VIRGIN MONEY UK

Pillar 3 Report 2022

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1 Introduction

1.1 Basis of presentation

This report presents the consolidated Pillar 3 disclosures of Virgin Money UK PLC ('Virgin Money' or 'the Company'), together with its subsidiary undertakings (which comprise 'the Group') as at 30 September 2022. This report should be read in conjunction with the Virgin Money UK PLC 2022 Annual Report & Accounts, available from: www.virginmoneyukplc.com/investor-relations/results-and-reporting/annual-reports.

The Group is regulated under UK Capital Requirements Regulation (CRR) and the associated binding technical standards that were created by the European Union (Withdrawal) Act 2018. The CRR has subsequently been amended by a number of statutory instruments and is split across the Prudential Regulatory Authority (PRA) rulebook and primary legislation.

These disclosures are prepared and presented in accordance with the Disclosure (CRR) part of the PRA Rulebook which includes revised disclosure requirements applicable from 1 January 2022 following the UK's implementation of the remaining provisions of CRR II. Any references to the EU regulations and directives should, as applicable, be read as references to the UK's version of the respective regulation, as onshored into UK law under the European Union (Withdrawal) Act 2018.

The numbers presented within this report are on a consolidated basis, with Virgin Money UK PLC numbers shown in the body of the report. Clydesdale Bank (CB) Group consolidated numbers (CB Consol) are shown in Appendix 1, which aligns with the Disclosure (CRR) part of the PRA rulebook to report ring-fenced bodies at a sub-consolidated level.

Full details of the Group's subsidiaries are provided in note 6.2 of the Group's 2022 Annual Report & Accounts, which is available on the Group's website: www.virginmoneyukplc.com/investor-relations/results-and-reporting/annual-reports/. The Group's capital resources are presented in Annex VII, page 26 of this document. Capital resources for CB Consol are presented in Appendix 1.

The disclosures made in this report are required to be disclosed on an annual basis. These disclosures have been subject to internal verification and are reviewed by the Board Risk Committee (Risk Committee) and the Board Audit Committee (Audit Committee) on behalf of the Board. The disclosures have not been, and are not required to be, subject to independent external audit and do not constitute any part of the Group's 2022 Annual Report & Accounts. To ensure consistency with other banks and building societies' Pillar 3 disclosures, the document has been structured in line with the regulatory requirements as provided.

Certain figures contained in this report may have been subject to rounding adjustments. Accordingly, in certain instances, the sum or percentage change of the numbers contained in this report may not conform exactly to the total figure given.

1.2 Comparatives

Comparative figures are as at 30 September 2021 unless otherwise stated and are reported to give insight into movements during the period. Where disclosures are new, or have been significantly changed, we do not generally restate or provide prior period comparatives.

Where specific rows and columns in the tables prescribed by the PRA are not applicable or are immaterial to our activities, we omit them and follow the same approach for comparative disclosures.

1.3 Regulatory 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 and address.

COVID-19 regulatory capital developments

Following the Bank of England's (BoE) announcements in 2020 regarding supervisory and prudential policy measures to address the challenges of COVID-19, the requirements relating to comply with updates to definition of default and mortgage Internal-Ratings Based (IRB) models were extended. The Group did not adopt hybrid mortgage models in FY22 and intend to do so in FY23. As part of the Group's implementation of mortgage IRB models (incl. Hybrid PD), we will consider the need to apply an overlay to increase Risk-Weighted Assets (RWA) in advance of formal approval of models. A final figure hasn't been determined although this may be in the range of £1.0bn–£1.5bn of RWA.

The Group continues to apply relevant relief measures introduced by regulatory and supervisory bodies to help address and alleviate various COVID-19 driven financial impacts. These include amendments to the CRR introduced by the 'Quick Fix' package in June 2020, which introduced a number of beneficial modifications, including changes to International Financial Reporting Standard 9 (IFRS 9) transitional arrangements for capital and the accelerated implementation of revised Small and Medium Enterprise (SME) supporting factors under CRR II.

UK implementation of Basel Standards

In July 2021, the PRA published Policy Statement 17/21 which provided feedback to Consultation Paper 5/21 with the same title: 'Implementation of Basel standards' with the publication of Policy Statement 22/21 in October containing final rules. The policy statements covered a range of revisions in the areas of counterparty credit risk, large exposures, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and reporting and disclosure amongst other changes. These standards became effective in the UK from 1 January 2022 and did not materially impact capital requirements.

Policy Statement 22/21 confirmed the PRA's treatment to fully deduct software assets from Common Equity Tier 1 (CET1) capital, applicable from 1 January 2022. This is a reversal of the preferential treatment permitted under the CRR Quick Fix which came into force from December 2020 whereby the CET1 deduction was replaced with a simple approach based on a prudential amortisation of software assets calibrated over a maximum period of three years. The PRA's view is that intangible assets are not sufficiently loss absorbent on a going concern basis to warrant recognition as CET1 capital.

Basel 3.1

The Basel Committee published its final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches to credit and operational risks and the introduction of a new RWA output floor. There are a number of areas within Basel 3.1 subject to national discretion and choice. The PRA is due to publish a Consultation Paper on UK implementation in the fourth quarter of 2022, with the final reforms expected to become effective on 1 January 2025 (delayed from 2023), subject to a 5 year transitional period. Uncertainties therefore remain for a number of topics that will be subject to revisions under Basel 3.1.

Solvency Stress Test
Results from the Group's inaugural participation in the BoE UK-wide Solvency Stress Tests (SST) were published by the BoE at the end of 2021 and were used by the Financial Policy Committee (FPC) to assess the stress severity required to threaten resilience and test the Group's ability to absorb losses and continue to lend.

Annual Cyclical Scenario Stress Test
The 2022 Annual Cyclical Scenario (ACS) was postponed due to the uncertainty caused by the Russian invasion of Ukraine. The delay was applied to enable lenders to focus on managing the financial markets disruption associated with the invasion. In July 2022, it was announced within the Financial Stability Report that the ACS stress test would commence in September 2022. The BoE published the Key Elements of the 2022 Stress Test on 26 September 2022 and the Group is in the process of undertaking the 2022 ACS exercise. The scenario tests the resilience of the UK Banking system to deep simultaneous recessions in the UK and global economies, real income shocks, large falls in asset prices and higher global interest rates, as well as a separate stress of misconduct costs. The results will be published in summer 2023.

Resolvability Assessment Framework
The BoE and the PRA have introduced a Resolvability Assessment Framework (RAF), with full implementation required by 2022 to ensure major UK banks can be safely resolved. The Group has undertaken an assessment of its resolvability with disclosures published in June 2022. The BoE concluded that, upon their first assessment as resolution authority of the eight major banks, that a major UK bank could enter resolution safely: remaining open and continuing to provide vital banking services to the economy.

UK Leverage Ratio Framework
In October 2021, the FPC and PRA published their changes to the UK leverage ratio framework (Policy Statement 21/21). The changes, effective from 1 January 2022, have simplified the framework, with the Group being subject to the UK leverage ratio only, rather than the two leverage ratio definitions that previously existed. The Group exceeds the 3.25% leverage ratio requirements.

1.4 Templates not disclosed
Article 432 of the PRA Rulebook on non-material, proprietary or confidential information permits institutions to omit one or more disclosures if the information provided by such a disclosure is not regarded as material. No disclosures have been omitted on the basis of them being regarded as proprietary or confidential. An explanation is included within the report where templates have not been disclosed if deemed out of scope or not applicable.

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

Capital requirements
As at 30 September 2022, the Group's Pillar 2A requirement had a CET1 element of 1.7%. Overall, the Group's Capital Requirements Directive IV (CRD IV) minimum CET1 capital requirement (or maximum distributable amount threshold) as at the end of FY22 was 8.7%.

For the year ended 30 September 2022, the Group used the standardised approach for operational risk, market risk and credit valuation adjustment. Retail mortgages RWA are calculated using an Advanced Internal Ratings-Based (AIRB) approach, the majority of the business portfolios use a Foundation Internal Ratings-Based (FIRB) approach and Income Producing Real Estate uses the IRB Slotting Approach. The AIRB approach allows internal models for Probability of Default (PD), Loss Given Default (LGD) and Exposures at Default (EAD) to be used to calculate RWA values. The FIRB approach allows internal models for PD combined with regulator defined parameters to be used to calculate RWA values. All other portfolios use the standardised approach, which uses standard risk-weighting percentages prescribed within the CRR and PRA implementing rules. The disclosures in this document are based on these approaches.

The Group operates with two sets of IRB models for Retail Mortgages, reflecting the portfolios that have been brought together as a result of the merger of Clydesdale Bank PLC and Virgin Money PLC (now re-registered as Virgin Money Limited). The modelling methodologies are not currently aligned for heritage Clydesdale Bank PLC and Virgin Money PLC. Consequently, presenting data for these models in a single table is considered inappropriate, and potentially misleading. Templates UK CR6 and UK CR9, which disclose information on credit risk exposures by exposure class and by the PD range and back-testing of PD per exposure class, are presented separately for heritage Clydesdale Bank and Virgin Money within the 2022 Pillar 3 report.

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

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

1.6 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. The Group has participated in the BoE UK-wide SST for the first time during 2021. Results indicated the Group's results on both a transitional and non-transitional basis were in excess of published reference rates and the Group was therefore not required to take any additional actions.

1.7 Review and challenge

Overall assessment
The Group has further enhanced the Risk Management Framework (RMF) over the past year. Principal risks categories remain broadly unchanged from FY21, with the exception of Technology risk and Operational risk being renamed Technology and cyber risk and Operational and resilience risk respectively. The Group has also removed the cross-cutting risks, elevating Climate risk to principal risk status and Operational resilience has been repointed under Operational and resilience risk. Risk's operating model has continued to evolve during the year, with changes made to support the evolution of an oversight function, that is appropriately positioned to support the Group's ambitions to be the UK's best digital bank. The control environment remains stable with the 2022 Control Effectiveness Statement providing assurance that controls requiring improvement are escalated appropriately and have adequate action plans in place. 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, and was recommended to and approved by the Board. The Executive Risk Committee (ERC) held ten meetings during the year. For further information on the Group's approach to risk management, refer to section 3.1.

Verification and sign-off
The Virgin Money UK PLC Pillar 3 disclosures have been prepared in accordance with the Group's internal controls and policy frameworks, which govern financial reporting processes and are compliant with regulatory requirements, as set out in the Disclosure (CRR) part of the PRA rulebook. The following procedures support compliance:

- reconciliations are carried out to support disclosures and to confirm data accuracy;
- independent risk-based reviews carried out to provide assurance over the disclosures;
- narrative included is subject to senior review and sign-off;
- data included is subject to senior review and sign-off; and,
- the Risk Committee and Audit Committee reviews and approves the disclosures.

The disclosures have been subject to senior management sign-off and attestation by the Chief Risk Officer and Chief Financial Officer.

Annexes

2 Annex I: Disclosure of key metric and overview of risk weighted exposure amounts

2.1 UK KM1 – Key metrics

The table below provides a summary of the main prudential regulation ratios and measures.

		A	B	C	D	E
		30 Sept 2022 £m	30 Jun 2022 £m	31 Mar 2022 £m	31 Dec 2021 £m	30 Sept 2021 £m
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	**3,633**	3,562	3,565	3,653	3,616
2	Tier 1 capital	**4,299**	4,228	4,262	4,350	4,313
3	Total capital	**5,319**	5,248	5,282	5,368	5,332
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	**24,148**	24,008	24,184	24,087	24,232
	Capital ratios (as a percentage of risk-weighted exposure amount) (%)					
5	Common Equity Tier 1 ratio	**15.0%**	14.8%	14.7%	15.2%	14.9%
6	Tier 1 ratio	**17.8%**	17.6%	17.6%	18.1%	17.8%
7	Total capital ratio	**22.0%**	21.9%	21.8%	22.3%	22.0%
	Additional own funds requirements based on Supervisory Review and Evaluation Process (SREP) (as a percentage of risk-weighted exposure amount) (%)					
UK-7a	Additional CET1 SREP requirements	**1.7%**	1.7%	1.7%	1.7%	2.2%
UK-7b	Additional AT1 SREP requirements	**0.6%**	0.6%	0.6%	0.6%	0.7%
UK-7c	Additional T2 SREP requirements	**0.8%**	0.8%	0.8%	0.8%	1.0%
UK-7d	Total SREP own funds requirements	**11.1%**	11.1%	11.1%	11.1%	11.9%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount) (%)					
8	Capital conservation buffer	**2.5%**	2.5%	2.5%	2.5%	2.5%
11	Combined buffer requirement	**2.5%**	2.5%	2.5%	2.5%	2.5%
UK-11a	Overall capital requirements	**13.6%**	13.6%	13.6%	13.6%	14.4%
12	CET1 available after meeting the total SREP own funds requirements	**8.8%**	8.6%	8.5%	9.0%	8.2%
	Leverage ratio(1)					
13	Total exposure measure excluding claims on central banks	**83,771**	83,901	83,509	82,597	83,415
14	Leverage ratio excluding claims on central banks (%)	**5.1%**	5.0%	5.1%	5.3%	5.2%
	Additional leverage ratio disclosure requirements (%)					
14a	Fully loaded Expected Credit Loss (ECL) accounting model leverage ratio excluding claims on central banks	**5.0%**	4.9%	5.0%	5.2%	5.0%
14b	Leverage ratio including claims on central banks	**4.5%**	4.5%	4.6%	4.7%	4.7%
14c	Average leverage ratio excluding claims on central banks	**5.0%**	5.1%	5.0%	5.0%	5.0%
14d	Average leverage ratio including claims on central banks	**4.4%**	4.5%	4.5%	4.5%	4.5%
14e	Countercyclical leverage ratio buffer	**0.0%**	0.0%	0.0%	0.0%	0.0%
	Liquidity Coverage Ratio (LCR)(2)(3)					
15	Total high-quality liquid assets (HQLA) (Weighted value average)	**11,503**	11,087	11,281	11,525	11,229
UK-16a	Cash outflows – Total weighted value	**8,764**	8,317	8,135	8,219	8,258
UK-16b	Cash inflows – Total weighted value	**543**	496	444	488	527
16	Total net cash outflows (adjusted value)	**8,222**	7,821	7,691	7,731	7,731
17	Liquidity coverage ratio (%)	**140%**	142%	147%	149%	145%

(1) Following the implementation of PS22/21 effective from 1 January 2022, the comparative figures have been restated to reflect the exclusion of the Bounce Back Loans Scheme (BBLS) from the exposure value.

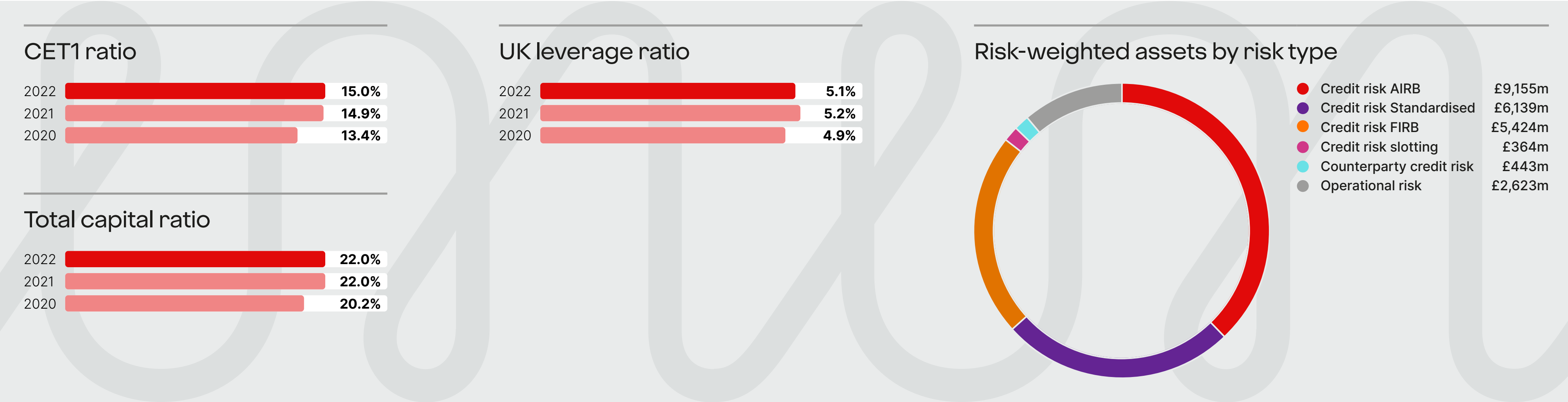
(2) Liquidity balances are calculated as the simple averages of month-end observations over the 12 months preceding the reporting date.

(3) In the prior year, certain business customer deposits were incorrectly classified as Corporates, as opposed to Financial Institutions. Due to the different liquidity outflow assumptions applied, this resulted in an overstatement of the LCR and misclassification of certain deposit balances. These business deposits have been reclassified as Financial Institutions and the prior period comparatives have been updated to align with the current period presentation.

Annexes

2 Annex I: Disclosure of key metric and overview of risk weighted exposure amounts continued

Summary of key metrics



Common Equity Tier 1
During 2022, the Group maintained a robust capital position with a CET1 ratio (IFRS 9 transitional basis) of 15.0% (30 September 2021: 14.9%).

The Group's CET1 capital increased by £17m during the year. Statutory profit after tax of £537m drove an overall increase in retained earnings, which when offset against other reserves movements resulted in a net increase in CET1 capital of £428m. The Group used this surplus principally to fund capital returns in the year of £282m (comprising payments of £36m for interim dividends, £51m for Additional Tier 1 (AT1) distributions and £76m for share buyback, plus a final dividend and AT1 accrual for the current year of £119m) and further investment in digital software assets of £53m. In addition, £100m of CET1 capital was absorbed by the movement in excess expected losses, as releases in IFRS 9 provisions widened the gap between regulatory and accounting credit losses.

In June 2022, the Group successfully issued £350m of new AT1 securities, achieving significantly tighter pricing on a spread basis than prior issuances. Concurrently, the Group repurchased £377m of its existing AT1 securities that are callable in December of this year. The net impact reduced AT1 capital by £31m (after costs) as at 30 September 2022. Subsequent to the report date, the Group announced its intention to redeem the remaining £73m of those AT1 securities on their call date in December 2022.

Total capital and minimum requirements for own funds and eligible liabilities (MREL)
The total capital ratio remained stable at 22.0% (30 September 2021: 22.0%), with the Group maintaining a strong capital position.

MREL resources were £7.7bn (30 September 2021: £7.7bn), equivalent to 32.1% of RWA (30 September 2021: 31.9%). This provides prudent headroom of £1.7bn or 7.2% above the loss-absorbing capacity requirement of 24.9%

Leverage
The Group's UK leverage ratio has fallen slightly to 5.1% (30 September 2021: 5.2%), as a result of a small reduction in Tier 1 capital and a small increase in the leverage exposure measure. The average UK leverage ratio remained at 5.0% (30 September 2021: 5.0%).

Following the FPC and PRA's published policy statement PS21/21, the Group is subject to a single UK leverage ratio exposure measure from 1 January 2022. The Group's UK leverage ratio exceeds the UK minimum ratio of 3.25%.

The Group's leverage ratio buffer currently stands at 0%. Following the FPC's announced increase to the countercyclical capital buffer (CCyB), the leverage ratio buffer will increase to 0.4% from December 2022.

Annexes

2 Annex I: Disclosure of key metric and overview of risk weighted exposure amounts continued

2.2 UK KM2 – Key metrics template – MREL

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

		A	B	C	D	E
		30 Sept 2022 £m	30 Jun 2022 £m	31 Mar 2022 £m	31 Dec 2021 £m	30 Sept 2021 £m
1	Total capital resources(1) (2)	**5,319**	5,248	5,282	5,368	5,332
2	Eligible senior unsecured securities issued by Virgin Money UK PLC(2)	**2,423**	2,411	2,395	2,390	2,408
3	Total MREL resources	**7,742**	7,659	7,677	7,758	7,740
4	Total risk-weighted assets	**24,148**	24,008	24,184	24,087	24,232
5	Total MREL resources available as a percentage of total risk-weighted assets (%)	**32.1%**	31.9%	31.7%	32.2%	31.9%
6	UK leverage exposure measure	**83,771**	83,901	83,509	82,597	83,415
7	Total MREL resources available as a percentage of UK leverage exposure measure (%)	**9.2%**	9.1%	9.2%	9.4%	9.3%

(1) The capital position reflects the application of the transitional arrangements for IFRS 9.

(2) Includes MREL instrument maturity adjustments; the add-back of regulatory amortisation; and the deduction of instruments with less than one year to maturity; from September 2022, unamortised costs are also deducted from eligible senior unsecured securities.

Annexes

2 Annex I: Disclosure of key metric and overview of risk weighted exposure amounts continued

2.3 IFRS 9/Article 468 – Impact of IFRS 9 transitional arrangements and temporary treatment in accordance with CRR Article 468

The following table shows the capital, RWA and leverage positions with and without the application of transitional arrangements for IFRS 9 or analogous Expected Credit Loss (ECL).

		A	B	C	D	E
		30 Sept 2022 £m	30 Jun 2022 £m	31 Mar 2022 £m	31 Dec 2021 £m	30 Sept 2021 £m
Available capital (£m)						
1	Common Equity Tier 1 (CET1) capital	**3,633**	3,562	3,565	3,653	3,616
2	CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**3,519**	3,470	3,481	3,561	3,482
3	Tier 1 capital	**4,299**	4,228	4,262	4,350	4,313
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**4,185**	4,136	4,178	4,258	4,179
5	Total capital	**5,319**	5,248	5,282	5,368	5,332
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**5,205**	5,156	5,198	5,288	5,235
Risk-weighted assets (£m)						
7	Total risk-weighted assets	**24,148**	24,008	24,184	24,087	24,232
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**24,056**	23,933	24,111	24,029	24,156
Capital ratios (%)						
9	CET1 (as a percentage of risk exposure amount)	**15.0%**	14.8%	14.7%	15.2%	14.9%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**14.6%**	14.5%	14.4%	14.8%	14.4%
11	Tier 1 (as a percentage of risk exposure amount)	**17.8%**	17.6%	17.6%	18.1%	17.8%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**17.4%**	17.3%	17.3%	17.7%	17.3%
13	Total capital (as a percentage of risk exposure amount)	**22.0%**	21.9%	21.8%	22.3%	22.0%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**21.6%**	21.5%	21.6%	22.0%	21.7%
Leverage ratio						
15	Leverage ratio total exposure measure (£m)	**83,771**	83,901	83,509	82,597	83,415
16	Leverage ratio (%)	**5.1%**	5.0%	5.1%	5.3%	5.1%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied (%)	**5.0%**	4.9%	5.0%	5.2%	5.0%

Transitional arrangements in CRR mean the regulatory capital impact of ECL is being phased in over time. Following the CRR Quick Fix amendments package, which applied from 27 June 2020, relevant provisions raised from 1 January 2020 through to 2024 have a CET1 add-back percentage of 75% in 2022, reducing to 50% in 2023 and 25% in 2024. At 30 September 2022, £114m of IFRS 9 transitional adjustments (2021: £134m) have been applied to the Group's capital position in accordance with CRR: £7m of static and £107m of dynamic adjustments (2021: £10m static and £124m dynamic).

Annexes

2 Annex I: Disclosure of key metric and overview of risk weighted exposure amounts continued

2.4 UK OV1 – Overview of Risk weighted exposure amounts

The table below shows Risk-Weighted Exposure Amounts (RWEAs) and minimum capital requirement by risk type and approach.

		A	B	C
		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		30 Sept 2022 £m	30 Sept 2021[1] £m	30 Sept 2022 £m
1	Credit risk (excluding CCR)	**21,082**	21,543	**1,687**
2	*of which: the standardised approach*	**6,139**	5,844	**492**
3	*of which: the foundation IRB (FIRB) approach*	**5,424**	5,271	**434**
4	*of which: slotting approach*	**364**	418	**29**
5	*of which: the advanced IRB (AIRB) approach*	**9,155**	10,010	**732**
6	Counterparty credit risk – CCR	**443**	208	**36**
7	*of which: the standardised approach*	**180**	103	**15**
UK-8a	*of which: exposures to a Central Counterparty (CCP)*	**5**	2	**–**
UK-8b	*of which: credit valuation adjustment – CVA*	**258**	103	**21**
23	Operational risk	**2,623**	2,481	**210**
UK-23b	*of which: standardised approach*	**2,623**	2,481	**210**
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	**265**	308	**21**
29	**Total**	**24,148**	24,232	**1,933**

(1) Prior period comparatives have been updated to reflect the requirements implemented through PS22/21.

(2) The Group's Pillar 1 capital requirement for market risk is set to zero, therefore no figures are disclosed.

2.5 UK INS1 – Insurance participations and UK INS2 – Financial conglomerates information on own funds and capital adequacy ratio

The Group has no own funds held in insurance firms or reinsurance firms, therefore UK INS1 has not been presented.

The Group does not qualify as a financial conglomerate, therefore UK INS2 has not been presented.

2.6 UK OVC – ICAAP information

(a) The Group's approach to assessing the adequacy of internal capital (Article 438(a) CRR)

The Group manages its capital position in line with the Capital Risk Policy Standard and undertakes an Internal Capital Adequacy Assessment Process (ICAAP) which provides an internal assessment of its capital adequacy in the context of its business model, strategy and operating environment. This includes an assessment of the amounts and types of capital which are required to cover the Group's material risks and meet current and future regulatory requirements.

A key part of the ICAAP is the assessment of Pillar 2A and Pillar 2B capital requirements. Pillar 2A requirements capture firm-specific risks which are not represented within, or are in excess of, the Pillar 1 requirement. Together, the Pillar 1 and Pillar 2A requirements represent the Group's Total Capital Requirement (TCR) that is required to be met at all times. The Pillar 2B assessment considers the Group's capital adequacy under stressed conditions, and the composition and size of its capital buffers.

The results of the ICAAP are documented alongside the Group's processes and approaches for identifying, assessing and managing risks to the Group's capital position. This is subject to approval by the Asset and Liability Committee (ALCO), the Risk Committee and the Board before being submitted to the PRA. The PRA will use this information within its Supervisory Review and Evaluation Process (SREP) to determine the Group's Pillar 2 capital requirements.

(b) Results of the Group's internal capital adequacy assessment process (Article 438(c) CRR)

The PRA has set the expectation that banks disclose their TCR. The Group's Pillar 2A requirement as at 30 September 2022 was £744m. This is in line with the PRA's statement on temporarily setting Pillar 2A requirements as a nominal amount in the 2020 and 2021 SREP.

This contributed to a TCR as at 30 September 2022 of £2,676m, equivalent to 11.1% of RWA, of which at least £1,505m or 6.2% of RWA must be met with CET1 capital.

In October 2022, the PRA communicated an update to the Group's Pillar 2A requirement setting it as 2.97% of RWA, of which 1.67% must be met with CET1 capital. Applying this updated requirement as at 30 September 2022 would result in a modest reduction in total capital requirements of £27m and in CET1 requirements of £15m.

3 Annex III: Disclosure of risk management objectives and policies

3.1 UK OVA – Risk management approach

(a) Risk statement approved by the management body (Point (f) of Article 435(1) CRR)

Risk exists in everything we do, from strategic change initiatives to day-to-day operational activities. Without risk we will never achieve our strategic goals, but when taking risks, we must ensure we do so in an appropriate way. Effective management of risk is a key capability for a successful financial services provider and is fundamental to the Group's strategy.

During the year, Group has continued to advance and strengthen its risk management capabilities, evolving in line with industry developments and best practice.

The Group manages risk using a single RMF, which helps the Group control risk by: supporting decision making, planning and prioritisation, through providing a greater understanding of business activity and volatility; providing a consistent approach to risk management activities including clear roles and responsibilities, insightful reporting and appropriate oversight; and supporting delivery of all strategies including sustainability and growth. The RMF applies to all areas of the Group and is the responsibility of the Board. It is approved formally on an annual basis and is subject to ongoing review to ensure that it remains fit for purpose.

1 Risk strategy

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

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

2 Risk appetite

Risk appetite is defined as the level and type of risk the Group is willing to assume within the boundaries of its risk capacity, to achieve its strategic objectives. The Risk Appetite Statement (RAS) articulates our 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 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 cooperation with the Chair of the BRC. Consideration is made to the strategic objectives and business model, as well as the environment in which the Group operates. Information on performance against relevant RAS settings, breaches and trends is reported regularly to the Executive Risk Committee and the Board.

3 Risk policies

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

Policy statements and supporting policy standards define the key risk management principles and minimum control requirements 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 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.

3 Annex III: Disclosure of risk management objectives and policies continued

Risk culture
Risk culture is focused on the Group's understanding of the risks it takes, which is key to enabling our strategy to be the UK's best digital bank. Personal accountability is at the heart of this and is enabled through the risk management accountability model, as well as the formal delegation framework. Colleagues are recruited with the core skills, abilities, and attitude required for their role. They are provided with training and development to maintain and develop the required levels of competence.

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

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

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

The Risk Committee retains focus on the assessment of risk culture, with Internal Audit providing an independent view to the 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.

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

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

The RAS is supported by targets, acceptability limits and/or tolerance thresholds for specific risk event types, and qualitative statements about the acceptability of particular risk events. Control is exercised through a clearly defined delegation of authority framework, with communication and escalation channels throughout the Group.

The principles of how the Business Units; Risk Management and Internal Audit operate are:

1. *Business Units* own and have responsibility for identifying, assessing, and mitigating risks and issues including conducting key control testing and capturing these in the Governance, Risk and Compliance System.
2. *Risk Management* ensure risk management practices are embedded across the Group. This includes challenging first line risk owners and providing an opinion to the Board on the Group's risk profile.
3. *Internal Audit* provide an independent view of the key risks and their management across the Group, including control design adequacy and operating effectiveness. Internal Audit's quarterly audit plan is influenced by ongoing independent assessment of principal risks and their sub-categories across the Group, including material outsourced activity. It is also guided by regulatory and mandatory requirements; the business strategy; and external and internal insights.

All three lines of defence work together when creating oversight and assurance plans, using various inputs such as the Control Effectiveness Statement and the results of key control testing. This ensures there is appropriate coverage, including thematic reviews, outcome testing, and close and continuous engagement across all Business Units in relation to decision making processes.

(b) The risk governance structure for each type of risk (Point (b) of Article 435(1) CRR)
The Board is responsible for determining the nature and extent of the risks it is willing to take in order to achieve its strategic objectives. As part of its viability assessment under the UK Corporate Governance Code (the Code) requirements, the Directors have performed a robust assessment of the risks facing the Group, including those that would threaten its business model and future performance, solvency, liquidity or reputation.

The effectiveness of the Group's internal control systems is reviewed regularly by the Risk Committee and the Audit Committee. The Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures. The Audit Committee assists the Board in discharging its responsibilities with regard to external and internal audit activities and controls including reviewing audit reports, internal controls and risk management systems.

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3 Annex III: Disclosure of risk management objectives and policies continued

The Chief Risk Officer is chair of the ERC (further details on page 17) and is responsible for ensuring the risk strategy set by the Board is executed, with Senior Management Function responsibilities delegated to Risk Leadership Team members. The structure of the Risk function is shown in the chart below:

* New role created during FY22.

† Reporting line repointed from Chief Compliance Officer, to Chief Risk Officer.

Principal risks

The Group's principal risk categories are broadly the same year-on-year, with the exception of Climate risk, which has been reclassified from a cross-cutting risk to a principal risk due to its increasing relevance and materiality to the Group's risk profile. Operational resilience is now included within Operational and resilience risk. Technology risk has been renamed Technology and cyber risk, to recognise not only the risks involved with maintaining the Group's technology processes and infrastructure, but also the growing risk surrounding cyber security.

In line with the requirements of the Group RMF, during the year the Board and its delegated committees maintained oversight of the following identified principal risks:

Principal risk	Description	Risk Leadership Team member	Executive sub-committee
Credit risk	The risk of loss of principal or interest stemming from a borrower's failure to meet contractual obligations to the Group in accordance with their agreed terms. Credit risk manifests at both a portfolio and transactional level.	Chief Credit Officer	Credit Risk Committee
Financial risk	Financial risk includes capital risk, funding risk, liquidity risk, market risk and pension risk, all of which have the ability to impact the financial performance of the Group, if managed improperly.	Head of Financial Risk & Model Risk Oversight	Asset and Liability Committee
Model risk	The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.	Head of Financial Risk & Model Risk Oversight	Model Governance Committee
Regulatory and compliance risk	The risk of failing to comply with relevant laws and regulatory requirements, not keeping regulators informed of relevant issues, not responding effectively to information requests, not meeting regulatory deadlines or obstructing the regulator.	Chief Compliance Officer	Enterprise Conduct Committee
Conduct risk	The risk of undertaking business in a way that is contrary to the interests of customers, resulting in inappropriate customer outcomes or detriment, regulatory censure, redress costs and/or reputational damage.	Chief Compliance Officer	Enterprise Conduct Committee
Operational and resilience risk	The risk of loss or poor customer outcomes resulting from inadequate or failed internal processes, people and systems or from external events; incorporating the inability to maintain critical services, recover quickly from unexpected/adverse events	Head of Operational & Resilience Risk	Operational Risk Committee

3 Annex III: Disclosure of risk management objectives and policies continued

Principal risk	Description	Risk Leadership Team member	Executive sub-committee
Technology and cyber risk	The risk of loss resulting from inadequate or failed information technology processes through strategy, design, build or run components internally or externally provisioned. It includes IT Resilience as well as Cyber and Information Security.	Head of Operational & Resilience Risk	Operational Risk Committee
Financial crime and fraud risk	The risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties. This includes money laundering, counter terrorist financing, sanctions, fraud, and bribery and corruption.	Money Laundering Reporting Officer	Enterprise Conduct Committee
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.	Head of Strategic Oversight & Climate Risk	Enterprise Conduct Committee
People risk	The risk of not having sufficiently skilled and motivated colleagues, who are clear on their responsibilities and accountabilities and behave in an ethical way.	Head of Strategic Oversight & Climate Risk	Operational Risk Committee
Climate risk	The risk of exposure to physical and transition risks arising from climate change.	Head of Strategic Oversight & Climate Risk	Environment Committee

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.

(c) Declaration on the adequacy of the Group's risk management arrangements (Point (e) of Article 435(1) CRR)

The management body monitors the effectiveness of risk management arrangements, including internal control systems, throughout the year. A formal annual assessment of the control environment of the Group takes place, covering all principal risks, with a focus on the operational elements of these risks. It includes a first line assessment, with second line views, review and challenge.

The annual assessment uses various sources of information, including RCSAs and risk events. Each Executive Leadership Team member captures material gaps and priority actions. The output of the self-assessment is tabled in front of the Risk Committee for approval and provides assurance that the risk management systems in place are adequate, taking into account the Group's risk profile and strategy. This year, the assessment concluded the control environment remained relatively stable.

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3 Annex III: Disclosure of risk management objectives and policies continued

(d) Scope and nature of risk disclosure and/or measurement systems (Point (c) of Article 435(1) CRR)
The Group has further enhanced the RMF over the past year, with a formal refresh tabled and approved by the Risk Committee in September 2022. Risk's operating model has continued to evolve during the year, with changes made to support an oversight function that is appropriately positioned to support the Group's ambitions to be the UK's best digital bank. The control environment remains stable with the 2022 Control Effectiveness Statement providing assurance that controls requiring improvement are escalated appropriately and have adequate action plans in place. 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, and was recommended to and approved by the Board.

Virgin Money UK PLC Board

VMUK PLC Risk Committee

VMUK PLC Audit Committee

Chief Executive Officer

Executive Risk Committee*
The committee supports the CEO in respect of risk and control accountabilities and serves to provide leadership focus on key risk issues, including:

> the setting and monitoring of appropriate risk appetite;
> the managing of risk within the agreed risk appetite of the Group and monitoring key risk exposures;
> reviewing and endorsing risk policies, frameworks and tools for use across the Group;
> in relation to risk strategy, recommending the Group's approach to managing all types of risk, as defined in the Risk Management Framework; and
> 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.

Executive Leadership Team
The Executive Leadership Team supports the CEO in leading the Group to be a strong, customer-focused bank for its communities, 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.

Asset and Liability Committee
Responsible for monitoring performance against Board-approved capital and funding plans. ALCO focuses on the Group's financial risks including capital, funding, liquidity and interest rate risk, to ensure activity delivers Group policy objectives whilst remaining compliant with regulatory and corporate governance requirements. Pension risk impacts on capital are also assessed.

Environment Committee
The Environment Committee oversee the management of environmental and climate change matters, directing resources, investment and activity across the Group. Environmental and climate change matters are a subset of the Group's ESG strategy.

Enterprise Conduct Committee
The committee is responsible for overseeing the management of conduct risk across the Group (including third parties) and taking an enterprise perspective of conduct performance. The Committee also supports the Group in ensuring the right outcomes for customers and will report any material conduct themes or issues for action to the Executive Risk Committee.

Model Governance Committee
The committee supports the Executive Risk Committee and consequently the Board in fulfilling its governance responsibilities for material models and rating systems. The Committee oversees the integration and ongoing use of models across the Group, specifically considering the fitness for purpose, usability and scalability of models.

Operational Risk Committee
The committee is responsible for the oversight of the Group's operational and resilience risks; the Group's operational risk management framework; the performance of the Operational and IT Risk Appetite Statements; and compliance with the Policy Statement and Standards pertaining to Operational Risk, Business Resilience, Technology & Security Risk and People Risk, as well as any relevant regulatory obligations.

Credit Risk Committee
The 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 react to changes in market conditions.

* The Executive Risk Committee has a reporting and escalation line into the relevant Board Risk Committee.

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3 Annex III: Disclosure of risk management objectives and policies continued

(e) Main features of risk disclosure and measurement systems (Point (c) of Article 435(1) CRR)
Risk performance is measured through RAS metrics and risk assessments, supported by lessons learned activities. All three lines of defence produce monthly reports on the progress against their metrics, with formal escalation paths to ERC and the Risk Committee available for any issues or concerns. Risks to future performance are considered through stress testing and scenario analysis, with ongoing monitoring.

A review of the effectiveness of controls is regularly undertaken across the Group, providing an assessment and statement on the effectiveness of the Group's control environment. This provides assurance to the Risk Committee that no new material control issues have been identified and that robust management actions are in place to address specific known gaps.

