainability/environment

Remuneration

Our remuneration framework, which includes our ESG goals, is detailed on page 135 of the Directors' remuneration report.

Since 2020, the Group's LTIP includes a 15%-weighted ESG scorecard, which vests for the first time this year. The outcome of the 2020 LTIP can be found on page 137, with further detail on its composition on pages 153 to 155.

Climate-related disclosures

Risk management

How we identify, assess and manage climate-related risks within our Group.

Risk Management Framework (RMF)
Climate risk is incorporated in the Group's 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 Group.

The Group's Policy Management Framework is a key component of the RMF and outlines the Group's approach to the identification, management and monitoring of climate risk. This is supported by:

- RAS measures;
- defined climate risk roles and responsibilities; and
- climate scenario analysis.

The Climate Policy Statement and Standard define key risk management principles and minimum control requirements to help manage key risk exposures within risk appetite. Our Climate Risk Team independently review and oversee climate-related activities to ensure these remain aligned to the Group's climate strategy, policy requirements, limits and RAS.

Risk appetite
Climate risk is classified as a principal risk, reflecting its increasing relevance and materiality to the Group's profile.

Following data capability enhancements, a suite of climate-related metrics has been incorporated into the risk appetite, covering physical and transition risks across the Group's Mortgage and Business lending portfolios and operational risk.

Current climate risk appetite metrics are outlined below, covering both physical and transition risk. These are supported by a suite of Commercial KPIs, aligned to the Group's net-zero pathway.

- Proportion of the book and BTL segment with lower EPC ratings.
- Proportion of the book in high or very high flood risk areas in 2050 under a high emissions scenario.
- Proportion of the business lending portfolio to higher emitting sectors.
- Scope 1 and 2 emissions.

Risk identification
To support first line risk identification, the Group undertakes a Group-wide climate risk assessment, coordinated by the Climate Risk team. Further detail on this assessment is provided overleaf.

The Group receives property data from a third-party provider, to enhance our risk identification and monitoring processes for mortgages. This includes fluvial, pluvial and tidal flooding, coastal erosion, subsidence, expected future insurability and EPC rating. Currently risks are assessed on a portfolio basis rather than within the origination process. For larger Business lending customers, climate risks are considered within the credit decisioning process. This is a qualitative assessment and further work will be undertaken to consider how climate-related data could inform these assessments.

Risks identified are assessed against our standard risk, event and issue classification criteria to determine a sub-set of more material risks that are prioritised for management. This considers the potential financial impact should a risk materialise, possible impacts on customers, colleagues and reputation together with the likelihood of an event occurring.

Description of risk types

Risk	Description	Climate risk driver
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.	> More frequent severe weather events or general change in climate trends, including occurrence and severity of flood events. > Increased occurrence and severity of subsidence caused by increased precipitation followed by increased periods of drought. > Chronic risk of coastal erosion.
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.

Climate Risk Assessment

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 transition risks. The focus for this assessment is the impact of climate change on the Group, rather than the impact of the Group on climate and the environment.

Approach

Stakeholders were engaged across the Group, from all three Lines of Defence, to discuss climate risk drivers and how they could impact the Group's principal risks. Inputs included relevant climate-related analysis data, including across different time horizons and under different Representative Concentration Pathway scenarios, portfolio and operational data and the Group's net-zero plan. Where quantitative data or metrics were unavailable, the assessment was supplemented with qualitative information and judgement. This enabled the Group to populate a materiality rating for each risk and the associated time horizons across which the risk may crystallise.

Methodology

Risks are identified by analysing a broad range of factors which include:

- Physical and transition climate risk profiles of the Group's lending portfolio.
- 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.
- More proactive investor policies and systematic assessment of climate risks.
- The Group's strategic response to climate risk and planned mitigations and adaptations.

		Physical		Transition				
Principal risk	**Risk driver**	Acute	Chronic	Policy & Legal	Technology	Reputation	Market	Time horizon
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 or the ability of borrowers to service debt.	•						Long
	Developing climate-related legislation and policy, including minimum residential efficiency standards, may have a negative impact on collateral value.			•				Medium
	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.			•				Long
	Changes in climate trends may pose a risk to Business customers creating credit risk, particularly in the Agricultural sector, because of disruption to customers' supply chains, increased costs and decreased revenues driven by changing customer demand, technological developments or long-term changes in climate.	•	•		•		•	Long
Regulatory & Compliance risk and Conduct risk	Failure to meet expectations or requirements as the regulatory landscape develops over time.			•		•		Short-Medium
	Risk that the Bank exaggerates or misstates a product's 'green' credentials, which may mislead customers.			•		•		Short
	External reporting is non-compliant with regulatory requirements or expectations leading to re-submissions and reputational damage to the Group.			•		•		Short
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.			•		•	•	Short
	The Group faces reputational risk from lending to environmentally damaging activity.					•		Short
	Insufficient funding or resource within the Group to deliver the Group's climate-related targets, ambitions and activity.					•		Short
Operational 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.			•				Long

Methodology (continued)
Leveraging wider climate-related activity and engaging subject matter experts from across the Group, scenario analysis outputs were also incorporated into the assessment to support discussions, acknowledging any gaps or limitations associated with available data or analyses. Each principal risk was considered along with relevant assurance activity to capture a holistic view of all climate-related risk within the Group along with associated mitigants and opportunities, where available.

Risks are assessed and rated using a defined approach in line with the Group's RMF using quantitative and qualitative approach. A summary of the approach undertaken and top risks identified were presented to the Environment Committee and Board Risk Committee.

Summary of conclusions
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 most material risks expected to crystallise over the long term.

Output from the assessment supported the development of the Group's Climate RAF policy enhancements and external disclosures, which have been mapped to principal risks on the table below.

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.

The below table shows our key areas of progress on climate-related matters within our principal risks, and our priorities going forward:

2023 progress	Future focus
Credit risk	
> As the Group's historical climate data points increase, deeper insights of the physical and transition climate-related risk profiles within the Group's lending portfolios have been analysed across 2023. > Following completion of our first-generation climate scenario analysis models, development of our second-generation models has commenced, to further enhance the sophistication of our modelling capabilities for assessing our exposure to climate risks with the Group. > Climate-related physical and transition risk metrics, which monitor risk against the appetite set by the wider Climate Risk Policy Framework, have been refreshed. > Climate survey responses within Business lending increased to 85% in 2023 vs 74% in 2022, providing further insights within the Business lending portfolio.	> Continue to develop capability to identify, manage and monitor climate risk across the Group. > Embed further climate considerations within the credit decisioning process through the use of data. > Completion of second-generation climate change scenario analysis model enhancements.
Regulatory & Compliance risk and Conduct risk	
> In-depth assurance completed by the Climate Risk Team over the Group's ESG strategy. > Assessment and response to the FCA and PRA's Dear CEO letters. > Clearly defined climate-related roles and responsibilities have been refreshed within 2023.	> Continued horizon-scanning to monitor for changes within the developing regulatory and UK climate legislation landscape.
Strategic and enterprise risk	
> Funding plan agreed and activity phased appropriately to support the ESG & Climate Change Programme across 2024 and beyond to deliver the Group's data solution to climate risk. > Assessment of the Group's ESG Hub Sensitive Sector policy which outlines the Group's appetite to sensitive sectors.	> Continue to support net-zero delivery, including analysis of the remaining carbon intensive sectors and pursuing decarbonisation opportunities within our wider value chain and across our customer portfolios. > Continue to deliver enhancements to data quality and availability, automation of modelling and delivery of customer propositions and education.
Operational risk	
> The 2023 Group-wide Climate Risk Assessment was completed to identify any impact from physical and transition climate-related risk, including resulting operational risks. > Flood risk assessment completed over the Group's own operational footprint.	> Strengthening consideration of sustainability in our supplier tendering and selection process. > Consideration of any additional controls required to manage these risks.

Managing risks

Credit risk

Mortgages

Our Climate Change Group Secured Lending Policy outlines how the Group considers climate-related risk within its mortgage portfolio and continues to evolve in response to the external environment, increasing regulation, investor and other stakeholder interest.

In accordance with current Minimum Energy Efficiency Standards regulations, all BTL properties must have a minimum EPC rating of E, unless an exemption applies. The Group only accepts new applications that comply with the minimum standards and as a mortgage provider, has products in place to support current customers in retrofitting their properties to become more energy efficient.

The Group also has controls to mitigate the current flood risk, subsidence, heave and landslip in its 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.

In 2024, the Group is undertaking further work where we will consider our approach to incorporating climate-related physical risk factors into individual lending decisions. Implementing front book controls is an important next step for managing climate risk.

Business lending

The Group has established processes to consistently apply ESG and climate risk criteria to our Business lending credit assessment process and lending decisions. This includes:

- *Sensitive Sector policy:* 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. Our Sensitive Sector policy can be viewed at: virginmoneyukplc.com/downloads/pdf/sensitive-sector-statement.pdf
- *Credit risk assessment:* 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. For 2024 we are focusing on our approach to the further development of our credit assessments using climate-related data. Given our largely SME portfolio this approach is likely to be iterative as data availability and quality increases in the future.
- *Policy Management Framework:* Comprised of Policy Statements, which link to each principal risk and detail the Group's principles based approach to managing that risk category; and Policy Standards, which provide the minimum control requirements to deliver the principles contained within the Policy Statements.
- *Climate risk modelling:* The Group recognises the need to enhance capability for assessing and modelling the impact of physical and transition risks over the long-term horizon, over which increased risks may arise. Further information on our scenario analysis can be found overleaf.

Operational risk

Outputs from the climate risk assessment will be used to identify additional actions to further embed climate risk within the Group's assessment of operational resilience for critical services, third-party policies and change management risk assessments. Focus for 2024 is on strengthening consideration of sustainability within our supplier tendering and selection processes.

Financial risk

The Group has a low tolerance for market risk, given the lack of 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.

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 physical and transition risks over a range of time horizons.

Monitoring

Climate risk appetite metrics are monitored through the Chief Risk Officer's monthly reports to relevant Executive and Board Committees. In addition, a number of KPIs are monitored on a quarterly basis.

Scenario analysis

Introduction

Climate scenario analysis allows the Group to assess a range of chosen scenarios, identifying possible future climate-related risks and opportunities, while assessing the resilience of the Group's business model. Output from the analysis is also leveraged to support the Group's ICAAP.

Following last year's scenario analysis, the Group did not rerun the exercise in 2023, instead focusing on developing our second-generation climate models, taking forward our learnings from 2022. Given the lack of material change in our business model and the wider environment, we concluded that the findings from last year remain relevant. These are summarised below, with full details on pages 242 to 244 of the Group's 2022 Annual Report and Accounts.

2022 analysis

The Group's inaugural climate scenario analysis was completed across 2021 and early 2022. The initial analysis included the Group's lending portfolios and assessed the potential loan impairments, with a particular focus on Mortgage and Business lending. The methodology explores the 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 30-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:

Scenario	Description
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, resulting in a peak UK shadow carbon price of 900 (2010 US$/tonne carbon equivalent). Global carbon dioxide emissions (and all GHG emissions in the UK) drop to net zero around 2050. Global warming is limited to 1.8°C by the end of the scenario (2050) relative to pre-industrial levels.
Late action	The transition is delayed until 2031, at which point there is a sudden increase in the intensity of climate policy, resulting in a peak UK shadow carbon price of 1,100 (2010 US$/tonne carbon equivalent). 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. The peak UK shadow carbon price is 30 (2010 US$/tonne carbon equivalent). 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).

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 ratings, and incorporating them in risk management to ensure the Group's lending portfolios are well positioned for a transition to net zero.

It should be noted there is significant uncertainty in the modelling of climate change. At this stage, our analysis is exploratory in nature and allows the Group to identify key climate risk drivers and potential financial impacts. We will continue to explore how to advance our scenario analysis capabilities, as methodologies are enhanced and the availability and quality of data inputs improve.

Ongoing development

Following completion of our first-generation climate models, our RACE team has developed second generation models, to enhance the sophistication of our modelling capabilities in assessing exposures to climate risks with the Group.

Physical and transition climate-related risks are not uniform across Mortgage and Business lending sectors, thus enhancements have been made to assess the portfolio at more granular levels within each sector of the Group's lending portfolio. This will produce improved insights into the impact on potential credit losses across a 30-year time horizon.

During 2023, the Group has expanded the use of third-party risk data, incorporating a broader depth of risk inputs to strengthen the quality of our risk data used by second generation models.

In identifying priority areas for development, we considered the findings from the March 2023 BoE report on climate-related risks and the regulatory capital frameworks; and the October 2022 BoE Thematic feedback on the PRA's supervision of climate-related financial risk and the BoE's CBES exercise.

Future focus

Our next steps for scenario analysis in 2024 include finalisation of second-generation model development, running the models and analysing the outputs. We will continue to improve our current models and prioritise future development work to support further embedding of scenario analysis in strategy and decision making.

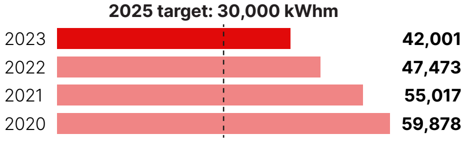
Climate-related disclosures

Metrics and targets

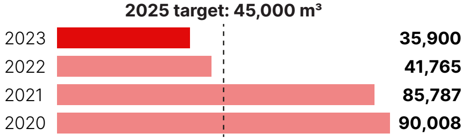
The measures we use to assess and manage our climate-related risks and opportunities.

Operational emissions

Energy consumption (kWhm)



Water consumption (m³ volume)



Paper used (tonnes)[1]

Waste generated (tonnes)[2]

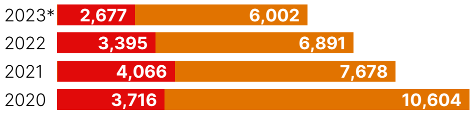
(1) 2022 figures restated, see page 253.

(2) Zero waste is sent to landfill.

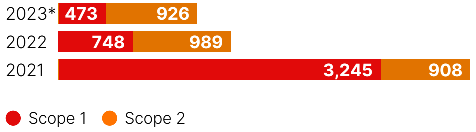
GHG emissions[3]

With an aspiration for net-zero direct emissions by 2030, the Group made good progress in 2023 to reduce emissions and achieve current targets, while establishing new baselines and setting future targets.

Location-based emissions (tCO_2e)



Market-based emissions (tCO_2e)



Intensity ratio (tCO_2e/FTE)	2023*	2022	2021
Location-based	**1.23**	1.48	1.54
Market-based	**0.20**	0.25	0.53

(3) GHG emissions are from 1 July 2022 to 30 June 2023.

Progress against targets

Sector-specific metrics and targets are noted throughout the Strategy section.

Location-based Scope 1 and 2 emissions, energy and water consumption all had interim year-on-year targets of 10% reductions by 2023 and a longer-term target of 50% reductions by 2025, against 2020 baselines. All 2023 reduction targets were exceeded and positive progress towards the 2025 targets continued, with water consumption already surpassing its 50% target last year.

The Group updated its operational targets to align with SBTi guidance and now expects to reduce location-based Scope 1 emissions by 42% by 2030, from a 2022 baseline. Location-based Scope 1 and 2 emissions, energy and water consumption each maintain 10% reduction targets for 2024, against the prior year.

Market-based Scope 1 emissions targeted a 10% reduction in 2023, achieving 37%. Future targets have not been set for market-based emissions as the energy purchased by the Group is already generated from renewable sources, where available and where we are responsible for the supply. Our focus going forward will be on reducing our consumption in location-based initiatives.

Scope 3 categories

The GHG Protocol outlines 15 categories of Scope 3 emissions. There are seven categories relevant to the Group's operations:

- **Categories 1 and 2:** Detailed in the Suppliers section on page 252;
- **Category 5:** The calculation methodology for waste emissions is currently under review and will be disclosed next year. A 10% reduction target for solid waste volume has also been set for 2024;
- **Categories 6 and 7:** Detailed in the Colleagues section on page 253;
- **Category 13:** Downstream leased assets will be in scope for 2024 reporting; and
- **Category 15:** Detailed overleaf.

Our Scope 3 emissions total 55,038tCO_2e, accounting for Categories 1, 2, 6 and 7, as summarised on page 36 of the ESG report.

As Categories 1, 2 and 7 have been reported for the first time this year, our Scope 3 figure is considerably higher than previously disclosed. As is the nature of climate-related reporting, we expect that figures can fluctuate as data and methodologies are enhanced and refined.

Financed emissions

Scope 3: Category 15 – Investments, or as they are usually known, financed emissions, are the most material category of Scope 3 emissions for the Group. These 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 in allowing us to set targets, inform actions and disclose progress against these. As such, the Group is committed to disclosing financed emissions using the Partnership for Carbon Accounting Financials 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 on a journey and is working hard to progress the quality of the calculation, focusing on developing the data and technology required to accurately assess and manage our carbon-related assets and exposures.

In 2022, a selection of the most appropriate internal data sources for each element of the financed emissions calculation resulted in a divergence in reporting dates between Mortgage and Business disclosures. In the current period, the reporting dates have been aligned, converging on 31 March 2023. This reporting date reflects the Group's ambition to align financed emissions reporting to financial reporting, and ultimately the goal is to report financed emissions as at the year end date.

The comparatives shown opposite reflect the previously reported financed emissions, with 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 has been an important contributor to the Group's overall financed emissions journey.

We reported our financed emissions for the first time in our 2021 Annual Report. We have continued to expand the scope of portfolios which we have included in our initial estimate of financed emissions.

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.

What's covered in our calculations?

In line with the PCAF standard, we include on-balance sheet loans and lines of credit. For the Business portfolio, a balance limit of £1.5m was applied. This limit was reduced to £1m for the Agriculture portfolio and £250k for the Resources portfolio, to obtain appropriate coverage in these portfolios. 100% of the Mortgage portfolio is included in our calculation.

The Group selected priority sectors based on the largest expected carbon impact. 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 priority sectors identified in 2022 continue to be a focus. These are Mortgages, Agriculture, Resources, Manufacturing and Transport. In 2023, this has been expanded to include Commercial Real Estate, Health, Hospitality, Transport (plant hire) and Utilities. Our ambition is to measure financed emissions on the full portfolio, but we have focused initially on sectors where we believe we can have the biggest impact.

Assessed lending

	31 March 2023			30 Sept 2021/31 March 2022[5]		
	Gross lending £m	Assessed lending £m	Assessed %	Gross lending £m	Assessed lending £m	Assessed %
Mortgages[1]	**57,998**	**57,998**	**100**	57,591	57,591	100
Unsecured[2]	**6,481**	**–**	**–**	6,513	–	–
Business, *of which:*						
Agriculture	**1,393**	**879**	**62**	1,441	888[6]	62
Business Services[3]	**1,332**	**46**	**3**	1,280	–	–
Commercial Real Estate	**673**	**317**	**47**	680	–	–
Government, Health and Education	**1,177**	**822**	**70**	1,104	–	–
Hospitality	**816**	**560**	**69**	668	–	–
Manufacturing	**777**	**521**	**67**	700	219[6]	31
Resources	**195**	**172**	**90**	103	92[6]	89
Retail and Wholesale trade	**888**	**–**	**–**	871	–	–
Transport and storage	**337**	**187**	**54**	380	228[6]	60
Other[4]	**935**	**176**	**19**	1,113	–	–
Total[5]	**73,002**	**61,678**	**84**	72,444	59,018	81

(1) Includes further advances to Mortgage customers as permitted (but not required) under the PCAF methodology.

(2) There is no agreed PCAF methodology for Unsecured lending, such as Credit cards and Personal loans.

(3) The assessed lending in the Business services sector is limited to Transport and Plant hire, and accounts for 75% of total Transport and Plant hire lending.

(4) 'Other' includes the Utilities and Renewable lending sectors. The total gross lending to Utilities was £166m with 51% or £85m assessed. The total gross lending to Renewables was £229m with 40% or £91m assessed for avoided emissions.

(5) 2022 disclosures reflect the position at 31 March 2022 for Mortgages and 30 September 2021 for Business. 2023 disclosures have been aligned to 31 March 2023 for both portfolios.

(6) Restated to exclude asset finance and credit card balances. 2022 reported assessed lending: Agriculture £905m; Manufacturing: £233m; Transport: £281m; and Resources: £99m.

Calculation methodology

Per the PCAF Standard, financed emissions are calculated using the following formula:

How financed emissions are calculated

Σ Attribution factor × **Emissions** = **Financed emissions**

- 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.

Accounting for 80% of the Group's gross customer lending as at 31 March 2023, the Mortgage portfolio has been identified as an area of material climate-related risk and opportunity. It is a priority sector for calculating emissions baselines and developing green propositions, as detailed in the Strategy section of this report.

The calculation approach for each mortgage is determined by the available data. Energy consumption figures for gas and electricity were modelled for each property based on the available property attributes, being EPC band, floor space and property type. Once electricity and gas consumption was estimated, current electricity and gas conversion factors for the UK grid are then applied to estimate CO_2 emissions per property.

For additional methodology detail, refer to the Group's basis of preparation for Mortgage financed emissions metrics at: virginmoneyukplc.com/corporate-sustainability/environment

For all mortgages in the portfolio, we have calculated the attribution factor with reference to loan-to-value (LTV) based on the spot balance and original valuation[2].

Our Business lending portfolio is a smaller proportion of gross lending than Mortgages but makes up a larger proportion of financed emissions, making the Business portfolio a priority for the Group to calculate baselines and develop propositions, as set out in the Strategy section. The business loans and unlisted equity PCAF approach was applied, reflecting the SME nature of the portfolio, with the exception of CRE, which follows the Commercial Real Estate methodology.

For a small portion of the Business portfolio, customer-specific emissions are publicly available and they have been used in the calculation. For the majority of the portfolio, economic emission factors have been applied to the customer revenue as reported in their latest financial statements to estimate emissions. The emission factor used is based on the industry classification code assigned to the loan. The attribution factor is based on total debt plus equity from the last reported financial statements. Where this is not available, total assets has been used as a proxy[1][3].

For the first time, we have calculated the avoided emissions from our renewable lending portfolio. Avoided emissions are a hypothetical estimate of what would have been emitted in the absence of the project. This estimate is based on:

- Actual electricity generated by the wind farms and hydro power projects which have been financed.
- Attribution factor derived from the spot balance divided by the debt plus equity of the specific project being financed.
- The emission factors (CO_2e per kWh production) from the Operating Margin emission factor of the International Financial Institutions (IFI) dataset. The Operating Margin is based on emission factors from the power plants with the highest variable operating costs. These are the power plants that will be replaced first when utilising new renewable power sources. Hence, this factor provides a more realistic insight in the contribution of new renewable power sources and is recommended by the PCAF methodology.

(1) For a small minority of loans where there are further advances to existing customers the physical valuation at the most recent borrowing date is used. The Group is continuing to refine the data used in the calculation to reduce instances of this.

(2) Use of total assets as a proxy, as permitted by the PCAF methodology.

(3) In a small number of instances, where the calculated attribution factor was greater than 100%, the attribution factor was limited to 100%. This limit was applied as it would not be appropriate for the Group to be attributed more than 100% of a customer's absolute emissions. The Group is continuing to refine and cleanse the data used in the calculation to further reduce the incidence of this. Only 4% (2022: 4%) of balances analysed were impacted by a fixed attribution factor.

Financed emissions outputs

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 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 on financed emissions (which are the customers' Scope 1 and 2 emissions).

	31 March 2023					30 September 2021/31 March 2022					Movement	
	Scope 1 and 2 emissions tCO_2e	Scope 3 tCO_2e	Total emissions tCO_2e	Physical emissions intensity ($kgCO_2e/m^2$)	Economic emissions intensity tCO_2e/£m	Scope 1 and 2 emissions tCO_2e	Scope 3 tCO_2e	Total emissions tCO_2e	Physical emissions intensity ($kgCO_2e/m^2$)	Economic emissions intensity tCO_2e/£m	Change in total financed emissions %	Change in economic emissions intensity %
Mortgages	**574,389***	**–**	**574,389***	**31.1***	**10.0***	617,314[2]	–	617,314[2]	31.9[2]	10.7[2]	(7)	(7)
Business, *of which:*												
Agriculture	**469,564**	**–**	**469,564**	**–**	**534.2**	504,642[1]	–	504,642[1]	–	568.0[1]	(7)	(6)
Business Services	**2,132**	**–**	**2,132**	**–**	**46.2**	–	–	–	–	–	–	–
Commercial Real Estate	**6,149**	**–**	**6,149**	**40.0**	**19.4**	–	–	–	–	–	–	–
Government, Health and Education	**17,006**	**–**	**17,006**	**–**	**20.7**	–	–	–	–	–	–	–
Hospitality	**3,605**	**–**	**3,605**	**–**	**6.4**	–	–	–	–	–	–	–
Manufacturing	**117,395**	**–**	**117,395**	**–**	**225.1**	152,607[1]	–	152,607[1]	–	698.1[1]	(23)	(68)
Resources	**150,764**	**157,828**	**308,592**	**–**	**1,797.2**	91,409[1]	41,478[1]	132,887[1]	–	1,450.4[1]	132	24
Transport and storage	**113,115**	**–**	**113,115**	**–**	**604.1**	444,926[1]	–	444,926[1]	–	1,952.3[1]	(75)	(69)
Other	**31,651**	**–**	**31,651**	**–**	**373.5**	–	–	–	–	–	–	–
Total	**1,485,770**	**157,828**	**1,643,598**			1,810,898[1]	41,478[1]	1,852,376[1]				
Avoided emissions[3]	**(43,518)**	**–**	**(43,518)**									

(1) Restated to exclude asset finance and credit cards. 2022 reported Scope 1 and 2 emissions: Agriculture: 517,452 tCO_2e; Manufacturing: 163,287 tCO_2e; Resources: 109,726 tCO_2e; and Transport: 596,561 tCO_2e. 2022 reported Scope 3 emissions: Resources: 50,560 tCO_2e. 2022 economic emissions intensity: Agriculture: 572 tCO_2e/£m; Manufacturing: 701 tCO_2e/£m; Resources: 1,622 tCO_2e/£m; and Transport: 2,120 tCO_2e/£m.

(2) Certain enhancements have been made to the calculation of mortgage financed emissions metrics in the current year, prior year metrics have been restated using consistent methodologies. Mortgage Scope 1 and 2 emissions have been restated from 625,280 to 617,314 primarily reflecting minor changes to the modelling methodology for properties where no EPC or property type data is available. Prior year Economic emissions intensity has been restated from 10.8 tCO_2e/£m to 10.7 tCO_2e/£m as a result of the change to Scope 1 and 2 emissions. Prior year Physical emissions intensity has been restated from 39 $kgCO_2e/m^2$ to 31.9 $kgCO_2e/m^2$ reflecting both the change to Scope 1 and 2 emissions as well as enhancements to the Group's method for estimating floor space for properties where no actual data is available.

(3) Avoided emissions have been calculated on our renewable lending book. Avoided emissions are those emissions which have been avoided by using renewable electricity generation, rather than electricity generated by fossil fuels. This calculation included wind farms, hydro power stations and solar panels (excluding domestic solar panels), which once constructed, do not generate any Scope 1 and 2 emissions. The electricity generation data has been collated on a project-by-project basis.

Data quality score

The estimate of financed emissions is highly sensitive to the quality of the underlying data, the assumptions made and the approaches taken. As a result, we expect future emissions estimates 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.

In some cases, the PCAF data score has been adjusted to reflect the quality of the data – for example, for the Business portfolio, the data quality score has been adjusted from 4 to 4.5 to reflect the estimates associated with translating sector industry codes, which are used to assign emission factors.

31 March 2023	Customer specific emissions data[1] %	Estimated based on customer specific physical data points[1] %	Estimated based on customer specific economic data points[1] %	Extrap-olated[1] %	Total population %	Weighted average data score	Prior year data score 30 Sept 2021/ 31 Mar 2022
Mortgages		**79**[3]		**21**[3]	**100**	**3.4**	**3.5**
Agriculture	**1**		**99**[2]		**100**	**4.4**	**4.5**
Business Services			**100**		**100**	**4.5**	–
Commercial Real Estate		**82**[4]	**17**[4]	**1**[4]	**100**	**3.6**	–
Government, Health and Education			**100**		**100**	**4.5**	–
Hospitality			**100**		**100**	**4.5**	–
Manufacturing	**12**		**88**[2]		**100**	**4.1**	**4.5**
Resources	**18**	**10**	**72**[2]		**100**	**3.6**	**4.5**
Transport and storage			**100**[2]		**100**	**4.3**	**4.5**
Other			**100**[2]		**100**	**4.4**	–
Avoided emissions	**100**				**100**	**2**	–

(1) Percentages calculated based on value of lending as a proportion of total population.

(2) Includes specific customer SIC codes, which achieves a data score of 4, and mapped customer SIC codes which achieves a data score of 4.5.

(3) EPC data was available for 79% of the portfolio and a data score of 3 has been applied. For the remaining population property specific data points have been estimated based on property type (19%), or where no EPC or property type is available (2%) and emissions have been extrapolated based on region and product type. In both cases, a data score of 5 is applied.

(4) For 82% of the portfolio, a data quality score of 3.5 has been applied, as the calculation is based on EPC data and floorspace. For a data quality score of 3, property type is also required. For 17% of the portfolio a data score of 4.5 was applied as EPC data was not available, but floor space data was used. For a data score of 4, property type is also required. For 1% of the portfolio, floor space was not known and a data quality score of 5 was applied.

Data quality and limitations

Given the limited availability and consistency of climate-related data, the Group has made a number of assumptions in order to calculate its emissions.

> Known data limitations: For both the mortgages and CRE portfolios, EPC data is a key input. EPCs are currently the best source of publicly available data on the energy efficiency of a property and while useful, there are known limitations of EPC data including:
  - *Static 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.

Other limitations of the approach to calculating financed emissions include:

> *Incomplete data:* In some instances, data points which are used to estimate emissions are missing, and in these cases, the data point has been estimated or an alternative approach to estimating emissions taken. For example, EPC data is key to our Mortgage book estimation, and only available for 79% of the Group's Mortgage properties, by value (2022: 75%). Where EPC and floor space data is unavailable, alternative modelling approaches are used to estimate emissions. These estimates make assumptions regarding property sizes and UK Government consumption data being representative across different regions of the UK. These estimates also assume that the portion of the Mortgage portfolio we have complete data for is representative of the rest of the portfolio.

> *Lag effect of data:* Emissions have been calculated for on-balance sheet lending at 31 March 2023. Key data inputs, such as published UK Government data, customer specific emissions and customer specific financial statement data used within the calculation does not always align to these dates. This may result in a lag in reflecting changes in actual emissions within the financed emissions calculations.

> *Scope:* The calculation of financed emissions has only considered on balance sheet exposure, in line with the PCAF methodology. This results from undrawn commitments to customers being excluded from the calculation – resulting in a potential increase in financed emissions if balances are drawn in the future.

