Pillar 3 Report 2023

VIRGIN MONEY UK

2023

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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 2023. This report should be read in conjunction with the Virgin Money UK PLC 2023 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 2023 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 30 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 2023 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.

1.2 Comparatives

Comparative figures are as at 30 September 2022 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.

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.

Designation as an O-SII

On 29 November 2022 the PRA formally designated the Group as an Other Systemically Important Institution (O-SII). This is not expected to have a material impact on the Group's capital framework. As part of the O-SII designation the Group will need to comply with BCBS 239 over a 3-year period.

Internal ratings-based (IRB) model changes

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

Ahead of the Group's implementation of the new mortgage IRB models (including hybrid Probability of Default (PD)), a model adjustment has been applied to increase RWAs and expected losses in advance of formal approval of models.

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

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

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

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

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

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 2023, the Group maintained a strong capital position with a Common Equity Tier 1 (CET1) ratio (IFRS 9 transitional basis) of 14.7% (2022: 15.0%) and a total capital ratio of 21.2% (2022: 22.0%). The Group's CET1 ratio on an IFRS 9 fully loaded basis was 14.3%.

The Board has declared a 5.3p dividend for the year and on 23 November announced a £150m share buyback, which will be deducted from CET1 in Q1 2024, adding to the £50m share buyback announced in August. The Group continues to expect to return to its target CET1 range of 13% – 13.5% in FY24, as capital generation through profitable growth supports ongoing shareholder distributions and investment back into the business.

Capital requirements
As at 30 September 2023, 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 FY23 was 10.7%.

For the year ended 30 September 2023, the Group used the standardised approach for operational risk, market risk, counterparty credit 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 2023 Pillar 3 report.

CET1 capital

The Group's transitional CET1 ratio reduced by 30bps over the year. Total underlying capital generation of 145bps was driven by 199bps of underlying profit, offset by 38bps from higher RWAs (including the anticipated impact on implementing mortgage hybrid models) and 16bps of Additional Tier 1 (AT1) distributions and related costs. Adjusting items consumed c.60bps while there was 29bps of accrual for expected dividends and 41bps from £100m of share buybacks executed during the period. The announcement of an additional £150m share buyback will reduce CET1 resources in Q1 2024. Refer to page 216 of the 2023 Annual Report and Accounts for further information.

RWA

Overall, RWAs increased by c.4% during FY23 to £25.2bn. In Mortgages, RWAs reduced by £0.1bn as the impact of lower exposures and stronger HPI more than offset a c.£0.4bn post model adjustment for the expected impact of implementing mortgage hybrid models. In Business, RWAs increased by £0.8bn mainly as a result of higher customer balances, excluding government-backed balances that carry a 0% risk weight. Unsecured RWAs were broadly stable in the period, despite the increase in customer lending during the financial year, due to higher provisions reducing the EAD for the cards portfolio. Non-credit RWAs were £3.3bn, c.£0.2bn higher than FY22, driven by higher operational risk RWAs.

1.6 Review and challenge

Overall assessment

The Group has further enhanced the Risk Management Framework (RMF) over the past year, with updates made to the three Lines of Defence model in particular. Principal risk categories remain broadly unchanged from FY22, with the exception of changes implemented at the Group's 2023 interim financial results. Changes saw 'Operational and resilience risk' and 'Financial crime risk' renamed 'Operational risk' and 'Economic crime risk' respectively, to more clearly define the risk types. 'People risk' and 'Technology and cyber risk' are now classified under the wider 'Operational risk' principal risk to align with our Operational Risk Management Framework.

The Group has a multi-year programme of investment to upgrade propositions across key areas and, supporting our digitisation strategy, investment will continue in the Group's financial crime and fraud prevention systems, to strengthen our capabilities and to protect our customers.

The RMF, RAF, RAS and Policy Management Framework have continued to be monitored to ensure they remain in line with the external environment and aligned to the Group's strategy and purpose. The Control Effectiveness Statement concludes that the control environment requires strengthening in line with the Group's emerging risk profile and specific priority actions are underway within business units, with risk management activity planned to monitor these through to completion. Overall, the control environment remains stable with ineffective controls escalated appropriately and adequate action plans in place where required.

The Risk Committee, in conjunction with the Audit Committee, concluded that the Group's risk management and internal control framework in relation to the Group's risk profile and strategy was effective and adequate, 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 30 Sept 2023 £m	B 30 Jun 2023 £m	C 31 Mar 2023 £m	D 31 Dec 2022 £m	E 30 Sept 2022 £m
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	**3,711**	3,637	3,627	3,558	3,633
2	Tier 1 capital	**4,305**	4,231	4,221	4,151	4,299
3	Total capital	**5,327**	5,253	5,242	5,172	5,319
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	**25,176**	24,898	24,703	24,029	24,148
	Capital ratios (as a percentage of risk-weighted exposure amount) (%)					
5	Common Equity Tier 1 ratio	**14.7%**	14.6%	14.7%	14.8%	15.0%
6	Tier 1 ratio	**17.1%**	17.0%	17.1%	17.3%	17.8%
7	Total capital ratio	**21.2%**	21.1%	21.2%	21.5%	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%	1.7%
UK-7b	Additional AT1 SREP requirements	**0.6%**	0.6%	0.6%	0.6%	0.6%
UK-7c	Additional T2 SREP requirements	**0.7%**	0.7%	0.7%	0.7%	0.8%
UK-7d	Total SREP own funds requirements	**11.0%**	11.0%	11.0%	11.0%	11.1%
	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%
9	Institution specific countercyclical capital buffer	**2.0%**	1.0%	1.0%	1.0%	0.0%
UK-10a	Other Systemically Important Institution buffer(1)	**0.0%**	0.0%	0.0%	0.0%	0.0%
11	Combined buffer requirement	**4.5%**	3.5%	3.5%	3.5%	2.5%
UK-11a	Overall capital requirements	**15.5%**	14.5%	14.5%	14.5%	13.6%
12	CET1 available after meeting the total SREP own funds requirements	**8.5%**	8.4%	8.5%	8.6%	8.8%
	Leverage ratio(2)(5)					
13	Total exposure measure excluding claims on central banks	**86,554**	86,052	86,464	86,773	85,934
14	Leverage ratio excluding claims on central banks (%)	**5.0%**	4.9%	4.9%	4.8%	5.0%

Annexes

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

		A	B	C	D	E
		30 Sept 2023 £m	30 Jun 2023 £m	31 Mar 2023 £m	31 Dec 2022 £m	30 Sept 2022 £m
	Additional leverage ratio disclosure requirements (%)					
14a	Fully loaded Expected Credit Loss (ECL) accounting model leverage ratio excluding claims on central banks	**4.9%**	4.8%	4.8%	4.7%	4.9%
14b	Leverage ratio including claims on central banks	**4.5%**	4.4%	4.4%	4.3%	4.5%
14c	Average leverage ratio excluding claims on central banks	**4.9%**	4.8%	4.7%	4.7%	4.9%
14d	Average leverage ratio including claims on central banks	**4.4%**	4.3%	4.3%	4.3%	4.4%
14e	Countercyclical leverage ratio buffer	**0.7%**	0.4%	0.4%	0.4%	0.0%
	Liquidity Coverage Ratio (LCR)[3]					
15	Total high-quality liquid assets (HQLA) (Weighted value average)	**13,798**	13,381	12,542	11,793	11,503
UK-16a	Cash outflows – Total weighted value	**9,933**	9,875	9,573	9,197	8,764
UK-16b	Cash inflows – Total weighted value	**509**	528	553	562	543
16	Total net cash outflows (adjusted value)	**9,424**	9,347	9,020	8,635	8,222
17	Liquidity coverage ratio (%)	**146%**	143%	139%	137%	140%
	Net Stable Funding Ratio (NSFR)[4]					
18	Total available stable funding	**79,218**	79,096	78,035		
19	Total required stable funding	**58,346**	58,247	57,943		
20	NSFR ratio (%)	**136%**	136%	135%		

(1) On 29 November 2022 the Group was formally designated as an O-SII but is not currently required to hold a related capital buffer.

(2) The average leverage exposure measure (excluding claims on central banks) for the period from 1 July 2023 to 30 September 2023 amounted to £85,910m.

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

(4) In line with PRA guidance, disclosures for the NSFR were not required until reporting dates after 1 January 2023.

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

Annexes

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

Summary of key metrics

CET1 ratio

Total capital ratio

UK leverage ratio

Risk-weighted assets by risk type

Common Equity Tier 1
During 2023, the Group maintained a robust capital position with a CET1 ratio (IFRS 9 transitional basis) of 14.7% (30 September 2022: 15.0%).

The Group's CET1 capital showed an increase of £78m during the year. The Group reported a profit after tax of £246m in the year, which together with reductions in intangible fixed assets and deferred tax asset deductions of £135m, and after absorbing other movements, mostly in other reserves, of £80m, led to a net increase in CET1 of £301m. This net capital surplus was used to fund two share buyback programmes during the year totalling £100m, interim dividend payments of £45m, AT1 distributions of £54m, and a foreseeable ordinary dividend of £27m.

In December 2022, the Group redeemed £72m of AT1 securities.

Total capital and minimum requirements for own funds and eligible liabilities (MREL)
The total capital ratio reduced 0.8% to 21.2% (30 September 2022: 22.0%), with the Group maintaining a strong capital position.

MREL resources were £8.0bn (2022: £7.7bn), equivalent to 9.3% of leverage exposures (2022: 9.0%) or 31.9% when expressed as a percentage of RWAs (2022: 32.1%). This provides prudent headroom of £1.3bn or 1.5% above the binding LAC requirement of 7.8% of leverage exposures, or 5.3% above the binding LAC requirement of 26.6% when expressed as a percentage of RWAs.

Leverage
The Group's UK leverage ratio has remained constant at 5.0% (30 September 2022: 5.0%), and the average UK leverage ratio remained at 4.9% (30 September 2022: 4.9%).

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

The Group's leverage ratio buffer is automatically linked to the countercyclical capital buffer (CCyB) and currently stands at 0.7% following the FPC's announced increase in the CCyB to 2.0%.

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 2023 £m	30 Jun 2023 £m	31 Mar 2023 £m	31 Dec 2022 £m	30 Sept 2022 £m
1	Total capital resources[1]	**5,327**	5,224	5,242	5,172	5,319
2	Eligible senior unsecured securities issued by Virgin Money UK PLC	**2,707**	2,401	2,420	2,431	2,423
3	Total MREL resources	**8,034**	7,654	7,662	7,603	7,742
4	Total risk-weighted assets	**25,176**	24,898	24,703	24,029	24,148
5	Total MREL resources available as a percentage of total risk-weighted assets (%)	**31.9%**	30.7%	31.0%	31.6%	32.1%
6	UK leverage exposure measure[2]	**86,554**	86,052	86,464	86,773	85,934
7	Total MREL resources available as a percentage of UK leverage exposure measure (%)[2]	**9.3%**	8.9%	8.9%	8.8%	9.0%

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

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

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, RWAs 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 2023 £m	30 Jun 2023 £m	31 Mar 2023 £m	31 Dec 2022 £m	30 Sept 2022 £m
Available capital (£m)						
1	Common Equity Tier 1 (CET1) capital	**3,711**	3,637	3,627	3,558	3,633
2	CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**3,599**	3,541	3,537	3,458	3,519
3	Tier 1 capital	**4,305**	4,231	4,221	4,151	4,299
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**4,193**	4,135	4,131	4,051	4,185
5	Total capital	**5,327**	5,253	5,242	5,172	5,319
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**5,215**	5,157	5,152	5,072	5,205
Risk-weighted assets (£m)						
7	Total risk-weighted assets	**25,176**	24,898	24,703	24,029	24,148
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**25,087**	24,822	24,632	23,950	24,056
Capital ratios (%)						
9	CET1 (as a percentage of risk exposure amount)	**14.7%**	14.6%	14.7%	14.8%	15.0%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**14.3%**	14.3%	14.4%	14.4%	14.6%
11	Tier 1 (as a percentage of risk exposure amount)	**17.1%**	17.0%	17.1%	17.3%	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	**16.7%**	16.7%	16.8%	16.9%	17.4%
13	Total capital (as a percentage of risk exposure amount)	**21.2%**	21.1%	21.2%	21.5%	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	**20.8%**	20.8%	20.9%	21.2%	21.6%
Leverage ratio						
15	Leverage ratio total exposure measure (£m)	**86,554**	86,052	86,464	86,773	85,934
16	Leverage ratio (%)	**5.0%**	4.9%	4.9%	4.8%	5.0%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied (%)	**4.9%**	4.8%	4.8%	4.7%	4.9%

Transitional arrangements in CRR mean the regulatory capital impact of ECL is being phased in over time. Following the CRR Quick Fix amendments package, which applied from 27 June 2020, relevant provisions raised from 1 January 2020 through to 2024 have a CET1 add-back percentage of 50% in 2023, reducing to 25% in 2024. At 30 September 2023, £112m of IFRS 9 transitional adjustments (2022: £114m) have been applied to the Group's capital position in accordance with CRR: £3m of static and £109m of dynamic adjustments (2022: £7m static and £107m dynamic).

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 RWAs and minimum capital requirement by risk type and approach(1). Total own funds requirements are calculated as 8% of RWAs.

		A	B	C
		Risk weighted assets		Total own funds requirements
		30 Sept 2023 £m	30 Sept 2022 £m	30 Sept 2023 £m
1	Credit risk (excluding CCR)	**21,919**	21,082	**1,753**
2	*of which: the standardised approach*	**6,443**	6,139	**514**
3	*of which: the foundation IRB (FIRB) approach*	**5,994**	5,424	**480**
4	*of which: slotting approach*	**410**	364	**33**
5	*of which: the advanced IRB (AIRB) approach*	**9,072**	9,155	**726**
6	Counterparty credit risk – CCR	**424**	443	**34**
7	*of which: the standardised approach*	**141**	180	**12**
UK-8a	*of which: exposures to a Central Counterparty (CCP)*	**5**	5	**–**
UK-8b	*of which: credit valuation adjustment – CVA*	**278**	258	**22**
23	Operational risk	**2,833**	2,623	**227**
UK-23b	*of which: standardised approach*	**2,833**	2,623	**227**
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	**296**	265	**24**
29	**Total**	**25,176**	24,148	**2,014**

(1) 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

Capital Management

The Group's approach to capital management is set out within its Capital Management Framework and Capital Risk Policy Standard. These capture the key processes, reporting and governance which is undertaken to ensure that the Group's capital position is managed in line with its appetite to risk, published capital targets and regulatory expectations.

Capital is managed at the level of all regulated entities and is assessed over the Group's five-year planning period. Capital forecasting is undertaken using both baseline and downside assumptions to ensure that the Group's capital position is robust under a range of plausible outcomes. This is further supported by the Group's stress testing activities, including the ACS and Internal Capital Adequacy Assessment Process (ICAAP) stress testing, to ensure the Group's resilience to severe, but plausible events.

Capital Management principles are embedded through regular review and monitoring by Management and Board committees as well as performance against the Group's established ROTE framework. Together, the Group's capital management activities ensure that it is able to deliver its strategy and meet the needs of current and future stakeholders in a sustainable way.

The Group's approach to capital management and capital risk, including how it sets risk appetite and how it measures, monitors and mitigates capital risk is discussed further on pages 211 and 212 in the Annual Report and Accounts.

The Group's approach to Capital Risk is shaped by the Group's wider RMF which is discussed in section 3.1

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

The Group undertakes an ICAAP which provides an internal assessment of its capital adequacy in the context of its business model, strategy and operating environment. This assessment includes 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. 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 Board Risk Committee and the Board before being submitted to the PRA.

The PRA will use this information within its SREP to determine a Point in Time (PiT) Pillar 2 capital requirement for the Group. Together Pillar 1 and Pillar 2A Represent the Group's Total Capital Requirement (TCR).

(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 most recent Pillar 2A requirement was received in October 2022. As at 30 September 2023, Pillar 2A equals 2.97% of RWAs, equivalent to £748m. This contributed to a TCR as at 30 September 2023 of £2,762m, equivalent to 10.97% of RWA, of which at least £1,554m or 6.2% of RWA must be met with CET1 capital.

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.

Virgin Money is striving towards its purpose of 'Making You Happier About Money' and delivering its vision to become the UK's best full service digital bank. To enable it to do this, the Group has developed a strategy built on the pillars of:, Pioneering Growth, Delighted Customers and Colleagues, Super Straightforward Efficiency, Discipline and Sustainability. The Group's Risk Management and Risk Appetite Frameworks have been designed to support colleagues in delivering on the Group's ambitions. Further detail on the Group's Purpose and Strategy are provided in pages 14 to 30 of the 2023 Virgin Money UK PLC Annual Report and Accounts.

During the year, the Group has continued to advance and strengthen its risk management capabilities, evolving in line with industry developments and best practice. The Group continued to undertake initiatives to upgrade risk systems and data capabilities, to underpin prudent and sustainable growth, in support of our ambition to be the UK's best digital bank.

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; supporting delivery of all strategies including sustainability and growth; supporting delivery of a risk culture which is underpinned by our purpose and values; and enabling understanding of the Group's risk performance through metrics and lessons learned including considering the future risk performance through stress testing and scenario analysis with ongoing monitoring. 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.

The Board has performed a robust assessment of the Group's principal risks, including those that could result in events or circumstances that might threaten the Group's business model, future performance, solvency or liquidity and reputation. In deciding on the classification of principal risks, the Board considered the potential impact and probability of the related events and circumstances and the timescale over which they may occur. Further detail is contained in Part c.

Further information detailing risk management within the Group can be found in pages 166 to 170 of the 2023 Virgin Money UK PLC Annual Report and Accounts, including the approach to risk appetite, risk governance, three lines of defence, stress testing and detailed information of the principal risk categories, including the frameworks by which these risks are managed.

Information on the risk governance structure is provided later in this section.

Risk appetite

The Group's risk appetite defines the level and types of risk it is willing to take within its risk capacity to achieve its strategic objectives:

- the core strategy provides the context within which the Group outlines its business objectives and establishes its RMF. The risk strategy is developed to support the achievement of the Group's objectives. Together, the Group and risk strategies support the development of the Risk Appetite Statement (RAS);
- the RAS sets the tone of the Group's risk management approach. It provides a framework to develop and cascade the Group's risk culture and to establish risk policies, controls, and limits in a consistent manner
- the overarching enterprise RAS is supported by individual, risk specific, appetite statements for all principal risks
- 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.

Risk culture

Focused on the Group's understanding of the risks it takes, our risk culture is key to 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.

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

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;
- risk management decisions are made with proactive consideration of the potential risk and impact on customers and the Group;
- business areas must self-identify and report management issues, which are captured centrally, showing good levels of risk awareness, management remediation, and promoting a strong risk culture; and
- regular control assessments are undertaken to confirm the effectiveness of the control environment, based on control monitoring and testing, in relation to both the current and emerging 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* take ownership, responsibility and accountability for directly identifying, assessing and mitigating risks and issues.

2. *Risk Management* designs and owns the Risk Management Strategy, RAS and the Risk and Policy Management Frameworks, as well as providing oversight, challenge, assurance and advice, with appropriate escalation and reporting.

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 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.