(f) Strategies and processes to manage risks for each category of risk (Point (a) of Article 435(1) CRR)
Effective risk management is critical to realising the Group's strategy of pioneering growth, with delighted customers and colleagues, while operating with super straightforward efficiency, discipline and sustainability. The safety and soundness of the Group is aligned to Our Purpose and is a fundamental requirement to enable our customers and stakeholders to be 'happier about money'. The Group manages risk using a single RMF, which applies to all areas of the Group and is the responsibility of the Board. It is reviewed and approved annually but is subject to ongoing review to ensure that it remains fit for purpose. All colleagues are also provided with a robust and confidential whistleblowing process to empower colleagues to highlight any concerns.

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. The Group has participated in the BoE UK-wide SST for the first time during 2021. We continue to maintain prudent buffers above all regulatory requirements and internal risk appetite metrics, across capital, funding and liquidity.

Mitigating actions
The following table summaries some of the mitigating actions the Group takes against each principal risk:

Principal risk	Mitigating actions
Credit risk	> The Group applies detailed lending policies and standards which outline the approach to lending, underwriting, concentration limits and product terms. > Credit risk is managed through risk appetite and risk limits reflected in approved credit frameworks and policies. > The Group carries out ongoing monitoring and approval of individual transactions, regular asset quality reviews and independent oversight of credit decisions and portfolios. > Portfolio monitoring techniques cover such areas as product, industry, geographical concentrations and delinquency trends. > Stress test scenarios are prepared regularly to assess the adequacy of the Group's impairment provisions and the impact on RWA and capital.
Financial risk	> Funding and liquidity risk is managed in line with Board-approved standards, including the annual Internal Liquidity Adequacy Assessment, strategic funding plans and recovery planning. > The Group completes an annual ICAAP which formally assesses the impact of severe, yet plausible, stress events to ensure that the appropriate level and type of capital underpins the strength of the balance sheet in both normal and stressed conditions. The Group also participated in the BoE SST for the first time in December 2021. > Board-approved risk appetite measures ensure funding and liquidity levels are monitored and managed in accordance with internal and regulatory requirements and in support of the Group's strategy. > Market risks (interest rate and foreign exchange risks) are managed in line with established policies and allocation of capital. > Pension risk is overseen by ALCO and is considered in detail as part of the ICAAP with ongoing reports provided to the Risk Committee.
Model risk	> 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. Examples of how the Board is kept informed on model risk include the RAS, reports from the Chief Risk Officer and model monitoring reports. > A suitably qualified Independent Model Validation function conducts model validations prior to model implementation, both when a model is changed and on a periodic basis.
Regulatory and compliance risk	> Clearly defined regulatory and compliance policy statements and standards are in place, supporting both regulatory and customer expectations. > There is ongoing reporting and development of regulatory and compliance risk appetite measures to ERC and the Board. > There is ongoing proactive and coordinated engagement with key regulators. > Formal monitoring of compliance is managed through focused oversight and regular reporting to ERC and the Risk Committee.

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3 Annex III: Disclosure of risk management objectives and policies continued

Principal risk	Mitigating actions
Conduct risk	> Delivering good outcomes for our customers and consistent with the Group's Purpose, there is an overarching conduct risk framework, with clearly defined policy statements and standards. > There is ongoing reporting and development of conduct risk appetite measures to ERC and the Board. > The Group continually assesses evolving conduct regulations, customer expectations, and product and proposition development to ensure it continues to put the customer first. > A risk-based monitoring framework is in place which monitors compliance with regulation and assesses customer outcomes
Operational and resilience risk	> 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. > Change management framework is in place to govern the execution and safe delivery of business change. > The Third Party Risk Framework has been enhanced to ensure that supplier relationships are controlled effectively. > Internal and external loss events are categorised using Basel II categories for consistent assessment, monitoring and reporting of risks and events, including themes and remediation action required to prevent reoccurrence. > A framework is in place to ensure risks from individual changes are managed effectively, in line with the Group's risk appetite, with appropriate second-line oversight.
Technology and cyber risk	> The Group has a data management framework governing the creation, storage, distribution, usage and retirement of data. > The payment risk framework outlines key scheme rules, regulations and compliance requirements to ensure that payment risk is managed within appetite. > The Board-approved security strategy focuses on the management of cyber risk, exposure and manipulation of confidential data and identity and access management. > These risks are managed through a number of controls that align to the industry-recognised National Institute of Standards and Technology Framework. > IT resilience is addressed by a programme of continuous monitoring over the currency of technology estate and disaster recovery. Furthermore, critical end-to-end business recovery and contingency plans are maintained and tested.
Financial crime and fraud risk	> Safeguarding our customers and consistent with the Group's Purpose, there is an established financial crime and fraud risk framework, with clearly defined policy statements, standards and risk appetite measures reported to the ERC and the Board. > Continued monitoring of existing, new and emerging risks and threats as a result of new laws and regulations, industry trends and economic and environmental factors. > Operation of a framework of risk-based systems and controls, to minimise the extent to which products and services can be used to commit or be subject to financial crime. > The Group has become an approved signatory to the Contingent Reimbursement Model Code and successfully implemented Confirmation of Payee, both supporting better outcomes for our customers.

Principal risk	Mitigating actions
Strategic and enterprise risk	> Strategic and enterprise risk is addressed through the Board-approved five-year Strategic and Financial Plan. > The Group routinely reviews its change portfolio to ensure that investment is directed towards regulatory compliance, resilience of processes and systems, and meeting our growth plans and Digital-First strategy. > The Group considers strategic and enterprise risk as part of ongoing risk reporting. The management of identified strategic risks is allocated to members of the Group's Executive Leadership Team by the Chief Executive Officer.
People risk	> A new framework has been introduced – A Life More Virgin – which sets out policies to enhance our colleague proposition focused on well-being and colleague retention. > Roles, responsibilities and performance expectations are defined in role profiles and expanded through objective setting and ongoing performance management. > The Group's cultural framework has a clearly defined Purpose, with Values, Behaviours and a Code of Conduct, that form the foundation of the performance management framework. > The quality and continuity of the Group's leadership is reviewed and assessed through succession planning and talent management activity.
Climate risk	> A climate risk policy framework has been established to identify and manage exposure from climate risk, with roles and responsibilities clearly defined across the Group. > Risk appetite measures are in place to monitor physical and transitional climate-related risks. > The Group undertakes scenario analysis to assess possible future climate-related risks and exposures that may impact the Group. > The Group continues to develop and embed its sustainability agenda in managing environmental and climate-related risks.

(g) Strategies and processes to manage, hedge and mitigate risks, as well as monitoring the effectiveness of hedges and mitigants (Points (a) and (d) of Article 435(1) CRR)

The Group's RMF helps the Group in managing our risks in a clear and consistent way, ensuring customers are kept safe and the bank remains compliant.

There are a number of ongoing initiatives in flight which will further embed the RMF across the business, most significantly a review of how we report risks and controls, with investment to support systems that better support the life cycle of risk reporting, including the tracking and detailed assessment of our risk exposures.

The Group is also moving towards agile ways of working as we strive to bring innovation, which will change the way we identify, monitor, mitigate and report risks, and issues. The Risk function will evolve as we adapt to this change, in order to ensure we remain well placed to support our customer needs.

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3 Annex III: Disclosure of risk management objectives and policies continued

3.2 UK OVB – Governance arrangements

(a) The number of directorships held by members of the management body (Point (a) of Article 435(2) CRR)

The number of directorships held by Executive and Non-Executive Directors, including those in Virgin Money UK PLC, are shown below.

Name	Directorships	Type of Directorship	Number of directorships pursuant to Article 91(3) and (4) of Directive (EU) 2013/361 (CRD)	Total directorships held
Clifford Abrahams	Virgin Money UK PLC[1]	Executive Director	1 – Executive Director	9
	Clydesdale Bank PLC[1]	Executive Director		
	CGF No.9 Limited[1]	Executive Director		
	Clydesdale Bank Asset Finance Limited[1]	Executive Director		
	CYB Intermediaries Limited[1]	Executive Director		
	Virgin Money Holdings (UK) Limited[1]	Executive Director		
	Virgin Money Limited[1]	Executive Director		
	Virgin Money Personal Financial Service Limited[1]	Executive Director		
	Yorkshire Bank Home Loans Limited[1]	Executive Director		
David Bennett	Virgin Money UK PLC[1]	Non-Executive Director	4 – Non-Executive Director	5
	Clydesdale Bank PLC[1]	Non-Executive Director		
	AllFunds Group plc	Non-Executive Director		
	Paypal (Europe) SARL et Cie S.C.	Non-Executive Director		
	The Department for Work and Pensions[2]	Non-Executive Board Member		
David Duffy	Virgin Money UK PLC[1]	Executive Director	1 – Executive Director	6
	Clydesdale Bank PLC[1]	Executive Director		
	Virgin Money Holdings (UK) Limited[1]	Executive Director		
	Virgin Money Limited[1]	Executive Director		
	UK Finance Limited[2]	Non-Executive Director		
	The Northern Powerhouse Partnership[2]	Board Member		
Geeta Gopalan	Virgin Money UK PLC[1]	Non-Executive Director	3 – Non-Executive Director	5
	Clydesdale Bank PLC[1]	Non-Executive Director		
	Wizink Bank S.A.	Non-Executive Director		
	Funding Circle Holdings PLC	Non-Executive Director		
	The Old Vic Theatre Trust 2000[2]	Trustee		
Elena Novokreshchenova	Virgin Money UK PLC[1]	Non-Executive Director	1 – Non-Executive Director	3
	Clydesdale Bank PLC[1]	Non-Executive Director		
	Twenty One Kingsgate Road Management Limited[2]	Non-Executive Director		
Darren Pope	Virgin Money UK PLC[1]	Non-Executive Director	4 – Non-Executive Director	5
	Clydesdale Bank PLC[1]	Non-Executive Director		
	Network International Holdings plc	Non-Executive Director		
	Silicon Valley Bank UK Limited	Non-Executive Director		
	Hargreaves Lansdown plc	Non-Executive Director		
Tim Wade	Virgin Money UK PLC[1]	Non-Executive Director	3 – Non-Executive Director	4
	Clydesdale Bank PLC[1]	Non-Executive Director		
	Chubb Underwriting Agencies Limited	Non-Executive Director		
	RBC Europe Limited	Non-Executive Director		

(1) Companies within the Virgin Money UK PLC Group.

(2) Entity does not pursue a commercial objective.

Annexes

3 Annex III: Disclosure of risk management objectives and policies continued

(b) The recruitment policy for members of the management body and their actual knowledge, skills and expertise (Point (b) of Article 435(2) CRR)
The Governance and Nomination Committee is responsible for considering the recruitment of new Directors and it adopts a formal, rigorous and transparent procedure with due regard to diversity, including gender and ethnicity. Before commencing the recruitment process, the Committee evaluates the balance of skills, knowledge, experience, independence and diversity on the Board and, in light of this evaluation, prepares a description of the role and capabilities required. In identifying suitable candidates, the Committee:

- uses open advertising and the services of external advisers to facilitate the search for the Board Chair or Non-Executive Director roles;
- considers candidates from different genders, ethnicities and a wide range of backgrounds;
- considers candidates on merit and against objective criteria ensuring that appointees have sufficient time to devote to the position, in light of other potential significant positions; and
- engages from time to time with the Group's major shareholders in future skills requirements and ideas for potential candidates.

The Governance and Nomination Committee reviewed the structure, size and composition of the Board and Board Committees including skills, experience, independence, knowledge and diversity and considered the longer-term succession of Board and Board Committee members relative to tenure, mix and diversity of skills and the Group's strategy, future, challenges and opportunities and reported the outcome and recommendations to the Board. The skills, experience and contribution of each Director is described within the Governance report on pages 74 to 78 in the Group's 2022 Annual Report & Accounts.

(c) The diversity policy for members of the management body (Point (c) of Article 435(2) CRR)
The Board Diversity and Inclusion Policy (Policy), which has been adopted by the Board and is available on our website at www.virginmoneyukplc.com/our-people/diversity-and-inclusion/#targets, sets out the Board's approach to diversity and inclusion in the composition of the Board and covers at a high level the approach to diversity and inclusion across the broader workforce. The Policy's objectives ensure an inclusive process is followed when recruiting Board members which includes ensuring that the selection process is based on the principles of fairness and respect, that all appointments are made on the basis of individual competence and merit measured against objective selection criteria and that when recruiting Board members due regard is given to the benefits of diversity and inclusion. This includes considering differences in knowledge, skills and experience and also in age, gender, ethnicity, disability, educational, professional and socio-economic background and other distinctions between Directors such as cognitive and personal strengths to ensure the Board benefits from a range of perspectives which supports good decision making and avoids the risk of 'group think'.

In light of new Listing Rules introduced during the year, the Board has approved revised diversity and inclusion targets for its membership, comprising at least 40% women Directors by the end of 2023; at least one of the senior Board positions of Chair, Senior Independent Director, Chief Executive Officer or Chief Financial Officer to be held by a woman; and to have at least one member of the Board who is from a minority ethnic background. As at 30 September 2022, measured against the current Policy, the Board comprises one Director from an ethnic minority background and female membership of the Board was 28.6%, based on two female Directors and five male Directors. Following Amy Stirling leaving the Board during the year, the Group falls short of the target to have 33% women's representation. Upon Sara Weller joining the Board on 3 October 2022, female representation improved to 37.5% as at the date of this report, achieving the 2022 target.

The diversity of the Board will remain a focus through the delivery of the succession plan. In addition, the independence and tenure of the Directors on our Board, as illustrated in the charts on pages 71 to 72 of the Group's 2022 Annual Report & Accounts, achieves an appropriate balance in the context of Code requirements.

The Group supports the Women in Finance Charter and has a target of 45–55% women in senior management roles by 2025. We currently have 46% of female colleagues holding senior management positions in the top two layers of the Company as at 30 September 2022. A Culture Dashboard is monitored by the Board which enables the Board to track progress on both gender diversity and broader inclusion metrics and commitments.

(d) Detail on the Group's risk committee and frequency of meetings (Point (d) of Article 435(2) CRR)
The Board discharges some of its responsibilities through, and is supported by, its Committees which provide oversight and make recommendations on the matters delegated to them by the Board. The Risk Committee assists the Board in setting the Group's risk appetite and ensuring that the Group maintains an effective RMF. The Committee also supports the Board by assessing key current and emerging risks and their mitigation, and by leading the development and embedding of a culture that supports risk awareness and the fair treatment of customers. During the period to 30 September 2022, the Committee held seven scheduled meetings, along with two additional meetings, to consider and recommend the overall ICAAP assessment; Pillar 1; Pillar 2A; and Pillar 2B stress testing assessments; and the associated ICAAP document to the Board for approval. In addition, two scheduled joint Audit and Risk Committee meetings were held to consider assurance plans from the three lines of defence and review Annual Report & Accounts disclosures.

(e) The information flow on risk to the management body (Point (e) Article 435(2) CRR)
The Chief Risk Officer presents a report at each Risk Committee meeting that provides a view of the principal and emerging risks faced by the Group and is invited to provide their perspectives on the risk profile of the Group. Subject matter experts are invited to Committee meetings to present on a variety of topics including deep dive analysis on specific risk matters, for the Risk Committee this typically relates to the Group's principal risks. Updates are provided to the Board following each Committee meeting summarising challenges and key decisions. These updates are supported by the monthly Chief Risk Officer's Report to the Board which provides further insight into key issues and performance trends in respect of the Group's risk profile. The Committee framework diagram on page 17 sets out the pathway for the reporting of risk information from management up to the Board.

4 Annex V: Disclosure of the scope of application

4.1 UK LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

		A	B	C	D	E	F	G
				Carrying values of items				
	As at 30 September 2022	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
	Breakdown by asset class according to the balance sheet in the published financial statements							
	Financial assets at amortised cost							
1	Loans and advances to customers	**71,751**	**71,755**	**71,755**	**–**	**–**	**–**	**–**
2	Cash and balances with central banks	**12,221**	**12,233**	**12,233**	**–**	**–**	**–**	**–**
3	Due from other banks	**656**	**656**	**415**	**241**	**–**	**–**	**–**
	Financial assets at fair value through profit or loss							
4	Loans and advances to customers	**70**	**70**	**70**	**–**	**–**	**–**	**–**
5	Derivative financial instruments	**342**	**342**	**–**	**342**	**–**	**–**	**–**
6	Other financial assets	**8**	**8**	**8**	**–**	**–**	**–**	**–**
7	Financial assets at fair value through other comprehensive income	**5,064**	**5,064**	**5,064**	**–**	**–**	**–**	**–**
8	Property, plant and equipment	**211**	**211**	**211**	**–**	**–**	**–**	**–**
9	Intangible assets and goodwill	**267**	**267**	**–**	**–**	**–**	**–**	**267**
10	Current tax assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**
11	Deferred tax assets	**146**	**146**	**106**	**–**	**–**	**–**	**40**
12	Defined benefit pension assets	**1,000**	**1,000**	**–**	**–**	**–**	**–**	**1,000**
13	Other assets	**171**	**161**	**161**	**–**	**–**	**–**	**–**
14	**Total assets**	**91,907**	**91,913**	**90,023**	**583**	**–**	**–**	**1,307**
	Breakdown by liability classes according to the balance sheet in the published financial statements							
	Financial liabilities at amortised cost							
1	Customer deposits	**65,434**	**65,425**	**–**	**–**	**–**	**–**	**65,425**
2	Debt securities in issue	**8,509**	**8,509**	**–**	**–**	**–**	**–**	**8,509**
3	Due to other banks	**8,502**	**8,505**	**–**	**–**	**–**	**–**	**8,505**
	Financial liabilities at fair value through profit or loss							
4	Derivative financial instruments	**327**	**327**	**–**	**327**	**–**	**–**	**–**
5	Current tax liabilities	**1**	**1**	**–**	**–**	**–**	**–**	**1**
6	Deferred tax liabilities	**350**	**350**	**–**	**–**	**–**	**–**	**350**
7	Provisions for liabilities and charges	**50**	**50**	**–**	**–**	**–**	**–**	**50**
8	Other liabilities	**2,394**	**2,538**	**(1)**	**–**	**–**	**–**	**2,539**
9	**Total liabilities**	**85,567**	**85,705**	**(1)**	**327**	**–**	**–**	**85,379**

Annexes

4 Annex V: Disclosure of the scope of application continued

4.2 UK LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		A	B	C	D	E
			Items subject to			
As at 30 September 2022		Total	Credit risk framework	Securitisation framework	CCR framework	Market risk framework
1	Assets carrying value amount under the scope of regulatory consolidation	**90,606**	**90,023**	**–**	**583**	**–**
2	Liabilities carrying value amount under the regulatory scope of consolidation	**326**	**(1)**	**–**	**327**	**–**
3	Total net amount under the regulatory scope of consolidation	**90,279**	**90,023**	**–**	**256**	**–**
4	Off-balance sheet amounts	**30,724**	**19,316**	**–**	**11,408**	
5	*Differences in valuations*	**–**	**–**	**–**	**–**	
6	*Differences due to different netting rules, other than those already included in row 2*	**2,250**	**237**	**–**	**2,013**	
7	*Differences due to consideration of provisions*	**165**	**165**	**–**	**–**	
8	*Differences due to the use of credit risk mitigation techniques (CRMs)*	**(9,957)**	**174**	**–**	**(10,131)**	
9	*Differences due to credit conversion factors*	**(12,637)**	**(12,637)**	**–**	**–**	
10	*Differences due to Securitisation with risk transfer*	**–**	**–**	**–**	**–**	
11	*Other differences*	**5,033**	**1,083**	**–**	**3,950**	
12	Exposure amounts considered for regulatory purposes	**105,857**	**98,361**	**–**	**7,496**	**–**

4.3 UK LI3 – Outline the differences in the scope of consolidation by entity

A	B	C	D	H
		Method of regulatory consolidation		
Name of the entity	Method of accounting consolidation	Full consolidation	Proportional consolidation	Description of the entity
Virgin Money UK PLC	Full consolidation	X		*Banking*
Clydesdale Bank PLC	Full consolidation	X		*Banking*
Yorkshire Bank Limited	Full consolidation	X		*Dormant*
Virgin Money Retirement Savings Plan Trustee Limited	Full consolidation	X		*Dormant*
Yorkshire and Clydesdale Bank Pension Trustee Limited	Full consolidation	X		*Dormant*
CGF No. 9 Limited	Full consolidation	X		*Leasing*
Clydesdale Bank Asset Finance Limited	Full consolidation	X		*Leasing*
CYB Intermediaries Limited	Full consolidation	X		*Insurance intermediary*
CYB Investments Limited	Full consolidation	X		*Lending company*
Eagle Place Covered Bonds LLP	Full consolidation	X		*Acquisition of mortgage loans*
Salary Finance Loans Limited	Equity accounted	X		*Credit granting*
St Vincent (Equities) Limited	Full consolidation	X		*Investment company*
Virgin Money Holdings (UK) Limited	Full consolidation	X		*Intermediate holding company*
Virgin Money Limited	Full consolidation	X		*Non-trading company*
Virgin Money Management Services Limited	Full consolidation	X		*Service company*
Virgin Money Nominees Limited	Equity accounted		X	*Dormant*
Virgin Money Personal Financial Service Limited	Full consolidation	X		*Insurance intermediary*
Virgin Money Trustee Limited	Equity accounted		X	*Dormant*
Virgin Money Unit Trust Managers Limited	Equity accounted		X	*Activities of unit trusts*
YCBPS Property Nominee Company Limited	Full consolidation	X		*Dormant*
Yorkshire Bank Home Loans Limited	Full consolidation	X		*Mortgage finance*

4.4 UK LIA – Explanations of differences between accounting and regulatory exposure amounts

(a) Differences between columns (a) and (b) in template UK LI1 (Article 436(b) CRR)

Differences between columns (a) and (b) in template UK LI1 relate to the proportional consolidation of Virgin Money Unit Trust Managers Limited, and the full consolidation of Salary Finance Loans Limited.

(b) The main sources of differences between the accounting and regulatory scope of consolidation shown in template UK LI2 (Article 436(d) CRR)

The amounts considered for regulatory purposes shown in template UK LI2 differ to the carrying values under the regulatory scope of consolidation for the following key reasons:

- Off-balance sheet amounts are included in line with CRR article 111, as shown in row 4 of UK LI2, reduced by applicable credit conversion factors as shown in row 9;
- Certain corporates are measured gross of collateral that is netted on the balance sheet shown in row 6;
- IRB exposures are calculated before deduction of provisions so these provisions have been added back in row 7;
- The impact of CRM effects in row 8 is shown in more detail in table UK CR4; and
- Other differences shown in row 11 primarily relate to regulatory add-ons to carrying values in line with the UK CRR. These add-ons include applicable additions within PRA approved IRB models, IFRS 9 transitional relief and potential future credit exposure add-ons for derivative financial instruments.

4.5 UK LIB – Other qualitative information on the scope of application

(a) Impediment to the prompt transfer of own funds or to the repayment of liabilities within the Group (Article 436(f) CRR)

There are no current or foreseen material practical or legal impediments to the transfer of capital resources or the repayment of liabilities between consolidated entities within the Group, with the exception of assets and liabilities of the Group's securitisation vehicles (including the covered bond vehicles), Salary Finance and Red Grey Square Funding LLP (see notes 5.3 and 6.2 to the financial statements in the Group's 2022 Annual Report & Accounts for further details) which are not immediately available to other members of the Group.

(b) Subsidiaries not included in the consolidation with own funds less than required (Article 436(g) CRR)

No subsidiaries are excluded from the consolidation. See structure chart overleaf.

(c) Use of derogation referred to in Article 7 CRR or individual consolidation method laid down in Article 9 CRR (Article 436(h) CRR)

Overall, there are no material differences between the bases of consolidation of the Group for accounting and prudential purposes. All the Group's subsidiary undertakings are included in the data provided in the Pillar 3 disclosures. During 2018, the Group established two joint ventures: Salary Finance Loans Limited (SF Ltd) and Virgin Money Unit Trust Manager Limited (VMUTM Ltd). For regulatory purposes, the Group fully consolidates SF Ltd and for VMUTM Ltd applies a proportional consolidation approach with both joint ventures being accounted for in the consolidated financial statements using the equity method.

(d) Aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation (Article 436(g) CRR)

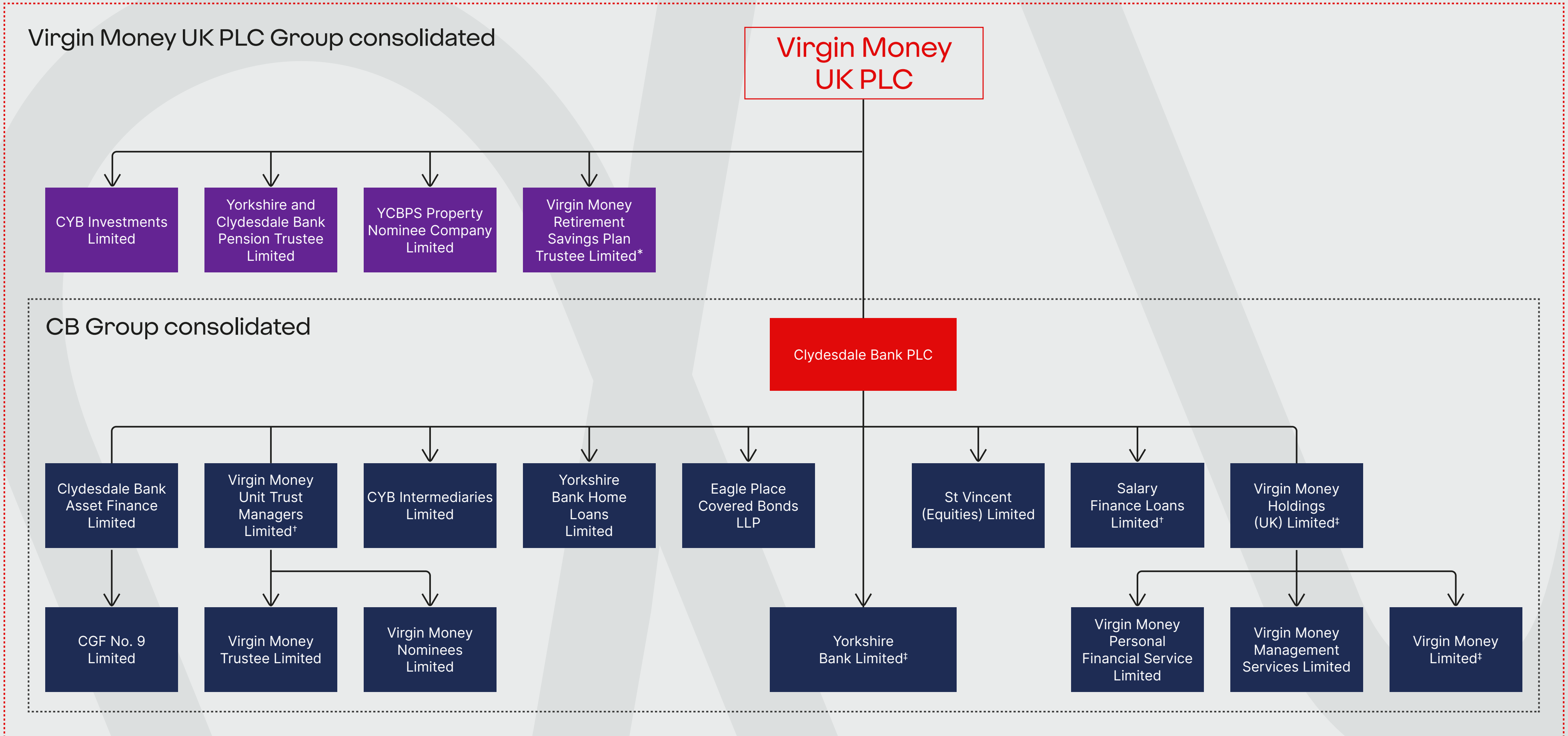
Not applicable.

4.6 UK PV1 – Prudent valuation adjustments (PVA)

Disclosure not applicable as the Group applies the simplified approach to calculate prudent valuation adjustments.

Annexes

4 Annex V: Disclosure of the scope of application continued



* Renamed from YCB DC Trustee Limited on 16 November 2020.
† Entities are 50% owned. ‡ Previously PLC, now Limited.

5 Annex VII: Disclosure of own funds

5.1 UK CC1 – Composition of regulatory own funds

The table below shows the composition of the Group's regulatory capital position as at 30 September 2022 and 30 September 2021. The table follows the disclosure format required by the Own Funds (CRR) part of the PRA Rulebook, with only items applicable to the Group being shown. The capital resources of CB Consol is presented in Appendix 1.

		30 Sept 2022 £m	30 Sept 2021 £m	Ref[1]:
	CET1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	**148**	149	**f**
	of which: ordinary shares	**141**	144	**g**
	of which: share premium	**7**	5	**h**
2	Retained earnings	**4,330**	3,943	**j + k + n + r + s**
3	Accumulated other comprehensive income (and other reserves)	**766**	71	**l**
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**298**	362	**o + p + q**
6	**CET1 capital before regulatory adjustments**	**5,542**	4,525	
	CET1 capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	**(5)**	(5)	
8	Intangible assets (net of related tax liability) (negative amount)	**(267)**	(219)	**a**
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	**(302)**	(258)	**b**
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	**(699)**	(10)	**m**
12	Negative amounts resulting from the calculation of expected loss amounts	**(100)**	–	
15	Defined-benefit pension fund assets (negative amount)	**(650)**	(551)	**c – e**
UK-27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	**114**	134	
28	**Total regulatory adjustments to CET1**	**1,909**	(909)	
29	**CET1 capital**	**3,633**	3,616	
	Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	**666**	697	
31	*of which: classified as equity under applicable accounting standards*	**666**	697	**i**
44	**AT1 capital**	**666**	697	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,299**	4,313	

Annexes

5 Annex VII: Disclosure of own funds continued

		30 Sept 2022 £m	30 Sept 2021 £m	Ref[1]:
	Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	**1,020**	1,019	**d**
58	**Tier 2 (T2) capital**	**1,020**	1,019	
59	**Total capital (TC = T1 + T2)**	**5,319**	5,332	
60	**Total Risk exposure amount**	**24,148**	24,232	
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**15.0%**	14.9%	
62	Tier 1 (as a percentage of total risk exposure amount)	**17.8%**	17.8%	
63	Total capital (as a percentage of total risk exposure amount)	**22.0%**	22.0%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92(1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) Capital Requirements Directive (CRD), plus combined buffer requirement in accordance with Article 128(6) CRD expressed as % risk exposure amount)	**7.0%**	7.0%	
65	*of which: capital conservation buffer requirement*	**2.5%**	2.5%	
66	*of which: countercyclical buffer requirement*	**0.0%**	0.0%	
67	*of which: systemic risk buffer requirement*	**0.0%**	0.0%	
UK-67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	**0.0%**	0.0%	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[2]**	**8.8%**	8.2%	
	Applicable caps on the inclusion of provisions in Tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**79**	73	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**90**	94	

(1) Shows cross reference to the balance sheet under regulatory scope of consolidation in Table UK CC2.

(2) Represents the CET1 ratio after deducting Pillar 1 and 2A requirements.

Significant movements in capital and related deductions are described in section 2.1.

Tier 1 capital

Tier 1 capital comprises:

- ordinary shares;
- share premium;
- retained earnings;
- accumulated other comprehensive income (and other reserves);
- AT1 instruments; and
- adjustments as set out by the regulatory requirements governing capital resources.

Accumulated other comprehensive income (and other reserves) represents adjustments for asset revaluation, cash flow hedge and fair value through other comprehensive income reserve.

Additional details of the perpetual capital notes are included in UK CCA, references 5.3 and 21.2.3, as well as note 4.1.2 to the Group's 2022 Annual Report & Accounts.

Tier 2 capital

Tier 2 capital comprises:

- subordinated loan debt; and
- adjustments as set out by the regulatory requirements governing capital resources.

Subordinated loan debt is unsecured and ranks below the claims of all depositors and other ordinary creditors. Additional details of the subordinated notes are included in UK CCA, references 5.3 and 21.2.3, as well as note 3.11 to the Group's 2022 Annual Report & Accounts.

Full terms and conditions for the Group's marketed debt securities are available on the Group's website at www.virginmoneyukplc.com/investor-relations.

Annexes

5 Annex VII: Disclosure of own funds continued

5.2 UK CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements

	As at 30 September 2022	A Balance sheet as in published financial statements £m	B Under regulatory scope of consolidation[1] £m	C Ref:
	Assets			
1	*Financial assets at amortised cost*			
2	Loans and advances to customers	71,751	71,755	
3	Cash and balances with central banks	12,221	12,233	
4	Due from other banks	656	656	
5	*Financial assets at FVTPL*			
6	Loans and advances to customers	70	70	
7	Derivative financial instruments	342	342	
8	Other financial assets	8	8	
9	Financial assets at FVOCI	5,064	5,064	
10	Property plant and equipment	211	211	
11	Intangible assets and goodwill	267	267	a
13	Deferred tax assets	146	146	
14	*of which: tax losses carried forward*	*302*	*302*	b
15	Defined benefit pensions scheme assets	1,000	1,000	c
16	Other assets	171	161	
17	**Total assets**	**91,907**	**91,913**	
	Liabilities			
18	*Financial liabilities at amortised cost*			
19	Customer deposits	65,434	65,425	
20	Debt securities in issue	8,509	8,509	
21	*of which: Tier 2 instruments*	*1,020*	*1,020*	d
22	Due to other banks	8,502	8,505	
23	*Financial liabilities at FVTPL*			
24	Derivative financial instruments	327	327	
25	Current tax liabilities	1	1	
26	Deferred tax liabilities	350	350	
27	*of which: defined pension benefit scheme surplus*	*350*	*350*	e
28	Provisions for liabilities and charges	50	50	
29	Other liabilities	2,394	2,538	
30	**Total liabilities**	**85,567**	**85,705**	

	As at 30 September 2022	A Balance sheet as in published financial statements £m	B Under regulatory scope of consolidation[1] £m	C Ref:
	Shareholders' Equity			
31	Share capital and share premium	148	148	f
32	*of which: ordinary share capital*	*141*	*141*	g
33	*of which: share premium*	*7*	*7*	h
34	Other equity instruments	666	666	i
35	Capital reorganisation reserve	(839)	(839)	j
36	Merger reserve	2,128	2,128	k
37	Other reserves	766	766	l
38	*of which: cash flow hedge reserve*	*699*	*699*	m
39	Retained earnings	3,471	3,339	
40	*of which: prior period retained earnings*	*3,049*	*3,049*	n
41	*of which: profits accrued in the year to date*	*537*	*537*	o
42	*of which: dividends paid/accrued in the period*	*(50)*	*(156)*	p
43	*of which: AT1 coupons paid/accrued in the period*	*(70)*	*(83)*	q
44	*of which: share buyback*	*(63)*	*(76)*	r
45	*of which: other movements in retained earnings*	*68*	*68*	s
46	**Total shareholders' equity**	**6,340**	**6,208**	

(1) Balance sheet after accruing for foreseeable AT1 coupons and ordinary dividends.

Annexes

5 Annex VII: Disclosure of own funds continued

5.3 UK CCA – Main features of regulatory own funds and eligible liabilities instruments

Main features of regulatory capital and eligible liabilities instruments for Virgin Money UK PLC.

1	Issuer	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GB00BD6GN030	XS1346644799	XS1959441640	XS2486863595	XS1921970668	XS2227898421	XS2343851510
2a	Public or private placement	Public	Public	Public	Public	Private	Public	Public
3	Governing law(s) of the instrument	English	English	English	English	English	English	English
3a	Contractual recognition of write-down and conversion powers of resolution authorities	n/a	No	No	Yes	No	Yes	Yes
	Regulatory treatment							
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo and (sub-)consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Additional Tier 1 Instruments	Additional Tier 1 Instruments	Additional Tier 1 Instruments	Tier 2 Instruments	Tier 2 Instruments	Tier 2 Instruments
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	GBP 140,853,099	GBP 72,551,208	GBP 247,138,469	GBP 346,480,954	GBP 248,971,380	GBP 472,953,939	GBP 298,290,855
9	Nominal amount of instrument	GBP 140,853,099	GBP 72,623,000	GBP 250,000,000	GBP 350,000,000	GBP 250,000,000	GBP 475,000,000	GBP 300,000,000
UK-9a	Issue price	100%	99.924%	100%	100%	99.493%	99.840%	99.807%
UK-9b	Redemption price	100%	100%	100%	100%	100%	100%	100%
10	Accounting classification	Shareholder's Equity	Shareholder's Equity	Shareholder's Equity	Shareholder's Equity	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	Various	8 February 2016	13 March 2019	17 June 2022	14 December 2018	11 September 2020	19 May 2021
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated
13	Original maturity date	n/a	n/a	n/a	n/a	14 December 2028	11 December 2030	19 August 2031
14	Issuer call subject to prior supervisory approval	n/a	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	Optional Call Date = 8 December 2022 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 8 June 2024 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = Any date from (and including) 17 June 2027 to (and including) 8 December 2027 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 14 December 2023 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = Any date from (and including) 11 September 2025 to (and including) 11 December 2025 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = Any date from (and including) 19 May 2026 to (and including) 19 August 2026 Reg Call = Yes Tax Call = Yes Redemption Price = 100%

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5 Annex VII: Disclosure of own funds continued

16	Subsequent call dates, if applicable	n/a	Any interest payment date thereafter	Each fifth anniversary thereafter	Any date from (and including) the date falling 6 months prior to 8 December on each fifth anniversary thereafter	n/a	n/a	n/a
	Coupons/dividends							
17	Fixed or floating dividend/coupon	n/a	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	n/a	8.00% per annum until 8 December 2022. Resets to a fixed rate equal to the 5-year SONIA Mid-Swap Rate + 652.7bps, if not called	9.25% per annum until 8 June 2024. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 830.7bps, if not called	8.25% per annum until 8 December 2027. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 635.7bps, if not called	7.875% per annum until 14 December 2023. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 712.8bps, if not called	5.125% per annum until 11 December 2025. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 525bps, if not called	2.625% per annum until 19 August 2026. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 225bps, if not called
19	Existence of a dividend stopper	n/a	No	No	No	No	No	No
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	n/a	No	No	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	n/a	n/a	n/a
23	Convertible or non-convertible	Non-convertible	Convertible	Convertible	Convertible	Convertible (Statutory/ bail-in only)	Convertible (Statutory/ bail-in only)	Convertible (Statutory/ bail-in only)
24	If convertible, conversion trigger(s)	n/a	Contractual, if Virgin Money UK PLC Group's fully loaded CET1 ratio falls below 7% Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability/ when resolution conditions met	Contractual, if Virgin Money UK PLC Group's fully loaded CET1 ratio falls below 7% Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability/ when resolution conditions met	Contractual, if Virgin Money UK PLC Group's fully loaded CET1 ratio falls below 7% Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability/ when resolution conditions met	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability/ when resolution conditions met	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability/ when resolution conditions met	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability/ when resolution conditions met
25	If convertible, fully or partially	n/a	Always Fully	Always Fully	Always Fully	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	119p	119p	119p	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	Mandatory	Mandatory	Mandatory	n/a	n/a	n/a

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5 Annex VII: Disclosure of own funds continued

28	If convertible, specify instrument type convertible into	n/a	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC	n/a	n/a	n/a
30	Write-down features	No	Yes (Statutory/ bail-in only)	Yes (Statutory/ bail-in only)	Yes (Statutory/ bail-in only)	Yes (Statutory/ bail-in only)	Yes (Statutory/ bail-in only)	Yes (Statutory/ bail-in only)
31	If write-down, write-down trigger(s)	n/a	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met
32	If write-down, full or partial	n/a	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a	n/a
34a	Type of subordination (only for eligible liabilities)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK-34b	Ranking of the instrument in normal insolvency proceedings	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1	Tier 2	Tier 2	Tier 2	Senior Unsecured	Senior Unsecured	Senior Unsecured
36	Non-compliant transitioned features	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a	n/a
37a	Link to the full term and conditions of the instrument (signposting)	n/a	Link	Link	Link	Link	Link	Link

Annexes

5 Annex VII: Disclosure of own funds continued

Main features of eligible liabilities only instruments for Virgin Money UK PLC.