- *Availability of customer specific emissions:* The most material steps forward are expected to be made through the use of customer specific emissions or energy consumption data. For mortgages, this would be electricity and gas consumption at a property level, and for business, this is our customers calculating and reporting their emissions. The estimate of emissions using this type of data is expected to be materially enhanced, however, there are likely to be some persistent data issues, particularly related to the alignment (or misalignment) of reporting dates. The UK Government continues to encourage (or require through legislative changes) businesses to report emissions data, however this currently only includes the largest corporates in the UK, and the SME nature of our portfolio means there will be a considerable wait for these requirements to be filtered down to smaller businesses in the UK.
- *Changes to the estimate and restatements:* The evolving nature of climate reporting means that it is expected that new information, including data and methodologies, will become available. Our baseline recalculation policy determines when we might change our estimates to ensure consistency, comparability and relevance over time. We may revise financed emissions information where there is a change to the model or data that could lead to significant differences in the presentation of our net-zero targets and progress related to those targets.

Future focus

Over the course of the next year, the Group will continue to refine its calculations and develop its financed emissions methodology. Improving data availability and data quality is a key focus.

The Group encourages calculation and reporting of customer specific emissions, which is vital to enabling further improvements. Alongside working to collate customer specific emissions, the Group will continue to enhance and develop its modelling capability to estimate emissions.

In June 2023, PCAF made a substantial update to the PCAF Database. The Group is reviewing this update and looking to understand how it will impact financed emissions estimates in the future. If material, this change to the data inputs will result in a recalculation of the baseline year.

Climate-related targets

Under our obligations as a signatory to the NZBA, we've committed to set targets within our most carbon intensive sectors. Our approach to developing targets is set out below:

- Identify the most carbon intensive customer sectors, using financed emissions calculations and alignment with external guidance. In 2023, we have measured our progress against the five key sector targets set out in 2022. Given the majority of our lending portfolio is aligned with SMEs, we have not developed further targets in additional sectors. We will continue to review this position as we capture more data and external guidance develops.
- Selecting scenarios in line with a 1.5°C pathway, consistent with the Paris Agreement. There are two key pathways selected, based on data availability:
  - The UK CCC's Balanced Net Zero has been used wherever possible, due to its UK focus. This is preferred due to the Group's exposure to UK-based companies.
  - The SBTi 1.5°C pathway as adapted from the IEA Net Zero by 2050 scenario has been used for our Mortgage portfolio, using SBTi guidance and tooling.
- We then define the boundaries for the target, which align with the boundaries set for the financed emissions calculations set out on page 267.
- The base year is then selected for measuring progress against the pathway. These also align to the base year of the emission calculation model, which is 2022 for Mortgages and 2021 for Business sectors.

To estimate interim 2030 target reductions, we have followed SBTi guidance using the Sectoral Decarbonisation Approach wherever possible. The Sectoral Decarbonisation Approach considers 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 Sectoral Decarbonisation Approach 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 but will consider doing so in the future. The Group has not considered the use of carbon offsets within financed emissions targets, focusing instead on supporting customers to decarbonise their operations.

Enhancements to 2022 targets

We have updated our targets set in 2022 to reflect the methodology improvements developed in our 2023 models. Therefore, all of our Business sector target baselines have been updated to reflect a 2021 base year as consistent with the latest iteration of our models. We are committed to continue to align to the latest guidance and external science and anticipate further developments in future years, as we enhance data availability and methodologies across our customer portfolios.

A summary of individual portfolio performance against the targets set is outlined in the table below, including the expected emissions intensity based on the trajectory aligned to external scenarios and tooling. We have summarised data limitations and individual sector methodology updates.

Sector	Est. 2021 baseline intensity	Est. 2023 intensity	2023 pathway intensity	Difference[2] %	Est. 2030 intensity
Mortgages[1] *$kgCO_2e/m^2$*	**32.3**	**31.1***	**29.9**	**4%**	**15.0**
Agriculture *tCO_2e/£m rev*	**1,431**	**1,535**	**1,336**	**15%**	**1,061**
Oil and gas (Resources) *tCO_2e/£m lent*	**1,115**	**1,059**	**949**	**12%**	**539**
Transport – Surface			*N/A – see notes*		
Transport – Shipping *tCO_2e/£m*	**1,934**	**709**	**1,646**	**57%**	**936**

(1) Calculated on Mortgage loan level data as at 31 March 2022/31 March 2023.

(2) Percentage difference from estimated 2023 intensity relative to the 2021 pathway intensity.

Mortgages

The Group aims to achieve an emissions intensity reduction of 53% by 2030, based on a 2022 baseline, in line with the physical intensity approach. The target reduction is based on updating the pathway used in the target estimate from the IEA B2DS scenario to the more ambitious IEA NZE 2050 scenario available within SBTi tooling. While underlying estimated financed emissions reduced by 7%, improved floor space estimates resulted in a higher intensity relative to the pathway. Achieving the Mortgages portfolio target remains dependent on the delivery of a number of external factors, which are outlined in our transition plan strategy on pages 243 to 245.

Agriculture

The Group aims to achieve an emissions intensity reduction of 26% by 2030, based on a 2021 baseline, in line with the physical intensity approach. To estimate physical intensity, we have used farming revenue to represent physical output of the agriculture sector, recognising there is no single physical output due to the complexity of subsector activities. Projections of future farming output were made using the assumption that farming revenue would grow in line with World Bank population estimates. Despite a 7% reduction in underlying financed emissions estimates from the base year, estimated agriculture intensity was 15% higher than the pathway convergence point. This was due to lower customer revenue, combined with a lower attribution factor across the sector. We are aware the SBTi are developing an SDA approach for the agriculture sector and expect to set targets in line with updated guidance as these are developed.

Oil and gas

The Group aims to achieve an emissions intensity reduction of 52% by 2030, based on a 2021 baseline, in line with the economic intensity approach. In 2023 we updated our Oil and gas target to include Scope 1 and 2 emissions within the boundary, as our Oil and gas portfolio is comprised of field services companies which have greater control of Scope 1 and 2 emissions. There is no single physical output for these businesses and we expect the portfolio will transition to supporting the renewables sector. We will continue to work with our Oil and gas field services customer base to develop transition plans to continue to reduce the carbon intensity of their business models.

Shipping

The Group aims to achieve an emissions intensity reduction of 52% by 2030, based on a 2021 baseline, in line with the economic intensity approach. Due to a number of data enhancements within the underlying emissions models, including the refinement of underlying industry sector codes which determine the application of emissions factors, the Group's targets are ahead of the intensity target. The Group will continue to review the approach to setting targets within the Shipping sector given the limited available pathways and uncertain decarbonisation strategy within the sector.

Surface Transport

The Group set a science-based target in the Surface Transport sector in 2022. Due to methodology review, the decision was made to remove Asset Finance balances from the Surface Transport model, which resulted in a material change in the balances analysed. Plans to develop an Asset Finance specific model are in place for 2024 and the Group will update its target for the sector once established. We are continuing to work with customers to identify opportunities to leverage green asset finance opportunities within the sector, while improving data quality for the underlying calculations.

Financial statements

Laura
Customer Contact

Laura is part of our Customer Contact Centre team, speaking with our customers every day and helping them feel happier about money.

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 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Virgin Money UK PLC (the 'parent company') and its subsidiaries (the 'Group') for the year ended 30 September 2023 which comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2023	Company balance sheet as at 30 September 2023
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	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 material accounting policy information
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 5.6 to the financial statements, including material accounting policy information	
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 their preparation is applicable law and UK adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

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

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

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.
Key audit matters	> Impairment of loans > Revenue recognition – Effective interest rate method accounting

Overview of our audit approach	
Materiality	> Overall Group materiality of £29m which represents 5% of the profit before tax adjusted for non-recurring costs.

Climate change

Stakeholders are increasingly interested in how climate change will impact 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 238 in the Risk report, and on pages 239-272 in the required Climate-related 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.

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

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

Our audit effort in considering climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transitional, and ensuring that the effects of material climate risks disclosed in note 1.5 have been appropriately reflected in the areas of judgement and estimation where relevant. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit. We also challenged the Directors' considerations of climate change in their assessment of going concern and associated disclosures.

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

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

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of loans **Consolidated balance sheet impairment of loans – £617m (2022: £457m)** **Consolidated income statement charge – £309m (2022: £52m credit)** **Please refer to page 117 (Audit Committee report), page 171 (Credit risk report) and note 3.1.1.1 (Impairment provisions on credit exposures note).** There is uncertainty in estimating expected credit losses (ECL), and management are required to make highly subjective judgements which have a material impact on the financial statements. This calculation is usually complex and higher inflation and interest rates experienced in recent times have increased the uncertainty and complexity. Prior to the last two years, the current economic conditions had not been experienced for many years, which creates modelling difficulties due to the existing models having been developed with data relating to different economic conditions. As a result there is a need for management to exercise judgement and perform assessments to consider whether these risks are appropriately captured through models or should be captured through the recording of post model adjustments and overlays. Key matters that could result in material misstatement in respect of the measurement of ECL include the: > Allocation of assets to stage 1, 2, or 3 using criteria in accordance with IFRS 9; > Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; > Completeness and accuracy of data used to calculate the ECL; > Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios, particularly those influenced by current economic conditions; > Completeness and valuation of post model adjustments and overlays including those required to address current economic conditions; > Measurements of individually assessed provisions, including the assessment of multiple scenarios, collateral valuations and workout strategies; and > Adequacy of the financial statement disclosures made for judgements on significant increase in credit risk, multiple economic scenarios and assessment of overlays.	We developed a detailed understanding of the Group's accounting policies to ensure they remained compliant with the requirements of IFRS 9. We assessed the appropriateness of the Group's staging criteria including the application of qualitative watch list backstops and their logical application through the modelled environment. We reperformed staging on all portfolios that we determined to be of a higher risk. This was done by independently replicating the staging models and re-running the results in our own environment. We assessed the assumptions and performed testing over inputs and formulae used in a risk-based sample of ECL models with involvement of our internal credit modelling specialists. This included assessing the appropriateness of model design and the calculations used, an assessment of model performance and recalculating Probability of Default, Loss Given Default and Exposure at Default for a risk-based sample of portfolios. We also considered whether models appropriately capture the risks of high inflation and high interest rates as models were developed using historic experience when high inflation and high interest conditions were not prevalent. We performed testing over completeness and accuracy of data used in the ECL models and calculation by reconciling, and performing sample tests of key data fields used in the model, to source data and corroborative evidence. We independently recalculated risk ratings for a sample of performing and non-performing business loans and compared to the Group's determinations. We assessed the base case and alternative economic scenarios adopted by management utilising economic specialists. We challenged the probability weightings ascribed to the scenarios and compared them to other scenarios from a variety of external sources. With the assistance of economic specialists, we assessed whether forecast macroeconomic variables were appropriate loan loss provision drivers, and that the forecast variables were reasonable in the context of current economic conditions. We performed testing of model overlays, including those required to ensure the overall ECL fully reflects the risks contained within the current economic environment. With our credit modelling specialists, we assessed the completeness of these adjustments and any other potential post model adjustments, their appropriateness by considering the data, judgements and methodology for these adjustments. With the support of our valuation specialists, we recalculated ECL provisions for a sample of individually assessed loans including comparing to alternative scenarios and challenging probability weightings assigned. We also assessed a sample of individual loans classified as performing loans within higher risk sectors, where no specific provision was held to determine whether their stage classification was appropriate. We obtained management's assessment of climate risk and its impact on the recognition of ECL. We engaged our specialists to assess the completeness of the risks in management's risk assessment and the appropriateness of the conclusions made in respect of estimated amounts in respect of physical and transition risks and the timing of crystallisation of those risks. We also performed procedures on completeness and accuracy of data used in management's risk assessment. Our procedures included a series of 'stand-back' analyses, including industry benchmarking, internal consistency checks and analytical review. We assessed the adequacy and appropriateness of disclosures made within the financial statements, including those in respect of the impact of current economic conditions for significant increase in credit risk, multiple economic scenarios and overlays.	We communicated that we were satisfied that ECL provisions were reasonable and in compliance with the requirements of IFRS 9. We communicated that our independent testing of models and underlying modelling assumptions resulted in only minor differences that were considered to be immaterial in the aggregate. We also communicated that our challenge of the forecast macroeconomic variables and the base, downside and upside scenarios, together with weightings adopted by management concluded that they were reasonable. The risk not captured by the economic scenarios was appropriately addressed through overlays. Our testing of recorded overlays confirmed they had been accurately recorded, and we were satisfied that their use was complete and appropriate. We communicated that management's climate risk assessment is appropriate and makes the necessary considerations in respect of the physical and transition risks and their impact on ECL and related disclosures. Our assessment of the overall provision balance through peer benchmarking and analysis of key indicators, such as the ratio of provisions to loan balances, indicated the provisions recorded captured the continued uncertainty in the overall economic environment as at year end. We communicated that the provisions for all portfolios are considered reasonable. We communicated that we are satisfied with the accuracy and adequacy of the disclosures made.

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

Our application of materiality

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

Materiality

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

We determined materiality for the Group to be £29m (2022: £37m), which is 5% of the profit before tax of the Group of £345m (2022: £595m), adjusted for non-recurring restructuring, impairment and acquisition accounting costs. We believe removing these non-recurring charges reflects the most useful measure for users of the statements. For the prior year audit, materiality figures for the Group were based on equity given the uncertain economic environment, and the historic performance of the Group. In the current year, the Group has continued to report sustained levels of profitability, therefore we have reverted to a profit-based materiality measure.

We determined materiality for the parent company to be £29m (2022: £37m), which is 0.7% (2022: 0.9%) of equity. We believe this reflects the most useful measure for users of the financial statements as the parent company's primary purpose is to act as a holding company with investments in the Group's subsidiaries, not to generate operating profits and therefore a profit based measure is not relevant.

Performance materiality

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

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

Reporting threshold

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

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

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

Other information

The other information comprises the information included in the annual report set out on pages 1 to 272, including the Strategic report set out on pages 2 to 72, the Governance report set out on pages 73 to 164, the Risk report set out on pages 165 to 238, the Climate-related disclosures set out on pages 239 to 272 and Additional information set out on pages 337 to 391, 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 161;
- 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 161;
- 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 161;
- Directors' statement on fair, balanced and understandable set out on page 164;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 161 to 162;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 121; and
- The section describing the work of the audit committee set out on pages 115 to 122.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 164, 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 eight years covering the years ending 30 September 2016 to 30 September 2023.
- 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 19 years, covering the years ending 30 September 2005 to 30 September 2023.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Ernst & Young LLP

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

Consolidated financial statements

Consolidated income statement

For the year ended 30 September	Note	2023 £m	2022 £m
Interest income		**3,830**	2,215
Other similar interest		**3**	2
Interest expense and similar charges		**(2,146)**	(641)
Net interest income	2.1	**1,687**	1,576
Gains less losses on financial instruments at fair value		**(12)**	(17)
Other operating income		**152**	157
Non-interest income	2.2	**140**	140
Total operating income		**1,827**	1,716
Operating and administrative expenses before impairment losses	2.3	**(1,173)**	(1,069)
Operating profit before impairment losses		**654**	647
Impairment losses on credit exposures	3.1.1.1	**(309)**	(52)
Profit on ordinary activities before tax		**345**	595
Tax expense	2.4	**(99)**	(58)
Profit for the year		**246**	537
Attributable to:			
Ordinary shareholders		**192**	467
Other equity holders		**54**	70
Profit for the year		**246**	537
Basic earnings per share (pence)	2.5	**14.0**	32.4
Diluted earnings per share (pence)	2.5	**13.9**	32.3

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

The notes on pages 288 to 327 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 30 September	Note	2023 £m	2022 £m
Profit for the year		**246**	537
Items that may be reclassified to the income statement			
Change in cash flow hedge reserve			
(Losses)/gains during the year		**(268)**	962
Transfers to the income statement		**(12)**	(13)
Taxation thereon – deferred tax credit/(charge)		**77**	(260)
	4.1.5	**(203)**	689
Change in FVOCI reserve			
(Losses)/gains during the year		**(49)**	15
Transfers to the income statement		**(1)**	(4)
Taxation thereon – deferred tax credit/(charge)		**14**	(1)
		(36)	10
Total items that may be reclassified to the income statement		**(239)**	699
Items that will not be reclassified to the income statement			
Change in defined benefit pension plan	3.3	**(544)**	122
Taxation thereon – deferred tax credit/(charge)		**188**	(50)
Taxation thereon – current tax credit		**1**	6
Total items that will not be reclassified to the income statement		**(355)**	78
Other comprehensive (losses)/income, net of tax		**(594)**	777
Total comprehensive (losses)/income for the year, net of tax		**(348)**	1,314
Attributable to:			
Ordinary shareholders		**(402)**	1,244
Other equity holders		**54**	70
Total comprehensive (losses)/income for the year, net of tax		**(348)**	1,314

The notes on pages 288 to 327 form an integral part of these financial statements.

Consolidated balance sheet

As at 30 September	Note	2023 £m	2022 £m
Assets			
Financial instruments	3.1		
At amortised cost	3.1.1		
Loans and advances to customers	3.1.1.1	**72,191**	71,751
Cash and balances with central banks	3.1.1.2	**11,282**	12,221
Due from other banks		**667**	656
At FVOCI	3.1.2	**6,184**	5,064
At FVTPL	3.1.3		
Loans and advances to customers	3.1.3.1	**59**	70
Derivatives	3.1.3.2	**135**	342
Other	3.1.3.3	**2**	8
Intangible assets and goodwill	3.2	**173**	267
Deferred tax	2.4	**193**	146
Defined benefit pension assets	3.3	**512**	1,000
Other assets	1.7, 3.4	**388**	382
Total assets		**91,786**	91,907
Liabilities			
Financial instruments	3.1		
At amortised cost	3.1.1		
Customer deposits	3.1.1.3	**66,827**	65,434
Debt securities in issue	3.1.1.4	**9,719**	8,509
Due to other banks	3.1.1.5	**6,939**	8,502
At FVTPL	3.1.3		
Derivatives	3.1.3.2	**290**	327
Deferred tax	2.4	**179**	350
Provisions for liabilities and charges	3.7	**69**	50
Other liabilities	1.7, 3.5	**2,156**	2,395
Total liabilities		**86,179**	85,567
Equity			
Share capital and share premium	4.1.1	**143**	148
Other equity instruments	4.1.2	**594**	666
Capital reorganisation reserve	4.1.3	**(839)**	(839)
Merger reserve	4.1.4	**2,128**	2,128
Other reserves	4.1.5	**528**	766
Retained earnings		**3,053**	3,471
Total equity		**5,607**	6,340
Total liabilities and equity		**91,786**	91,907

The notes on pages 288 to 327 form an integral part of these financial statements.

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

David Duffy
Chief Executive Officer

Clifford Abrahams
Chief Financial Officer

Virgin Money UK PLC, Registered number: 09595911

Consolidated statement of changes in equity

	Note	Share capital and share premium £m	Other equity instruments £m	Capital reorg' reserve £m	Merger reserve £m	Other reserves: Own shares held £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	4.1.2	4.1.3	4.1.4	4.1.5	4.1.5	4.1.5	4.1.5	4.1.5	4.1.5		
As at 1 October 2021		149	915	(839)	2,128	–	–	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	666	(839)	2,128	–	3	11	10	43	699	3,471	6,340
Profit for the year		–	–	–	–	–	–	–	–	–	–	246	246
Other comprehensive losses, net of tax		–	–	–	–	–	–	–	–	(36)	(203)	(355)	(594)
Total comprehensive losses for the year		–	–	–	–	–	–	–	–	(36)	(203)	(109)	(348)
AT1 distributions paid		–	–	–	–	–	–	–	–	–	–	(54)	(54)
Dividends paid to ordinary shareholders		–	–	–	–	–	–	–	–	–	–	(148)	(148)
Ordinary shares issued		2	–	–	–	–	–	–	–	–	–	–	2
Share buyback		(7)	–	–	–	–	7	–	–	–	–	(112)	(112)
Purchase of own shares		–	–	–	–	(2)	–	–	–	–	–	–	(2)
Transfer from equity based compensation reserve		–	–	–	–	–	–	–	(4)	–	–	4	–
Equity based compensation expensed		–	–	–	–	–	–	–	5	–	–	–	5
Settlement of Virgin Money Holdings (UK) Limited share awards		–	–	–	–	–	–	(5)	–	–	–	1	(4)
AT1 redemption		–	(72)	–	–	–	–	–	–	–	–	–	(72)
As at 30 September 2023		**143**	**594**	**(839)**	**2,128**	**(2)**	**10**	**6**	**11**	**7**	**496**	**3,053**	**5,607**

The notes on pages 288 to 327 form an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 September	Note	2023 £m	2022 £m
Operating activities			
Profit on ordinary activities before tax		**345**	595
Adjustments for:			
Non-cash or non-operating items included in profit before tax	5.4	**(1,207)**	(1,326)
Changes in operating assets	5.4	**(544)**	1,212
Changes in operating liabilities	5.4	**284**	(238)
Payments for short-term and low value leases	3.6	**(3)**	(2)
Interest received		**3,300**	2,112
Interest paid		**(1,173)**	(378)
Tax paid		**(48)**	(59)
Net cash provided by operating activities		**954**	1,916
Cash flows from investing activities			
Interest received		**232**	47
Proceeds from sale and maturity of financial assets at FVOCI		**1,868**	673
Purchase of financial assets at FVOCI		**(2,950)**	(2,019)
Purchase of shares issued by UTM		**–**	(4)
Proceeds from sale of property, plant and equipment		**1**	1
Purchase of property, plant and equipment		**(9)**	(13)
Purchase and development of intangible assets	3.2	**(11)**	(53)
Net cash used in investing activities		**(869)**	(1,368)
Cash flows from financing activities			
Interest paid		**(742)**	(246)
Repayment of principal portions of lease liabilities	3.6	**(24)**	(26)
Redemption and principal repayment on RMBS and covered bonds	3.1.1.4	**(1,012)**	(1,264)
Redemption and principal repayment on medium-term notes/subordinated debt	3.1.1.4	**(432)**	–
Redemption of AT1 securities		**(72)**	(614)
Proceeds from issuance of AT1 securities		**–**	347
Issuance of RMBS and covered bonds	3.1.1.4	**1,826**	2,480
Issuance of medium-term notes/subordinated debt	3.1.1.4	**747**	–
Amounts drawn down under the TFSME		**–**	2,550
Amounts repaid under the TFSME		**(1,000)**	–
Amounts repaid under the TFS		**–**	(1,244)
Share buybacks and purchase of own shares		**(112)**	(53)
AT1 distributions	4.1.2	**(54)**	(70)
Ordinary dividends paid		**(148)**	(50)
Net cash (used in)/provided by financing activities		**(1,023)**	1,810
Net (decrease)/increase in cash and cash equivalents		**(938)**	2,358
Cash and cash equivalents at the beginning of the year		**12,611**	10,253
Cash and cash equivalents at the end of the year	5.4	**11,673**	12,611

Movements in liabilities arising from financing activities

	Note	Term funding schemes[1] £m 3.1.1.5	Debt securities in issue £m 3.1.1.4	Lease liabilities £m 3.6	Total £m
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
Cash flows:					
Issuances		–	2,573	–	2,573
Redemptions		–	(1,444)	–	(1,444)
Repayment		(1,000)	–	(24)	(1,024)
Tax paid		–	–	(1)	(1)
Non-cash flows:					
Fair value and other associated adjustments		–	59	–	59
Additions to right-of-use asset in exchange for increased lease liabilities		–	–	76	76
Remeasurement		–	–	(6)	(6)
Movement in accrued interest		61	27	3	91
Unamortised costs		–	(5)	–	(5)
At 30 September 2023		**6,291**	**9,719**	**180**	**16,190**

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

The notes on pages 288 to 327 form an integral part of these financial statements.

Notes to the consolidated financial statements

Section 1: Basis of preparation

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

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

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

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

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

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

As a result of the assessment, the Directors have a reasonable expectation that the 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.

1.4 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 if there are indicators that control may have changed.

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

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

Notes to the consolidated financial statements

Section 1: Basis of preparation continued

1.5 Critical accounting estimates and judgements

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

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

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

Critical accounting estimates and judgements related to climate-related risks

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

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

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

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

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

1.6 New accounting standards and interpretations

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

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

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

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

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

- Basis of consolidation: joint ventures (JVs).
- Foreign exchange: functional and presentation currency/transactions and balances.
- Property, plant and equipment.
- Operating and administrative expenses before impairment losses.
- Taxation: income tax/current tax.
- Intangibles and goodwill: capitalised software/goodwill/impairment.
- Retirement benefits: defined contribution scheme.
- Provisions.
- Other liabilities: deferred grants.
- Leases: as lessee/as sub-lessor.
- Equity: equity/dividends.
- Equity based compensation.
- Contingent liabilities.
- Investment in controlled entities (this policy relates to the Company financial statements).

New accounting standards and interpretations not yet adopted

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

Notes to the consolidated financial statements

Section 1: Basis of preparation continued

1.7 Other accounting policy and presentational changes

The following changes took place during the year:

Investment property

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

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

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

Expected credit losses

During the year, a new Business LGD model was brought into use in the Group's ECL calculation. The development of this model was at an advanced stage in the prior year, to the extent that a negative management adjustment of £15m was incorporated into the ECL figure. The introduction of the new model allowed this negative management adjustment to be removed in the current year. Further detail can be found in the credit risk section within the Risk report, pages 195 and 206.

Presentational change

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

	Other assets £m	Other liabilities £m
Original balance	171	2,394
Property, plant and equipment	211	–
Current tax	–	1
Restated balance	382	2,395

Section 2: Results for the year

2.1 Net interest income

Accounting policy

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

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

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

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

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

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

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

Critical accounting estimates and judgements

EIR

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

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

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

Mortgages

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

Product life

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

SVR

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

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

2.1 Net interest income continued

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

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

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

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

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

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

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

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

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

(1) Where the IBB assumption is already equal to or less than 50% IBB, no further adjustment has been made on the basis this already represents a downside economic stress.

Notes to the consolidated financial statements

Section 2: Results for the year continued

2.1 Net interest income continued

	2023 £m	2022 £m
Interest income		
Loans and advances to customers	**3,150**	2,095
Loans and advances to other banks	**435**	70
Financial assets at FVOCI	**245**	50
Total interest income	**3,830**	2,215
Other similar interest		
Financial assets at FVTPL	**3**	5
Derivatives economically hedging interest bearing assets	**–**	(3)
Total other similar interest	**3**	2
Less: interest expense and similar charges		
Customer deposits	**(1,233)**	(342)
Debt securities in issue	**(537)**	(227)
Due to other banks	**(372)**	(70)
Other interest expense	**(4)**	(2)
Total interest expense and similar charges	**(2,146)**	(641)
Net interest income	**1,687**	1,576

Net interest income includes a charge of £29m (2022: £16m) in relation to acquisition accounting unwinds as shown in the reconciliation of statutory to underlying results table on page 67.

2.2 Non-interest income

Accounting policy

Gains less losses on financial instruments at fair value

This includes fair value gains and losses from three distinct activities:

- Derivatives classified as held for trading – the full change in fair value of trading derivatives is recognised inclusive of interest income and interest expense arising on those derivatives except when economically hedging other assets and liabilities at fair value as outlined in note 2.1.
- Other financial assets designated at FVTPL – these relate principally to the Group's fixed interest rate loan portfolio (note 3.1.3.1), which were designated at inception as FVTPL. The fair value of these loans is derived from the future loan cash flows using appropriate discount rates and includes adjustments for credit risk and credit losses.
- Hedged assets, liabilities and derivatives designated in hedge relationships – fair value movements are recognised on both the hedged item and hedging derivative in a fair value hedge relationship, the net of which represents hedge ineffectiveness, and hedge ineffectiveness on cash flow hedge relationships (note 3.1.3.2).

Fees and commissions

Fees and commissions receivable which are not an integral part of the EIR are recognised as income as the Group fulfils its performance obligations. The Group's principal performance obligations arising from contracts with customers are in respect of current accounts, debit cards and credit cards. The Group provides the service and consequently generates the fee and commission income monthly, with amounts recognised in income on this basis. Costs incurred to generate this income are charged to fees and commissions expense as they are incurred.

Notes to the consolidated financial statements

Section 2: Results for the year continued

2.2 Non-interest income continued

	2023 £m	2022 £m
Gains less losses on financial instruments at fair value		
Held for trading derivatives	**1**	6
Financial assets at fair value[1]	**2**	(19)
Ineffectiveness arising from fair value hedges (note 3.1.3.2)	**33**	46
Amounts recycled to profit and loss from cash flow hedges[2] (note 3.1.3.2)	**2**	(4)
Ineffectiveness arising from cash flow hedges (note 3.1.3.2)	**(50)**	(46)
	(12)	(17)
Other operating income		
Net fee and commission income	**128**	134
Margin on foreign exchange derivative brokerage	**19**	19
Gains on sale of financial assets at FVOCI	**1**	4
Share of JV loss after tax	**–**	(4)
Other income	**4**	4
	152	157
Total non-interest income	**140**	140

(1) Included within financial assets at fair value is a credit risk gain on loans and advances at fair value of £Nil (2022: £1m gain), and a fair value gain on equity investments of £2m (2022: £2m gain).

(2) In respect of terminated hedges.

The Group's unrecognised share of losses of JVs for the year was £6m (2022: £8m). For loss-making entities, subsequent profits earned are not recognised until previously unrecognised losses are extinguished. On a cumulative basis, the Group's unrecognised share of losses net of unrecognised profits of JVs is £15m (2022: £9m).

Non-interest income includes the following fee and commission income disaggregated by income type:

	2023 £m	2022 £m
Current account and debit card fees	**100**	102
Credit cards	**63**	52
Insurance, protection and investments	**7**	8
Other fees[1]	**16**	26
Total fee and commission income	**186**	188
Total fee and commission expense	**(58)**	(54)
Net fee and commission income	**128**	134

(1) Other fees include mortgages, invoice and asset finance and ATM fees.

2.3 Operating expenses

	2023 £m	2022 £m
Staff costs	**432**	435
Property and infrastructure	**74**	38
Technology and communications	**130**	119
Corporate and professional services	**240**	135
Depreciation, amortisation and impairment	**116**	179
Other expenses	**181**	163
Total operating and administrative expenses	**1,173**	1,069

Staff costs comprise the following items:

	2023 £m	2022 £m
Salaries and wages	**275**	254
Social security costs	**32**	30
Defined contribution pension expense	**56**	50
Defined benefit pension credit (note 3.3)	**(50)**	(24)
Compensation costs	**313**	310
Equity based compensation[1]	**6**	4
Bonus awards	**22**	27
Performance costs	**28**	31
Redundancy and restructuring	**7**	3
Temporary staff costs	**24**	13
Other[2]	**60**	78
Other staff costs	**91**	94
Total staff costs	**432**	435

(1) Includes National Insurance on equity based compensation.