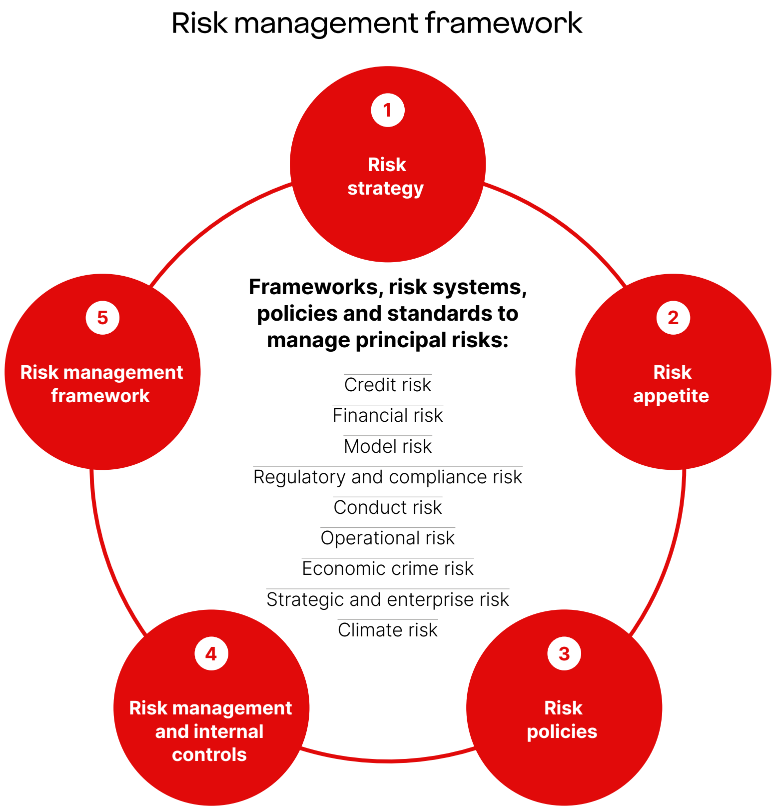
All three lines of defence work together when creating oversight and assurance plans, using various inputs such as the Control Effectiveness Statement and the results of key control testing. This ensures there is appropriate coverage, including thematic reviews, outcome testing, and close and continuous 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 principal and emerging 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. A statement on internal control is provided on page 128 of the 2023 Virgin Money UK PLC Annual Report and Accounts.

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



1 Risk strategy

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

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

2 Risk appetite

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

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

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

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

3 Risk policies

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

The RMF includes the key principles for effective risk management. Policies define the minimum control requirements that must be observed across the Group to manage material sources of risk within risk appetite.

4 Risk management and internal controls

The Board actively monitors the Group's risk management and internal control systems. A review of the effectiveness of those systems has been performed incorporating all material financial, operational and compliance controls, to highlight and address any material movement in the effectiveness of those controls since the last assessment. During the year, the assessment process was updated to use risk 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

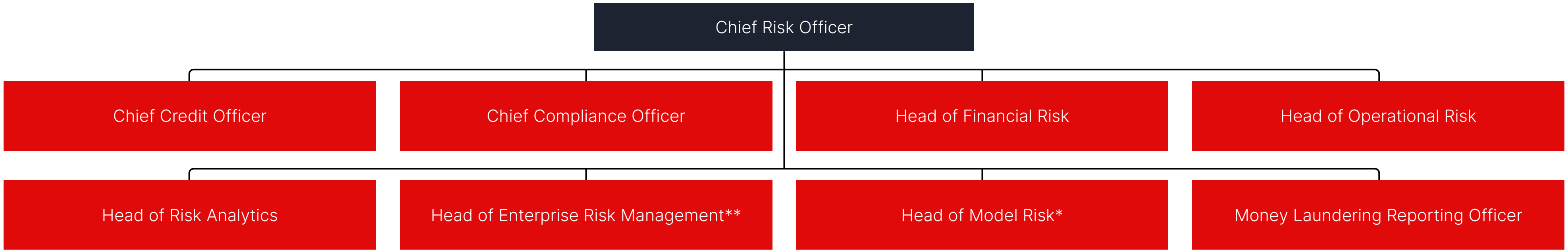
The Group identifies and manages risk in line with the RMF, which is the totality of systems, structures, policies, processes and people that identifies, measures, mitigates, evaluates, controls, monitors, and reports all internal and external sources of material risk. The RMF aligns to Our Purpose by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

The Chief Risk Officer is chair of the ERC 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.

Annexes

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

The structure of the Risk function is shown in the chart below:



* New role created during FY23.

** Role renamed during FY23 (previously Head of Risk Strategy, Reporting and Performance). Head of Strategic Oversight & Climate risk repointed under Head of Enterprise Risk Management during FY23.

Principal risks

The Board has performed a robust assessment of the Group's principal risks, including those that could result in events or circumstances that might threaten the Group's business model, future performance, solvency or liquidity and reputation. In deciding on the classification of principal risks, the Board considered the potential impact and probability of the related events and circumstances and the timescale over which they may occur.

The Group's principal risk categories are broadly the same year-on-year, with the following exceptions: "Operational and resilience risk" and "Financial crime risk" have been renamed to "Operational risk" and "Economic crime risk" respectively, to define the risk types more clearly. "People risk" and "Technology and cyber risk" are now classified under the wider "Operational risk" principal risk to align with our Operational Risk Management Framework.

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.

Annexes

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

Principal risk	Description	Risk Leadership Team member	Executive sub-committee
Credit risk	The risk that a retail or business customer or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk requires to be managed through the life cycle of each loan from origination to repayment, redemption, write-off or sale. It manifests in the products that the Group offers and in which it invests and can arise in respect of both on- and off-balance sheet exposures.	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 not managed correctly.	Head of Financial Risk	Asset and Liability Committee
Model risk	The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.	Head of Model Risk	Model Governance Committee
Regulatory and compliance risk	The risk of failing to comply with relevant regulatory requirements and changes in the regulatory environment, or failing to manage a constructive relationship with our regulators.	Chief Compliance Officer	Non-Financial Risk Committee
Conduct risk	The risk of undertaking business in a way which fails to deliver good customer outcomes and causes customer harm, and may result in regulatory censure, redress costs and/or reputational damage.	Chief Compliance Officer	Non-Financial Risk Committee
Operational risk	The risk of loss or customer harm resulting from inadequate or failed internal processes, people and systems or from external events, incorporating the inability to maintain critical services, recover quickly and learn from unexpected/adverse events.	Head of Operational Risk	Non-Financial Risk Committee
Economic crime risk	The risk that products and services will be used to facilitate financial crime, resulting in harm to customers, the Group, or third parties. This includes money laundering, counter terrorist financing, sanctions, fraud, and bribery and corruption.	Money Laundering Reporting Officer	Non-Financial Risk 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 fund or manage required change projects, or adapt to external developments.	Head of Enterprise Risk Management	Non-Financial Risk Committee
Climate risk	The risk of exposure to physical and transition risks arising from climate change.	Head of Enterprise Risk Management	Environment Committee

(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 Risk and Control Self-Assessment (RCSA) 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 requires strengthening in line with the Group's emerging risk profile and specific priority actions are underway within Business Units, with Risk Management activity planned to monitor these through to completion. Overall, the control environment remains stable with ineffective controls escalated appropriately and adequate action plans in place where required.

(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 annual refresh undertaken. 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. Overall, the control environment remains stable, with the 2023 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.

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

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.

Non-financial Risk Committee

Responsible for: monitoring and measuring the Group's non-financial risks, including performance of the People, Conduct, Economic Crime, Operational, Cyber, Technology and Data risk appetite statements; assessing compliance with policy statements and standards pertaining to non-financial risk, as well as any relevant regulatory obligations such as Consumer Duty; and monitoring compliance against the Group's RMF in relation to non-financial risk.

Model Governance Committee

The Model Governance Committee supports the Executive Risk Committee and consequently the Board in fulfilling its governance responsibilities for material models and rating systems. The Committee oversees the integration and ongoing use of models across the Group.

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 and to support opportunities to grow.

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.

Operating Committee

Responsible for supporting the CEO in relation to delivery of the operating plan underpinning the Group's Strategic and Financial Plan approved by the Board.

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 that the Group's activity complies with regulatory and corporate governance requirements and also delivers Group policy objectives. 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.

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

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.

Mitigating actions

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

Principal risk	Mitigating actions
Credit risk	> The Group applies detailed lending policies, credit strategies and standards which outline the approach to lending, underwriting, concentration limits and product terms. > Credit risk is managed through risk appetite and risk limits reflected in approved credit frameworks 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. > Significant portfolio monitoring and assessment of aggregate risks is in place to remain close to any signs of portfolio deterioration, covering areas such as product, industry, geographical concentrations and delinquency trends. > Stress test scenarios are prepared regularly to assess the adequacy of the Group's impairment provisions and the impact on RWAs and capital.
Financial risk	> Funding and liquidity risk is managed in line with Board-approved standards, including the annual Internal Liquidity Adequacy Assessment Process (ILAAP), strategic funding plans and recovery planning. > The Group completes an annual ICAAP which assesses the impact of severe, yet plausible, stress events to ensure that the appropriate level and type of capital underpins the strength of the balance sheet in both normal and stressed conditions. The Group also participates in the BoE annual cyclical scenario, which tests the resilience of major UK banks to a severe stress scenario. > Board-approved risk appetite measures ensure financial risks are monitored and managed in accordance with internal and regulatory requirements and in support of the Group's strategy. > Market risks (interest rate and foreign exchange risks) are managed in line with established policies and allocation of capital. > Pension risk is overseen by ALCO and is considered in detail as part of the ICAAP with ongoing reports provided to the Board 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 (MGC). > A suitably qualified Independent Model Validation function conducts model validations prior to model implementation, both when a model is changed and on a periodic basis. > The Model Risk Management team has been strengthened, with recruitment of a new Head of Model Risk to enhance our capabilities and to increase focus on key regulatory projects.

Annexes

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

Principal risk	Mitigating actions
Regulatory and compliance risk	> Clearly defined regulatory and compliance policy framework requirements and policies. > Ongoing reporting of risk appetite measures to the Executive Risk Committee and the Board. > Proactive and coordinated engagement with the Group's key regulators. > Oversight of regulatory and compliance risks and issues in relevant governance bodies. > Continual assessment of evolving regulatory requirements, including regulatory business plans and thematic reviews.
Conduct risk	> Clearly defined conduct risk policy framework requirements and policies. > Continuing development of a customer-centric culture aligned to the Group's Purpose, to deliver good customer outcomes. > Ongoing reporting of risk appetite measures to the Executive Risk Committee and the Board. > Consideration of conduct risk in product and proposition development. > Risk-based monitoring of compliance with regulation and assessment of customer outcomes.
Operational 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. > A change management framework is in place to govern the execution and safe delivery of business change. > The Third Party Risk Framework has been enhanced to ensure that supplier relationships are controlled effectively. > Internal and external loss events are categorised using Basel II categories for consistent assessment, monitoring and reporting of risks and events, including themes and remediation action required. > A framework is in place to ensure risks from individual changes are managed effectively, in line with the Group's risk appetite, with appropriate second-line oversight. > Policies, controls and frameworks are in place to mitigate cyber and information security risks. The Group continues to invest in developing and enhancing its controls and defences, and carries out robust due diligence prior to working with third parties.
Economic Crime 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 RAS measures reported to the Executive Risk Committee and the Board. > Continued monitoring of existing, new and emerging risks and threats as a result of new laws and regulations, industry trends and economic and environmental factors. > Increased resource and capability within the Economic Crime Risk team. > Operation of a framework of risk-based systems and controls, to minimise the extent to which products and services can be used to commit or be subject to financial crime. > The Group has become an approved signatory to the Contingent Reimbursement Model Code and successfully implemented Confirmation of Payee, both supporting better outcomes for our customers.
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 delivering on Our Purpose and strategy. > The Group considers strategic and enterprise risk as part of ongoing risk reporting. The management of identified strategic risks is allocated to members of the Group's Executive Leadership Team by the Chief Executive Officer.
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. > The Group maintains a sensitive sector policy which outlines the Group's appetite to sensitive sectors. > An ESG focused Group-wide data programme supports our improvement of our climate data availability and quality. > A Group-wide Climate Risk Assessment is undertaken to support first line identification of climate-related risk drivers. > Risk appetite measures are in place to monitor physical and transitional climate-related risks. > The Group undertakes scenario analysis to assess possible future climate-related risks and exposures that may impact the Group.

Further information on the management and mitigation of principal risks is described in our Risk report on pages 165 to 238 within the 2023 Virgin Money UK PLC Annual Report and Accounts.

(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.

Annexes

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) Clydesdale Bank PLC(1) CGF No.9 Limited(1) Clydesdale Bank Asset Finance Limited(1) CYB Intermediaries Limited(1) Virgin Money Holdings (UK) Limited(1) Virgin Money Limited(1) Virgin Money Personal Financial Service Limited(1) Yorkshire Bank Home Loans Limited(1)	Executive Director Executive Director Executive Director Executive Director Executive Director Executive Director Executive Director Executive Director Executive Director	1 – Executive Director	9
David Bennett	Virgin Money UK PLC(1) Clydesdale Bank PLC(1) AllFunds Group plc Paypal (Europe) SARL et Cie S.C.(3) Paypal UK Limited(3) The Department for Work and Pensions(2)	Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Board Member	4 – Non-Executive Director	6
David Duffy	Virgin Money UK PLC(1) Clydesdale Bank PLC(1) Virgin Money Holdings (UK) Limited(1) Virgin Money Limited(1) UK Finance Limited(2) The Northern Powerhouse Partnership(2)	Executive Director Executive Director Executive Director Executive Director Non-Executive Director Board Member	1 – Executive Director	6
Geeta Gopalan	Virgin Money UK PLC(1) Clydesdale Bank PLC(1) Dechra Pharmaceuticals PLC Funding Circle Holdings PLC Intrum (AB) (publ) The Old Vic Theatre Trust 2000(2)	Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Trustee	4 – Non-Executive Director	6
Elena Novokreshchenova	Virgin Money UK PLC(1) Clydesdale Bank PLC(1) Twenty One Kingsgate Road Management Limited(2)	Non-Executive Director Non-Executive Director Non-Executive Director	1 – Non-Executive Director	3
Darren Pope	Virgin Money UK PLC(1) Clydesdale Bank PLC(1) Network International Holdings plc Hargreaves Lansdown plc HSBC Innovation Bank Limited	Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director	4 – Non-Executive Director	5

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

Name	Directorships	Type of Directorship	Number of directorships pursuant to Article 91(3) and (4) of Directive (EU) 2013/361 (CRD)	Total directorships held
Tim Wade	Virgin Money UK PLC(1) Clydesdale Bank PLC(1) Chubb Underwriting Agencies Limited RBC Europe Limited ClearBank Group Holdings Limited	Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director	4 – Non-Executive Director	5
Sara Weller	Virgin Money UK PLC(1) Clydesdale Bank PLC(1) BT Group PLC Money and Pensions Service(2) New College Oxford(2)	Non-Executive Director Non-Executive Director Non-Executive Director Chair Chair of the Remuneration Committee	2 – Non-Executive Director	5

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

(2) Entity does not pursue a commercial objective.

(3) Companies within the Paypal Group.

(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 a wide pool including women, people from a minority ethnic background, those with a disability in addition to drawing on other differences and experiences such as knowledge and skills; age; educational, professional and socio-economic background; and cognitive and personal strengths;
- 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 to inform the Board succession plan and future Board and Board committee composition. The skills, experience and contribution of each Director are set out on pages 76 to 78 of the Governance report in the Group's 2023 Annual Report and Accounts.

(c) The diversity policy for members of the management body (Point (c) of Article 435(2) CRR)

In FY22 the Board approved a revised Board Diversity and Inclusion Policy (Policy) reflecting updated aspirational targets for gender and ethnicity aligned to the FTSE Women Leaders Review and subsequently in the amendments to the Listing Rules published by the FCA in April 2022. The Policy was reviewed during the year and is available on our website at www.virginmoneyukplc.com/our-people/diversity-and-inclusion/#targets

The Policy 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 Board is committed to ensuring that its own membership is representative of the diverse societies and communities it operates in.

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. In reviewing Board composition and in identifying suitable candidates for appointment to the Board, the Governance and Nomination Committee will also carefully consider the benefits of diversity amongst Board members including age, gender, ethnicity, disability, educational, professional and socio-economic background and other distinctions between Directors such as cognitive and personal strengths. The Board firmly believes that creating and sustaining a diverse workforce at all levels in Virgin Money and building a fully inclusive culture is critical to the Group's long-term sustainable success, to foster decision making that represents the broadest set of views and perspectives and to mitigate the risk of 'group think.'

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

The Policy targets which applied during the year are set out in the table below along with performance against these targets as at 30 September 2023.

The Board aspires to have:	Performance as at 30 September 2023
> a membership comprising at least 40% women Directors by the end of 2023	37.5% of Directors are women
> at least one of the senior Board positions (Chair, Senior Independent Director, Chief Executive Officer or Chief Financial Officer) held by a woman	None of the senior Board positions are held by a woman
> at least one member of the Board who is from a minority ethnic background	1 member of the Board is from a minority ethnic background

Based on current Board composition, the Board recognises that its membership falls short of its 40% target for female representation and that none of the senior Board positions are held by a woman. However, through the succession planning process, the Governance and Nomination Committee and Board remain focused on meeting these targets in the near-term whilst continuing to ensure that Board appointments are based on merit against objective criteria. Throughout the year one member of the Board has been from a minority ethnic background meeting the target in the Policy. The Governance and Nomination Committee will continue to keep Board and Board committee composition under review during 2024 as part of its succession planning activity.

In addition, the independence and tenure of the Directors on the Board, as detailed in their biographies on pages 80 to 84 of the Group's 2023 Annual Report & Accounts, achieves an appropriate balance in the context of Code requirements.

The Group supports the Women in Finance Charter and has achieved their 2023 target of 45% of women in senior leadership roles. As of 30 September 2023 we had 49.2% of females holding senior management positions within the top two layers of the Company. 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 Risk 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 2023, the Risk Committee held seven scheduled meetings, along with five additional meetings, to consider and recommend the ICAAP, ILAAP and ACS documents to the Board for approval. Private sessions of the Committee took place before each scheduled meeting with the Chief Risk Officer attending as required. In recognising the common interest in issues relevant to both the Risk Committee and the Audit Committee, two joint Audit and Risk Committee meetings were also held in the year where matters including the Risk Management Assurance Plan and Internal Audit Plan were discussed and approved and Annual Report & Accounts disclosures were reviewed. A detailed overview of the responsibilities and activities of the Board Risk Committee is provided on pages 123 to 127 of the Annual Report and Accounts 2023.

(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 19 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

	As at 30 September 2023	A	B	C	D	E	F	G
				Carrying values of items				
		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 instruments							
	At amortised cost							
1	Loans and advances to customers	**72,191**	**72,187**	**72,187**	**–**	**–**	**–**	**–**
2	Cash and balances with central banks	**11,282**	**11,282**	**11,282**	**–**	**–**	**–**	**–**
3	Due from other banks	**667**	**669**	**402**	**267**	**–**	**–**	**–**
4	*At fair value through other comprehensive income (FVOCI)*	**6,184**	**6,184**	**6,184**	**–**	**–**	**–**	**–**
	At fair value through profit or loss (FVTPL)							
5	Loans and advances to customers	**59**	**59**	**59**	**–**	**–**	**–**	**–**
6	Derivatives	**135**	**135**	**–**	**135**	**–**	**–**	**–**
7	Other	**2**	**2**	**2**	**–**	**–**	**–**	**–**
8	Intangible assets and goodwill	**173**	**173**	**–**	**–**	**–**	**–**	**173**
9	Deferred tax	**193**	**193**	**118**	**–**	**–**	**–**	**75**
10	Defined benefit pension	**512**	**512**	**–**	**–**	**–**	**–**	**512**
11	Other assets	**388**	**380**	**380**	**–**	**–**	**–**	**–**
12	**Total assets**	**91,786**	**91,776**	**90,614**	**402**	**–**	**–**	**760**
	Breakdown by liability classes according to the balance sheet in the published financial statements							
	Financial instruments							
	At amortised cost							
13	Customer deposits	**66,827**	**66,822**	**–**	**–**	**–**	**–**	**66,822**
14	Debt securities in issue	**9,719**	**9,719**	**–**	**–**	**–**	**–**	**9,719**
15	Due to other banks	**6,939**	**6,939**	**–**	**33**	**–**	**–**	**6,906**
	At FVTPL							
16	Derivatives	**290**	**290**	**–**	**290**	**–**	**–**	**–**
17	Deferred tax	**179**	**179**	**–**	**–**	**–**	**–**	**179**
18	Provisions for liabilities and charges	**69**	**69**	**–**	**–**	**–**	**–**	**69**
19	Other liabilities	**2,156**	**2,194**	**–**	**130**	**–**	**–**	**2,064**
20	**Total liabilities**	**86,179**	**86,212**	**–**	**453**	**–**	**–**	**85,759**

Annexes

4 Annex V: Disclosure of the scope of application continued

	As at 30 September 2022[1]	A	B	C	D	E	F	G
				Carrying values of items				
		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 instruments							
	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	–	–	–
4	At FVOCI	5,064	5,064	5,064	–	–	–	–
	At FVTPL							
5	Loans and advances to customers	70	70	70	–	–	–	–
6	Derivatives	342	342	–	342	–	–	–
7	Other	8	8	8	–	–	–	–
8	Intangible assets and goodwill	267	267	–	–	–	–	267
9	Deferred tax	146	146	106	–	–	–	40
10	Defined benefit pension	1,000	1,000	–	–	–	–	1,000
11	Other assets	382	372	372	–	–	–	–
12	**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 instruments							
	At amortised cost							
13	Customer deposits	65,434	65,425	–	–	–	–	65,425
14	Debt securities in issue	8,509	8,509	–	–	–	–	8,509
15	Due to other banks	8,502	8,505	–	28	–	–	8,477
	At FVTPL							
16	Derivatives	327	327	–	327	–	–	–
17	Deferred tax	350	350	–	–	–	–	350
18	Provisions for liabilities and charges	50	50	–	–	–	–	50
19	Other liabilities	2,395	2,539	(1)	31	–	–	2,509
20	**Total liabilities**	85,567	85,705	(1)	386	–	–	85,320

(1) The comparative figures have been restated to align with current year presentations.