1	Issuer	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	XS1637124741	XS1813150247	XS1775239095	XS2049149821	XS2126084750	XS2346591113
2a	Public or private placement	Public	Public	Public	Public	Public	Public
3	Governing law(s) of the instrument	English	English	English	English	English	English
3a	Contractual recognition of write-down and conversion powers of resolution authorities	No	No	No	No	Yes	Yes
	Regulatory treatment						
4	Current treatment taking into account, where applicable, transitional CRR rules	n/a	n/a	n/a	n/a	n/a	n/a
5	Post-transitional CRR rules	n/a	n/a	n/a	n/a	n/a	n/a
6	Eligible at solo/(sub-)consolidated/solo and (sub-)consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Senior Unsecured	Senior Unsecured	Senior Unsecured	Senior Unsecured	Senior Unsecured	Senior Unsecured
8	Amount recognised in regulatory capital or eligible liabilities (currency in million, as of most recent reporting date)	GBP 299,219,403	GBP 349,909,204	GBP 498,180,277	GBP 397,882,427	GBP 438,601,038	GBP 439,077,684
9	Nominal amount of instrument	GBP 300,000,000	GBP 350,000,000	GBP 500,000,000	GBP 400,000,000	EUR 500,000,000 GBP 439,705,011	EUR 500,000,000 GBP 439,705,011
UK-9a	Issue price	99.570%	99.614%	99.595%	99.589%	99.914%	99.970%
UK-9b	Redemption price	100%	100%	100%	100%	100%	100%
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	22 June 2017	24 April 2018	25 September 2018	3 September 2019	24 June 2020	27 May 2021
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	22 June 2025	24 April 2026	25 September 2026	3 September 2027	24 June 2025	27 May 2024
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Optional Call Date = 22 June 2024 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 24 April 2025 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 25 September 2025 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 03 September 2026 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 24 June 2024 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 27 May 2023 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Redemption Price = 100%
16	Subsequent call dates, if applicable	Any interest payment date thereafter	n/a	Any interest payment date thereafter	Any interest payment date thereafter	Any interest payment date thereafter	n/a

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5 Annex VII: Disclosure of own funds continued

	Coupons/dividends						
17	Fixed or floating dividend/coupon	Fixed to floating	Fixed	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	3.125% per annum until 22 June 2024. Resets to a floating rate equal to the Compounded Daily SONIA + 256.86bps, if not called	3.375% per annum until 24 April 2025. Resets to a fixed rate equal to the 1-year SONIA Mid-Swap Rate + 214.46bps, if not called	4.00% per annum until 25 September 2025. Resets to a fixed rate equal to the 1-year Benchmark Gilt Rate + 280bps, if not called	4.00% per annum until 3 September 2026. Resets to a fixed rate equal to the 1-year Benchmark Gilt Rate + 375bps, if not called	2.875% per annum until 24 June 2024. Resets to a fixed rate equal to the 1-year Euro Mid-Swap Rate + 325bps, if not called	0.375% per annum until 27 May 2023. Resets to a fixed rate equal to the 1-year Euro Mid-Swap Rate + 85bps, if not called
19	Existence of a dividend stopper	No	No	No	No	No	No
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No
22	Non-cumulative or cumulative	n/a	n/a	n/a	n/a	n/a	n/a
23	Convertible or non-convertible	Convertible (Statutory/ bail-in only)	Convertible (Statutory/ bail-in only)	Convertible (Statutory/ bail-in only)	Convertible (Statutory/ bail-in only)	Convertible (Statutory/ bail-in only)	Convertible (Statutory/ bail-in only)
24	If convertible, conversion trigger(s)	Statutory bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down features	Yes (Statutory/ bail-in only)	Yes (Statutory/ bail-in only)	Yes (Statutory/ bail-in only)	Yes (Statutory/ bail-in only)	Yes (Statutory/ bail-in only)	Yes (Statutory/ bail-in only)
31	If write-down, write-down trigger(s)	Statutory bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory bail-in by the UK Resolution Authority at point o f non-viability/ when resolution conditions met	Statutory bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met

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5 Annex VII: Disclosure of own funds continued

32	If write-down, full or partial	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a
34a	Type of subordination (only for eligible liabilities)	Structural	Structural	Structural	Structural	Structural	Structural
UK-34b	Ranking of the instrument in normal insolvency proceedings	Senior Non-Preferred	Senior Non-Preferred	Senior Non-Preferred	Senior Non-Preferred	Senior Non-Preferred	Senior Non-Preferred
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	n/a	n/a	n/a	n/a	n/a	n/a
36	Non-compliant transitioned features	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a
37a	Link to the full term and conditions of the instrument (signposting)	Link	Link	Link	Link	Link	Link

6 Annex IX: Disclosure of countercyclical capital buffers

6.1 UK CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

	A	B	C	D	E	F	G	H	I	J	K	L	M
	General credit exposures		Relevant credit exposures – Market risk				Own fund requirements						
As at 31 Sept 2022	Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Securitisation exposures – Exposure value for non-trading book	Total exposure value	Relevant credit risk exposures – Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total	Risk-weighted exposure amounts	Own fund requirements weights	Counter-cyclical buffer rate
Breakdown by country:	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%
UK	**9,174**	**72,612**	**–**	**–**	**–**	**81,786**	**1,681**	**–**	**–**	**1,681**	**21,013**	**100%**	**0%**
Total	**9,174**	**72,612**	**–**	**–**	**–**	**81,786**	**1,681**	**–**	**–**	**1,681**	**21,013**	**100%**	**0%**
As at 30 Sept 2021													
UK	8,498	71,002	–	–	–	79,500	1,713	–	–	1,713	21,411	100%	0.0
Total	8,498	71,002	–	–	–	79,500	1,713	–	–	1,713	21,411	100%	0.0

6.2 UK CCyB2 – Amount of institution-specific countercyclical capital buffer

		30 Sept 2022	30 Sept 2021
1	Total risk exposure amount (£m)	**24,148**	24,232
2	Institution specific countercyclical capital buffer rate (%)	**0%**	0%
3	Institution specific countercyclical capital buffer requirement (%)	**–**	–

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7 Annex XI: Disclosure of the Leverage Ratio

7.1 UK LR1 – LRSum – Summary reconciliation of accounting assets and leverage ratio exposures

The table below shows a reconciliation between the total assets under IFRS standards and the leverage ratio exposure measure of Virgin Money UK PLC. The leverage metrics are calculated in line with the Leverage ratio (CRR) part of the PRA Rulebook.

		A	B
		30 Sept 2022 £m	30 Sept 2021 £m
1	Total assets as per published financial statements	**91,907**	89,100
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	**–**	(1)
4	(Adjustment for exemption of exposures to central banks)	**(11,955)**	(9,094)
8	Adjustment for derivative financial instruments	**522**	91
9	Adjustment for securities financing transactions (SFTs)	**2,974**	2,235
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**3,204**	2,884
UK-11a	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital (leverage))	**(5)**	(5)
12	Other adjustments[1]	**(2,876)**	(1,795)
13	**Total exposure measure**	**83,771**	83,415

(1) Following the implementation of PS22/21 effective from 1 January 2022, the 30 September 2021 comparative figure of (£909m) has been restated to reflect the exclusion of the BBLS from the exposure value. The comparative prudent valuation adjustment of (£5m) was previously reported within other adjustments and has been restated to present on a consistent basis.

7.2 UK LR2 – LRCom – Leverage ratio common disclosure

		Leverage ratio exposures	
		A	B
		30 Sept 2022 £m	30 Sept 2021 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)[1]	**90,834**	88,068
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(241)**	(76)
6	(Asset amounts deducted in determining Tier 1 capital (leverage))	**(1,909)**	(909)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**88,684**	87,083
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**462**	94
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**402**	213
13	**Total derivatives exposures**	**864**	307
	SFT exposures		
16	Counterparty credit risk exposure for SFT assets	**2,974**	2,235
18	**Total securities financing transaction exposures**	**2,974**	2,235
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	**19,319**	16,829
20	(Adjustments for conversion to credit equivalent amounts)	**(16,115)**	(13,945)
22	**Off-balance sheet exposures**	**3,204**	2,884
	Capital and total exposure measure		
23	**Tier 1 capital (leverage)**	**4,299**	4,313
24	Total exposure measure including claims on central banks	**95,726**	92,509
UK-24a	(-) Claims on central banks excluded	**(11,955)**	(9,094)
UK-24b	**Total exposure measure excluding claims on central banks**	**83,771**	83,415
	Leverage ratio		
25	Leverage ratio excluding claims on central banks (%)	**5.1%**	5.2%
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**5.0%**	5.0%
UK-25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	**5.0%**	5.0%
UK-25c	Leverage ratio including claims on central banks (%)	**4.5%**	4.7%
26	Regulatory minimum leverage ratio requirement (%)	**3.25%**	3.25%
	Additional leverage ratio disclosure requirements – leverage ratio buffers		
27	Leverage ratio buffer (%)	**0%**	0%
UK-27a	*of which: G-SII or O-SII additional leverage ratio buffer (%)*	**0%**	0%
UK-27b	*of which: countercyclical leverage ratio buffer (%)*	**0%**	0%
	Additional leverage ratio disclosure requirements – disclosure of mean values		
UK-31	Average total exposure measure including claims on central banks	**94,468**	92,538
UK-32	Average total exposure measure excluding claims on central banks	**83,985**	83,444
UK-33	Average leverage ratio including claims on central banks	**4.4%**	4.5%
UK-34	Average leverage ratio excluding claims on central banks	**5.0%**	5.0%

(1) Following the implementation of PS22/21 effective from 1 January 2022, the 30 September 2021 comparative figure of £88,959m has been restated to reflect the exclusion of BBLS from the exposure value.

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7 Annex XI: Disclosure of the Leverage Ratio continued

7.3 UK LR3 – LRSpl – Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		Leverage ratio exposures	
		A	B
		30 Sept 2022 £m	30 Sept 2021 £m
UK-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**78,638**	78,898
UK-2	Trading book exposures	**–**	–
UK-3	Banking book exposures, of which:	**78,638**	78,898
UK-4	*Covered bonds*	**1,471**	1,356
UK-5	*Exposures treated as sovereigns*	**3,221**	3,820
UK-6	*Exposures to regional governments, Multilateral Development Bank, international organisations and public sector entities not treated as sovereigns*	**181**	151
UK-7	*Institutions*	**511**	733
UK-8	*Secured by mortgages of immovable properties*	**60,588**	60,564
UK-9	*Retail exposures*	**6,273**	5,632
UK-10	*Corporates*(1)	**4,680**	4,488
UK-11	*Exposures in default*	**728**	778
UK-12	*Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)*(2)	**985**	1,376

(1) Following the implementation of PS22/21 effective from 1 January 2022, the 30 September 2021 comparative figure of £5,379m has been restated to reflect the exclusion of BBLS from the exposure value.

(2) The comparative figure of £1,593m has been restated to exclude a derivative exposure and cash variation margin.

7.4 UK LRA – Disclosure of LR qualitative information

(a) The processes used to manage the risk of excessive leverage

The Group's balance sheet reflects a high concentration of mortgage lending and the relative mid-term stability of these gives limited scope for material unexpected movements in leverage exposures and the leverage ratio.

Management of the leverage ratio, including the risk of excessive leverage, forms a key part of the Group's capital planning and risk management processes. Leverage is monitored monthly by ALCO and the Board as part of Risk Appetite reporting, for which clear Board-approved limits and triggers are set. Additionally, ALCO monitors leverage ratio performance on a monthly basis against our capital forecasts. The leverage ratio is also used as an indicator within the Group's Recovery Plan to support the identification of emerging risks and the appropriateness of subsequent actions.

Management of excess leverage is documented within the ICAAP and is supported by its internal capital management frameworks and policies. This includes frequent capital forecasting and stress testing activities, which are intended to identify the Group's exposures to capital risk, including the risk to excess leverage. The risk of maturity mismatches and asset encumbrance are captured through the Group's Liquidity and Funding Risk management processes and is documented within the Internal Liquidity Adequacy Assessment Process (ILAAP).

These processes enable the Group to readily identify risks to leverage and direct the business to take any necessary corrective action to leverage exposures or Tier 1 capital.

(b) The factors that had an impact on the leverage ratio

Leverage has fallen slightly in the year from 5.2% to 5.1%, as a result of a small reduction in Tier 1 capital and a small increase in the leverage exposure measure.

Total Tier 1 capital fell following a reduction in AT1 capital, with a repurchase of £377m of the Group's existing AT1 securities, callable in December 2022. At the same time, the Group issued an additional £350m of new AT1 securities, with a net impact reducing AT1 capital by £31m after costs.

The main driver for the increased exposure measure in the denominator is increased off-balance sheet items arising from increased loan commitments.

8 Annex XIII: Disclosure of liquidity requirements

8.1 UK LIQA – Liquidity risk management

(a) Strategies and processes in the management of liquidity risk

The Group manages liquidity and funding risks within a comprehensive risk framework, which includes the Funding & Liquidity Risk Policy Standard, risk appetite limit setting and monitoring, internal and external stress testing, and robust governance controls.

The Group's approach to funding and liquidity risk is critical to the strength and stability of the balance sheet. The ILAAP document is used to identify, measure, manage and monitor liquidity and funding risks across different time horizons and stress scenarios. The ILAAP ensures the Group maintains an adequate quantity and quality of liquidity resources to meet its current and future financial obligations as they fall due, ensures the Group has a robust approach to liquidity management, and that the Group has sufficient quantity of funding of an appropriate mix and tenor.

The Funding & Liquidity Risk Policy Standard ensures the efficient management of the funding and liquidity requirements to:

- meet current and future payment obligations as they fall due and maintain adequate liquidity buffers to withstand severe but plausible market-wide and idiosyncratic-specific stresses; and
- ensure assets will be funded through stable and sustainable sources. Funding sources must be diversified to minimise dependence on specific sources or markets; to meet strategic plan objectives, at an acceptable cost.

(b) Structure and organisation of the liquidity risk management function

The Group's Board is responsible for setting liquidity and funding risk appetite and is responsible for oversight, challenge and overall approval of the ILAAP document, stress testing assumptions and the Risk Management Framework. ALCO is responsible for managing the Group's liquidity and funding risk profile within this defined risk appetite and is engaged throughout the development of the ILAAP with responsibility for reviewing and challenging key judgements and stress testing assumptions made as part of the assessment process. Liquidity and funding risk is managed and reported by segregated teams within the Treasury function. The Group operates a Three Lines of Defence model to provide challenge, oversight, and assurance of the management of liquidity by Treasury. All three lines of defence ensure appropriate reporting and escalation is undertaken of risks, controls and issues, including emerging risks.

(c) A description of the degree of centralisation of liquidity management and interaction between the Group's units

Virgin Money manages liquidity at Group level. The Group has a simple, vertical structure, comprising its holding company and resolution entity, Virgin Money UK PLC, and main operating subsidiary and ring-fenced bank, Clydesdale Bank PLC. Liquidity and funding within the Group, with the exception of the secured funding vehicles and their assets, is fully fungible and all material subsidiaries are 100% owned by the Group, are based in the UK and operate in Sterling. There are, therefore, no impediments (legal or otherwise) to the transferability of liquidity and funding between Group entities as and when required. The vast majority of the Group's funding and liquidity resides within the main operating entity, Clydesdale Bank PLC.

(d) Scope and nature of liquidity risk reporting and measurement systems

Virgin Money's liquidity position is reported to the PRA on a regular basis, in line with regulatory requirements, using the regulatory reporting system.

Internal liquidity reporting is monitored across Treasury and Risk. Key liquidity metrics are produced and circulated regularly to a distribution list, including the Chief Executive Officer, Chief Financial Officer and key Risk and Treasury personnel.

(e) Policies for hedging and mitigating liquidity risk; and the strategies and processes for monitoring the effectiveness

The internal assessment of liquidity adequacy ensures Virgin Money will hold sufficient Liquid Assets to meet 100% of net cash flows over 30 calendar days under all the Group's standard internal and regulatory liquidity stress scenarios.

In addition, the Group will maintain access to sufficient liquidity resources, including Liquid Assets, Assets Approved for Pre-Positioning in Bank of England Sterling Monetary Framework (SMF) and other contingent sources of funding, for example, to meet 100% of net cash flows over 90 calendar days under all of the standard liquidity stress scenarios.

The Group will develop recovery options, in addition to use of liquidity resources under all the standard liquidity stress scenarios, to demonstrate survivability of the franchise post-stress.

Virgin Money maintain a liquid asset buffer comprised of Gilts, securities issued by Supranationals, Sovereigns and Agencies and Covered Bonds. Internal risk limits are set in respect of the liquid asset buffer to ensure the buffer is high-quality and appropriately diversified.

Annexes

8 Annex XIII: Disclosure of liquidity requirements continued

(f) An outline of the Group's contingency funding plans
The Liquidity Contingency Plan (LCP) is encompassed within the Recovery Plan, which also includes a separate LCP appendix. The LCP appendix includes early warning indicators which are used to identify an emerging liquidity or funding stress as well as a range of actions that could be taken immediately in response to the stress. The LCP fire-drill is held on an annual basis to ensure it remains robust. The Recovery Plan describes potential recovery actions that could be utilised in a more extreme and/or prolonged stress.

(g) An explanation stress testing
Stress testing is a key component of Virgin Money's approach to liquidity and funding risk.

As part of the ILAAP a range of internally developed stress scenarios are modelled in addition to the LCR to assess the impact of idiosyncratic, market wide, and combined stresses over both a 30 (on-balance sheet liquidity only) and 90 (includes contingent funding) day stress horizon. Primary internal and regulatory stress tests are performed on a daily basis.

In addition, a reverse stress is run to model impacts which would drive the Group to the point of failure. As part of the Recovery Plan longer term stress tests are run which consider the wider impact on the Group's financial position. Internal stress assumptions are reviewed regularly with changes approved by ALCO and approved annually by the Board through the ILAAP.

(h) Management body declaration on the adequacy of liquidity risk management arrangements, providing assurance that the systems in place are adequate per the Group's profile and strategy
As part of the ILAAP, an internal assessment of liquidity adequacy is undertaken with reference to the Group's Overall Liquidity Adequacy Rule (OLAR) the Group's liquidity requirements during a stress. The Group's OLAR is approved by Board annually through ILAAP governance.

The results of internal (as defined in the Group's ILAAP) and regulatory stress tests demonstrate that through the high quality of the liquid asset portfolio, combined with the drawing capacity of assets approved for pre-positioning in the SMF (applicable to internal 90 day stress test only), the Group continues to be able to meet liabilities as they fall due under severe but plausible 30 and 90 day liquidity stresses. Overall, the current liquidity holdings of the Group are deemed to be sufficient and appropriate.

In addition, the Group's strong risk management approach, capturing detailed risk appetite settings, EWIs of stress situations, mature heightened awareness monitoring process when potential stress conditions have been identified and ongoing review of liquidity adequacy by management committees and Board, demonstrate a robust approach to liquidity risk management. The Group has well established liquidity risk systems with outputs for both internal and regulatory liquidity risk assessments subject to detailed scrutiny through robust review and control processes.

(i) A concise liquidity risk statement approved by the management body describing the overall liquidity risk profile associated with the business strategy
Virgin Money aims to maintain an adequate quantity and quality of liquidity resources to meet its current and future financial obligations as they fall due, to ensure the Group has a robust approach to liquidity management, and to ensure that the Group has sufficient quantity of funding of an appropriate mix and tenor. This is monitored through daily calculation of key liquidity metrics. Tier 1 Risk Appetite limits and Tier 2 ALCO limits are in place for key liquidity metrics with sufficient buffers required to maintain compliance with risk appetite.

In addition to the internal and regulatory liquidity metrics Virgin Money's Risk Appetite includes a range of Balance Sheet metrics to ensure the stability and term of the funding profile, refinancing and concentration risk management.

The Group's NSFR is an important funding and liquidity risk measure that is monitored to assess the overall funding profile. The ratio remained stable at 135% (30 September 2021: 134%), which is comfortably in excess of the binding minimum requirement of 100%.

Annexes

8 Annex XIII: Disclosure of liquidity requirements continued

8.2 UK LIQ1 – Quantitative information on LCR

The table below shows the breakdown of the Group's high-quality liquid assets, cash outflows and cash inflows, calculated as the simple averages of month-end observations over the 12 months preceding the reporting date, on an unweighted and weighted basis.

		A	B	C	D	E	F	G	H
		Total unweighted value (average)(1)				Total weighted value (average)(1)			
UK-1a	Quarter ending on	30 Sept 2022	30 June 2022	31 Mar 2022	31 Dec 2021	30 Sept 2022	30 June 2022	31 Mar 2022	31 Dec 2021
UK-1b	Number of data points used in the calculation of averages	**12**	12	12	12	**12**	12	12	12
	High-quality liquid assets								
1	**Total HQLA**					**11,503**	11,087	11,281	11,525
	Cash – Outflows								
2	Retail deposits and deposits from small business customers, of which:	**55,668**	56,510	57,842	59,063	**3,305**	3,309	3,353	3,414
3	*Stable deposits*	**42,844**	44,090	45,342	46,002	**2,134**	2,197	2,262	2,297
4	*Less stable deposits*	**9,269**	8,776	8,635	8,896	**1,138**	1,081	1,061	1,085
5	Unsecured wholesale funding, of which:	**7,042**	6,757	6,534	6,402	**3,258**	3,028	2,857	2,823
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	**1,185**	1,169	1,162	1,161	**294**	289	288	288
7	*Non-operational deposits (all counterparties)*	**5,828**	5,570	5,352	5,222	**2,946**	2,719	2,550	2,516
8	*Unsecured debt*	**19**	19	19	19	**19**	19	19	19
10	Additional requirements, of which:	**3,657**	3,598	3,696	3,885	**1,032**	934	918	941
11	*Outflows related to derivative exposures and other collateral requirements*	**688**	583	551	561	**688**	583	551	561
13	*Credit and liquidity facilities*	**2,970**	3,015	3,145	3,324	**345**	351	367	380
14	Other contractual funding obligations	**75**	73	72	71	**–**	–	–	–
15	Other contingent funding obligations	**15,564**	15,204	14,978	14,892	**1,168**	1,047	1,006	1,041
16	**Total cash outflows**					**8,764**	8,317	8,135	8,219
	Cash – Inflows								
18	Inflows from fully performing exposures	**1,457**	1,396	1,324	1,327	**543**	496	444	488
20	**Total cash inflows**	**1,457**	1,396	1,324	1,327	**543**	496	444	488
UK-20c	*Inflows subject to 75% cap*	**1,457**	1,396	1,324	1,327	**543**	496	444	488
	Total adjusted value								
UK-21	*Liquidity buffer*					**11,503**	11,087	11,281	11,525
22	Total net cash outflows					**8,222**	7,821	7,691	7,731
23	Liquidity coverage ratio (%)					**140%**	142%	147%	149%

(1) In the prior year, certain business customer deposits were incorrectly classified as Corporates, as opposed to Financial Institutions. Due to the different liquidity outflow assumptions applied, this resulted in an overstatement of the LCR and misclassification of certain deposit balances. These business deposits have been reclassified as Financial Institutions and the prior period comparatives have been updated to align with the current period presentation.

8.3 LIQB – Qualitative information on LCR

(a) The main drivers of LCR results and the contribution of inputs to the LCR's calculation

The LCR is driven by the size and composition of the liquid asset buffer and net stressed outflows. The Group's liquid asset buffer is very high quality with minimal haircuts applied. The primary source of outflows is the retail deposit book for which outflows are calculated based on LCR rules according to liquidity requirements. Additional outflows include committed lending to customers and other lending facilities, credit rating downgrade requirements and wholesale funding maturities. Outflows are offset by inflows such as attrition from the lending book.

(b) Changes in the LCR over time

The Group's Pillar 3 LCR disclosure (calculated as the simple average of month-end observations over the 12 months preceding the end of the reporting period) was 140% as at 30 September 2022, which is a decrease from 142% as at 30 June 2022. The primary driver of the LCR requirement is from a severe unexpected withdrawal of customer deposits. The ratio continues to comfortably exceed both regulatory requirements and our more prudent internal risk appetite metrics, ensuring a substantial buffer in the event of any outflows.

(c) Concentration of funding sources

The Group is primarily funded through retail deposits, in addition to a diversified wholesale funding book. A series of metrics are used by the Group to measure risk exposures, including funding ratios, limits on concentration and funding tenors/maturity risk. These include both Risk Appetite (Tier 1) and ALCO limits (Tier 2). As at the reporting date, these metrics include the regulatory Net Stable Funding Ratio (NSFR), Loan-to-Deposit Ratio, 90 day wholesale refinancing, Treasury deposits concentration, single name concentration and large business deposit concentration. These metrics ensure that concentration of funding sources and maturity concentration remain within risk appetite.

(d) Composition of the Group's liquidity buffer

The Group's liquidity buffer is largely comprised of Level 1 assets, which includes cash at the BoE, UK Government securities (Gilts) and listed securities (e.g. bonds issued by supra-nationals and AAA-rated covered bonds). The quantity and quality of the Group's liquid asset portfolio remains at a prudent level above regulatory requirements, with precise levels informed by the Board's view of liquidity risk appetite and calibrated through a series of internal stress tests across a range of time horizons and stress conditions.

(e) Derivative exposures and potential collateral calls

The Group actively manages its derivative exposures and potential collateral calls with derivative outflows under stress captured within the Historical Look Back Approach, which considers the impact of market movements on derivative exposures. Potential collateral calls under a 3-notch credit rating downgrade, including the impacts on derivative initial margin requirements, are also captured.

(f) Currency mismatch in the LCR

The LCR is calculated and reported in GBP as no other currencies are significant in accordance with the PRA Rulebook. The Group's policy is for all currency liabilities to be swapped to GBP on a matched tenor basis, thereby removing Cross Currency Liquidity Risk. This balance principally relates to funding issuance in Euros and US Dollars for which there are deep and liquid cross currency and foreign exchange swap markets. The swaps are matched to the issuance by volume, tenor and repricing rate, thereby ensuring that the net funding cost is linked to GBP rates. A similar approach is used to manage operational currency flows and to fund currency bank account positions. The use of derivative financial instruments manages foreign currency risk within approved limits.

(g) Other items in the LCR calculation that are not captured in the LCR disclosure template but that are relevant for the liquidity profile

No other items identified.

8.4 UK LIQ2 – Net Stable Funding ratio

Template will be disclosed after 1 January 2023, in line with PS22/21.

9 Annex XV: Disclosure of credit risk quality

9.1 UK CRA – General qualitative information about credit risk

(a) Risk statement in accordance with point (f) of Article 435(1) CRR

Effective management of risk is a key capability for a successful financial services provider and is fundamental to the Group's strategy. The Group has continued to advance and strengthen its risk management capabilities, evolving in line with industry developments and best practice. The Board is responsible for determining the nature and extent of the risks it is willing to take in order to achieve its strategic objectives.

The Group undertakes on-going reviews of the credit portfolio. The largest portfolios relate to lending to Households with the two largest components within this being UK mortgage lending followed by credit cards. The Group provides lending and other facilities to businesses with a primary focus in the SME segment. The Group applies RAS measures to control the nature of the exposure to these different sectors taking into consideration, amongst other things, the broader market operating environment.

(b) The criteria and approach for defining the credit risk management policy and for setting credit risk limits

The Credit Risk Policy Statement – reviewed annually by the Risk Committee – and underlying credit risk policies, standards and controls provide a framework for the provision of credit and mitigation of credit risk that is designed to make the best use of capital while conforming to regulatory guidelines, the Group's RAS, the maintenance of high ethical standards, and customer considerations.

The Group accepts a level of credit risk in order to conduct business in a commercially viable manner. The Group's RAS, approved by the Board, includes specific measures to manage credit risk.

Effective management and delivery is guided by principles supporting the culture, origination and management of credit risk, these include the Group:

- maintaining a diverse and balanced portfolio of customers and sector exposures;
- being responsible in our approach to the origination of credit risk, with affordability assessed against repayment from current and expected business cash flow or personal income;
- recognising and developing strategies to support and manage vulnerable customers and those in financial difficulty. A range of forbearance strategies are available and delivered by specialist teams;
- monitoring credit risk through the life cycle of customer exposure by a variety of methods including maintaining accurate and up-to-date customer records, financial performance monitoring, portfolio monitoring, and customer contact; and
- supporting the sustainability commitments and responsibilities of the Group.

(c) The structure and organisation of the credit risk management and control function

Lending authorities are delegated via a governance structure from the Risk Committee, Chief Executive Officer, Chief Risk Officer and Chief Credit Officer. Operational lending authorities are mandated to the Transactional Credit Committee, Underwriters (Joint or sole authority) and Relationship Managers. Holders of a lending authority require to achieve minimum lending accreditation requirements, and in some instances will be classified as Material Risk Takers.

The Credit Risk Committee, chaired by the Chief Credit Officer, performs an oversight role for the Group's credit risk portfolio, which includes the detailed performance of the Credit RAS and compliance with the Credit Risk Policy Statement and Standards, as well as the relevant regulatory obligations. It is a sub-committee of ERC, which has overall risk oversight for the Group. Further information is available in section 3.1(d).

Lending authorities reduce as they flow down the framework and reduce proportionate to the customers PD, as determined by the Group's internal rating model.

Automated credit decision models feature for Personal lending products.

(d) The relationships between credit risk management, risk control, compliance and internal audit functions

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

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

9.2 UK CRB – Additional disclosure related to the credit quality of assets

(a) The scope and definitions of 'past-due' and 'impaired' exposures used for accounting purposes

Both the accounting and regulatory definitions of default are aligned with default being triggered at 90 days past due, with the exception of heritage Virgin Money mortgage models, which apply a 180 past due regulatory default trigger under existing approved permissions. The definition of default will be fully aligned to 90 days past due when the regulatory models are updated in line with hybrid model adoption.

(b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired

All assets more than 90 days past due are treated as impaired, with the exception of the heritage Virgin Money mortgage models under IRB, as described in (a) above.

(c) Methods used for determining general and specific credit risk adjustments

Following the adoption of IFRS 9, all provisions are classed as specific credit risk adjustments.

(d) Definition of a restructured exposure when different from the definition of forborne exposure defined in Annex V to Commission Implementing Regulation (EU) 680/2014

The Group's definition of restructured aligns with Annex V to Commission Implementing Regulation (EU) 680/2014. Any forbearance concession resulting in a material forgiveness or postponement of principal, interest or fees >1% of the net present value of cash flows between the existing and new arrangements, the concession is considered to result in a Diminished Financial Obligation and in Default status. The PRA approval of the revised IRB models that reflect this regulatory change has not yet been secured and is a pre-requisite for the implementation of this change.

Annexes

9 Annex XV: Disclosure of credit risk quality continued

9.3 UK CR1 – Performing and non-performing exposures and related provisions

		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumulated partial write-off	On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
As at 30 September 2022		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
005	Cash balances at central banks and other demand deposits[1]	**9,945**	**9,945**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
010	Loans and advances	**75,006**	**69,605**	**5,333**	**1,148**	**93**	**991**	**(337)**	**(90)**	**(247)**	**(115)**	**(4)**	**(113)**	**(49)**	**62,088**	**818**
020	*Central banks*	**2,589**	**2,589**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
030	*General governments*	**11**	**1**	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
040	*Credit institutions*	**253**	**253**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
050	*Other financial corporations*	**184**	**177**	**7**	**4**	**–**	**4**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**34**	**1**
060	*Non-financial corporations*	**7,096**	**5,718**	**1,350**	**336**	**4**	**324**	**(60)**	**(11)**	**(49)**	**(48)**	**–**	**(48)**	**(48)**	**4,010**	**135**
070	*of which: SMEs*	**5,430**	**4,250**	**1,153**	**168**	**–**	**163**	**(34)**	**(5)**	**(29)**	**(25)**	**–**	**(24)**	**–**	**3,500**	**102**
080	*Households*	**64,873**	**60,867**	**3,975**	**808**	**89**	**663**	**(277)**	**(79)**	**(198)**	**(67)**	**(4)**	**(65)**	**(1)**	**58,044**	**682**
090	Debt securities	**5,064**	**5,064**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100	*Central banks*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
110	*General governments*	**2,120**	**2,120**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
120	*Credit institutions*	**2,944**	**2,944**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
130	*Other financial corporations*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
140	*Non-financial corporations*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
150	Off-balance sheet exposures	**19,286**	**18,454**	**832**	**40**	**–**	**38**	**4**	**–**	**4**	**–**	**–**	**–**		**–**	**–**
160	*Central banks*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**–**	**–**
170	*General governments*	**377**	**370**	**7**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**–**	**–**
180	*Credit institutions*	**9**	**7**	**2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**–**	**–**
190	*Other financial corporations*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**–**	**–**
200	*Non-financial corporations*	**3,158**	**2,694**	**464**	**26**	**–**	**26**	**4**	**–**	**4**	**–**	**–**	**–**		**–**	**–**
210	*Households*	**15,742**	**15,383**	**359**	**14**	**–**	**12**	**–**	**–**	**–**	**–**	**–**	**–**		**–**	**–**
220	**Total**	**109,301**	**103,068**	**6,165**	**1,188**	**93**	**1,029**	**(333)**	**(90)**	**(243)**	**(115)**	**(4)**	**(113)**	**(49)**	**62,088**	**818**

(1) Following the implementation of PS22/21 effective from 1 January 2022, 'Cash balances at central banks and other demand deposits' has been added as a new row to UK CR1, which is not reflected in the prior year disclosure.

Annexes

9 Annex XV: Disclosure of credit risk quality continued

		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumu-lated partial write-off	On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
As at 30 September 2021		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
010	Loans and advances[1]	74,352	64,280	10,071	1,083	122	960	(399)	(112)	(287)	(105)	(12)	(92)	–	62,432	849
020	*Central banks*	2,520	2,520	–	–	–	–	–	–	–	–	–	–	–	–	–
030	*General governments*	3	1	1	–	–	–	–	–	–	–	–	–	–	–	–
040	*Credit institutions*	200	200	–	–	–	–	(1)	(1)	–	–	–	–	–	–	–
050	*Other financial corporations*	238	225	13	–	–	–	(3)	(1)	(1)	–	–	–	–	28	–
060	*Non-financial corporations*	7,322	5,296	2,026	228	31	197	(164)	(60)	(104)	(40)	(6)	(35)	–	4,509	118
070	*of which: SMEs*	5,675	3,896	1,778	166	10	157	(79)	(25)	(53)	(25)	–	(25)	–	3,908	87
080	*Households*	64,069	56,038	8,031	855	91	763	(231)	(50)	(182)	(65)	(6)	(57)	–	57,895	731
090	Debt securities	4,353	4,353	–	–	–	–	–	–	–	–	–	–	–	–	–
100	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
110	*General governments*	1,066	1,066	–	–	–	–	–	–	–	–	–	–	–	–	–
120	*Credit institutions*	3,257	3,257	–	–	–	–	–	–	–	–	–	–	–	–	–
130	*Other financial corporations*	30	30	–	–	–	–	–	–	–	–	–	–	–	–	–
140	*Non-financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
150	Off-balance sheet exposures	17,054	15,967	1,088	30	–	30	8	2	6	–	–	–		–	–
160	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–		–	–
170	*General governments*	368	359	10	–	–	–	–	–	–	–	–	–		–	–
180	*Credit institutions*	9	8	1	–	–	–	–	–	–	–	–	–		–	–
190	*Other financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–		–	–
200	*Non-financial corporations*	2,957	2,194	763	15	–	15	8	2	6	–	–	–		–	–
210	*Households*	13,720	13,406	314	15	–	15	–	–	–	–	–	–		–	–
220	**Total**	95,759	84,600	11,159	1,113	122	990	(391)	(110)	(281)	(105)	(12)	(92)	–	62,432	849

(1) Excludes (£133m) loans designated at FVTPL.

Annexes

9 Annex XV: Disclosure of credit risk quality continued

9.4 UK CR1-A – Maturity of exposures

		A	B	C	D	E	F
		Net exposure value					
		On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
As at 30 September 2022		£m	£m	£m	£m	£m	£m
1	Loans and advances	–	**23,241**	**9,144**	**60,354**	**95**	**92,834**
2	Debt securities	–	**894**	**1,215**	**2,882**	**1**	**4,992**
3	**Total**	–	**24,135**	**10,359**	**63,236**	**96**	**97,826**

The maturity of exposures is shown on a contractual basis rather than the actual redemptions experienced by the Group. Undrawn values have been allocated to the contractual maturity of the underlying exposure.