(2) Includes a one-off cost of living allowance of £Nil (2022: £7m).

Phase 2 of the ongoing Pension Increase Exchange (PIE) exercise completed in FY22, and the third and final phase is due to complete in the final quarter of calendar year 2023. The defined benefit pension credit in the current year therefore includes no impact (2022: £10m credit) arising from the PIE exercise. A PIE gives members the option to exchange future increases on their pensions for a one-off uplift to their current pension.

Notes to the consolidated financial statements

Section 2: Results for the year continued

2.3 Operating expenses continued

The average number of FTE employees of the Group during the year was made up as follows:

	2023 Number	2022 Number
Managers[1]	**3,436**	2,574
Clerical staff	**3,730**	4,292
	7,166	6,866

(1) Includes a combination of managers with and without staff responsibilities.

The average monthly number of employees was 8,110 (2022: 7,829). All staff are contracted employees of the Group and its subsidiary undertakings. The average figures above do not include contractors.

Auditor's remuneration included within other operating and administrative expenses:

	2023 £'000	2022 £'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	**25**	24
Fees payable to the Company's auditor for the audit of the Company's subsidiaries[1]	**4,787**	4,564
Total audit fees	**4,812**	4,588
Audit related assurance services	**562**	262
Other assurance services	**276**	1,877
Total non-audit fees	**838**	2,139
Fees payable to the Company's auditor in respect of associated pension schemes	**126**	107
Total fees payable to the Company's auditor	**5,776**	6,834

(1) Includes the audit of the Group's structured entities.

Non-audit fees of £1m (2022: £2m) were paid to the auditor during the year for services including UN PRB and the second Payment Services Directive assurance, the review of the Interim Financial Report, PRA Written Auditor Reporting, comfort letters for the global medium-term note and covered bond programmes, client money reviews and profit attestations.

Out of pocket expenses of £26k (2022: £13k) were borne by the Group during the year.

2.4 Taxation

Accounting policy

Deferred tax assets and liabilities are recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

A deferred tax asset is recognised for unused tax losses and unused tax credits only if it is probable that future taxable amounts will arise against which those temporary differences and losses may be utilised.

Critical accounting estimates and judgements

In arriving at the Group's deferred tax asset balance of £193m (2022: £146m), significant judgement is exercised on the component of deferred tax assets that relate to tax losses carried forward of £267m (2022: £302m).

Consistent with prior years, deferred tax assets are recognised to the extent that they are expected to be utilised over six years from the balance sheet date. Gross losses of £83m are not forecast to reverse within this period and have been derecognised (2022: £Nil). If instead of six years the period were five years or seven years, the recognised deferred tax asset would decrease to £148m or increase to £213m respectively, with the latter being full recognition of all losses. If Group profit forecasts were 10% lower than anticipated, the deferred tax asset would be £168m. If Group profit forecasts were 10% higher than anticipated, the deferred tax asset would be £213m. All tax assets arising will be used within the UK.

	2023 £m	2022 £m
Current tax		
Current year	**36**	81
Adjustment in respect of prior years	**2**	4
	38	85
Deferred tax		
Current year	**65**	(21)
Adjustment in respect of prior years	**(4)**	(6)
	61	(27)
Tax expense for the year	**99**	58

2.4 Taxation continued

The tax assessed for the year differs from that arising from applying the standard rate of corporation tax in the UK of 22% (2022: 19%). 22% is the average standard rate for the full financial year, comprising 19% to 1 April 2023 then 25% to 30 September 2023. A reconciliation from the expense implied by the standard rate to the actual tax expense is as follows:

	2023 £m	2022 £m
Profit on ordinary activities before tax	**345**	595
Tax expense based on the standard rate of corporation tax in the UK of 22% (2022: 19%)	**76**	113
Effects of:		
Disallowable expenses	**5**	4
Conduct indemnity adjustment	**(1)**	(12)
Deferred tax assets derecognised/(recognised)	**19**	(83)
Impact of rate changes	**9**	23
AT1 distribution	**(12)**	(13)
Banking surcharge	**5**	28
Adjustments in respect of prior years	**(2)**	(2)
Tax expense for the year	**99**	58

In February 2022 legislation was enacted to reduce the banking surcharge from 8% to 3%, and to increase the threshold below which it is not chargeable to £100m (previously £25m). The impact on deferred tax was reflected in the large rate change charge for the year ended 30 September 2022. The changes are effective for current tax from 1 April 2023 resulting in an average tax rate for the year of 22% (comprising 19% for the six months to 1 April 2023 then 25% to 30 September 2023).

The Group's effective tax rate is 28.7% (2022: 9.7%). The primary driver of this is the derecognition of losses following a reduction in forecast profits over the corporate planning horizon, and a fall in the cash flow hedge reserve due to market conditions.

The current period rate change charge of £9m arises mainly in relation to the defined benefit pension scheme, where current period amounts that are recognised in the income statement are reflected at 22%, while the deferred tax liability on the ultimate accounting surplus is measured at 35%.

The Group has recognised deferred tax in relation to the following items in the balance sheet, income statement, and statement of other comprehensive income:

Movement in deferred tax asset/(liability)

	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 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)
Income statement credit/(charge)	2	1	–	(35)	(8)	–	(4)	(44)	(17)	(17)
Other comprehensive income credit	–	77	14	–	–	–	–	91	188	188
At 30 September 2023	**(6)**	**(189)**	**(2)**	**267**	**103**	**–**	**20**	**193**	**(179)**	**(179)**

Notes to the consolidated financial statements

Section 2: Results for the year continued

2.4 Taxation continued

Other temporary differences include the IFRS 9 transitional adjustment of £9m and equity based compensation of £5m (2022: £11m and £6m respectively).

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.

The Group has unrecognised deferred tax assets of £21m (2022: £Nil) (£83m gross loss valued at the mainstream rate of 25%) representing tax losses whose use is not forecast within the foreseeable future.

On 22 November 2023 the Chancellor announced that the authorised surplus payments charge will be reduced from 35% to 25% from 6 April 2024. If this measure had been enacted on the balance sheet date the deferred tax liability in respect of the defined benefit pension surplus would have reduced from £179m to £128m.

2.5 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.

	2023 £m	2022 £m
Profit attributable to ordinary equity holders for the purposes of basic and diluted EPS	**192**	467

	2023	2022
Weighted-average number of ordinary shares in issue (millions)		
– Basic	**1,375**	1,441
Adjustment for share awards made under equity based compensation schemes	**4**	3
– Diluted	**1,379**	1,444
Basic earnings per share (pence)	**14.0**	32.4
Diluted earnings per share (pence)	**13.9**	32.3

Basic earnings per share has been calculated after deducting 0.2m (2022: 0.3m) 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 2023.

Section 3: Assets and liabilities

3.1 Financial instruments

Accounting policy

Recognition and derecognition

Financial instruments are recognised when the Group becomes party to the contractual provisions of the instrument. Purchases and sales of financial assets classified within FVTPL or FVOCI are recognised on trade date.

The Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers the right to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Financial liabilities are derecognised when the Group has discharged its obligation to the contract, or the contract is cancelled or expires.

Note 3.1.4 contains information on the valuation techniques and methodologies applied to financial instruments and their classification within the fair value hierarchy.

Classification and measurement

The Group measures a financial asset or liability on initial recognition at its fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability (with the exception of financial assets or liabilities at FVTPL, where transaction costs are recognised directly in the income statement as they are incurred).

Subsequent accounting for a financial asset is determined by the classification of the asset depending on the underlying business model and contractual cash flow characteristics. This results in classification within one of the following categories: (i) amortised cost (note 3.1.1); (ii) FVOCI (note 3.1.2); or (iii) FVTPL (note 3.1.3).

Repurchase agreements

Securities sold subject to sale and repurchase agreements ('repo') are retained in their respective balance sheet categories. The associated liabilities are included in amounts due to other banks based upon the counterparties to the transactions. The difference between the sale and repurchase price of repos is treated as interest and accrued over the life of the agreements using the effective interest method.

Offsetting

This can only occur, and the net amount be presented on the balance sheet, when the Group currently has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Presentation of risk, offsetting and maturity disclosures

Certain disclosures required under IFRS 7 'Financial instruments: disclosures' and IAS 1 'Presentation of financial statements' have been included within the audited sections of the Risk report. Where information is marked as audited, it is incorporated into these financial statements by this cross reference, and it is covered by the Independent auditor's report.

3.1.1 Financial instruments at amortised cost

Accounting policy

A financial asset is measured at amortised cost when: (1) the asset is held within a business model whose objective is achieved by collecting contractual cash flows; and (2) the contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding.

All financial liabilities are measured at amortised cost, except for financial liabilities at FVTPL. Such liabilities include derivative contracts, other than those which are financial guarantee contracts or designated and effective hedging instruments.

Financial assets classified at amortised cost are subject to expected credit loss (ECL) impairment requirements.

At each reporting date, the Group assesses financial assets measured at amortised cost, as well as loan commitments and financial guarantees not measured at FVTPL, for impairment. The impairment loss allowance is calculated using an ECL methodology and reflects: (i) an unbiased and probability weighted amount; (ii) the time value of money which discounts the impairment loss; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECL methodology is based upon the combination of PD, LGD and EAD estimates that consider a range of factors that impact on credit risk and consequently the level of impairment loss provisioning. The Group uses reasonable and supportable forecasts of future economic conditions in estimating the ECL allowance. The methodology and assumptions used in the ECL calculation are reviewed regularly and updated as necessary. ECLs are assessed either collectively or individually.

The Group's impairment policy for debt instruments at FVOCI is included in note 3.1.2. The impact of the ECL methodology on amounts due from other banks balances held at amortised cost is immaterial. ECLs relating to loan commitments and financial guarantees can be found in note 3.7.

SICR assessment and staging

The ECL is calculated as either 12-month (Stage 1) or lifetime depending on whether the financial asset has suffered a SICR since origination (Stage 2) or has otherwise become credit impaired (Stage 3) as at the reporting date. The Group uses a PD threshold curve (distinct for each portfolio) to assess for a SICR in addition to the 30 DPD and 90 DPD backstops for recognising Stage 2 and Stage 3 ECLs respectively.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.1 Financial instruments continued

3.1.1 Financial instruments at amortised cost continued

Financial assets can move between stages when the relevant staging criteria are no longer satisfied subject to certain restrictions for forborne assets. If the level of impairment loss reduces in a subsequent year, the previously recognised impairment loss allowance is reversed and recognised in the income statement.

POCI financial assets are those which are credit impaired upon initial recognition (being the point at which the asset was either purchased or originated). Once a financial asset is classified as POCI, it remains as such until derecognition irrespective of its credit quality at each reporting date. POCI financial assets are disclosed separately from those financial assets in Stage 3. The Group regards the date of acquisition as the origination date for purchased portfolios.

The Group has not made use of the low credit risk option under IFRS 9 for loans and advances at amortised cost.

Regardless of the calculation basis, the Group generates a modelled ECL allowance at the individual financial instrument level. The modelled ECL output can be supplemented by management adjustments (MAs) where appropriate.

Write-offs and recoveries

When there is no reasonable expectation of recovery for a loan, it is written off against the related provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment charge in the income statement.

Critical accounting estimates and judgements

ECL methodology requires the Group to apply estimates and exercise judgement when calculating an impairment allowance for credit exposures.

Further information on the chosen scenarios, macroeconomic assumptions, and scenario weightings used in the ECL calculation, including the use of MAs together with sensitivity analysis, is contained in the credit risk section of the Risk report on pages 200 to 208.

3.1.1.1 Loans and advances to customers

Accounting policy

Loans and advances to customers arise when the Group provides money directly to a customer and includes mortgages, term lending, overdrafts, credit card lending, lease finance and invoice financing. They are recognised initially at fair value and are subsequently measured at amortised cost, using the effective interest method and adjusted for ECLs. They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

Leases entered into by the Group as lessor, where the Group transfers substantially all the risks and rewards of ownership to the lessee, are classified as finance leases. The leased asset is not held on the Group balance sheet; instead, a finance lease is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Interest income is recognised in interest receivable, allocated to accounting years to reflect a constant periodic rate of return.

	2023 £m	2022 £m
Gross loans and advances to customers	**73,295**	73,146
Impairment provisions on credit exposures[1]	**(612)**	(454)
Fair value hedge adjustment	**(492)**	(941)
	72,191	71,751

(1) ECLs on off-balance sheet exposures of £5m (2022: £3m) are presented as part of the provisions for liabilities and charges balance (note 3.7).

The Group has a portfolio of fair valued business loans of £59m (2022: £70m) which are classified separately as financial assets at FVTPL (note 3.1.3.1). Combined with the above, this is equivalent to total loans and advances to customers of £72,250m (2022: £71,821m).

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 3.1.5).

3.1 Financial instruments continued

3.1.1 Financial instruments at amortised cost continued

3.1.1.1 Loans and advances to customers continued

Lease finance

The Group leases a variety of assets to third parties under finance lease arrangements, including vehicles and general plant and machinery. The cost of assets acquired by the Group during the year for the purpose of letting under finance leases and hire purchase contracts amounted to £71m (2022: £46m) and £557m (2022: £405m) respectively.

Finance lease receivables are presented in the statement of financial position within loans and advances to customers. The maturity analysis of lease receivables, including the undiscounted lease payments to be received, is as follows:

Gross investment in finance lease and hire purchase receivables

	2023 £m	2022 £m
Less than 1 year	**373**	269
1-2 years	**223**	170
2-3 years	**158**	117
3-4 years	**95**	66
4-5 years	**59**	46
More than 5 years	**31**	24
	939	692
Unearned finance income	**(83)**	(45)
Net investment in finance lease and hire purchase receivables	**856**	647

Finance income recognised on the net investment in the lease was £38m (2022: £21m) and is included in interest income (note 2.1).

Impairment provisions on credit exposures

	2023 £m	2022 £m
Opening balance	**454**	496
ECL charge for the year[(1)]	**307**	57
Amounts written off	**(187)**	(129)
Recoveries of amounts written off in previous years	**38**	30
Closing balance	**612**	454

(1) The £309m charge (2022: £52m) for impairment losses on credit exposures shown in the income statement also includes a £2m charge (2022: £5m credit) in respect of off-balance sheet ECLs which are presented as part of the provisions for liabilities and charges balance (note 3.7).

3.1.1.2 Cash and balances with central banks

Accounting policy

Cash and balances with central banks are measured at amortised cost, using the effective interest method, and are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership. These balances form part of the Group's treasury-related activities and are mostly short term in nature and repayable on demand or within a short timescale, generally three months.

The impact of the ECL impairment requirements (note 3.1.1) on the Group's cash and balances with central banks is immaterial.

	2023 £m	2022 £m
Cash assets	**1,089**	1,206
Balances with central banks (including EU payment systems)	**10,193**	11,015
	11,282	12,221
Less mandatory deposits with central banks[(1)]	**(275)**	(266)
Included in cash and cash equivalents (note 5.4)	**11,007**	11,955

(1) Mandatory deposits are not available for use in the Group's day-to-day business and are non-interest bearing.

3.1.1.3 Customer deposits

	2023 £m	2022 £m
Interest bearing demand deposits	**39,292**	46,457
Term deposits	**22,775**	13,951
Non-interest bearing demand deposits	**4,542**	4,952
	66,609	65,360
Accrued interest	**218**	74
	66,827	65,434

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.1 Financial instruments continued

3.1.1 Financial instruments at amortised cost continued

3.1.1.4 Debt securities in issue

Accounting policy

Debt securities comprise short and long-term debt issued by the Group including, medium-term notes, subordinated debt, covered bonds and RMBS notes.

Debt securities are initially recognised at fair value, being the issue proceeds, net of transaction costs incurred. These instruments are subsequently measured at amortised cost using the effective interest method resulting in premiums, discounts and associated issuance costs being recognised in the income statement over the life of the instrument.

Where relevant, fair value hedge adjustments have been applied.

	Medium-term notes £m	Subordinated debt £m	Securitisation £m	Covered bonds £m	Total £m
2023					
Debt securities	**2,584**	**938**	**1,729**	**4,392**	**9,643**
Accrued interest	**28**	**14**	**11**	**23**	**76**
	2,612	**952**	**1,740**	**4,415**	**9,719**
2022					
Debt securities	2,236	899	1,875	3,450	8,460
Accrued interest	13	14	5	17	49
	2,249	913	1,880	3,467	8,509

Key movements in the year are shown in the table below[1]. Full details of all notes in issue can be found at https://www.virginmoneyukplc.com/investor-relations/debt-investors/

	2023				2022			
	Issuances		Redemptions		Issuances		Redemptions	
	Denomination	£m	Denomination	£m	Denomination	£m	Denomination	£m
Medium-term notes	**EUR, GBP**	**747**	**EUR**	**432**	–	–	–	–
Securitisation	**GBP**	**900**	**USD, GBP**	**1,012**	GBP	700	USD, GBP	1,264
Covered bonds	**EUR, GBP**	**926**	**–**	**–**	EUR, GBP	1,780	–	–
		2,573		**1,444**		2,480		1,264

(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 (excluding accrued interest):

Medium-term notes

	2023 £m	2022 £m
VM UK 3.125% fixed-to-floating rate callable senior notes due 2025	**300**	299
VM UK 4% fixed rate reset callable senior notes due 2026	**463**	444
VM UK 3.375% fixed rate reset callable senior notes due 2026	**330**	317
VM UK 4% fixed rate reset callable senior notes due 2027	**350**	331
VM UK 2.875% fixed rate reset callable senior notes due 2025	**418**	413
VM UK 0.375% fixed rate reset callable senior notes due 2024	**–**	432
VM UK 4.625% fixed rate reset callable senior notes due 2028	**421**	–
VM UK 7.625% fixed rate reset callable senior notes due 2029	**302**	–
	2,584	2,236

Subordinated debt

	2023 £m	2022 £m
VM UK 7.875% fixed rate reset callable subordinated notes due 2028	**250**	249
VM UK 5.125% fixed rate reset callable subordinated notes due 2030	**424**	400
VM UK 2.625% fixed rate reset callable subordinated notes due 2031	**264**	250
	938	899

Details of securitisation and covered bond issuances are included in note 3.1.5.

3.1.1.5 Due to other banks

	2023 £m	2022 £m
Secured loans	**6,291**	7,230
Securities sold under agreements to repurchase[1]	**552**	1,205
Transaction balances with other banks	**19**	17
Deposits from other banks	**77**	50
	6,939	8,502

(1) The underlying securities sold under agreements to repurchase have a carrying value of £1,047m (2022: £1,873m) and relate to internally held debt securities, backed by mortgage assets, issued from the Group's securitisation programmes (note 3.1.5).

Secured loans comprise amounts drawn under the TFSME scheme (including accrued interest).

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.1 Financial instruments continued

3.1.2 Financial assets at fair value through other comprehensive income

Accounting policy

A financial asset is measured at FVOCI when: (i) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (ii) the contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding unless the financial asset is designated at FVTPL on initial recognition. An option for equity investments that are not held for trading can be taken to classify them at FVOCI where an irrevocable election is made at initial recognition. This is available for each separate investment, and the Group has not exercised this option for any equity investments.

Interest income and impairment gains and losses on FVOCI assets are measured in the same manner as for assets measured at amortised cost and recognised in the income statement, with all other gains or losses recognised in other comprehensive income as a separate component of equity in the year in which they arise. Gains and losses arising from changes in fair value are included as a separate component of equity until sale, when the cumulative gain or loss is transferred to the income statement. For all FVOCI assets, the gain or loss is calculated with reference to the gross carrying amount.

Debt instruments at FVOCI are subject to the same impairment criteria as amortised cost financial assets (note 3.1.1), with the ECL element recognised directly in the income statement. As the financial asset is 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. Consequently, no material ECL provision is held for these financial assets.

Financial assets at FVOCI consists of £6,184m of listed securities (2022: £5,064m).

Note 3.1.4 contains further information on the valuation methodology applied to financial instruments at FVOCI at 30 September 2023 and their classification within the fair value hierarchy. Details of the credit quality of financial assets is provided in the Risk report.

3.1.3 Financial assets at fair value through profit or loss

Accounting policy

A financial asset is measured at FVTPL if it: (i) does not fall into one of the business models for amortised cost (note 3.1.1) or FVOCI (note 3.1.2); (ii) is specifically designated as FVTPL on initial recognition in order to eliminate or significantly reduce a measurement mismatch; or (iii) is classified as held for trading.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling in the near term, forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Associated gains and losses are recognised in the income statement as they arise (note 2.2).

Derivatives

The Group uses derivative financial instruments to manage exposure to interest rate, contractually specified inflation and foreign currency risk. Interest rate risk arises primarily due to the mismatch, or duration, between repricing dates of interest-bearing assets and liabilities, or basis risk from assets and liabilities repricing to different reference rates. Contractually specified inflation risk arises from financial instruments whose cash flows are linked to an inflation index. Currency risk arises when assets and liabilities are not denominated in the functional currency of the entity. Derivatives are recognised on the balance sheet at fair value on trade date and are measured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The notional amount of a derivative contract is not recorded on the balance sheet but is disclosed as part of this note.

Netting

Derivative assets and liabilities are offset against collateral received and paid respectively, and the net amount 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.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.1 Financial instruments continued

3.1.3 Financial assets at fair value through profit or loss continued

The Group has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. The method of recognising the fair value gain or loss on a derivative depends on whether it is designated as a hedging instrument and the nature of the item being hedged. Certain derivatives are designated as either hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (a cash flow hedge); or hedges of the fair value of recognised assets or liabilities or firm commitments (a fair value hedge).

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. Specifically, the separate component of equity (note 4.1) is adjusted to the lesser of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the expected future cash flows on the hedged item from the inception of the hedge. Any remaining gain or loss on the hedging instrument is recognised in the income statement. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge is discontinued or no longer meets the criteria for hedge accounting, any cumulative gain or loss remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. This movement in the fair value of the hedged item is made as an adjustment to the carrying value of the hedged asset or liability.

Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement over the remaining life of the asset or liability.

Derivatives held for trading

Changes in value of held for trading derivatives are immediately recognised in the income statement (note 2.2).

3.1.3.1 Loans and advances to customers

Included in financial assets at FVTPL is a historical portfolio of loans. Interest rate risk associated with these loans is managed using interest rate derivative contracts and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans is £59m (2022: £70m). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £1m (2022: £1m); the change for the current year is £Nil (2022: decrease of £1m), of which £Nil (2022: £1m) has been recognised in the income statement.

3.1.3.2 Derivatives

The tables below analyse derivatives between those designated as hedging instruments and those classified as held for trading:

	2023 £m	2022 £m
Fair value of derivative financial assets		
Designated as hedging instruments	**96**	277
Designated as held for trading	**39**	65
	135	342
Fair value of derivative financial liabilities		
Designated as hedging instruments	**204**	201
Designated as held for trading	**86**	126
	290	327

Cash collateral totalling £267m (2022: £241m) has been pledged and £33m has been received (2022: £38m) in respect of derivatives with other banks. These amounts are included within due from and due to other banks respectively. Net collateral received from clearing houses, which did not meet offsetting criteria, totalled £116m (2022: £149m) and is included within other assets and other liabilities.

The derivative financial instruments held by the Group are further analysed below. The notional contract amount is the amount from which the cash flows are derived and does not represent the principal amounts at risk relating to these contracts.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.1 Financial instruments continued

3.1.3 Financial assets at fair value through profit or loss continued

3.1.3.2 Derivatives continued

Total derivative contracts

	2023			2022		
	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)	**51,185**	**1,295**	**545**	35,753	1,988	930
Less: net settled interest rate swaps(1)	**(49,888)**	**(1,222)**	**(531)**	(33,188)	(1,803)	(900)
Interest rate swaps (net)(2)	**1,297**	**73**	**14**	2,565	185	30
Fair value hedges						
Interest rate swaps (gross)(3)	**19,203**	**1,219**	**862**	16,600	1,201	636
Less: net settled interest rate swaps(1)	**(18,113)**	**(1,206)**	**(820)**	(14,611)	(1,144)	(570)
Interest rate swaps (net)(2)	**1,090**	**13**	**42**	1,989	57	66
Cross currency swaps(2)	**2,350**	**10**	**148**	2,113	35	105
	3,440	**23**	**190**	4,102	92	171
Total derivatives designated as hedging instruments	**4,737**	**96**	**204**	6,667	277	201
Derivatives designated as held for trading						
Foreign exchange rate related contracts						
Spot and forward foreign exchange(2)	**654**	**7**	**9**	599	26	20
Options(2)	**–**	**–**	**–**	1	–	–
	654	**7**	**9**	600	26	20
Interest rate related contracts						
Interest rate swaps (gross)	**1,910**	**47**	**50**	1,411	52	66
Less: net settled interest rate swaps(1)	**(753)**	**(43)**	**(1)**	(665)	(50)	–
Interest rate swaps (net)(2)	**1,157**	**4**	**49**	746	2	66
Swaptions(2)	**10**	**–**	**1**	10	–	2
Options(2)	**1,067**	**16**	**16**	501	16	17
	2,234	**20**	**66**	1,257	18	85
Commodity related contracts	**167**	**12**	**11**	199	21	21
Total derivatives designated as held for trading	**3,055**	**39**	**86**	2,056	65	126

(1) Presented within other assets and other liabilities.

(2) Presented within derivative financial instruments.

(3) Includes inflation and interest rate risk related swaps detailed in the summary of hedging instruments in designated hedge relationships table on page 307.

Hedge accounting

The hedging strategy of the Group is divided into micro hedges, where the hedged item is a distinctly identifiable asset or liability, and portfolio hedges, where the hedged item is a homogeneous portfolio of assets or liabilities.

In some hedge accounting relationships, the Group designates risk components of hedged items as follows:

- Benchmark interest rate risk as a component of interest rate risk, such as the SONIA component.
- Exchange rate risk for foreign currency financial assets and financial liabilities.
- Inflation risk where it is a contractually specified component of a debt instrument.
- Components of cash flows of hedged items, for example cash flows linked to benchmark rates such as SONIA.

Other risks such as credit risk and liquidity risk are managed by the Group but are not included in the hedge accounting relationship. Changes in the designated risk component usually account for the largest portion of the overall change in fair value or cash flows of the hedged item.

Portfolio cash flow hedges

The Group applies macro cash flow hedge accounting to a portion of its floating rate financial assets and liabilities. The hedged cash flows are a group of forecast transactions that result in cash flow variability from resetting of interest rates, reinvestment of financial assets, or refinancing and rollovers of financial liabilities. This cash flow variability can arise on recognised assets or liabilities or highly probable forecast transactions. The hedged items are designated as the gross asset or liability positions allocated to time buckets based on projected repricing and interest profiles. The Group aims to maintain a position where the principal amount of the hedged items is greater than or equal to the notional amount of the corresponding interest rate swaps used as the hedging instruments. The hedge accounting relationship is reassessed on a monthly basis with the composition of hedging instruments and hedged items changing frequently in line with the underlying risk exposures. If necessary, the hedge relationships are de-designated and redesignated based on the effectiveness test results.

3.1 Financial instruments continued

3.1.3 Financial assets at fair value through profit or loss continued

3.1.3.2 Derivatives continued

Portfolio fair value hedges

The Group applies macro fair value hedging to a portion of its fixed rate mortgages. The Group determines hedged items by identifying portfolios of homogeneous loans based on their contractual maturity and other risk characteristics. Loans within the identified portfolios are allocated to repricing time buckets based on expected, rather than contractual, repricing dates. The hedging instruments are designated to those repricing time buckets. Hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed loans due to the hedged risk against the fair value movements of the derivatives.

The aggregated fair value changes in the hedged loans are recognised on the Group's balance sheet as an asset. At the end of every month, in order to minimise the ineffectiveness from early repayments and accommodate new exposures, the Group voluntarily de-designates the hedge relationships and redesignates them as new hedges. Fair value hedging of fixed rate deposits was discontinued in 2020, and the hedge adjustment recognised on the Group's balance sheet is amortised to profit and loss over the life of the hedged item.

Micro fair value hedges

The Group uses this hedging strategy on GBP, inflation or foreign currency denominated fixed rate assets held at FVOCI and GBP and foreign currency denominated fixed rate debt issuances by the Group. Where assets and liabilities are exposed to multiple risk components, for example interest rate and foreign currency risk, these components are simultaneously designated as hedged risks within the same hedge relationship.

Hedge ineffectiveness

Hedge ineffectiveness can arise from:

- mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences;
- differences in timing of cash flows of hedged items and hedging instruments;
- changes in expected timings and amounts of forecast future cash flows; and
- derivatives used as hedging instruments having a non-zero fair value at the time of designation.

Additionally, for portfolio fair value hedges of the Group's fixed rate mortgage portfolio, ineffectiveness also arises from the difference between forecast and actual repayments (i.e. prepayment risk).