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 2023		Total	Credit risk framework	Securitisation framework	CCR framework	Market risk framework
1	Assets carrying value amount under the scope of regulatory consolidation	**91,016**	**90,614**	**–**	**402**	**–**
2	Liabilities carrying value amount under the regulatory scope of consolidation	**453**	**–**	**–**	**453**	**–**
3	Total net amount under the regulatory scope of consolidation	**90,563**	**90,614**	**–**	**(51)**	**–**
4	Off-balance sheet amounts	**27,305**	**17,955**	**–**	**9,350**	
5	*Differences in valuations*	**–**	**–**	**–**	**–**	
6	*Differences due to different netting rules, other than those already included in row 2*	**1,751**	**169**	**–**	**1,582**	
7	*Differences due to consideration of provisions*	**179**	**179**	**–**	**–**	
8	*Differences due to the use of credit risk mitigation techniques (CRMs)*	**(8,359)**	**133**	**–**	**(8,492)**	
9	*Differences due to credit conversion factors*	**(12,856)**	**(12,856)**	**–**	**–**	
10	*Differences due to Securitisation with risk transfer*	**–**	**–**	**–**	**–**	
11	*Other differences*	**4,356**	**753**	**–**	**3,603**	
12	Exposure amounts considered for regulatory purposes	**102,939**	**96,947**	**–**	**5,992**	**–**

		A	B	C	D	E
			Items subject to			
As at 30 September 2022[(1)]		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	385	(1)	–	386	–
3	Total net amount under the regulatory scope of consolidation	90,221	90,024	–	197	–
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*	5,091	1,082	–	4,009	
12	Exposure amounts considered for regulatory purposes	105,857	98,361	–	7,496	–

(1) The comparative figures have been restated to align with current year presentations.

Annexes

4 Annex V: Disclosure of the scope of application continued

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 Giving Limited	Full consolidation	X		*Non-trading company*
Virgin Money Holdings (UK) Limited	Full consolidation	X		*Intermediate holding company*
Virgin Money Limited	Full consolidation	X		*Dormant*
Virgin Money Management Services Limited	Full consolidation	X		*Non-trading company*
Virgin Money Personal Financial Service Limited	Full consolidation	X		*Insurance intermediary*
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*
C.B. Nominees Limited	Full consolidation	X		*Dormant*
CYB SSP Trustee Limited	Full consolidation	X		*Dormant*
Northern Rock Limited	Full consolidation	X		*Dormant*
Lanark Funding Limited	Full consolidation	X		*Special Purpose Entity*
Lanark Holdings Limited	Full consolidation	X		*Special Purpose Entity*
Lanark Master Issuer PLC	Full consolidation	X		*Special Purpose Entity*
Lanark Trustees Limited	Full consolidation	X		*Special Purpose Entity*
Lannraig Funding Limited	Full consolidation	X		*Special Purpose Entity*
Lannraig Holdings Limited	Full consolidation	X		*Special Purpose Entity*
Lannraig Master Issuer PLC	Full consolidation	X		*Special Purpose Entity*
Lannraig Trustees Limited	Full consolidation	X		*Special Purpose Entity*
Red Grey Square Funding LLP (in liquidation)	Full consolidation	X		*Special Purpose Entity*
Gosforth Funding 2017-1 PLC (in liquidation)	Full consolidation	X		*Special Purpose Entity*
Gosforth Funding 2018-1	Full consolidation	X		*Special Purpose Entity*
Gosforth Holdings 2017-1 (in liquidation)	Full consolidation	X		*Special Purpose Entity*
Gosforth Holdings 2018-1	Full consolidation	X		*Special Purpose Entity*
Gosforth Mortgage Trustee 2018-1 Limited	Full consolidation	X		*Special Purpose Entity*

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 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 accordance 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, in accordance with the offsetting criteria of IAS 32, shown in row 6;
- The carrying value of balance sheet assets is net of credit risk adjustments, whereas the regulatory exposure value under IRB approaches excludes provisions. These are added back in row 7;
- The impact of Credit Risk Mitigation (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 calculated under CRR Article 473a, and potential future credit exposure add-ons for derivative financial instruments under Article 278 CRR.

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 Loans Limited and Virgin Money Unit Trust Managers Limited (see notes 5.3 and 6.2 to the financial statements in the Group's 2023 Annual Report and Accounts for further details) which are not immediately available to other members of the Group. Any such transfer would be subject to legal and regulatory requirements including those required by ring fencing legislation to ensure the Group's ring-fenced bank remains adequately capitalised and any conflicts independently governed.

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

No subsidiaries are excluded from the consolidation.

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

The derogation referred to in Article 7 CRR and the individual consolidation method laid out in Article 9 CRR have not been applied in the VMUK regulatory consolidation group.

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. The Group has two joint ventures: Salary Finance Loans Limited (SF Ltd) and Virgin Money Unit Trust Manager Limited (VMUTM Ltd).

For regulatory purposes, the Group applies a proportional consolidation approach to both joint ventures, which are 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.

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 2023 and 30 September 2022. 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 2023 £m	30 Sept 2022[4] £m	Ref[1]
	CET1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	**143**	148	**f**
	of which: ordinary shares	**134**	141	**g**
	of which: share premium	**9**	7	**h**
2	Retained earnings	**3,342**	3,016	**o+q+s+u**
3	Accumulated other comprehensive income (and other reserves)	**1,370**	2,047	**j+k+l+n+v+w**
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**117**	331	**p+r+t**
6	**CET1 capital before regulatory adjustments**	**4,972**	5,542	
	CET1 capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	**(5)**	(5)	
8	Intangible assets (net of related tax liability) (negative amount)	**(173)**	(267)	**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)	**(261)**	(302)	**b**
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	**(496)**	(699)	**l**
12	Negative amounts resulting from the calculation of expected loss amounts	**(103)**	(100)	
15	Defined-benefit pension fund assets (negative amount)	**(333)**	(650)	**c-e**
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	**(2)**	–	**m**
UK-27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	**112**	114	
28	**Total regulatory adjustments to CET1**	**(1,261)**	(1,909)	
29	**CET1 capital**	**3,711**	3,633	
	Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	**594**	666	
31	*of which: classified as equity under applicable accounting standards*	**594**	666	**i**
44	**AT1 capital**	**594**	666	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,305**	4,299	
	Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	**1,022**	1,020	**d**
58	**Tier 2 (T2) capital**	**1,022**	1,020	
59	**Total capital (TC = T1 + T2)**	**5,327**	5,319	
60	**Total Risk exposure amount**	**25,176**	24,148	

Annexes

5 Annex VII: Disclosure of own funds continued

		30 Sept 2023 £m	30 Sept 2022[4] £m	Ref[1]
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**14.7%**	15.0%	
62	Tier 1 (as a percentage of total risk exposure amount)	**17.1%**	17.8%	
63	Total capital (as a percentage of total risk exposure amount)	**21.2%**	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)[2]	**10.7%**	8.7%	
65	*of which: capital conservation buffer requirement*	**2.5%**	2.5%	
66	*of which: countercyclical buffer requirement*	**2.0%**	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)**[3]	**8.5%**	8.8%	
	Amounts below the thresholds for deduction (before risk weighting)			
75	Deferred tax assets arising from temporary difference (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	**118**	106	
	Applicable caps on the inclusion of provisions in Tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**82**	79	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**93**	90	

(1) Shows cross reference to the balance sheet under regulatory scope of consolidation in Table UK CC2.
(2) Prior year comparative restated to include requirements of point (a) Article 104(1) Capital Requirements Directive.
(3) Represents the CET1 ratio after deducting Pillar 1 and 2A requirements.
(4) The comparative figures have been restated to align with current year presentations.

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 other reserves as detailed in note 4.1 of the Group's 2023 Annual Report and Accounts, together with adjustments for defined benefit pension assets and share buyback.

Additional details of the perpetual capital notes are included in UK CCA, sections 5.3 and 21.2.3, as well as note 4.1.2 to the Group's 2023 Annual Report and 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, sections 5.3 and 21.2.3, as well as note 3.1.1 to the Group's 2023 Annual Report and 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

The following table shows the Group's consolidated accounting and regulatory balance sheets as at 30 September 2023, with references to show linkages to UK CC1.

		A	B	C
	As at 30 September 2023	Balance sheet as in published financial statements £m	Under regulatory scope of consolidation[(1)] £m	Ref:
	Assets			
1	*Financial instruments*			
	At amortised cost			
2	Loans and advances to customers	**72,191**	**72,187**	
3	Cash and balances with central banks	**11,282**	**11,282**	
4	Due from other banks	**667**	**669**	
5	At FVOCI	**6,184**	**6,184**	
6	*At FVTPL*			
7	Loans and advances to customers	**59**	**59**	
8	Derivatives	**135**	**135**	
9	Other	**2**	**2**	
10	Intangible assets and goodwill	**173**	**173**	**a**
11	Deferred tax	**193**	**193**	
12	*of which: tax losses carried forward*	***267***	***261***	**b**
13	Defined benefit pensions assets	**512**	**512**	**c**
14	Other assets	**388**	**380**	
15	**Total assets**	**91,786**	**91,776**	
	Liabilities			
16	*Financial instruments*			
	At amortised cost			
17	Customer deposits	**66,827**	**66,822**	
18	Debt securities in issue	**9,719**	**9,719**	
19	*of which: Tier 2 instruments*	***1,022***	***1,022***	**d**
20	Due to other banks	**6,939**	**6,939**	
21	*At FVTPL*			
22	Derivatives	**290**	**290**	
23	Deferred tax	**179**	**179**	
24	*of which: defined pension benefit scheme surplus*	***179***	***179***	**e**
25	Provisions for liabilities and charges	**69**	**69**	
26	Other liabilities	**2,156**	**2,194**	
27	**Total liabilities**	**86,179**	**86,212**	

		A	B	C
	As at 30 September 2023	Balance sheet as in published financial statements £m	Under regulatory scope of consolidation[(1)] £m	Ref:
	Shareholders' Equity			
28	Share capital and share premium	**143**	**143**	**f**
29	*of which: ordinary share capital*	***134***	***134***	**g**
30	*of which: share premium*	***9***	***9***	**h**
31	Other equity instruments	**594**	**594**	**i**
32	Capital reorganisation reserve	**(839)**	**(839)**	**j**
33	Merger reserve	**2,128**	**2,128**	**k**
34	Other reserves	**528**	**528**	
35	*of which: cash flow hedge reserve*	***496***	***496***	**l**
36	*of which: own shares held*	***(2)***	***(2)***	**m**
37	*of which: other*	***34***	***34***	**n**
38	Retained earnings	**3,053**	**3,010**	
39	*of which: prior period retained earnings*	***3,471***	***3,471***	**o**
40	*of which: profits accrued in the year to date*	***246***	***242***	**p**
41	*of which: FY22 dividends paid*	***(103)***	***(103)***	**q**
42	*of which: FY23 dividends paid/accrued in the period*	***(45)***	***(72)***	**r**
43	*of which: AT1 coupons accrued for regulatory purposes in FY22*	***(13)***	***(13)***	**s**
44	*of which: FY23 AT1 coupons*	***(41)***	***(53)***	**t**
45	*of which: share buyback recognised for regulatory purposes in FY22*	***(13)***	***(13)***	**u**
46	*of which: share buyback recognised for regulatory purposes in FY23*	***(99)***	***(99)***	**v**
47	*of which: other movements in retained earnings*	***(350)***	***(350)***	**w**
48	**Total shareholders' equity**	**5,607**	**5,564**	

(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
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GB00BD6GN030	XS1959441640	XS2486863595	XS1921970668	XS2227898421	XS2343851510
2a	Public or private placement	Public	Public	Public	Private	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	n/a	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	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity 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
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	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 134,464,097	GBP 247,138,469	GBP 346,480,954	GBP 249,836,934	GBP 473,632,074	GBP 298,710,814
9	Nominal amount of instrument	GBP 134,464,097	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%	100%	100%	99.493%	99.840%	99.807%
UK-9b	Redemption price	100%	100%	100%	100%	100%	100%
10	Accounting classification	Shareholder's Equity	Shareholder's Equity	Shareholder's Equity	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	Various	13 March 2019	17 June 2022	14 December 2018	11 September 2020	19 May 2021
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated
13	Original maturity date	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
15	Optional call date, contingent call dates and redemption amount	n/a	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%

Annexes

5 Annex VII: Disclosure of own funds continued

16	Subsequent call dates, if applicable	n/a	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
18	Coupon rate and any related index	n/a	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
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	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	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	n/a	No	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	n/a	n/a	n/a
23	Convertible or non-convertible	Non-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	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	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	119p	119p	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	Mandatory	Mandatory	n/a	n/a	n/a

Annexes

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	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	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)
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
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)	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	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	Senior Unsecured	Senior Unsecured	Senior Unsecured
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	Link	Link	Link	Link	Link

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	Virgin Money UK PLC
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	XS1637124741	XS1813150247	XS1775239095	XS2049149821	XS2126084750	XS2585239200	XS2667626233
2a	Public or private placement	Public	Public	Public	Public	Public	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	No	No	No	No	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	n/a
5	Post-transitional CRR rules	n/a	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	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Senior Unsecured	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 299,667,429	GBP 349,942,336	GBP 498,796,499	GBP 398,401,125	GBP 432,930,798	GBP 430,153,979	GBP 297,064,275
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 433,405,021	EUR 500,000,000 GBP 433,405,021	GBP 300,000,000
UK-9a	Issue price	99.570%	99.614%	99.595%	99.589%	99.914%	99.666%	99.506%
UK-9b	Redemption price	100%	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	Liability – amortised cost
11	Original date of issuance	22 June 2017	24 April 2018	25 September 2018	3 September 2019	24 June 2020	14 February 2023	23 August 2023
12	Perpetual or dated	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	29 October 2028	23 August 2029
14	Issuer call subject to prior supervisory approval	Yes	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 = 29 October 2027 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Clean Up Call = Yes (at 80%) Redemption Price = 100%	Optional Call Date = 23 August 2028 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Clean Up Call = Yes (at 80%) 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	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	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	4.625% per annum until 29 October 2027. Resets to a fixed rate equal to the 1-year Euro Mid-Swap Rate + 175bps, if not called	7.625% per annum until 23 August 2028. Resets to a fixed rate equal to the 1-year Benchmark Gilt Rate + 305bps, if not called
19	Existence of a dividend stopper	No	No	No	No	No	No	No
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
22	Non-cumulative or cumulative	n/a	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)	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	Statutory bail-in by the UK Resolution Authority at point of non-viability/ when resolution conditions met

Annexes

5 Annex VII: Disclosure of own funds continued

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	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)	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 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
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)	Structural	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	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	n/a
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)	Link	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 30 Sept 2023	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	**9,223**	**71,196**	**–**	**–**	**–**	**80,419**	**1,738**	**–**	**–**	**1,738**	**21,725**	**100%**	**2%**
Total	**9,223**	**71,196**	**–**	**–**	**–**	**80,419**	**1,738**	**–**	**–**	**1,738**	**21,725**	**100%**	**2%**
As at 30 Sept 2022													
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%

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

		30 Sept 2023	30 Sept 2022
1	Total risk exposure amount (£m)	**25,176**	24,148
2	Institution specific countercyclical capital buffer rate (%)	**2%**	0%
3	Institution specific countercyclical capital buffer requirement (£m)	**504**	–

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 2023 £m	30 Sept 2022 £m
1	Total assets as per published financial statements	**91,786**	91,907
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	**–**	–
4	(Adjustment for exemption of exposures to central banks)	**(9,052)**	(9,792)
8	Adjustment for derivative financial instruments	**706**	522
9	Adjustment for securities financing transactions (SFTs)	**2,261**	2,974
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**2,999**	3,204
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital (leverage))	**(5)**	(5)
12	Other adjustments	**(2,141)**	(2,876)
13	**Total exposure measure**	**86,554**	85,934

7.2 UK LR2 – LRCom – Leverage ratio common disclosure

		Leverage ratio exposures	
		A	B
		30 Sept 2023 £m	30 Sept 2022 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	**91,047**	90,834
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(281)**	(241)
6	(Asset amounts deducted in determining Tier 1 capital (leverage))	**(1,261)**	(1,909)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**89,505**	88,684
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**370**	462
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**471**	402
13	**Total derivatives exposures**	**841**	864
	SFT exposures		
16	Counterparty credit risk exposure for SFT assets	**2,261**	2,974
18	**Total securities financing transaction exposures**	**2,261**	2,974
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	**17,980**	19,319
20	(Adjustments for conversion to credit equivalent amounts)	**(14,981)**	(16,115)
22	**Off-balance sheet exposures**	**2,999**	3,204
	Capital and total exposure measure		
23	**Tier 1 capital (leverage)**	**4,306**	4,299
24	Total exposure measure including claims on central banks	**95,606**	95,726
UK-24a	(-) Claims on central banks excluded	**(9,052)**	(9,792)
UK-24b	**Total exposure measure excluding claims on central banks**	**86,554**	85,934
	Leverage ratio		
25	Leverage ratio excluding claims on central banks (%)	**5.0%**	5.0%
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**4.9%**	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 (%)	**4.9%**	4.9%
UK-25c	Leverage ratio including claims on central banks (%)	**4.5%**	4.5%
26	Regulatory minimum leverage ratio requirement (%)	**3.25%**	3.25%
	Additional leverage ratio disclosure requirements – leverage ratio buffers		
27	Leverage ratio buffer (%)	**0.7%**	0.0%
UK-27a	*of which: G-SII or O-SII additional leverage ratio buffer (%)*	**0.0%**	0.0%
UK-27b	*of which: countercyclical leverage ratio buffer (%)*	**0.7%**	0.0%
	Additional leverage ratio disclosure requirements – disclosure of mean values		
UK-31	Average total exposure measure including claims on central banks	**95,885**	95,936
UK-32	Average total exposure measure excluding claims on central banks	**85,910**	86,144
UK-33	Average leverage ratio including claims on central banks	**4.4%**	4.4%
UK-34	Average leverage ratio excluding claims on central banks	**4.9%**	4.9%

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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 2023 £m	30 Sept 2022 £m
UK-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**81,714**	80,801
UK-2	Trading book exposures	**–**	–
UK-3	Banking book exposures, of which:	**81,714**	80,801
UK-4	*Covered bonds*	**1,335**	1,471
UK-5	*Exposures treated as sovereigns*	**6,596**	5,384
UK-6	*Exposures to regional governments, Multilateral Development Bank, international organisations and public sector entities not treated as sovereigns*	**109**	181
UK-7	*Institutions*	**933**	511
UK-8	*Secured by mortgages of immovable properties*	**60,546**	60,588
UK-9	*Retail exposures*	**6,268**	6,273
UK-10	*Corporates*	**4,918**	4,680
UK-11	*Exposures in default*	**704**	728
UK-12	*Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)*	**305**	985

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, which are covered by the Group's overarching RMF. 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 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. Corrective actions that may be taken include:

- Increasing Tier 1 capital. In the short term (e.g. 3-6 months) this could be addressed by reducing buybacks, restricting dividends, or issuing more AT1 capital. In the medium term (e.g. >6 months) expense management initiatives may be undertaken. It may also be possible to undertake other share capital initiatives such as scrip dividends, or share placements and open offers; whilst these may be delivered in the short term, they are unlikely to be contemplated in a BAU environment.
- Reducing leverage exposures. These are likely to be medium term activities (e.g. >6 months) such as reductions in lending or portfolio disposals.