9.5 UK CR2 – Changes in the stock of non-performing loans and advances(1)(2)

This table illustrates the changes in the stock of non-performing loans and advances.

		a
30 September 2022 (£m)		Gross carrying amount
10	**Initial stock of non-performing loans and advances**	**957**
20	Inflows to non-performing portfolios	**524**
30	Outflows from non-performing portfolios	**(193)**
40	Outflows due to write-offs	**(129)**
50	Outflows due to other situations	**(123)**
60	**Final stock of non-performing loans and advances**	**1,036**

(1) Excludes accrued interest and deferred and unamortised fee income.

(2) Changes in the stock of non-performing loans and advances is defined as movements into and out of IFRS Stage 3.

9.6 UK CR2a – Changes in the stock of non-performing loans and advances and related net accumulated recoveries

Disclosure is out of scope, as the Group's non-performing loan (NPL) ratio is <5%.

Annexes

9 Annex XV: Disclosure of credit risk quality continued

9.7 UK CQ1 – Credit quality of forborne exposures

		A	B	C	D	E	F	G	H
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne		Of which: defaulted	Of which: impaired	On performing forborne exposures	On non-performing forborne exposures		Of which: collateral and financial guarantees received on non-performing exposures with forbearance measures
As at 30 September 2022		£m	£m	£m	£m	£m	£m	£m	£m
010	Loans and advances	**526**	**628**	**597**	**587**	**(16)**	**(68)**	**816**	**418**
060	*Non-financial corporations*	**205**	**211**	**211**	**204**	**(8)**	**(34)**	**169**	**66**
070	*Households*	**321**	**417**	**386**	**383**	**(8)**	**(34)**	**647**	**352**
090	Loan commitments given	**24**	**16**	**16**	**16**	**–**	**–**	**–**	**–**
100	**Total**	**550**	**644**	**613**	**603**	**(16)**	**(68)**	**816**	**418**

		A	B	C	D	E	F	G	H
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne		Of which: defaulted	Of which: impaired	On performing forborne exposures	On non-performing forborne exposures		Of which: collateral and financial guarantees received on non-performing exposures with forbearance measures
As at 30 September 2021		£m	£m	£m	£m	£m	£m	£m	£m
010	Loans and advances	661	647	548	582	(22)	(43)	993	481
060	*Non-financial corporations*	314	166	166	155	(14)	(26)	249	68
070	*Households*	347	481	382	427	(8)	(17)	743	412
090	Loan commitments given	32	3	3	2	–	–	–	–
100	**Total**	693	650	551	584	(22)	(43)	993	481

Annexes

9 Annex XV: Disclosure of credit risk quality continued

9.8 UK CQ2 – Quality of forbearance

Disclosure is out of scope, as the Group's NPL ratio is <5%.

9.9 UK CQ3 – Credit quality of performing and non-performing exposures by past due days

		A	B	C	D	E	F	G	H	I	J	K	L
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
As at 30 September 2022			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which: defaulted
005	Cash balances at central banks and other demand deposits	9,945	9,945	–	–	–	–	–	–	–	–	–	–
010	Loans and advances	75,006	74,860	146	1,148	773	128	103	73	57	8	6	1,075
020	*Central banks*	2,589	2,589	–	–	–	–	–	–	–	–	–	–
030	*General governments*	11	11	–	–	–	–	–	–	–	–	–	–
040	*Credit institutions*	253	253	–	–	–	–	–	–	–	–	–	–
050	*Other financial corporations*	184	184	–	4	4	–	–	–	–	–	–	4
060	*Non-financial corporations*	7,096	7,087	9	336	273	17	19	17	8	1	1	336
070	*Of which: SMEs*	5,430	5,426	4	168	146	5	7	9	1	–	–	168
080	*Households*	64,873	64,736	137	808	496	111	84	56	49	7	5	735
090	Debt securities	5,064	5,064	–	–	–	–	–	–	–	–	–	–
100	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–
110	*General governments*	2,120	2,120	–	–	–	–	–	–	–	–	–	–
120	*Credit institutions*	2,944	2,944	–	–	–	–	–	–	–	–	–	–
130	*Other financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–
140	*Non-financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–
150	Off-balance sheet exposures	19,286			40								40
160	*Central banks*	–			–								–
170	*General governments*	377			–								–
180	*Credit institutions*	9			–								–
190	*Other financial corporations*	–			–								–
200	*Non-financial corporations*	3,158			26								26
210	*Households*	15,742			14								14
220	**Total**	99,356	79,924	146	1,188	773	128	103	73	57	8	6	1,115

Annexes

9 Annex XV: Disclosure of credit risk quality continued

9.10 UK CQ4 – Quality of non-performing exposures by geography

Disclosure is not applicable per Pillar 3 instructions, as the Group's non-domestic exposures are <10% of the total (domestic and non-domestic) exposures.

9.11 UK CQ5 – Credit quality of loans and advances to non-financial corporations by industry

		A	B	C	D	E	F
		Gross carrying amount					
			Of which: non-performing				
As at 30 September 2022				Of which: defaulted	Of which: loans and advances subject to impairment	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
010	Agriculture, forestry and fishing	1,278	39	39	1,260	(6)	–
020	Mining and quarrying	91	7	7	91	(3)	–
030	Manufacturing	792	46	46	792	(28)	–
040	Electricity, gas, steam and air conditioning supply	171	1	1	171	(1)	–
050	Water supply	45	–	–	45	–	–
060	Construction	351	36	36	350	(6)	–
070	Wholesale and retail trade	758	52	52	758	(18)	–
080	Transport and storage	330	34	34	330	(6)	–
090	Accommodation and food service activities	654	19	19	654	(6)	–
100	Information and communication	367	13	13	367	(6)	–
110	Financial and insurance activities	391	5	5	391	(2)	–
120	Real estate activities	–	–	–	–	–	–
130	Professional, scientific and technical activities	447	20	20	446	(13)	–
140	Administrative and support service activities	682	14	14	682	(6)	–
150	Public administration and defence, compulsory social security	1	–	–	1	–	–
160	Education	44	1	1	39	–	–
170	Human health services and social work activities	865	43	43	861	(7)	–
180	Arts, entertainment and recreation	36	2	2	36	–	–
190	Other services	129	4	4	128	–	–
200	**Total**	7,432	336	336	7,402	(108)	–

9.12 UK CQ6 – Collateral valuation – loans and advances

Disclosure is out of scope, as the Group's NPL ratio is <5%.

9.13 UK CQ7 – Collateral obtained by taking possession and execution processes; and UK CQ8 – Collateral obtained by taking possession and execution processes – vintage breakdown

Disclosures not applicable, as the Group does not take possession of collateral that would result in recognition of an asset on its balance sheet.

10 Annex XVII: Disclosure of the use of credit risk mitigation techniques

10.1 UK CRC – Qualitative disclosure requirements related to CRM techniques

(a) Core policies and processes for on- and off-balance sheet netting and an indication of the extent to which the Group makes use of balance sheet netting (Article 453 (a) CRR)

The Group uses 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 or receivables or the use of credit derivatives, guarantees, credit insurance, set-off or netting.

Netting arrangements for set off of on-balance sheet exposures have appropriate legal opinion as to their effectiveness and enforceability in the overall borrowing arrangements of legal group structures. This set off mitigates the credit risk of such arrangements.

Master netting agreements: 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.

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.

(b) Core features of policies and processes for eligible collateral evaluation and management (Article 453 (b) CRR)

Residential mortgages: All lending activities are supported by an appropriate form of valuation using either professional or indexed (subject to policy rules and confidence levels) valuations.

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: 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: The Group also provides asset-backed lending in the form of asset and invoice finance. Lending by way of Asset Finance is supported by preferred asset types and repayment profile structures, with finance provided against an invoice provided by the supplier.

Invoice Finance is provided against eligible receivables of our Customers with a percentage-based prepayment made by the Group. Credit limits are established for eligible receivables and activities are subject to periodic audit checks.

(c) The main types of collateral taken to mitigate credit risk (Article 453 (c) CRR)

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 is held as security and other credit enhancements and includes 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 default risk inherent in its residential mortgage portfolios.

Commercial property: Commercial property is the Group's main source of collateral on business lending and means of mitigating loss in the event of default. For the majority of commercial loans, collateral comprises first legal charges over freehold or long leasehold property (including formal Companies House registration where appropriate).

Non-property related collateral: In addition to residential and commercial property based security, the Group also takes other forms of collateral when lending. This 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.

Master netting agreements: The Group further restricts its exposure to credit losses by entering into 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.

Annexes

10 Annex XVII: Disclosure of the use of credit risk mitigation techniques continued

(d) For guarantees and credit derivatives used as credit protection, the main types of guarantor and credit derivative counterparty and their creditworthiness used for the purposes of reducing capital requirements, excluding those used as part of synthetic securitisation structures (Article 453 (d) CRR)
The Group maintains control limits on net open derivative positions. At any one time, exposure to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair value is positive), which, in relation to derivatives, may only be a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk is managed as part of the customers' overall exposure together with potential exposures from market movements.

(e) Information about market or credit risk concentrations (Article 453 (e) CRR)
Credit risk concentration, including within underlying collateral taken, is managed by counterparty, product, geographical region and industry sector. 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.

The diversification of the portfolio across regions, sectors and geographies provides an inherent level of risk mitigation to concentrations in credit risk within underlying collateral.

See pages 167 to 169 of the Credit risk section of the Risk report in the Group's 2022 Annual Report & Accounts for further information on credit risk mitigation techniques.

10.2 UK CR3 – Disclosure of the use of credit risk mitigation techniques[1]

UK CR3 shows the use of credit risk mitigation techniques, exposure amounts are broken down after, where applicable, on- or off-balance sheet netting. Exposures secured represent the carrying amount of the exposure, irrespective of the level of collateralisation. Exposures unsecured represents the carrying amount of exposures with no security or collateral attached.

	A	B	C	D	E
		Secured carrying amount			
	Unsecured carrying amount		Of which: secured by collateral	Of which: secured by financial guarantees	Of which: secured by credit derivatives
As at 30 September 2022	£m	£m	£m	£m	£m
Loans and advances	**22,741**	**62,905**	**61,937**	**968**	**–**
Debt securities	**5,064**	**–**	**–**	**–**	
Total	**27,805**	**62,905**	**61,937**	**968**	**–**
of which: non-performing exposures	**215**	**818**	**752**	**66**	**–**
of which: defaulted	**142**	**818**			

(1) Disclosure is presented gross of provisions.

Lending backed by government guarantees in response to COVID-19 can be seen within the 'Exposures secured by financial guarantees' column above.

Following PRA approval in 2020, the Group moved to recognise asset finance and invoice finance collateral, being other physical collateral and receivables respectively, as being eligible collateral from a credit risk mitigation perspective in relation to the FIRB approach, which is captured within the 'Exposures secured by collateral' column above.

11 Annex XIX: Disclosure of the use of the standardised approach

11.1 UK CRD – Qualitative disclosure requirements related to standardised model

(a) Names of the external credit assessment institutions (ECAI) and export credit agencies (ECAs) nominated by the Group (Article 444 (a) CRR)

The Group makes use of credit ratings provided by Moody's Ratings.

(b) The exposure classes for which each ECAI or ECA is used (Article 444 (b) CRR)

The Group makes limited use of credit assessments by ECAI in assigning risk weights to credit risk exposures under the standardised approach. This typically applies in the case of certain central government, central bank, institutional and Covered Bond exposures. The appropriate risk weight to apply to the credit risk exposure is determined by assigning the exposure to the relevant credit quality step under CRR Part 3, Title II, Chapter 2 (Standardised Credit Risk), based on the European Banking Authority's mapping of credit assessments to credit quality steps.

(c) The process to transfer the issuer and issue credit ratings onto comparable assets items not included in the trading book (Article 444 (c) CRR)

Not applicable as the Group does not have a trading book.

(d) The association of the external rating of each nominated ECAI or ECA (Article 444 (d) CRR)

Ratings from the ECAI are mapped across to the Credit Quality Step requirements in the UK CRR using European Banking Authority mappings.

11.2 UK CR4 – Standardised approach: Credit risk exposure and CRM effects

The table below shows a breakdown of exposures under the standardised approach pre- and post-application of credit conversion factors (CCF) and CRM. For retail exposures secured by mortgages, the protection effect of mortgage collateral is intrinsically part of the definition of the original exposure class.

		A	B	C	D	E	F
		Exposures before CCF and before CRM[1]		Exposures post-CCF and post-CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWAs density[2]
As at 30 September 2022		£m	£m	£m	£m	£m	%
1	Central governments or central banks	**14,278**	**1**	**15,248**	**–**	**–**	**–**
2	Regional government or local authorities	**181**	**258**	**13**	**53**	**13**	**20.0%**
3	Public sector entities	**236**	**118**	**236**	**23**	**5**	**1.9%**
4	Multilateral development banks	**1,105**	**–**	**1,105**	**–**	**–**	**0.0%**
6	Institutions	**510**	**9**	**510**	**2**	**104**	**20.3%**
7	Corporates	**757**	**224**	**243**	**75**	**283**	**89.0%**
8	Retail	**6,272**	**11,033**	**6,272**	**21**	**4,720**	**75.0%**
9	Secured by mortgages on immovable property	**154**	**445**	**154**	**221**	**128**	**34.1%**
10	Exposures in default	**194**	**19**	**81**	**–**	**95**	**117.3%**
12	Covered bonds	**1,471**	**–**	**1,471**	**–**	**147**	**10.0%**
15	Equity	**7**	**–**	**7**	**–**	**7**	**100.0%**
16	Other items	**575**	**–**	**575**	**–**	**637**	**110.8%**
17	**Total**	**25,740**	**12,107**	**25,915**	**395**	**6,139**	**23.33%**

(1) The gross exposure value is reported at 30 September 2022, whereas the 30 September 2021 position represents gross exposure minus on-balance sheet netting. The amount deducted at 31 September 2021 was £137m, all of which was netted against the 'regional Government or local authorities' exposure class.

(2) RWA density calculation has been performed on unrounded figures.

Annexes

11 Annex XIX: Disclosure of the use of the standardised approach continued

		A	B	C	D	E	F
		Exposures before CCF and before CRM[1]		Exposures post-CCF and post-CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWAs density[2]
As at 30 September 2021		£m	£m	£m	£m	£m	%
1	Central governments or central banks	11,118	1	12,353	–	–	–
2	Regional government or local authorities	13	251	13	50	13	20.6%
3	Public sector entities	356	116	357	23	5	1.3%
4	Multilateral development banks	1,355	–	1,355	–	–	–
6	Institutions	733	9	733	2	153	20.8%
7	Corporates	943	156	221	42	235	89.4%
8	Retail	5,632	10,504	5,632	21	4,240	75.0%
9	Secured by mortgages on immovable property	161	352	161	176	114	33.8%
10	Exposures in default	90	2	66	–	73	110.6%
12	Covered bonds	1,356	–	1,356	–	136	10.0%
15	Equity	19	–	19	–	19	100.0%
16	Other items	765	–	765	–	856	111.9%
17	**Total**	22,541	11,391	23,031	314	5,844	25.03%

(1) The gross exposure value is reported at 30 September 2022, whereas the 30 September 2021 position represents gross exposure minus on-balance sheet netting. The amount deducted at 31 September 2021 was £137m, all of which was netted against the 'regional Government or local authorities' exposure class.

(2) RWA density calculation has been performed on unrounded figures.

Annexes

11 Annex XIX: Disclosure of the use of the standardised approach continued

11.3 UK CR5 – Standardised approach

The table below shows a breakdown of exposures post-CCF and post-CRM. Risk weight categories do not reflect where the SME supporting factor has been applied.

Exposures are classed as 'rated' only where an ECAI rating has been used to derive the risk weight. Where a rating is unavailable, or where the risk weight has been determined by application of specific CRR provisions, exposures have been classed as unrated.

		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
		Risk weight (£m)																
As at 30 September 2022		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1,250%	Others	Total £m	Of which: Unrated £m
1	Central governments or central banks	**15,248**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,248**	**–**
2	Regional government or local authorities	**–**	**–**	**–**	**–**	**66**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**66**	**66**
3	Public sector entities	**235**	**–**	**–**	**–**	**24**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**259**	**259**
4	Multilateral development banks	**1,105**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,105**	**1,105**
6	Institutions	**–**	**40**	**–**	**–**	**444**	**–**	**27**	**–**	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**512**	**56**
7	Corporates	**–**	**–**	**–**	**–**	**–**	**–**	**11**	**–**	**–**	**307**	**–**	**–**	**–**	**–**	**–**	**318**	**308**
8	Retail exposures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,293**	**–**	**–**	**–**	**–**	**–**	**–**	**6,293**	**6,293**
9	Exposures secured by mortgages on immovable property	**–**	**–**	**–**	**–**	**–**	**355**	**–**	**–**	**–**	**20**	**–**	**–**	**–**	**–**	**–**	**375**	**375**
10	Exposures in default	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**53**	**28**	**–**	**–**	**–**	**–**	**81**	**81**
12	Covered bonds	**–**	**–**	**–**	**1,471**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,471**	**–**
15	Equity exposures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7**	**–**	**–**	**–**	**–**	**–**	**7**	**7**
16	Other items	**90**	**–**	**–**	**–**	**8**	**–**	**–**	**–**	**–**	**371**	**–**	**106**	**–**	**–**	**–**	**575**	**575**
17	**Total**	**16,678**	**40**	**–**	**1,471**	**542**	**355**	**38**	**–**	**6,293**	**759**	**28**	**106**	**–**	**–**	**–**	**26,310**	**9,125**

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11 Annex XIX: Disclosure of the use of the standardised approach continued

		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
		Risk weight (£m)																
As at 30 September 2021		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1,250%	Others	Total £m	Of which: Unrated £m
1	Central governments or central banks	12,353	–	–	–	–	–	–	–	–	–	–	–	–	–	–	12,353	–
2	Regional government or local authorities	–	–	–	–	63	–	–	–	–	–	–	–	–	–	–	63	63
3	Public sector entities	356	–	–	–	24	–	–	–	–	–	–	–	–	–	–	380	380
4	Multilateral development banks	1,355	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,355	1,355
6	Institutions	–	–	–	–	716	–	19	–	–	–	–	–	–	–	–	735	62
7	Corporates	–	–	–	–	–	–	5	–	–	258	–	–	–	–	–	263	258
8	Retail exposures	–	–	–	–	–	–	–	–	5,653	–	–	–	–	–	–	5,653	5,653
9	Exposures secured by mortgages on immovable property	–	–	–	–	–	318	–	–	–	19	–	–	–	–	–	337	337
10	Exposures in default	–	–	–	–	–	–	–	–	–	52	14	–	–	–	–	66	66
12	Covered bonds	–	–	–	1,356	–	–	–	–	–	–	–	–	–	–	–	1,356	–
15	Equity exposures	–	–	–	–	–	–	–	–	–	19	–	–	–	–	–	19	19
16	Other items	86	–	–	–	8	–	–	–	–	548	–	123	–	–	–	765	765
17	**Total**	14,150	–	–	1,356	811	318	24	–	5,653	896	14	123	–	–	–	23,345	8,958

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk

12.1 UK CRE – Qualitative disclosure requirements related to IRB approach

(a) The competent authority's permission of the approach or approved transition (Article 452 (a) CRR)

Capital requirements for retail mortgages are calculated using an AIRB approach, the majority of the business portfolios uses a FIRB approach and the Group's Income Producing Real Estate portfolio uses the IRB Slotting Approach.

All other requirements are calculated using the standardised approach, where the Group has either prior supervisory permission to carry out a sequential IRB implementation (Retail Unsecured portfolios) or are defined as Permanent Partial Use. This includes institutions, sovereign exposures, retail asset finance, Salary Finance JV, non-banks without permissions under CRR 4(1)(2), housing association loans (Social Housing), individual partnership investment loans, university loans, SME exposures less than £25k, SME online business loans, equity and collective investment undertakings, non-real estate Specialised lending (Renewable energy), unrated non-retail exposure >£25k and Expert Judgement Model counterparties.

The Group plans to continue with its IRB journey to gain accreditation on the remaining unsecured retail portfolios. The credit cards application is scheduled for 2024, with current accounts and personal loans scheduled to follow thereafter.

Regulatory changes from the PRA necessitate enhancements to the mortgage IRB models. Specifically, these address guidance around the definition of default and the requirement for a Hybrid PD model for mortgages. The implementation of the definition of default changes for the Mortgage and Business IRB portfolios will be aligned to the PRA approval of the revised IRB models.

(b) Control mechanisms for rating systems at the different stages of model development, controls and changes (Article 452 (c) CRR) which shall include information on:

(i) the relationship between the risk management function and the internal audit function

The Internal Audit team is independent of risk management, including the modelling teams and Model Risk Oversight (MRO). Internal Audit is responsible for providing independent assurance over the control framework for the IRB approach to credit risk with any material gaps escalated to the relevant Board Committees and actions plans agreed with the relevant control owners.

(ii) the rating system review

The aggregation from individual component ratings of the validation outcome results in the overall validation rating, a technical rating which links to issues and associated actions. Additionally, a model risk rating is derived which highlights the residual model risk in using the model with consideration to model materiality, the control framework and any further mitigation in place or planned. Both the validation rating and model risk rating are used to inform approval or continued use of models.

(iii) procedure to ensure the independence of the function in charge of reviewing the models from the functions responsible for the development of the models

A team of independent specialists within MRO conduct independent reviews of new models and periodic reviews of existing models, with a frequency determined by model categorisation, model materiality and previous validation rating (annually for IRB models). This team is actively involved in the ongoing independent challenge of information presented to senior Committees, as part of the governance process.

Annual review of existing IRB models includes assessment of model performance, documentation, data, methodology, conservatism, regulatory compliance and ongoing appropriateness to the portfolio.

Independent validation of new IRB models is typically at the highest level of assurance, which includes an end-to-end assessment of the model development:

- independent replication of data extraction/exclusions and review of data quality, integrity, and sampling (including third-party data) and definition of default;
- reviewing model methodology/statistical methods and model assumptions;
- conducting independent verification of the outputs and model performance, which may include investigation of alternative techniques;
- reviewing model documentation, business involvement and use of judgement;
- reviewing calculation and appropriateness of model conservatism;
- reviewing model usage, monitoring design and system implementation; and
- conducting independent assessment of regulatory compliance.

Model issues identified during the validation of new models, periodic validation, or ongoing governance processes will result in detailed action plans that may include actions such as model enhancements, recalibration, reweightings, full redeployment or interim mitigation (e.g., Post Model Adjustments).

MRO will document any material issues and the required actions. This will include an assessment of the materiality of the actions and an appropriate timescale for completion. Any conflicts between the MRO and the modelling functions will be escalated as part of the governance process highlighted above.

(iv) the procedure to ensure the accountability of the functions in charge of developing and reviewing the models

IRB model governance is overseen by the relevant designated Committee Model Governance Committee (MGC) and supported by the Credit Models Technical Forum (CMTF). These governance committees include participation from model developers, model users, product functions, credit risk and the independent review teams. The MGC is required to have one PLC Board member present meet the quorum. Model materiality is assessed in line with agreed thresholds and determines the level of governance and oversight required.

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

The Model Risk Management Framework is designed to manage and mitigate model risk, encompassing the end-to-end model life cycle. It is a hierarchical structure which sets out the core principles for the Group and minimum control requirements for each function. These are supported by detailed Technical Standards/Frameworks outlining minimum standards for model development (including data preparation, methodology, documentation, approval and implementation), model monitoring, model change and independent validation.

The IRB models are subject to regular monitoring and annual validation. Statistical tests are performed to assess ongoing performance of the models, including assessment of discrimination, accuracy, and stability, with pre-defined thresholds for investigation and escalation. Material issues highlighted are presented to local management, governance committees and the Executive Leadership Team. IRB monitoring and validation outcomes are included within Tier 1 and 2 Model Risk RAS metrics, which are presented to MGC, ERC, Risk Committee and Board.

(c) The role of the functions involved in the development, approval and subsequent changes of the credit risk models (Article 452 (d) CRR)

Roles and responsibilities

Development and maintenance of the IRB credit risk models are the responsibility of the IRB and Predictive Modelling team. The monitoring of the models is overseen by the model Monitoring and Management team.

Oversight of any changes to the rating systems and models is conducted by the MRO team, who perform independent validation of all key aspects. This includes independent validation of the scope, assumptions, data, methodologies, model performance, impact and implementation of the changes. A final report with associated actions (if required) is submitted to the governance committees for consideration.

All changes to the IRB credit risk models and rating systems must be approved by MGC, which includes attendees from the IRB and Predictive Modelling team, the MRO team and Internal Audit as well as members including the Chief Customer Experience Officer, the Chief Financial Officer, the Group Financial Controller, the Chief Risk Officer, the Chief Commercial Officer, the Chief Credit Officer and the Head of Financial Planning & Analysis and Capital Management.

Corporate IRB PD modelling approach

There are six IRB models used to calculate the capital requirements for the Corporate portfolio. These models are segmented based on one or more of exposure, turnover, and sector. The models take the form of scorecards utilising qualitative questions and, where available, quantitative metrics, to determine an overall score which is converted into a PD estimate.

Assignment to Retail or Non-Retail asset classes is determined in accordance with CRR Article 147 for exposure classification. Assignment to individual models is performed based on the product and collateral type or for Non-Retail exposures on industry or exposure size.

Assignment rules for Non-Retail exposures ensure that exposures/transactions are assigned to the following key Non-Retail model segments:

a) *Corporate* – The Group has developed PD models for this exposure class. Within corporate, large exposures with available financial accounts are further assigned to Mid-Market and SME models, primarily based on turnover. Large exposure without financial accounts and smaller exposures that are non-trading are assigned to the Limited Financial Input Non-Trade model. The remaining small exposures are assigned to the Small Business model.

b) *Real Estate* – The Group has developed PD models for this exposure class for the purposes of internal credit approval, pricing and provisioning. Within Commercial Real Estate (CRE) PD models, exposures are further assigned to developer, large investor and small-investor categories based on type of transaction and exposure size. These models are not used for capital calculations as the CRE exposure use the IRB Slotting approach for capital calculations.

c) *Agriculture* – The Group has developed two IRB PD models for this exposure class. Within agriculture, exposures are assigned to large-agriculture or small-agriculture based on exposure size.

d) *Non-Bank Financial Institution/Sovereign/Banks/Universities/Housing Associations/Project Finance* – These exposures are planned to remain on Permanent Partial Use under Article 150 of the CRR.

Obligor financial characteristics are input into a system-based spreading tool for business customers and into a spreadsheet-based spreading tool for agricultural customers (except for the Q&A models which use manual inputs) which automates the process of loading data into eCRS (rating system for Non-Retail customers) based on pre-defined rules.

The eCRS rating system then generates a rating for the obligor which is reviewed and assessed by a separate case officer. The rating criteria (obligor characteristics) are clearly defined as inputs into eCRS and the key definitions are embedded within the rating system. The definitions of rating grades are also available to all rating system users and these are mapped to PD values. This documentation enables users to have a consistent understanding of rating grades and risk profiles and allows them to consistently assign obligors to appropriate grades or pools through the rating system.

The Group uses the same rating system across businesses, departments and geographic locations for Non-Retail exposures, with appropriate underlying models for specific exposure types.

All rating assignments for the Non-Retail models are reviewed and refreshed at an annual basis, or more frequently, where there is a change in the obligor's risk profile. This ensures that an appropriate review of rating assignments is undertaken on a periodic basis.

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

All data inputs/outputs into Non-Retail models are subject to three layers of vetting:

1. Financial data is input by a centralised, independent team and subject to validation checks such as inputs balancing. The data is then subjected to 'objective' checks that are run automatically, including checks that identify incompleteness and/or invalid values. Standard checks such as 'valid input type' (e.g. non-negative values, non-numeric values, date to be past etc.) are automatically applied. Data is also checked for reasonableness if it is within the expected ranges. The values cannot be processed further if this check identifies any issues that need to be remediated before moving forward.
2. A staff member (senior Relationship Manager or credit officer) with appropriate experience and knowledge of the customer, checks the financial inputs and undertakes plausibility checks of a more subjective nature, which take account of the characteristics of the obligor and the transaction. Any issues identified are discussed and remediated with the relevant person who made the entry into the system.
3. Separate independent sample checks are carried out to ensure accuracy, completeness and appropriateness of the data and periodic monitoring to ensure the models remain relevant to the portfolios. Data inputs are both manually reviewed on input and reviewed during development and monitoring. Max financial ratios/inputs do have established and expected rates and they are incorporated within eCRS for user review. The variable transformation for model development includes a formal review of the distribution of these variables.

On a monthly basis, the Group's model monitoring team conducts a systematic analysis of model performance and stability. The Group also regularly performs model 'backtesting', reviewing and updating model specification as appropriate. Model outputs are compared with expected model outcomes as part of the monthly monitoring processes. Model performance reports are submitted to the relevant governance committees for discussion and/or escalation.

Key metrics such as predictive power, accuracy and robustness are assessed and documented as part of the model build; and assessed on an ongoing basis.

The IRB PD models were recalibrated in 2018 and independently validated by MRO. All relevant models have been through a full annual revalidation to account for the enhancements to the definition of default and other model changes, with a level of validation commensurate to the model materiality and change impact.

These validations involve the MRO independently reviewing all relevant components (including but not limited to data, methodology, documentation, performance, conservatism and regulatory compliance). For the deepest reviews (Targeted Positive Assurance), the MRO independently replicated data extraction/exclusions, model performance and regulatory compliance.

Specialised lending

CRE exposures are rated using the IRB Slotting approach.

Corporate LGD and EAD modelling approach

Corporate exposures are rated using the FIRB approach, and therefore use the LGDs and CCFs specified in the CRR. There is a small element of Corporate exposures which continue to be captured under the Standardised Approach under Permanent Partial Use per CRR Article 150(1)(c).

Retail mortgages IRB PD modelling approach

The Group uses bespoke models to calculate IRB capital requirements in relation to its mortgage portfolios. The models are used to estimate PDs for residential, Buy-to-Let (BTL) and Current Account Mortgage (CAM) products. In line with existing approved permissions, two distinct sets of credit models are used for heritage Virgin Money Holdings (UK) plc and heritage Clydesdale Bank PLC, and two distinct definitions of default are in place. The heritage Virgin Money Holdings (UK) plc permission uses a 180 days past due definition while the heritage Clydesdale Bank PLC permission is on a 90 days past due basis. The models follow a consistent methodology for LGD and EAD estimation. However, there is a distinction between the rating systems used to estimate PD for exposures originally originated as part of Virgin Money Holdings (UK) plc portfolios (Through the Cycle) and Clydesdale Bank PLC portfolios (Point in Time). The Point in Time approach includes an additional conservative buffer.

The PDs for both heritages are derived from scorecards that use a variety of internal customer behaviour and external bureau information. For newly-originated accounts, PDs are assigned with respect to the customer's application score. Subsequently, behavioural scores are used. The PDs are then adjusted, depending on the heritage, using the following approaches:

Through the Cycle (TTC) – The models determine long run average PD for each segment in order to calculate expected losses and risk-weighted assets. In addition, the models are used to inform risk appetite, influence lending strategy and support determination of the level of impairment provisions.

The rating models group customers into segments differentiated by a number of factors, which include product type, Loan-to-Value (LTV) and measures of affordability. For each segment, a long run average PD, downturn LGD and EAD are estimated from a combination of recent and historic data. Data covering the period back to the early 1990s is utilised in the derivation of the PD. All models incorporate an appropriate level of conservatism to account for uncertainty around model estimates over an economic cycle or in downturn conditions. The adequacy of this conservatism is robustly challenged through the Group's internal governance process.

Point in Time (PiT) – A PiT ratings approach is used as a base for risk estimation, with a conservative PD adjustment adopted for regulatory long run average. This approach has been selected to mitigate against the historical data constraints across a representative mix of good and bad years (as required by PRA Supervisory Statement SS11/13), inclusive of the UK mortgage downturn of the early 1990s. This conservative adjustment has then been further considered to understand if it is likely to be sufficient across the whole cycle through a range of back casting and estimation processes, including future stressed scenarios.

The Group is cognisant of PRA policy statement PS 13/17 which outlines that an alternate approach for long run estimation will be required. In response to this, the Group has developed 'Hybrid' models which will be consistent across both heritages. These models are currently the subject of remediation activity ahead of seeking final PRA approval.

A mandatory quarterly realignment framework has been established to maintain the alignment of modelled estimates with observed performance, with implications on both capital and IFRS 9 ECL. Approval is sought at MGC level with PRA notification as required depending on the materiality of impacts.

All mortgage models are subject to monthly model monitoring by the credit risk team, with presentation to the relevant committees, as set out in pages 167 to 170 of the Risk report available in the Group's 2022 Annual Report & Accounts.

The discriminative power and accuracy of the models is measured over time and any breaches against defined triggers are investigated and actioned. The second-line MRO reviews and challenges the assessment within model governance and through its annual review process, as set out in the model validation frameworks and associated standards.

Model performance is validated in terms of (a) model discriminatory power and (b) model accuracy (by testing alignment of model outputs against outcomes). Further stability of the models is validated by assessing the stability of the model variables over time using metrics such as Population Stability Index.

The data used in the rating systems covers a long history of account and customer level information along with bureau information from credit reference agencies. The model developments have used a long history of internal information which are subject to well established controls from a data capture and data quality perspective.

Retail mortgage IRB EAD modelling approach

Fixed Term Mortgages (Residential and BTL) have a fixed amortising repayment schedule whereas the CAM portfolio (which is specific to heritage Clydesdale Bank PLC) consists of revolving overdrafts, secured by residential property.

1. Fixed Term Mortgages are modelled directly based on balance adjusted for payment approach, including interest, charges accrued and payments made.
2. The CAM portfolio is modelled using a Conversion Factor approach to convert any undrawn exposure into predicted drawn exposure.
3. The regulatory EAD converts the underlying EAD using conservative assumptions to adjust for a downturn estimation, for example, no/reduced payments or increased use of headroom.

Retail mortgages IRB LGD modelling approach

The Group has developed bespoke LGD models which follow a structured approach in line with industry practice. The methodology reflects the operational process to recover debt, based on three key modelled components:

- time to repossession and sale;
- probability of possession; and
- shortfall after the property sale.

The regulatory LGD converts the underlying LGD using conservative assumptions to adjust for a downturn estimation. The primary factors in this include a reduction in house prices, increased discount rates and shortfall resulting in increased time to sale, increased possession rate and shortfall or forced sale discount.

(d) Scope and main content of the reporting related to credit risk models (Article 452 (e) CRR)

Retail Mortgages (AIRB)

Reporting and monitoring on the Bank's Retail IRB models is carried out monthly to ensure model performance remains in line with expectations. Detailed summaries are produced on a quarterly basis to inform internal Governance Committee members and Senior Management of the model's performance. Additionally, in depth reviews are conducted on a regular basis and approved by the Chief Risk Officer and submitted to the PRA for review. The Board receives reports on model performance.

Monthly monitoring on the Retail IRB models assesses data quality, component model performance and modelled RWA outputs. Data quality is assessed via a series of tests to ensure the data used in the models remains appropriate for use. Model performance is measured against three key statistical tests; measuring the models ability to rank risk effectively (model discrimination); accuracy of the expected modelled outcomes (model accuracy); population composition and distribution (model population stability). The monitoring is produced and assessed monthly within the Model Monitoring and Management team and presented and discussed quarterly at Model Performance Monitoring Group (MPMG), CMTF and MGC. Attendees at committees as a minimum include the model owners, Model Risk Oversight, Credit Risk, Credit Risk Oversight, Finance and Commercial representatives.

Monthly movements in modelled RWA outputs are discussed in Own Funds Committee with detailed explanations behind the drivers in movements presented to attendees.

Annual model reviews are carried out on the Retail IRB models to assess compliance to applicable regulations, outputs of this review are presented to MGC and the Chief Risk Officer for approval prior to submission to the PRA.

Business (FIRB and Slotting)

As with Retail IRB, reporting and monitoring on the banks FIRB PD and Slotting models is carried out monthly to ensure model performance remains in line with expectations. Detailed summaries are produced on a quarterly basis to inform internal Governance Committee members and Senior Management of the model's performance. Additionally, in depth reviews are conducted on an annual basis and approved by the Chief Risk Officer and submitted to the PRA for review.

In line with Retail IRB, monthly monitoring on the FIRB and Slotting models assesses data quality, component model performance and modelled RWA outputs. Data quality is assessed via a series of tests to ensure the data used in the models remains appropriate for use. Model performance is measured against three key statistical tests; measuring the models ability to rank risk effectively (model discrimination); accuracy of the expected modelled outcomes (model accuracy); population composition and distribution (model population stability). The monitoring is produced and assessed monthly within the Model Monitoring and Management team and presented and discussed quarterly at MPMG, CMTF and MGC. Attendees at committees as a minimum include the model owners, Model Risk Oversight, Credit Risk, Credit Risk Oversight, Finance and Commercial representatives.

Monthly movements in modelled RWA outputs are discussed in Own Funds Committee with detailed explanations behind the drivers in movements presented to attendees.

Annual model reviews are carried out on the FIRB and Slotting models to assess compliance to applicable regulations, outputs of this review are presented to MGC and the Chief Risk Officer for approval prior to submission to the PRA.