The Group has no remaining hedge relationships exposed to LIBOR and as no uncertainty remains regarding interest rate benchmark reform, the Group no longer applies the reliefs provided by 'Interest Rate Benchmark Reform – Phase 1 and Phase 2 amendments' to hedge accounting. Further detail on the Group's approach to managing the risk of LIBOR replacement, including derivatives designated as held for trading that have not yet transitioned, is provided on page 229.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.1 Financial instruments continued

3.1.3 Financial assets at fair value through profit or loss continued

3.1.3.2 Derivatives 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:

	2023				2022			
	Notional contract amount	Carrying amount		Change in fair value of hedging instrument in the year used for ineffectiveness measurement(2)	Notional contract amount	Carrying amount		Change in fair value of hedging instrument in the year used for ineffectiveness measurement(2)
	£m	Assets £m	Liabilities £m	£m	£m	Assets £m	Liabilities £m	£m
Cash flow hedges								
Interest rate risk								
Interest rate swaps(1)	**51,185**	**1,295**	**545**	**(318)**	35,753	1,988	930	916
Total derivatives designated as cash flow hedges	**51,185**	**1,295**	**545**	**(318)**	35,753	1,988	930	916
Fair value hedges								
Interest rate risk								
Interest rate swaps(1)	**17,683**	**983**	**257**	**(368)**	16,150	1,059	361	1,052
Inflation and interest rate risk								
Inflation linked interest rate swaps(1)	**1,520**	**236**	**606**	**43**	450	142	275	96
Foreign exchange and interest rate risk								
Cross currency swaps	**2,350**	**10**	**148**	**(58)**	2,113	35	105	6
Total derivatives designated as fair value hedges	**21,553**	**1,229**	**1,011**	**(383)**	18,713	1,236	741	1,154

(1) As shown in the total derivatives contracts table on page 305, 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.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.1 Financial instruments continued

3.1.3 Financial assets at fair value through profit or loss continued

3.1.3.2 Derivatives 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.

	2023			2022		
	Change in fair value of hedged item in the year used for ineffectiveness measurement	Cash flow hedge reserve		Change in fair value of hedged item in the year used for ineffectiveness measurement	Cash flow hedge reserve	
		Continuing hedges	Discontinued hedges		Continuing hedges	Discontinued hedges
	£m	£m	£m	£m	£m	£m
Cash flow hedges						
Interest rate risk						
Gross floating rate assets and gross floating rate liabilities[(1)]	**268**	**625**	**59**	(962)	979	(14)
Total	**268**	**625**	**59**	(962)	979	(14)

	2023				2022			
	Carrying amount of hedged items		Accumulated hedge adjustment on the hedged item	Change in fair value of hedged items in the year used for ineffectiveness measurement	Carrying amount of hedged items		Accumulated hedge adjustment on the hedged item	Change in fair value of hedged items in the year used for ineffectiveness measurement
	Assets £m	Liabilities £m	£m	£m	Assets £m	Liabilities £m	£m	£m
Fair value hedges								
Interest rate risk								
Fixed rate mortgages[(3)]	**10,864**	**–**	**(492)**	**426**	9,520	–	(941)	(779)
Fixed rate customer deposits[(4)]	**–**	**–**	**–**	**–**	–	–	(2)	–
Fixed rate FVOCI debt instruments[(5)]	**2,692**	**–**	**(568)**	**92**	2,443	–	(613)	(629)
Fixed rate issuances[(2)]	**–**	**(2,810)**	**234**	**(116)**	–	(2,392)	350	388
Inflation and interest rate risk								
Fixed rate FVOCI debt instruments[(5)]	**1,116**	**–**	**(92)**	**(43)**	589	–	(105)	(96)
Foreign exchange and interest rate risk								
Fixed rate currency FVOCI debt instruments[(5)]	**64**	**–**	**(2)**	**1**	76	–	(3)	(3)
Fixed rate currency issuances[(2)]	**–**	**(2,156)**	**140**	**56**	–	(1,954)	83	11
Total	**14,736**	**(4,966)**	**(780)**	**416**	12,628	(4,346)	(1,231)	(1,108)

(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) Hedged item and the cumulative fair value changes are recorded in loans and advances to customers.
(4) Hedge relationship was discontinued in 2020. The fair value adjustment taken will be amortised over the remaining life of the hedged items, and is recorded in customer deposits.
(5) Hedged item is recorded in financial assets at FVOCI.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.1 Financial instruments continued

3.1.3 Financial assets at fair value through profit or loss continued

3.1.3.2 Derivatives continued

	2023				2022			
	Hedge ineffectiveness recognised in income statement[1] £m	Effective portion recognised in other comprehensive income £m	Reclassified into income statement as: Net interest income £m	Reclassified into income statement as: Non-interest income £m	Hedge ineffectiveness recognised in income statement[1] £m	Effective portion recognised in other comprehensive income £m	Reclassified into income statement as: Net interest income £m	Reclassified into income statement as: Non-interest income £m
Cash flow hedges								
Interest rate risk								
Gross floating rate assets and gross floating rate liabilities	**(50)**	**(268)**	**10**	**2**	(46)	962	17	(4)
Total (losses)/gains on cash flow hedges	**(50)**	**(268)**	**10**	**2**	(46)	962	17	(4)

	Hedge ineffectiveness recognised in income 2023 £m	Hedge ineffectiveness recognised in income 2022 £m
Fair value hedges		
Interest rate risk		
Fixed rate mortgages	**31**	33
Fixed rate FVOCI debt instruments	**3**	(2)
Fixed rate issuances	**–**	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	**(1)**	15
Total losses on fair value hedges[1]	**33**	46

(1) Recognised in gains less losses on financial assets at fair value.

3.1.3.3 Other

Included in other financial assets is £1m (2022: £7m) of unlisted securities and £1m (2022: £1m) of debt instruments.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.1 Financial instruments continued

3.1.4 Fair value of financial instruments

Accounting policy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.

When available, the Group measures the fair value of a financial instrument using quoted prices in an active market for that instrument. Where no such active market exists for the particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions where possible, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. In doing so, fair value is estimated using a valuation technique that makes maximum possible use of market inputs and that places minimal possible reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, which represents the fair value of the consideration paid or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits or losses on the transaction date.

In certain limited circumstances, the Group applies the fair value measurement option to financial assets including loans and advances where the inherent market risks (principally interest rate and option risk) are individually hedged using appropriate interest rate derivatives. The loan is designated as being carried at FVTPL to offset the movements in the fair value of the derivative within the income statement and therefore avoid an accounting mismatch. When a loan is held at fair value, a statistical-based calculation is used to estimate credit losses attributable to adverse movements in credit risk on the assets held. This adjustment to the credit quality of the asset is then applied to the carrying amount of the loan to arrive at fair value and recognised in the income statement.

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value measurement hierarchy is as follows:

> Level 1 – quoted prices (unadjusted) in active markets for an identical financial asset or liability.

> Level 2 – inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices).

> Level 3 – inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

For the purpose of reporting movements between levels of the fair value hierarchy, transfers are recognised at the beginning of the reporting year in which they occur.

(a) Fair value of financial instruments recognised at amortised cost

The tables show a comparison of the carrying amounts of financial assets and liabilities measured at amortised cost, as reported on the balance sheet, and their fair values where these are not approximately equal.

There are various limitations inherent in this fair value disclosure, particularly where prices are derived from unobservable inputs due to some financial instruments not being traded in an active market. The methodologies and assumptions used in the fair value estimates are therefore described in the notes to the tables. The difference between carrying value and fair value is relevant in a trading environment but is not relevant to assets such as loans and advances.

	2023		2022	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to customers[1]	**72,191**	**71,611**	71,751	69,277
Financial liabilities				
Customer deposits[2]	**66,827**	**66,625**	65,434	65,069
Debt securities in issue[3]	**9,719**	**9,788**	8,509	8,515
Due to other banks[2]	**6,939**	**6,959**	8,502	8,485

(1) Loans and advances to customers are categorised as Level 3 in the fair value hierarchy with the exception of £1,085m (2022: £1,098m) of overdrafts which are categorised as Level 2.

(2) Categorised as Level 2 in the fair value hierarchy.

(3) Categorised as Level 2 in the fair value hierarchy with the exception of £3,597m of listed debt (2022: £3,156m) 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* – determined by firstly segregating them into portfolios which have similar characteristics. Contractual cash flows are then adjusted for ECLs and expectations of customer behaviour based on observed historic data. The cash flows are then discounted at a weighted average cost of capital (appropriate to the portfolio) to arrive at an estimate of their fair value.

(b) *Customer deposits* – determined using a replacement cost method which assumes alternative funding is raised in the most advantageous market. The contractual cash flows have been discounted using a funding curve with credit spreads reflecting the tenor of each deposit.

(c) *Debt securities in issue* – taken directly from quoted market prices where available or determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

(d) *Due to other banks* – determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.1 Financial instruments continued

3.1.4 Fair value of financial instruments continued

(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:

	2023				2022			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Held at FVOCI	**6,184**	**–**	**–**	**6,184**	5,064	–	–	5,064
Loans and advances to customers	**–**	**59**	**–**	**59**	–	70	–	70
Other	**–**	**–**	**2**	**2**	–	4	4	8
Derivatives	**–**	**135**	**–**	**135**	–	342	–	342
Total financial assets at fair value	**6,184**	**194**	**2**	**6,380**	5,064	416	4	5,484
Financial liabilities								
Derivatives	**–**	**290**	**–**	**290**	–	327	–	327
Total financial liabilities at fair value	**–**	**290**	**–**	**290**	–	327	–	327

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) *Held at FVOCI* – based on quoted closing market prices.

(b) *Loans and advances to customers* – derived from data or valuation techniques based upon observable market data and non-observable inputs as appropriate to the nature and type of the underlying instrument.

(c) *Other (Level 2)* – represents £Nil (2022: £4m) of Visa Inc. Series A preferred stock received following a conversion event in July 2022. This is calculated by taking the year end New York Stock Exchange share price for Visa inc. The preferred stock was sold in full during the year.

(d) *Other (Level 3)* – represents unlisted equity investments for which the transaction price is considered the best representation of the exit price and is the Group's best estimate of fair value. The Visa Inc. Series B preferred stock received as partial consideration for the sale of the Group's share in Visa Europe, was sold in full during the year.

(e) *Derivative financial assets and liabilities* – includes foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, and are obtained from discounted cash flow models or option pricing models as appropriate.

Level 3 movement analysis:

	2023		2022	
	Financial assets at FVTPL £m	Derivative financial assets £m	Financial assets at FVTPL £m	Derivative financial assets £m
Balance at the beginning of the year	**4**	**–**	6	1
Fair value gains recognised[(1)]				
In profit or loss – unrealised	**–**	**–**	–	(1)
Sales	**(2)**	**–**	–	–
Settlements	**–**	**–**	(2)	–
Balance at the end of the year	**2**	**–**	4	–

(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 £2m which would be recognised directly in the income statement.

3.1 Financial instruments continued

3.1.5 Securitisation and covered bond programmes

Accounting policy

The Group sponsors the formation of structured entities, primarily for the purpose of facilitation of asset securitisation and covered bond transactions, the full details of which can be found in note 6.2 to the 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 1.4.

Securitisation

The Group has securitised a portion of its retail mortgage loan portfolio under master trust securitisation programmes. The securitised mortgage loans have been assigned at principal value to bankruptcy remote structured entities. The securitised debt holders have no recourse to the Group other than the principal and interest (including fees) generated from the securitised mortgage loan portfolio.

The externally held securitised notes in issue are included within debt securities in issue (note 3.1.1.4). There are a number of notes held internally by the Group which are used as collateral for repurchases and similar transactions or for credit enhancement purposes.

Covered bond

A subset of the Group's retail mortgage loan portfolio has been ring-fenced and assigned to a bankruptcy remote limited liability partnership, Eagle Place Covered Bonds LLP, to provide a guarantee for the obligations payable on the covered bonds issued by the Group.

The covered bond partnership is consolidated with the mortgage loans retained on the Group balance sheet and the covered bonds issued included within debt securities in issue (note 3.1.1.4). The covered bond holders have dual recourse: firstly, to the bond issuer on an unsecured basis; and secondly, to the LLP under the Covered Bond Guarantee secured against the mortgage loans.

Under both the securitisation and covered bond programmes, the mortgage loans do not qualify for derecognition because the Group remains exposed to the majority of the risks and rewards of the mortgage loan portfolio, principally the associated credit risk. The Group continues to service the mortgage loans in return for an administration fee and is also entitled to any residual income after all payment obligations due under the terms of the programmes and senior programme expenses have been met. A deemed loan liability is recognised in the programme sponsor for the proceeds of the funding transaction.

Significant restrictions

Where the Group uses its financial assets to raise finance through securitisation and the sale of securities subject to repurchase agreements, the assets become encumbered and are not available for transfer around the Group.

The assets and liabilities in relation to securitisation and covered bonds in issue at 30 September are as follows (excluding accrued interest):

	2023		2022	
	Loans and advances securitised £m	Notes in issue £m	Loans and advances securitised £m	Notes in issue £m
Securitisation programmes				
Lanark	**3,743**	**2,967**	3,776	2,768
Lannraig	**1,620**	**1,090**	768	622
Gosforth 2018-1	**–**	**–**	872	745
	5,363	**4,057**	5,416	4,135
Less held by the Group		**(2,328)**		(2,260)
		1,729		1,875
Covered bond programmes				
Clydesdale Bank PLC (formerly Virgin Money PLC)	**7,575**	**4,392**	6,739	3,450

The fair values of financial assets and associated liabilities relating to the securitisation programmes were £5,311m and £1,749m respectively (2022: £5,235m and £1,878m) where the counterparty to the liabilities has recourse only to the financial assets.

There were no events during the year that resulted in any Group 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:

	2023 £m	2022 £m
Beneficial interest held	**1,137**	1,239
Subordinated loans	**75**	42
Junior notes held	**853**	978
	2,065	2,259

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.

3.1 Financial instruments continued

3.1.5 Securitisation and covered bond programmes continued

Covered bond programmes

The nominal level of over-collateralisation was £2,670m (2022: £3,127m) in the Clydesdale Bank PLC (formerly Virgin Money PLC) programme. From time to time the obligations of the Group to provide over-collateralisation may increase due to the formal requirements of the programme.

Under all programmes, the Group has an obligation to repurchase mortgage exposures if certain mortgage loans no longer meet the programme criteria.

3.2 Intangible assets and goodwill

	Capitalised software £m	Goodwill £m	Core deposit intangible £m	Total £m
Cost				
At 1 October 2021	1,043	11	6	1,060
Additions	53	–	–	53
Write-off	(28)	–	–	(28)
Disposal	(8)	–	–	(8)
At 30 September 2022	1,060	11	6	1,077
Additions	11	–	–	11
Write-off	(45)	–	–	(45)
Disposal	(714)	–	–	(714)
At 30 September 2023	**312**	**11**	**6**	**329**
Accumulated amortisation and impairment				
At 1 October 2021	684	–	3	687
Charge for the year	81	–	3	84
Impairment	47	–	–	47
Disposal	(8)	–	–	(8)
At 30 September 2022	804	–	6	810
Charge for the year	60	–	–	60
Disposal	(714)	–	–	(714)
At 30 September 2023	**150**	**–**	**6**	**156**
Net book value				
At 30 September 2023	**162**	**11**	**–**	**173**
At 30 September 2022	256	11	–	267

In both FY22 and FY23 all software additions form part of internally generated software projects.

A write-off charge of £45m (2022: £28m) was recognised in relation to the Group's mortgage digitisation programme. Following an assessment of the progress of the project to upgrade the mortgage platform and challenges identified during testing, we now anticipate a significant deferral and redesign as we implement the upgraded capability.

£714m of fully amortised assets were disposed of during the year following a data cleanse exercise conducted on the Group's intangible asset registers ahead of a migration to a single asset register in FY24.

3.3 Retirement benefit obligations

Accounting policy

Defined benefit pension scheme

A liability or asset is recognised on the balance sheet in respect of the defined benefit scheme and is measured as the difference between the present value of the defined benefit obligation less the fair value of the defined benefit scheme assets at the reporting date. The present value of the defined benefit obligation for the scheme is discounted by high-quality corporate bond rates that have maturity dates approximating to the terms of the defined benefit obligation. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme. In assessing whether a surplus is recoverable, the Group considers its current right to obtain a refund or a reduction in future contributions and does not anticipate any future acts by other parties that could change the amount of the surplus that may ultimately be recovered.

Pension expense attributable to the Group's defined benefit scheme comprises current service cost, past service cost resulting from a scheme amendment or curtailment, net interest on the net defined benefit obligation/asset, gains or losses on settlement and administrative costs incurred. Where actuarial remeasurements arise, the Group recognises such amounts directly in equity through the statement of comprehensive income in the year in which they occur. Actuarial remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in actuarial assumptions.

The Group's principal trading subsidiary, Clydesdale Bank PLC, is the sponsoring employer of the Yorkshire and Clydesdale Bank Pension Scheme, a defined benefit pension scheme, which was closed to future benefit accrual for the majority of current employees on 1 August 2017.

3.3 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:

	2023 £m	2022 £m
Active members' defined benefit obligation	**(4)**	(9)
Deferred members' defined benefit obligation	**(988)**	(987)
Pensioner and dependant members' defined benefit obligations	**(1,292)**	(1,220)
Total defined benefit obligation	**(2,284)**	(2,216)
Fair value of Scheme assets	**2,796**	3,216
Net defined benefit pension asset	**512**	1,000
Post-retirement medical benefits obligations(1)	**(2)**	(2)

(1) Post-retirement medical benefits obligations are included within other liabilities (note 3.5).

The Group's pension arrangements

The current version of the Scheme was established under trust on 30 September 2009 with the assets held in a Trustee administered fund. The Trustee is responsible for the operation and governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, sets out the framework for funding defined benefit occupational pension plans in the UK.

The Group has implemented several reforms to the Scheme to manage the obligation. It closed the Scheme to new members in 2004 and since April 2006 has provided benefits accruing on a career average revalued earnings basis. On 1 August 2017, the Scheme was closed to future benefit accrual for the majority of current employees, with both affected and new employees' future pension benefits being provided through the Group's existing defined contribution scheme, 'My Retirement'. The income statement charge for this is separately disclosed in note 2.3.

The Group also provides post-retirement healthcare under a defined benefit scheme for some pensioners and their dependant relatives for which provision has been made on a basis consistent with the methodology applied to the defined benefit pension scheme. This is a closed scheme and the provision will be utilised over the life of the remaining scheme members. The obligation in respect of this scheme was £2m at 30 September 2023 (2022: £2m) and is included within other liabilities in note 3.5.

Scheme valuations

There are a number of means of measuring liabilities in the defined benefit schemes, with the ultimate aim of the Trustee being that the Scheme is 100% funded on an agreed self-sufficiency basis (which is where the Scheme is essentially self-funded and does not need to call on the Group for any additional funding). The two bases used by the Group to value its obligations are: (i) an IAS 19 accounting basis; and (ii) a Trustee's Technical Provision basis.

(i) IAS 19 accounting basis

The valuations of the Scheme assets and obligations are calculated on an accounting basis in accordance with the applicable accounting standard IAS 19 which provides the basis for the accounting framework and methodology for entries in the income statement, balance sheet and capital reporting. The principal purpose of this valuation is to allow comparison of pension obligations between companies. The obligation under an accounting valuation can be higher or lower than those under a Trustee's Technical Provision valuation.

The rate used to discount the obligation on an IAS 19 basis is a key driver of any potential volatility and is based on yields on AA rated high-quality corporate bonds, regardless of how the Trustee of the Scheme invests the assets. The accounting valuation under IAS 19 can therefore move adversely because of low rates and narrowing credit spreads which are not fully matched by the Scheme assets. Inflation is another key source of volatility and arises as a result of member benefits having an element of index linking, which causes the obligation to increase in line with rises in long-term inflation assumptions. In practice however, over the long term, the relationship between interest and inflation rates tends to be negatively correlated resulting in a degree of risk offset.

(ii) Trustee's Technical Provision basis

This valuation basis reflects how much money the Trustee considers is required now in order to provide for the promised benefits as they come up for payment in the future. The Trustee is responsible for ensuring that the calculation is conducted prudently on an actuarial basis, considering factors including the Scheme's investment strategy and the relative financial strength of the sponsoring employer.

A key aspect of this valuation is the investment strategy the Trustee proposes to follow as part of the policy for meeting the Scheme's obligations. Because there are no guarantees about investment returns over long periods, legislation requires the Trustee to consider carefully how much of their expected future investment returns it would be prudent for them to account for in advance.

On 6 April 2023, the Scheme entered into a longevity swap transaction with Pacific Life Re International Limited and Zurich Assurance Ltd to manage longevity risk in relation to c.£1.6bn of pensioner liabilities. The arrangement provides long term protection to the Scheme against costs resulting from pensioners or their dependants living longer than currently expected, enhancing security for Scheme members and reducing risk for the Group. The fair value of the hedge instrument at 30 September 2023 was £Nil.

3.3 Retirement benefit obligations continued

During 2023 the Trustee concluded the latest triennial valuation for the Scheme, which was conducted in accordance with Scheme data and market conditions as at 30 September 2022. The valuation resulted in an improvement in the Scheme's funding position, with a reported surplus of £256m (previously a surplus of £144m based on Scheme data and market conditions as at 30 September 2019) and a technical provisions funding level of 109% (previously 103%). As the 2022 valuation outcome was a funding surplus, a deficit recovery plan is not required and the Group is not required to make any additional contributions to the Scheme other than the ongoing funding of the Scheme's administrative expenses.

The next triennial valuation will be conducted in the year ending 30 September 2026 based on Scheme data and market conditions as at 30 September 2025.

Scheme assets are not subject to the same valuation differences as Scheme obligations and are consistently valued at current market value.

IAS 19 position

The Scheme movements in the year are as follows:

	2023				2022			
	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	**(2,216)**	**3,216**	**1,000**		(3,789)	4,636	847	
				(126)				(248)
(Charges)/credits								
Past service credit	**–**	**–**	**–**		9	–	9	
Interest (expense)/income	**(117)**	**172**	**55**		(84)	104	20	
Administrative costs	**–**	**(5)**	**(5)**		–	(5)	(5)	
Total (charge)/credit recognised in the consolidated income statement (note 2.3)	**(117)**	**167**	**50**		(75)	99	24	
Remeasurements								
Return on Scheme assets greater than discount rate	**–**	**(470)**	**(470)**	**(470)**	–	(1,393)	(1,393)	(1,393)
Actuarial:								
Loss – experience adjustments	**(151)**	**–**	**(151)**	**(151)**	(16)	–	(16)	(16)
(Loss)/gain – demographic assumptions	**(27)**	**–**	**(27)**	**(27)**	36	–	36	36
Gain – financial assumptions	**104**	**–**	**104**	**104**	1,495	–	1,495	1,495
Remeasurement (losses)/gains recognised in other comprehensive income	**(74)**	**(470)**	**(544)**	**(544)**	1,515	(1,393)	122	122
Contributions and payments								
Employer contributions	**–**	**6**	**6**		–	7	7	
Disbursements	**123**	**(123)**	**–**		133	(133)	–	
	123	**(117)**	**6**		133	(126)	7	
Balance sheet surplus at 30 September	**(2,284)**	**2,796**	**512**		(2,216)	3,216	1,000	
				(670)				(126)

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.3 Retirement benefit obligations continued

In July 2021, the Trustees communicated a Pension Increase Exchange (PIE) exercise to members. A PIE gives members the option to exchange future increases on their pensions for a one-off uplift to their current pension. The exercise is being undertaken in three phases and is due to complete later in calendar year 2023. The defined benefit pension credit in the current year therefore includes no impact (2022: £10m credit) arising from the PIE exercise; any past service credit arising is not expected to be material and will be recognised when the exercise concludes in FY24.

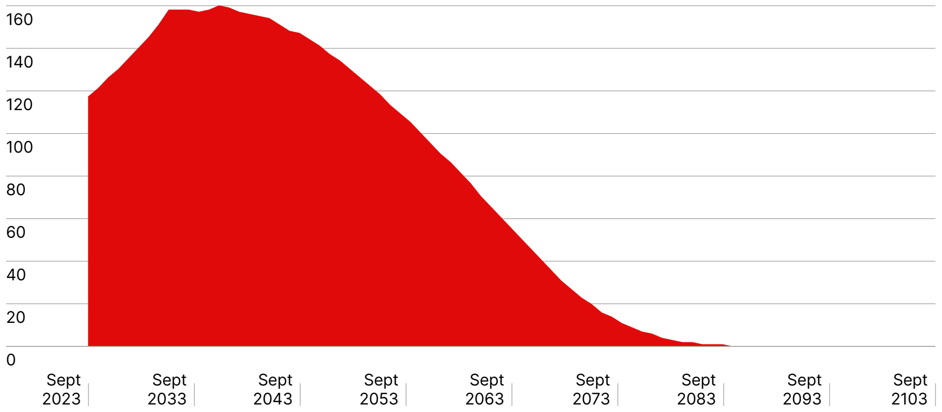
The expected contributions and benefit payments for the year ending 30 September 2024 are £6m (2023: £10m) and £115m (2023: £118m) respectively.

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

Maturity of Scheme liabilities

The estimated maturity period of Scheme obligations on an IAS 19 accounting basis is as follows:

Annual Pension Scheme liability cash flows (£m)



The discounted mean term of the defined benefit obligation at 30 September 2023 is 13 years (2022: 14 years).

Scheme assets

In order to meet the obligations of the Scheme, the Trustee invests in a diverse portfolio of assets, with the level and volatility of asset returns being a key factor in the overall investment strategy. The investment portfolio is subject also to a range of risks typical of the types of assets held, such as: equity risk; credit risk on bonds; currency risk; interest rate and inflation risk; and exposure to the property market. The Trustee's investment strategy (including physical assets and derivatives) seeks to reduce the Scheme's exposure to these risks. In managing interest rate and inflation risks, the investment strategy seeks to hold portfolios of matching assets (including derivatives) that enable the Scheme's assets to better match movements in the value of liabilities due to changes in interest rates and inflation.

As at 30 September 2023, the interest rate and inflation rate hedge ratios were 90% and 90% respectively (2022: 97% and 95%) of the obligation when measured on a self-sufficiency basis. This strategy reflects the Scheme's obligation profile and the Trustee's and the Group's attitude to risk. The Trustee monitors the investment objectives and asset allocation policy on a regular basis.

The Trustee's investment strategy involves two main categories of investments:

- Matching assets – a range of investments that provide a match to changes in obligation values.
- Return seeking assets – a range of investments designed to provide specific, planned and consistent returns.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.3 Retirement benefit obligations continued

The major categories of plan assets for the Scheme, stated at fair value, are as follows:

	2023				2022			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Bonds								
Fixed government	**558**	**–**	**558**		350	–	350	
Index-linked government	**824**	**–**	**824**		1,314	–	1,314	
Global sovereign	**84**	**–**	**84**		90	2	92	
Corporate and other	**924**	**–**	**924**		781	37	818	
	2,390	**–**	**2,390**	**85%**	2,535	39	2,574	80%
Equities[1]								
Global equities	**–**	**–**	**–**		–	137	137	
Emerging market equities	**–**	**–**	**–**		–	14	14	
UK equities	**–**	**–**	**–**		–	7	7	
	–	**–**	**–**	**–%**	–	158	158	5%
Other								
Alternative credit investments[2]	**–**	**352**	**352**		–	874	874	
Derivatives[3]	**–**	**30**	**30**		–	(83)	(83)	
Repurchase agreements	**–**	**(383)**	**(383)**		–	(803)	(803)	
Property	**–**	**47**	**47**		–	59	59	
Renewables	**–**	**238**	**238**		–	194	194	
Cash	**–**	**122**	**122**		–	243	243	
	–	**406**	**406**	**15%**	–	484	484	15%
Total Scheme assets	**2,390**	**406**	**2,796**	**100%**	2,535	681	3,216	100%

(1) Equity investments are classified as unquoted, reflecting the nature of the funds in which the Scheme invests directly. The underlying investments within those funds are, however, mostly quoted.
(2) Alternative credit investments includes both secured income alternatives and alternative credit which were presented separately in the prior year.
(3) Derivative financial instruments are used to modify the profile of the assets of the Scheme to better match the Scheme liabilities. Derivative holdings may lead to increased or decreased exposures to the physical asset categories disclosed above.

The nature of the Scheme assets held has remained broadly consistent year on year, with the exception of equities and certain alternative credit assets (principally hedge equity and hedge multi strategy assets) which the Trustee made a conscious decision to sell out of as part of its de-risking strategy and to raise further liquidity for collateral purposes.

At 30 September 2023, the Scheme had employer-related investments within the meaning of Section 40 (2) of the Pensions Act 1995 totalling £1m (2022: £2m).

3.3 Retirement benefit obligations continued

Actuarial assumptions

The following assumptions were used in arriving at the IAS 19 defined benefit obligation:

	2023 % p.a.	2022 % p.a.
Financial assumptions		
Discount rate	**5.65**	5.45
Inflation (RPI)	**3.30**	3.58
Inflation (CPI)	**2.70**	2.94
Career average revalued earnings revaluations:		
Pre 31 March 2012 benefits (RPI)	**3.30**	3.58
Post 31 March 2012 benefits (CPI capped at 5% per annum)	**2.66**	2.90
Pension increases (capped at 2.5% per annum)	**2.14**	2.21
Pension increases (capped at 5% per annum)	**3.15**	3.37
Rate of increase for pensions in deferment	**2.66**	2.91

Demographic assumptions

	2023 Years	2022 Years
Post-retirement mortality:		
Current pensioners at 60 – male	**27.2**	27.0
Current pensioners at 60 – female	**29.4**	29.3
Future pensioners at 60 – male	**28.3**	28.0
Future pensioners at 60 – female	**30.4**	30.4

Critical accounting estimates and judgements

The value of the Group's defined benefit pension scheme requires management to make several assumptions. The key areas of estimation uncertainty in these assumptions are:

discount rate: this is set with reference to market yields at the end of the reporting year on high-quality corporate bonds in the currency and with a term consistent with the Scheme's obligations. The average duration of the Scheme's obligations is approximately 13 years. The market for bonds with a similar duration is illiquid and, as a result, significant management judgement is required to determine an appropriate yield curve on which to base the discount rate;

inflation: this is set with reference to market expectations of the RPI measure of inflation for a term consistent with the Scheme's obligations, based on data published by the BoE. Other measures of inflation (such as CPI, or inflation measures subject to an annual cap) are derived from this assumption; and

mortality: the cost of the benefits payable by the Scheme will also depend upon the life expectancy of the members. The assumptions for mortality rates are based on standard mortality tables (as adjusted to reflect the characteristics of Scheme members) which allow for future improvements in life expectancies.

The table below sets out the sensitivity and impact on the balance sheet surplus position of the Scheme, the defined benefit obligation and pension cost to changes in the key actuarial assumptions:

Assumption change		Balance sheet surplus £m	Obligation £m	Pension cost £m
Discount rate	+0.25%	(18)	(70)	–
	−0.25%	17	74	–
Inflation	+0.25%	9	42	–
	−0.25%	(6)	(43)	–
Life expectancy	+1 year	(22)	50	(1)
	−1 year	22	(50)	1

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.4 Other assets

	2023 £m	2022 £m
Property, plant and equipment	**184**	211
Investment properties	**40**	–
Finance sub-leases	**2**	3
Investment in associates	**10**	10
Prepayments	**59**	66
Other receivables	**66**	87
Current tax	**21**	–
Other	**6**	5
	388	382

The prior year balance of £382m has been restated from the original £171m by the addition of the property, plant and equipment balance of £211m (note 1.7). This includes right-of-use assets of £115m (2022: £113m) (note 3.6).

The Group classified £43m of lease right-of-use assets as investment property on initial recognition this year as there is surplus space which will be sub-let under an operating lease. Also in the year, freehold land and buildings with a carrying value of £9m were transferred from property, plant and equipment to investment properties following a change in use (note 1.7). Subsequently, an impairment of £6m was recognised in respect of these freehold land and buildings based on the fair value confirmed by an independent professional valuation by Royal Institution of Chartered Surveyors registered valuers. The Group estimated the fair value of the leased right-of-use investment property assets at 30 September 2023 using income based fair value techniques and available market data, an independent valuation was not obtained. The estimated fair value approximates the carrying value.

No material rental income from investment property was received in the year, with the majority of assets currently being marketed for rental.

3.5 Other liabilities

	2023 £m	2022 £m
Notes in circulation	**1,675**	1,822
Accruals and deferred income	**67**	74
Current tax	**–**	1
Other	**414**	498
	2,156	2,395

The prior year balance of £2,395m has been restated from the original £2,394m by the addition of the current tax balance of £1m (note 1.7).