See page 167 of the Annual Report and Accounts 2023 for more information on the Group's risk management framework and approach to risk appetite.

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

Leverage has remained constant during the year at 5.0% as a result of a small increase in Tier 1 capital and to the leverage exposure measure.

Tier 1 capital increased by £6m, which reflected an increase to CET1 capital of £78m, which was offset by the redemption of £72m of AT1 securities.

The leverage ratio exposure increased by £620m primarily due to an increase in listed securities investments.

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. Therefore, beyond the standard prudential and ring-fencing requirements, there are 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

Internal liquidity reporting is monitored across Treasury and Risk. Key liquidity metrics are produced daily by Treasury and circulated to a distribution list including the Chief Executive Officer, Chief Financial Officer, key Risk and Treasury personnel in addition to the PRA. This reporting provides a comprehensive view of the Group's liquidity position including liquid assets and contingent funding availability, customer deposits and lending, loan to deposit ratio and asset encumbrance, in addition to compliance with regulatory and internal stress testing measures. Reporting is in line with the Board approved ILAAP and therefore meets the Board's liquidity monitoring requirements.

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

The internal assessment of liquidity risk 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. Compliance with this risk appetite is reported daily to senior management and the PRA as detailed above, with further detailed oversight performed by ALCO on a monthly basis. This reporting demonstrates the effectiveness of policies for hedging and mitigating liquidity risk by ensuring that the Group remains compliant with regulatory and internal limits. With regards to regulatory limits, the Group's RAS is significantly above the regulatory requirement which ensures the Group will always hold sufficient liquidity.

The Group also has a suite of 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 cash balances held at the Bank of England, 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, while the ability to monetise classes of assets within the buffer is regularly tested.

(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 builds out the detail of a liquidity playbook to more clearly articulate the liquidity response and captures the following: Identification of a liquidity stress, intraday early warning indicators, management of a liquidity stress event, how the stress would be escalated, recovery options, communications plan, fire drill assessment and the interaction between the crisis plans: DORP, RP, Payments Management of a Liquidity Event and Resolution Event Plans. 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 utilized in a more extreme and/or prolonged stress.

Annexes

8 Annex XIII: Disclosure of liquidity requirements continued

(g) An explanation of how stress testing is used
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
The Board confirm the adequacy of liquidity risk management arrangements, including underlying systems and controls, annually through the ILAAP.

As part of the ILAAP, liquidity adequacy is assessed with reference to the Group's Overall Liquidity Adequacy Rule, which details the Group's liquidity requirements during a stress.

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
The Group actively manages its liquidity position 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 and close monitoring of deposit Early Warning Indicator's (EWI's). 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, including asset encumbrance, loan to deposit ratio, single name concentration, large business deposit concentration and quarterly refinancing profiles, 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 increased to 136% (31 March 2023: 135%), 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)				Total weighted value (average)			
UK-1a	Quarter ending on	30 Sept 2023	30 June 2023	31 Mar 2023	31 Dec 2022	30 Sept 2023	30 June 2023	31 Mar 2023	31 Dec 2022
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**					**13,798**	13,381	12,542	11,793
	Cash – Outflows								
2	Retail deposits and deposits from small business customers, of which:	**56,721**	56,279	55,592	55,351	**3,554**	3,468	3,379	3,326
3	*Stable deposits*	**38,010**	39,068	40,163	41,497	**1,901**	1,952	2,004	2,068
4	*Less stable deposits*	**12,795**	12,073	11,278	10,062	**1,618**	1,480	1,338	1,219
5	Unsecured wholesale funding, of which:	**7,535**	7,628	7,535	7,283	**3,712**	3,752	3,650	3,459
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	**1,139**	1,211	1,255	1,229	**282**	300	311	305
7	*Non-operational deposits (all counterparties)*[1]	**6,390**	6,411	6,274	6,047	**3,423**	3,445	3,333	3,148
8	*Unsecured debt*	**6**	6	6	6	**6**	6	6	6
10	Additional requirements, of which:	**4,643**	4,409	4,121	3,814	**1,690**	1,582	1,415	1,220
11	*Outflows related to derivative exposures and other collateral requirements*	**1,325**	1,234	1,076	887	**1,325**	1,234	1,076	887
13	*Credit and liquidity facilities*	**3,319**	3,175	3,045	2,927	**366**	348	338	332
14	Other contractual funding obligations	**83**	83	84	76	**9**	9	9	–
15	Other contingent funding obligations	**15,115**	15,385	15,526	15,684	**968**	1,065	1,121	1,192
16	**Total cash outflows**					**9,933**	9,875	9,573	9,197
	Cash – Inflows								
18	Inflows from fully performing exposures	**1,252**	1,474	1,575	1,556	**470**	489	553	562
19	Other cash inflows	**39**	39	–	–	**39**	39	–	–
20	**Total cash inflows**	**1,291**	1,513	1,575	1,557	**509**	528	553	562
UK-20c	*Inflows subject to 75% cap*	**1,291**	1,513	1,575	1,463	**509**	528	553	562
	Total adjusted value								
UK-21	*Liquidity buffer*					**13,798**	13,381	12,542	11,793
22	Total net cash outflows					**9,424**	9,347	9,020	8,635
23	Liquidity coverage ratio (%)					**146%**	143%	139%	137%

(1) The Total unweighted value (average) for 30 September 2022 has been corrected following a misstatement.

8.3 UK 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 customer deposit book (items 2 and 5 in LIQ1, with item 5 primarily being business deposits with any wholesale term funding maturities also captured) 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 146% as at 30 September 2023, which is an increase from 143% as at 30 June 2023. 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 equity and 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 NSFR, Loan-to-Deposit Ratio, quarterly wholesale, retail and combined refinancing, single name concentration and large business deposit concentration. The Loan-to-Deposit ratio risk appetite measure ensures the Group's balance sheet is funded by an appropriate level of customer deposits, while the additional measures further segregate the appetite for concentration of customer deposits according to tenor and single name. In addition, the Group's Board approved Funding Policy states that all funding must be diversified by source, maturity profile, type of instruments and currency to minimise dependence on specific sources, customers or markets, and that access to wholesale markets must be maintained, tested and accessed regularly.

(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 supranationals and AAA-rated covered bonds). The Group also holds a smaller portion of Level 2 assets. 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. These exposures are captured under item 11 of LIQ1.

(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. Non-GBP liabilities principally relates to wholesale 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.

Annexes

8 Annex XIII: Disclosure of liquidity requirements continued

8.4 UK LIQ2 – Net Stable Funding ratio

		A	B	C	D	E
		Unweighted value by residual maturity (average)				Weighted value (average)
	As at 30 September 2023	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
	Available stable funding (ASF) Items					
1	Capital items and instruments	5,492	–	124	1,021	6,513
2	*Own funds*	5,492	–	124	1,021	6,513
3	*Other capital instruments*		–	–	–	–
4	Retail deposits		54,288	1,673	847	53,305
5	*Stable deposits*		40,807	1,051	508	40,273
6	*Less stable deposits*		13,481	622	339	13,031
7	Wholesale funding:		11,270	1,274	14,524	18,560
8	*Operational deposits*		1,349	–	–	674
9	*Other wholesale funding*		9,922	1,274	14,524	17,885
10	Interdependent liabilities		–	–	–	–
11	Other liabilities:	139	1,303	–	840	840
12	*NSFR derivative liabilities*	139				
13	*All other liabilities and capital instruments not included in the above categories*		1,303	–	840	840
14	**Total available stable funding (ASF)**					79,218
	Required stable funding (RSF) Items					
15	Total high-quality liquid assets (HQLA)					1,368
UK-15a	Assets encumbered for more than 12m in cover pool					
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:		7,224	1,471	64,173	54,045
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		–	–	–	–
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		256	6	677	706
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		6,229	748	6,633	9,102
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		46	38	388	343
22	*Performing residential mortgages, of which:*		739	717	56,863	44,238
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		681	664	55,713	43,204
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		–	–	–	–
25	Interdependent assets		–	–	–	–
26	Other assets:		3,336	20	1,648	1,992
27	Physical traded commodities		–	–	–	–
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		8	–	–	7
29	NSFR derivative assets		124	–	–	124
30	NSFR derivative liabilities before deduction of variation margin posted		261	–	–	13
31	All other assets not included in the above categories		2,944	20	1,648	1,848
32	Off-balance sheet items		18,436	–	–	940
33	**Total RSF**					58,346
34	**Net Stable Funding Ratio (%)**					136%

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 credit risk is a key capability for a successful financial services provider and is fundamental to the Group's strategy. 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 and is responsible for approval of the RMF.

The RMF helps the Group control risk by supporting decision making and delivery of strategies, as well as providing a consistent approach to risk management activities, insightful reporting and appropriate oversight. Refer to 3.1 UK OVA for further details of the risk management approach.

The Group undertakes ongoing reviews of the credit portfolio. Virgin Money is a leading retail bank and the Group's credit risk profile reflects its vision to be the UK's best full service digital bank. As reported at Table 9.3 UK CR1, 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.

The Group manages its interest rate, currency, liquidity and funding risks through relationships with Financial Institutions and uses the RAS to control the level of credit risk incurred.

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

The RMF 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 Credit Risk Policy Statement and RAS. These are subject to formal change approval processes, regular review and governance.

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, communicates the Group's risk appetite via specific measures to manage credit risk across its lending products to stakeholders, providing a view on the credit risk taking activity the Board is willing to accept.

Credit policy is aligned with the risk appetite and defines the level and types of risk the Group is willing to assume to achieve its strategic objectives. It provides minimum standards and high-level straight forward credit risk direction to colleagues involved in the process of providing credit, promoting responsible lending and regulatory compliance through robust and prudent standards for credit risk management.

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

- maintaining a diverse 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;
- using automated scorecards where appropriate;
- taking collateral as a means of credit risk mitigation;
- 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.

The management, measurement, monitoring and mitigation of credit risk is also discussed on pages 173 to 176 of the Annual Report and Accounts 2023.

(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 (a sub-committee of the Credit Risk Committee) which carries the authority for the Group's largest credit limits, Underwriters (Joint or sole authority) who undertake the majority of manual credit decisioning 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, and other credit risk sub-committees perform oversight of the Group's credit risk portfolio which includes 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 oversight for Risk in the Group.

Further information is available in section 3.1(d).

9 Annex XV: Disclosure of credit risk quality continued

To assist with asset quality management and the identification of potential risks within our lending portfolios; a comprehensive suite of credit performance Management Information (MI) reporting at a granular level is provided to the various credit risk governance committees and oversight functions for review, discussion and appropriate challenge to take place demonstrating that the Group is lending responsibly and within risk appetite.

The MI is regularly updated, typically monthly, and used to manage, monitor and control new business acquisition flows, concentration exposure levels, existing portfolio back book stock and collections performance.

The Group continues to improve its capability to identify, manage and monitor climate-related risks and opportunities. Climate risk impacts to the Group's lending portfolios are monitored through a range of physical and transition risk metrics. In addition, the Group has climate-related lending policies in place within its mortgage and business portfolios. Looking ahead, the Group will further embed climate considerations within credit decisioning processes.

Individual lending authorities are granted to enable relevant personnel to appropriately decision lending proposals and set appropriate strategies aligned to risk appetite.

Retail
The deployment of application & behavioural scorecards, and the use of credit strategy decisioning drives credit decisioning within our Retail portfolios.

Business
Business lending portfolios are primarily subject to manual underwriting. Lending authorities held reduce proportionate to the customers ECL, as determined by the Group's internal rating model and collateral held.

If requested, the Group provides an explanation in writing on rating decisions to SMEs and other corporate applicants whose loan application was declined. For SMEs, the Group participates in a formal, independent appeals and referrals process.

(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:

- first line business units own and have responsibility for identifying assessing and mitigating risks and issues;
- second line risk management ensure risk management practices are embedded across the Group;
- third line, Internal Audit, provide an independent view of the key risks and management across the Group;
- 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.

Further details can be found at 3.1 UK OVA.

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. In the interim a Post Model Adjustment is applied.

(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
The Group applies the International Financial Reporting Standard 9 Financial Instruments (IFRS 9) to calculate expected credit losses. The methods used to assess asset quality and measure credit losses are discussed on page 174 to 176 of the Annual Report and Accounts, with detailed supporting analysis set out on pages 177 to 198. All expected credit losses are classed as specific credit risk adjustments and are allocated against individual exposures. The Group does not recognise any general 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. In the interim a Post Model Adjustment is applied.

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 2023		£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	**9,099**	**9,099**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
010	Loans and advances	**74,988**	**68,863**	**6,067**	**1,221**	**117**	**1,036**	**(471)**	**(91)**	**(380)**	**(139)**	**(7)**	**(132)**	**(22)**	**61,545**	**760**
020	*Central banks*	**2,523**	**2,523**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
030	*General governments*	**11**	**1**	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
040	*Credit institutions*	**271**	**271**	**–**	**–**	**–**	**–**	**(1)**	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
050	*Other financial corporations*	**321**	**171**	**150**	**–**	**–**	**–**	**(12)**	**(1)**	**(11)**	**–**	**–**	**–**	**–**	**35**	**–**
060	*Non-financial corporations*	**7,619**	**5,799**	**1,798**	**410**	**3**	**388**	**(72)**	**(26)**	**(46)**	**(48)**	**–**	**(48)**	**(20)**	**4,211**	**118**
070	*of which: SMEs*	**5,617**	**4,048**	**1,547**	**155**	**–**	**145**	**(32)**	**(8)**	**(24)**	**(28)**	**–**	**(28)**	**–**	**3,749**	**73**
080	*Households*	**64,243**	**60,098**	**4,118**	**811**	**114**	**648**	**(386)**	**(63)**	**(323)**	**(91)**	**(7)**	**(84)**	**(2)**	**57,299**	**642**
090	Debt securities	**6,185**	**6,184**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100	*Central banks*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
110	*General governments*	**3,059**	**3,059**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
120	*Credit institutions*	**3,125**	**3,125**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
130	*Other financial corporations*	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
140	*Non-financial corporations*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
150	Off-balance sheet exposures	**17,926**	**16,798**	**1,128**	**56**	**–**	**54**	**5**	**1**	**4**	**–**	**–**	**–**		**–**	**–**
160	*Central banks*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**–**	**–**
170	*General governments*	**387**	**381**	**6**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**–**	**–**
180	*Credit institutions*	**10**	**9**	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**–**	**–**
190	*Other financial corporations*	**30**	**–**	**30**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**–**	**–**
200	*Non-financial corporations*	**3,152**	**2,555**	**597**	**23**	**–**	**23**	**5**	**1**	**4**	**–**	**–**	**–**		**–**	**–**
210	*Households*	**14,347**	**13,853**	**494**	**33**	**–**	**31**	**–**	**–**	**–**	**–**	**–**	**–**		**–**	**–**
220	**Total**	**108,198**	**100,944**	**7,195**	**1,277**	**117**	**1,090**	**(466)**	**(90)**	**(376)**	**(139)**	**(7)**	**(132)**	**(22)**	**61,545**	**760**

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 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	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

Annexes

9 Annex XV: Disclosure of credit risk quality continued

9.4 UK CR1-A – Maturity of exposures

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.

		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 2023		£m	£m	£m	£m	£m	£m
1	Loans and advances	**–**	**25,701**	**9,152**	**58,753**	**86**	**93,692**
2	Debt securities	**–**	**915**	**1,725**	**3,545**	**1**	**6,186**
3	**Total**	**–**	**26,616**	**10,877**	**62,298**	**87**	**99,878**

		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[1]		£m	£m	£m	£m	£m	£m
1	Loans and advances	–	25,602	9,144	60,354	95	95,195
2	Debt securities	–	894	1,215	2,882	1	4,992
3	**Total**	–	26,496	10,359	63,236	96	100,187

(1) The comparative figures include a restatement to include note cover and payments system collateral balances with Central banks.

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
(£m)		Gross carrying amount
10	**Initial stock of non-performing loans and advances as at 30 Sept 2022**	**1,036**
20	Inflows to non-performing portfolios	**686**
30	Outflows from non-performing portfolios	**(266)**
40	Outflows due to write-offs	**(187)**
50	Outflows due to other situations	**(189)**
60	**Final stock of non-performing loans and advances as at 30 Sept 2023**	**1,080**

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

(2) As the Group's non performing loan ratio is <5%, we are not required to complete FINREP template 24, therefore the table above shows the changes in the stock of non-performing loans and advances, 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 2023		£m	£m	£m	£m	£m	£m	£m	£m
010	Loans and advances	**520**	**564**	**519**	**498**	**(15)**	**(85)**	**746**	**336**
060	*Non-financial corporations*	**280**	**204**	**204**	**191**	**(9)**	**(35)**	**249**	**69**
070	*Households*	**240**	**360**	**315**	**307**	**(6)**	**(50)**	**497**	**267**
090	Loan commitments given	**29**	**10**	**10**	**10**	**–**	**–**	**–**	**–**
100	**Total**	**549**	**574**	**529**	**508**	**(15)**	**(85)**	**746**	**336**

		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

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 2023			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	**9,099**	**9,099**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
010	Loans and advances	**74,988**	**74,823**	**165**	**1,221**	**728**	**185**	**148**	**88**	**56**	**9**	**7**	**1,128**
020	*Central banks*	**2,523**	**2,523**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
030	*General governments*	**11**	**11**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
040	*Credit institutions*	**271**	**271**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
050	*Other financial corporations*	**321**	**321**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
060	*Non-financial corporations*	**7,619**	**7,611**	**8**	**410**	**310**	**35**	**34**	**16**	**12**	**2**	**1**	**410**
070	*Of which: SMEs*	**5,617**	**5,615**	**2**	**155**	**141**	**2**	**8**	**4**	**–**	**–**	**–**	**155**
080	*Households*	**64,243**	**64,086**	**157**	**811**	**418**	**150**	**114**	**72**	**44**	**7**	**6**	**718**
090	Debt securities	**6,185**	**6,185**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100	*Central banks*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
110	*General governments*	**3,059**	**3,059**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
120	*Credit institutions*	**3,125**	**3,125**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
130	*Other financial corporations*	**1**	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
140	*Non-financial corporations*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
150	Off-balance sheet exposures	**17,926**			**56**								**56**
160	*Central banks*	**0**			**–**								**–**
170	*General governments*	**387**			**–**								**–**
180	*Credit institutions*	**10**			**–**								**–**
190	*Other financial corporations*	**30**			**–**								**–**
200	*Non-financial corporations*	**3,152**			**23**								**23**
210	*Households*	**14,347**			**33**								**33**
220	**Total**	**108,198**	**90,107**	**165**	**1,277**	**728**	**185**	**148**	**88**	**56**	**9**	**7**	**1,184**

Annexes

9 Annex XV: Disclosure of credit risk quality continued

As at 30 September 2022		A	B	C	D	E	F	G	H	I	J	K	L
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			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**	109,301	89,869	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 2023				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	**1,221**	**31**	**31**	**1,207**	**(5)**	**–**
020	Mining and quarrying	**91**	**6**	**6**	**91**	**(2)**	**–**
030	Manufacturing	**767**	**52**	**52**	**767**	**(18)**	**–**
040	Electricity, gas, steam and air conditioning supply	**212**	**1**	**1**	**212**	**(1)**	**–**
050	Water supply	**48**	**–**	**–**	**48**	**(1)**	**–**
060	Construction	**357**	**28**	**28**	**357**	**(5)**	**–**
070	Wholesale and retail trade	**736**	**72**	**72**	**736**	**(21)**	**–**
080	Transport and storage	**332**	**38**	**38**	**332**	**(5)**	**–**
090	Accommodation and food service activities	**779**	**35**	**35**	**779**	**(4)**	**–**
100	Information and communication	**376**	**19**	**19**	**376**	**(10)**	**–**
110	Financial and insurance activities	**–**	**–**	**–**	**–**	**–**	**–**
120	Real estate activities	**394**	**8**	**8**	**394**	**(2)**	**–**
130	Professional, scientific and technical activities	**443**	**46**	**46**	**443**	**(23)**	**–**
140	Administrative and support service activities	**838**	**30**	**30**	**837**	**(12)**	**–**
150	Public administration and defence, compulsory social security	**–**	**–**	**–**	**–**	**–**	**–**
160	Education	**60**	**2**	**2**	**56**	**(1)**	**–**
170	Human health services and social work activities	**1,184**	**32**	**32**	**1,180**	**(8)**	**–**
180	Arts, entertainment and recreation	**80**	**3**	**3**	**80**	**(1)**	**–**
190	Other services	**111**	**7**	**7**	**111**	**(1)**	**–**
200	**Total**	**8,029**	**410**	**410**	**8,006**	**(120)**	**–**

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9 Annex XV: Disclosure of credit risk quality continued

As at 30 September 2022		A	B	C	D	E	F
		Gross carrying amount					
			Of which: non-performing				
				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	–	–	–	–	–	–
120	Real estate activities	391	5	5	391	(2)	–
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

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.