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12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

(e) Internal ratings process by exposure class (Article 452 (f) CRR):

Division	Portfolio/Category of Basel Assets	Portfolio RWA @ 30 September 2022 (£m)	Model	Number of key models	Model description and methodology	Number of years of loss data	Applicable industry-wide regulatory thresholds
Retail	Retail – secured by immovable property non-SME hCYB	4,460	PD	4	Segmented by product type: residential, Buy-to-Let and Current Account Mortgages. Data driven models mapping accounts to PD rating segments using application scores, behavioural scores and arrears status to assign a segment-level regulatory PD.		PD floor of 0.03%
			EAD	2	Data driven models to estimate drawdowns and interest added to the account balance prior to default, as a downturn view.	> 10 years	Floored by existing account balance
			LGD	1	Data driven estimates of probability of possession given default and loss in event of possession. Models are segmented using key risk drivers of loss including product type, LTV, property type and region.		Portfolio average downturn LGD floor of 10% and account level floor of 5%
Retail	Retail – secured by immovable property non-SME hVM	4,696	PD	1	Segmented by product type: residential, Buy-to-Let and Current Account Mortgages. Data driven models mapping accounts to PD rating segments using application scores, behavioural scores and arrears status to assign a segment level regulatory PD.		PD floor of 0.03%
			EAD	1	Data driven model to estimate drawdowns and interest added to the account balance prior to default, as a downturn view.	> 10 years	Floored by existing account balance
			LGD	1	Data driven estimates of probability of possession given default and loss in event of possession. Models are segmented using key risk drivers of loss including product type, LTV, property type and region.		Portfolio average downturn LGD floor of 10% and account level floor of 5%
Commercial	Corporates – SME	3,628	PD	6	Segmented by exposure and turnover with different models for corporate exposures (4) and agriculture exposures (2). Data driven models mapping customers to PD rating grades using application scores and arrears status to assign a grade level regulatory PD.		PD floor of 0.03%
Commercial	Corporates – other	1,795	PD	6	Same six PD modes as the Corporate SME category.	> 10 years	PD floor of 0.03%
Commercial	Corporates – Specialised lending	364	IPRE Slotting Model	3	One model each for developer exposures, investor complete and stabilised exposures and investor complete but not stabilised exposures. Data driven model using regulatory factors, responses and scoring logic. Assigns risk weights based on one of five outcomes (Strong, Good, Satisfactory, Weak and default) along with remaining maturity.		N/A

Drivers of losses

Data is at 30 September 2022, so default periods cover September to September (e.g. 2021 – 2022 is from 30 September 2021 to 30 September 2022). Customer numbers are taken from the start of the period and defaults include any customers that default over the 12-month period. Customers in default at the start of the period are excluded from both the customer count and the default count.

	2021 – 2022			2020 – 2021			2019 – 2020		
	Customers	Defaults	Rate	Customers	Defaults	Rate	Customers	Defaults	Rate
Large Corporate	449	7	1.6%	500	15	3.0%	521	17	3.3%
SME	9,900	166	1.7%	10,689	163	1.5%	10,832	215	2.0%
Specialised Lending	401	10	2.5%	536	13	2.4%	711	17	2.4%
Total	10,750	183	1.7%	11,725	191	1.6%	12,064	249	2.1%

There has been little change in the customer level default rates for the SME portfolios and overall corporate portfolio over the last few years. There has been some change in the default rate of the Large Corporate portfolio, but this is due to low volumes of both customers and defaults with the most recent change being the result of eight fewer defaults, including fewer related defaults.

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12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

12.2 UK CR6 – IRB approach – Credit risk exposures by exposure class and PD range

The Group operates with two sets of IRB models for Retail Mortgages reflecting the portfolios and their heritage from the merger of CYB Group with the Virgin Money Group by way of the acquisition of Virgin Money Holdings (UK) PLC by the Company. The models have differing modelling methodologies and the associated portfolios have different risk profiles. Combining these into a single table does not provide a valid representation of risk, therefore the position of each heritage portfolio as at 30 September 2022 is presented separately below.

The gross exposure values are reported at 30 September 2022. The values at 30 September 2021 are the gross exposures minus on-balance sheet netting.

12.2.1 Clydesdale Bank PLC Retail Mortgages – (AIRB) Retail Secured by Immovable Property non-SME[(1)]

	30 September 2022											
A	B	C	D	E	F	G	H	I	J	K	L	M
	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average maturity (years)	Risk-weighted exposure amount after supporting factors	Density of risk-weighted exposure amount[(3)]	Expected loss amount	Value adjustments and provisions[(2)]
PD range[(2)]	£m	£m	%	£m	%	#	%	years	£m	%	£m	£m
0.00 to <0.15	**408**	**258**	**102.3%**	**682**	**0.1%**	**4,695**	**12.1%**	**–**	**19**	**2.8%**	**–**	**–**
0.00 to <0.10	**135**	**235**	**102.3%**	**379**	**0.1%**	**3,031**	**11.5%**	**–**	**7**	**1.9%**	**–**	**–**
0.10 to <0.15	**273**	**23**	**102.3%**	**303**	**0.1%**	**1,664**	**12.8%**	**–**	**11**	**3.8%**	**–**	**–**
0.15 to <0.25	**1,902**	**141**	**102.5%**	**2,093**	**0.2%**	**21,959**	**10.5%**	**–**	**90**	**4.3%**	**–**	**–**
0.25 to <0.50	**9,829**	**186**	**102.4%**	**10,256**	**0.4%**	**53,096**	**11.7%**	**–**	**834**	**8.1%**	**5**	**(2)**
0.50 to <0.75	**2,242**	**66**	**102.1%**	**2,363**	**0.6%**	**10,158**	**13.0%**	**–**	**322**	**13.6%**	**2**	**(1)**
0.75 to <2.50	**5,945**	**1,131**	**102.0%**	**7,235**	**1.1%**	**26,825**	**16.5%**	**–**	**1,819**	**25.1%**	**14**	**(7)**
0.75 to <1.75	**4,898**	**1,105**	**102.0%**	**6,141**	**1.0%**	**21,642**	**17.3%**	**–**	**1,512**	**24.6%**	**11**	**(4)**
1.75 to <2.5	**1,048**	**26**	**101.7%**	**1,094**	**2.0%**	**5,183**	**12.0%**	**–**	**306**	**28.0%**	**3**	**(3)**
2.50 to <10.00	**671**	**10**	**102.5%**	**697**	**4.5%**	**4,367**	**12.8%**	**–**	**329**	**47.2%**	**5**	**(5)**
2.50 to <5.00	**484**	**7**	**102.5%**	**503**	**3.6%**	**3,192**	**12.5%**	**–**	**208**	**41.4%**	**3**	**(2)**
5.00 to <10.00	**187**	**3**	**102.4%**	**194**	**6.8%**	**1,175**	**13.8%**	**–**	**121**	**62.2%**	**2**	**(4)**
10.00 to <100.00	**205**	**4**	**102.2%**	**214**	**39.8%**	**1,261**	**13.1%**	**–**	**182**	**85.2%**	**14**	**(7)**
10.00 to <20.00	**37**	**1**	**102.5%**	**38**	**13.4%**	**264**	**11.6%**	**–**	**26**	**68.2%**	**1**	**(1)**
20.00 to <30.00	**72**	**1**	**102.2%**	**74**	**23.4%**	**454**	**13.5%**	**–**	**65**	**87.1%**	**2**	**(2)**
30.00 to <100.00	**96**	**3**	**102.1%**	**101**	**61.8%**	**543**	**13.3%**	**–**	**91**	**90.2%**	**10**	**(4)**
100.00 (Default)	**406**	**7**	**100.0%**	**413**	**100.0%**	**2,713**	**17.6%**	**–**	**865**	**209.5%**	**6**	**(12)**
Subtotal	**21,608**	**1,803**	**102.2%**	**23,953**		**125,074**		**–**	**4,460**	**18.6%**	**46**	**(34)**

(1) Clydesdale Bank PLC retail mortgages excluding the portfolio of heritage Virgin Money mortgages transferred on completion of the Financial Services and Markets Act 2000 (FSMA) Part VII transfer in October 2019.

(2) Following the implementation of PS22/21 effective from 1 January 2022, more detailed PD ranges are disclosed compared to the prior period and value adjustments and provisions are now captured as a negative. The prior period has not been restated.

(3) RWEA density calculation has been performed on unrounded figures.

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12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

Clydesdale Bank PLC Retail Mortgages – (AIRB) Retail Secured by Immovable Property non-SME (continued)

30 September 2021												
A	B	C	D	E	F	G	H	I	J	K	L	M
PD range	On-balance sheet exposures £m	Off-balance sheet exposures pre-CCF £m	Exposure weighted average CCF %	Exposure post-CCF and post-CRM £m	Exposure weighted average PD %	Number of obligors #	Exposure weighted average LGD %	Exposure weighted average maturity years	Risk-weighted exposure amount after supporting factors £m	Density of risk-weighted exposure amount[1] %	Expected loss amount £m	Value adjustments and provisions £m
0.00 to <0.15	1,490	540	102.0%	2,075	0.1%	10,401	13.6%	–	84	4.0%	–	
0.15 to <0.25	1,729	160	102.1%	1,934	0.2%	8,740	12.5%	–	121	6.2%	1	
0.25 to <0.50	5,401	426	102.2%	5,966	0.4%	47,580	12.5%	–	567	9.5%	3	
0.50 to <0.75	3,111	102	102.2%	3,290	0.6%	16,376	14.1%	–	490	14.9%	3	
0.75 to <2.50	9,407	129	102.1%	9,757	1.2%	42,813	15.8%	–	2,386	24.5%	21	
2.50 to <10.00	790	13	102.4%	822	4.5%	5,595	14.9%	–	394	48.0%	6	
10.00 to <100.00	146	3	102.4%	152	34.2%	1,144	15.4%	–	123	81.1%	8	
100.00 (Default)	466	7	100.0%	474	100.0%	3,092	17.4%	–	970	204.8%	7	
Subtotal	22,540	1,380	102.0%	24,470	3.0%	135,741	14.3%	–	5,135	21.0%	49	53

(1) RWEA density calculation has been performed on unrounded figures.

Annexes

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

12.2.2 Virgin Money Retail Mortgages – (AIRB) Retail Secured by Immovable Property non-SME[1]

	30 September 2022											
	A	B	C	D	E	F	G	H	I	J	K	L
PD range[2]	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average maturity	Risk-weighted exposure amount after supporting factors	Density of risk-weighted exposure amount[3]	Expected loss amount	Value adjustments and provisions[2]
	£m	£m	%	£m	%	#	%	years	£m	%	£m	£m
0.00 to <0.15	**2,401**	**101**	**100.0%**	**2,530**	**0.1%**	**17,795**	**7.8%**	**–**	**61**	**2.4%**	**–**	**–**
0.00 to <0.10	**–**	**–**	**100.0%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.10 to <0.15	**2,401**	**101**	**100.0%**	**2,530**	**0.1%**	**17,795**	**7.8%**	**–**	**61**	**2.4%**	**–**	**–**
0.15 to <0.25	**5,094**	**240**	**100.0%**	**5,394**	**0.2%**	**32,482**	**9.9%**	**–**	**209**	**3.9%**	**1**	**–**
0.25 to <0.50	**14,021**	**1,085**	**100.0%**	**15,280**	**0.4%**	**95,666**	**10.6%**	**–**	**1,077**	**7.0%**	**6**	**(2)**
0.50 to <0.75	**7,139**	**455**	**100.0%**	**7,685**	**0.6%**	**39,038**	**12.6%**	**–**	**935**	**12.2%**	**6**	**(1)**
0.75 to <2.50	**6,293**	**437**	**100.0%**	**6,817**	**1.1%**	**44,210**	**16.3%**	**–**	**1,450**	**21.3%**	**11**	**(4)**
0.75 to <1.75	**5,955**	**410**	**100.0%**	**6,447**	**1.0%**	**41,599**	**16.6%**	**–**	**1,363**	**21.1%**	**10**	**(4)**
1.75 to <2.5	**338**	**27**	**100.0%**	**369**	**2.4%**	**2,611**	**10.4%**	**–**	**88**	**23.7%**	**1**	**–**
2.50 to <10.00	**1,063**	**64**	**100.0%**	**1,143**	**4.1%**	**8,454**	**12.7%**	**–**	**430**	**37.6%**	**6**	**(2)**
2.50 to <5.00	**812**	**54**	**100.0%**	**878**	**3.2%**	**6,654**	**13.7%**	**–**	**333**	**37.9%**	**4**	**(1)**
5.00 to <10.00	**251**	**11**	**100.0%**	**265**	**6.8%**	**1,800**	**9.1%**	**–**	**97**	**36.6%**	**2**	**(1)**
10.00 to <100.00	**703**	**12**	**100.0%**	**725**	**30.1%**	**5,642**	**12.5%**	**–**	**467**	**64.5%**	**23**	**(12)**
10.00 to <20.00	**422**	**7**	**100.0%**	**434**	**14.1%**	**3,423**	**14.4%**	**–**	**335**	**77.0%**	**9**	**(6)**
20.00 to <30.00	**37**	**1**	**100.0%**	**39**	**23.6%**	**296**	**8.0%**	**–**	**19**	**48.6%**	**1**	**–**
30.00 to <100.00	**244**	**4**	**100.0%**	**252**	**58.6%**	**1,923**	**9.8%**	**–**	**114**	**45.3%**	**13**	**(5)**
100.00 (Default)	**77**	**1**	**100.0%**	**78**	**100.0%**	**602**	**6.9%**	**–**	**67**	**85.9%**	**4**	**–**
Subtotal	**36,791**	**2,395**	**100.0%**	**39,652**		**243,889**		**–**	**4,696**	**11.8%**	**57**	**(21)**

(1) Retail mortgages written under the Virgin Money brand which were previously held in Virgin Money PLC (now re-registered as Virgin Money Limited) prior to completion of the FSMA Part VII transfer in October 2019.

(2) Following the implementation of PS22/21 effective from 1 January 2022, more detailed PD ranges are disclosed compared to the prior period to reflect the new guidelines.

(3) RWEA density calculation has been performed on unrounded figures.

Annexes

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

Virgin Money Retail Mortgages – (AIRB) Retail Secured by Immovable Property non-SME (continued)

	30 September 2021											
	A	B	C	D	E	F	G	H	I	J	K	L
	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average maturity	Risk-weighted exposure amount after supporting factors	Density of risk-weighted exposure amount[1]	Expected loss amount	Value adjustments and provisions
PD range	£m	£m	%	£m	%	#	%	years	£m	%	£m	£m
0.00 to <0.15	2,407	163	100.0%	2,597	0.1%	17,128	8.9%	–	67	2.6%	–	
0.15 to <0.25	8,534	222	100.0%	8,850	0.2%	59,967	9.6%	–	349	3.9%	2	
0.25 to <0.50	10,261	515	100.0%	10,887	0.4%	57,902	10.5%	–	761	7.0%	4	
0.50 to <0.75	6,361	231	100.0%	6,670	0.6%	45,708	17.1%	–	1,056	15.8%	7	
0.75 to <2.50	6,226	300	100.0%	6,607	1.0%	43,681	18.0%	–	1,546	23.4%	12	
2.50 to <10.00	1,353	36	100.0%	1,406	3.8%	10,500	14.7%	–	610	43.4%	8	
10.00 to <100.00	612	10	100.0%	630	33.4%	4,992	12.5%	–	406	64.5%	23	
100.00 (Default)	81	1	100.0%	82	100.0%	653	9.9%	–	80	97.8%	5	
Subtotal	35,835	1,478	100.0%	37,729	1.4%	240,531	12.8%	–	4,875	12.9%	61	33

(1) RWEA density calculation has been performed on unrounded figures.

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

12.2.3 Clydesdale Bank PLC Business Lending – (FIRB) Corporates: Business

	30 September 2022											
	A	B	C	D	E	F	G	H	I	J	K	L
PD range[1]	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average maturity	Risk-weighted exposure amount after supporting factors	Density of risk-weighted exposure amount[2]	Expected loss amount	Value adjustments and provisions[2]
	£m	£m	%	£m	%	#	%	years	£m	%	£m	£m
0.00 to <0.15	**69**	**58**	**69.9%**	**106**	**0.1%**	**139**	**41.1%**	**1.71**	**15**	**14.6%**	**–**	**–**
0.00 to <0.10	**30**	**13**	**66.5%**	**37**	**0.1%**	**35**	**39.4%**	**1.88**	**5**	**12.8%**	**–**	**–**
0.10 to <0.15	**39**	**45**	**70.8%**	**69**	**0.1%**	**104**	**42.0%**	**1.62**	**11**	**15.6%**	**–**	**–**
0.15 to <0.25	**304**	**245**	**69.7%**	**457**	**0.2%**	**649**	**40.6%**	**2.13**	**107**	**23.4%**	**–**	**–**
0.25 to <0.50	**921**	**506**	**66.9%**	**1,208**	**0.4%**	**1,625**	**39.4%**	**2.16**	**407**	**33.6%**	**2**	**–**
0.50 to <0.75	**314**	**122**	**68.0%**	**379**	**0.6%**	**515**	**39.3%**	**2.25**	**160**	**42.2%**	**1**	**–**
0.75 to <2.50	**2,927**	**873**	**65.0%**	**3,328**	**1.5%**	**4,481**	**39.8%**	**2.42**	**2,087**	**62.7%**	**19**	**(22)**
0.75 to <1.75	**1,633**	**478**	**64.4%**	**1,849**	**1.1%**	**2,587**	**39.7%**	**2.26**	**1,029**	**55.7%**	**8**	**(4)**
1.75 to <2.5	**1,294**	**395**	**65.6%**	**1,480**	**2.0%**	**1,894**	**39.9%**	**2.61**	**1,058**	**71.5%**	**12**	**(18)**
2.50 to <10.00	**761**	**178**	**68.8%**	**841**	**4.3%**	**1,336**	**40.5%**	**1.80**	**768**	**91.3%**	**17**	**(22)**
2.50 to <5.00	**579**	**136**	**69.3%**	**640**	**3.7%**	**939**	**40.4%**	**1.84**	**562**	**87.8%**	**11**	**(14)**
5.00 to <10.00	**182**	**42**	**67.4%**	**201**	**6.5%**	**397**	**40.7%**	**1.66**	**206**	**102.7%**	**6**	**(8)**
10.00 to <100.00	**59**	**11**	**72.1%**	**64**	**19.8%**	**152**	**40.6%**	**1.51**	**84**	**131.0%**	**5**	**(4)**
10.00 to <20.00	**20**	**7**	**72.1%**	**23**	**13.4%**	**78**	**38.1%**	**1.57**	**21**	**89.9%**	**1**	**(1)**
20.00 to <30.00	**39**	**5**	**72.2%**	**40**	**23.4%**	**74**	**42.0%**	**1.47**	**63**	**154.7%**	**4**	**(3)**
30.00 to <100.00	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100.00 (Default)	**141**	**17**	**73.3%**	**145**	**100.0%**	**125**	**41.7%**	**1.51**	**–**	**–**	**61**	**(25)**
Subtotal	**5,496**	**2,010**	**66.7%**	**6,528**		**9,022**		**2.22**	**3,628**	**55.6%**	**105**	**(73)**

(1) Following the implementation of PS22/21 effective from 1 January 2022, more detailed PD ranges are disclosed compared to the prior period to reflect the new guidelines.

(2) RWEA density calculation has been performed on unrounded figures.

Annexes

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

Clydesdale Bank PLC Business Lending – (FIRB) Corporates: Business (continued)

	30 September 2021											
	A	B	C	D	E	F	G	H	I	J	K	L
	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average maturity[1]	Risk-weighted exposure amount after supporting factors	Density of risk-weighted exposure amount[2]	Expected loss amount	Value adjustments and provisions
PD range	£m	£m	%	£m	%	#	%	years	£m	%	£m	£m
0.00 to <0.15	64	46	69.2%	91	0.1%	115	40.8%	1.72	14	15.8%	–	
0.15 to <0.25	235	254	70.3%	398	0.2%	655	41.0%	2.33	101	25.3%	–	
0.25 to <0.50	941	441	66.3%	1,198	0.4%	1,590	39.4%	2.26	422	35.2%	2	
0.50 to <0.75	297	137	67.2%	368	0.6%	547	39.3%	2.02	151	41.0%	1	
0.75 to <2.50	2,882	937	66.9%	3,313	1.5%	4,852	39.9%	2.25	2,019	60.9%	20	
2.50 to <10.00	967	246	63.4%	1,005	4.5%	1,908	40.9%	1.82	807	80.3%	18	
10.00 to <100.00	115	18	67.8%	116	19.0%	229	38.9%	1.65	147	126.6%	8	
100.00 (Default)	140	10	70.9%	138	100.0%	160	41.5%	1.87	–	0.0%	57	
Subtotal	5,641	2,089	66.9%	6,627	4.0%	10,056	39.7%	2.15	3,661	55.2%	106	150

(1) Figures from Sept 2021 have been restated in years, rather than days.

(2) RWEA density calculation has been performed on unrounded figures.

Annexes

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

12.2.4 Clydesdale Bank PLC Corporates – Other – (FIRB) Corporates: Other

	30 September 2022											
	A	B	C	D	E	F	G	H	I	J	K	L
	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average maturity	Risk-weighted exposure amount after supporting factors	Density of risk-weighted exposure amount[2]	Expected loss amount	Value adjustments and provisions
PD range[1]	£m	£m	%	£m	%	#	%	years	£m	%	£m	£m
0.00 to <0.15	**19**	**60**	**74.7%**	**64**	**0.1%**	**20**	**39.9%**	**1.08**	**12**	**18.3%**	**–**	**–**
0.00 to <0.10	**16**	**49**	**74.6%**	**52**	**0.1%**	**16**	**39.1%**	**1.00**	**9**	**16.7%**	**–**	**–**
0.10 to <0.15	**4**	**11**	**74.9%**	**12**	**0.1%**	**4**	**43.1%**	**1.46**	**3**	**25.7%**	**–**	**–**
0.15 to <0.25	**46**	**77**	**64.4%**	**95**	**0.2%**	**23**	**44.3%**	**1.62**	**35**	**37.5%**	**–**	**–**
0.25 to <0.50	**233**	**260**	**55.3%**	**370**	**0.4%**	**69**	**43.3%**	**1.71**	**188**	**50.8%**	**1**	**–**
0.50 to <0.75	**71**	**43**	**74.7%**	**102**	**0.6%**	**14**	**44.8%**	**1.76**	**72**	**71.2%**	**–**	**–**
0.75 to <2.50	**750**	**440**	**63.9%**	**1,015**	**1.6%**	**274**	**43.1%**	**2.75**	**1,126**	**110.9%**	**7**	**(6)**
0.75 to <1.75	**293**	**246**	**63.8%**	**444**	**1.1%**	**100**	**42.6%**	**2.70**	**427**	**96.3%**	**2**	**(1)**
1.75 to <2.5	**457**	**194**	**64.0%**	**572**	**2.1%**	**174**	**43.4%**	**2.78**	**699**	**122.3%**	**5**	**(5)**
2.50 to <10.00	**156**	**55**	**69.9%**	**191**	**4.1%**	**54**	**43.0%**	**2.39**	**271**	**141.1%**	**3**	**(5)**
2.50 to <5.00	**113**	**40**	**68.9%**	**138**	**3.5%**	**42**	**43.9%**	**2.81**	**197**	**142.5%**	**2**	**(3)**
5.00 to <10.00	**43**	**15**	**72.6%**	**53**	**5.7%**	**12**	**40.9%**	**1.29**	**73**	**137.6%**	**1**	**(2)**
10.00 to <100.00	**35**	**10**	**65.6%**	**41**	**23.4%**	**319**	**39.5%**	**2.07**	**91**	**223.2%**	**4**	**–**
10.00 to <20.00	**–**	**–**	**–**	**–**	**13.4%**	**2**	**35.0%**	**2.78**	**–**	**179.0%**	**–**	**–**
20.00 to <30.00	**35**	**10**	**65.6%**	**41**	**23.4%**	**317**	**39.5%**	**2.07**	**91**	**223.2%**	**4**	**–**
30.00 to <100.00	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100.00 (Default)	**74**	**6**	**72.7%**	**77**	**100.0%**	**76**	**43.2%**	**1.44**	**–**	**–**	**33**	**(22)**
Subtotal	**1,384**	**951**	**64.2%**	**1,955**		**849**		**2.29**	**1,795**	**91.8%**	**48**	**(33)**

(1) Following the implementation of PS22/21 effective from 1 January 2022, more detailed PD ranges are disclosed compared to the prior period to reflect the new guidelines.

(2) RWEA density calculation has been performed on unrounded figures.

Annexes

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

Clydesdale Bank PLC Corporates – Other – (FIRB) Corporates: Other (continued)

	30 September 2021											
	A	B	C	D	E	F	G	H	I	J	K	L
	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average maturity[1]	Risk-weighted exposure amount after supporting factors	Density of risk-weighted exposure amount[2]	Expected loss amount	Value adjustments and provisions
PD range	£m	£m	%	£m	%	#	%	years	£m	%	£m	£m
0.00 to <0.15	7	49	73.5%	48	0.1%	21	39.8%	1.47	10	20.4%	–	
0.15 to <0.25	14	52	73.3%	56	0.2%	20	41.7%	1.17	16	28.0%	–	
0.25 to <0.50	153	187	60.9%	269	0.4%	45	43.4%	2.02	152	56.5%	–	
0.50 to <0.75	50	46	58.9%	77	0.6%	16	44.9%	2.04	57	74.9%	–	
0.75 to <2.50	659	271	66.1%	840	1.7%	248	43.5%	2.44	923	109.9%	6	
2.50 to <10.00	198	104	72.2%	251	4.0%	111	43.6%	2.07	345	137.5%	4	
10.00 to <100.00	32	19	72.8%	43	23.3%	125	43.7%	1.79	106	243.8%	5	
100.00 (Default)	31	2	62.2%	32	100.0%	53	43.2%	2.11	–	0.0%	14	
Subtotal	1,144	730	66.4%	1,616	4.2%	639	43.3%	2.20	1,609	99.5%	29	55

(1) Figures from Sept 2021 have been restated in years, rather than days.

(2) RWEA density calculation has been performed on unrounded figures.

Annexes

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

12.3 UK CR6-A – Scope of the use of IRB and SA approaches

As at 30 September 2022		Exposure value as defined in Article 166 CRR for exposures subject to IRB approach	Total exposure value for exposures subject to the Standardised approach and to the IRB approach	Percentage of total exposure value subject to the permanent partial use of the SA (%)	Percentage of total exposure value subject to a roll-out plan (%)	Percentage of total exposure value subject to IRB Approach (%)
		a	b	c	d	e
1	Central governments or central banks	–	**15,618**	**100.0%**	–	–
1.1	*Of which Regional governments or local authorities*		–	–	–	–
1.2	*Of which Public sector entities*		**235**	**100.0%**	–	–
2	Institutions	–	**2,242**	**100.0%**	–	–
3	Corporates	**9,350**	**10,671**	**12.4%**	–	**87.6%**
3.1	*Of which Corporates – Specialised lending, excluding slotting approach*		–	–	–	–
3.2	*Of which Corporates – Specialised lending under slotting approach*		**716**	**26.5%**	–	**73.5%**
4	Retail	**62,701**	**69,074**	**0.5%**	**8.8%**	**90.8%**
4.1	*of which Retail – Secured by real estate SMEs*		–	–	–	–
4.2	*of which Retail – Secured by real estate non-SMEs*		**62,701**	–	–	**100.0%**
4.3	*of which Retail – Qualifying revolving*		**5,401**	–	**100.0%**	–
4.4	*of which Retail – Other SMEs*		–	–	–	–
4.5	*of which Retail – Other non-SMEs*		**972**	**32.6%**	**67.4%**	–
5	Equity	–	**7**	**100.0%**	–	–
6	Other non-credit obligation assets	–	**575**	**100.0%**	–	–
7	**Total**	**72,051**	**98,187**	**20.5%**	**6.2%**	**73.4%**

12.4 UK CR7 – IRB approach – effect on the RWEAs of credit derivative used as CRM techniques

The Group does not use credit derivatives to mitigate credit risk, therefore this template has not been disclosed.

12.5 UK CR7-A – IRB approach: Disclosure of the extent of the use of CRM techniques – AIRB

		A	B	C	D	E	F	G	H	I	J	K	L	M	N
			Credit risk Mitigation techniques											Credit risk Mitigation methods in the calculation of RWEAs	
			Funded credit Protection (FCP) (%)									Unfunded credit Protection (UFCP) (%)			
As at 30 September 2022		Total exposures (£m)	Part of exposures covered by Financial Collaterals	Part of exposures covered by Other eligible collaterals	Part of exposures covered by Immovable property collaterals	Part of exposures covered by Receivables	Part of exposures covered by Other physical collateral	Part of exposures covered by Other funded credit protection	Part of exposures covered by Cash on deposit	Part of exposures covered by Life insurance policies	Part of exposures covered by Instruments held by a third party	Part of exposures covered by Guarantees	Part of exposures covered by Credit Derivatives	RWEA post all CRM assigned to the obligor exposure class (£m)	RWEA with substitution effects (£m)
4	Retail, of which:	**63,605**	–	**99.90%**	**99.90%**	–	–	–	–	–	–	–	–	**9,155**	**9,155**
4.2	*Immovable property non-SMEs*	**63,605**	–	**99.90%**	**99.90%**	–	–	–	–	–	–	–	–	**9,155**	**9,155**
5	Total	**63,605**	–	**99.90%**	**99.90%**	–	–	–	–	–	–	–	–	**9,155**	**9,155**

Annexes

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

12.6 UK CR7-A – IRB approach: Disclosure of the extent of the use of CRM techniques – FIRB

		A	B	C	D	E	F	G	H	I	J	K	L	M	N
			Credit risk Mitigation techniques											Credit risk Mitigation methods in the calculation of RWEAs	
			Funded credit Protection (FCP) (%)									Unfunded credit Protection (UFCP) (%)			
As at 30 September 2022		Total exposures (£m)	Part of exposures covered by Financial Collaterals	Part of exposures covered by Other eligible collaterals	Part of exposures covered by Immovable property collaterals	Part of exposures covered by Receivables	Part of exposures covered by Other physical collateral	Part of exposures covered by Other funded credit protection	Part of exposures covered by Cash on deposit	Part of exposures covered by Life insurance policies	Part of exposures covered by Instruments held by a third party	Part of exposures covered by Guarantees	Part of exposures covered by Credit Derivatives	RWEA post all CRM assigned to the obligor exposure class (£m)	RWEA with substitution effects (£m)
3	Corporates, of which:	**8,483**	**0.90%**	**47.90%**	**36.50%**	**5.90%**	**5.50%**	**–**	**–**	**–**	**–**	**–**	**–**	**5,423**	**5,423**
3.1	*SMEs*	**6,528**	**0.80%**	**52.30%**	**41.60%**	**5.80%**	**4.90%**	**–**	**–**	**–**	**–**	**–**	**–**	**3,628**	**3,628**
3.3	*Corporates – Other*	**1,955**	**1.40%**	**17.60%**	**4.20%**	**6.10%**	**7.40%**	**–**	**–**	**–**	**–**	**–**	**–**	**1,795**	**1,795**
5	Total	**8,483**	**0.90%**	**47.90%**	**36.50%**	**5.90%**	**5.50%**	**–**	**–**	**–**	**–**	**–**	**–**	**5,423**	**5,423**

12.7 UK CR8 – RWEA flow statements of credit risk exposures under the IRB approach

The table below summarises movements of risk-weighted assets for credit risk exposures under the IRB approach.

		A
		Risk-weighted exposure amount £m
1	**Risk-weighted exposure amount as at 30 June 2022**	**15,181**
2	Asset size (+/-)	**188**
3	Asset quality (+/-)	**(182)**
4	Model updates[1] (+/-)	**(244)**
9	**Risk-weighted exposure amount as at 30 September 2022**	**14,943**

(1) Model updates include the mortgage quarterly PD calibrations.

RWA reduced c.£0.2bn to £14.9bn primarily due to the impact of improvements to the House Price Index offsetting the impact of higher lending.

Model updates are solely the result of quarterly PD re-calibrations.

Annexes

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

12.8 UK CR9 – A-IRB approach – Back-testing of PD per exposure class (fixed PD scale) – VM Mortgages

A	B	C	D	E	F	G	H
Exposure class	PD range	Number of obligors at the end of previous year	*Of which: number of obligors which defaulted in the year*	Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
Retail – secured by immovable property non-SME VM Mortgages	0.00 to <0.15	17,128	1	0.01%	0.13%	0.13%	0.04%
	0.00 to <0.10	6,543	–	–	–	–	0.04%
	0.10 to <0.15	10,585	1	0.01%	0.13%	0.13%	0.04%
	0.15 to <0.25	59,967	9	0.02%	0.17%	0.17%	0.01%
	0.25 to <0.50	57,902	18	0.03%	0.36%	0.36%	0.02%
	0.50 to <0.75	45,708	8	0.02%	0.62%	0.62%	0.06%
	0.75 to <2.50	43,841	21	0.05%	1.05%	1.05%	0.08%
	0.75 to <1.75	39,803	12	0.03%	0.98%	0.98%	0.06%
	1.75 to <2.5	4,038	9	0.22%	2.35%	2.30%	0.17%
	2.50 to <10.00	10,340	27	0.26%	4.05%	4.11%	0.43%
	2.5 to <5	8,361	21	0.25%	3.21%	3.28%	0.30%
	5 to <10	1,979	6	0.30%	6.84%	7.18%	0.85%
	10.00 to <100.00	4,992	336	6.73%	30.06%	29.93%	6.80%
	10 to <20	1,920	18	0.94%	14.11%	14.38%	1.36%
	20 to <30	1,146	30	2.62%	23.59%	23.86%	1.46%
	30.00 to <100.00	1,926	288	14.95%	58.58%	58.54%	15.22%
	100.00 (Default)	653	–	–	100.00%	100.00%	–

Annexes

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

12.9 UK CR9 – A-IRB approach – Back-testing of PD per exposure class (fixed PD scale) – CB Mortgages

A	B	C	D	E	F	G	H
Exposure class	PD range	Number of obligors at the end of previous year	*Of which: number of obligors which defaulted in the year*	Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
CB Mortgages Retail – secured by immovable property non-SME	0.00 to <0.15	**10,401**	**10**	**0.10%**	**0.08%**	**0.09%**	**0.10%**
	0.00 to <0.10	**4,689**	**8**	**0.17%**	**0.06%**	**0.04%**	**0.17%**
	0.10 to <0.15	**5,712**	**2**	**0.04%**	**0.12%**	**0.13%**	**0.04%**
	0.15 to <0.25	**8,740**	**11**	**0.13%**	**0.19%**	**0.20%**	**0.13%**
	0.25 to <0.50	**47,580**	**101**	**0.21%**	**0.38%**	**0.39%**	**0.21%**
	0.50 to <0.75	**16,376**	**45**	**0.27%**	**0.62%**	**0.62%**	**0.27%**
	0.75 to <2.50	**42,813**	**196**	**0.46%**	**1.14%**	**1.19%**	**0.46%**
	0.75 to <1.75	**33,729**	**127**	**0.38%**	**0.98%**	**0.98%**	**0.38%**
	1.75 to <2.5	**9,084**	**69**	**0.76%**	**2.01%**	**1.99%**	**0.76%**
	2.50 to <10.00	**5,595**	**171**	**3.06%**	**4.47%**	**4.66%**	**3.06%**
	2.5 to <5	**3,559**	**80**	**2.25%**	**3.58%**	**3.61%**	**2.25%**
	5 to <10	**2,036**	**91**	**4.47%**	**6.77%**	**6.49%**	**4.47%**
	10.00 to <100.00	**1,144**	**287**	**25.09%**	**39.77%**	**32.41%**	**25.09%**
	10 to <20	**282**	**25**	**8.87%**	**13.40%**	**13.40%**	**8.87%**
	20 to <30	**448**	**86**	**19.20%**	**23.43%**	**23.43%**	**19.20%**
	30.00 to <100.00	**414**	**176**	**42.51%**	**61.75%**	**55.07%**	**42.51%**
	100.00 (Default)	**3,092**	**0**	**0.00%**	**100.00%**	**100.00%**	**–**

Annexes

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

12.10 UK CR9 – F-IRB approach – Back-testing of PD per exposure class (fixed PD scale) – Corporates: Other

A	B	C	D	E	F	G	H
Exposure class	PD range	Number of obligors at the end of previous year	*Of which: number of obligors which defaulted in the year*	Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
Corporates – Other	0.00 to <0.15	21	–	–	0.10%	0.10%	–
	0.00 to <0.10	18	–	–	0.10%	0.09%	–
	0.10 to <0.15	3	–	–	0.13%	0.13%	–
	0.15 to <0.25	20	–	–	0.20%	0.19%	–
	0.25 to <0.50	45	–	–	0.35%	0.35%	–
	0.50 to <0.75	16	–	–	0.62%	0.62%	–
	0.75 to <2.50	248	–	–	1.63%	1.75%	–
	0.75 to <1.75	90	–	–	1.07%	1.09%	–
	1.75 to <2.5	158	–	–	2.06%	2.12%	–
	2.50 to <10.00	111	6	5.41%	4.11%	4.16%	5.41%
	2.5 to <5	91	6	6.59%	3.49%	3.59%	6.59%
	5 to <10	20	–	–	5.72%	6.75%	–
	10.00 to <100.00	125	4	3.20%	23.41%	23.19%	3.20%
	10 to <20	3	–	–	13.40%	13.40%	–
	20 to <30	122	4	3.28%	23.43%	23.43%	3.28%
	30.00 to <100.00	–	–	–	–	–	–
	100.00 (Default)	53	–	–	100.00%	100.00%	–

Annexes

12 Annex XXI: Disclosure of the use of the IRB approach to credit risk continued

12.11 UK CR9 – F-IRB approach – Back-testing of PD per exposure class (fixed PD scale) – Corporates: SME

A	B	C	D	E	F	G	H
Exposure class	PD range	Number of obligors at the end of previous year	*Of which: number of obligors which defaulted in the year*	Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
Corporates – SME	0.00 to <0.15	**115**	**–**	**–**	**0.11%**	**0.12%**	**–**
	0.00 to <0.10	**28**	**–**	**–**	**0.09%**	**0.09%**	**–**
	0.10 to <0.15	**87**	**–**	**–**	**0.12%**	**0.13%**	**–**
	0.15 to <0.25	**655**	**–**	**–**	**0.20%**	**0.20%**	**–**
	0.25 to <0.50	**1,590**	**3**	**0.19%**	**0.38%**	**0.38%**	**0.19%**
	0.50 to <0.75	**547**	**3**	**0.55%**	**0.62%**	**0.62%**	**0.55%**
	0.75 to <2.50	**4,852**	**46**	**0.95%**	**1.48%**	**1.53%**	**0.95%**
	0.75 to <1.75	**2,522**	**15**	**0.59%**	**1.09%**	**1.08%**	**0.59%**
	1.75 to <2.5	**2,330**	**31**	**1.33%**	**1.96%**	**2.00%**	**1.33%**
	2.50 to <10.00	**1,908**	**74**	**3.88%**	**4.32%**	**4.64%**	**3.88%**
	2.5 to <5	**1,325**	**37**	**2.79%**	**3.65%**	**3.67%**	**2.79%**
	5 to <10	**583**	**37**	**6.35%**	**6.46%**	**6.84%**	**6.35%**
	10.00 to <100.00	**229**	**20**	**8.73%**	**19.76%**	**18.08%**	**8.73%**
	10 to <20	**122**	**7**	**5.74%**	**13.40%**	**13.40%**	**5.74%**
	20 to <30	**107**	**13**	**12.15%**	**23.43%**	**23.43%**	**12.15%**
	30.00 to <100.00	**–**	**–**	**–**	**–**	**–**	**–**
	100.00 (Default)	**160**	**–**	**–**	**100.00%**	**100.00%**	**–**

12.12 UK CR9.1 – IRB approach – back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)

Not applicable as CRR 180.1(f) is N/A for the Group's reporting.