3.6 Lessee accounting

a) Amounts recognised in the income statement

The income statement includes the following amounts related to leases:

	2023 £m	2022 £m
Interest expense and similar charges		
Interest expense	**(4)**	(2)
Other operating income		
Income from operating sub-leases where the Group is a lessor	**1**	1
Operating and administrative expenses		
Depreciation and impairment of right-of-use assets	**(26)**	(26)
Expense relating to short-term leases	**(2)**	(1)
Expense relating to leases of low-value assets that are not short-term leases	**(1)**	(1)
Amounts recognised in the income statement	**(32)**	(29)

Total leasing cash outflow in the year was £27m (2022: £28m).

b) Amounts recognised on the balance sheet

Right-of-use assets

	2023 £m	2022 £m
As at 1 October	**113**	135
Additions	**76**	4
Remeasurements	**(4)**	1
Disposals	**(1)**	(1)
Depreciation and impairment	**(31)**	(26)
As at 30 September	**153**	113
Of which:		
Property, plant and equipment (note 3.4)	**115**	113
Investment property (note 3.4)	**38**	–

In February 2023, the Group announced plans for the closure of six leased office properties. Following the announcement, the associated right-of-use assets were assessed for impairment. An impairment charge of £3m has been recognised within operating and administrative expenses.

Notes to the consolidated financial statements

Section 3: Assets and liabilities continued

3.6 Lessee accounting continued

In July 2023, the Group announced plans for the closure of 39 stores, of which 34 were leasehold properties. Following the announcement, the associated right-of-use assets were assessed for impairment. Where it is expected that the Group can sub-lease the property, the recoverable amount was determined based on expected sub-lease income. Where the Group does not expect to be able to generate any cash inflows beyond the closure date, the value-in-use was determined to be £Nil. An impairment charge of £7m has been recognised within operating and administrative expenses. In addition to the impairment charge relating to the right-of-use assets, a provision has been recognised for other costs associated with the closures (note 3.7).

In the prior year, 19 surplus properties were impaired following a reduction in estimated value-in-use, resulting in an impairment charge of £4m. In addition, an impairment of £5m was recognised in relation to right-of-use assets for office estate where no further economic benefit was expected following exit.

Sub-leases

Future undiscounted minimum payments receivable in respect of sub-leased assets at 30 September were as follows:

	2023 £m	2022 £m
Operating leases	**3**	1
Finance leases	**2**	3
	5	4

Lease liabilities

	2023 £m	2022 £m
Lease liabilities[1]	**180**	132

(1) Lease liabilities are presented within other liabilities (note 3.5) on the balance sheet.

Future undiscounted minimum payments under lease liabilities at 30 September are as follows:

Amounts falling due	2023 £m	2022 £m
Within 1 year	**22**	22
Between 1 and 5 years	**63**	60
Over 5 years	**142**	66
	227	148

c) Lease commitments not recognised on the balance sheet

In addition to the lease liabilities recognised on the balance sheet, the Group also has lease commitments relating to leases which have not yet commenced at the balance sheet date.

Future undiscounted minimum payments on leases which are yet to commence were as follows:

Amounts falling due	2023 £m	2022 £m
Within 1 year	**–**	4
Between 1 and 5 years	**1**	22
Over 5 years	**5**	99
	6	125

d) Leased investment property

Right-of-use asset additions shown in 3.6(b) above include £43m of assets classified as investment property (2022: £Nil). Depreciation charges of £1m were recognised in the year (2022: £Nil) and a £4m impairment charge was also recognised (2022: £Nil) relating to leased investment property floors. The leased investment property balance at 30 September 2023 was £38m (2022: £Nil).

3.7 Provisions for liabilities and charges

	Employee related costs provision £m	Customer related provision £m	Property provision £m	Off-balance sheet ECL provisions[1] £m	Total
As at 1 October 2021	22	19	55	8	104
Charge/(credit) to the income statement	2	8	–	(5)	5
Utilised	(17)	(14)	(28)	–	(59)
As at 30 September 2022	7	13	27	3	50
Charge to the income statement	7	–	24	2	33
Utilised	(6)	(3)	(5)	–	(14)
As at 30 September 2023	**8**	**10**	**46**	**5**	**69**

(1) The Group's ECL accounting policy can be found in note 3.1.1.1.

Employee related costs provision

This includes provision for staff redundancies and for NIC on equity based compensation. During the year, provisions of £7m (2022: £2m) were raised relating to staff redundancy costs.

Customer related provision

This relates to customer matters, legal proceedings, and claims arising in the ordinary course of the Group's business. A number of these matters are now reaching a conclusion and the risk that the final amount required to settle the Group's potential liabilities in these matters being materially more than the remaining provision is now considered to be low.

Property provision

This includes costs for stores and office closures. During the year, provisions of £24m (2022: £Nil) were raised.

Section 4: Capital

4.1 Equity

4.1.1 Share capital and share premium

	2023 £m	2022 £m
Share capital	**134**	141
Share premium	**9**	7
Share capital and share premium	**143**	148

	2023 Number of shares	2022 Number of shares	2023 £m	2022 £m
Ordinary shares of £0.10 each – authorised, allotted, called up and fully paid				
Opening ordinary share capital	**1,408,530,988**	1,439,993,431	**141**	144
Issued under employee share schemes	**3,947,282**	2,982,745	**–**	–
Share buyback programme	**(67,837,302)**	(34,445,188)	**(7)**	(3)
Closing ordinary share capital	**1,344,640,968**	1,408,530,988	**134**	141

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 2023 rank equally with regard to the Company's residual assets.

The following dividends were declared in the current and prior periods:

- A final dividend in respect of the year ended 30 September 2021 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.
- A final dividend in respect of the year ended 30 September 2022 of 7.5p per ordinary share in the Company, amounting to £103m, was paid in March 2023.
- An interim dividend in respect of the year ended 30 September 2023 of 3.3p per ordinary share in the Company, amounting to £45m, was paid in June 2023.

The Directors have recommended a final dividend in respect of the year ended 30 September 2023 of 2.0p per ordinary share in the Company, to be paid in March 2024. The payment of the final dividend is subject to approval of the shareholders at the 2024 AGM. These financial statements do not reflect the recommended dividend.

The following share buybacks have been announced in the current and prior periods:

- On 30 June 2022, the Company announced an initial repurchase of up to £75m. The buyback commenced on 30 June 2022 and ended on 9 December 2022.
- On 21 November 2022, the Company announced an extension to the share buyback programme with an intent to repurchase a further £50m. The buyback extension commenced on 21 November 2022 and ended on 7 March 2023.
- On 2 August 2023, the Company announced a new share buyback programme to repurchase £50m. The buyback commenced on 2 August 2023 and ended on 22 November 2023.

68m ordinary shares (2022: 34m), with a nominal value of £7m (2022: £3m), were repurchased in the year for a total consideration of £112m (2022: £50m).

Each buyback is completed in aggregate between the Company's ordinary shares of £0.10 each listed on the LSE and CDIs, each representing one share, listed on the ASX. The Company repurchased shares and CDIs in approximately equal proportions. 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 23 November 2023, the Company announced a further share buyback with an intent to repurchase another £150m, ending no later than 16 May 2024.

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:

4.1.2 Other equity instruments

Other equity instruments comprises AT1 capital which consists of the following Perpetual Contingent Convertible Notes:

	2023		2022	
	Carrying value £m	Nominal value £m	Carrying value £m	Nominal value £m
Perpetual securities (fixed 8% up to the first reset date) issued on 8 February 2016 with an optional redemption on 8 December 2022.	**–**	**–**	72	73
Perpetual securities (fixed 9.25% up to the first reset date) issued on 13 March 2019 with an optional redemption on 8 June 2024.	**247**	**250**	247	250
Perpetual securities (fixed 8.25% up to the first reset date) issued on 17 June 2022 with an optional redemption on 17 June 2027.	**347**	**350**	347	350
	594	**600**	666	673

On 8 December 2022, perpetual securities (fixed 8% up to the first reset date) issued on 8 February 2016 totalling £72m were redeemed.

The issuances are treated as equity instruments in accordance with IAS 32 'Financial instruments: presentation' with the proceeds included in equity, net of transaction costs, which is the difference between the nominal and carrying values. AT1 distributions of £54m were paid in the year (2022: £70m).

4.1 Equity continued

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

Virgin Money Holdings (UK) Limited established an EBT (the 'VMH 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 VMH 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 2023 is £0.3m (2022: £0.6m). The market value of the shares held in the VMH EBT at 30 September 2023 was £0.2m (2022: £0.4m).

During the current year, Virgin Money UK PLC also established an EBT (the 'VMUK EBT') in connection with the operation of its share plans. The investment in own shares as at 30 September 2023 was £2.0m (2022: £Nil). The market value of the shares held in the VMUK EBT at 30 September 2023 was £1.9m (2022: £Nil).

The total investment in own shares as at 30 September 2023 was £2.3m (2022: £0.6m). The total market value of the shares held in both EBTs at 30 September 2023 was £2.1m (2022: £0.4m).

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 £14m at 30 September 2023 (2022: £11m). 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 programmes 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.

	2023 £m	2022 £m
At 1 October	**699**	10
Amounts recognised in other comprehensive income:		
Cash flow hedge – interest rate risk		
Effective portion of changes in fair value of interest rate swaps	**(268)**	962
Amounts transferred to the income statement	**(12)**	(13)
Taxation	**77**	(260)
Cash flow hedge – foreign exchange risk		
Effective portion of changes in fair value of cross currency swaps	**–**	–
Amounts transferred to the income statement	**–**	–
At 30 September	**496**	699

4.2 Pillar 3 disclosures

UK Capital Requirements Regulation

Pillar 3 disclosure requirements are set out within the Disclosure (CRR) part of the PRA rulebook. The disclosures required under the PRA framework are substantially equivalent to those required by Part Eight of the EU CRR. The consolidated disclosures of the Group, for the 2023 financial year, will be issued concurrently with the Annual Report and Accounts and can be found at www.virginmoneyukplc.com/investor-relations/results-and-reporting/annual-reports/

Section 5: Other notes

5.1 Contingent liabilities and commitments

Accounting policy

Financial guarantees

The Group provides guarantees in the normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party and are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. The rating of the Group as a guarantee provider enhances the marketability of the paper issued by the counterparty in these circumstances.

The ECL requirements as described in note 3.1.1 apply to loan commitments and financial guarantee contracts, with the ECL allowance held as part of the provisions for liabilities and charges balance (note 3.7).

The table below sets out the amounts of financial guarantees and commitments which are not recorded on the balance sheet. Financial guarantees and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The amounts do not represent the amounts at risk at the balance sheet date but the amounts that would be at risk should the contracts be fully drawn upon and the customer default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

	2023 £m	2022 £m
Guarantees and assets pledged as collateral security:		
Due in less than 3 months	**12**	33
Due between 3 months and 1 year	**18**	23
Due between 1 year and 3 years	**8**	9
Due between 3 years and 5 years	**1**	3
Due after 5 years	**40**	44
	79	112
Other credit commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**17,921**	19,247

Capital commitments

The Group had future capital expenditure which had been contracted for, but not provided for, at 30 September 2023 of £0.1m (2022: £0.4m).

Other contingent liabilities

Conduct risk related matters and legal claims

There continues to be uncertainty with judgement required in determining the quantum of conduct risk related liabilities, with note 3.7 reflecting the Group's current position where a provision can be reliably estimated. Until all matters are resolved the final amount required to settle the Group's potential liabilities for conduct related matters remains uncertain.

The Group will continue to reassess the adequacy of provisions for these matters and the assumptions underlying the calculations at each reporting date based upon experience and other relevant factors at that time.

The Group's subsidiary, Clydesdale Bank PLC, along with its former parent company, National Australia Bank Limited, is a defendant in nine separate claims (comprising 904 individual claimants) co-ordinated by the claims management company, RGL Management Limited, in connection with (i) the payment of break costs and (ii) the composition of fixed interest rates, both, in respect of historic tailored business loans. The cases involving four individual claimants (being the first and fourth claims) are currently being heard before His Majesty's High Court of Justice, with the hearing scheduled to conclude on 20 December 2023. The remaining claims are currently stayed by agreement and court order. Clydesdale Bank PLC is robustly defending all such claims. No provision has been made in these financial statements in respect of the current claims, nor any other claims of a similar nature which may be brought by other claimants.

The Group is named in and is defending a number of other legal claims arising in the ordinary course of business. No material adverse impact on the financial position of the Group is expected to arise from the ultimate resolution of these legal actions.

5.2 Equity based compensation

The equity settled share based payment charge for the year is £5m (2022: £5m).

Virgin Money UK PLC awards

The Group issues awards to employees under the following share plans:

Plan	Eligible employees	Nature of award	Vesting conditions(1)	Grant dates(2)
DEP(3)	Selected employees	Conditional rights to shares	Continuing employment or leaving in certain limited circumstances	2017, 2018, 2019, 2020, 2021 and 2022
LTIP	Selected senior employees	Conditional rights to shares	Continuing employment or leaving in certain limited circumstances and achievement of delivery of the Group's strategic goals and growth in shareholder value	2017, 2018, 2019, 2020, 2021 and 2022

(1) All awards are subject to vesting conditions and therefore may or may not vest.

(2) The year in which grants have been made under the relevant plan.

(3) Grants made under the DEP are made the year following the financial year to which they relate.

5.2 Equity based compensation continued

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.

Awards/rights made during the year

Plan	Number outstanding at 1 October 2022	Number awarded	Number forfeited	Number released	Number outstanding at 30 September 2023	Average fair value of awards at grant pence
DEP						
2016 Commencement	1,310	–	–	(1,310)	**–**	266.03p
2017 Bonus	2,120	–	–	(2,120)	**–**	313.20p
2018 Bonus	136,520	–	–	(34,129)	**102,391**	192.35p
2019 Bonus	79,160	–	–	(18,388)	**60,772**	174.50p
2019 Commencement	8,046	–	–	(5,195)	**2,851**	174.50p
2020 Commencement	9,600	–	–	(5,908)	**3,692**	135.40p
2021 Commencement	107,747	–	–	(64,315)	**43,432**	142.70p
2022 Bonus	–	1,289,482	–	(1,109,992)	**179,490**	176.75p
2023 Commencement	–	567,651	–	(110,384)	**457,267**	158.95p
LTIP						
2017 LTIP	269,629	–	–	(125,918)	**143,711**	313.20p
2018 LTIP	2,000,311	–	–	(620,091)	**1,380,220**	190.47p
2019 LTIP	6,941,307	–	(4,721,502)	(694,962)	**1,524,843**	174.50p
2020 LTIP	8,359,759	–	(274,998)	–	**8,084,761**	135.40p
2021 LTIP	6,487,823	–	(531,566)	–	**5,956,257**	172.65p
2022 LTIP	–	7,265,385	(365,233)	–	**6,900,152**	176.75p

Determination of grant date fair values

Where awards are subject to only non-market performance conditions the grant date fair value of the awards has been taken as the middle market share price value on the day immediately preceding the grant. An estimate is made of the number of awards expected to vest in order to determine the overall share based payment charge to be recognised over the vesting period. Where awards contain market performance conditions, these are incorporated into the calculation of grant date fair value using Monte Carlo simulation pricing models. During the year, awards were granted under the LTIP on 9 December 2022 and under the DEP on 9 December 2022 and 20 June 2023, based on the middle market share price on the day immediately preceding the grant.

5.3 Related party transactions

The Group undertakes activity with the following entities which are considered to be related party transactions:

Yorkshire and Clydesdale Bank Pension Scheme ('the Scheme')
The Group provides banking services to the Scheme, with customer deposits of £7m (2022: £12m). Pension contributions of £7m were made to the Scheme in the year (2022: £7m).

During the year, the Group and Trustee to the Scheme ceased their previous contingent security arrangement, subsequently the Group has granted a £75m uncommitted liquidity facility to the Scheme as an additional contingency against future short-term liquidity challenges resulting from unexpected market turbulence. As at 30 September 2023, the amount drawn under the facility was £Nil. There is also a £7m BACS facility held for the Scheme in relation to payments to the Scheme's members (2022: £7m). As at 30 September 2023, the amount drawn on the facility was £Nil (2022: £Nil).

JVs and associates
The Group holds investments in JVs of £10m (2022: £10m). The total share of profit for the year was £Nil (2022: loss of £4m). In addition, the Group had the following transactions with JV entities during the year:

- Salary Finance – the Group provides Salary Finance with a revolving credit facility funding line, of which the current gross lending balance was £290m (2022: £318m) and the undrawn facility was £60m (2022: £32m). The facility is held under Stage 2 for credit risk purposes (2022: Stage 2), with an ECL allowance of £22m (2022: £19m) held against the lending. An impairment charge of £3m (2022: £19m) was recognised in the year. The lending made via Salary Finance continues to be held as part of the Group's Unsecured lending portfolio and consists of personal lending to Salary Finance customers. During the year, the number of customers not maintaining scheduled loan repayments has reduced slightly with no material change to the ECL allowance held from that at September 2022. Additionally, the Group received £16m (2022: £10m) of interest income from Salary Finance in the year and holds deposits of £10m (2022: £10m). Board approval is in place for this facility up until December 2025 with £350m being the approved limit; and
- UTM – the Group provides banking services to UTM which has resulted in amounts due of £3m (2022: £4m). Additionally, the Group received £9m of recharge income in the year (2022: £7m) from UTM in accordance with a Service Level Agreement in respect of resourcing, infrastructure and marketing. During the year, the Group provided no additional funding to UTM (2022: £4m). The Group has also paid consortium relief to UTM of £1m (2022: £Nil) for losses surrendered from UTM in respect of FY21 and FY22. During the year, the Group provided UTM with a 30 day notice account with customer deposits of £17m (2022: £Nil) which resulted in interest of £0.5m being paid to UTM (2022: £Nil). The Group also provided UTM with five term deposit accounts during the year. £16m was originally held in deposit, however these matured in September 2023 (2022: £Nil).

Other related party transactions with Virgin Group
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 (2022: £5m), with expenses incurred in the year of £17m (2022: £15m).
- The Group incurs credit card commissions and air mile charges with Virgin Atlantic Airways Limited (VAA) in respect of an agreement between the two parties. Amounts payable to VAA totalled £2m (2022: £1m) and expenses of £17m were incurred in the year (2022: £16m).
- The Group incurs charges and receives commissions concerning the cashback incentive scheme with Virgin Red Limited in relation to the credit card and PCA portfolio. Amounts receivable totalled £0.2m (2022: £0.1m), amounts payable totalled £0.1m (2022: £1m) and during the year this resulted in expenses of £0.5m (2022: £3m) along with income of £0.4m (2022: £0.5m).
- The Group has an arrangement with Virgin Start Up Limited to host a series of events, podcasts and videos and other digital content. During the year this resulted in amounts payable of £0.1m (2022: £Nil) and expenses of £0.4m (2022: £0.5m).
- The Group paid £20m (2022: £7m) of ordinary dividends to Virgin Group Holdings Limited.

(1) All companies are incorporated in England and Wales with the exception of Virgin Group Holdings Limited, which is incorporated in the British Virgin Islands.

Charities
The Group provides banking services to The Virgin Money Foundation ('the Foundation') which has resulted in customer deposits of £1m (2022: £1m). The Group has made donations of £1m in the year (2022: £1m) to the Foundation to enable it to pursue its charitable objectives. The Group has also provided a number of support services to the Foundation on a pro bono basis, including use of facilities and employee time. The estimated gift in kind for support services provided during the year was £0.5m (2022: £0.4m).

Compensation of key management personnel (KMP)
KMP comprises Directors of the Company and members of the Executive Leadership Team.

	2023 £m	2022 £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.

Notes to the consolidated financial statements

Section 5: Other notes continued

5.3 Related party transactions continued

The following information regarding Directors' remuneration is presented in accordance with the Companies Act 2006.

	2023 £m	2022 £m
Aggregate remuneration(1)	**5**	5

(1) Aggregate remuneration includes amounts paid for the 2023 financial year and amounts paid under the LTIPs in relation to the 2018 and 2019 LTIP awards. LTIP figures in the single figure table for Executive Directors' 2023 remuneration in the Remuneration report relate to the 2019 LTIP award in respect of the 2020–2022 LTIP performance period cycle.

None of the Directors were members of the Group's defined contribution or defined benefit pension schemes during 2023 (2022: none).

None of the Directors hold share options and none were exercised during the year (2022: none).

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:

	2023 £m	2022 £m
Loans and advances	**1**	1
Deposits	**1**	1

No provisions have been recognised in respect of loans provided to KMP (2022: £Nil). There were no debts written off or forgiven during the year to 30 September 2023 (2022: £Nil). Included in the above are five (2022: five) loans totalling £0.6m (2022: £0.3m) made to Directors. In addition to the above, there are guarantees of £Nil (2022: £Nil) made to Directors and their related parties.

5.4 Notes to the statement of cash flows

	2023 £m	2022 £m
Adjustments included in the profit before tax		
Interest receivable	**(3,833)**	(2,217)
Interest payable	**2,146**	641
Depreciation, amortisation and impairment (note 2.3)	**116**	179
Derivative financial instruments fair value movements	**12**	17
Impairment losses on credit exposures (note 3.1.1.1)	**309**	52
Net charge in respect of provisions for liabilities and charges	**31**	–
Equity based compensation (note 5.2)	**5**	4
Gain on disposal of FVOCI assets (note 2.2)	**(1)**	(4)
Other non-cash movements(1)	**8**	2
	(1,207)	(1,326)
Changes in operating assets		
Net (increase)/decrease in:		
Balances with supervisory central banks	**–**	(3)
Derivative financial instruments	**(269)**	1,847
Financial assets at FVTPL	**18**	57
Loans and advances to customers	**(303)**	(713)
Defined benefit pension assets	**(7)**	(7)
Other assets	**17**	31
	(544)	1,212
Changes in operating liabilities		
Net increase/(decrease) in:		
Due to other banks	**(627)**	1,235
Derivative financial instruments	**(37)**	119
Customer deposits	**1,249**	(1,510)
Provisions for liabilities and charges	**(14)**	(50)
Other liabilities	**(287)**	(32)
	284	(238)

(1) Included within other non-cash movements is a net credit in respect of defined benefit pension schemes of £49m (2022: £24m) (note 2.3) and the share of post-tax losses of associates and joint ventures of £Nil (2022: £4m).

Notes to the consolidated financial statements

Section 5: Other notes continued

5.4 Notes to the statement of cash flows continued

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition. This includes cash and liquid assets and amounts due from other banks (to the extent less than 90 days).

	2023 £m	2022 £m
Cash and balances with central banks (less mandatory deposits)	**11,007**	11,955
Due from other banks (less than three months)	**666**	656
	11,673	12,611

5.5 Segment information

The Group's operating segments are operating units engaged in providing different products or services and whose operating results and overall performance are regularly reviewed by the Group's Chief Operating Decision Maker, the Executive Leadership Team.

The Group operates under four commercial lines: Mortgages, Unsecured, Business, and Deposits, which are reported through the Chief Commercial Officer. At this point in time, the business continues to be reported to the Group's Chief Operating Decision Maker as a single segment and decisions made on the performance of the Group on that basis. Segmental information will therefore continue to be presented on this single segment basis.

Summary income statement

	2023 £m	2022 £m
Net interest income	**1,687**	1,576
Non-interest income	**140**	140
Total operating income	**1,827**	1,716
Operating and administrative expenses	**(1,173)**	(1,069)
Impairment losses on credit exposures	**(309)**	(52)
Segment profit before tax	**345**	595
Average interest earning assets	**89,810**	86,275

The Group has no operations outside the UK and therefore no secondary geographical area information is presented. The Group is not reliant on a single customer. Liabilities are managed on a centralised basis.

5.6 Post-balance sheet events

On 23 November 2023, the Company announced a further share buyback with an intent to repurchase another £150m in aggregate of shares and CDIs, ending no later than 16 May 2024.

Company financial statements

Company balance sheet

As at 30 September	Note	2023 £m	2022 £m
Assets			
Investments in controlled entities	6.2	**4,016**	4,085
Due from related entities	6.6	**3,816**	3,526
Due from other banks		**6**	–
Financial assets at FVTPL		**1**	6
Current tax assets		**–**	6
Other assets		**–**	1
Total assets		**7,839**	7,624
Liabilities			
Debt securities in issue	6.3	**3,764**	3,459
Due to other banks		**128**	129
Due to related entities	6.6	**7**	8
Other liabilities		**6**	6
Total liabilities		**3,905**	3,602
Equity			
Share capital and share premium	4.1	**143**	148
Other equity instruments	6.5	**594**	666
Merger reserve	6.5	**2,128**	2,128
Other reserves	6.5	**25**	24
Retained earnings	6.5	**1,044**	1,056
Total equity		**3,934**	4,022
Total liabilities and equity		**7,839**	7,624

The Company made a profit of £292m (2022: £426m) during the year.

The notes on pages 331 to 336 form an integral part of these financial statements.

Company statement of changes in equity

	Note	Share capital and share premium £m	Other equity instruments £m	Merger reserve £m	Other reserves: Own shares held £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 2021		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
Profit for the year		–	–	–	–	–	–	–	292	292
AT1 distribution paid		–	–	–	–	–	–	–	(54)	(54)
Dividends paid to ordinary shareholders		–	–	–	–	–	–	–	(148)	(148)
Ordinary shares issued		2	–	–	–	–	–	–	–	2
Share buyback		(7)	–	–	–	7	–	–	(112)	(112)
Purchase of own shares		–	–	–	(2)	–	–	–	–	(2)
Transfer from equity based compensation reserve		–	–	–	–	–	–	(4)	4	–
Equity based compensation expensed		–	–	–	–	–	–	5	–	5
Settlement of Virgin Money Holdings (UK) Limited share awards		–	–	–	–	–	(5)	–	2	(3)
AT1 redemption		–	(72)	–	–	–	–	–	4	(68)
As at 30 September 2023	6.5	**143**	**594**	**2,128**	**(2)**	**10**	**6**	**11**	**1,044**	**3,934**

The notes on pages 331 to 336 form an integral part of these financial statements.

Company statement of cash flows

For the year ended 30 September	2023 £m	2022 £m
Operating activities		
Profit on ordinary activities before tax	**295**	424
Adjustments for:		
Non-cash or non-operating items included in profit before tax		
Interest receivable	**(144)**	(129)
Interest payable	**148**	133
Costs recharged from subsidiary	**(1)**	(3)
Fair value movements on other financial assets designated at FVTPL	**4**	(2)
Changes in operating assets		
Financial assets at FVTPL	**6**	–
Other assets	**1**	–
Net increase in amounts due from related entities	**(311)**	–
Changes in operating liabilities		
Other liabilities	**(3)**	–
Net increase in amounts due to related entities	**1**	11
Interest received	**123**	130
Tax received – Group relief	**2**	–
Net cash provided by operating activities	**121**	564
Cash flows from investing activities		
Investment in controlled entities	**72**	37
Net cash provided by investing activities	**72**	37
Cash flows from financing activities		
Interest paid	**(122)**	(131)
Issuance of medium-term notes/subordinated debt	**743**	–
AT1 issuance	**–**	347
Redemption of medium-term notes/subordinated debt	**(432)**	–
Redemption of AT1 securities	**(72)**	(614)
Share buybacks	**(112)**	(52)
Ordinary dividends paid	**(148)**	(50)
AT1 distributions	**(54)**	(70)
Net cash used in financing activities	**(197)**	(570)
Net (decrease)/increase in cash and cash equivalents	**(4)**	31
Cash and cash equivalents at the beginning of the year	**50**	19
Cash and cash equivalents at the end of the year	**46**	50

Additional information on operational cash flows:

	2023 £m	2022 £m
Dividends received	**248**	367
AT1 distributions received	**54**	60

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.

	2023 £m	2022 £m
Due from other banks	**6**	–
Due from related parties (note 6.6)	**40**	50

The amount included in due from other banks relates to the Company EBT which was initiated in the year.

Movements in liabilities arising from financing activities:	Debt securities in issue £m	Total £m
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
Cash flows:		
Issuances	744	744
Redemptions	(432)	(432)
Non-cash flows:		
Movement in accrued interest	14	14
Unamortised costs	7	7
Unrealised foreign exchange movements	(28)	(28)
At 30 September 2023	**3,764**	**3,764**

The notes on pages 331 to 336 form an integral part of these financial statements.

Notes to the Company 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 IAS.

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.

6.2 Company investments in controlled entities

	2023 £m	2022 £m
At 30 September	**4,016**	4,085

The decrease in the year resulted from the redemption of £72m perpetual securities issued by Clydesdale Bank PLC to the Company on the same terms as the Company's externally issued perpetual securities that were redeemed in December 2022 (see note 4.1). Associated transaction and discount costs of £4m were also released by the Company to retained earnings as part of the redemption, resulting in a net decrease of £68m.

The remaining movement of £1m in the Company's investment in Clydesdale Bank PLC 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 2023:

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	177 Bothwell Street, Glasgow, G2 7ER	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	177 Bothwell Street, Glasgow, G2 7ER	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	177 Bothwell Street, Glasgow, G2 7ER	30 September
Indirect holdings						
CGF No. 9 Limited	Leasing	Ordinary	100%	Scotland	177 Bothwell Street, Glasgow, G2 7ER	30 September
Clydesdale Bank Asset Finance Limited	Leasing	Ordinary	100%	Scotland	177 Bothwell Street, Glasgow, G2 7ER	30 September
CYB Intermediaries Limited	Insurance intermediary	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
St Vincent (Equities) Limited	Investment company	Ordinary	100%	Scotland	177 Bothwell Street, Glasgow, G2 7ER	30 September
Virgin Money Giving Limited	Non-trading company	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	Non-trading company	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	31 March
Virgin Money Personal Financial Service Limited	Insurance intermediary	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Virgin Money Limited	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Yorkshire Bank Home Loans Limited	Mortgage finance	Ordinary	100%	England	20 Merrion Way, Leeds, Yorkshire, LS2 8NZ	30 September
C.B. Nominees Limited	Dormant	Limited by guarantee	100%	Scotland	177 Bothwell Street, Glasgow, G2 7ER	30 September
CYB SSP Trustee Limited	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
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

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 (2022: £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% (2022: 16.7%).
- 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.

6.2 Company investments in controlled entities continued

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 £27m and a 10 basis point decrease in the projected terminal growth rate would decrease the headroom by £8m.

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.