(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 use of credit risk mitigation in the calculation of regulatory capital requirements

Credit risk mitigation that meets prescribed regulatory criteria may be used to improve risk parameters or lower risk weights. Collateral that meets these criteria is described as 'eligible' and is discussed in further detail in sections b) and c) below. Where possible the Group utilizes balance sheet netting, otherwise where regulatory capital is calculated under IRB, the Group generally takes into account the existence of eligible collateral by adjusting LGDs. Where the Group calculates capital under standardised methodologies, collateral is taken into account using the financial collateral comprehensive method. Guarantees are generally taken into account by using the risk weight of the protection provider. For slotting portfolios, credit risk mitigation is taken into account as part of the classification of exposures by slotting grade.

Netting arrangements: for set off of on-balance sheet exposures, that 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: The Group requires International Swaps and Derivatives Association master netting agreements, as well as Credit Support Annexes, where relevant, to be in place where derivative financial instruments (including interest rate and FX products) are entered into. 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.

Further information about balance sheet netting, including an indication of the extent and importance of its use by the Group is provided on page 199 of the 2023 Annual Report and Accounts.

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

The requirement for collateral and the type taken is considered at origination based on the type of transaction, risk profile of the borrower and collateral availability. In the first instance, the Bank assesses the borrower's affordability of the loan obligation as the primary repayment source rather than the realisation of any collateral. Where taken, collateral may include physical or financial collateral, the assignment of receivables and guarantees from third parties. The suitability of collateral is monitored throughout the term of the customer relationship.

Policies are maintained by the Group which describe acceptable types of collateral, the type and frequency of valuation and / or monitoring of suitability and the methods by which the Bank obtains a valid and effective charge over the asset. The main types of collateral taken by the Bank are residential and commercial property, physical collateral, e.g. vehicles, short term receivables, cash and guarantees.

Property securing residential mortgage lending require valuations to be undertaken by a member of the Group's independent Panel of Surveyors covered by professional indemnity insurance and be registered under the RICS Valuer Registration Scheme, or where eligible, by a modelled property valuation provided by the Group's chosen Automated Valuation Model supplier. Residential property values are updated quarterly using an approved house price index.

Commercial property collateral is subject to an independent, professional valuation from an approved panel valuer when taken, and thereafter, subject to periodic review in accordance with policy requirements.

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.

A suite of standard documentation is used where collateral is taken which has been subject to legal opinion on its validity and enforceability. In circumstances where non-standard documentation is required, the Bank will instruct an approved legal firm to prepare the documentation.

(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 and collateral available.

Collateral held as security includes:

Residential mortgages: Residential property (including buy-to-lets) 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).

Annexes

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

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. It can also include specific or interlocking guarantees, and loan agreements which include affirmative and negative covenants.

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.

Collateral is not generally held for loans to financial institutions.

(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)
Third party guarantees may be taken from corporates or individuals as a risk mitigation strategy. Regulatory capital relief is available for guarantees held from sovereigns, central Banks (including supporting COVID-19 loan schemes) and certain financial institutions.

(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 173 to 174 of the Credit risk section of the Risk report in the Group's 2023 Annual Report & Accounts for further information on credit risk mitigation techniques.

10.2 UK CR3 – Disclosure of the use of credit risk mitigation techniques
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 2023	£m	£m	£m	£m	£m
Loans and advances	**22,393**	**62,305**	**61,625**	**680**	**–**
Debt securities	**6,185**	**–**	**–**	**–**	
Total	**28,578**	**62,305**	**61,625**	**680**	
of which: non-performing exposures	**322**	**760**	**724**	**36**	
of which: defaulted	**229**	**760**			

	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			

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 a limited amount of exposures to central governments and central banks, regional governments or local authorities, public sector entities, institutions, corporates, secured by mortgages on immovable property and covered bonds (see part c). Regional governments or local authorities and Public Sector Entities will also refer to the rating of the underlying Central Government

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)

Where we have a rated Issuing Programme we will use this to map into the relevant credit quality step for risk weighting purposes. If there is no ECAI available for the Issuing Programme then we will use the risk weight assigned to the senior unsecured exposures to the institution which issues them. This is only applicable for exposures to covered bonds.

(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		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[1]
As at 30 September 2023		£m	£m	£m	£m	£m	%
1	Central governments or central banks	**14,378**	**3**	**15,133**	**3**	**0**	**0.0%**
2	Regional government or local authorities	**108**	**267**	**12**	**55**	**13**	**19.4%**
3	Public sector entities	**212**	**117**	**212**	**23**	**5**	**2.1%**
4	Multilateral development banks	**993**	**0**	**993**	**0**	**0**	**0.0%**
6	Institutions	**933**	**10**	**933**	**2**	**212**	**22.6%**
7	Corporates	**820**	**200**	**459**	**64**	**457**	**87.4%**
8	Retail	**6,268**	**11,207**	**6,268**	**20**	**4,716**	**75.0%**
9	Secured by mortgages on immovable property	**176**	**423**	**176**	**211**	**128**	**33.2%**
10	Exposures in default	**260**	**22**	**91**	**0**	**104**	**114.3%**
12	Covered bonds	**1,335**	**0**	**1,335**	**0**	**133**	**10.0%**
15	Equity	**1**	**0**	**1**	**0**	**1**	**100.0%**
16	Other items	**562**	**0**	**562**	**0**	**674**	**119.9%**
17	**Total**	**26,046**	**12,249**	**26,175**	**378**	**6,443**	**24.3%**

(1) 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[1]
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) 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, which also now includes where we refer to the rating of the underlying Central Government. 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 2023(1)	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	**15,136**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,136**	**–**
2	Regional government or local authorities	**–**	**–**	**–**	**–**	**67**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**67**	**67**
3	Public sector entities	**211**	**–**	**–**	**–**	**24**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**235**	**–**
4	Multilateral development banks	**993**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**993**	**993**
6	Institutions	**–**	**15**	**–**	**–**	**841**	**–**	**79**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**935**	**27**
7	Corporates	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**–**	**522**	**–**	**–**	**–**	**–**	**–**	**523**	**522**
8	Retail exposures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,288**	**–**	**–**	**–**	**–**	**–**	**–**	**6,288**	**6,288**
9	Exposures secured by mortgages on immovable property	**–**	**–**	**–**	**–**	**–**	**374**	**–**	**–**	**–**	**13**	**–**	**–**	**–**	**–**	**–**	**387**	**387**
10	Exposures in default	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**66**	**25**	**–**	**–**	**–**	**–**	**91**	**91**
12	Covered bonds	**–**	**–**	**–**	**1,335**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,335**	**–**
15	Equity exposures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
16	Other items	**63**	**–**	**–**	**–**	**3**	**–**	**–**	**–**	**–**	**378**	**–**	**118**	**–**	**–**	**–**	**562**	**562**
17	**Total**	**16,403**	**15**	**–**	**1,335**	**935**	**374**	**80**	**–**	**6,288**	**980**	**25**	**118**	**–**	**–**	**–**	**26,553**	**8,938**

(1) We now classify exposures as being rated where an ECAI rating has been used or where we have referred to the rating of the underlying Central Government. Previously we only captured exposures as being rated when we used the ECAI of the counterparty. This change has resulted in all Public sector entities now being captured as being rated.

Annexes

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)															Total £m	Of which: Unrated £m
	As at 30 September 2022	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1,250%	Others		
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	–
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

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 relating to credit risk exposures 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 waiver application is the next scheduled submission 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 Regulatory Modelling teams and Model Risk Management (MRM). 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

The Head of Model Risk reports to the Chief Risk Officer and leads the MRM Function. The MRM function is structured around 3 Pillars of Model Risk: Governance, Independent Model Validation and Strategy. Within the Independent Model Validation (IMV) Pillar, a team of independent specialists conduct independent validations and reviews of new models and periodic validation of existing models, with a frequency determined by model categorisation, model materiality and previous validation rating (annually for IRB models). The model validators are independent from the model owner, developer, user, and implementer and are not part of any model development activities, nor have a stake in whether a model is approved. This team is actively involved in the ongoing independent challenge of information presented to senior Committees such as MGC, as part of the governance process.

Periodic Validation 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.

IMV 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 IMV and the modelling functions will be escalated as part of the governance process. Model issues identified during the validation of new models, periodic validation, or ongoing governance processes will result in remediation plans that may include actions such as model enhancements, recalibration, reweighting, full redevelopment, or interim mitigation (e.g., Post Model Adjustments).

(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, 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 to meet the quorum. Model materiality is assessed in line with agreed thresholds and determines the level of governance and oversight required.

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 Regulatory 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 MRM 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 Regulatory Modelling team, the MRM team and Internal Audit as well as members including the Head of Model Risk, the Chief Financial Officer, the Chief Risk Officer, the Head of Financial Planning, Analysis and Capital Management, the Group Financial Controller, the Chief Credit Officer and the Head of Risk Analytics Centre of Excellence.

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 an Electronic Customer Rating System (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.

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

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 on 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.

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 and Management team conducts a systematic analysis of model performance and stability. The Group also regularly performs model 'back testing,' 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 MRM. 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 MRM 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), MRM 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 (PiT). The PiT 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.

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

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 11/13), 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 aware of PRA Policy Statement 13/17 which outlines that an alternate approach for long run estimation will be required. In response to this, the Group has developed 'Hybrid' PD models which will be consistent across both heritages. These models are currently the subject of remediation activity following regulatory feedback, 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 Model Monitoring and Management team, with presentation to the relevant committees, as set out on page 232 of the Risk report available in the Group's 2023 Annual Report and 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 MRM 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 Management, 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, MRM, 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 2023 (£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		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. No models in this asset class fall into the defined low default portfolio category.	> 10 years	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.		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. For defaulted exposures that are possessed and sold, the time from default to sale is 28 months.		Portfolio average downturn LGD floor of 10% and account level floor of 5%
Retail	Retail – secured by immovable property non-SME hVM		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. No models in this asset class fall into the defined low default portfolio category.	> 10 years	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.		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. For defaulted exposures that are possessed and sold, the time from default to sale is 28 months.		Portfolio average downturn LGD floor of 10% and account level floor of 5%
Commercial	Corporates – SME		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. No models in this asset class fall into the defined low default portfolio category.	> 10 years	PD floor of 0.03%
Commercial	Corporates – other		PD	6	Same six PD modes as the Corporate SME category. No models in this asset class fall into the defined low default portfolio category.		PD floor of 0.03%
Commercial	Corporates – Specialised lending		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

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 2023 is presented separately below.

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

	30 September 2023											
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[2]	Expected loss amount	Value adjustments and provisions
PD range	£m	£m	%	£m	%	#	%	years	£m	%	£m	£m
0.00 to <0.15	**512**	**242**	**103.2%**	**775**	**0.1%**	**5,639**	**12.7%**	**–**	**30**	**3.9%**	**–**	**–**
0.00 to <0.10	**306**	**223**	**103.2%**	**543**	**0.1%**	**3,424**	**13.0%**	**–**	**20**	**3.6%**	**–**	**–**
0.10 to <0.15	**207**	**19**	**103.3%**	**232**	**0.1%**	**2,215**	**12.1%**	**–**	**11**	**4.7%**	**–**	**–**
0.15 to <0.25	**6,356**	**226**	**103.0%**	**6,750**	**0.2%**	**45,834**	**10.5%**	**–**	**452**	**6.7%**	**2**	**(2)**
0.25 to <0.50	**8,467**	**94**	**102.8%**	**8,773**	**0.3%**	**35,245**	**14.4%**	**–**	**1,228**	**14.0%**	**7**	**(2)**
0.50 to <0.75	**924**	**40**	**102.2%**	**988**	**0.6%**	**4,020**	**15.2%**	**–**	**222**	**22.5%**	**2**	**(1)**
0.75 to <2.50	**2,900**	**546**	**102.0%**	**3,525**	**1.2%**	**14,255**	**15.7%**	**–**	**1,233**	**35.0%**	**11**	**(7)**
0.75 to <1.75	**2,114**	**524**	**102.0%**	**2,701**	**1.0%**	**10,266**	**16.9%**	**–**	**919**	**34.0%**	**7**	**(3)**
1.75 to <2.5	**786**	**21**	**102.0%**	**824**	**2.0%**	**3,989**	**11.9%**	**–**	**314**	**38.1%**	**3**	**(4)**
2.50 to <10.00	**569**	**7**	**102.9%**	**591**	**4.8%**	**3,531**	**12.8%**	**–**	**388**	**65.7%**	**6**	**(9)**
2.50 to <5.00	**375**	**4**	**103.0%**	**388**	**3.7%**	**2,375**	**12.3%**	**–**	**217**	**55.9%**	**3**	**(3)**
5.00 to <10.00	**194**	**3**	**102.7%**	**202**	**6.8%**	**1,156**	**13.7%**	**–**	**171**	**84.4%**	**3**	**(6)**
10.00 to <100.00	**245**	**5**	**102.5%**	**255**	**37.0%**	**1,470**	**12.5%**	**–**	**257**	**100.6%**	**19**	**(12)**
10.00 to <20.00	**51**	**2**	**102.5%**	**54**	**13.4%**	**328**	**12.5%**	**–**	**56**	**102.9%**	**1**	**(4)**
20.00 to <30.00	**88**	**1**	**102.6%**	**91**	**23.4%**	**526**	**12.4%**	**–**	**106**	**116.6%**	**4**	**(4)**
30.00 to <100.00	**106**	**2**	**102.5%**	**110**	**59.8%**	**616**	**12.7%**	**–**	**95**	**86.4%**	**14**	**(4)**
100.00 (Default)	**361**	**9**	**100.0%**	**370**	**100.0%**	**2,224**	**19.7%**	**–**	**434**	**117.4%**	**22**	**(15)**
Subtotal	**20,334**	**1,169**	**102.7%**	**22,027**		**112,218**		**–**	**4,244**	**19.3%**	**69**	**(48)**

(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) Risk-Weighted Exposure Amount (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

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[(1)]	Expected loss amount	Value adjustments and provisions
PD range	£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) 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

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

	30 September 2023											
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	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	**5,905**	**69**	**100.0%**	**6,059**	**0.1%**	**39,259**	**8.7%**	**–**	**195**	**3.2%**	**1**	**–**
0.00 to <0.10	**–**	**–**	**100.0%**	**–**	**0.0%**	**–**	**0.0%**	**–**	**–**	**0.0%**	**–**	**–**
0.10 to <0.15	**5,905**	**69**	**100.0%**	**6,059**	**0.1%**	**39,259**	**8.7%**	**–**	**195**	**3.2%**	**1**	**–**
0.15 to <0.25	**3,878**	**121**	**100.0%**	**4,054**	**0.2%**	**25,002**	**16.4%**	**–**	**357**	**8.8%**	**1**	**–**
0.25 to <0.50	**17,260**	**955**	**100.0%**	**18,474**	**0.4%**	**104,162**	**10.2%**	**–**	**1,584**	**8.6%**	**7**	**(1)**
0.50 to <0.75	**4,097**	**132**	**100.0%**	**4,296**	**0.6%**	**26,741**	**14.1%**	**–**	**688**	**16.0%**	**3**	**(1)**
0.75 to <2.50	**4,892**	**203**	**100.0%**	**5,178**	**1.0%**	**32,702**	**15.0%**	**–**	**1,166**	**22.5%**	**7**	**(1)**
0.75 to <1.75	**4,473**	**167**	**100.0%**	**4,715**	**0.9%**	**29,251**	**15.3%**	**–**	**1,022**	**21.7%**	**6**	**–**
1.75 to <2.5	**419**	**36**	**100.0%**	**463**	**2.1%**	**3,451**	**11.6%**	**–**	**144**	**31.1%**	**1**	**–**
2.50 to <10.00	**534**	**32**	**100.0%**	**576**	**5.1%**	**4,457**	**10.6%**	**–**	**262**	**45.5%**	**3**	**(1)**
2.50 to <5.00	**265**	**24**	**100.0%**	**295**	**3.4%**	**2,529**	**10.8%**	**–**	**110**	**37.2%**	**1**	**–**
5.00 to <10.00	**268**	**8**	**100.0%**	**281**	**6.8%**	**1,928**	**10.5%**	**–**	**152**	**54.1%**	**2**	**(1)**
10.00 to <100.00	**726**	**10**	**100.0%**	**751**	**33.0%**	**5,835**	**9.9%**	**–**	**478**	**63.7%**	**21**	**(5)**
10.00 to <20.00	**321**	**4**	**100.0%**	**332**	**14.6%**	**2,782**	**10.5%**	**–**	**232**	**70.0%**	**5**	**(1)**
20.00 to <30.00	**125**	**3**	**100.0%**	**131**	**25.6%**	**1,029**	**9.2%**	**–**	**90**	**69.2%**	**3**	**(3)**
30.00 to <100.00	**279**	**3**	**100.0%**	**288**	**57.7%**	**2,024**	**9.5%**	**–**	**156**	**54.0%**	**13**	**(2)**
100.00 (Default)	**92**	**1**	**100.0%**	**93**	**100.0%**	**659**	**7.0%**	**–**	**98**	**106.2%**	**5**	**–**
Subtotal	**37,384**	**1,523**	**100.0%**	**39,481**		**238,817**		**–**	**4,828**	**12.2%**	**48**	**(9)**

(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) 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

30 September 2022

A	B	C	D	E	F	G	H	I	J	K	L	M
PD range	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
	£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) RWEA density calculation has been performed on unrounded figures.