13 Annex XXIII: Disclosure of specialised lending

13.1 UK CR10.2 – Specialised lending and equity exposures under the simple risk-weighted approach – Specialised lending: Income-producing real estate and high volatility commercial real estate (Slotting approach)

As at 30 September 2022

		A	B	C	D	E	F
Regulatory categories	Remaining maturity	On-balance sheet exposure £m	Off-balance sheet exposure £m	Risk weight %	Exposure value £m	Risk-weighted exposure amount £m	Expected loss amount £m
1 – Strong	Less than 2.5 years	**2**	**–**	**50%**	**2**	**1**	**–**
	Equal to or more than 2.5 years	**–**	**–**	**70%**	**–**	**–**	**–**
2 – Good	Less than 2.5 years	**226**	**47**	**70%**	**260**	**150**	**1**
	Equal to or more than 2.5 years	**177**	**1**	**90%**	**178**	**131**	**1**
3 – Satisfactory	Less than 2.5 years	**34**	**2**	**115%**	**36**	**32**	**1**
	Equal to or more than 2.5 years	**33**	**–**	**115%**	**33**	**31**	**1**
4 – Weak	Less than 2.5 years	**6**	**–**	**250%**	**6**	**12**	**–**
	Equal to or more than 2.5 years	**4**	**–**	**250%**	**4**	**8**	**–**
5 – Default	Less than 2.5 years	**5**	**–**	**–**	**5**	**–**	**3**
	Equal to or more than 2.5 years	**1**	**–**	**–**	**1**	**–**	**1**
Total	Less than 2.5 years	**273**	**49**		**309**	**195**	**5**
	Equal to or more than 2.5 years	**215**	**1**		**216**	**170**	**3**

As at 30 September 2021[1]

		A	B	C	D	E	F
Regulatory categories	Remaining maturity	On-balance sheet exposure £m	Off-balance sheet exposure £m	Risk weight %	Exposure value £m	Risk-weighted exposure amount £m	Expected loss amount £m
1 – Strong	Less than 2.5 years	1	–	50%	1	–	–
	Equal to or more than 2.5 years	3	–	70%	3	2	–
2 – Good	Less than 2.5 years	210	21	70%	226	131	1
	Equal to or more than 2.5 years	168	1	90%	167	128	1
3 – Satisfactory	Less than 2.5 years	100	2	115%	104	98	3
	Equal to or more than 2.5 years	27	–	115%	27	24	1
4 – Weak	Less than 2.5 years	10	–	250%	11	22	1
	Equal to or more than 2.5 years	7	–	250%	7	13	–
5 – Default	Less than 2.5 years	9	–	–	12	–	6
	Equal to or more than 2.5 years	2	–	–	1	–	1
Total	Less than 2.5 years	330	23		354	251	11
	Equal to or more than 2.5 years	207	1		205	167	3

(1) The carrying value of comparative exposure values is presented net of provisions. This has minimal impact (£7m), which equates to 1.3% of total on-balance sheet exposure value (column A). The 30 September 2022 exposures are presented gross (excluding provisions of £3m).

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13 Annex XIII: Disclosure of specialised lending continued

13.2 UK CR10.1 – Specialised lending: Project finance (Slotting approach)

Not applicable, as the Group does not have any related exposures.

13.3 UK CR10.3 – Specialised lending: Object finance (Slotting approach)

Not applicable, as the Group does not have any related exposures.

13.4 UK CR10.4 – Specialised lending: Commodities finance (Slotting approach)

Not applicable, as the Group does not have any related exposures.

13.5 UK CR10.5 – Equity exposures under the simple risk-weighted approach

Not applicable, as the Group does not have any related exposures.

14 Annex XXV: Disclosure of exposures to counterparty credit risk

14.1 UK CCRA – Qualitative disclosure related to CCR

(a) The methodology used to assign internal capital and credit limits for counterparty credit exposures (Article 439 (a) CRR)

Counterparty credit risk (CCR) exposures are measured using the standardised approach to counterparty credit risk (SA-CCR). The Group calculates a CVA on external derivative transactions with financial counterparties.

Counterparty credit limits for both centrally cleared and bi-lateral derivatives are approved and assigned by an appropriately authorised Delegated Commitment Authority (DCA). Limits are based on the credit quality of the counterparty and the appetite for the projected maximum potential future exposure of anticipated derivative transactions. They also reflect the nature of the relevant documentation, including whether the transaction is subject to regular exchange of margin. Credit exposures for each transaction are measured as the current mark-to-market value and the potential credit exposure which is an estimate of possible future changes in mark-to-market value. Limit excesses, whether they are active or passive, are subject to formal approval by a DCA holder.

(b) Policies related to guarantees and other credit risk mitigants (Article 439 (b) CRR)

Virgin Money UK PLC uses derivatives to reduce exposures arising from market risks, these derivatives may create counterparty credit risk. Derivatives are cleared via a central clearing counterparty where possible, otherwise bilateral derivatives are transacted with highly rated institutions under market standard documentation on a collateralised basis.

The risk that counterparties could default is mitigated by offsetting the amounts due to the same counterparties (i.e. netting) and by cash collateral deposited by counterparties (i.e. collateralisation). Collateralisation reduces the credit exposure recorded against market transactions. Counterparty credit exposures may be collateralised by an approved list of eligible collateral via market standard master agreements (such as CSAs to ISDA Master Agreements and Global Master Repurchase Agreements). CCR policy governs types of acceptable collateral and that collateral which may be subject to haircuts depending on asset type. Systems support daily marking-to-market of net exposures and margin requirements, marking-to-market of collateral value and reconciliation of collateral receipt and holdings against collateral due.

(c) Policies with respect to wrong-way risk (Article 439 (c) CRR)

Wrong-way risk occurs when exposure to a counterparty increases when the credit quality of that counterparty deteriorates. This could happen, for example, where CCR is mitigated through the use of collateral issued by the counterparty. Our high-quality collateral requirements within market standard documentation mitigate this risk to a material extent. This is not considered to be a material risk to the Group due to the types of credit mitigation that are in place.

(d) Other risk management objectives and relevant policies related to CCR Article 431 (3) and (4)

The Group provides products to its customers in order to manage their interest rate, currency and commodity risk, and the Group in turn hedges this risk with other financial counterparties. In addition, the Group enters into sale and repurchase agreements with other financial counterparties for the purpose of liquidity risk management and funding using highly rated securities under market standard documentation and regular collateralisation.

Derivative and repurchase agreement (repo) transactions give rise to credit exposures to counterparties. Counterparty credit risk is the risk that a counterparty to a transaction may default before the final settlement of the transaction's cash flows. This section describes the Group's approach to managing CCR concerning financial instruments, including derivatives and repurchase agreements.

The Group uses Securities Financing Transactions (SFTs), for example repo transactions, as part of normal Treasury operations. Maintaining repo capability with a number of counterparties is part of standard liquidity management to show how the Group could, if required, generate cash from holdings of Liquid Assets. The Group assess counterparty risk arising from SFTs through a review of the credit-standing of the counterparty and consideration of the potential fluctuation in the value of assets within a repo where these could give rise to credit exposures. Credit mitigation is also seen through the use of Global Master Repurchase Agreements which include provisions for collateralisation of SFT exposures to cover movements in value.

(e) The amount of collateral the Group would have to provide if its credit rating was downgraded (Article 439 (d) CRR)

The Group calculates, as part of its regular liquidity reporting, the amount of any additional collateral that would have to be posted in the event of a downgrade in its external rating.

The LCR is based on a combined 30-day stress scenario, which features a 3-notch rating downgrade. In the event of a 3-notch rating downgrade, the Group would be required to post an additional £384m of collateral, as at 30 September 2022 under LCR rules. As this is captured for LCR, liquidity is held in full against this risk.

For transactions that would be affected by a downgrade clause, planning for, and the impact of, the event for the Group is managed by the Group's Treasury division.

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14 Annex XXV: Disclosure of exposures to counterparty credit risk continued

14.2 UK CCR1 – Analysis of CCR exposure by approach

		A	B	C	D	E	F	G	H
		Replacement cost (RC)	Potential future exposure	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
As at 30 September 2022		£m	£m	£m	α	£m	£m	£m	£m
UK-1	Original Exposure Method (for derivatives)	–	–		–	–	–	–	–
UK-2	Simplified SA-CCR (for derivatives)	–	–		–	–	–	–	–
1	SA-CCR (for derivatives)	**314**	**75**		**1.4**	**505**	**485**	**485**	**148**
4	Financial collateral comprehensive method (for SFTs)					**15,178**	**6,744**	**6,744**	**32**
5	Value at Risk (VaR) for SFTs					–	–	–	–
6	**Total**					**15,683**	**7,229**	**7,229**	**180**

14.3 UK CCR2 – Transactions subject to own funds requirements for CVA risk

		A	B	A	B
		30 September 2022		30 September 2021	
		Exposure value £m	RWEA £m	Exposure value £m	RWEA £m
1	Total transactions subject to the Advanced method	–	–	–	–
2	(i) VaR component (including the 3× multiplier)		–		–
3	(ii) stressed VaR component (including the 3× multiplier)		–		–
4	Transactions subject to the Standardised method	**431**	**258**	174	103
UK-4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	–	–	–	–
5	**Total transactions subject to own funds requirements for CVA risk**	**431**	**258**	174	103

Annexes

14 Annex XXV: Disclosure of exposures to counterparty credit risk continued

14.4 UK CCR3 – Standardised approach: CCR exposures by regulatory exposure class and risk weights

The table below presents a breakdown of counterparty credit risk exposures by exposure class and by risk weight.

		A	B	C	D	E	F	G	H	I	J	K	L
		Risk weight (£m)											Total exposure value (£m)
As at 30 September 2022		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
1	Central governments or central banks	**6,680**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,680**
6	Institutions	**–**	**267**	**–**	**–**	**410**	**83**	**–**	**–**	**2**	**–**	**–**	**762**
7	Corporates	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**54**	**–**	**–**	**54**
11	**Total exposure value**	**6,680**	**267**	**–**	**–**	**410**	**83**	**–**	**–**	**56**	**–**	**–**	**7,496**

		A	B	C	D	E	F	G	H	I	J	K	L
		Risk weight (£m)											Total exposure value (£m)
As at 30 September 2021		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
1	Central governments or central banks	3,630	–	–	–	–	–	–	–	–	–	–	3,630
6	Institutions	–	95	–	–	199	22	–	–	–	–	–	316
7	Corporates	–	–	–	–	–	–	–	–	38	–	–	38
11	**Total exposure value**	3,630	95	–	–	199	22	–	–	38	–	–	3,984

14.5 UK CCR4 – IRB approach – CCR exposures by exposure class and PD scale

Not applicable, as CCR uses the standardised approach.

14.6 UK CCR5 – Composition of collateral for CCR

Not applicable per PS 17/21, the PRA proposed limiting the application of the disclosure to firms for which total collateral posted and total collateral received respectively both exceed £125 billion.

14.7 UK CCR6 – Credit derivatives exposures

Template not disclosed as the Group does not use credit derivatives used to mitigate credit risk.

14.8 UK CCR7 – RWEA flow statements of CCR exposures under the IMM

Not applicable, as no IMM for CRR exposures.

14.9 UK CCR8 – Exposures to CCPs

		a	b
As at 30 September 2022		Exposure value £m	RWEA £m
1	**Exposures to Qualifying Central Counterparty (QCCPs) (total)**		**5**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which:	**267**	**5**
3	*Over-the-counter derivatives*	**267**	**5**
7	Segregated initial margin	**608**	
11	**Exposures to non-QCCPs (total)**		**–**

15 Annex XXVII: Disclosure of exposures to securitisation positions

15.1 UK SECA – Qualitative disclosure requirements related to securitisation exposures

(a) Description of securitisation and re-securitisation activities (Article 449(a) CRR)

As Originator/Sponsor

The Group has established three Residential Mortgage Backed Security (RMBS) securitisation programmes (Lanark, Lannraig and Gosforth) which provide the Group with term funding via public debt capital markets and contingent liquidity. The master trust structures (Lanark and Lannraig) each have a series of notes supported by the same pool of securitised mortgage assets that can be replenished, subject to the eligibility criteria. The Gosforth structure has several special purpose entities, each consisting of a separate pool of securitised mortgage loans, which can be replenished, subject to eligibility criteria. The senior, Class A, notes issued by the Lanark Master Trust programme meet the UK's simple, transparent and standardised (STS) criteria and are notified as STS-compliant with the FCA.

The Group has not sought to obtain regulatory capital relief from securitisation as significant risk transfer is not achieved. While the securitised mortgages have been legally sold, they do meet the de-recognition criteria for accounting purposes (the Group substantially retains the risk and rewards) and thus the Group continues to recognise the mortgages on the balance sheet. The Group retains the credit risk associated with the mortgage assets as these remain on-balance sheet.

The Group does not have any synthetic securitisations outstanding or any re-securitisations.

As Investor

The Group does not currently hold any investments in securitisations originated by third parties.

(b) The type of risk the Group is exposed to in its securitisation and re-securitisation activities (Article 449(b) CRR)

i) risk retained in own-originated transactions

The Group's RMBS securitisation programmes facilitate the issuance of multiple series of notes which can have differently rated tranches, tenors and repayment features tailored specifically to investor preferences. The master trust structures issue Class A notes and unrated Class Z notes, while the Gosforth structure issues Class A notes, rated Class M notes and unrated Class Z. The majority of Class A notes are held externally (£1,282m of £3,157m at 30 September 2022 are held internally). All Class M and Z notes are retained by the Group (£978m at 30 September 2022).

Subordinated Class M and Class Z notes provide credit enhancement for the securitisation structures along with specific reserves and excess spread. Class A notes may be retained by the Group to provide collateral for other contingent liquidity purposes.

The Group is under no obligation to support any losses incurred by the securitisation programmes or noteholders.

ii) risk incurred in relation to transactions originated by third parties

The Group does not currently hold any investments in securitisations originated by third parties.

(c) The Group's approaches to calculating the risk-weighted exposure amounts (Article 449(c) CRR)

Per CRR Article 247 paragraph 2, where the originator institution has not transferred significant credit risk, it shall not be required to calculate risk-weighted exposure amounts. Given that no significant risk transfer has been achieved, this part is therefore not applicable.

(d) A list of SSPEs falling into any of the following categories, with a description of their types of exposures to those SSPEs (Article 449(d) CRR), including derivatives contracts:

(i) SSPEs which acquire exposures originated by the Group;

Nil

(ii)SSPEs sponsored by the Group;

- Lanark Master Issuer PLC
- Lanark Funding Limited
- Lanark Trustees Limited
- Lanark Holdings Limited
- Lannraig Master Issuer PLC
- Lannraig Funding Limited
- Lannraig Trustees Limited
- Lannraig Holdings Limited
- Gosforth Funding 2018-1 PLC
- Gosforth Mortgages Trustee 2018-1 Limited
- Gosforth Holdings 2018-1 Limited
- Gosforth Funding 2017-1 PLC
- Gosforth Mortgages Trustee 2017-1 Limited
- Gosforth Holdings 2017-1 Limited

(iii) SSPEs and other legal entities for which the institutions provide securitisation-related services, such as advisory, asset servicing or management services;

Not applicable as the Group has no such SSPEs.

(iv) SSPEs included in the institutions' regulatory scope of consolidation.

Not applicable as the Group has no such SSPEs.

(e) A list of any legal entities in relation to which the Group have provided support in accordance with Chapter 5 of Title II of Part Three CRR (Article 449(e) CRR)

Per CRR Article 247 paragraph 2, where the originator institution has not transferred significant credit risk, it shall not be required to calculate risk-weighted exposure amounts. Given that no significant risk transfer has been achieved, this part is therefore not applicable.

Annexes

15 Annex XXVII: Disclosure of exposures to securitisation positions continued

(f) A list of legal entities affiliated with Virgin Money UK PLC that invest in securitisations originated by the Group (Article 449(f) CRR)
Clydesdale Bank PLC.

(g) The accounting policies for securitisation activity (Article 449(g) CRR)
As Originator/Sponsor
The CB Group has sold mortgages to the securitisation vehicles. However, these mortgages continue to be recognised on the Group's balance sheet. The mortgages do not qualify for derecognition because the Group remains exposed to the risks and rewards of ownership on an ongoing basis. It is exposed primarily to the credit risk, liquidity risk and interest rate risk of the mortgages. The Group is also exposed to the residual rewards of the mortgages as a result of its ability to benefit from the future performances of the mortgages through the receipt of deferred consideration.

The externally held Class A Notes are initially recognised at fair value, being the issue proceeds net of transaction costs incurred, and are subsequently measured at amortised cost using the effective interest method. To avoid grossing up the balance sheet, the retained Class A, Z and M (Gosforth) notes, and the equivalent deemed loan, together with the related income, expenditure and cash flows, are not recognised in the consolidated Group's Annual Report & Accounts.

As Investor
The Group does not currently hold any investments in securitisations originated by third parties.

(h) The names of the ECAIs used for securitisations and the types of exposure for which each agency is used (Article 449(h) CRR)
All Class A notes from the Groups securitisation programmes have at least two Aaa credit ratings from Moody's, AAA from Fitch and AAA from Standard & Poor's.

(i) Where applicable, a description of the Internal Assessment Approach (Article 449(i) CRR)
Per CRR Article 247 paragraph 2, where the originator institution has not transferred significant credit risk, it shall not be required to calculate risk-weighted exposure amounts. Given that no significant risk transfer has been achieved, this part is therefore not applicable.

15.2 UK SEC1 – Securitisation exposures in the non-trading book[1]
The table below shows the securitisation exposures retained by the Group, by type of underlying asset (residential mortgages) and by type of securitisation.

		A	B	C	D	E	F	G
		Institution acts as originator						
		Traditional[2]				Synthetic		Sub-total
		STS		Non-STS				
			of which SRT		of which SRT		of which SRT	
As at 30 September 2022		£m	£m	£m	£m	£m	£m	£m
1	**Total exposures**	**355**	**–**	**1,906**	**–**	**–**	**–**	**2,261**
2	Retail, *of which:*	**355**	**–**	**1,906**	**–**	**–**	**–**	**2,261**
3	*Residential mortgage*	**355**	**–**	**1,906**	**–**	**–**	**–**	**2,261**

(1) All information is as at 30th September 2022, please note the Group interprets "institution acts as originator" under Securitisation exposure in the-non trading book as bonds which are issued by either Lanark, Lannraig or Gosforth and are retained by the bank.

(2) All retained AAA-rated Lanark bonds are STS all other bonds are Non-STS.

15.3 UK SEC2 – Securitisation in the trading book
Not applicable, as the Group does not have a trading book.

15.4 UK SEC3 – Securitisation in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor
Not applicable, as no capital requirements or RWA are held for securitisation positions, given there is no significant risk transfer.

15.5 UK SEC4 – Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor
Not applicable, as the Group does not invest in RMBS.

15.6 UK SEC5 – Exposures securitised by the institution: Exposures in default and specific credit risk adjustments

		a	b	c
		Exposures securitised by the institution – Institution acts as originator or as sponsor		
		Total outstanding nominal amount		Total amount of specific credit risk adjustments made during the period
			Of which: exposures in default	
1	**Total exposures**	**5,404**	**–**	**–**
2	Retail (total)	**5,404**	**–**	**–**
3	residential mortgage	**5,404**	**–**	**–**

16 Annex XXIX: Disclosure of use of standardised approach and internal model for market risk

16.1 UK MRA – Qualitative disclosure requirements related to market risk

(a) A description of the Group's strategies and processes to manage market risk (Article 435 (1) CRR), including:

An explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the Group's market risks

The Group does not have a trading book and therefore is only exposed to non-traded market risk.

A description of their policies for hedging and mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges

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

Treasury uses a number of techniques and products to manage market risks including interest rate swaps, cash flow netting and foreign exchange. Basis risk may be managed through a combination of wholesale market basis risk management products, pricing strategies and product innovation.

Exposures

The Group's principal exposure comes from structural interest rate risk. It comprises the sensitivity of the Group's current and future Net Interest Income (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, e.g. 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 products and derivative products to enable customers to manage risks within their businesses. As a result of these activities, the Group may be exposed to forms of market risk that would arise from movements in the price on these products, however, these risks are not a material component of the Group's risk profile. Controls include the hedging of these products as and when they arise.

The Group uses derivative financial instruments to manage interest rate and foreign currency risk within approved limits. The Group elects to apply hedge accounting for the majority of its risk management activity that uses derivatives. Certain derivatives are designated as either fair value hedge or cash flow hedge:

Fair value hedges – the Group hedges part of its existing interest rate risk, resulting from potential movements in the fair value of fixed rate assets and liabilities. The fair value of these swaps is disclosed within note 3.6 to the Group's consolidated financial statements. There were no transactions for which fair value hedge accounting had to be discontinued in the year.

Cash flow hedges – the Group hedges a portion of the variability in future cash flows attributable to interest rate risk. The interest risk arises from variable interest rate assets and liabilities which are hedged using interest rate swaps. There were no transactions for which cash flow hedge accounting had to be discontinued in the year as a result of the highly probable cash flows no longer being expected to occur. The fair value of derivatives is disclosed within note 3.6 to the Group's consolidated financial statements.

Monitoring

Model parameters and assumptions are reviewed and updated on at least an annual basis. Material changes require the approval of ALCO.

(b) A description of the structure and organisation of the market risk management function (Point (b) of Article 435 (1) CRR)

The VMUK Board is responsible for setting market risk appetite. Market risks are overseen by ALCO within defined risk appetite, with delegation for day-to-day management given to Treasury.

2nd Line monitoring and management of market risk is conducted by the Group's Financial Risk team which is independent of the Treasury function.

Further information on ALCO's remit is available in section 3.1 (d).

(c) Scope and nature of risk reporting and measurement systems
(Point (c) of Article 435 (1) CRR)
The Group has a low tolerance for market risk, given the lack or trading activity. Market risk principally arises through interest rate risk in the banking book, small foreign exchange exposure and the management of assets to support our liquidity requirements.

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

Further detail on the Group's management of internal interest rate risk is shown at section 20.1 IRRBBA.

16.2 UK MR1 – Market risk under the standardised approach
The Group does not meet the 2% threshold set out in the UK CRR, therefore the template has not been disclosed.

16.2 UK MRB – Qualitative disclosure requirements for institutions using the internal Market Risk Models
Not applicable, as the Group does not have an internal model approach for market risk.

16.2 UK MR2-A – Market risk under the Internal Model Approach (IMA)
Not applicable, as the Group does not have an internal model approach for market risk.

16.2 UK MR2-B – RWA flow statements of market risk exposure under the IMA
Not applicable, as the Group does not have an internal model approach for market risk.

16.3 UK MR3 – IMA values for trading portfolios
Not applicable, as the Group does not have an internal model approach for market risk.

16.4 UK MR4 – Comparison of VaR estimates with gains/losses
Not applicable, as the Group does not have an internal model approach for market risk.

17 Annex XXXII: Disclosure of operational risk

17.1 UK ORA – Qualitative information on operational risk

(a) Disclosure of the risk management objectives and policies (Points (a), (b), (c) and(d) of Article 435(1) CRR)

Operational risk is a core component of the RMF and is embedded in day-to-day business activities focused on enabling operational efficiencies. Operational risk is incorporated with the principal risk titled operational and resilience risk. Further details are provided in section 3.1(b).

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Requirements and responsibilities are set out in the operational risk policy statement and supporting operational risk 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 management function, and independent assurance activities undertaken by Internal Audit.

A new Operational Risk Committee has been established during the year to provide oversight of the Group's risks, risk appetite, policy compliance and risk management framework and to better support the ERC.

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.

The Group's exposure to Operational and resilience risk is impacted through the need to engage with innovative, dynamic third parties; deliver new products and services; and make effective use of reliable data in a changing external environment, to deliver on the Group's strategic objectives. Alongside ongoing risk and control monitoring, operational and resilience risk oversight is focused key areas, such as Change risk and Third party risk. More information regarding Operational risk is included in the Operational and resilience risk section on pages 224 to 226 of the Group's 2022 Annual Report & Accounts.

Stress testing

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

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.

(b) Disclosure of the approaches for the assessment of minimum own funds requirements (Article 446 CRR)

The standardised approach is used to calculate Pillar 1 operational risk.

(c) Description of the AMA methodology approach used (if applicable) (Article 446 CRR) and (d) disclosure of the use of insurance for risk mitigation in the AMA (Article 454 CRR)

Not applicable as we do not apply the Advanced Measurement Approach (AMA).

17.2 UK OR1 – Operational risk own funds requirements and risk-weighted exposure amounts

		A	B	C	D	E
		Relevant indicator				
As at 30 September 2022		Year-3	Year-2	Last year	Own funds requirements	Risk-weighted exposure amount
1	Banking activities subject to basic indicator approach (BIA)	–	–	–	–	–
2	Banking activities subject to standardised (TSA)/alternative standardised (ASA) approaches	**1,505**	**1,556**	**1,755**	**210**	**2,623**
3	*Subject to TSA:*	**1,505**	**1,556**	**1,755**		
4	*Subject to ASA:*	–	–	–		
5	Banking activities subject to advanced measurement approaches AMA	–	–	–	–	–

18 Annex XXXIII: Disclosure of remuneration policy

18.1 UK REMA – Remuneration policy

(a) Information relating to the bodies that oversee remuneration. Disclosures shall include:

(i) Name, composition and mandate of the main body overseeing the remuneration policy and the number of meetings held during the financial year.

The Group has a clear governance structure with the Group Remuneration Committee (the Committee) responsible for:

- determining and recommending to the Board a Group Remuneration Policy that is aligned to the Group's strategic risk appetite, culture, values and long-term interests and that provides a structured and balanced remuneration package for all colleagues, including all Executive Directors.
- implementing the remuneration arrangements for Material Risk Takers, while having oversight of remuneration issues, and regard for remuneration scales and structure, across the Group. The Committee meets at least four times a year and at such other times as the Committee Chair or any member of the Committee may request. During the financial year the Committee held six meetings.

The Committee's Charter is updated regularly and is available on the Group website.

(ii) External consultants whose advice has been sought, the body by which they were commissioned, and in which areas of the remuneration framework

During 2022, the Remuneration Committee took external advice from PricewaterhouseCoopers (PwC), the Committee's independent remuneration consultants, who were first appointed by the Committee as advisors in 2015 and have been advisors since this date. PwC are members of the Remuneration Consultants Group and comply with the professional body's code of conduct. This supports the Remuneration Committee's view that the advice received was objective and independent. PwC advise on a wide range of areas in relation to the remuneration framework, including in relation to the Group's variable pay arrangements, key considerations in relation to the approach to remuneration for the Group's colleagues including executive directors, and compliance with the UK Remuneration Code.

(iii) A description of the scope of the Group's remuneration policy, including the extent to which it is applicable to subsidiaries and branches located in third countries

The Group's remuneration strategy and policy applies to all Group colleagues. The Remuneration Committee is responsible for having oversight for remuneration scales and structure across the Group. The Group does not have any branches or subsidiaries located outside of the UK.

(iv) A description of the staff or categories of staff whose professional activities have a material impact on Group's risk profile

The Group identifies 'Material Risk Takers' in accordance with the FCA Remuneration Code (SYSC 19D) and PRA Guidelines for Dual regulated firms. Material Risk Takers identified are deemed to have, or potentially have, a material impact on the risk profile of the Group or a significant entity within the Group. On an annual basis all Group colleagues, including Material Risk Takers, are required to complete mandatory training on risk management.

The Group has an established process for assessing how the criteria for Material Risk Takers applies to individuals across the Group.

The following groups have been identified as meeting the criteria:

- Senior Management, Executive Directors;
- Non-Executive Directors; and
- other colleagues whose activities could have an impact on the Group's risk profile, including those that are highly remunerated.

The Material Risk Taker population in 2022 totalled 161. The remuneration for these colleagues is governed under the Remuneration Policy for all colleagues and overseen by the Group Remuneration Committee. This is independently reviewed by the 2nd Line Risk Management Team.

(b) Information relating to the design and structure of the remuneration system for identified staff. Disclosures shall include:

(i) An overview of the key features and objectives of remuneration policy, and information about the decision-making process used for determining the remuneration policy and the role of the relevant stakeholders

The Group's approach to remuneration is designed to support the delivery of the long-term corporate strategy in a manner that is compliant with the PRA's Remuneration Code (the Code). The Group's remuneration philosophy is based on principles which are applicable to all employees within the Group; in particular that the remuneration framework should support the delivery of the Group's wider strategic goals by motivating colleagues to contribute towards the long-term success of the business. The Group ensures its approach to remuneration, and in particular variable pay, is aligned with clear risk principles which promote effective risk management and aim to drive sustainable growth, with absolutely no reward for inappropriate risk taking.

Annexes

18 Annex XXXIII: Disclosure of remuneration policy continued

The Group regularly reviews its approach to senior remuneration to ensure the overall package is fair, competitive and supportive of the Group's strategy. The Group ensures it remains competitive in the financial services market through regular market reviews. The Group's remuneration policy is reviewed annually, with regular engagement with the Group's largest shareholders on key elements of the remuneration framework.

Remuneration is delivered in a proportion of fixed and variable components.

The variable elements are subject to appropriate limits (capped at 2:1 variable to fixed ratio) as approved by shareholders. Variable pay awards for senior colleagues and Material Risk Takers are subject to deferral in line with the Code to promote longer-term risk awareness.

Base salary
All Material Risk Takers receive salaries (except for Non-Executive Directors who receive fees), determined to reflect the role of the individual, taking account of responsibilities and experience. Base salaries are reviewed annually, taking into account market information.

Annual Bonus and Deferred Bonus Awards
All Material Risk Takers (excluding Non-Executive Directors and third-party consultants) are eligible to be considered for an annual bonus. Annual bonuses are discretionary and are based on Group performance within the year. A personal performance element is also incorporated for senior colleagues including Executive Directors and the Leadership Team. The determination of measures and their weighting are set annually and aligned to delivery of the Group's strategy. Awards are determined by the Remuneration Committee at the end of the financial year.

In line with regulatory requirements a proportion of any bonus may be deferred. The mechanism for making the bonus deferral is the VMUK Deferred Equity Plan. Deferral levels are set at the time of award and in line with regulatory requirements (see below) taking account of total variable remuneration awarded for the financial year.

Long-term incentives
The Group's Long Term Incentive Plan (LTIP), awarded to certain senior colleagues, is designed to align colleagues with the long-term interests of the Group and reward delivery of the Group's strategy and growth.

Performance conditions are normally tested over a period of three financial years and, subject to the achievement of performance conditions, awards will vest according to timetables designed to comply with regulatory requirements. The performance conditions will be aligned to the Group's long-term strategy.

Further details in relation to the key features and objectives of our remuneration policy, including for 2022/23 onwards, can be found in the Directors' Remuneration Report set out on pages 120 to 152 of the Group's 2022 Annual Report & Accounts.

The Remuneration Committee is responsible for determining and agreeing with the Board the remuneration strategy and the broad policy on remuneration for all Material Risk Takers. This includes approving the design of, and determining the performance targets for, any discretionary incentives plans operated by the Group for the benefit of these employees. The Committee also approves the outcomes of any performance pay plan and reviews the year-end pay outcomes for all these colleagues. The Committee is supported by the Risk Committee on risk-related matters including performance pay plan design, the assessment of specific performance measures, and wider issues relating to risk and controls. The Remuneration Committee is also supported by and receives input from the Audit Committee as well as management, while ensuring that conflicts of interests are suitably mitigated, and by the Committee's independent external consultants (PwC during 2021/22).

Further details in relation to the roles of the relevant stakeholders in the decision-making process used for determining the remuneration policy can be found throughout these disclosures, and the Committee's Charter is available at: www.virginmoneyukplc.com/about-us/corporate-governance.

(ii) Information on the criteria used for performance measurement and ex ante and ex post risk adjustment
Annual and long-term incentives are designed to drive behaviours consistent with the Group's Purpose, Values and Strategy. Performance metrics include financial and non-financial metrics aligned with the delivery of the Group's strategy and linked to its Purpose and Values.

Risk and conduct considerations are taken into account as part of the decision-making process for variable pay awards.

Variable pay awards are governed by a robust risk assessment framework and governance pathway. Both clawback and malus provisions can be applied by the Committee both during and after any relevant performance period to adjust (including to nil) any variable pay awarded, paid or deferred.

The Remuneration Committee has discretion to apply ex ante and ex post risk adjustment, taking into account any risk events during the year from a conduct, reputational, financial or operational perspective. In reaching its determination of an appropriate level of risk adjustment, the Remuneration Committee considers a range of factors, including evidence from the Reward Risk Adjustment Committee and Risk Committee. This includes an assessment of both current and future risk issues provided by the Risk Committee, supported by the risk management and compliance functions and, for all Material Risk Takers, any conduct issues on an individual basis. The Committee has discretion to reduce performance pay in relation to risk-related or individual conduct related matters. For our senior leaders, including all of our Material Risk Takers, variable pay is subject to malus (i.e. reduction and/or cancellation of unvested awards) and clawback (i.e. repayment or recoupment of paid/vested awards).

Annexes

18 Annex XXXIII: Disclosure of remuneration policy continued

Malus may be applied where:

- there is evidence of colleague misbehaviour, misconduct, material error;
- where a colleague participated in conduct which resulted in losses for the Group or they failed to meet appropriate standards;
- any material failure of risk management at a Group, business area, division or business unit level;
- if the financial results at a Group, division or business unit level are restated;
- if the financial results for a given year do not support the level of variable remuneration awarded; or
- any other circumstances where the Committee consider adjustments should be made. The Committee is supported in this by the Risk Committee and the Group Risk function.

Clawback may be applicable where there is reasonable evidence of colleague misbehaviour or material error, or there is material failure of risk management at a Group, business area, division or business unit level.

(iii) Whether the management body reviewed the Group's remuneration policy during the past year, and an overview of any changes that were made

The Group's remuneration policy is reviewed annually. Accordingly, a review has been undertaken during the financial year, although no material changes have been made.

During the year the Remuneration Committee also reviewed the Group's variable pay plans, including how these effectively link remuneration outcomes to the achievement of the Group's longer-term objectives. In addition, it considers the Group's approach to Material Risk Taker identification to ensure ongoing compliance with regulatory requirements in this area.

The Directors' Remuneration Policy, applicable from 1 October 2022, was also subject to review during 2022 ahead of submission for shareholder approval at the 2023 AGM.

Further details in relation to the review of the Directors' Remuneration policy, can be found on pages 120 to 152 in the Group's 2022 Annual Report & Accounts.

(iv) Information of how the Group ensures that staff in internal control functions are remunerated independently of the businesses they oversee

While the majority of colleagues participate in a team-based annual bonus with outcomes aligned to the performance of 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.

Assessment of the control function's performance is based on scorecard objectives and measures that are set to achieve Risk or Audit function objectives and not operating business objectives, with objectives covering People, Customer and Risk measures. These are approved by the respective Chairs of the Board Committees responsible for the area (i.e. Risk Committee or Audit Committee).

The bonus pool for this population is based solely on an assessment of the control function's performance. Roles in control functions will participate in a discretionary (functional) plan with a separate bonus pool wholly independent of the Group performance and pool (other than an overall affordability underpin – see below) that will be based on a combination of the achievement of scorecard objectives and measures that are set to achieve Risk or Audit function objectives, with objectives covering specific People, Customer and Risk/Audit measures.

This means that the bonus outcomes for the control functions can be higher or lower than the rest of the organisation. However, should the Group performance be significantly below target or nil then an override or underpin moderator based on affordability is considered appropriate for these pools as well.

(v) Policies and criteria applied for the award of guaranteed variable remuneration and severance payments

In exceptional cases, the Group may provide guaranteed variable remuneration as part of prospective remuneration arrangement to compensate a new colleague's lost opportunity from a previous employment. Although the Remuneration Code classifies these arrangements as guaranteed remuneration, the awards provided are subject to performance and forfeiture conditions.

Payments on termination of employment are made in accordance with any contractual or other statutory entitlements (e.g. redundancy) and are made in a way that reflects performance over time and do not reward failure or misconduct.

(c) Description of the ways the current and future risks are taken into account in the remuneration processes

The Remuneration Committee has decision-making authority over the Group's entire bonus pool, therefore affecting the bonuses of all colleagues at an aggregate level, as well as specific oversight over the Material Risk Taker population. In considering remuneration in the context of the Group's risk objectives, the Remuneration Committee takes into account a range of factors, including input from the Risk Committee and Reward Risk Adjustment Committee.

The Reward Risk Adjustment Committee identify, monitor and report on past (ex post) and future (ex ante) risk events at both a company and individual level, and make recommendations to the Risk Committee and Remuneration Committee on the level of adjustment to variable pay arrangements.

The Remuneration Committee may reduce or cancel the payment of variable remuneration where it deems appropriate in light of any emerging or potential risks.

Annexes

18 Annex XXXIII: Disclosure of remuneration policy continued

(d) The ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD

Remuneration is delivered in a proportion of fixed and variable components. The variable elements are subject to appropriate limits (capped at 2:1 variable to fixed ratio) as approved by shareholders. Variable pay awards for senior colleagues and Material Risk Takers are subject to deferral in line with the Code to promote longer-term risk awareness.