The Company also has an interest in a number of structured entities:

Other controlled entities as at 30 September 2023	Nature of business	Country of incorporation	Registered office	Financial year end
Eagle Place Covered Bonds LLP	Acquisition of mortgage loans	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Gosforth Funding 2017-1 PLC (in liquidation)	Issuer of securitised notes	England	10 Fleet Place, London, EC4M 7RB	30 September
Gosforth Funding 2018-1 PLC	Issuer of securitised notes	England	Eighth Floor, 100 Bishopsgate, London, EC2N 4AG	30 September
Gosforth Holdings 2017-1 Limited (in liquidation)	Holding company	England	10 Fleet Place, London, EC4M 7RB	30 September
Gosforth Holdings 2018-1 Limited	Holding company	England	Eighth Floor, 100 Bishopsgate, London, EC2N 4AG	30 September
Gosforth Mortgages Trustee 2018-1 Limited	Trust	England	Eighth Floor, 100 Bishopsgate, London, EC2N 4AG	30 September
Lanark Funding Limited	Funding company	England	Suite 2, Seventh Floor, 50 Broadway, London, SW1H 0DB	30 September
Lanark Holdings Limited	Holding company	England	Suite 2, Seventh Floor, 50 Broadway, London, SW1H 0DB	30 September
Lanark Master Issuer PLC	Issuer of securitised notes	England	Suite 2, Seventh Floor, 50 Broadway, London, SW1H 0DB	30 September
Lanark Trustees Limited	Mortgages trustee	England	Suite 2, Seventh Floor, 50 Broadway, London, SW1H 0DB	30 September
Lannraig Funding Limited	Funding company	England	1 Bartholomew Lane, London, EC2N 2AX	30 September
Lannraig Holdings Limited	Holding company	England	1 Bartholomew Lane, London, EC2N 2AX	30 September
Lannraig Master Issuer PLC	Issuer of securitised notes	England	1 Bartholomew Lane, London, EC2N 2AX	30 September
Lannraig Trustees Limited	Mortgages trustee	Jersey	44 Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands	30 September
Red Grey Square Funding LLP	Security provider	England	1 Bartholomew Lane, London, EC2N 2AX	30 September

Details of the Group's interests in consolidated structured entities associated with securitisation and covered bond arrangements are set out in note 3.1.5.

Notes to the Company financial statements

Section 6: Notes to the Company financial statements continued

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(1)	A	20%	1 Bartholomew Lane, London, EC2N 2AX	31 December
Salary Finance Loans Limited	JV	50%	Scale Space, 58 Wood Lane, London, W12 7RZ	31 December
Virgin Money Unit Trust Managers Limited(2)	JV	50% (plus one share)	Jubilee House, Gosforth, Newcastle Upon Tyne, NE3 4PL	31 December

(1) Eagle Place Covered Bonds Finance Limited is a dormant company within the Group's covered bond programme.

(2) Virgin Money Unit Trust Managers Limited owns 100% of the share capital of Virgin Money Nominees Limited and Virgin Money Trustee Limited, both dormant companies registered at Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

Investments in JVs are recognised in the consolidated financial statements within other assets and accounted for using the equity method. The undertakings above are incorporated in the UK.

Further details on the JV arrangements are provided in note 5.3.

6.3 Company debt securities in issue

	2023 £m	2022 £m
Medium-term notes	**2,728**	2,425
Subordinated debt	**1,036**	1,034
	3,764	3,459

Information on subordinated debt and medium-term notes is provided in note 3.1.1.4 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 3.1.4 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 as not all of the Company's financial instruments can be exchanged in an active trading market.

	2023					2022				
			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	**3,816**	**3,699**	**–**	**3,699**	**–**	3,526	3,292	–	3,292	–
Other financial assets at FVTPL	**1**	**1**	**–**	**–**	**1**	6	6	–	4	2
Financial liabilities										
Debt securities in issue	**3,764**	**3,597**	**3,597**	**–**	**–**	3,459	3,156	3,156	–	–

Notes to the Company financial statements

Section 6: Notes to the Company financial statements continued

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:

Due from related entities – 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 3) – the Company holds £1m (2022: £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 – 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 2023, the Company had accumulated distributable reserves of £1,044m (2022: £1,056m).

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

	2023 £m	2022 £m
Bank accounts held with controlled entity of the Company	**40**	50
Medium-term notes	**2,735**	2,437
Subordinated debt	**1,036**	1,034
Other receivables	**5**	5
Total amounts due from related entities	**3,816**	3,526
Interest income on the above amount was as follows:		
Interest income from related parties	**144**	129

These are all classified as amortised cost and, for IFRS 9 purposes, are held under Stage 1. The impact of the ECL requirements 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.

Notes to the Company financial statements

Section 6: Notes to the Company financial statements continued

6.6 Company related party transactions continued

Total amounts due to related entities

	2023 £m	2022 £m
Other payables	**7**	8
Total amounts due to related entities	**7**	8

Other transactions with related entities

	2023 £m	2022 £m
Non-interest income received	**21**	18
Dividends received	**248**	367
AT1 distributions received	**54**	60
	323	445
Other expenses	**4**	1

Other related party transactions

As detailed in note 5.2 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 (2022: Nil).

Other related party transactions with the Virgin Group

The Company 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 payables of £5m (2022: £5m), with expenses incurred in the year of £17m (2022: £15m).
- The Company paid £20m (2022: £7m) of ordinary dividends to Virgin Group Holdings Limited.

(1) Virgin Enterprises Limited is incorporated in England and Wales, with Virgin Group Holdings Limited incorporated in the British Virgin Islands.

Additional information

Justin
Digital & Innovation

Justin is one of our upcoming digital apprentices helping us on our mission to be the UK's best digital bank.

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	Response	Links and references
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 Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.		
Business model *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 across the main geographies in which your bank operates or provides products and services. Please also quantify the information by disclosing e.g. the distribution of your bank's portfolio (%) in terms of geographies, segments (i.e. by balance sheet and/or off-balance sheet) or by disclosing the number of customers and clients served.	Virgin Money is the UK's 6th largest bank, serving 6.6m retail and small and medium sized business banking customers through an innovative digital platform and a 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: > Personal – offering rewarding current accounts, savings, unsecured lending, investments and insurance > Business – helping small and medium businesses save and grow > Mortgages – for homeowners and landlords, and working with intermediaries More information can be found in our Commercial review starting on page 54 of the ARA.	Page 54
	Our sector credit exposures are detailed in credit risk tables on page 179 of the ARA, covering sector breakdowns across mortgages, unsecured and business lending.	Page 179

Reporting and Self-Assessment Requirements	Response	Links and references
Strategy alignment *Does your corporate strategy identify and reflect sustainability as strategic priority/ies for your bank?* ☑ Yes ☐ No Please *describe* how your bank has aligned and/or is planning to align its strategy to be consistent with the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks. *Does your bank also reference any of the following frameworks or sustainability regulatory reporting requirements in its strategic priorities or policies to implement these?* ☐ UN Guiding Principles on Business and Human Rights ☑ International Labour Organization fundamental conventions ☐ UN Global Compact ☐ UN Declaration on the Rights of Indigenous Peoples ☑ Any applicable regulatory reporting requirements on environmental risk assessments, e.g. on climate risk – please specify which ones ☑ Any applicable regulatory reporting requirements on social risk assessments, e.g. on modern slavery – please specify which ones ☐ None of the above	We are led by our Purpose, Making you happier about money, which 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. Our Purpose informs our strategic ambition to be the UK's best digital bank. Our strategic priorities are: > Delighted customers and colleagues; > Super straightforward efficiency; > Pioneering growth; and > Discipline and sustainability.	Pages 31 to 50
	Our ESG strategy is embedded throughout the organisation with specific alignment to our 4th strategic goal, and is structured around 4 ESG Goals: > Put our carbon (footprint) down > Building a brighter business > Open doors > Straight up ESG In 2020, we set 2030 aspirations across our four ESG Goals, and through a detailed mapping assessment against the United Nations SDGs, we identified where we believe we can have most intentional and sustained positive impact, which is outlined in our Strategic report and subsequent pages outlining our ESG strategy and goals. We became a signatory to the NZBA in September 2021 and we are committed to realising the ambitions of the Paris Climate Agreement to support society's low-carbon transition. We've developed science-based targets across our priority business sectors, Mortgages portfolio and our operations, which have been disclosed within our FY23 ARA using decarbonisation scenarios which are from independent and reputable national/international bodies. These are aligned to a maximum 1.5 degree temperature rise by 2050 wherever possible e.g. UK's Climate Change Committee (CCC) Balanced Net Zero (BNZ) pathway selected for Businesses, International Energy Agency's (IEA) Net Zero 2050 pathway for Mortgages.	Page 32
	We are compliant with the TCFD, as outlined on pages 52 and 53 of our Strategic report, with additional detail in our Climate-related disclosures starting on page 240.	Pages 52 to 53, 240 to 272

Reporting and Self-Assessment Requirements	Response	Links and references
Strategy alignment (continued)	In FY21 we started utilising the scenarios published by the BoE as part of its CBES to identify climate-related risks and opportunities and assess the resilience of our business model in line with the Paris Agreement. This exercise continues to provide insights into potential vulnerabilities and opportunities across the Group's lending portfolio, which will be considered through the strategic and financial planning cycles.	
	Under Goal 3 we have set 2030 Aspirations to (i) work towards the eradication of the poverty premium and (ii) Empower and enable those most in need to gain digital access (digital inclusion) and vital skills to better manage their finances (financial education).	
	The Group GHG reporting is undertaken in line with the requirements of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. These regulations are also known as Streamlined Energy and Carbon Reporting (SECR). Full details are included in the SECR table on page 36.	Page 36
	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 16% less than the prior year on a combined basis.	https://www.virginmoneyukplc.com/corporate-sustainability/modern-slavery-statement/
	We align with the recommendations of the ILO standards as outlined within our Modern Slavery statement which is made pursuant to the UK's Modern Slavery Act 2015. Our statement is also available on the Government's Modern Slavery Statement Registry.	https://modern-slavery-statement-registry.service.gov.uk/search

Reporting and Self-Assessment Requirements	Response	Links and references
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 (Key Step 1) *Show* that your bank has performed an impact analysis of its portfolio/s to identify its most significant impact areas and determine priority areas for target-setting. The impact analysis shall be updated regularly[(1)] and fulfil the following requirements/elements (a-d)[(2)]: a) **Scope:** What is the scope of your bank's impact analysis? Please *describe* which parts of the bank's core business areas, products/services across the main geographies that the bank operates in (as described under 1.1) have been considered in the impact analysis. Please also *describe* which areas have not yet been included, and why. (1) That means that where the initial impact analysis has been carried out in a previous period, the information should be updated accordingly, the scope expanded as well as the quality of the impact analysis improved over time. (2) Further guidance can be found in the Interactive Guidance on impact analysis and target setting.	Virgin Money is the UK's 6th largest bank, serving 6.6m retail and small and medium sized business banking customers through an innovative digital platform and a network of stores, contact centres and relationship managers. Our business is comprised of three customer facing functions: > Mortgages – for homeowners and landlords, and working with intermediaries > Personal banking – offering rewarding current accounts, savings, unsecured lending, investments and insurance > Business banking – helping small and medium businesses save and grow In 2019, we conducted our initial Materiality Assessment, seeking views of our key internal and external stakeholders on the sustainability issues of greatest importance: the results of which informed the refresh of our ESG strategy. The scope of the Materiality Assessment included the whole of the UK business operations corresponding with our geographical coverage and customer base. In October 2022, we undertook a follow-on Materiality Assessment, executed by an independent consultant, gathering a balance of perspectives from internal and external stakeholders, to identify the critically important sustainability issues to them and to Virgin Money's long-term business success. 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. **Climate** In accordance with our NZBA commitment, we have assessed the impact of our mortgages and business lending portfolio by calculating estimates of the financed emissions across key carbon-intensive sectors. A breakdown of these estimates can be found on pages 246 to 251 of our report. Mortgages comprises 79% of customer lending, whilst Business accounts for 12%. The breakdown of the Group balance sheet can be found on page 65 of our Annual Report and shows a split by mortgages, business and unsecured lending. We have also performed detailed climate risk assessment exercises to identify the impact to the Group from physical and transitional risks, through which we've been able to identify the highest impact (material) risks to our portfolio, across different time horizons. Unsecured personal lending does not currently have an approved PCAF emissions calculation methodology, so does not currently form part of our disclosures. This comprises 9% of the Group's customer lending.	Pages 246 to 251 Page 65

Reporting and Self-Assessment Requirements	Response	Links and references
2.1 Impact Analysis (Key Step 1) (continued)	**Financial & Digital Inclusion** Financial Inclusion was identified as a priority within the 2022 Materiality Assessment. Internal segmentation analysis of our customer base reveals that approximately 1 in 4 of our customers (1.6 million) live in some of the most deprived areas in the UK. Given our strategic ambition to be the UK's best digital bank, the data and findings above have informed our decision to focus on 'super-themes' of Digital Inclusion and Financial Education which we believe are aligned with the UN PRB impact area: Financial Inclusion & Health. We will continue to work with Smart Data Foundry (alongside others) to collate consumer data across the industry which will help to identify potential triggers. This impact analysis is a complex and lengthy undertaking. We expect to be able to disclose more on our strategy, goals and delivery plans to 2030 in our 2024 UN PRB submission.	

Reporting and Self-Assessment Requirements | **Response** | **Links and references**

2.1 Impact Analysis (Key Step 1) (continued)

b) **Portfolio composition:** Has your bank considered the composition of its portfolio (in %) in the analysis? Please provide proportional composition of your portfolio globally and per geographical scope
  i) by sectors & industries[3] for business, corporate and investment banking portfolios (i.e. sector exposure or industry breakdown in %), and/or
  ii) by products & services and by types of customers for consumer and retail banking portfolios.

If your bank has taken another approach to determine the bank's scale of exposure, please elaborate, to show how you have considered where the bank's core business/ major activities lie in terms of industries or sectors.

(3) 'Key sectors' relative to different impact areas, i.e. those sectors whose positive and negative impacts are particularly strong, are particularly relevant here.

Climate

We are a wholly UK-based bank. Detailed breakdown of our portfolio exposures is found in the table below:

Segment	% of Group customer loans
Mortgages	79%
Business	12%
Unsecured	9%

Business sector breakdown

Business sector	% of Business loans
Agriculture	16%
Business services	16%
Commercial Real Estate	8%
Govt, health & education	14%
Hospitality	10%
Manufacturing	9%
Resources	2%
Retail and wholesale trade	10%
Transport and storage	4%
Other	12%

Emissions disclosed in our FY23 ARA now extends to c.85% of Group balances and science-based targets cover material carbon-intensive sectors. See our Climate-related disclosures for decarbonisation plans for our priority sectors.

Detail on the approach, methodology, prioritisation, the targets themselves and governance/tracking undertaken is also outlined within the FY23 ARA, in the Climate-related disclosures report. Methodologies for metrics subject to assurance can be found within the basis of preparation document, which can be found on the ESG Hub.

Business Banking customers are predominantly SME so no Corporate/Investment Banking analysis is required.

Links and references: Pages 247 to 259

EY's full assurance report is available at: virginmoneyukplc.com/ corporate-sustainability/ environment

Reporting and Self-Assessment Requirements	Response	Links and references
2.1 Impact Analysis (Key Step 1) (continued)	**Financial Inclusion** Virgin Money has undertaken Internal segmentation analysis of our full customer base (covering Mortgages, Unsecured, Business, and Deposits, which includes current accounts and savings) to understand how our portfolio aligns to both the UK Government's Index of Multiple Deprivation and Experian's Financial Strategy Segments (FSS). Experian's Financial Strategy Segments focuses on the behaviour of the whole UK population across 1.7 million postcodes, 26 million households and 50 million individuals, and is underpinned by almost 2,500 data variables to classify customers into 15 groups, 55 types and 135 distinct person-level types. Virgin Money's customers have been profiled into six customer segments which inform seven personas. These profiles are built around a collection of quantitative data sources and highlight the most typical behaviours and financial goals of these FSS classifications. We have identified Financial Inclusion as our second impact area throughout FY24 will be structuring our work across Customers and Communities around 'super themes' of Digital Inclusion and Financial Education. Through that work we will be confirming KPIs, action plans, measurement and reporting and governance for disclosure within our 2024 update report. We will also continue to review the findings and recommendations from the Centre for Social Justice report to inform our strategy/approach.	https://www.virginmoneyukplc.com/newsroom/article/poverty-premium

Reporting and Self-Assessment Requirements	Response	Links and references
2.1 Impact Analysis (Key Step 1) (continued) c) **Context:** What are the main challenges and priorities related to sustainable development in the main countries/regions in which your bank and/or your clients operate?[4] Please *describe* how these have been considered, including what stakeholders you have engaged to help inform this element of the impact analysis. *This step aims to put your bank's portfolio impacts into the context of society's needs.* (4) Global priorities might alternatively be considered for banks with highly diversified and international portfolios.	The Materiality Assessment outlined in 2.1 focused on key topics suggested by the independent consultancy and agreed as relevant to our UK operations. Climate Change and Financial Inclusion were amongst the highest materiality topics for the Bank alongside digital transformation, customer relations, corporate governance, ethics, conduct and compliance and data security. Throughout the Materiality Assessment process we engaged: > Internal stakeholders: Employees, ESG working group, Leadership Team Goal Sponsors and Board members > External stakeholders: Suppliers (CDP survey), Partners, Business Customer panel and customers utilising Sustainability tools (business and personal), industry collaboration, Investor meetings As noted in 1 and 2.1, we are a wholly UK focused bank and consider sustainable development within this context. We plan to refresh our Impact Analysis using the UN PRB Impact Analysis tool in FY24. Throughout the preparation of our plans and targets, we have referred to the Committee on Climate Change's 2023 Progress Report and subsequent response from UK Government. Given the large percentage of our lending to Mortgage customers, the reference to Empowering households and communities to make low carbon choices is of particular note, in addition to ensuring we are not contributing to the increase of 'mortgage prisoners' through our propositions. The research informing the development of our Green Makeover product has incorporated a representative spread of our customer portfolio and reflects feedback on accessibility and affordability. We've also reviewed and considered the approach of our industry peers within our recommendations and plans.	

Reporting and Self-Assessment Requirements	Response	Links and references
2.1 Impact Analysis (Key Step 1) (continued)	**Climate (Priority impact area 1)** We have identified material risks and opportunities for our business lending through portfolio assessment, stakeholder surveys (Sustainable Business Coach and Carbon Audits) 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. Potential acute and chronic physical risks were assessed, as well as policy and legal, technological, reputational and market transition risks.	
	Our Climate-related disclosures 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.	Page 244
	Financial Inclusion (Priority impact area 2) Virgin Money sponsored the Centre for Social Justice (CSJ) Over the Odds report which was published in November 2022. The report, which used data submitted for UK Household Longitudinal Survey About us | Understanding Society Wave 12 and qualitative evidence gathered with the support of small charities, outlined that nearly 7 million people in Great Britain were paying multiple poverty premiums costing on average £478 a year. Digital exclusion and limited internet access were identified as consistent barriers to consumers accessing the most suitable and fairly priced products.	
	We commissioned a further report in 2023, Left Out: How to tackle digital inclusion and reduce the poverty premium. The report highlights some of the key challenges around digital access and the financial impact this has on individuals, particularly those on lower incomes. Findings tell us that 11% of households cannot access the internet at home, with those on lower incomes most impacted. The analysis identified the four areas most at risk of digital exclusion as Northern Ireland, Scotland, North-East England and Yorkshire & Humber: the latter 3 of these 4 are the heartland of our business.	https://www.virginmoneyukplc.com/newsroom/article/poverty-premium

Reporting and Self-Assessment Requirements	Response	Links and references
Based on these first 3 elements of an impact analysis, what positive and negative impact areas has your bank identified? Which (at least two) significant impact areas did you prioritize to pursue your target setting strategy (see 2.2)[(5)]? Please disclose.		
2.1 Impact Analysis (Key Step 1) (continued)	**Priority impact area 1: Climate** The carbon intensity of material sectors within the Business portfolio (Agriculture, Oil & Gas field services, Transport & Residential Mortgages) have presented significant areas of opportunity to develop positive impacts and mitigate the negative effects customer activity can have on the environment. We recognise that the construction of our portfolio means we are more exposed to negative impact in two key areas: Mortgages and Agriculture. Mortgages: We are working with partners to gain insight into the barriers faced by consumers (general public and a representative sample of VMUK customers) in addressing energy efficiency needs, which we are using within the design of a new proposition. Agriculture: VM has strong presence within the Agri sector, which has potential for environmental impact and degradation including climate change, deforestation and biodiversity loss. In FY24 we will aim to better understand the impacts of our business on nature and biodiversity. Through customer insight and engagement, alongside a review of the TNFD framework, we will define our approach to comply with future reporting requirements. The financing of transitioning businesses and supporting the energy efficiency of UK housing will provide new product and policy areas for the bank, whilst also providing clear criteria for reducing the negative impacts of our lending through sector specific policies and exclusions. These are all guided by our sensitive sectors policy, which has provided a strong grounding in limiting the impact of our financing on the climate.	Pages 243 to 251
	We've reported on Operational Scope 1 and 2 emissions since 2014 and continue to source renewable electricity and gas to minimise our own direct impact. In FY23, we analysed the Suppliers' emissions targets for our top suppliers for the first time, highlighting opportunities for positive supplier selection and areas for engagement to ensure full supply chain alignment to net zero by 2050.	Pages 252 to 253
	Priority impact area 2: Financial Inclusion As we execute on our ambition to be the UK's best digital bank, we will need to support customers, offering additional support to those less digitally able to help them to transition. The cost of living crisis has put increased pressure on customers' affordability and the banking sector has had to respond with additional support, resources and greater flexibility. Our 2030 Aspiration to work towards the eradication of poverty premium for our customers and our refreshed focus on Digital Inclusion and Financial Education supports our focus in this area. Throughout FY23, we have worked across various partnerships to develop a deeper understanding, provide resources, and tools to alleviate some of the financial and digital challenges faced by our customer base. This work has had positive results (as outlined within the FY23 ARA, Goal 3, references to Turn2us and Good Things Foundation) and, alongside more detailed insight through our partnership with Smart Data Foundry, is informing our approach for FY24 and beyond.	Pages 43 to 46

(5) To prioritize the areas of most significant impact, a qualitative overlay to the quantitative analysis as described in a), b) and c) will be important, e.g. through stakeholder engagement and further geographic contextualisation.

Reporting and Self-Assessment Requirements	Response	Links and references
2.1 Impact Analysis (Key Step 1) (continued) d) **For these (min. two prioritized impact areas):** *Performance measurement:* Has your bank identified which sectors & industries as well as types of customers financed or invested in are causing the strongest actual positive or negative impacts? Please *describe* how you assessed the performance of these, using appropriate indicators related to significant impact areas that apply to your bank's context. In determining priority areas for target-setting among its areas of most significant impact, you should consider the bank's current performance levels, i.e. qualitative and/or quantitative indicators and/or proxies of the social, economic and environmental impacts resulting from the bank's activities and provision of products and services. If you have identified climate and/or financial health&inclusion as your most significant impact areas, please also refer to the applicable indicators in the Annex. If your bank has taken another approach to assess the intensity of impact resulting from the bank's activities and provision of products and services, please *describe* this. **The outcome of this step will then also provide the baseline (incl. indicators) you can use for setting targets in two areas of most significant impact.**	We've assessed the impact of our portfolio on climate using the framework recommended by the NZBA. In FY21, we calculated emissions for Mortgages & Agriculture, extending to also include Transport & Storage and Resources in FY22. In FY23 we expanded this further to now disclose for all priority sectors (so additionally covering Health, Hospitality, Utilities (non-renewables) Business Services and CRE). Through this analysis we've been able to identify which are the most carbon-intensive sectors, and have built this into our roadmaps and target setting. The methodology/approach/assumptions and outputs for these can be found in the Climate-related disclosures report. We are measuring our performance against these impacts through the following metrics: > Scope 1 & 2 emissions 8,679 tCO_2e at FY23* (16% reduction on FY22) > Energy & Environment lending totalling £317m at FY23* > Mortgage lending to homes with an EPC of C or above is 39% where a positive match is made (29% of the full mortgage portfolio, including properties which have not been matched to EPCs*) > Lending to Sustainability Changemakers is 6.7% of portfolio at end FY23 > c.85% of balance sheet now has measured emissions > 34% of Business lending is to highest-emitting sectors *Metrics with * are within scope of EY assurance.*	Pages 240 to 272
	Methodologies for metrics subject to assurance can be found within the basis of preparation document, which can be found on our ESG Hub. We have a 2030 aspiration to work towards eliminating poverty premium for our customers and are committed to continue working with Smart Data Foundry to gain greater insight into the triggers of the poverty premium through analysis of customer data (both VMUK customers and other financial institutions). Our refreshed 'S' strategy is focused on 'super themes' of Digital Inclusion and Financial Education, and throughout FY24 we will develop long term plans and performance measurement including choosing indicators, setting quantitative targets, initiatives and governance to work towards eradication of the poverty premium for our customers by 2030. As we work through the data and learnings, we will continue to distribute free data and devices through our store network as part of our Partnership with the Good Things Foundation, and signpost Turn2us' Benefits Calculator to our customers and wider society to identify potential unclaimed benefits.	EY's full assurance report is available at: virginmoneyukplc.com/corporate-sustainability/environment

Reporting and Self-Assessment Requirements	Response	Links and references
Self-assessment summary	**Which of the following components of impact analysis has your bank completed, in order to identify the areas in which your bank has its most significant (potential) positive and negative impacts?**(6) **Scope:** ☑ Yes ☑ In progress ☐ No **Portfolio composition:** ☑ Yes ☑ In progress ☐ No **Context:** ☑ Yes ☑ In progress ☐ No **Performance measurement:** ☑ Yes ☑ In progress ☐ No **Which most significant impact areas have you identified for your bank, as a result of the impact analysis?** *Climate change mitigation, climate change adaptation, resource efficiency & circular economy, biodiversity, financial health & inclusion, human rights, gender equality, decent employment, water, pollution, other: please specify* > climate change mitigation > climate change adaptation > resource efficiency & circular economy > financial health & inclusion **How recent is the data used for and disclosed in the impact analysis?** ☐ Up to 6 months prior to publication ☑ Up to 12 months prior to publication ☐ Up to 18 months prior to publication ☐ Longer than 18 months prior to publication Open text field to describe potential challenges, aspects not covered by the above etc.: (optional) (6) You can respond "Yes" to a question if you have completed one of the described steps, e.g. the initial impact analysis has been carried out, a pilot has been conducted.	

Reporting and Self-Assessment Requirements	Response	Links and references
2.2 Target Setting (Key Step 2) *Show* that your bank has set and published a minimum of two targets which address at least two different areas of most significant impact that you identified in your impact analysis. The targets[7] have to be Specific, Measurable (qualitative or quantitative), Achievable, Relevant and Time-bound (SMART). Please disclose the following elements of target setting (a-d), for each target separately: a) **Alignment:** which international, regional or national policy frameworks to align your bank's portfolio with[8] have you identified as relevant? *Show* that the selected indicators and targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks. *You can build upon the context items under 2.1.*	We have set 2030 aspirations across our four ESG Goals, and we became a signatory to the NZBA in September 2021. We have set the ambition to be net zero by 2030 in our own direct operations and across our full value chain by 2050. We've set Scope 1 emissions reduction targets using the SBTi methodology and are committed to continue sourcing our electricity from 100% renewable sources[1] where available and where we are responsible for supply, including biogas. We will also engage our supply chain to set their own science-based targets, targeting 75% of suppliers by spend to have committed or approved science-based targets by 2028. We have set financed emissions reduction targets aligned to the SBTi methodology, using their Sectoral Decarbonisation Approach (SDA) wherever possible to calculate emissions intensity estimates for 2030. Where the SDA has not been available for individual sectors, an economic intensity approach has been adopted, in line with SBTi guidance. These cover 81% of the balance sheet and aim to limit warming to 1.5degC in line with the Paris Agreement.	
	As outlined in target 1.1, through a detailed mapping assessment of our strategy against the United Nations SDGs, we identified where we believe we can have most intentional and sustained positive impact, which is outlined on page 32 of our Strategic report and subsequent pages outlining our ESG Strategy and Goals. Indicators map to SDGs as follows (those being assured): > Scope 1 & 2 Emissions – SDG12 & SDG13 > EPC C+ & Mortgages Emissions – SDG7 & SDG13 > Energy & Environment lending – SDG7 & SDG12	Page 32
	Throughout FY24 we will continue to develop the detail around Financial Inclusion plans to show how we believe we can have a positive impact on the relevant SDGs, as outlined in the ESG Goals section of the Strategic report.	Pages 43 to 46
	We've aligned our work across Customer and Community stakeholders with a focus on Digital Inclusion and Financial Education. In early FY24 we will define our plans and targets, develop delivery plans and required governance with the aim of reporting progress against these within our 2024 submission. In the meantime, we have been collecting high level data on the impact of some of our actions/ interventions, which are outlined within the ESG Goals section of the Strategic report.	

(7) Operational targets (relating to for example water consumption in office buildings, gender equality on the bank's management board or business-trip related greenhouse gas emissions) are not in scope of the PRB.

(8) Your bank should consider the main challenges and priorities in terms of sustainable development in your main country/ies of operation for the purpose of setting targets. These can be found in National Development Plans and strategies, international goals such as the SDGs or the Paris Climate Agreement, and regional frameworks. Aligning means there should be a clear link between the bank's targets and these frameworks and priorities, therefore showing how the target supports and drives contributions to the national and global goals.

(1) *c.8% of the Group's energy utilisation is not from renewable sources, due to either a lack of control or availability*

Reporting and Self-Assessment Requirements	Response	Links and references

2.2 Target Setting (Key Step 2) (continued)

b) **Baseline:** Have you determined a baseline for selected indicators and assessed the current level of alignment? Please disclose the indicators used as well as the year of the baseline.

You can build upon the performance measurement undertaken in 2.1 to determine the baseline for your target.

A package of indicators has been developed for climate change mitigation and financial health & inclusion to guide and support banks in their target setting and implementation journey. The overview of indicators can be found in the Annex of this template.

If your bank has prioritized climate mitigation and/or financial health & inclusion as (one of) your most significant impact areas, it is strongly recommended to report on the indicators in the Annex, using an overview table including the impact area, all relevant indicators and the corresponding indicator codes.

In case you have identified other and/or additional indicators as relevant to determine the baseline and assess the level of alignment towards impact driven targets, please disclose these.