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

	30 September 2023											
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	**40**	**47**	**66.4%**	**70**	**0.1%**	**137**	**40.8%**	**2**	**11**	**15.8%**	**–**	**–**
0.00 to <0.10	**19**	**14**	**67.5%**	**27**	**0.1%**	**40**	**41.7%**	**2**	**4**	**15.6%**	**–**	**–**
0.10 to <0.15	**21**	**33**	**66.0%**	**43**	**0.1%**	**97**	**40.2%**	**2**	**7**	**15.9%**	**–**	**–**
0.15 to <0.25	**298**	**228**	**69.0%**	**443**	**0.2%**	**705**	**39.9%**	**2**	**99**	**22.4%**	**–**	**–**
0.25 to <0.50	**899**	**414**	**67.4%**	**1,143**	**0.4%**	**1,578**	**38.4%**	**2**	**383**	**33.6%**	**2**	**(1)**
0.50 to <0.75	**300**	**132**	**66.6%**	**376**	**0.6%**	**514**	**38.3%**	**2**	**157**	**41.7%**	**1**	**–**
0.75 to <2.50	**3,119**	**807**	**64.7%**	**3,520**	**1.5%**	**4,351**	**38.8%**	**2**	**2,207**	**62.7%**	**21**	**(26)**
0.75 to <1.75	**1,713**	**468**	**65.6%**	**1,953**	**1.1%**	**2,950**	**38.5%**	**2**	**1,081**	**55.4%**	**9**	**(5)**
1.75 to <2.5	**1,407**	**339**	**63.4%**	**1,567**	**1.9%**	**1,401**	**39.2%**	**3**	**1,125**	**71.8%**	**12**	**(21)**
2.50 to <10.00	**684**	**170**	**66.4%**	**770**	**4.3%**	**1,025**	**40.8%**	**2**	**636**	**82.6%**	**14**	**(18)**
2.50 to <5.00	**528**	**130**	**66.0%**	**594**	**3.6%**	**621**	**40.8%**	**2**	**472**	**79.5%**	**9**	**(10)**
5.00 to <10.00	**155**	**40**	**68.0%**	**176**	**6.8%**	**404**	**40.8%**	**2**	**164**	**93.1%**	**5**	**(8)**
10.00 to <100.00	**62**	**8**	**68.9%**	**65**	**18.5%**	**102**	**39.7%**	**1**	**86**	**131.4%**	**5**	**(3)**
10.00 to <20.00	**30**	**4**	**66.1%**	**32**	**13.4%**	**51**	**37.6%**	**1**	**37**	**114.8%**	**2**	**(1)**
20.00 to <30.00	**32**	**4**	**72.0%**	**33**	**23.4%**	**51**	**41.8%**	**1**	**49**	**147.3%**	**3**	**(2)**
30.00 to <100.00	**–**	**–**	**0.0%**	**–**	**0.0%**	**–**	**0.0%**	**–**	**–**	**0.0%**	**–**	**–**
100.00 (Default)	**126**	**15**	**73.6%**	**131**	**100.0%**	**116**	**41.6%**	**2**	**–**	**0.0%**	**57**	**(32)**
Subtotal	**5,528**	**1,821**	**66.0%**	**6,518**		**8,528**		**2**	**3,579**	**54.9%**	**100**	**(80)**

(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

						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	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	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) 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 2023											
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	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	**25**	**48**	**74.3%**	**61**	**0.1%**	**17**	**37.9%**	**3**	**19**	**30.8%**	**–**	**–**
0.00 to <0.10	**22**	**44**	**74.3%**	**54**	**0.1%**	**14**	**37.2%**	**3**	**17**	**31.6%**	**–**	**–**
0.10 to <0.15	**3**	**4**	**75.0%**	**7**	**0.1%**	**3**	**43.5%**	**1**	**2**	**24.2%**	**–**	**–**
0.15 to <0.25	**48**	**145**	**67.2%**	**146**	**0.2%**	**29**	**43.7%**	**2**	**64**	**43.9%**	**–**	**–**
0.25 to <0.50	**388**	**298**	**51.2%**	**537**	**0.4%**	**84**	**43.0%**	**2**	**309**	**57.7%**	**1**	**–**
0.50 to <0.75	**78**	**124**	**74.4%**	**170**	**0.6%**	**24**	**44.3%**	**2**	**120**	**70.5%**	**–**	**–**
0.75 to <2.50	**995**	**467**	**63.8%**	**1,287**	**1.6%**	**266**	**43.4%**	**3**	**1,424**	**110.7%**	**9**	**(13)**
0.75 to <1.75	**546**	**293**	**64.3%**	**731**	**1.2%**	**123**	**43.4%**	**2**	**732**	**100.1%**	**4**	**(4)**
1.75 to <2.5	**449**	**174**	**62.8%**	**556**	**2.1%**	**143**	**43.5%**	**3**	**692**	**124.5%**	**5**	**(8)**
2.50 to <10.00	**225**	**82**	**72.9%**	**283**	**4.0%**	**73**	**44.1%**	**2**	**401**	**141.4%**	**5**	**(8)**
2.50 to <5.00	**172**	**54**	**72.9%**	**210**	**3.4%**	**52**	**44.4%**	**2**	**291**	**138.2%**	**3**	**(5)**
5.00 to <10.00	**53**	**28**	**72.7%**	**73**	**5.8%**	**21**	**43.3%**	**2**	**110**	**150.7%**	**2**	**(3)**
10.00 to <100.00	**29**	**10**	**64.6%**	**36**	**18.1%**	**124**	**42.7%**	**1**	**78**	**217.9%**	**3**	**(3)**
10.00 to <20.00	**15**	**6**	**73.1%**	**19**	**13.4%**	**8**	**42.2%**	**1**	**37**	**199.2%**	**1**	**(2)**
20.00 to <30.00	**15**	**4**	**53.4%**	**17**	**23.4%**	**116**	**43.3%**	**1**	**40**	**238.6%**	**2**	**–**
30.00 to <100.00	**–**	**–**	**0.0%**	**–**	**0.0%**	**–**	**0.0%**	**–**	**–**	**0.0%**	**–**	**–**
100.00 (Default)	**86**	**7**	**72.8%**	**90**	**100.0%**	**67**	**42.1%**	**1**	**–**	**0.0%**	**38**	**(14)**
Subtotal	**1,874**	**1,181**	**63.6%**	**2,610**		**684**		**2**	**2,415**	**92.5%**	**56**	**(38)**

(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

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	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	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) 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

		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 (%)
As at 30 September 2023		a	b	c	d	e
1	Central governments or central banks	–	**15,585**	**100.0%**	–	–
1.1	*Of which Regional governments or local authorities*		–	–	–	–
1.2	*Of which Public sector entities*		**211**	**100.0%**	–	–
2	Institutions	–	**2,458**	**100.0%**	–	–
3	Corporates	**9,914**	**11,356**	**12.7%**	–	**87.3%**
3.1	*Of which Corporates – Specialised lending, excluding slotting approach*		–	–	–	–
3.2	*Of which Corporates – Specialised lending under slotting approach*		**807**	**30.4%**	–	**69.6%**
4	Retail	**60,480**	**66,858**	**0.2%**	**9.3%**	**90.5%**
4.1	*of which Retail – Secured by real estate SMEs*		–	–	–	–
4.2	*of which Retail – Secured by real estate non-SMEs*		**60,480**	–	–	**100.0%**
4.3	*of which Retail – Qualifying revolving*		**5,783**	–	**100.0%**	–
4.4	*of which Retail – Other SMEs*		–	–	–	–
4.5	*of which Retail – Other non-SMEs*		**595**	**24.4%**	**75.6%**	–
5	Equity	–	**1**	**100.0%**	–	–
6	Other non-credit obligation assets	–	**562**	**100.0%**	–	–
7	**Total**	**70,394**	**96,820**	**20.9%**	**6.4%**	**72.7%**

Annexes

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

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 RWAs 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 2023		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 obligator exposure class (£m)	RWEA with substitution effects (£m)
4	Retail, of which:	**61,508**	**–**	**99.80%**	**99.80%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,072**	**9,072**
4.2	*Immovable property non-SMEs*	**61,508**	**–**	**99.80%**	**99.80%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,072**	**9,072**
5	**Total**	**61,508**	**–**	**99.80%**	**99.80%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,072**	**9,072**

		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 obligator 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

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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 2023		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 obligator exposure class (£m)	RWEA with substitution effects (£m)
3	Corporates, of which:	**9,128**	**0.90%**	**46.0%**	**36.4%**	**3.4%**	**6.2%**	**–**	**–**	**–**	**–**	**–**	**–**	**5,995**	**5,995**
3.1	*SMEs*	**6,518**	**0.80%**	**58.1%**	**49.6%**	**3.8%**	**4.7%**	**–**	**–**	**–**	**–**	**–**	**–**	**3,580**	**3,580**
3.2	*Corporates – Other*	**2,610**	**1.20%**	**15.9%**	**3.5%**	**2.4%**	**10.0%**	**–**	**–**	**–**	**–**	**–**	**–**	**2,415**	**2,415**
5	**Total**	**9,128**	**0.90%**	**46.0%**	**36.4%**	**3.4%**	**6.2%**	**–**	**–**	**–**	**–**	**–**	**–**	**5,995**	**5,995**

		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[1]		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 obligator exposure class (£m)	RWEA with substitution effects (£m)
3	Corporates, of which:	8,483	0.89%	42.18%	32.97%	4.16%	5.05%	–	–	–	–	–	–	5,423	5,423
3.1	*SMEs*	6,528	0.75%	50.12%	41.59%	4.11%	4.42%	–	–	–	–	–	–	3,628	3,628
3.2	*Corporates – Other*	1,955	1.36%	15.66%	4.19%	4.31%	7.15%	–	–	–	–	–	–	1,795	1,795
5	**Total**	8,483	0.89%	42.18%	32.97%	4.16%	5.05%	–	–	–	–	–	–	5,423	5,423

(1) The comparative figures have been restated to align with current year presentations.

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

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

The table below summarises movements of RWAs for credit risk exposures under the IRB approach.

		A
		Risk-weighted exposure amount £m
1	**Risk-weighted exposure amount as at 30 June 2023**	**15,539**
2	Asset size (+/-)	**(55)**
3	Asset quality (+/-)	**(69)**
4	Model updates[1] (+/-)	**61**
9	**Risk-weighted exposure amount as at 30 September 2023**	**15,476**

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

RWAs reduced c.£0.1bn to £15.5bn primarily due to the impact of improvements to the House Price Index and lower lending during the period.

Model updates are the result of Management Adjustments (MA).

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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
As at 30 September 2023							
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	**17,795**	**5**	**0.03%**	**0.13%**	**0.13%**	**0.04%**
	0.00 to <0.10	**–**	**–**	**–**	**–**	**–**	**0.04%**
	0.10 to <0.15	**17,795**	**5**	**0.03%**	**0.13%**	**0.13%**	**0.04%**
	0.15 to <0.25	**32,482**	**7**	**0.02%**	**0.21%**	**0.21%**	**0.01%**
	0.25 to <0.50	**95,666**	**26**	**0.03%**	**0.37%**	**0.37%**	**0.02%**
	0.50 to <0.75	**39,038**	**18**	**0.05%**	**0.60%**	**0.67%**	**0.04%**
	0.75 to <2.50	**44,210**	**31**	**0.07%**	**0.97%**	**1.33%**	**0.07%**
	0.75 to <1.75	**41,599**	**26**	**0.06%**	**0.86%**	**1.07%**	**0.06%**
	1.75 to <2.5	**2,611**	**5**	**0.19%**	**2.14%**	**2.17%**	**0.21%**
	2.50 to <10.00	**8,454**	**31**	**0.37%**	**5.08%**	**5.02%**	**0.38%**
	2.5 to <5	**6,654**	**20**	**0.30%**	**3.44%**	**3.52%**	**0.26%**
	5 to <10	**1,800**	**11**	**0.61%**	**6.79%**	**6.99%**	**0.76%**
	10.00 to <100.00	**5,642**	**416**	**7.37%**	**33.04%**	**31.65%**	**7.20%**
	10 to <20	**3,423**	**54**	**1.58%**	**14.57%**	**14.43%**	**1.27%**
	20 to <30	**296**	**15**	**5.07%**	**25.59%**	**25.64%**	**2.26%**
	30.00 to <100.00	**1,923**	**347**	**18.04%**	**57.69%**	**58.38%**	**16.69%**
	100.00 (Default)	**602**	**–**	**–**	**100.00%**	**100.00%**	**–**

Back testing demonstrates that estimates remain suitably prudent, with year-on-year stability. Trends remain broadly monotonic, while being subject to the expected levels of noise.

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

A	B	C	D	E	F	G	H
As at 30 September 2022							
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%	–

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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
As at 30 September 2023							
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 CB Mortgages	0.00 to <0.15	**4,695**	**6**	**0.13%**	**0.08%**	**0.08%**	**0.15%**
	0.00 to <0.10	**3,031**	**3**	**0.10%**	**0.06%**	**0.05%**	**0.12%**
	0.10 to <0.15	**1,664**	**3**	**0.18%**	**0.12%**	**0.12%**	**0.17%**
	0.15 to <0.25	**21,959**	**51**	**0.23%**	**0.19%**	**0.19%**	**0.22%**
	0.25 to <0.50	**53,096**	**140**	**0.26%**	**0.34%**	**0.36%**	**0.34%**
	0.50 to <0.75	**10,158**	**40**	**0.39%**	**0.62%**	**0.62%**	**0.56%**
	0.75 to <2.50	**26,825**	**228**	**0.85%**	**1.24%**	**1.19%**	**1.03%**
	0.75 to <1.75	**21,642**	**117**	**0.54%**	**0.99%**	**0.99%**	**0.76%**
	1.75 to <2.5	**5,183**	**111**	**2.14%**	**2.03%**	**2.01%**	**1.76%**
	2.50 to <10.00	**4,367**	**207**	**4.74%**	**4.77%**	**4.48%**	**4.35%**
	2.5 to <5	**3,192**	**122**	**3.82%**	**3.72%**	**3.64%**	**3.51%**
	5 to <10	**1,175**	**85**	**7.23%**	**6.80%**	**6.77%**	**6.05%**
	10.00 to <100.00	**1,261**	**381**	**30.21%**	**37.00%**	**36.26%**	**26.20%**
	10 to <20	**264**	**26**	**9.85%**	**13.40%**	**13.40%**	**9.84%**
	20 to <30	**454**	**92**	**20.26%**	**23.43%**	**23.43%**	**17.94%**
	30.00 to <100.00	**543**	**263**	**48.43%**	**59.77%**	**58.10%**	**43.52%**
	100.00 (Default)	**2,713**	**–**	**–**	**100.00%**	**100.00%**	**–**

Back testing demonstrates that estimates remain suitably prudent, with year-on-year stability. Trends remain broadly monotonic, while being subject to the expected levels of noise.

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

A	B	C	D	E	F	G	H
As at 30 September 2022							
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 CB Mortgages	0.00 to <0.15	10,401	10	0.10%	0.08%	0.09%	0.17%
	0.00 to <0.10	4,689	8	0.17%	0.06%	0.04%	0.12%
	0.10 to <0.15	5,712	2	0.04%	0.12%	0.13%	0.18%
	0.15 to <0.25	8,740	11	0.13%	0.19%	0.20%	0.22%
	0.25 to <0.50	47,580	101	0.21%	0.38%	0.39%	0.36%
	0.50 to <0.75	16,376	45	0.27%	0.62%	0.62%	0.57%
	0.75 to <2.50	42,813	196	0.46%	1.14%	1.19%	1.01%
	0.75 to <1.75	33,729	127	0.38%	0.98%	0.98%	0.76%
	1.75 to <2.5	9,084	69	0.76%	2.01%	1.99%	1.61%
	2.50 to <10.00	5,595	171	3.06%	4.47%	4.66%	4.03%
	2.5 to <5	3,559	80	2.25%	3.58%	3.61%	2.98%
	5 to <10	2,036	91	4.47%	6.77%	6.49%	5.98%
	10.00 to <100.00	1,144	287	25.09%	39.77%	32.41%	25.16%
	10 to <20	282	25	8.87%	13.40%	13.40%	9.88%
	20 to <30	448	86	19.20%	23.43%	23.43%	20.31%
	30.00 to <100.00	414	176	42.51%	61.75%	55.07%	42.70%
	100.00 (Default)	3,092	–	–	100.00%	100.00%	–

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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
As at 30 September 2023							
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	**20**	**–**	**–**	**0.10%**	**0.10%**	**2.02%**
	0.00 to <0.10	**16**	**–**	**–**	**0.10%**	**0.09%**	**2.54%**
	0.10 to <0.15	**4**	**–**	**–**	**0.13%**	**0.13%**	**–**
	0.15 to <0.25	**23**	**–**	**–**	**0.19%**	**0.19%**	**2.35%**
	0.25 to <0.50	**69**	**–**	**–**	**0.39%**	**0.34%**	**1.26%**
	0.50 to <0.75	**14**	**–**	**–**	**0.62%**	**0.62%**	**1.48%**
	0.75 to <2.50	**274**	**1**	**0.36%**	**1.58%**	**1.76%**	**1.91%**
	0.75 to <1.75	**100**	**–**	**–**	**1.21%**	**1.08%**	**1.99%**
	1.75 to <2.5	**174**	**1**	**0.57%**	**2.06%**	**2.15%**	**1.86%**
	2.50 to <10.00	**54**	**1**	**1.85%**	**4.03%**	**4.00%**	**3.97%**
	2.5 to <5	**42**	**–**	**–**	**3.43%**	**3.51%**	**3.33%**
	5 to <10	**12**	**1**	**8.33%**	**5.76%**	**5.72%**	**9.74%**
	10.00 to <100.00	**319**	**9**	**2.82%**	**18.15%**	**23.36%**	**7.17%**
	10 to <20	**2**	**–**	**–**	**13.40%**	**13.40%**	**6.67%**
	20 to <30	**317**	**9**	**2.84%**	**23.43%**	**23.43%**	**8.83%**
	30.00 to <100.00	**–**	**–**	**–**	**–**	**–**	**–**
	100.00 (Default)	**76**	**–**	**–**	**100.00%**	**100.00%**	**–**

While the number of obligors and defaults in this asset class have increased in 2023, they both remain extremely low. Consequently, the through the cycle PDs estimates and observed default rates are volatile but do show a degree of monotonicity.

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

A	B	C	D	E	F	G	H
As at 30 September 2022							
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%	2.42%
	0.00 to <0.10	18	–	–	0.10%	0.09%	3.31%
	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%	0.43%
	0.50 to <0.75	16	–	–	0.62%	0.62%	0.77%
	0.75 to <2.50	248	–	–	1.63%	1.75%	1.92%
	0.75 to <1.75	90	–	–	1.07%	1.09%	1.85%
	1.75 to <2.5	158	–	–	2.06%	2.12%	2.14%
	2.50 to <10.00	111	6	5.41%	4.11%	4.16%	4.16%
	2.5 to <5	91	6	6.59%	3.49%	3.59%	3.41%
	5 to <10	20	–	–	5.72%	6.75%	9.30%
	10.00 to <100.00	125	4	3.20%	23.41%	23.19%	8.78%
	10 to <20	3	–	–	13.40%	13.40%	6.67%
	20 to <30	122	4	3.28%	23.43%	23.43%	12.94%
	30.00 to <100.00	–	–	–	–	–	–
	100.00 (Default)	53	–	–	100.00%	100.00%	–

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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
As at 30 September 2023							
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	**139**	**–**	**–**	**0.11%**	**0.12%**	**0.23%**
	0.00 to <0.10	**35**	**–**	**–**	**0.09%**	**0.09%**	**0.45%**
	0.10 to <0.15	**104**	**–**	**–**	**0.12%**	**0.13%**	**0.15%**
	0.15 to <0.25	**649**	**1**	**0.15%**	**0.19%**	**0.19%**	**0.24%**
	0.25 to <0.50	**1,625**	**4**	**0.25%**	**0.39%**	**0.38%**	**0.46%**
	0.50 to <0.75	**515**	**1**	**0.19%**	**0.62%**	**0.62%**	**0.60%**
	0.75 to <2.50	**4,481**	**45**	**1.00%**	**1.47%**	**1.47%**	**1.13%**
	0.75 to <1.75	**2,587**	**20**	**0.77%**	**1.10%**	**1.09%**	**0.96%**
	1.75 to <2.5	**1,894**	**25**	**1.32%**	**1.94%**	**1.98%**	**1.63%**
	2.50 to <10.00	**1,336**	**58**	**4.34%**	**4.28%**	**4.58%**	**3.86%**
	2.5 to <5	**939**	**33**	**3.51%**	**3.55%**	**3.65%**	**3.04%**
	5 to <10	**397**	**25**	**6.30%**	**6.76%**	**6.79%**	**7.19%**
	10.00 to <100.00	**152**	**21**	**13.82%**	**18.52%**	**18.28%**	**16.40%**
	10 to <20	**78**	**9**	**11.54%**	**13.40%**	**13.40%**	**13.83%**
	20 to <30	**74**	**12**	**16.22%**	**23.43%**	**23.43%**	**18.93%**
	30.00 to <100.00	**–**	**–**	**–**	**–**	**–**	**–**
	100.00 (Default)	**125**	**–**	**–**	**100.00%**	**100.00%**	**–**

The number of obligors and defaults have fallen in this asset class in 2023.
The through the cycle PDs estimates are all above the observed default rates in both periods and are largely monotonic.