(e) Description of the ways the Group seeks to link performance with levels of remuneration. Disclosures shall include:

(i) An overview of main performance criteria and metrics for the Group, business lines and individuals

Colleagues are rewarded for working together to deliver our strategy through delivery of their team goals. To give effect to this, most colleagues will be eligible to be considered for a fixed team bonus based on the target bonus percentage for their role. Bonus awards will be adjusted to reflect the Group's overall business performance, based on an assessment of performance against financial and non-financial targets aligned with the Group's strategic priorities and included in the Group Scorecard for the year. For FY22, the Group Scorecard included the following measures:

Strategic Pillar	Measure
Pioneering Growth	Number of PCA account switchers Customer Lending Asset Growth
Super Straightforward Efficiency	Underlying Profit Before Tax Total Underlying Costs
Disciplined and sustainable	RoTE
Delighted Customers and Colleagues	Smile Score Employee Engagement Digital Sales Digitally Active customers

(ii) An overview of how amounts of individual variable remuneration are linked to Group-wide and individual performance

Roles with a high level of strategic and execution responsibilities or key roles from a regulatory or commercial perspective will have bonus determined individually using a discretionary model. This includes senior employees below the Executive Leadership Team and the majority of the Material Risk Taker population. Bonus for this population will be determined at line manager discretion within the relevant budgetary constraints determined by an assessment of performance against the Group Scorecard for the year alongside other considerations such as affordability. Factors used in exercising discretion may include: the individual's personal contribution to the overall business performance, the delivery of their team's goals, demonstrating our values and behaviours, Great Leadership and the bonus pool available for the team/business unit.

(iii) Information on the criteria used to determine the balance between different types of instruments awarded including shares, equivalent ownership interest, options and other instruments

For all Material Risk Takers, the appropriate proportion of total variable pay is deferred and delivered in shares in line with regulatory guidelines (15.15, 15.16, 15.17 and 15.18 of the PRA Rulebook). At present this means that at least 40% of total variable pay is deferred (at least 60% for colleagues that perform a PRA designated Senior Management Function or where variable remuneration equals or exceeds £500,000). Total variable pay includes awards made under the LTIP.

- Deferred awards under the bonus and long-term incentive arrangements are granted in the form of conditional shares;
- The upfront element of any bonus award is delivered half in cash and half in shares.

(iv) Information on the measures the Group will implement to adjust variable remuneration in the event that performance metrics are weak

As detailed under (e) above, the annual incentive pool is based on several Group financial and non-financial key performance indicators with targets determined with reference to the Group Scorecard. Bonus is subject to a Group, Function and individual malus/risk assessment. The allocation of the pool is based on Group performance against agreed targets, with maximum, target and threshold levels of performance determined by the Remuneration Committee at the start of the performance period. Awards are determined following the end of the performance period and the extent to which the performance targets have been satisfied. No awards will be made where performance has not met the threshold target.

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18 Annex XXXIII: Disclosure of remuneration policy continued

In considering the formulaic outcomes of the measures and financial gateways, the Committee will determine whether these are a true reflection of performance or whether any further adjustments should be applied.

All variable pay is subject to a robust risk assessment in advance of the payment of any awards. The Remuneration Committee must be satisfied that there are no significant current or future conduct, reputational, financial, operational risks or other reasons why awards should not be made, considering input from the Reward Risk Adjustment and Risk Committee.

(f) Description of the ways the Group seeks to adjust remuneration to take account of long-term performance. Disclosures shall include:
(i) An overview of the Group's policy on deferral, payout in instrument, retention periods and vesting of variable remuneration
Variable pay deferral levels are set at the time of award and in line with regulatory requirements. For 2022 this means that for Material Risk Takers receiving a variable pay award that is =>£44,000 or is 33% or more of their total remuneration deferral will apply and:

- at least 40% of total variable pay is deferred;
- at least 50% of variable pay is paid in shares; and
- vested shares are subject to retention periods.

Senior colleagues are eligible to receive discretionary LTIP awards which are subject to a three-year performance period.

Specific deferral arrangements for individual awards vary dependent on seniority, level of remuneration and role, including whether the individual meets the 'higher paid' criteria as set out in the UK Remuneration Code.

- For executive members of the Board and other PRA-designated Senior Managers meeting the 'higher paid material risk taker' criteria and where their variable pay is in excess of £500,000, at least 60% of total variable pay awarded for the year is delivered in shares and subject to deferral with release dates between years three and seven following the date of award. At least 50% of shares received remain subject to a post-release retention period in line with regulatory requirements.
- For PRA-designated Senior Managers meeting the 'higher paid material risk taker' criteria and where their variable pay is not in excess of £500,000, at least 40% of total variable pay awarded for the year is delivered in shares and subject to deferral with release dates between years three and seven following the date of award.
- For PRA-designated Senior Managers not meeting the 'higher paid material risk taker' criteria, FCA-designated Senior Managers, other members of senior management, and 'higher paid material risk takers' meeting the requirements for five-year deferral, at least 40% of total variable pay awarded for the year is delivered in shares and subject to deferral with release dates over five years following the date of award.
- For all other Material Risk Takers whose variable pay exceeds the above thresholds, at least 40% of total variable pay awarded for the year is delivered in shares and subject to deferral with release dates over four years following the date of award.

(ii) Information of the Group's criteria for ex post adjustments
All variable pay awards made to Material Risk Takers are subject to malus and clawback arrangements. Awards are subject to clawback for up to seven years from when the award is made. For PRA – and FCA designated Senior Managers, awards are subject to clawback for up to ten years in the event of ongoing internal/regulatory investigation at the end of the seven-year period, in line with regulatory requirements.

The circumstances in which ex post adjustment may be applied are set out in b(ii) above.

(iii) Where applicable, shareholding requirements that may be imposed on identified staff
Shareholding requirements apply to Executive Directors and members of the Leadership Team.

(g) The description of the main parameters and rationale for any variable components scheme and any other non-cash benefit in accordance with point (f) of Article 450(1) CRR. Disclosures shall include:
Information on the specific performance indicators used to determine the variable components of remuneration and the criteria used to determine the balance between different types of instruments awarded
Bonus awards are made based on an assessment of performance against financial and non-financial targets aligned with the Group's strategic priorities and included in the Group Scorecard for the year. Further information is included in section (e) and in the Directors' remuneration report on pages 120 to 152 of the Group's 2022 Annual Report & Accounts.

18 Annex XXXIII: Disclosure of remuneration policy continued

(h) Upon demand from the relevant Member State or competent authority, the total remuneration for each member of the management body or senior management
Details of the remuneration of our Executive and Non-Executive Directors can be found in the Directors' remuneration report on pages 120 to 152 of the Group's 2022 Annual Report & Accounts.

(i) Information on whether the Group benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1) CRR. Disclosures shall include:
The Group is a proportionality Level 1 firm in the UK and therefore applies the requirements of the remuneration part of the UK's Remuneration Code in full.

The Group applies the derogation laid down in Article 94(3)(b) of CRD where an individual's annual variable remuneration (a) does not exceed £44,000 and (b) does not represent more than one third of the individual's total annual remuneration. Where this derogation is applied, the Group applies the approach set out in section (f) in relation to the application of deferral, payment in instruments and retention policy.

Details of the staff in relation to which this derogation was applied in respect of 2021/22 are set out below:

Number of staff benefiting from the derogation laid down in Article 94(3) or CRD 2021/22	Total Fixed Remuneration	Total Variable Remuneration
49	£5,549,094	£696,718

(j) Quantitative information on the remuneration of the Group's management body, differentiating between executive and non-executive members in accordance with Article 450(2) CRR
See tables UK REM1 to UK REM5.

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18 Annex XXXIII: Disclosure of remuneration policy continued

18.2 UK REM1 – Remuneration awarded for the financial year

		As at 30 September 2022	A MB Supervisory function	B MB Management function	C Other senior management	D Other identified staff
1	Fixed remuneration	Number of identified staff	**7**	**2**	**9**	**143**
2		Total fixed remuneration	**1.1**	**1.9**	**3.5**	**19.0**
3		*of which: cash-based*	**1.1**	**1.9**	**3.5**	**19.0**
UK-4a		*of which: shares or equivalent ownership interests*	–	–	–	–
5		*of which: share-linked instruments or equivalent non-cash instruments*	–	–	–	–
UK-5x		*of which: other instruments*	–	–	–	–
7		*of which: other forms*	–	–	–	–
9	Variable remuneration	Number of identified staff	**7**	**2**	**9**	**143**
10		Total variable remuneration	–	**3.6**	**3.9**	**8.1**
11		*of which: cash-based*	–	**0.4**	**0.6**	**2.7**
12		*of which: deferred*	–	–	**0.1**	**0.3**
UK-13a		*of which: shares or equivalent ownership interests*	–	**3.2**	**3.2**	**5.4**
UK-14a		*of which: deferred*	–	**2.9**	**2.7**	**4.3**
UK-13b		*of which: share-linked instruments or equivalent non-cash instruments*	–	–	–	–
UK-14b		*of which: deferred*	–	–	–	–
UK-14x		*of which: other instruments*	–	–	–	–
UK-14y		*of which: deferred*	–	–	–	–
15		*of which: other forms*	–	–	–	–
16		*of which: deferred*	–	–	–	–
17	Total remuneration (2 + 10)		**1.1**	**5.5**	**7.4**	**27.1**

Annexes

18 Annex XXXIII: Disclosure of remuneration policy continued

18.3 UK REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile

As at 30 September 2022		A MB Supervisory function	B MB Management function	C Other senior management	D Other
	Guaranteed variable remuneration awards				
1	Number of identified staff	–	–	–	–
2	Total amount	–	–	–	–
3	*of which: Paid during the financial year, that are not taken into account in the bonus cap*	–	–	–	–
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Number of identified staff	–	–	–	–
5	Total amount	–	–	–	–
	Severance payments awarded during the financial year				
6	Number of identified staff	–	–	**2**	**16**
7	Total amount	–	–	**0.4**	**1.9**
8	*of which: paid during the financial year*	–	–	**0.4**	**1.9**
9	*of which: deferred*	–	–	–	–
10	*of which: taken into account in the bonus cap*	–	–	–	–
11	*of which: highest payment that has been awarded to a single person*	–	–	**0.2**	**0.3**

Annexes

18 Annex XXXIII: Disclosure of remuneration policy continued

18.4 UK REM3 – Deferred remuneration

As at 30 September 2022		A Total amount of deferred remuneration awarded for previous performance periods	B *Of which: due to vest in the financial year*	C *Of which: vesting in subsequent financial years*	D Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	E Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	F Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	UK – G Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	UK – H Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	–	–	–	–	–	–	–	–
2	*Cash-based*	–	–	–	–	–	–	–	–
3	*Shares or equivalent ownership interests*	–	–	–	–	–	–	–	–
4	*Share-linked instruments or equivalent non-cash instruments*	–	–	–	–	–	–	–	–
5	*Other instruments*	–	–	–	–	–	–	–	–
6	*Other forms*	–	–	–	–	–	–	–	–
7	MB Management function	**9.7**	**0.5**	**9.2**	–	–	**(0.1)**	**0.4**	**1.3**
8	*Cash-based*	–	–	–	–	–	–	–	–
9	*Shares or equivalent ownership interests*	**9.7**	**0.5**	**9.2**	–	–	**(0.1)**	**0.4**	**1.3**
10	*Share-linked instruments or equivalent non-cash instruments*	–	–	–	–	–	–	–	–
11	*Other instruments*	–	–	–	–	–	–	–	–
12	*Other forms*	–	–	–	–	–	–	–	–
13	Other senior management	**17.5**	**0.8**	**16.7**	–	–	**(0.2)**	**0.6**	**2.2**
14	*Cash-based*	–	–	–	–	–	–	–	–
15	*Shares or equivalent ownership interests*	**17.5**	**0.8**	**16.7**	–	–	**(0.2)**	**0.6**	**2.2**
16	*Share-linked instruments or equivalent non-cash instruments*	–	–	–	–	–	–	–	–
17	*Other instruments*	–	–	–	–	–	–	–	–
18	*Other forms*	–	–	–	–	–	–	–	–
19	Other identified staff	**10.2**	**1.3**	**8.9**	–	–	**(0.1)**	**1.2**	**0.6**
20	*Cash-based*	–	–	–	–	–	–	–	–
21	*Shares or equivalent ownership interests*	**10.2**	**1.3**	**8.9**	–	–	**(0.1)**	**1.2**	**0.6**
22	*Share-linked instruments or equivalent non-cash instruments*	–	–	–	–	–	–	–	–
23	*Other instruments*	–	–	–	–	–	–	–	–
24	*Other forms*	–	–	–	–	–	–	–	–
25	Total amount	**37.4**	**2.6**	**34.8**	–	–	**(0.4)**	**2.2**	**4.1**

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18 Annex XXXIII: Disclosure of remuneration policy continued

18.5 UK REM4 – Remuneration of 1 million EUR or more per year

		A
		30 September 2022
(EUR)		Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	**2**
2	1 500 000 to below 2 000 000	**–**
3	2 000 000 to below 2 500 000	**2**
4	2 500 000 to below 3 000 000	**–**
5	3 000 000 to below 3 500 000	**–**
6	3 500 000 to below 4 000 000	**1**
7	4 000 000 to below 4 500 000	**–**
8	4 500 000 to below 5 000 000	**–**
9	5 000 000 to below 6 000 000	**–**
10	6 000 000 to below 7 000 000	**–**
11	7 000 000 to below 8 000 000	**–**

18.6 UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		A	B	C	D	E	F	G	H	I	J
		Management body remuneration			Business areas						
As at 30 September 2022		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff										**161**
2	*of which: members of the MB*	**7**	**2**	**9**							
3	*of which: other senior management*				**–**	**3**	**–**	**4**	**2**	**–**	
4	*of which: other identified staff*				**–**	**55**	**–**	**31**	**57**	**–**	
5	Total remuneration of identified staff	**1.1**	**5.5**	**6.6**	**–**	**13.6**	**–**	**11.5**	**9.5**	**–**	
6	*of which: variable remuneration*	**–**	**3.6**	**3.6**	**–**	**4.3**	**–**	**4.9**	**2.8**	**–**	
7	*of which: fixed remuneration*	**1.1**	**1.9**	**3.0**	**–**	**9.3**	**–**	**6.6**	**6.7**	**–**	

19 Annex XXXV: Disclosure of encumbered and unencumbered assets

19.1 UK AE1 – Encumbered and unencumbered assets

		010	030	040	050	060	080	090	100
		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
As at 30 September 2022 (£m)			*of which: notionally eligible EHQLA and HQLA*		*of which: notionally eligible EHQLA and HQLA*		*of which: EHQLA and HQLA*		*of which: EHQLA and HQLA*
010	**Assets of the reporting institution**	**22,257**	**3,430**			**67,372**	**11,122**		
030	Equity instruments	**–**	**–**	**–**	**–**	**6**	**–**	**6**	**–**
040	Debt securities	**877**	**877**	**877**	**877**	**3,782**	**3,751**	**3,782**	**3,751**
050	*of which: covered bonds*	**–**	**–**	**–**	**–**	**1,375**	**1,364**	**1,375**	**1,364**
070	*of which: issued by general governments*	**877**	**877**	**877**	**877**	**755**	**751**	**755**	**751**
080	*of which: issued by financial corporations*	**–**	**–**	**–**	**–**	**2,928**	**1,526**	**2,928**	**1,526**
090	*of which: issued by non-financial corporations*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
120	Other assets	**21,380**	**2,512**			**63,706**	**7,343**		

19.2 UK AE2 – Collateral received and own debt securities issued

		010	030	040	060
				Unencumbered	
		Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
As at 30 September 2022 (£m)			*of which: notionally eligible EHQLA and HQLA*		*of which: EHQLA and HQLA*
130	**Collateral received by the reporting institution**	**–**	**–**	**441**	**441**
230	Other collateral received	**–**	**–**	**441**	**441**
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			**2,548**	**–**
250	**Total assets, collateral received and own debt securities issued**	**22,257**	**3,430**		

19.3 UK AE3 – Sources of encumbrance

		010	030
As at 30 September 2022 (£m)		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
010	Carrying amount of selected financial liabilities	**13,108**	**19,428**

Annexes

19 Annex XXXV: Disclosure of encumbered and unencumbered assets continued

19.4 UK AE4 – Accompanying narrative information

(a) General narrative information on asset encumbrance

The term encumbrance is used to denote those assets on a bank's balance sheet which have been pledged as security, collateral or legally ring-fenced in some other way which prevents the firm from being able to transfer, pledge, sell or otherwise use/dispose of these assets. Asset encumbrance is subject to a Risk Appetite control within the Group, ensuring that in the normal course of business encumbrance remains at appropriate levels. Median exposures have been disclosed based on the four quarterly regulatory asset encumbrance submissions during the financial year. The consolidation scope applied for the purposes of asset encumbrance disclosures is consistent with those applied for liquidity requirements. There are no differences between the treatment of transactions which have been deemed to have been pledged or transferred compared to their encumbrance status.

(b) Impact of the business model on assets encumbrance and importance of encumbrance to the Group's business model, which provides users with the context of UK AE1 and UK AE2

(i) Main sources and types of encumbrance

Repo transactions

Sale and repo transactions are used, in the ordinary course of business, to manage short-term cash flow requirements and mismatches. A repo transaction involves the pledge of marketable securities as security in exchange for receiving a consideration. During the term of the repo, the securities pledged are encumbered. The Group has entered into a number of repo agreements with a range of market counterparties.

Note Cover

Under Part 6 of the Banking Act 2009, banks in Scotland and Northern Ireland which issue bank notes are required at all times to hold backing assets equivalent to 100% of their bank notes in circulation. Banks may use a combination of BoE notes, UK coin and funds held in specific bank accounts at the BoE. As a result, note cover backing assets held with the BoE are considered to be encumbered assets. If note issuance increases, then additional cash balances are required to be placed with the BoE. However, as this process creates equal and offsetting liabilities for the encumbered assets there is no material risk to depositors or the Group.

Cash ratio deposit

Non-interest-bearing deposits lodged with the BoE by eligible institutions (i.e. banks and building societies), who have reported average eligible liabilities of over £600m over a calculation period. The level of each institution's Cash Ratio Deposit is calculated twice-yearly in May and November. A ratio is calculated by the BoE based on Gilt yield data. This is then applied to the institution's average eligible liabilities over the previous six end-of-calendar months, in excess of £600m, to calculate the required Cash Ratio Deposit. Due to the permanent nature of the Cash Ratio Deposit, the requirement is considered to be an encumbered asset.

Margin

As noted above, a repo transaction involves the pledge of marketable securities in exchange for receiving a deposit. During the period of the repo, the market value of the securities pledged fluctuates while the value of the underlying cash deposit remains fixed. To account for the fluctuations in the market value of the securities, additional cash ('margin') is passed between the parties. Cash margin paid out by the Group in respect of repo transactions is treated as encumbered.

Likewise, where the Group has entered into a derivative transaction with another market counterparty, the market value of the derivative fluctuates with changes in market rates. In addition, Initial Margin may be required by market counterparties in respect of executing centrally cleared derivatives. In both examples, margin is passed between the parties, either in the form of cash or other securities. Margin paid out by the Group in respect of derivative transactions is treated as encumbered.

Payment system collateral

The Group is a direct participant in a number of UK payment and clearing systems, all of which require collateral to be posted to support the Group's obligations. Collateral posted up to the minima required to pre-fund deferred net settlement payment systems is treated as encumbered. Balances in collateralisation accounts in excess of the minima required are not treated as encumbered.

Operational Continuity in Resolution (OCIR)

The Group is required to calculate and segregate sufficient funds to meet the costs of critical services in the event that the Group enters resolution. As such, a volume of securities are held in a segregated HSBC custody account and are treated as encumbered to the level required to meet OCIR requirements.

Loans and advances

The Group has four structured funding programmes: three securitisation structures as outlined in section 11 and a regulated covered bond programme, also backed by residential mortgages. Term funding issuance from these platforms results in a portion of the Group's mortgage assets becoming encumbered.

Over-collateralisation levels are embedded in each programme to meet the minimum levels as specified by the programme documentation and as agreed with the ratings agencies and regulators to mitigate certain legal risks, such as set-off rights.

The Special Purpose Vehicle/LLPs also hold cash balances in segregated bank accounts with external counterparties. The use of these balances is restricted to specific entities and these balances are therefore considered by the Group to be encumbered.

The Group has also pledged whole mortgage pools to the BoE to support collateral requirements of central bank operations and for secured funding as part of the BoE's TFSME. Assets utilised through these facilities are treated as encumbered.

Annexes

19 Annex XXXV: Disclosure of encumbered and unencumbered assets continued

Importance of encumbrance to the Group's business model
The Group monitors asset encumbrance to ensure that the Group retains a sufficient level of unencumbered assets to support recovery planning options and to be able to access wholesale markets and Central Bank funding. Encumbrance is important to the Group's business model both in supporting the Group's business and in providing a key source of funding, and is managed according to risk appetite.

ii) structure of encumbrance between entities within the Group
Encumbrance is incurred at the CB level and is therefore the same at VMUK level; there is no significant intragroup encumbrance with encumbrance attributable to structured funding vehicles fully detailed at CB/VMUK level.

iii) Information on over-collateralisation
RMBS and Regulated Covered Bond (RCB) pools include significant over-collateralisation relative to the bonds in issue, with encumbrance being weighted according to regulatory minima (plus buffer) for the RCB pool and the volume of encumbered notes, i.e. excluding any encumbrance of mortgages which would be attributable to retained unencumbered notes, for the RMBS programmes.

iv) Additional information on encumbrance of assets
The Group has no significant encumbrance in currencies other than GBP.

v) General description of proportion of items included in column 060 'Carrying amount of unencumbered assets' in Template UK AE1 that the Group deems not available for encumbrance in the normal course of its business
Certain assets are detailed in pages 209 to 211 of the Group's 2022 Annual Report & Accounts as being unavailable for encumbrance, including intangible assets and goodwill, deferred tax assets, derivative assets, pension assets, and mortgages deemed ineligible to be encumbered through the Group's structured funding programmes.

vi) The amount of underlying assets and of cover pool assets of retained securitisations and retained covered bonds
As at 30 September 2022 the Group held retained assets totalling £1.3bn (excluding Z notes) across the Lanark, Lannraig and Gosforth RMBS programmes. Of these securities £0.5bn were unencumbered. Mortgages supporting unencumbered retained notes are treated as unencumbered. Mortgages supporting retained notes which are encumbered, such as through repo transactions, are treated as encumbered.

vii) the impact of the Group's business model on levels of encumbrance
The majority of the Group's asset encumbrance arises through secured funding issuance and use of the BoE's TFSME.

Collateral encumbrance in respect of derivative transactions, including both securities posted as initial margin and cash posted as variation margin, are not directly related to liabilities and instead are driven by the size and structure of the Group's derivative portfolio. In addition, over-encumbrance of mortgage pools supporting BoE and structured funding, in addition to structured funding GIC accounts supporting the programmes, means that this encumbrance does not directly match the notes issued liability. OCIR and payment system cash collateral are also not directly matched to an equivalent liability.

viii) Additional information on the breakdown of rows in templates UK AE1, UK AE2 and UK AE3
Row 120 of Template UK AE1 – "Other Assets" details non-security encumbered assets, which is primarily mortgages but also includes cash at central bank (note cover and payment systems), derivatives cash variation margin and Special Purpose Vehicle GIC accounts.

Row 010 of Template UK AE3 includes the matching liability related to encumbrance in column 010, while column 030 includes encumbered mortgages (and therefore over-collateralisation) and other encumbrance not directly linked to liabilities as detailed above (excluding payment system collateral, note cover, cash ratio deposit and OCIR encumbered collateral).

20 Annex XXXVII: Disclosure of interest rate risk in the banking book (IRRBB)

20.1 UK IRRBBA – Risk management objectives and policies

(a) How the Group defines, measures, mitigates and controls IRRBB for the purposes of risk control and measurement

IRRBB is measured, monitored, and managed from both an internal management and regulatory perspective. The Group has a limited appetite for interest rate risk, consistent with the business model, and takes a prudent approach to the measurement and management of the risks which do exist.

The Board is responsible for setting IRRBB risk appetite and the ALCO is responsible for managing IRRBB within risk appetite and associated ALCO limit framework. Day to day IRRBB risk management is delegated to Treasury.

IRRBB is the risk arising from changes in market interest rates and related customer behaviour that could adversely affect the financial condition of the Group in terms of earnings or economic value. This is driven by exposures to duration risk, optionality risk, credit spread risk and basis risk.

Duration risk results from re-pricing mismatch between assets and liabilities. Optionality risk generates interest rate risk through the optionality embedded in some of the Group's banking products (e.g. non-maturity deposits, term deposits, fixed rate loans) that are triggered in accordance with changes in interest rates both through early maturity risk (on-balance sheet products are repaid before contractual maturity) and pipeline risk (change in the expected rate of hedged pipeline completion). Basis risk generates an exposure to losses through non-parallel movements in different repricing indices both in terms of basis risk (Base vs SONIA) and credit spread risk (bond vs swap/funding rates).

The risk management framework incorporates both market valuation and earnings-based approaches. In accordance with the Group IRRBB policy standard, risk measurement techniques include:

- basis point sensitivity;
- NII sensitivity;
- value at risk (VaR);
- economic value of equity;
- interest rate risk stress testing; and
- scenario analysis.

(b) The Group's IRRBB management and mitigation strategies

IRRBB is overseen by ALCO with delegation for day-to-day management given to Treasury. Treasury uses a number of techniques and products to manage IRRBB risks including:

- interest rate swaps;
- cash flow netting;
- structural hedging;
- pricing strategies; and
- product characteristics & innovation.

(c) The periodicity of the calculation of the Group's IRRBB measures, and a description of the specific risk measures used to gauge sensitivity to IRRBB

The key features of the internal interest rate risk management model are:

- basis point sensitivity analysis is performed daily and compares the potential impact of a one basis point (0.01%) change on the present value of all future cash flows;
- NII sensitivity is performed monthly and assesses changes to earnings over a 12-month time horizon as a result of a range of interest rate movements and changes to customer behaviour;
- VaR is measured on a statistical basis weekly using a 99% confidence level based on daily rate movements over a ten-year history set with a one-year holding period;
- economic value of equity is measured in line with PRA guidance with all six rate shocks assessed on a quarterly basis, including customer optionality stresses; and
- Credit Spread Risk in the Banking Book (CSRBB) is assessed weekly 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 10-year history set with a three-month holding period.

(d) The interest rate shock and stress scenarios used to estimate changes in economic value and in earnings

The shocks used to assess the change in economic value of equity are aligned to the six prescribed rate scenarios as defined under rule 9.4A of the PRA rulebook for CRR firms. These stress scenarios are measured quarterly in line with the Outlier Test requirements encompassing both duration and optionality risk assessments. The parallel up/down 250bps scenarios are also used to assess earnings sensitivity semi-annually.

Internal methodology also measures earnings sensitivity against a range of rate scenarios including both +/-25bps and +/-100bps monthly.

(e) Key modelling and parametric assumptions used in calculating change in economic value of equity (ΔEVE) and change in net interest income (ΔNII) in Template UK IRRBB1
Economic Value of Equity: The ΔEVE calculations are assessed in line with PRA guidance and include the following key assumptions:

- the balance sheet is modelled on a runoff basis;
- equity is removed from the cashflow profile. With equity invested over a Board approved tenor profile this creates an unhedged asset position which has negative value as rates rise but positive if rates fall;
- the EVE measures are calculated on a behavioural run off profile, including prepayment and early redemption risk where appropriate; and
- commercials margins are removed from all cash flows and discounting is performed using the risk-free rate.

Net Interest Income: The ΔNII calculations are assessed in line with PRA guidance and include the following key assumptions:

- represents the change in net interest income resulting from an instantaneous +/- 250bps parallel shock in interest rates.
- the NII sensitivity is based on a constant balance sheet modelling approach with no change in front book margins or basis spreads.
- in the rate rise scenario administered products receive a rate pass on in line with internal scenario specific pass on assumptions.
- administered rate products receive a full rate pass on in the rate fall scenario, subject to product floors with the assumption customer rates would not go negative.

(f) Significant modelling assumptions used in the Group's internal measurement systems for purposes other than disclosure, that differ from the modelling assumptions prescribed for the disclosure in Template UK IRRBB1
Behavioural modelling assumptions to inform the interest rate gap profile are applied consistently between internal and regulatory economic value assessments. Investment term for core non-interest bearing and non-maturity assets and liabilities are 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.

The investment term for capital is modelled with a benchmark term agreed by ALCO and is included in the internal gap profile for daily PVBP and weekly VaR measures.

Per part (e) above, NII sensitivities for the regulatory measures reported under UK IRRBB1 include a rate pass on in line with internal scenario specific pass on assumptions. Internal NII sensitivities are also assessed on a static balance sheet basis with any new business assumed to be matched, hedged or subject to immediate repricing. The primary difference between the internal and regulatory NII sensitivity assessments is the scale of rate shocks applied with internal reporting focused on +/-25bps and +/-100bps instantaneous shocks.

(g) How the Group hedges its IRRBB, as well as the associated accounting treatment
The Group uses derivative financial instruments to manage interest rate and foreign currency risk within approved limits. The Group elects to apply hedge accounting for the majority of its risk management activity that uses derivatives. Certain derivatives are designated as either fair value hedge or cash flow hedge:

Fair value hedges – the Group hedges part of its existing interest rate risk, resulting from potential movements in the fair value of fixed rate assets and liabilities. The fair value of these swaps is disclosed within note 3.6 to the Group's consolidated financial statements. There were no transactions for which fair value hedge accounting had to be discontinued in the year.

Cash flow hedges – the Group hedges a portion of the variability in future cash flows attributable to interest rate risk. The interest risk arises from variable interest rate assets and liabilities which are hedged using interest rate swaps. There were no transactions for which cash flow hedge accounting had to be discontinued in the year as a result of the highly probable cash flows no longer being expected to occur. The fair value of derivatives is disclosed within note 3.6 to the Group's consolidated financial statements.

(h) Other information regarding the interpretation of the significance and sensitivity of the IRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBB since previous disclosures
ΔEVE: The large negative results in the up stresses are as a result of the requirement to remove equity profile from the cashflow profile. With equity invested over a Board approved tenor profile this creates an unhedged asset position which has negative value as rates rise but positive if rates fall. The EVE measures are calculated on a behavioural run off profile. The September 2022 results are comparable to the March 2022 interim disclosures (£291m vs £296m) but with two offsetting movements between reporting periods. As disclosed within the interim Pillar 3 at that time, cash flows included commercial margins but discounting was performed using the risk free rate. This created an additional asset position which further inflated the overall EVE risk in an upward rate shock scenario but has since been corrected. This correction was the primary driver of a £58m reduction in duration risk between reporting periods. The reduction in the period was offset by a £52m increase in optionality risk primarily due to higher mortgage pipeline risk.

ΔNII: Represents the change in net interest income resulting from an instantaneous +/- 250bps parallel shock in interest rates. The NII sensitivity is based on a constant balance sheet modelling approach with no change in front-book margins or basis spreads. In the rate rise scenario, administered products receive a rate pass on, in line with internal scenario specific pass on assumptions. Administered rate products receive a full rate pass on in the rate fall scenario, subject to product floor assumptions. The deposit floor assumption has a material bearing on the outcome of the NII sensitivity in a negative rates scenario. The -£241m sensitivity reported reflects the worst-case outcome with customer rates assumed to floor above zero with the spread compression that results the primary driver of the NII loss. Flooring customer rates instead at -100bps in line with the prescribed market rate floor and assuming a full pass through to the deposit floor for all administered rate liabilities would result in a +£129m outcome in the down 250bps stress.

Annexes

20 Annex XXXVII: Disclosure of interest rate risk in the banking book (IRRBB) continued

(i) Average repricing maturity assigned to non-maturing deposits
The average repricing maturity assigned to non-maturing deposits (NMDs) is 1.2 years. This includes both rate sensitive balances that reprice overnight and stable rate insensitive balances profiled on a behavioural term agreed at ALCO.

(j) Longest repricing maturity assigned to NMDs
The longest repricing maturity assigned to NMDs is 5 years.

20.2 UK IRRBB1 – Quantitative information on IRRBB

		A	B	C	D	E	F
		ΔEVE		ΔNII		Tier 1 capital	
		30 Sept 2022	31 Mar 2022	**30 Sept 2022**	31 Mar 2022	**30 Sept 2022**	31 Mar 2022
10	Parallel shock up	**(291)**	(296)	**167**	105		
20	Parallel shock down	**103**	132	**(241)**	(251)		
30	Steepener shock	**(49)**	(63)				
40	Flattener shock	**(25)**	(10)				
50	Short rates shock up	**(118)**	(104)				
60	Short rates shock down	**23**	50				
70	**Maximum**	**(291)**	(296)				
80	**Tier 1 capital**					**4,301**	4,262

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21 Appendix 1: Disclosures for CB Group Consolidated

21.1 Annex I: Disclosure of key metric and overview of risk-weighted exposure amounts

21.1.1 UK OV1 – Overview of risk-weighted exposure amounts

The table below shows RWEAs and minimum capital requirement by risk type and approach.

		A	B	C
		Risk-weighted exposure amounts (RWEAs)		Total own funds requirements
		30 Sept 2022 £m	30 Sept 2021[1] £m	30 Sept 2022 £m
1	Credit risk (excluding CCR)	**21,061**	21,520	**1,685**
2	*of which: the standardised approach*	**6,120**	5,823	**490**
3	*of which: the foundation IRB (FIRB) approach*	**5,424**	5,271	**434**
4	*of which: slotting approach*	**362**	416	**29**
5	*of which: the advanced IRB (AIRB) approach*	**9,155**	10,010	**732**
6	Counterparty credit risk – CCR	**443**	208	**36**
7	*of which: the standardised approach*	**180**	103	**15**
UK-8a	*of which: exposures to a Central Counterparty (CCP)*	**5**	2	**–**
UK-8b	*of which: credit valuation adjustment – CVA*	**258**	103	**21**
23	Operational risk	**2,624**	2,466	**210**
UK-23b	*of which: standardised approach*	**2,624**	2,466	**210**
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	**251**	288	**20**
29	**Total**	**24,128**	24,194	**1,931**

(1) Prior period comparatives have been updated to reflect the new requirements implemented through PS22/21.

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21 Appendix 1: Disclosures for CB Group Consolidated continued

21.1.2 UK KM1 – Key metrics

The table below provides a summary of the main prudential regulation ratios and measures.

		A	B	C	D	E
		30 Sep 2022 £m	30 Jun 2022 £m	31 Mar 2022 £m	31 Dec 2021 £m	30 Sept 2021 £m
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	**3,606**	3,537	3,561	3,654	3,603
2	Tier 1 capital	**4,268**	4,199	4,233	4,326	4,275
3	Total capital	**5,288**	5,219	5,253	5,345	5,294
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	**24,128**	23,973	24,148	24,050	24,194
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	**14.9%**	14.8%	14.7%	15.2%	14.9%
6	Tier 1 ratio (%)	**17.7%**	17.5%	17.5%	18.0%	17.7%
7	Total capital ratio (%)	**21.9%**	21.8%	21.8%	22.2%	21.9%
	Additional own funds requirements based on Supervisory Review and Evaluation Process (SREP) (as a percentage of risk-weighted exposure amount)					
UK-7a	Additional CET1 SREP requirements (%)	**1.7%**	1.7%	1.7%	1.7%	2.2%
UK-7b	Additional AT1 SREP requirements (%)	**0.6%**	0.6%	0.6%	0.6%	0.7%
UK-7c	Additional T2 SREP requirements (%)	**0.8%**	0.8%	0.8%	0.8%	1.0%
UK-7d	Total SREP own funds requirements (%)	**11.1%**	11.1%	11.1%	11.1%	11.9%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	**2.5%**	2.5%	2.5%	2.5%	2.5%
11	Combined buffer requirement (%)	**2.5%**	2.5%	2.5%	2.5%	2.5%
UK-11a	Overall capital requirements (%)	**13.6%**	13.6%	13.6%	13.6%	14.4%
12	CET1 available after meeting the total SREP own funds requirements (%)	**8.7%**	8.6%	8.5%	9.0%	8.2%
	Leverage ratio(1)					
13	Total exposure measure excluding claims on central banks	**83,758**	83,891	83,500	82,586	83,402
14	Leverage ratio excluding claims on central banks (%)	**5.1%**	5.0%	5.1%	5.2%	5.1%
	Additional leverage ratio disclosure requirements					
14a	Fully loaded Expected Credit Loss (ECL) accounting model leverage ratio excluding claims on central banks (%)	**5.0%**	4.9%	5.0%	5.1%	5.0%
14b	Leverage ratio including claims on central banks (%)	**4.5%**	4.5%	4.6%	4.7%	4.7%
14c	Average leverage ratio excluding claims on central banks (%)	**5.0%**	5.1%	5.0%	5.0%	5.0%
14d	Average leverage ratio including claims on central banks (%)	**4.4%**	4.5%	4.5%	4.5%	4.5%
14e	Countercyclical leverage ratio buffer (%)	**0.0%**	0.0%	0.0%	0.0%	0.0%
	Liquidity Coverage Ratio(2)(3)					
15	Total high-quality liquid assets (HQLA) (Weighted value average)	**11,503**	11,087	11,281	11,525	11,229
UK-16a	Cash outflows – Total weighted value	**8,764**	8,317	8,135	8,219	8,258
UK-16b	Cash inflows – Total weighted value	**543**	496	444	488	527
16	Total net cash outflows (adjusted value)	**8,222**	7,821	7,691	7,731	7,731
17	Liquidity coverage ratio (%)	**140%**	142%	147%	149%	145%

(1) Following the implementation of PS22/21 effective from 1 January 2022, the comparative figures have been restated to reflect the exclusion of the BBLS from the exposure value.

(2) Liquidity balances are calculated as the simple averages of month-end observations over the 12 months preceding the reporting date.

(3) In the prior year, certain business customer deposits were incorrectly classified as Corporates, as opposed to Financial Institutions. Due to the different liquidity outflow assumptions applied, this resulted in an overstatement of the LCR and misclassification of certain deposit balances. These business deposits have been reclassified as Financial Institutions and the prior period comparatives have been updated to align with the current period presentation.