Response

Impact area	Indicator code	Response
		We have determined baselines for selected indicators below, and more detail can be found in Climate-related disclosures including the baseline year. These are aligned to SBTi methodology and scenarios as outlined in 2.2a and within Climate-related disclosures pages.
Climate change mitigation	A.1.4	% of Mortgage Portfolio by EPC Rating (Baseline: FY22, Set: FY22)
	A.2.2	Scope 3 Emissions Mortgages (tCO_2e) (Baseline: FY22, Set FY22) Scope 3 financed emissions: Mortgages intensity ($kgCO_2e/m^2$) (Baseline: FY22, Set FY23)
	A.3.1	Energy & Environment lending (Baseline: FY21, Set: FY21)
	No UNEPFI Indicator	Scope 1 and 2 location-based emissions (tCO_2e) (Baseline: FY20, Set: FY20) Scope 1 market-based emissions (tCO_2e) (Baseline: FY22, Set FY22) Scope 2 market-based emissions (tCO_2e) (Baseline: FY21, No target set) Scope 1 & 2 location-based intensity (tCO_2e/FTE) (Baseline: FY20, Set FY20) Scope 1 market-based intensity (tCO_2e/FTE) (Baseline: FY22, Set FY22)
Financial health & inclusion	n/a	No metrics to be included in this report as we are in the process of defining our strategy. We will set explicit targets in FY24 submission.

Climate:
Alongside net zero operations and halving the emissions of everything we finance by 2030 and net zero by 2050 commitment, we've set interim KPIs across different baseline years:

- Business lending to sustainability changemakers (Baseline: FY20, Set: FY20)
- Proportion of lending to high emitting sectors (Baseline: FY23, Set: FY23)
- % Annual spend covered by suppliers committed to Science-based targets (Baseline: FY23, Set: FY23)

N.B. Baseline performance has not been subject to assurance across all metrics

Financial Inclusion
In early FY24 we will define our baselines, plans and targets, with the aim of reporting progress against these within our 2024 submission. We will use the outputs of various initiatives (usage numbers and for Turn2us, the benefits identified) to inform our 'S' strategy and approach for FY24.

Links and references

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Reporting and Self-Assessment Requirements	Response	Links and references
2.2 Target Setting (Key Step 2) (continued) c) **SMART targets (incl. key performance indicators (KPIs))**[9]**:** Please disclose the targets for your first and your second area of most significant impact, if already in place (as well as further impact areas, if in place). Which KPIs are you using to monitor progress towards reaching the target? Please *disclose*. (9) Key Performance Indicators are chosen indicators by the bank for the purpose of monitoring progress towards targets.	Alongside the net zero by 2050 commitment, we have set the following interim targets: > 55% of Mortgage Portfolio is EPC C+ rated by FY30 > Reduce Scope 3 financed emissions across the Mortgages portfolio to 334,323 (tCO_2e) by FY30 > Mortgages physical intensity ($kgCO_2e/m^2$) to reach 14.9 by FY30 > Achieve £500m in Energy & Environment lending by FY25 > Reduce Scope 1 emissions (Location based) to 1,969 (tCO_2e) by FY30 > Maintain net zero Scope 2 emissions through continued sourcing of renewable electricity. Where the Group is responsible for the supply and where available, 100% of gas and electricity in our UK stores and offices is generated from green sources[1] > 10% of Business lending to sustainability changemakers by FY27 > Proportion of lending to high emitting sectors reduced to 30% by FY30 > Achieve 75% annual spend covered by suppliers committed to Science-based targets by FY30[2] *N.B. Targets are not within scope of EY assurance* **Financial Inclusion** In early FY24 we will define our baselines, plans and targets, with the aim of reporting progress against these within our 2024 submission. We will use the outputs of various initiatives (usage numbers and for Turn2us, the benefits identified) to inform our 'S' strategy and approach for FY24. (1) *c.8% of the Group's energy utilisation is not from renewable sources, due to either a lack of control or availability* (2) *As a baseline, in 2022,42 suppliers in the CDP Supplier Engagement Programme committed to science-based targets, representing 38% of total FY21 spend. Current year performance for this metric has not been disclosed due to a delay in data availability*	

Reporting and Self-Assessment Requirements	Response	Links and references
2.2 Target Setting (Key Step 2) (continued) d) **Action plan:** which actions including milestones have you defined to meet the set targets? Please *describe*. Please also *show* that your bank has analysed and acknowledged significant (potential) indirect impacts of the set targets within the impact area or on other impact areas and that it has set out relevant actions to avoid, mitigate, or compensate potential negative impacts.	**Climate** We have set out roadmaps to achieve targeted reductions in our emissions which are tracked at least quarterly. Our action plans include proposition development, customer engagement and education and industry collaboration (to share data, learning and influence policy to drive action). We have identified our highest carbon sub-sectors and agreed our approach to support those customers to transition to low carbon as opposed to immediately exiting our relationships, addressing the potential indirect impact of our net zero plans and targets. The ambition to increase the percentage of our Mortgage book which has EPC rating of C or above has potential impact to generate mortgage prisoners for those customers with financial or physical property constraints. To ensure we are not contributing to the increase of 'mortgage prisoners' through our propositions, we have assessed a representative spread of our customer portfolio and are ensuring we reflect this feedback on accessibility and affordability in the development of our Green Makeover product.	
	For more detail on specific plans we have in place across our portfolio within the Climate impact area, please refer to our Climate-related disclosures.	Pages 240 to 272
	Stress testing and scenario planning has been carried out to assess climate risk implications and we have a climate risk policy framework to identify and manage exposure. KPIs are tracked quarterly and reported to Environment Committee. Assumptions are included within roadmaps and clearly documented in models/methodologies. We have also produced a Basis of Preparation document which outlines the scope, methodologies, assumptions and sources of information used in the Group's environmental reporting within the FY23 ARA that has been subject to limited assurance by EY. We've defined a revised approach to the highest impacting sub-sectors, to reduce exposure over time (Air transportation, Shipping, Chemical manufacture, Oil & Gas exploration, production and related services), which was approved by Environment Committee in FY23 and goes live from early FY24. Customers must provide scope 1 & 2 emissions and have in place emission reduction plans as a condition of lending. This is part of our Policy and Procedures and will be enforced by customer facility documentation. **Financial Inclusion** In early FY24 we will define our baselines, plans and targets, with the aim of reporting progress against these within our 2024 submission. We will use the outputs of various initiatives (usage numbers and for Turn2us, the benefits identified) to inform our 'S' strategy and approach for FY24. In the meantime, we will continue to signpost tools and resources/guidance on money management and budgeting, extend Databank and Devicebank across our store network, as well as identifying eligibility for additional benefits income through the Turn2us Benefits Calculator.	

Reporting and Self-Assessment Requirements	Response	Links and references
Self-assessment summary	Which of the following components of target setting in line with the PRB requirements has your bank completed or is currently in a process of assessing for your...	

	... first area of most significant impact: ... (please name it) **Climate**	**... second area of most significant impact: ... (please name it)** **Financial Inclusion and Health**	**(If you are setting targets in more impact areas) ... your third (and subsequent) area(s) of impact: ... (please name it)**
Alignment	☑ Yes ☐ In progress ☐ No	☐ Yes ☑ In progress ☐ No	☐ Yes ☐ In progress ☐ No
Baseline	☑ Yes ☐ In progress ☐ No	☐ Yes ☑ In progress ☐ No	☐ Yes ☐ In progress ☐ No
SMART targets	☑ Yes ☐ In progress ☐ No	☐ Yes ☑ In progress ☐ No	☐ Yes ☐ In progress ☐ No
Action plan	☑ Yes ☐ In progress ☐ No	☐ Yes ☑ In progress ☐ No	☐ Yes ☐ In progress ☐ No

Reporting and Self-Assessment Requirements	Response	Links and references
2.3 Target implementation and monitoring (Key Step 2) **For each target separately:** *Show* that your bank has implemented the actions it had previously defined to meet the set target. Report on your bank's progress since the last report towards achieving each of the set targets and the impact your progress resulted in, using the indicators and KPIs to monitor progress you have defined under 2.2. *Or, in case of changes to implementation plans (relevant for 2nd and subsequent reports only):* *describe* the potential changes (changes to priority impact areas, changes to indicators, acceleration/review of targets, introduction of new milestones or revisions of action plans) and explain why those changes have become necessary.	**Climate** > In FY22 we committed to expand the scope of our net zero work plans, disclosing remaining priority business sectors and operational emissions; targets and plans to net zero set in FY23 can be found in our Climate-related disclosures report. > Achieved FY23 targets for scope 1 & 2 reduction through the execution of our Property strategy. We've reduced Scope 1 location based emissions to 2,677* and maintained net zero Scope 2 emissions through continued sourcing of renewable energy. Where the Group is responsible for the supply and where available, 100% of gas and electricity in our UK stores and offices is generated from green sources[(1)]. > Achieved our targeted growth in lending to sustainability changemakers (7% by FY23), by embedding the Sustainable Business Coach app within our annual review process for customers who are borrowing over £2.5m and have the potential to have the highest exposure to climate risk. > Following a successful first round application to the government's GHFA fund, we are developing a mortgage retrofit product to improve energy efficiency in the housing stock. > By reviewing existing credit risk appetite, we've increased the availability of the credit parameters for lending to the Energy and Environment sector and have delivered £317m of lending*. > Launched Greener Mortgages for new-builds and a Green Reward product which provides additional borrowing for green home improvements. Due to dependencies on a number of external factors, the tougher mortgage environment and cost of living challenge, we've made slower progress than planned this year. > We updated our Mortgage financed emissions target to align to a 1.5deg pathway as required to meet the goals of the Paris Agreement. > Mortgage lending to homes with an EPC of C or above is 39% where a positive match is made (29% of the full mortgage portfolio, including properties which have not been matched to EPCs*), with a physical intensity of 31.1kgCO_2e and a reduction in financed emissions to 574ktCO_2e*. *Metrics with * are within scope of EY assurance* **Financial Inclusion** Within our FY22 report,we had identified our second impact area as Diversity and Inclusion. Feedback provided from UNEPFI noted that our DE&I focus was largely internal and therefore we would be advised to consider Financial Inclusion as an alternative, given the commitment the Bank has already made to alleviating the poverty premium and our Purpose of Making you happier about money, across all our customer segments. As as result of those discussions, we are now focusing on Financial Inclusion as our second impact area. We are currently taking 'S' strategy through approval (super themes of Digital Inclusion and Financial Education, which align to UN PRB Impact area: Financial Inclusion). In early FY24 we will define our baselines, plans and targets, with the aim of reporting progress against these within our 2024 submission. (1) *c.8% of the Group's energy utilisation is not from renewable sources, due to either a lack of control or availability*	Pages 240 to 272

Reporting and Self-Assessment Requirements	Response	Links and references
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 Client engagement *Does your bank have a policy or engagement process with clients and customers[10] in place to encourage sustainable practices?* ☑ Yes ☐ In progress ☐ No *Does your bank have a policy for sectors in which you have identified the highest (potential) negative impacts?* ☑ Yes ☐ In progress ☐ No *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[11]. It should include information on relevant policies, actions planned/implemented to support clients' transition, selected indicators on client engagement and, where possible, the impacts achieved. *This should be based on and in line with the impact analysis, target-setting and action plans put in place by the bank (see P2).* (10) A client engagement process is a process of supporting clients towards transitioning their business models in line with sustainability goals by strategically accompanying them through a variety of customer relationship channels. (11) Sustainable economic activities promote the transition to a low-carbon, more resource-efficient and sustainable economy.	This principle is delivered through Goals 2 and 3 of our ESG Strategy: > Goal 2: Deliver products and services that help our customers make a positive impact on society and the environment > Goal 3: Work with customers, colleagues & communities to encourage sustainable practices & economic activity that creates shared prosperity We are led by our Purpose of Making you happier about money, and are passionate about empowering and educating our customers, whilst offering products and services that help them lead more sustainable lives. **Engaging Business Customers around Climate and Sustainability** Further information on our Sustainable Business Coach initiative and Sustainability linked products such as Sustainability Linked Loans, Greener Mortgages and the launch of our Agri E-Fund can be found in the ESG report of the ARA. We have embedded the Sustainable Business Coach within our credit risk assessment for all lending >£2.5m, and have set a target of achieving 10% of all lending to Sustainability Changemakers by FY27. We engage our Agri customers in an annual survey, to understand the key issues affecting their business today and in the future, the headlines of which can be found on our corporate website. 50% of the respondents have carried out a carbon audit to identify sustainability improvements, and we continue to encourage and incentivise wider adoption through preferential lending terms for our E-Fund.	Pages 38 to 42 Pages 43 to 45 https://www.virginmoneyukplc.com/newsroom/article/rising-costs-threaten-uk-food-production/

Reporting and Self-Assessment Requirements	Response	Links and references
3.1 Client engagement (continued)	**Policies** 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. Environment Committee approved the introduction of an emissions reduction policy which will drive selected exposure in four sub-sectors of the Business portfolio with the highest emissions intensity. The four sub-sectors are: (1) Air transportation (2) Shipping (3) Chemical manufacture (4) Oil & Gas exploration, production and related services This will be delivered through a phased approach during FY24 and, in combination with other targets, will enable Virgin Money to continue to pro-actively finance businesses in these sectors transitioning to a more environmentally sustainable model, whilst positioning to exit those not planning to transition, or not transitioning at an appropriate pace. We have a suite of ESG Policies across a wide range of sustainability topics, which are available through our ESG Hub within the corporate website. We also issue our Supplier Code of Conduct to all suppliers. **Customer engagement around Financial inclusion and education** We have continued to embed our Purpose-led approach to financial inclusion across the business. Following the setup of our Customer Care team during FY23, we have made nearly 32,000 calls to customers who are impacted by our change projects, and who we have identified as vulnerable or potentially vulnerable. We continue to collaborate around poverty premium data and insights with Smart Data Foundry and industry partners. Our cost-of-living hub supports customers with money saving suggestions, budgeting tools and links to external resources and has received over 60,000 visits across our personal and business sites. We have embedded the Turn2Us benefits calculator on our website, helping people assess what they are entitled to and how to claim it. To date this has helped over 50,000 individuals to identify unclaimed benefits in excess of £4.5m. Through our partnership with Good Things Foundation, we're the first bank to support Databank and Devicebank initiatives – distributing free mobile data and more than 200 devices to those in need through our store network.	https://www.virginmoneyukplc.com/downloads/pdf/sensitive-sector-statement.pdf https://www.virginmoneyukplc.com/corporate-sustainability/esg-hub/ https://uk.virginmoney.com/service/support-hub/cost-of-living/tips-to-manage-your-money/

Reporting and Self-Assessment Requirements	Response	Links and references
3.2 Business opportunities *Describe* what strategic business opportunities in relation to the increase of positive and the reduction of negative impacts your bank has identified and/or how you have worked on these in the reporting period. Provide information on existing products and services , information on sustainable products developed in terms of value (USD or local currency) and/or as a % of your portfolio, and which SDGs or impact areas you are striving to make a positive impact on (e.g. green mortgages – climate, social bonds – financial inclusion, etc.).	**Business:** Through the introduction of additional climate focused questions within Sustainable Business Coach (SBC) we're gaining greater insight into how our business customers are thinking about their sustainability plans. To date, 74% of Business customers that were selected have completed the SBC benchmarking tool and climate survey. We recognise that achievement of our financed emissions targets is inextricably linked to the performance of our Business customers, and throughout FY24 we are working to increase the percentage of customer originated data within our calculations as we continue to track performance of the defined delivery plans. The results of the annual Agri surveys have given us valuable insight into the key priorities for our customers and the wider sector, where investment will be targeted, and where additional support is needed. Alongside this, we've hosted and sponsored a series of thought leadership events aimed at increasing sustainability awareness and focus amongst the audience. **Mortgages:** Following a successful first round application to the government's GHFA fund, we've been working with RightMove and Sero to design and test the concept of a new customer proposition which incentivises energy efficiency in homes: Green Makeover. We're in the process of identifying a new supplier to access a more complete data set. This new proposition is driving the portfolio change required to meet our emissions reduction targets within the Mortgages portfolio. **Financial Inclusion:** we've reached over 50k individuals through our signposting of the Turn2us Benefits Calculator, helping to identify £4.5m in unclaimed benefits. We've distributed free mobile data and more than 200 devices through our stores network as part of our partnership with Good Things Foundation. These partnership continue into FY24, with targets to be confirmed. Our Customer care team has made nearly 32,000 calls to customers who are impacted by our change projects, and who we have identified as vulnerable or potentially vulnerable.	Pages 38 to 42 Pages 43 to 45

Reporting and Self-Assessment Requirements	Response	Links and references
Principle 4: Stakeholders We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.		
4.1 Stakeholder identification and consultation *Does your bank have a process to identify and regularly consult, engage, collaborate and partner with stakeholders (or stakeholder groups[12]) you have identified as relevant in relation to the impact analysis and target setting process?* ☑ Yes ☐ In progress ☐ No Please *describe* which stakeholders (or groups/types of stakeholders) you have identified, consulted, engaged, collaborated or partnered with for the purpose of implementing the Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders, what issues were addressed/results achieved and how they fed into the action planning process.	Our stakeholder groups cover: > Internal stakeholders: Colleagues, ESG working group, Leadership Team Goal Sponsors and Board members > External stakeholders: Suppliers (CDP survey), Partners, Business Customer panel and customers utilising Sustainability tools (business and personal), industry collaboration, Investors	Pages 98 to 104
	We've collaborated with industry experts on development of tools (Future Fit and Life Moments for Sustainable Business Coach, Carbon Metrics within Agri) and to signpost resources to our customer base and wider society (Turn2us, Good things Foundation).	Pages 256 to 259
	We're working with partners to improve data quality and insight: > Smart Data Foundry for poverty premium triggers > RightMove and Sero for market insight on energy efficiency proposition development > Climate X and Hometrack for EPC data to underpin mortgages financed emissions calculations > PCAF for carbon accounting methodologies and data quality improvement areas	
	We have proactively engaged with an increased proportion of our supply chain to undertake the CDP Supply Chain survey. We've provided clear articulation of the requirement from VMUK and support resources/materials to aid completion of submissions. We've exceeded our targeted response rate for FY23, achieving 87% response rate from those invited, which corresponds to 72% of total supplier spend. Within our future targets to net zero, we have set an internal metric to track the percentage of suppliers who are setting science based targets. The data from the CDP survey will be used to inform supplier action plans in FY24 and beyond.	
	We've participated in a number of industry and cross-sector forums hosted by our peers and UK Finance, aimed at building greater awareness and making recommendations on necessary action from Government.	
	Through our poverty premium/cost of living taskforce we've engaged with the Economic Secretary and convened a taskforce of industry experts, including Smart Data Foundry and other corporate institutions, to collate and analyse data which will lead to better understanding of the triggers of poverty premium.	
	We commissioned a report from CSJ which provides insight into Digital exclusion and the impact it has on poverty. We've raised awareness of the work we're doing with local MPs and at political party conferences.	CSJ article https://www.virginmoneyukplc.com/newsroom/article/poverty-premium
(12) Such as regulators, investors, governments, suppliers, customers and clients, academia, civil society institutions, communities, representatives of indigenous population and non-profit organizations	We're the first bank to have a formal partnership with Turn2Us, signposting the Benefits Calculator through a successful social media campaign receiving over 700k views, with >50k users, confirming/uplifting benefits by £4.5million as outlined within our ESG Goals update in the Strategic report, pages 43 to 44.	Pages 43 to 45

Reporting and Self-Assessment Requirements	Response	Links and references
Principle 5: Governance & Culture We will implement our commitment to these Principles through effective governance and a culture of responsible banking		
5.1 Governance Structure for Implementation of the Principles *Does your bank have a governance system in place that incorporates the PRB?* ☑ Yes ☐ In progress ☐ No Please *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 the effective implementation of the Principles. This includes information about > which committee has responsibility over the sustainability strategy as well as targets approval and monitoring (including information about the highest level of governance the PRB is subjected to), > details about the chair of the committee and the process and frequency for the board having oversight of PRB implementation (including remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected), as well as > remuneration practices linked to sustainability targets.	Our ESG Strategy is set out under 4 Goals, which are aligned to strategic priorities and underpin our Purpose. More information on ESG related Governance can be found in the Climate-related disclosures report within the ARA. ESG Goals are incorporated within functional scorecards and the overall Group Scorecard. **Board Governance:** ESG and Climate strategy is approved at Board and Board subcommittees. We provide a monthly update on the Balanced Scorecard which includes ESG targets and quarterly updates to present progress against agreed plans and any remedial action. Board is also asked to approve strategic decisions as recommended through Environment Committee, such as setting/approving targets and roadmaps to net zero. **Board Risk Committee** is updated as required when plans are developed, typically annually. **The CEO** has overall accountability to the Board and shareholders to ensure that sustainable and responsible practices (ESG) are embedded into our business operations, including those associated with the environmental/climate area. **Executive Committees:** **Environment Committee** (Monthly): Chaired by the CFO, the committee supports the CEO in exercising the authority delegated to him by the Board specifically in relation to the implementation of the Group's environmental strategy, including coordinating resources, investment and activity across the Group. This is the primary governance forum for making decisions on internal targets and KPIs to monitor progress in addressing risks and opportunities from climate change/environmental matters. Our annual UN PRB report is tabled at EC for approval. **Executive Leadership Team:** From FY24 we will introduce an additional requirement to take ESG plans (across both 'E' and 'S' strategies) through the Leadership Team executive forum. **Remuneration:** We have incorporated an ESG Scorecard within our LTIP since FY20. This accounts for 15% weighting and covers operational emissions targets. We also have a number of operational governance forums to track progress and escalate issues: **ESG Working Group** (Monthly): Responsible for supporting delivery of the Group's ESG strategy and associated targets, oversees ESG delivery across the business and escalates any risks or issues. **ESG & Climate Change Data Project Control Board** (Monthly): Responsible for reviewing progress against change activity to deliver Climate data and solutions to drive improvements in reporting and all ESG data use cases. **TCFD Working Group:** Responsible for monitoring progress against TCFD reporting recommendations; runs monthly from July once report drafting commences, concluding once disclosures have been fully approved. **Horizon Scanning Group:** Responsible for tracking changes in regulatory requirements, including those with specific ESG focus, and ensuring relevant focus and ownership across the Group.	Pages 240 to 272 Page 90 Pages 256 to 260 Pages 129 to 141

Reporting and Self-Assessment Requirements	Response	Links and references
5.1 Governance Structure for Implementation of the Principles (continued)	**Training** We have undertaken various upskilling activities around the topic of Climate, including: > Financed emissions training for Relationship Managers (calculations methodology, data quality improvements) > Review sessions with external advisors EY, PwC, TPT, Deloitte etc on various areas of Climate Risk, strategy, external benchmarking > Carbon metrics training for Relationship Managers > Multiple internal sessions on our Net zero strategy across the Group > Five VMUK colleagues are undergoing the recently launched PCAF accreditation, with further plans to upskill those directly involved with financed emissions calculations > The Board receives regular updates on Climate strategy, ambitions and the key factors that need to be considered to enable the Group to achieve its desired outcomes > All colleagues undertake Professional Learning Passports across ESG topics exploring our commitments and strategy, including the impact of climate change on financial services and how climate change is considered an integral part of the Group's ESG strategy	
5.2 Promoting a culture of responsible banking: *Describe* the initiatives and measures of your bank to foster a culture of responsible banking among its employees (e.g., capacity building, e-learning, sustainability trainings for client-facing roles, 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 through the work we do, as outlined on pages 2 to 4 of our FY23 ARA. It guides the way we do business every day and is the (Virgin) red thread that weaves throughout every decision we make, aided by our Purpose decision making framework. **Training:** All colleagues are required to complete four mandatory training modules each year that include content specifically related to ESG and the training is linked to annual remuneration decisions. Role-specific training is delivered through specialist Learning and Development teams – for example, enhancements to the SBC with our Business Relationship Managers – and we undertake frequent education and upskilling sessions across the business. Our annual digital Financial Inclusion event (FinInc) for colleagues focused on the barriers to banking and understanding the challenges people face when managing their money. We've rolled out ESG specific training across the Group through our Learning in a Life more Virgin initiative. **Colleague Engagement:** We have developed a Sustainability Hub as a central resource for all colleagues, which contains tools, information and topical news which colleagues are encouraged to contribute to. We have Sustainability Champions across our stores network – driving activity within their local community. We host an annual PurposeFest event which celebrates how colleagues have connected with our Purpose and showcases activity across our Customer, Colleague and Community groups. We track colleague sentiment on visibility of sustainability in decision making through our Pulse survey. Colleagues are encouraged to participate in community and environmental volunteering. **Industry Forums:** We participate in a variety of forums hosted by industry bodies including UK Finance, UN PRB, CDP and NZBA. We chair the PCAF Business Loans and Unlisted Equity Working Group.	Pages 2 to 4

Reporting and Self-Assessment Requirements	Response	Links and references
5.2 Promoting a culture of responsible banking (continued)	**Supplier Engagement:** We have provided CDP training to our Suppliers and our internal Supplier Relationship Managers. We incorporate ESG criteria within our supplier selection and management processes, and have a Supplier Code of Conduct which all suppliers are required to comply with. **Scorecards:** ESG objectives and metrics are embedded within our Group and functional scorecards and we have enhanced the ESG scorecard element of our Long Term Incentive Plans as outlined on page 153 to 155. **DE&I:** We have launched our new BRAVER Framework: an enterprise wide allyship campaign designed to inspire and support our colleagues to be "Braver" and more meaningful allies for inclusion, and for colleagues from under-represented communities.	Pages 153 to 155
5.3 Policies and due diligence processes *Does your bank have policies in place that address environmental and social risks within your portfolio?*[13] *Please describe.* Please *describe* what due diligence processes your bank has installed to identify and manage environmental and social risks associated with your portfolio. This can include aspects such as identification of significant/salient risks, environmental and social risks mitigation and definition of action plans, monitoring and reporting on risks and any existing grievance mechanism, as well as the governance structures you have in place to oversee these risks.	Virgin Money has a range of internal policies addressing climate, sustainability, environmental management and financial inclusion and accessibility, hosted on our Policy Hub. We also maintain external facing versions of these policies/positioning statements on our ESG Hub, all of which are subject to periodic refresh. Our Chief Financial Officer holds SMF accountability on Climate Risk and chairs the Environment Committee, which oversees progress and any issues and escalations across our Climate related plans. We've defined roles and responsibilities across the Group, including specialist 2nd line climate risk resource, which are reviewed and approved at least annually. See our TCFD Compliance table for more detail. The Bank maintains a RAS which covers various principal risks including Climate. We have developed initial capability to assess a range of physical and transition risks within the credit portfolio in addition to running scenario analyses which have been incorporated into RAS. We have Climate RAS metrics in place covering a range of higher relevance physical and transitional climate risk metrics to support policy and ensure the Group operates within an accepted level of risk tolerance. These metrics are reported to Board monthly. Climate risk is a 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 progress. Further work is being progressed for FY24 to support greater quantification and embedding with underwriting decisions where appropriate. 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. Our Climate-related disclosures 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.	ESG Hub https://www.virginmoneyukplc.com/corporate-sustainability/esg-hub/#tackling-our-impact-on-the-environment-is-a-top-priority-for-the-group Pages 52 to 53 Pages 73, 242 Pages 240 to 272

(13) Applicable examples of types of policies are: exclusion policies for certain sectors/activities; zero-deforestation policies; zero-tolerance policies; gender-related policies; social due diligence policies; stakeholder engagement policies; whistle-blower policies etc., or any applicable national guidelines related to social risks.

Reporting and Self-Assessment Requirements	Response	Links and references
Self-assessment summary	**Does the CEO or other C-suite officers have regular oversight over the implementation of the Principles through the bank's governance system?** ☑ Yes ☐ No **Does the governance system entail structures to oversee PRB implementation (e.g. incl. impact analysis and target setting, actions to achieve these targets and processes of remedial action in the event targets/ milestones are not achieved or unexpected neg. impacts are detected)?** ☑ Yes ☐ No **Does your bank have measures in place to promote a culture of sustainability among employees (as described in 5.2)?** ☑ Yes ☐ In progress ☐ No	
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 Assurance *Has this publicly disclosed information on your PRB commitments been assured by an independent assurer?* ☐ Yes ☑ Partially ☐ No If applicable, please include the link or description of the assurance statement.	The Group engaged Ernst & Young LLP (EY) to undertake an independent limited assurance engagement over selected metrics in the current year, as annotated throughout the report, using the assurance standards ISAE (UK) 3000. EY has issued an unqualified opinion over the selected information. A limited assurance engagement consists principally of applying analytical procedures, making inquiries of persons responsible for the subject matter. EY's full assurance report is available on our ESG Hub.	ESG Hub https://www.virginmoneyukplc.com/corporate-sustainability/esg-hub/#tackling-our-impact-on-the-environment-is-a-top-priority-for-the-group

Reporting and Self-Assessment Requirements	Response	Links and references
6.2 Reporting on other frameworks *Does your bank disclose sustainability information in any of the listed below standards and frameworks?* ☐ GRI ☐ SASB ☑ CDP ☐ IFRS Sustainability Disclosure Standards (to be published) ☑ TCFD ☐ Other:		
6.3 Outlook *What are the next steps your bank will undertake in next 12 month-reporting period (particularly on impact analysis[14], target setting[15] and governance structure for implementing the PRB)? Please describe briefly.*	**Climate** We will continue to track performance towards net zero roadmaps and targets, and against operational emissions. Following analysis of the FY23 CDP Supplier survey data, we will develop our strategy to drive down supplier emissions over time. The development of our strategic ESG data platform will continue alongside engagement with customers and other stakeholders to extract accurate data at source, leading to refinement of calculations and commitments. We will build a further iteration of our Transition Plan in line with finalised TPT Disclosure Guidance framework, and continue to undertake horizon scanning for emerging sustainability-related standards and frameworks, including ISSB. **Financial Inclusion** We will define our plans, targets, develop delivery plans and required governance around our 2nd key impact area – Financial Inclusion, with the aim of reporting progress against these within our 2024 submission.	Pages 243 to 251

(14) For example outlining plans for increasing the scope by including areas that have not yet been covered, or planned steps in terms of portfolio composition, context and performance measurement

(15) For example outlining plans for baseline measurement, developing targets for (more) impact areas, setting interim targets, developing action plans etc.

Reporting and Self-Assessment Requirements	Response	Links and references
6.4 Challenges *Here is a short section to find out about challenges your bank is possibly facing regarding the implementation of the Principles for Responsible Banking. Your feedback will be helpful to contextualise the collective progress of PRB signatory banks.* *What challenges have you prioritized to address when implementing the Principles for Responsible Banking? Please choose what you consider the top three challenges your bank has prioritized to address in the last 12 months (optional question).*	If desired, you can elaborate on challenges and how you are tackling these: ☐ Embedding PRB oversight into governance ☐ Gaining or maintaining momentum in the bank ☐ Getting started: where to start and what to focus on in the beginning ☐ Conducting an impact analysis ☐ Assessing negative environmental and social impacts ☐ Choosing the right performance measurement methodology/ies ☐ Setting targets ☐ Other: ☑ Customer engagement ☐ Stakeholder engagement ☑ Data availability ☑ Data quality ☐ Access to resources ☐ Reporting ☐ Assurance ☐ Prioritizing actions internally If desired, you can elaborate on challenges and how you are tackling these:	

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 31-50.