Annexes

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

A	B	C	D	E	F	G	H
As at 30 September 2022							
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%	0.23%
	0.00 to <0.10	28	–	–	0.09%	0.09%	0.45%
	0.10 to <0.15	87	–	–	0.12%	0.13%	0.15%
	0.15 to <0.25	655	–	–	0.20%	0.20%	0.23%
	0.25 to <0.50	1,590	3	0.19%	0.38%	0.38%	0.37%
	0.50 to <0.75	547	3	0.55%	0.62%	0.62%	0.52%
	0.75 to <2.50	4,852	46	0.95%	1.48%	1.53%	1.03%
	0.75 to <1.75	2,522	15	0.59%	1.09%	1.08%	0.90%
	1.75 to <2.5	2,330	31	1.33%	1.96%	2.00%	1.42%
	2.50 to <10.00	1,908	74	3.88%	4.32%	4.64%	3.68%
	2.5 to <5	1,325	37	2.79%	3.65%	3.67%	2.76%
	5 to <10	583	37	6.35%	6.46%	6.84%	7.53%
	10.00 to <100.00	229	20	8.73%	19.76%	18.08%	17.48%
	10 to <20	122	7	5.74%	13.40%	13.40%	12.89%
	20 to <30	107	13	12.15%	23.43%	23.43%	22.33%
	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 2023

		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	**–**	**–**	**50%**	**–**	**–**	**–**
	Equal to or more than 2.5 years	**4**	**–**	**70%**	**4**	**2**	**–**
2 – Good	Less than 2.5 years	**200**	**1**	**70%**	**201**	**117**	**1**
	Equal to or more than 2.5 years	**212**	**13**	**90%**	**221**	**166**	**2**
3 – Satisfactory	Less than 2.5 years	**64**	**2**	**115%**	**65**	**62**	**2**
	Equal to or more than 2.5 years	**58**	**–**	**115%**	**58**	**54**	**2**
4 – Weak	Less than 2.5 years	**2**	**–**	**250%**	**2**	**5**	**–**
	Equal to or more than 2.5 years	**2**	**–**	**250%**	**2**	**4**	**–**
5 – Default	Less than 2.5 years	**4**	**–**	**–**	**4**	**–**	**2**
	Equal to or more than 2.5 years	**3**	**–**	**–**	**3**	**–**	**1**
Total	Less than 2.5 years	**270**	**3**		**272**	**184**	**5**
	Equal to or more than 2.5 years	**279**	**13**		**288**	**226**	**5**

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

13 Annex XXIII: 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)

Derivative and 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 this risk.

CCR exposures are measured using the standardised approach to counterparty credit risk (SA-CCR). The Group also calculates a CVA risk charge for external derivative transactions with financial counterparties that is based on the standardised method.

Counterparty credit limits for both centrally cleared and bilateral 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 are subject to formal approval by a DCA holder.

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

The Group uses derivatives to reduce exposures arising from market risks, these derivatives may create counterparty credit risk. Derivatives are cleared via a central counterparty (CCP) where possible. Bilateral derivatives are transacted with highly-rated institutions under market standard documentation on a collateralised basis otherwise.

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 Credit Support Annexes to International Swaps and Derivatives Association Master Agreements and Global Master Repurchase Agreements). CCR policy governs types of acceptable collateral and the 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. Consequently, wrong-way risk is not considered to be a material risk to the Group.

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

The Group provides derivative products to its customers in order to manage their interest rate, currency and commodity risk. In turn, the Group hedges this risk with other financial counterparties. The Group also utilises interest rate and foreign currency derivatives to hedge risks that organically arise from its day-to-day lending and deposit-taking banking activities. Additionally, the Group enters into sale and repurchase agreements (repo) with financial counterparties for the purpose of liquidity risk management and funding. Maintaining repo capability with a number of counterparties is a well-established part of liquidity management, demonstrating that the Group could, if required, generate cash from its holdings of HQLA.

Derivative transactions and Securities Financing Transactions (SFTs) such as repos are part of normal Treasury operations. They are accompanied by market-standard legal agreements and collateralisation provisions that provide mitigation against CCR. Moreover, the credit-standing of the counterparties, as well as the potential fluctuation in the value of the assets involved, are carefully considered and evaluated prior to the Group entering into derivative contracts.

(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 £389m of collateral, as at 30 September 2023 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.

Annexes

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	RWAs
As at 30 September 2023		£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)	**272**	**77**		**1.4**	**448**	**425**	**425**	**128**
4	Financial collateral comprehensive method (for SFTs)					**12,633**	**5,295**	**5,295**	**13**
5	Value at Risk (VaR) for SFTs								
6	**Total**					**13,081**	**5,720**	**5,720**	**141**

		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	RWAs
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 2023		30 September 2022	
		Exposure value £m	RWAs £m	Exposure value £m	RWAs £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	**388**	**278**	431	258
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**	**388**	**278**	431	258

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 2023		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
1	Central governments or central banks	**5,241**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,241**
6	Institutions	**–**	**273**	**–**	**–**	**396**	**43**	**–**	**–**	**4**	**–**	**–**	**716**
7	Corporates	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**36**	**–**	**–**	**36**
11	**Total exposure value**	**5,241**	**273**	**–**	**–**	**396**	**43**	**–**	**–**	**40**	**–**	**–**	**5,993**

		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

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, as 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 CCR exposures.

14.9 UK CCR8 – Exposures to CCPs

		30 Sept 2023		30 Sept 2022	
		a	b	a	b
		Exposure value £m	RWEA £m	Exposure value £m	RWEA £m
1	**Exposures to Qualifying Central Counterparty (QCCPs) (total)**		**5**		5
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which:	**273**	**5**	267	5
3	*Over-the-counter derivatives*	**273**	**5**	267	5
7	Segregated initial margin	**599**		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)

Originator/Sponsor

The Group has established two Residential Mortgage Backed Security (RMBS) securitisation programmes (Lanark and Lannraig) 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 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 not 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.

The majority of Class A notes are held externally (£1,475m of £3,210m at 30 September 2023 are held internally). All Class Z notes are retained by the Group (£853m at 30 September 2023). Of the Class A notes in issue, £2,360m are STS compliant as at 30 September 2023.

Subordinated 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;

- Lanark Trustees Limited
- Lannraig Trustees Limited

(ii) SSPEs sponsored by the Group;

- Lanark Master Issuer PLC
- Lannraig Master Issuer PLC

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

- 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

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

Details of the SSPE's included in the regulatory scope of consolidation are included in UK LI3 on page 28.

(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.

(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 and Z 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]						
		STS		Non-STS		Synthetic		
			Of which: SRT		Of which: SRT		Of which: SRT	Sub-total
As at 30 September 2023		£m	£m	£m	£m	£m	£m	£m
1	**Total exposures**	**626**	**–**	**1,702**	**–**	**–**	**–**	**2,328**
2	Retail, *of which:*	**626**	**–**	**1,702**	**–**	**–**	**–**	**2,328**
3	*Residential mortgage*	**626**	**–**	**1,702**	**–**	**–**	**–**	**2,328**

		A	B	C	D	E	F	G
		Institution acts as originator						
		Traditional[2]						
		STS		Non-STS		Synthetic		
			Of which: SRT		Of which: SRT		Of which: SRT	Sub-total
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 30 September 2023, 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 or Lannraig 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 RWAs 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.

Annexes

15 Annex XXVII: Disclosure of exposures to securitisation positions continued

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	
As at 30 September 2023		£m	£m	£m
1	**Total exposures**	**5,363**	**45**	**–**
2	Retail (total)	**5,363**	**45**	**–**
3	*residential mortgage*	**5,363**	**45**	**–**

		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)]	
As at 30 September 2022		£m	£m	£m
1	**Total exposures**	5,404	34	–
2	Retail (total)	5,404	34	–
3	*residential mortgage*	5,404	34	–

(1) Prior year data now includes loans in default within the securitised programmes as at 30 September 2022.

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 (Points (a) and (d) of 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 has no appetite for traded market risk and does not have a trading book. The Group's market risk exposures comes in the form of interest rate risk associated with loans and deposits, changes in market values of securities of the securities held for liquidity risk management purposes and de minimis foreign exchange risk.

Market risk is a subcategory of financial risk which comprises a principal risk in the Group's RMF. Market risk is managed in accordance with the financial risk policy and supporting policy standards and limit structures. The Group utilises an array of measures for market risk management, including Net Interest Income (NII) and Economic Value sensitivity analysis, VaR and scenario analysis under various stresses and balance sheet configurations. Robust governance controls and daily monitoring, including internal and external reporting and monthly reporting to ALCO, ensures adherence to the framework and limits.

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. Any non-GBP denominated funding issuances and any foreign currency securities purchased are cross-currency swapped to sterling, for the term of the instrument. Any residual foreign exchange position is not a material risk for the Group.

Market risk is transferred to the Group's Treasury. In turn, Treasury uses a number of techniques and products to manage market risks, including interest rate swaps, cash flow netting and foreign exchange contracts. 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 NII and economic value to movements in market interest rates. The major contributors to interest rate risk are:

- the mismatch, or duration gap, 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 Bank Rate (BBR) 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, interest rate and commodity derivative products to enable customers to manage risks within their businesses. As a result of these activities, the Group may be exposed to forms of market risk that would arise from movements in the price on these products. These risks are monitored daily and are not a material component of the Group's risk profile. Controls and mitigation include the hedging of these products and the use of natural offsets, in line with pertinent policies.

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

Fair value hedges – the Group hedges part of its existing interest rate risk, resulting from potential movements in the fair value of fixed rate assets and liabilities. The fair value of these swaps is disclosed within note 3.1.3.2 to the Group's Annual Report & Accounts 2023. There were no transactions for which fair value hedge accounting had to be discontinued in the year.

Cash flow hedges – the Group hedges a portion of the variability in future cash flows attributable to interest rate risk. The interest risk arises from variable interest rate assets and liabilities which are hedged using interest rate swaps. There were no transactions for which cash flow hedge accounting had to be discontinued in the year as a result of the highly probable cash flows no longer being expected to occur. The fair value of derivatives is disclosed within note 3.1.3.2 to the Group's Annual Report and Accounts 2023.

Monitoring

Parameters and assumptions of models that are used in market risk monitoring are reviewed and updated on at least an annual basis. Material changes require the approval of ALCO. Hedging effectiveness is measured monthly.

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

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

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

(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 (IRRBB), small foreign exchange exposure and the management of assets to support our liquidity requirements, including Credit Spread Risk in the Banking Book (CSRBB).

IRRBB is measured, monitored, and managed from both an internal management and a 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, VaR, economic value of equity (EVE), interest rate risk stress testing, and scenario analysis.

Market risk is also fully embedded within the Group's ICAAP and Concurrent Stress Test process. While the Group does not have a Pillar 1 capital requirement for market risk, IRRBB forms part of the Group's Pillar 2A requirements.

Further detail on the Group's management of IRRBB is shown in section 20.1 IRRBBA and on page 224 of the Group's Annual Report and Accounts 2023.

16.2 UK MR1 – Market risk under the standardised approach
The Group does not meet the 2% threshold set out in Article 351 of the UK CRR, therefore the template has not been disclosed.

16.3 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.

16.4 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.

16.5 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.

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

16.7 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)

Strategies and processes

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and is classified as one of the Group's principal risk categories. Operational Risk aims to support the bank's strategic objectives by ensuring that operations and processes drive resilience and good customer outcomes.

Operational risk is a core component of the RMF and is embedded in day-to-day business activities focused on enabling operational efficiencies. Requirements and responsibilities are set out in the operational risk policy statement and supporting operational risk 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. The Group manages Operational risk across a number of categories which includes change risk, third party risk, cyber and information security risk, physical and personal security risk, IT resilience risk, payment creation and execution and settlement risk, data management risk, and people risk.

The Group's exposure to Operational risk is impacted through the need to engage with innovative, dynamic third parties; deliver new products and services; and make effective use of reliable data in a changing external environment, to deliver on the Group's strategic objectives. Alongside ongoing risk and control monitoring, operational and resilience risk oversight is focused key areas, such as Change risk and Third party risk. More information regarding Operational risk is included in section 3.1(b) and the Operational risk section on pages 234 to 236 of the Group's 2023 Annual Report and Accounts.

Structure and organisation of risk management function for operational risk

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. Business units are responsible for the day-to-day management of operational and resilience risk, with oversight from the Risk function, and independent assurance activities undertaken by Internal Audit.

The Non-Financial Risk Committee provides oversight of the Group's risks, risk appetite, policy compliance and RMF and supports the Executive Risk Committee.

Further details regarding the Risk governance structure are provided in section 3.1(b).

Risk measurements and control

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.

Monitoring

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

Stress testing

The Group develops and maintains a suite of operational risk scenarios using internal and external data. These scenarios provide insights into the stresses the business could be subject to given extreme circumstances. Scenarios cover all material operational risks including execution of change, failures in core processes or execution risk from a third party.

Scenarios are owned by senior management custodians with review and challenge provided by the Risk function, Executive Risk Committee and the Board Risk Committee, as part of the ICAAP process. Management actions are agreed and monitored and linked with business resilience and continuity testing where appropriate.

Operational Risk Reporting

Standardised operational risk reporting processes are in place, with formal monthly reporting through the Non-Financial Risk Committee, the Executive Risk Committee and the Board Risk Committee.

A suite of risk appetite metrics representing various aspects of operational risk are established, providing visibility across the risk classes for management to make optimal decisions to deliver our strategy and goals.

Policies for hedging and mitigating operational risk
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 management of Operational Risk is made more effective by:

- The Group has an established operational risk framework to identify, manage and mitigate operational risks.
- An Operational Resilience framework exists which includes regular testing and enhancements to remain within agreed Important Business Service impact tolerances.
- A change management framework is in place to govern the execution and safe delivery of business change.
- Management of Third Party Risk continues to evolve, particularly given supplier relationships are central to the Group's strategy.
- 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.

Risk and control self-assessments (RCSA) are used across all business areas to support the identification, management and mitigation of material operational risks. Risks and controls are mapped to a risk taxonomy which is defined within the RMF, with regular assessments to ensure controls remain fit for purpose performed and testing carried out at an appropriate frequency over control design and operational effectiveness.

(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. This is calculated as average total revenue over the last three years multiplied by a prescribed regulatory risk factor. The Group recognises the limitations of the standardised approach and applies a more granular, firm specific assessment as part of Pillar 2.

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

The operational risk own funds requirement is approved by the Board Risk Committee annually.

(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 2023		Year-3	Year-2	Last year	Own funds requirements	Risk-weighted exposure amount
1	Banking activities subject to basic indicator approach	–	–	–	–	–
2	Banking activities subject to standardised (TSA)/alternative standardised (ASA) approaches	**1,561**	**1,759**	**1,873**	**227**	**2,833**
3	*Subject to TSA:*	**1,561**	**1,759**	**1,873**		
4	*Subject to ASA:*	–	–	–		
5	Banking activities subject to advanced measurement approaches AMA	–	–	–	–	–

		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	–	–	–	–	–
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 the year, the Committee took external advice from PricewaterhouseCoopers (PwC) until March 2023. Following a tender process, Deloitte were formally appointed as the Group's independent consultant by the Committee in May 2023. Both PwC and Deloitte are members of the Remuneration Consultants Group and comply with the professional body's code of conduct. This supports the Committee's view that the advice received was objective and independent. The Committee's appointed remuneration consultants provide advice 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 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) for Dual regulated firms and PRA Remuneration Rulebook. 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 attest to their accountabilities 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 overall Material Risk Taker population during 2023 totalled 125. The remuneration for these colleagues is governed under the Remuneration Policy for all colleagues and overseen by the 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.

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 129 to 158 of the Group's 2023 Annual Report and Accounts.

The 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 Board 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 Committee is also supported by and receives input from the Board Audit Committee as well as management, while ensuring that conflicts of interests are suitably mitigated, and by the Committee's independent external consultants.

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 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 Committee considers a range of factors, including evidence from the Reward Risk Adjustment Committee and Board Risk Committee. This includes an assessment of both current and future risk issues provided by the Board 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).

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 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 129 to 158 in the Group's 2023 Annual Report and 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. Board Risk Committee or Board 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 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 Committee takes into account a range of factors, including input from the Board 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 Board 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.

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 FY23, the Group Scorecard included the following measures:

Strategic Pillar	Measure
Pioneering Growth	Customer Lending Asset Growth (Ex Mortgages, Government Schemes and Product Exits)
Super Straightforward Efficiency	Digital Metric Underlying CIR
Disciplined and sustainable	Statutory RoTE Statutory PBT
Delighted Customers and Colleagues	Smile Score (Customer Satisfaction) Employee Engagement

Further details on risk and remuneration can be found within the Directors' remuneration report on pages 129 to 158 of the Group's 2023 Annual Report and Accounts.

(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 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.