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21 Appendix 1: Disclosures for CB Group Consolidated continued

21.1.3 UK KM2 – Key metrics template – MREL

The MREL establishes a minimum amount of equity and eligible debt to recapitalise the bank. An analysis of the current MREL position of Clydesdale Bank PLC is provided below:

		A	B	C	D	E
		30 Sept 2022 £m	30 Jun 2022 £m	31 Mar 2022 £m	31 Dec 2021 £m	30 Sept 2021 £m
1	Total capital resources[(1) (2)]	**5,288**	5,219	5,253	5,345	5,294
2	Eligible senior unsecured securities issued by Clydesdale Bank PLC[(2)]	**2,423**	2,411	2,395	2,390	2,408
3	Total MREL resources	**7,711**	7,630	7,648	7,735	7,702
4	Total risk-weighted assets	**24,128**	23,973	24,148	24,050	24,194
5	Total MREL resources available as a percentage of total risk-weighted assets (%)	**32.0%**	31.8%	31.7%	32.2%	31.8%
6	UK leverage exposure measure	**83,758**	83,891	83,500	82,586	83,402
7	Total MREL resources available as a percentage of UK leverage exposure measure (%)	**9.2%**	9.1%	9.2%	9.4%	9.2%

(1) This capital position reflects the application of the transitional arrangements for IFRS 9.

(2) Includes MREL instrument maturity adjustments; the add-back of regulatory amortisation; and the deduction of instruments with less than one year to maturity; from September 2022, unamortised costs are also deducted from eligible senior unsecured securities.

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21 Appendix 1: Disclosures for CB Group Consolidated continued

21.1.4 IFRS 9/Article 468 – Impact of IFRS 9 transitional arrangements and temporary treatment in accordance with CRR Article 468

The following table shows the capital, RWA and leverage positions with and without the application of transitional arrangements for IFRS 9 or analogous ECL.

		A	B	C	D	E
		30 Sept 2022 £m	30 Jun 2022 £m	31 Mar 2022 £m	31 Dec 2021 £m	30 Sept 2021 £m
Available capital (£m)						
1	Common Equity Tier 1 (CET1) capital	**3,606**	3,537	3,561	3,654	3,603
2	CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**3,492**	3,445	3,477	3,562	3,469
3	Tier 1 capital	**4,268**	4,199	4,233	4,326	4,275
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**4,154**	4,107	4,149	4,232	4,141
5	Total capital	**5,288**	5,219	5,253	5,345	5,294
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**5,174**	5,127	5,169	5,265	5,197
Risk-weighted assets (£m)						
7	Total risk-weighted assets	**24,128**	23,973	24,148	24,050	24,194
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**24,036**	23,898	24,076	23,992	24,118
Capital ratios (%)						
9	CET1 (as a percentage of risk exposure amount)	**14.9%**	14.8%	14.7%	15.2%	14.9%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**14.5%**	14.4%	14.4%	14.8%	14.4%
11	Tier 1 (as a percentage of risk exposure amount)	**17.7%**	17.5%	17.5%	18.0%	17.7%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**17.3%**	17.2%	17.2%	17.6%	17.2%
13	Total capital (as a percentage of risk exposure amount)	**21.9%**	21.8%	21.8%	22.2%	21.9%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**21.5%**	21.5%	21.5%	21.9%	21.5%
Leverage ratio						
15	Leverage ratio total exposure measure (£m)	**83,758**	83,891	83,500	82,586	83,402
16	Leverage ratio (%)	**5.1%**	5.0%	5.1%	5.2%	5.1%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied (%)	**5.0%**	4.9%	5.0%	5.1%	5.0%

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21 Appendix 1: Disclosures for CB Group Consolidated continued

21.2 Annex VII: Disclosure of own funds

21.2.1 UK CC1 – Composition of regulatory own funds

		30 Sept 2022 £m	30 Sept 2021 £m	Ref[1]:
	CET1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	**2,792**	2,792	**f**
	of which: ordinary shares	**1,243**	1,243	**g**
	of which: share premium	**1,549**	1,549	**h**
2	Retained earnings	**2,121**	1,621	**l + p**
3	Accumulated other comprehensive income (and other reserves)	**743**	44	**j**
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**(26)**	185	**m + n + o**
6	**CET1 capital before regulatory adjustments**	**5,630**	4,642	
	CET1 capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	**(5)**	(5)	
8	Intangible assets (net of related tax liability) (negative amount)	**(267)**	(219)	**a**
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	**(417)**	(388)	**b**
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	**(699)**	(10)	**k**
12	Negative amounts resulting from the calculation of expected loss amounts	**(100)**	–	
15	Defined-benefit pension fund assets (negative amount)	**(650)**	(551)	**c – e**
UK-27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	**114**	134	
28	**Total regulatory adjustments to CET1**	**(2,024)**	(1,039)	
29	**CET1 capital**	**3,606**	3,603	
	Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	**662**	672	
31	*of which: classified as equity under applicable accounting standards*	**662**	672	**i**
44	**AT1 capital**	**662**	672	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,268**	4,275	
	Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	**1,020**	1,019	**d**
58	**Tier 2 (T2) capital**	**1,020**	1,019	
59	**Total capital (TC = T1 + T2)**	**5,288**	5,294	
60	**Total Risk exposure amount**	**24,128**	24,194	

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21 Appendix 1: Disclosures for CB Group Consolidated continued

		30 Sept 2022 £m	30 Sept 2021 £m	Ref[(1)]:
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**14.9%**	14.9%	
62	Tier 1 (as a percentage of total risk exposure amount)	**17.7%**	17.7%	
63	Total capital (as a percentage of total risk exposure amount)	**21.9%**	21.9%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92(1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) Capital Requirements Directive (CRD), plus combined buffer requirement in accordance with Article 128(6) CRD expressed as % risk exposure amount)	**7.0%**	7.0%	
65	*of which: capital conservation buffer requirement*	**2.5%**	2.5%	
66	*of which: countercyclical buffer requirement*	**0.0%**	0.0%	
67	*of which: systemic risk buffer requirement*	**0.0%**	0.0%	
UK-67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	**0.0%**	0.0%	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[(2)]**	**8.7%**	8.2%	
	Applicable caps on the inclusion of provisions in Tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**79**	73	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**90**	94	

(1) Shows cross reference to the balance sheet under regulatory scope of consolidation in Table UK CC2 (21.2.2).

(2) Represents the CET1 ratio after deducting Pillar 1 and 2A requirements.

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21 Appendix 1: Disclosures for CB Group Consolidated continued

21.2.2 UK CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements

As at 30 September 2022		A Balance sheet as in published financial statements £m	B Under regulatory scope of consolidation[1] £m	C Ref:
	Assets			
1	*Financial assets at amortised cost*			
2	Loans and advances to customers	**71,749**	**71,749**	
3	Cash and balances with central banks	**12,221**	**12,221**	
4	Due from other banks	**656**	**656**	
5	*Financial assets at FVTPL*	**70**	**70**	
6	Loans and advances to customers	**342**	**342**	
7	Derivative financial instruments	**2**	**2**	
8	Other financial assets	**4**	**4**	
9	Financial assets at FVOCI	**5,064**	**5,064**	
10	Property plant and equipment	**211**	**211**	
11	Intangible assets and goodwill	**267**	**267**	**a**
12	Deferred tax assets	**256**	**256**	
13	*of which: tax losses carried forward*	***417***	***417***	**b**
14	Defined benefit pensions scheme assets	**1,000**	**1,000**	**c**
15	Other assets	**168**	**168**	
16	**Total assets**	**92,010**	**92,010**	
	Liabilities			
17	*Financial liabilities at amortised cost*			
18	Customer deposits	**65,434**	**65,434**	
19	Debt securities in issue	**5,347**	**5,347**	
20	*of which: Tier 2 instruments*	***1,020***	***1,020***	**d**
21	Due to other banks	**8,486**	**8,486**	
22	*Financial liabilities at FVTPL*			
23	Derivative financial instruments	**327**	**327**	
24	Due to related entities	**3,210**	**3,210**	
25	Current tax liabilities	**7**	**7**	
26	Deferred tax liabilities	**350**	**350**	
27	*of which: defined pension benefit scheme surplus*	***350***	***350***	**e**
28	Provisions for liabilities and charges	**50**	**50**	
29	Other liabilities	**2,388**	**2,507**	
30	**Total liabilities**	**85,599**	**85,718**	

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21 Appendix 1: Disclosures for CB Group Consolidated continued

As at 30 September 2022		A Balance sheet as in published financial statements £m	B Under regulatory scope of consolidation[1] £m	C Ref:
	Shareholders' Equity			
32	Share capital and share premium	**2,792**	**2,792**	**f**
33	*of which: ordinary share capital*	***1,243***	***1,243***	**g**
34	*of which: share premium*	***1,549***	***1,549***	**h**
35	Other equity instruments	**662**	**662**	**i**
38	Other reserves	**743**	**743**	**j**
39	*of which: cash flow hedge reserve*	***699***	***699***	**k**
40	Retained earnings	**2,214**	**2,095**	
41	*of which: prior period retained earnings*	**2,074**	**2,074**	**l**
42	*of which: profits accrued in the year to date*	**520**	**520**	**m**
43	*of which: dividends paid/accrued in the period*	**(367)**	**(473)**	**n**
44	*of which: AT1 coupons paid/accrued in the period*	**(60)**	**(73)**	**o**
45	*of which: other movements in retained earnings*	**47**	**47**	**p**
46	**Total shareholders' equity**	**6,411**	**6,292**	

(1) Balance sheet after accruing for foreseeable AT1 coupons and ordinary dividends.

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21 Appendix 1: Disclosures for CB Group Consolidated continued

21.2.3 UK CCA – Main features of regulatory own funds and eligible liabilities instruments

Main features of regulatory capital and eligible liabilities instruments for Clydesdale Bank PLC.

1	Issuer	Clydesdale Bank PLC	Clydesdale Bank PLC	Clydesdale Bank PLC	Clydesdale Bank PLC	Clydesdale Bank PLC	Clydesdale Bank PLC	Clydesdale Bank PLC
2	Unique identifier	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2a	Public or private placement	Private	Private	Private	Private	Private	Private	Private
3	Governing law(s) of the instrument	English	English	English	English	English	English	English
3a	Contractual recognition of write-down and conversion powers of resolution authorities	n/a	No	No	Yes	No	Yes	Yes
	Regulatory treatment							
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo and (sub-)consolidated	Solo and Sub-Consolidated	Solo and Sub-Consolidated	Solo and Sub-Consolidated	Solo and Sub-Consolidated	Solo and Sub-Consolidated	Solo and Sub-Consolidated	Solo and Sub-Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Additional Tier 1 Instruments	Additional Tier 1 Instruments	Additional Tier 1 Instruments	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital or eligible liabilities (currency in million, as of most recent reporting date)	GBP 1,243,153,821	GBP 68,641,368	GBP 247,138,469	GBP 346,480,954	GBP 248,975,546	GBP 472,962,227	GBP 298,297,777
9	Nominal amount of instrument	GBP 1,243,153,821	GBP 72,623,000	GBP 250,000,000	GBP 350,000,000	GBP 250,000,000	GBP 475,000,000	GBP 300,000,000
UK-9a	Issue price	100%	94.540%	100%	100%	99.493%	99.840%	99.807%
UK-9b	Redemption price	100%	100%	100%	100%	100%	100%	100%
10	Accounting classification	Equity	Equity	Equity	Equity	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	Various	8 February 2016	13 March 2019	17 June 2022	14 December 2018	11 September 2020	19 May 2021
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated
13	Original maturity date	n/a	n/a	n/a	n/a	14 December 2028	11 December 2030	19 August 2031
14	Issuer call subject to prior supervisory approval	n/a	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	Optional Call Date = 8 December 2022 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 8 June 2024 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = Any date from (and including) 17 June 2027 to (and including) 8 December 2027 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 14 December 2023 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = Any date from (and including) 11 September 2025 to (and including) 11 December 2025 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = Any date from (and including) 19 May 2026 to (and including) 19 August 2026 Reg Call = Yes Tax Call = Yes Redemption Price = 100%
16	Subsequent call dates, if applicable	n/a	Any interest payment date thereafter	Each fifth anniversary thereafter	Any date from (and including) the date falling 6 months prior to 8 December on each fifth anniversary thereafter	n/a	n/a	n/a

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21 Appendix 1: Disclosures for CB Group Consolidated continued

	Coupons/dividends							
17	Fixed or floating dividend/coupon	n/a	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	n/a	8.00% per annum until 8 December 2022. Resets to a fixed rate equal to the 5-year SONIA Mid-Swap Rate + 652.7bps, if not called	9.25% per annum until 8 June 2024. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 830.7bps, if not called	8.25% per annum until 8 December 2027. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 635.7bps, if not called	7.875% per annum until 14 December 2023. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 712.8bps, if not called	5.125% per annum until 11 December 2025. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 525bps, if not called	2.625% per annum until 19 August 2026. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 225bps, if not called
19	Existence of a dividend stopper	n/a	No	No	No	No	No	No
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	n/a	No	No	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	n/a	n/a	n/a
23	Convertible or non-convertible	Non-convertible	Convertible (Statutory/bail-in only)	Convertible (Statutory/bail-in only)	Convertible (Statutory/bail-in only)	Convertible (Statutory/bail-in only)	Convertible (Statutory/bail-in only)	Convertible (Statutory/bail-in only)
24	If convertible, conversion trigger(s)	n/a	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability/ when resolution conditions met	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability/ when resolution conditions met	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability/ when resolution conditions met	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability/ when resolution conditions met	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability/ when resolution conditions met	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability/ when resolution conditions met
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down features	No	Yes	Yes	Yes	Yes (Statutory/bail-in only)	Yes (Statutory/bail-in only)	Yes (Statutory/bail-in only)

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21 Appendix 1: Disclosures for CB Group Consolidated continued

31	If write-down, write-down trigger(s)	n/a	Contractual, if Virgin Money UK PLC Group's fully loaded CET1 ratio or CB Group's fully loaded CET1 ratio falls below 7% Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Contractual, if Virgin Money UK PLC Group's fully loaded CET1 ratio, CB Group's fully loaded CET1 ratio or CB Solo fully loaded CET1 falls below 7% Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Contractual, if Virgin Money UK PLC Group's fully loaded CET1 ratio, CB Group's fully loaded CET1 ratio or CB Solo fully loaded CET1 falls below 7% Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met
32	If write-down, full or partial	n/a	Always Fully	Always Fully	Always Fully	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	Permanent	Permanent	Permanent	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a	n/a
34a	Type of subordination (only for eligible liabilities)	Statutory	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual
UK-34b	Ranking of the instrument in normal insolvency proceedings	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1	Tier 2	Tier 2	Tier 2	Senior Unsecured	Senior Unsecured	Senior Unsecured
36	Non-compliant transitioned features	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a	n/a
37a	Link to the full term and conditions of the instrument (signposting)	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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21 Appendix 1: Disclosures for CB Group Consolidated continued

Main features of eligible liabilities only instruments for Clydesdale Bank PLC.

1	Issuer	Clydesdale Bank PLC	Clydesdale Bank PLC	Clydesdale Bank PLC	Clydesdale Bank PLC	Clydesdale Bank PLC	Clydesdale Bank PLC
2	Unique identifier	n/a	n/a	n/a	n/a	n/a	n/a
2a	Public or private placement	Private	Private	Private	Private	Private	Private
3	Governing law(s) of the instrument	English	English	English	English	English	English
3a	Contractual recognition of write-down and conversion powers of resolution authorities	Yes	Yes	Yes	Yes	Yes	Yes
	Regulatory treatment						
4	Current treatment taking into account, where applicable, transitional CRR rules	n/a	n/a	n/a	n/a	n/a	n/a
5	Post-transitional CRR rules	n/a	n/a	n/a	n/a	n/a	n/a
6	Eligible at solo/(sub-)consolidated/solo and (sub-)consolidated	Solo and Sub-Consolidated	Solo and Sub-Consolidated	Solo and Sub-Consolidated	Solo and Sub-Consolidated	Solo and Sub-Consolidated	Solo and Sub-Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Senior Non-Preferred	Senior Non-Preferred	Senior Non-Preferred	Senior Non-Preferred	Senior Non-Preferred	Senior Non-Preferred
8	Amount recognised in regulatory capital or eligible liabilities (currency in million, as of most recent reporting date)	GBP 299,241,666	GBP 349,935,666	GBP 498,217,073	GBP 397,911,470	GBP 438,634,343	GBP 439,110,038
9	Nominal amount of instrument	GBP 300,000,000	GBP 350,000,000	GBP 500,000,000	GBP 400,000,000	EUR 500,000,000 GBP 439,705,011	EUR 500,000,000 GBP 439,705,011
UK-9a	Issue price	99.570%	100%	99.595%	99.589%	99.914%	99.970%
UK-9b	Redemption price	100%	100%	100%	100%	100%	100%
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	22 June 2017	20 August 2019	25 September 2018	3 September 2019	24 June 2020	27 May 2021
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	22 June 2025	24 April 2026	25 September 2026	3 September 2027	24 June 2025	27 May 2024
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Optional Call Date = 22 June 2024 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 24 April 2025 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 25 September 2025 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 03 September 2026 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 24 June 2024 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 27 May 2023 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Redemption Price = 100%
16	Subsequent call dates, if applicable	Any interest payment date thereafter	n/a	Any interest payment date thereafter	Any interest payment date thereafter	Any interest payment date thereafter	n/a

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21 Appendix 1: Disclosures for CB Group Consolidated continued

	Coupons/dividends						
17	Fixed or floating dividend/coupon	Fixed to floating	Fixed	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	3.125% per annum until 22 June 2024. Resets to a floating rate equal to the Compounded Daily SONIA + 256.86bps, if not called	3.6262% per annum until 24 April 2025. Resets to a fixed rate equal to the 1-year SONIA Mid-Swap Rate + 214.46bps, if not called	4.00% per annum until 25 September 2025. Resets to a fixed rate equal to the 1-year Benchmark Gilt Rate + 280bps, if not called	4.00% per annum until 3 September 2026. Resets to a fixed rate equal to the 1-year Benchmark Gilt Rate + 375bps, if not called	2.875% per annum until 24 June 2024. Resets to a fixed rate equal to the 1-year Euro Mid-Swap Rate + 325bps, if not called	0.375% per annum until 27 May 2023. Resets to a fixed rate equal to the 1-year Euro Mid-Swap Rate + 85bps, if not called
19	Existence of a dividend stopper	No	No	No	No	No	No
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No
22	Non-cumulative or cumulative	n/a	n/a	n/a	n/a	n/a	n/a
23	Convertible or non-convertible	Convertible	Convertible	Convertible	Convertible	Convertible	Convertible
24	If convertible, conversion trigger(s)	Contractual and Statutory: bail-in by the UK Resolution Authority	Contractual and Statutory: bail-in by the UK Resolution Authority	Contractual and Statutory: bail-in by the UK Resolution Authority	Contractual and Statutory: bail-in by the UK Resolution Authority	Contractual and Statutory: bail-in by the UK Resolution Authority	Contractual and Statutory: bail-in by the UK Resolution Authority
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down features	Yes	Yes	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	Contractual and Statutory: bail-in by the UK Resolution Authority	Contractual and Statutory: bail-in by the UK Resolution Authority	Contractual and Statutory: bail-in by the UK Resolution Authority	Contractual and Statutory: bail-in by the UK Resolution Authority	Contractual and Statutory: bail-in by the UK Resolution Authority	Contractual and Statutory: bail-in by the UK Resolution Authority
32	If write-down, full or partial	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a
34a	Type of subordination (only for eligible liabilities)	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual
UK-34b	Ranking of the instrument in normal insolvency proceedings	Secondary non-preferential	Secondary non-preferential	Secondary non-preferential	Secondary non-preferential	Secondary non-preferential	Secondary non-preferential
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Preferred	Senior Preferred	Senior Preferred	Senior Preferred	Senior Preferred	Senior Preferred
36	Non-compliant transitioned features	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a
37a	Link to the full term and conditions of the instrument (signposting)	n/a	n/a	n/a	n/a	n/a	n/a

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21 Appendix 1: Disclosures for CB Group Consolidated continued

21.3 Annex XI: Disclosure of the Leverage Ratio

21.3.1 UK LR1 – LRSum – Summary reconciliation of accounting assets and leverage ratio exposures

The table below shows a reconciliation between the total assets under IFRS standards and the leverage ratio exposure measure of Clydesdale Bank PLC. The leverage metrics are calculated in line with the Leverage ratio (CRR) part of the PRA Rulebook.

		30 Sept 2022 £m	30 Sept 2021 £m
1	Total assets as per published financial statements	**92,010**	89,216
4	(Adjustment for exemption of exposures to central banks)	**(11,955)**	(9,094)
8	Adjustment for derivative financial instruments	**522**	91
9	Adjustment for securities financing transactions (SFTs)	**2,974**	2,235
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**3,204**	2,884
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital (leverage))	**(5)**	(5)
12	Other adjustments(1)	**(2,992)**	(1,925)
13	**Total exposure measure**	**83,758**	83,402

(1) Following the implementation of PS22/21 effective from 1 January 2022, the 30 September 2021 comparative figure of (£1,039m) has been restated to reflect the exclusion of the BBLS from the exposure value. The comparative prudent valuation adjustment of (£5m) was previously reported within other adjustments and has been restated to present on a consistent basis.

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21 Appendix 1: Disclosures for CB Group Consolidated continued

21.3.2 UK LR2 – LRCom – Leverage ratio common disclosure

		Leverage ratio exposures	
		A	B
		30 Sept 2022 £m	30 Sept 2021 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)[1]	**90,937**	88,185
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(241)**	(76)
6	(Asset amounts deducted in determining Tier 1 capital (leverage))	**(2,025)**	(1,039)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**88,671**	87,070
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**462**	94
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**402**	213
13	**Total derivatives exposures**	**864**	307
	SFT exposures		
16	Counterparty credit risk exposure for SFT assets	**2,974**	2,235
18	**Total securities financing transaction exposures**	**2,974**	2,235
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	**19,319**	16,829
20	(Adjustments for conversion to credit equivalent amounts)	**(16,115)**	(13,945)
22	**Off-balance sheet exposures**	**3,204**	2,884
	Capital and total exposure measure		
23	Tier 1 capital (leverage)	**4,268**	4,275
24	Total exposure measure including claims on central banks	**95,713**	92,496
UK-24a	(-) Claims on central banks excluded	**(11,955)**	(9,094)
UK-24b	**Total exposure measure excluding claims on central banks**	**83,758**	83,402
	Leverage ratio		
25	Leverage ratio excluding claims on central banks (%)	**5.1%**	5.1%
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**5.0%**	4.9%
UK-25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	**5.0%**	4.9%
UK-25c	Leverage ratio including claims on central banks (%)	**4.5%**	4.6%
26	Regulatory minimum leverage ratio requirement (%)	**3.25%**	3.25%

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21 Appendix 1: Disclosures for CB Group Consolidated continued

		Leverage ratio exposures	
		A	B
		30 Sept 2022 £m	30 Sept 2021 £m
	Additional leverage ratio disclosure requirements – leverage ratio buffers		
27	Leverage ratio buffer (%)	**0%**	0%
UK-27a	*of which: G-SII or O-SII additional leverage ratio buffer (%)*	**0%**	0%
UK-27b	*of which: countercyclical leverage ratio buffer (%)*	**0%**	0%
	Additional leverage ratio disclosure requirements – disclosure of mean values		
UK-31	*Average total exposure measure including claims on central banks*	**94,402**	92,531
UK-32	*Average total exposure measure excluding claims on central banks*	**83,919**	83,437
UK-33	*Average leverage ratio including claims on central banks*	**4.4%**	4.5%
UK-34	*Average leverage ratio excluding claims on central banks*	**5.0%**	5.0%

(1) Following the implementation of PS22/21 effective from 1 January 2022, the 30 September 2021 comparative figure of £88,959m has been restated to reflect the exclusion of BBLS from the exposure value.

21.3.3 UK LR3 – LRSpl – Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		Leverage ratio exposures	
		30 Sept 2022 £m	30 Sept 2021 £m
UK-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**78,741**	79,015
UK-3	Banking book exposures, of which:	**78,741**	79,015
UK-4	*Covered bonds*	**1,471**	1,356
UK-5	*Exposures treated as sovereigns*	**3,221**	3,817
UK-6	*Exposures to regional governments, Multilateral Development Bank, international organisations and public sector entities not treated as sovereigns*	**181**	151
UK-7	*Institutions*	**511**	733
UK-8	*Secured by mortgages of immovable properties*	**60,588**	60,564
UK-9	*Retail exposures*	**6,273**	5,632
UK-10	*Corporates*(1)	**4,677**	4,488
UK-11	*Exposures in default*	**728**	778
UK-12	*Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)*(2)	**1,091**	1,496

(1) Following the implementation of PS22/21 effective from 1 January 2022, the 30 September 2021 comparative figure of £5,379m has been restated to reflect the exclusion of BBLS from the exposure value.

(2) The comparative figure of £1,712m has been restated to exclude a derivative exposure and cash variation margin.

22 Appendix 2: Glossary

Term	Definition
Additional Tier 1 capital **(AT1)**	AT1 capital instruments are non-cumulative perpetual securities that contain a specific provision to write down the security or convert it to equity, should the CET1 ratio fall below a specified trigger limit.
Advanced Internal-Ratings Based **(AIRB)** approach	CRD IV approach for measuring exposure to retail credit risks. The method of calculating credit risk capital requirements uses internal PD, LGD and Exposures at Default models. AIRB approaches may only be used with PRA permission.
Basel II	The capital adequacy framework issued by the BCBS in June 2004.
Basel III	Reforms issued by the BCBS in December 2017 with subsequent revisions.
Bounce back loan scheme **(BBLS)**	A scheme implemented by the UK Government to provide financial support to businesses across the UK that are losing revenue and seeing their cash flow disrupted as a result of COVID-19, and that can benefit from £50,000 or less in finance.
Capital buffers	*Capital conservation buffer* – A buffer set for all banks that can be used to absorb losses while avoiding breaching minimum requirements. It is designed to ensure that banks build up capital outside periods of stress which can be drawn down as losses are incurred. *Systemic risk buffer* – A buffer set for ring-fenced banks and large building societies to reduce their probability of failure or distress. It is commensurate with the greater cost that their failure or distress would have for the UK economy. Firms with total assets less than £175bn are subject to a 0% SRB. *Countercyclical capital buffer* – A capital buffer to ensure eligible firms have a sufficient capital base to absorb losses in stressed periods. The CCyB aims to ensure that banking sector capital requirements take account of the macroeconomic financial environment in which banks operate. It enables the Bank of England's Financial Policy Committee to adjust the resilience of the banking system to the changing scale of risk the system faces over time. *PRA buffer* – A buffer set using supervisory judgement informed by the impact of stress scenarios on a firm's capital requirements and resources and taking account, where appropriate, of other factors including leverage, systemic importance and weaknesses in firms' risk management and governance. This is set on a firm-specific basis. Firms are not permitted to disclose if a PRA buffer has been applied.
Capital Requirements Directive IV **(CRD IV)**	European legislation to implement Basel III. It replaces earlier European capital requirements directives with a revised package consisting of a new Capital Requirements Directive and a new Capital Requirements Regulation. CRD IV sets out capital and liquidity requirements for European banks and harmonises the European framework for bank supervision. See also 'Basel III.'

Term	Definition
CB Group Consolidated **(CB Group)**	Prudential sub-consolidation group of Clydesdale Bank PLC.
Central Counterparties **(CCP)**	CCPs place themselves between the buyer and seller of an original trade, leading to a less complex web of exposures. CCPs effectively guarantee the obligations under the contract agreed between the two counterparties, both of which would be participants of the CCP.
Collateral	The assets of a borrower that are used as security against a loan facility.
Common Equity Tier 1 **(CET1)** capital	The highest quality form of regulatory capital that comprises total shareholders' equity and related non-controlling interests, less goodwill and intangible assets and certain other regulatory adjustments.
Common Equity Tier 1 **(CET1)** ratio	CET1 capital divided by RWEA at a given date.
Counterparty credit risk **(CCR)**	Counterparty credit risk is the risk that a counterparty to a transaction may default before the final settlement of the transaction's cash flows. This risk concerns financial instruments, including derivatives and repurchase agreements.
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.
Credit conversion factor **(CCF)**	Credit conversion factors are used in determining the exposure at default 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.
Credit risk adjustment/ credit valuation adjustment	An adjustment to the valuation of financial instruments held at fair value to reflect the creditworthiness of the counterparty.
Credit risk mitigation **(CRM)**	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set-off or netting.
CRR II	Capital Requirements Regulation (EU) 575/2013 and Directive (EU) 2013/36, revised by Regulation (EU) 2019/876 and Directive (EU) 2019/878, as implemented in the UK by PRA Policy Statement 22/21 and incorporated into the PRA Rulebook from 1 January 2022
Credit Valuation Adjustment **(CVA)**	These are adjustments to the valuation of financial instruments held at fair value to reflect the creditworthiness of the counterparty

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22 Appendix 2: Glossary continued

Term	Definition
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).
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.
Economic Value of Equity **(EVE)**	A long-term economic measure/indicator of net cash flow, which is calculated by subtracting the present value of liabilities from the present value of assets.
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Exposure at Default	An estimate of the amount expected to be owed on a credit risk exposure at the time of default.
External Credit Assessment Institutions **(ECAI)**	ECAI include external credit rating agencies such as Moody's, Fitch, and S&P.
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.
Financial Conduct Authority **(FCA)**	Conduct regulator for all financial services firms and financial markets in the UK and the prudential regulator for a minority of those firms.
Financial Policy Committee **(FPC)**	A committee established by the Bank of England to identify, monitor and take action to remove or reduce systemic risks and protect or enhance the resilience of the UK financial system.
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.
Foundation Internal-Ratings Based **(FIRB)**	A method of calculating credit risk capital requirements using internal PD models but with regulators' supervisory estimates of LGD and conversion factors for the calculation of EAD.
Global-Systemically Important Banks **(G-SII)**	Global financial institutions whose size, complexity and systemic interconnectedness, mean that their distress or failure would cause significant disruption to the wider financial system and economic activity.
Group	Virgin Money UK PLC and its controlled entities.
High-Quality Liquid Assets **(HQLA)**	Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value.

Term	Definition
IFRS 9	The new financial instrument accounting standard which was adopted by the Group with effect from 1 October 2018.
IFRS 9 Stage 1	A loan that is not credit-impaired on initial recognition and has not experienced a significant increase in credit risk.
IFRS 9 Stage 2	If a significant increase in credit risk has occurred since initial recognition, the loan is moved to stage 2, but is not yet deemed to be credit-impaired.
IFRS 9 Stage 3	If the loan is credit-impaired it is moved to stage 3. All expired term, material fraud and operational risk loans are classified as credit-impaired.
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.
International Swaps and Derivatives Association **(ISDA)**	A private trade organisation whose members transact in the over-the-counter derivatives market. The association helps to improve the market for privately negotiated over-the-counter derivatives by identifying and reducing risks.
Leverage ratio	This is a regulatory standard ratio proposed by Basel III as a supplementary measure to the risk-based capital requirements. It is intended to constrain the build-up of excess leverage in the banking sector and is calculated by dividing Tier 1 capital resources by a defined measure of on- and off-balance sheet items plus derivatives.
Liquidity Coverage Ratio **(LCR)**	The proportion of highly liquid assets held by financial institutions, to ensure their ongoing ability to meet short-term obligations. Calculated by dividing HQLA's by total net cash flows.
Liquidity risk	Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due at acceptable cost.
Loan to Value **(LTV)**	A ratio that expresses the amount of a loan as a percentage of the value of the property on which it is secured.
Loss given default **(LGD)**	The estimate of the loss that the Group will suffer if the customer defaults (incorporating the effect of any collateral held).

Appendices

22 Appendix 2: Glossary continued

Term	Definition
Minimum requirement for own funds and eligible liabilities **(MREL)**	MREL is a minimum requirement for institutions to maintain equity and eligible debt liabilities, to help ensure that when an institution fails, the resolution authority can use these financial resources to absorb losses and recapitalise the continuing business. The BoE set out its approach to setting banks' MREL in November 2016.
Net interest income **(NII)**	The amount of interest received or receivable on assets, net of interest paid or payable on liabilities.
Net Stable Funding Ratio **(NSFR)**	A liquidity standard requiring banks to hold enough stable funding to cover the duration of their long-term assets.
Other systemically important institutions **(O-SII)**	Other systemically important institutions are institutions that are deemed to create risk to financial stability due to their systemic importance.
Pillar 1	The quantitative elements of the Basel III framework including the minimum regulatory capital requirements for credit, operational and market risks.
Pillar 2	The qualitative expectations of the Basel III framework to be met through the supervisory review process. This includes the ICAAP, governance process and the supervisory review and evaluation process.
Pillar 3	The final pillar of the Basel III framework which aims to encourage market discipline by improving the information made available to the market. This pillar sets out disclosure requirements for banks on their capital, risk exposures and risk assessment processes.
Probability of default **(PD)**	The probability that a customer will default over either the next 12 months or lifetime of the account.
Prudential Regulation Authority **(PRA)**	Entity of the BoE responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
Qualifying Central Counterparties **(QCCPs)**	An entity which is licensed to operate as a CCP.
Regulated covered bond **(RCB)**	A type of secured bond that is usually backed by mortgages or public sector loans
Regulatory capital	The capital which banks hold, determined in accordance with rules established by the relevant regulatory bodies.
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).
Resolvability Assessment Framework **(RAF)**	Sets out how the BoE, as the UK's resolution authority, assesses UK financial firms' resolvability and introduces a public disclosure regime.

Term	Definition
Risk-weighted assets **(RWA)**	On and off-balance sheet assets of the Group are allocated a risk weighting based on the amount of capital required to support the asset.
Risk-weighted exposure amount **(RWEA)**	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.
Securities financing transaction **(SFT)**	Repurchase transactions, securities or commodities lending or borrowing transactions or other capital market-driven transactions.
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.
Simple, transparent and standardised **(STS)**	A securitisation framework designed to make it easier for investors to understand and assess the risks of a securitisation investment.
Solvency Stress Test **(SST)**	Assesses the major UK banks and building societies against a UK and global scenario that reflects a severe path for the current macroeconomic outlook.
Sterling Overnight Index Average **(SONIA)**	The effective overnight interest rate paid by banks for unsecured transactions that occur in off-hours.
Standardised approach **(SA)**	In relation to credit risk, a method for calculating credit risk capital requirements using ECAI 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.
Supervisory Review and Evaluation Process **(SREP)**	Supervisors assess the risks banks face and check that banks are equipped to manage those risks properly. It allows banks' risk profiles to be assessed consistently and decisions about necessary supervisory measures to be taken.
Tier 1 capital	A measure of a bank's financial strength defined by CRD IV. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, subject to deductions.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 capital	A component of regulatory capital, including qualifying subordinated debt, eligible collective impairment provisions and other Tier 2 securities as defined by CRD IV.
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.

23 Appendix 3: Abbreviations

ACS	Annual Cyclical Scenario
AIRB	Advanced Internal-Ratings Based
ALCO	Asset and Liability Committee
AMA	Advanced Measurement Approach
AT1	Additional Tier 1
BBLS	Bounce Back Loan Scheme
BoE	Bank of England
BTL	Buy-to-Let
CAM	Current Account Mortgage
CB	Clydesdale Bank
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CES	Control Effectiveness System
CET1	Common Equity Tier 1
CMTF	Credit Model Technical Forum
CRD	Capital Requirements Directive
CRE	Commercial Real Estate
CRM	Credit risk mitigation
CRR	Capital Requirements Regulation
CSRBB	Credit Spread Risk in the Banking Book
CVA	Credit Valuation Adjustment
DCA	Delegated Commitment Authority
EAD	Exposures at Default
ECAI	External Credit Assessment Institutions
ECAs	Export Credit Agencies
ECL	Expected Credit Losses
eCRS	Electronic Customer Rating System
EHQLA	Encumbered High-Quality Liquid Assets
ERC	Executive Risk Committee
EU	European Union
EVE	Economic Value of Equity
FCA	Financial Conduct Authority
FIRB	Foundation Internal-Ratings Based
FPC	Financial Policy Committee
FVTPL	Fair value through profit or loss
G-SII	Global Systemically Important Institutions
HQLA	High-Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMA	Internal Model Approach
IRB	Internal ratings-based

Appendices

23 Appendix 3: Abbreviations continued

IRRBB	Interest rate risk in the Banking Book
ISDA	International Swaps and Derivatives Association
LCP	Liquidity Contingency Plan
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LTIP	Long Term Incentive Plan
LTV	Loan to Value
MGC	Model Governance Committee
MPMG	Model Performance Monitoring Group
MREL	Minimum Requirements for own funds and Eligible Liabilities
MRO	Model Risk Oversight
NII	Net interest income
NPL	Non-performing loan
NMD	Non-maturing deposits
NSFR	Net Stable Funding Ratio
OCIR	Operational Continuity in Resolution
O-SII	Other Systemically Important Institutions
PD	Probability of Default
PiT	Point in Time
PRA	Prudential Regulation Authority
PS	Policy Statement
QCCPs	Qualifying Central Counterparties
RAF	Resolvability Assessment Framework
RAS	Risk Appetite statement
RCB	Regulated Covered Bond
RMBS	Residential Mortgage-Backed Security
RMF	Risk Management Framework
RWA	Risk-Weighted Assets
RWEA	Risk-Weighted Exposure Amount
SA	Standardised Approach
SFT	Securities Financing Transaction
SME	Small and Medium-Sized Enterprise
SMF	Sterling Monetary Framework
SONIA	Sterling Overnight Index Average
SREP	Supervisory Review and Evaluation Process
SSPE	Securitisation Special Purpose Entity
SST	Solvency Stress Test
STS	Simple, transparent and standardised
T1	Tier 1
T2	Tier 2
TC	Total Capital
VaR	Value at Risk

Additional information

Officers and professional advisers

Non-Executive Directors	
Board Chair	David Bennett(1)
Senior Independent Non-Executive Director	Tim Wade(2)
Independent Non-Executive Directors	Geeta Gopalan(2) Elena Novokreshchenova(2) Darren Pope(2)
Executive Directors	David Duffy Clifford Abrahams
Company Secretary	Lorna McMillan
General Counsel and Purpose Officer	James Peirson
Independent auditors	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY

(1) Member of the Remuneration Committee and Governance and Nomination Committee.

(2) All Independent Non-Executive Directors are members of the Remuneration Committee, Audit Committee, Risk Committee and Governance and Nomination Committee.