The Group is a member, signatory or a partner of the following:

- United Nations Principles of Responsible Banking; signed November 2019. See our latest report on page 338
- PCAF;
- CDP Corporate and CDP Supplier Survey;
- NZBA;
- Carbon Neutral Britain;
- Prompt Payment Code;
- The Code of Practice On Taxation for Banks;
- Fair by Design;
- Smart Data Foundry;
- Women in Finance Charter;
- Race at Work Charter;
- Black Professionals Scotland;
- Disability Confident Employer;
- Stonewall Diversity Champion; and
- Armed Forces Covenant Employee Recognition Scheme Gold award member.

Our latest ESG rating agency scores:

	2023	2022	2021	2020	2019	Scale
MSCI	**AA**	AA	A	BBB	BB	AAA to CCC, AAA as a best possible score
Sustainalytics	**18.5**	18.1	25.7	27.5	31.58	0-100, 0 as a best possible score
CDP	**tbc**	C	B	B	C	A+ to F, with A+ as a best score
Moody's Analytics	**51**	50	49	42	44	0-100, 100 as a best possible score

Business ethics

We pride ourselves on being an ethical business and are committed to addressing major business ethics risks. We have developed a Board approved, Group wide colleague code of conduct which clearly sets out the standards of operating guidelines, responsibility and the ethical conduct we expect from all our employees. This 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 pages 48 to 49.

Colleagues, including contractors inside IR35, complete four mandatory training modules each year that include our Code of Conduct and content specifically related to ESG.

Details of legal disputes and conduct related matters are detailed in note 1.5 on page 289.

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 Information Security Management policy.

Our Operational risk section on pages 234 to 236 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 Operational risk update on pages 234 to 236.

We are committed to respecting human rights in our data management. Virgin Money's Chief Information Officer owns the Data Management Policy Standard, and the management of risks relating to privacy and data protection for the Group.

Our Data Governance Working Group is responsible for providing direction and oversight for data privacy and data management practices including privacy horizon scanning, personal data breaches, rights requests, Data Protection Assessment trends and data maturity tracking. We also have the Data Enterprise Forum – responsible for investigation and decision making around escalated issues.

To comply with regulatory requirements under UK GDPR the Group has in place a process for regular reporting.

Governance

ESG is integrated within our Governance structure as detailed in the Governance report starting on page 74. 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 87.
- 'How our Board operates' is set out from page 87 onwards 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 76 to 78, and 80 to 85.
- 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 pages 80 to 85.
- ESG is governed by the Board and supported by management, as outlined on page 89, 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 89.
- How the Board considers stakeholders in its decision-making process is shown within the s.172 report from page 98 onwards.
- 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 page 120 and the Audit Committee charter.
- The Directors' report on pages 159 to 164 sets out shareholder rights (including voting rights).
- Information regarding political donations (of which there were none) can be found in the Directors' report starting on page 159 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.
- ESG objectives are embedded within our functional and Group scorecards which are presented to our Leadership Team and Board monthly, and Climate-related KPIs are tracked through Environment Committee monthly.
- EY has performed limited assurance on a selection of our ESG metrics, as outlined within the UN PRB report pages 338 to 365.

Digital inclusion and financial education

We continue to evolve our purpose-led approach to Digital Inclusion and Financial Education through our customer proposition as outlined within our Open Doors policy, including: our M account; our partnerships with Good Things Foundation and Turn2us; the support through our Vulnerable Customer Care team; our Cost of Living hub https://uk.virginmoney.com/service/support-hub/cost-of-living/#tips-to-manage-your-money, alongside other financial wellbeing resources for both customers and colleagues, and further initiatives outlined on pages 43 to 46.

We've sponsored the Centre for Social Justice to produce reports which highlight some of the key challenges around digital access and the financial impact this has on individuals, particularly those on lower incomes. Given our strategic ambition to be the UK's best digital bank, the data and findings above have informed our decision to focus on 'super-themes' of Digital Inclusion and Financial Education within our United Nations Principles of Responsible Banking 2023 report which can be found from page 338 onwards.

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 has 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 have a range of tools, training materials and design resources which help us ensure we're designing customer experiences with vulnerabilities in mind. Our Financial Inclusion Panel (FIP) provides insight on making our customer experiences more inclusive and our annual FinInc all-colleague event provides an opportunity for wider engagement on what we're doing across the Bank.

We have provided additional support for vulnerable customers and have established a dedicated Customer Care team who proactively contact vulnerable and potentially vulnerable customers who may be impacted by our digitisation projects.

Read more about our approach to forbearance and collections on page 175 and in our Collections and recoveries policy.

We continue to distribute free mobile data to those unable to afford it and experiencing data poverty, and have donated funds to Good Things Foundation for databank devices, with more detail provided on Pages 43 to 46. The service will be available in all VMUK stores by the end of 2023.

Through 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 operations and 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 climate-related disclosures report on pages 240 to 272.

Pages 34 to 37 and the climate-related disclosures report starting on page 240 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 EY as documented on page 36.

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 68 to 72.

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 38 to 42.

The Group participates in a number of industry-led working groups to have influence and effective engagement on policy with the UK Government, in addition to working towards a standard approach to achieving net zero and disclosure consistency with peers (e.g. UK Finance, PCAF, UN PRB).

We participate in the CDP Supplier Programme where we ask our top suppliers to complete the CDP climate survey as outlined on page 37. We use their reported information to inform our targets, action plans and roadmaps to net zero and will use future years to assess performance against targets outlined from page 266.

We have documented our TCFD compliance statement on pages 52 to 53 of our Strategic report, with further detail across the four thematic areas: governance, strategy, risk management, and metrics and targets outlined in the climate-related disclosures on pages 240 to 272, which 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 report beginning on page 166.

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 page 233.

Our conduct risk function outlined on page 233 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 business '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 to ensure we are being inclusive, offer good 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 & inclusion

We are committed to being a fair, equitable and inclusive employer and throughout FY23 have continued to evolve our A Life More Virgin colleague proposition. We've been shortlisted for a People Management Award by the CIPD for the best flexible working initiative. Pages 22 to 24 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 introduced our BRAVER framework, our Virgin Money allyship framework. BRAVER is about building a culture of trust and inclusion at Virgin Money. We want to create a culture where we value colleagues for their unique perspectives and where we accept, welcome and support them however they show up.

We are committed to helping all colleagues grow and develop, through digital and collaborative learning and to support them with their wellbeing. All colleagues are required to complete annual, mandatory training courses as part of their learning plan which includes: I Can Be Me; Health & Wellbeing; Code of Conduct (Doing the Red Thing); ESG; Conduct Rules; Data Protection & Privacy; Data Management; Be Cyber Smart; Financial Crime; Conflicts of Interest; Whistleblowing; Fraud Awareness; Preventing Market Abuse; Consumer Duty; Handling Complaints at Virgin Money; Modern Slavery; and Customers with Vulnerabilities.

Our Workforce Engagement programme outlined on page 97 aims to provide representation from across Virgin Money ensuring the Board hears the broadest spectrum of views.

We recognise the importance of the colleague voice and our colleagues' right to join an independent trade union and will take steps to ensure that no colleague suffers any detriment as a result of being a member of any trade union. Virgin Money formally recognises Unite the Union and has an established Recognition and Procedural Agreement in place for collective bargaining purposes.

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 22 to 24 for colleague data points like survey participation rates and engagement scores.

We've been making steady progress against the significant representation targets and pages 22 to 24 outline the work we're doing to create and sustain an increasingly representative workforce and a fair, equitable and inclusive culture. We publish our Gender Pay report and progress towards our Women in Finance Charter commitment annually on our corporate website.

We are a Disability Confident Employer – Leader Status, achieved Gold Employer award in Stonewall's Workplace Equality Index and are signatories to the Women in Finance and Race at Work Charters.

The approach set out above is supported by a suite of policies, including:

- Health and safety;
- Code of conduct;
- Inclusion Standard; 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; 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 381, directly following this section.

Financial performance metrics
Profitability:

Metric	KPI	LTIP	LTIP Year	Page	Basis	Definition/formula	Why it matters
Gross annualised cost savings	Yes	No	N/a	11	Non-IFRS	Annualised gross cost savings benefits driven from the Group's efficiency programmes.	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.
Statutory return on tangible equity **(RoTE)**	Yes	Yes	2023 2022 2021 2020 2019	11	Non-IFRS	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.	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.
Underlying cost: income ratio	Yes	Yes	2021 2020 2019	11	Non-IFRS	Underlying operating and administrative expenses as a percentage of underlying 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 an underlying basis.

	2023	2022	2021	2020
Statutory profit after tax attributable to ordinary equity holders (a)	**£192m**	£467m	£395m	£(220)m
Average tangible equity (b)	**£4,971m**	£4,539m	£3,875m	£3,554m
Statutory RoTE (a)/(b)	**3.9%**	10.3%	10.2%	(6.2)%

	2023	Restated[(1)] 2022	Restated[(1)] 2021	Restated[(1)] 2020
Underlying operating and administrative expenses (a)	**£971m**	£914m	£902m	£917m
Underlying total operating income (b)	**£1,873m**	£1,742m	£1,564m	£1,558m
Underlying cost: income ratio (a)/(b)	**51.9%**	52.5%	57.7%	58.9%

(1) Hedge ineffectiveness (2022: income of £13m, 2021: income of £8m, 2020: expense of £16m) is now presented as an adjustment to underlying earnings. The comparative periods have been adjusted accordingly. This restatement does not impact the statutory results of the Group.

Measuring the Group's performance

Metric	KPI	LTIP	LTIP Year	Page	Basis	Definition/formula	Why it matters
Net interest margin **(NIM)**	No	No	N/a	11	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.

	2023	2022	2021	2020
Underlying NII (a)	**£1,716m**	£1,592m	£1,412m	£1,351m
Average interest earning assets (b)	**£89,810m**	£86,275m	£86,947m	£86,826m
Short-term repos used for liquidity management (c)	**£-m**	£12m	£16m	£16m
NIM (a)/((b)-(c))	**1.91%**	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	67	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.

	2023	2022	2021	2020
Statutory profit/(loss) after tax attributable to ordinary equity shareholders (a)	**£192m**	£467m	£395m	£(220)m
Weighted average number of ordinary shares in issue (b)	**1,375m**	1,441m	1,442m	1,440m
Statutory basic earnings/(loss) per share (a)/(b)	**14.0p**	32.4p	27.3p	(15.3)p

Metric	KPI	LTIP	LTIP Year	Page	Basis	Definition/formula	Why it matters
Statutory cost: income ratio	No	No	N/a	67	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.

	2023	2022	2021	2020
Statutory operating and administrative expenses (a)	**£1,173m**	£1,069m	£1,203m	£1,104m
Statutory total operating income (b)	**£1,827m**	£1,716m	£1,489m	£1,443m
Statutory cost: income ratio (a)/(b)	**64.2%**	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	67	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.

	2023	2022	2021	2020
Statutory profit/(loss) after tax (a)	**£246m**	£537m	£474m	£(141)m
Average total assets (b)	**£92,188m**	£89,504m	£90,537m	£90,522m
Statutory return on assets (a)/(b)	**0.27%**	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	67	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.

	2023	Restated[(1)] 2022	Restated[(1)] 2021	Restated[(1)] 2020
Underlying profit after tax attributable to ordinary equity shareholders (a)	**£376m**	£602m	£685m	£33m
Weighted average number of ordinary shares in issue (b)	**1,375m**	1,441m	1,442m	1,440m
Underlying basic earnings per share (a)/(b)	**27.4p**	41.8p	47.5p	2.3p

Metric	KPI	LTIP	LTIP Year	Page	Basis	Definition/formula	Why it matters
Underlying profit before tax	No	No	N/a	60	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.

	2023	Restated[(1)] 2022	Restated[(1)] 2021	Restated[(1)] 2020
Statutory profit/(loss) before tax (a)	**£345m**	£595m	£417m	£(168)m
Restructuring charges (b)	**£131m**	£82m	£146m	£139m
Acquisition accounting unwinds (c)	**£29m**	£35m	£88m	£113m
Legacy conduct (d)	**£12m**	£8m	£76m	£26m
Hedge ineffectiveness (e)	**£16m**	£(13)m	£(8)m	£16m
Other (f)	**£60m**	£69m	£74m	£14m
Underlying profit before tax (a) + (b) + (c) + (d) + (e) + (f)	**£593m**	£776m	£793m	£140m

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	374	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.

	2023	Restated[(1)] 2022	Restated[(1)] 2021	Restated[(1)] 2020
Underlying profit before tax (a)	**£593m**	£776m	£793m	£140m
Underlying tax charge (b)	**£163m**	£104m	£29m	£28m
AT1 distributions (c)	**£54m**	£70m	£79m	£79m
Underlying profit after tax attributable to ordinary equity shareholders (a) - (b) - (c)	**£376m**	£602m	£685m	£33m

(1) Hedge ineffectiveness (2022: income of £13m, 2021: income of £8m, 2020: expense of £16m) is now presented as an adjustment to underlying earnings. The comparative periods have been adjusted accordingly. This restatement does not impact the statutory results of the Group.

Metric	KPI	LTIP	LTIP Year	Page	Basis	Definition/formula	Why it matters
Underlying RoTE	No	No	N/a	63	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.

	2023	Restated[1] 2022	Restated[1] 2021	Restated[1] 2020
Underlying profit after tax attributable to ordinary equity holders (a)	**£376m**	£602m	£685m	£33m
Average tangible equity (b)	**£4,971m**	£4,539m	£3,875m	£3,554m
Underlying RoTE (a)/(b)	**7.6%**	13.3%	17.7%	0.9%

(1) Hedge ineffectiveness (2022: income of £13m, 2021: income of £8m, 2020: expense of £16m) is now presented as an adjustment to underlying earnings. The comparative periods have been adjusted accordingly. This restatement does not impact the statutory results of the Group.

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	11	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.

	2023	2022	2021	2020
Total lending – current year (a)	**£14,632m**	£13,448m	£12,573m	£13,006m
Total lending – prior year (b)	**£13,448m**	£12,573m	£13,006m	£12,900m
Target lending growth ((a)-(b))/(b)	**8.8%**	7.0%	(3.3)%	0.8%

Metric	KPI	LTIP	LTIP Year	Page	Definition and formula (where applicable)	Why it matters
Relationship deposits growth	No	Yes	2021 2020	10	Relationship deposit growth over the year.	It's an indicator of how well the Group is performing against its 'pioneering growth' strategic priority.

	2023	2022	2021	2020
Total relationship deposits – current year (a)	**£35,394m**	£34,649m	£30,596m	£25,675m
Total relationship deposits – prior year (b)	**£34,649m**	£30,596m	£25,675m	£21,347m
Relationship deposit growth ((a)-(b))/(b)	**2.2%**	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	178	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.

	2023	2022	2021	2020
Impairment charge/(credit) (a)	**£309m**	£52m	£(131)m	£501m
Average customer loans (b)	**£72,770m**	£71,989m	£72,447m	£73,403m
Cost of risk (a)/(b)	**0.42%**	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	178	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.

	2023	2022	2021	2020
Stage 2 loans (a)	**£6,326m**	£5,736m	£10,178m	£12,844m
Gross loans and advances (b)	**£73,295m**	£73,146m	£72,551m	£72,925m
% of loans in Stage 2 (a)/(b)	**8.6%**	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	178	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.

	2023	2022	2021	2020
Stage 3 loans (a)	**£1,080m**	£1,038m	£957m	£862m
Gross loans and advances (b)	**£73,295m**	£73,146m	£72,551m	£72,925m
% of loans in Stage 3 (a)/(b)	**1.5%**	1.4%	1.3%	1.2%

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters
Total book coverage	No	No	N/a	178	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.

	2023	2022	2021	2020
Impairment provisions on credit exposures (a)	**£617m**	£457m	£504m	£735m
Gross loans and advances (b)	**£73,295m**	£73,146m	£72,551m	£72,925m
Total book coverage (a)/(b)	**0.84%**	0.62%	0.70%	1.03%

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters
Stage 2 coverage	No	No	N/a	178	Stage 2 impairment provisions as a percentage of Stage 2 gross loans and advances (excluding government backed loans).	It provides a measure of the level of provision the Group holds for the lifetime of the Stage 2 lending portfolio.

	2023	2022	2021	2020
Stage 2 impairment provisions on credit exposures (a)	**£400m**	£268m	£302m	£465m
Stage 2 gross loans and advances (b)	**£6,305m**	£5,736m	£10,178m	£12,844m
Total Stage 2 book coverage (a)/(b)	**6.33%**	4.72%	3.02%	3.66%

Measuring the Group's performance

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters
Stage 3 coverage	No	No	N/a	178	Stage 3 impairment provisions as a percentage of Stage 3 gross loans and advances (excluding government backed loans).	It provides a measure of the level of provision the Group holds for the lifetime of the Stage 3 lending portfolio.

	2023	2022	2021	2020
Stage 3 impairment provisions on credit exposures (a)	**£128m**	£104m	£91m	£134m
Stage 3 gross loans and advances (b)	**£920m**	£1,038m	£957m	£862m
Total Stage 3 book coverage (a)/(b)	**13.93%**	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	11	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.

	2023	2022	2021	2020
Interim dividend (a)	**£45m**	£36m	n/a	n/a
Final dividend (b)	**£27m**	£106m	£14m	n/a
Buybacks (c)	**£200m**	£125m	n/a	n/a
Statutory profit after tax attributable to ordinary equity holders (d)	**£192m**	£467m	£395m	£(220)m
Announced shareholder distributions ((a)+(b)+(c))/(d)	**142%**	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	11	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 RWA.

	2023	2022	2021	2020
CET1 capital (IFRS 9 transitional) (a)	**£3,711m**	£3,633m	£3,616m	£3,271m
RWA (IFRS 9 transitional) (b)	**£25,176m**	£24,148m	£24,232m	£24,399m
CET1 ratio (IFRS 9 transitional) (a)/(b)	**14.7%**	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	65	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.

	2023	2022	2021	2020
CET1 capital (IFRS 9 fully loaded) (a)	**£3,599m**	£3,519m	£3,482m	£2,961m
RWA (IFRS 9 fully loaded) (b)	**£25,087m**	£24,056m	£24,156m	£24,246m
CET1 ratio (IFRS 9 fully loaded) (a)/(b)	**14.3%**	14.6%	14.4%	12.2%

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters
Tier 1 ratio	No	No	N/a	215	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 RWA.

	2023	2022	2021	2020
Tier 1 capital (a)	**£4,305m**	£4,299m	£4,313m	£4,186m
RWA (b)	**£25,176m**	£24,148m	£24,232m	£24,399m
Tier 1 ratio (a)/(b)	**17.1%**	17.8%	17.8%	17.2%

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters
Total capital ratio	No	No	N/a	65	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 RWA.

	2023	2022	2021	2020
Total capital (a)	**£5,327m**	£5,319m	£5,332m	£4,935m
RWA (b)	**£25,176m**	£24,148m	£24,232m	£24,399m
Total capital ratio (a)/(b)	**21.2%**	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	63	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.

	2023	2022	2021	2020
Tangible equity (a)	**£4,840m**	£5,407m	£4,185m	£3,526m
Number of ordinary shares in issue (b)	**1,345m**	1,409m	1,440m	1,439m
Deferred shares (c)	**2m**	3m	5m	6m
Own shares held (d)	**1.3m**	0.3m	0.1m	0.2m
Tangible net asset value per share (a)/((b)+(c)-(d))	**359.8p**	383.0p	289.8p	244.2p

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula	Why it matters
Total shareholder return **(TSR)**	No	Yes	2023 2022	156	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.

	2023	2022	2021	2020
Share price at the end of the financial period (a)	**168.4p**	124.3p	204.4p	73.0p
Share price at the start of the financial period (b)	**124.3p**	204.4p	73.0p	114.9p
Dividends (assuming reinvestment) (c)	**12.6p**	3.2p	n/a	n/a
Total shareholder return ((a)-(b)+(c))/(b)	**45.5%**	(37.6)%	180.1%	(36.5)%

Non-financial performance metrics:

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula (where applicable)	Why it matters
Colleague engagement	Yes	No	N/a	11	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	11	In line with FCA regulations, number of complaints per thousand accounts calculated as: $\frac{\text{Total number of complaints received in six-month period to reporting date}}{\text{Total number of accounts as at reporting date}} \times 1{,}000$ Currently excludes complaints relating to Insurance and Pure Protection FCA reporting group given historically skewed influence of legacy payment protection insurance.	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	11	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. be signed up to our paperless proposition; 3. have 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 while demonstrating the realisation of our ambition 'to be the UK's best digital bank'.
Group diversity indicators	Yes	Yes	2023	11	Percentage of colleagues who identify as female within our 0-3 leadership population and percentage of colleagues from under-represented cultural heritage backgrounds within our 0-3 leadership population and overall Virgin Money colleague base.	Having a diverse and representative workforce at all levels of our organisation enables us to better reflect, understand and support our customers. It also creates the conditions for rapid innovation, balanced perspective on risk and improved problem solving organisationally.
Group Smile score	Yes	No	N/a	11	% 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.

Measuring the Group's performance

Metric	KPI	LTIP	LTIP Year	Page	Definition/formula (where applicable)	Why it matters
Total active relationship customer accounts	Yes	No	N/a	11	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.
ESG scorecard	No	Yes	2023 2022	135	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	2023 2022	135	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	2023 £m	Restated 2022 £m	Reason for exclusion from the Group's current underlying performance
Restructuring charges	**(131)**	(82)	These costs relate to the Group's Digital-First strategy. The Group expects to incur c.£275m of restructuring charges across FY22-24.
Acquisition accounting unwinds	**(29)**	(35)	This consists of the unwind of the IFRS 3 fair value adjustments created on the acquisition of Virgin Money Holdings (UK) PLC in October 2018. These represent either one-off adjustments or are the scheduled reversals of the accounting adjustments that arose following the fair value exercise required by IFRS 3. These will continue to be underlying adjustments until the remaining amounts have been fully reversed.
Legacy conduct	**(12)**	(8)	These costs are historical in nature and are not indicative of the Group's current practices.
Hedge ineffectiveness[(1)]	**(16)**	13	The result of hedge accounting and fair value movements on derivatives in economic hedges to the extent they either do not meet the criteria for hedge accounting or give rise to hedge ineffectiveness. These items are often volatile, driven by accounting requirements and not generally considered as a component of the core financial result.
Other:			
UTM transition costs	**(2)**	(9)	These costs relate to UTM's transformation costs, principally for the build of a new platform for administration and servicing.
Visa shares	**1**	2	A one-off gain on conversion of Visa B Preference shares to Series A preference shares.
Internally developed software adjustments	**(47)**	(62)	These costs relate to the write-off of WIP and intangible asset balances held on the balance sheet as a result of a reassessment of the Group's practices on capitalisation against the backdrop of the move to an Agile project delivery in FY22, and in FY23 the write-off charge is in relation to the Group's mortgage digitisation programme. Following an assessment of the progress of the project to upgrade the mortgage platform and challenges identified during testing, we now anticipate a significant deferral and redesign as we implement the upgraded capability.
Property, plant and equipment, and investment property adjustments	**(12)**	–	£6m of these costs relate to a data cleanse exercise conducted on the Group's fixed asset registers ahead of a migration to a single fixed asset register in FY24 and a £6m reduction in the valuation of an investment property due to changes in market conditions.
Total other	**(60)**	(69)	
Total underlying adjustments	**(248)**	(181)	

(1) Hedge ineffectiveness is now presented as an adjustment to underlying earnings due to the increase in volatility caused by the recent significant changes in interest rates. The comparative period has been adjusted accordingly.

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.
Basel 3.1	An updated version of the Basel III reforms of the regulatory framework issued by the BCBS in December 2017. These are being implemented in the UK by the PRA from 1 July 2025.
basis points **(bps)**	One hundredth of a percent (0.01%); meaning that 100 basis points is equal to 1%. This term is commonly used in describing interest rate movements.
BAU Business lending	Business lending excluding government lending scheme balances.
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.

Term	Definition
carrying value (also referred to as carrying amount)	The value of an asset or a liability in the balance sheet based on either amortised cost or fair value principles.
cash and cash equivalents	For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and non-mandatory deposits with central banks and amounts due from other banks with a maturity of less than three months.
Code	The 2018 UK Corporate Governance Code.
collateral	The assets of a borrower that are used as security against a loan facility.
Common Equity Tier 1 capital **(CET1)**	The highest quality form of regulatory capital that comprises total shareholders' equity, 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	Capital Requirements Directive (EU) 2013/36 revised by Directive (EU) 2019/878, as implemented in the UK by PRA Policy Statement 22/21 and incorporated into the PRA Rulebook from 1 January 2022.
credit 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.

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	Capital Requirements Regulation (EU) 575/2013 revised by Regulation (EU) 2019/876, as implemented in the UK by PRA Policy Statement 22/21 and incorporated into the PRA Rulebook from 1 January 2022.
customer deposits	Money deposited by individuals 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.
emissions intensity	Emission rate of a given pollutant per unit of economic output or activity.
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.

Term	Definition
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.
Flood Re	A joint initiative between the UK Government and home insurers to provide widely available and affordable insurance for homes in high-risk flood areas.
forbearance	The term generally applied to the facilities provided or changes to facilities provided to assist borrowers, who are experiencing, or are about to experience, a period of financial stress.
full time equivalent (FTE)	The standardised method of measurement that represents the number of hours worked by all Virgin Money employees, both full time and part time (excluding contractors or long-term absences).
Group	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
Low-carbon economy	An economy based on energy sources that produce low levels of greenhouse gas emissions.
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.
Net zero	Negating the amount of greenhouse gases produced by human activity.
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.

Glossary

Term	Definition
residential mortgage-backed securities **(RMBS)**	Securities that represent interests in groups or pools of underlying mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and principal).
ring-fencing	A regime of rules which require banks to change the way that they are structured by separating retail banking services from investment and international banking. This is to ensure the economy and taxpayers are protected in the event of any future financial crises.
risk appetite	The level and types of risk the Group is willing to assume within the boundaries of its risk capacity to achieve its strategic objectives.
risk-weighted 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.
segment	Generally refers to customer, product or commercial lines unless used within the financial statements where the results are disclosed on a single segment basis in line with that reported to the Group's Chief Operating Decision Maker.
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

ACS	Annual cyclical scenario
AFD	Approaching financial difficulty
AGM	Annual General Meeting
AI	Artificial intelligence
ALCO	Asset and Liability Committee
ALMV	A Life More Virgin
APM	Alternative Performance Measure
ASX	Australian Securities Exchange
AT1	Additional Tier 1
ATM	Automated teller machine
AUM	Assets under management
BAU	Business as usual
BCA	Business current account
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
bps	Basis points
BTL	Buy-to-let
CBES	Climate Biennial Exploratory Scenario
CCC	Climate Change Committee
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
CIPD	Chartered Institute of Personnel and Development
CMA	Competition and Markets Authority
CPI	Consumer Price Index
CRD	Capital Requirements Directive
CRE	Commercial Real Estate
CRR	Capital Requirements Regulation
CSRBB	Credit spread risk in the banking book
CYBI	CYB Investments Limited
DE&I	Diversity, equity and inclusion
DEP	Deferred Equity Plan
DPD	Days past due
DTR	Disclosure Guidance and Transparency Rules
EAD	Exposure at default
EBA	European Banking Authority
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
EY	Ernst & Young LLP
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
GFC	Global financial crisis
GHFA	Green Homes Finance Accelerator
GHG	Greenhouse gases
G-SII	Global Systemically Important Institution
HaRi	Human resources meets artificial intelligence
HMRC	His Majesty's Revenue and Customs
HPI	House Price Index
HQLA	High Quality Liquid Asset
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBOR	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
ISAE	International Standard on Assurance Engagements
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
O-SII	Other Systemically Important Institution
PBT	Profit before tax

Abbreviations

PCA	Personal current accounts
PCAF	Partnership for Carbon Accounting Financials
PD	Probability of Default
PIE	Pension Increase Exchange
POCI	Purchased or originated credit impaired
PRA	Prudential Regulation Authority
RACE	Risk Analytics Centre of Excellence
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
RLS	Recovery Loan Scheme
RMBS	Residential mortgage-backed securities
RMF	Risk Management Framework
RoTE	Return on Tangible Equity
RPI	Retail Price Index
RWA	Risk-weighted asset
SASB	Sustainability Accounting Standards Board
SBC	Sustainable Business Coach
SBTi	Science-based targets initiative
SDG	Sustainable Development Goal
SICR	Significant increase in credit risk
SIP	Statement of Investment Principles
SMCR	Senior Managers and Certification Regime
SME	Small or medium-sized enterprise
SMF	Sterling Monetary Framework
SONIA	Sterling Overnight Index Average
SST	Solvency Stress Test
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
TPT	Transition Plan Taskforce
UK SDS	Sustainability Disclosure Standards
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
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.

	2023 UK
Average FTE employees (number)	**7,166**
Total operating income (£m)	**1,827**
Profit before tax (£m)	**345**
Corporation tax paid (£m)	**45**
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 2024 AGM will be held on 1 March 2024. 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).

The AGM provides shareholders the opportunity to vote on each individual resolution either online, by post or in-person by attending the AGM. Shareholders typically vote on the reappointment 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 – +61 3 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.

The Board recommends that you 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/au 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 +61 2 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 2023
By size of holding:

Range	No of shareholders	%	No of shares	%
1–1,000	104,138	80.10	33,785,989	2.51
1,001–5,000	19,805	15.24	42,099,347	3.13
5,001–10,000	3,153	2.43	22,416,962	1.67
10,001–100,000	2,584	1.99	62,424,199	4.64
100,001–999,999,999	308	0.24	1,183,914,471	88.05

Financial calendar for FY24
2024 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 2023.

Statutory basis

Statutory information is set out on page 67 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 67 and rationale for the adjustments is shown on page 381.

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 372 to 380. 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

This document and any other written or oral material discussed or distributed in connection with the results (the 'Information') 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 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, risks relating to environmental matters such as climate change including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, 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 Russia's invasion of Ukraine, 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, 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 and should be viewed as hypothetical. 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 (each a 'VMUK Party') gives any representation, warranty or 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 the Information. 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, no VMUK Party takes any responsibility for the Information 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. The Information is subject to change. No representation or warranty, express or implied, as to the truth, fullness, fairness, merchantability, accuracy, sufficiency or completeness of the Information is given.

Certain industry, market and competitive position data contained in the Information 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 the Information 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 the Information.

The Information does not constitute or form part of, and should not be construed as, any public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments. The distribution of the Information in certain jurisdictions may be restricted by law. Recipients are required to inform themselves about and to observe any such restrictions. No liability to any person is accepted in relation to the distribution or possession of the Information in any jurisdiction.

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Virgin Money UK PLC

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