Annexes

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 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 Committee and Board 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 2023 this means that for Material Risk Takers receiving a variable pay award that is =>£44,000 or is one third 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 deferral threshold, however they are not deemed to meet the 'higher paid material risk taker' criteria, 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 both FCA and PRA 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 129 to 158 of the Group's 2023 Annual Report and 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 129 to 158 of the Group's 2023 Annual Report and 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 2022/23 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
58	£7,179,562	£601,360

(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 2023			A MB Supervisory function	B MB Management function	C Other senior management	D Other identified staff
1	Fixed remuneration	Number of identified staff	**6**	**2**	**11**	**106**
2		Total fixed remuneration	**1.1**	**1.9**	**3.8**	**15.3**
3		*of which: cash-based*	**1.1**	**1.9**	**3.8**	**15.3**
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	**6**	**2**	**11**	**106**
10		Total variable remuneration	–	**3.5**	**7.8**	**5.3**
11		*of which: cash-based*	–	**0.3**	**1.3**	**1.5**
12		*of which: deferred*	–	–	**0.7**	**0.1**
UK-13a		*of which: shares or equivalent ownership interests*	–	**3.3**	**6.5**	**3.8**
UK-14a		*of which: deferred*	–	**3.0**	**6.0**	**3.1**
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**	**11.6**	**20.6**

Annexes

18 Annex XXXIII: Disclosure of remuneration policy continued

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

		A	B	C	D
	As at 30 September 2023	MB Supervisory function	MB Management function	Other senior management	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	**–**	**–**	**1**	**11**
7	Total amount	**–**	**–**	**0.2**	**1.6**
8	*of which: paid during the financial year*	**–**	**–**	**0.2**	**1.6**
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**	**0.2**

		A	B	C	D
	As at 30 September 2022	MB Supervisory function	MB Management function	Other senior management	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

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18 Annex XXXIII: Disclosure of remuneration policy continued

18.4 UK REM3 – Deferred remuneration

		A	B	C	D	E	F	UK – G	UK – H
As at 30 September 2023		Total amount of deferred remuneration awarded for previous performance periods	*Of which: due to vest in the financial year*	*Of which: vesting in subsequent financial years*	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	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)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	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	**11.8**	**0.9**	**11.0**	–	–	–	**0.8**	**1.5**
8	*Cash-based*	–	–	–	–	–	–	–	–
9	*Shares or equivalent ownership interests*	**11.8**	**0.9**	**11.0**	–	–	–	**0.8**	**1.5**
10	*Share-linked instruments or equivalent non-cash instruments*	–	–	–	–	–	–	–	–
11	*Other instruments*	–	–	–	–	–	–	–	–
12	*Other forms*	–	–	–	–	–	–	–	–
13	Other senior management	**13.3**	**1.2**	**12.0**	–	–	–	**1.2**	**2.2**
14	*Cash-based*	–	–	–	–	–	–	–	–
15	*Shares or equivalent ownership interests*	**13.3**	**1.2**	**12.0**	–	–	–	**1.2**	**2.2**
16	*Share-linked instruments or equivalent non-cash instruments*	–	–	–	–	–	–	–	–
17	*Other instruments*	–	–	–	–	–	–	–	–
18	*Other forms*	–	–	–	–	–	–	–	–
19	Other identified staff	**9.3**	**1.4**	**7.9**	–	–	–	**1.4**	**0.4**
20	*Cash-based*	–	–	–	–	–	–	–	–
21	*Shares or equivalent ownership interests*	**9.3**	**1.4**	**7.9**	–	–	–	**1.4**	**0.4**
22	*Share-linked instruments or equivalent non-cash instruments*	–	–	–	–	–	–	–	–
23	*Other instruments*	–	–	–	–	–	–	–	–
24	*Other forms*	–	–	–	–	–	–	–	–
25	**Total amount**	**34.4**	**3.5**	**30.9**	–	–	–	**3.4**	**4.1**

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18 Annex XXXIII: Disclosure of remuneration policy continued

	As at 30 September 2022	A	B	C	D	E	F	UK – G	UK – H
		Total amount of deferred remuneration awarded for previous performance periods	*Of which: due to vest in the financial year*	*Of which: vesting in subsequent financial years*	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	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)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	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	B
		30 September 2023	30 September 2022
(EUR)		Identified staff that are high earners as set out in Article 450(i) CRR	Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	**4**	2
2	1 500 000 to below 2 000 000	**1**	–
3	2 000 000 to below 2 500 000	**2**	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**	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	**–**	–

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18 Annex XXXIII: Disclosure of remuneration policy continued

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 2023		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										**125**
2	*of which: members of the MB*	**6**	**2**	**8**							
3	*of which: other senior management*				**–**	**4**	**–**	**3**	**4**	**–**	
4	*of which: other identified staff*				**–**	**47**	**–**	**10**	**49**	**–**	
5	Total remuneration of identified staff	**1.1**	**5.5**	**6.5**	**–**	**17.1**	**–**	**5.9**	**9.3**	**–**	
6	*of which: variable remuneration*	**–**	**3.5**	**3.5**	**–**	**7.7**	**–**	**2.7**	**2.8**	**–**	
7	*of which: fixed remuneration*	**1.1**	**1.9**	**3.0**	**–**	**9.4**	**–**	**3.2**	**6.5**	**–**	

		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

As at 30 September 2023 (£m)		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	
			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**	**22,532**	**3,807**			**69,562**	**12,535**		
030	Equity instruments	**–**	**–**	**–**	**–**	**4**	**–**	**4**	**–**
040	Debt securities	**1,463**	**1,463**	**1,463**	**1,463**	**4,297**	**4,273**	**4,297**	**4,273**
050	*of which: covered bonds*	**–**	**–**	**–**	**–**	**1,663**	**1,663**	**1,663**	**1,663**
070	*of which: issued by general governments*	**1,463**	**1,463**	**1,463**	**1,463**	**1,301**	**1,277**	**1,301**	**1,277**
080	*of which: issued by financial corporations*	**–**	**–**	**–**	**–**	**2,996**	**2,996**	**2,996**	**2,996**
090	*of which: issued by non-financial corporations*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
120	Other assets	**21,056**	**2,269**			**65,141**	**8,318**		

As at 30 September 2022 (£m)		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	
			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		

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19 Annex XXXV: Disclosure of encumbered and unencumbered assets continued

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 2023 (£m)			*of which: notionally eligible EHQLA and HQLA*		*of which: EHQLA and HQLA*
130	**Collateral received by the reporting institution**	**–**	**–**	**1,445**	**1,195**
160	Debt securities	**–**	**–**	**250**	**–**
230	Other collateral received	**–**	**–**	**1,195**	**1,195**
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			**1.447**	**–**
250	**Total assets, collateral received and own debt securities issued**	**22,532**	**3,807**		

		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	010	030
		30 September 2023		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	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	**13,343**	**20,079**	13,108	19,428

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

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. The Group engages in the following areas and activities to support its business model, including to provide sources of funding and liquidity, which result in asset 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.

Annexes

19 Annex XXXV: Disclosure of encumbered and unencumbered assets continued

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.

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 219 to 220 of the Group's 2023 Annual Report and 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. These assets make up a relatively small (<5%) portion of the Group's total assets.

vi) The amount of underlying assets and of cover pool assets of retained securitisations and retained covered bonds
As at 30 September 2023 the Group held retained assets totalling £2.0bn (excluding Z notes) across the Lanark and Lannraig RMBS programmes and the RCB programme. Of these securities £0.9bn 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. Exposure to losses through non-parallel movements in different repricing indices is generated by both basis risk (Base vs SONIA) and credit spread risk (bond vs swap/funding rates).

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

The Group operates a Three Lines of Defence model to provide challenge, oversight, and assurance of the management of IRRBB by Treasury. All three lines of defence ensure appropriate reporting and escalation is undertaken of risks, controls and issues, including emerging risks.

IRRBB is overseen by ALCO who monitor compliance with IRRBB limits, review Treasury IRRBB strategy and performance. The IRRBB Policy Standard is owned by 2nd Line Risk. The policy standard sets out roles and responsibilities for the development, monitoring and management of IRRBB. ALCO must approve material methodology decisions and assumptions including the benchmark investment term for behavioural modelling of core non-interest bearing and non-maturity assets and liabilities. Assumptions covering the behavioural life of products and customer behaviour for optionality are reviewed and approved by ALCO.

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;
- VaR;
- economic value of equity;
- interest rate risk stress testing; and
- scenario analysis.

Day to day management of IRRBB is delegated from ALCO to Treasury who use 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
- 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 the PRA Rulebook (Internal Capital Adequacy Assessment part) 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.

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

(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 cash flow 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;
- commercials margins are removed from all cash flows and discounting is performed using the risk-free rate; and
- non-maturing deposits (NMDs) are assumed to reprice overnight if interest rate sensitive or in line with their structural hedging profile if assumed to be interest rate insensitive.

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; and
- Administered rate products receive a rate pass on in line with internal scenario specific pass on assumptions. Any rate reduction in a rate fall scenario is subject to product floors with the assumption customer rates would not go negative.

(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.

The one exception is the treatment of equity, where the internal measurement for economic value includes equity within the re-pricing profile in line with the agreed profile unlike the regulatory EVE measurement which excludes equity from the gap profile.

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. Interest rate risk is transferred into Treasury via internal hedging under the Funds Transfer Pricing approach. Treasury is responsible for managing the interest rate risk externally through the techniques outlined in part (b).

The Group elects to apply hedge accounting for the majority of its risk management activity that uses derivatives. Certain derivatives are designated as either fair value hedge or cash flow hedge:

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

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

(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 cash flow 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 constraining stress (+250bps) has remained consistent between the March 2023 interim disclosures and the September 2023 results but with a £46m reduction in the risk position (£359m vs £405m). This is primarily due to a £60m reduction in pipeline optionality risk due to lower mortgage and savings 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 are subject to product floor assumptions in the rate fall scenario. The -£114m sensitivity reported reflects the worst-case outcome with customer rates assumed to floor above zero. The loss in the rate fall scenario is primarily attributable to margin compression.

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 0.8 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 2023	31 Mar 2023	30 Sept 2023	31 Mar 2023	30 Sept 2023	31 Mar 2023
10	Parallel shock up	**(359)**	(405)	**105**	109		
20	Parallel shock down	**268**	270	**(114)**	(77)		
30	Steepener shock	**(14)**	(25)				
40	Flattener shock	**(74)**	(79)				
50	Short rates shock up	**(189)**	(207)				
60	Short rates shock down	**118**	120				
70	**Maximum**	**(359)**	(405)				
80	**Tier 1 capital**					**4,305**	4,221

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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 RWAs and minimum capital requirement by risk type and approach.

		A	B	C
		Risk-weighted assets		Total own funds requirements
		30 Sept 2023 £m	30 Sept 2022 £m	30 Sept 2023 £m
1	Credit risk (excluding CCR)	**21,907**	21,061	**1,753**
2	*of which: the standardised approach*	**6,431**	6,120	**514**
3	*of which: the foundation IRB (FIRB) approach*	**5,994**	5,424	**480**
4	*of which: slotting approach*	**410**	362	**33**
5	*of which: the advanced IRB (AIRB) approach*	**9,072**	9,155	**726**
6	Counterparty credit risk – CCR	**424**	443	**34**
7	*of which: the standardised approach*	**141**	180	**12**
UK-8a	*of which: exposures to a Central Counterparty (CCP)*	**5**	5	**–**
UK-8b	*of which: credit valuation adjustment – CVA*	**278**	258	**22**
23	Operational risk	**2,841**	2,624	**227**
UK-23b	*of which: standardised approach*	**2,841**	2,624	**227**
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	**284**	251	**23**
29	**Total**	**25,172**	24,128	**2,014**

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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 2023 £m	30 Jun 2023 £m	31 Mar 2023 £m	31 Dec 2022 £m	30 Sept 2022 £m
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	**3,685**	3,608	3,599	3,574	3,606
2	Tier 1 capital	**4,279**	4,202	4,193	4,168	4,268
3	Total capital	**5,301**	5,224	5,214	5,189	5,288
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	**25,172**	24,903	24,687	24,013	24,128
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	**14.6%**	14.5%	14.6%	14.9%	14.9%
6	Tier 1 ratio (%)	**17.0%**	16.9%	17.0%	17.4%	17.7%
7	Total capital ratio (%)	**21.1%**	21.0%	21.1%	21.6%	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%	1.7%
UK-7b	Additional AT1 SREP requirements (%)	**0.6%**	0.6%	0.6%	0.6%	0.6%
UK-7c	Additional T2 SREP requirements (%)	**0.7%**	0.7%	0.7%	0.7%	0.8%
UK-7d	Total SREP own funds requirements (%)	**11.0%**	11.0%	11.0%	11.0%	11.1%
	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%
9	Institution specific countercyclical capital buffer	**2.0%**	1.0%	1.0%	1.0%	0.0%
UK-10a	Other Systemically Important Institution buffer	**0.0%**	0.0%	0.0%	0.0%	0.0%
11	Combined buffer requirement (%)	**4.5%**	3.5%	3.5%	3.5%	2.5%
UK-11a	Overall capital requirements (%)	**15.5%**	14.5%	14.5%	14.5%	13.6%
12	CET1 available after meeting the total SREP own funds requirements (%)	**8.4%**	8.3%	8.4%	8.7%	8.7%
	Leverage ratio[(1)(4)]					
13	Total exposure measure excluding claims on central banks	**86,545**	86,067	86,458	86,762	85,921
14	Leverage ratio excluding claims on central banks (%)	**4.9%**	4.9%	4.8%	4.8%	5.0%

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21 Appendix 1: Disclosures for CB Group Consolidated continued

		A	B	C	D	E
		30 Sep 2023 £m	30 Jun 2023 £m	31 Mar 2023 £m	31 Dec 2022 £m	30 Sept 2022 £m
	Additional leverage ratio disclosure requirements					
14a	Fully loaded Expected Credit Loss (ECL) accounting model leverage ratio excluding claims on central banks (%)	**4.8%**	4.8%	4.8%	4.7%	4.8%
14b	Leverage ratio including claims on central banks (%)	**4.5%**	4.4%	4.3%	4.3%	4.5%
14c	Average leverage ratio excluding claims on central banks (%)	**4.9%**	4.8%	4.7%	4.7%	4.9%
14d	Average leverage ratio including claims on central banks (%)	**4.4%**	4.3%	4.3%	4.3%	4.4%
14e	Countercyclical leverage ratio buffer (%)	**0.7%**	0.4%	0.4%	0.4%	0.0%
	Liquidity Coverage Ratio(2)					
15	Total high-quality liquid assets (HQLA) (Weighted value average)	**13,798**	13,381	12,542	11,793	11,503
UK-16a	Cash outflows – Total weighted value	**9,933**	9,875	9,573	9,197	8,764
UK-16b	Cash inflows – Total weighted value	**509**	528	553	562	543
16	Total net cash outflows (adjusted value)	**9,424**	9,347	9,020	8,635	8,222
17	Liquidity coverage ratio (%)	**146%**	143%	139%	137%	140%
	Net Stable Funding Ratio(3)					
18	Total available stable funding	**79,295**	79,171	78,119		
19	Total required stable funding	**58,450**	58,352	58,097		
20	NSFR ratio (%)	**136%**	136%	134%		

(1) The average leverage exposure measure (excluding claims on central banks) for the period from 1 July 2023 to 30 September 2023 amounted to £86,202m.

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

(3) In line with PRA guidance, disclosures for the NSFR were not required until reporting reference dates after 1 January 2023.

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

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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 2023 £m	30 Jun 2023 £m	31 Mar 2023 £m	31 Dec 2022 £m	30 Sept 2022 £m
1	Total capital resources(1)	**5,301**	5,224	5,214	5,189	5,288
2	Eligible senior unsecured securities issued by Clydesdale Bank PLC	**2,707**	2,401	2,420	2,431	2,423
3	Total MREL resources	**8,008**	7,625	7,634	7,620	7,711
4	Total risk-weighted assets	**25,172**	24,903	24,687	24,013	24,128
5	Total MREL resources available as a percentage of total risk-weighted assets (%)	**31.8%**	30.6%	30.9%	31.7%	32.0%
6	UK leverage exposure measure(2)	**86,545**	86,067	86,458	86,762	85,921
7	Total MREL resources available as a percentage of UK leverage exposure measure (%)(2)	**9.3%**	8.9%	8.8%	8.8%	9.0%

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

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

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 2023 £m	30 Jun 2023 £m	31 Mar 2023 £m	31 Dec 2022 £m	30 Sept 2022 £m
Available capital (£m)						
1	Common Equity Tier 1 (CET1) capital	**3,685**	3,608	3,599	3,574	3,606
2	CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**3,573**	3,512	3,509	3,474	3,492
3	Tier 1 capital	**4,279**	4,202	4,193	4,168	4,268
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**4,167**	4,106	4,103	4,068	4,154
5	Total capital	**5,301**	5,224	5,214	5,189	5,288
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**5,189**	5,128	5,124	5,089	5,174
Risk-weighted assets (£m)						
7	Total risk-weighted assets	**25,172**	24,903	24,687	24,013	24,128
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**25,083**	24,827	24,616	23,934	24,036
Capital ratios (%)						
9	CET1 (as a percentage of risk exposure amount)	**14.6%**	14.5%	14.6%	14.9%	14.9%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**14.2%**	14.1%	14.3%	14.5%	14.5%
11	Tier 1 (as a percentage of risk exposure amount)	**17.0%**	16.9%	17.0%	17.4%	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	**16.6%**	16.5%	16.7%	17.0%	17.3%
13	Total capital (as a percentage of risk exposure amount)	**21.1%**	21.0%	21.1%	21.6%	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	**20.7%**	20.7%	20.8%	21.3%	21.5%
Leverage ratio						
15	Leverage ratio total exposure measure (£m)	**86,545**	86,067	86,458	86,762	85,921
16	Leverage ratio (%)	**4.9%**	4.9%	4.8%	4.8%	5.0%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied (%)	**4.8%**	4.8%	4.8%	4.7%	4.8%

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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 2023 £m	30 Sept 2022[3] £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	**2,098**	1,806	**l + n + p**
3	Accumulated other comprehensive income (and other reserves)	**142**	790	**j + r**
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**20**	242	**m + o + q**
6	**CET1 capital before regulatory adjustments**	**5,052**	5,630	
	CET1 capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	**(5)**	(5)	
8	Intangible assets (net of related tax liability) (negative amount)	**(173)**	(267)	**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)	**(369)**	(417)	**b**
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	**(496)**	(699)	**k**
12	Negative amounts resulting from the calculation of expected loss amounts	**(103)**	(100)	
15	Defined-benefit pension fund assets (negative amount)	**(333)**	(650)	**c - e**
UK-27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	**112**	114	
28	**Total regulatory adjustments to CET1**	**(1,367)**	(2,024)	
29	**CET1 capital**	**3,685**	3,606	
	Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	**594**	662	
31	*of which: classified as equity under applicable accounting standards*	**594**	662	**i**
44	**AT1 capital**	**594**	662	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,279**	4,268	
	Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	**1,022**	1,020	**d**
58	**Tier 2 (T2) capital**	**1,022**	1,020	
59	**Total capital (TC = T1 + T2)**	**5,301**	5,288	
60	**Total Risk exposure amount**	**25,172**	24,128	

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21 Appendix 1: Disclosures for CB Group Consolidated continued

		30 Sept 2023 £m	30 Sept 2022[3] £m	Ref[1]:
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**14.6%**	14.9%	
62	Tier 1 (as a percentage of total risk exposure amount)	**17.0%**	17.7%	
63	Total capital (as a percentage of total risk exposure amount)	**21.1%**	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)	**10.7%**	8.7%	
65	*of which: capital conservation buffer requirement*	**2.5%**	2.5%	
66	*of which: countercyclical buffer requirement*	**2.0%**	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]	**8.4%**	8.7%	
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	**114**	100	
	Applicable caps on the inclusion of provisions in Tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**82**	79	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**93**	90	

(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.

(3) The comparative figures have been restated to align with current year presentations.

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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

		A	B	C
As at 30 September 2023		Balance sheet as in published financial statements £m	Under regulatory scope of consolidation[1] £m	Ref:
	Assets			
1	*Financial instruments*			
	At amortised cost			
2	Loans and advances to customers	**72,191**	**72,187**	
3	Cash and balances with central banks	**11,282**	**11,282**	
4	Due from other banks	**661**	**663**	
5	*At FVOCI*	**6,184**	**6,184**	
6	*At FVTPL*			
7	Loans and advances to customers	**59**	**59**	
8	Derivatives	**135**	**135**	
9	Other	**2**	**2**	
10	Intangible assets and goodwill	**173**	**173**	**a**
11	Deferred tax	**296**	**296**	
12	*of which: tax losses carried forward*	***375***	***369***	**b**
13	Defined benefit pensions assets	**512**	**512**	**c**
14	Other assets	**389**	**381**	
15	**Total assets**	**91,884**	**91,874**	
	Liabilities			
16	*Financial instruments*			
	At amortised cost			
17	Customer deposits	**66,827**	**66,822**	
18	Debt securities in issue	**6,155**	**6,155**	
19	*of which: Tier 2 instruments*	***1,022***	***1,022***	**d**
20	Due to other banks	**6,920**	**6,920**	
21	*At FVTPL*			
22	Derivatives	**290**	**290**	
23	Due to related entities	**3,605**	**3,605**	
24	Deferred tax	**179**	**179**	
25	*of which: defined pension benefit scheme surplus*	***179***	***179***	**e**
26	Provisions for liabilities and charges	**69**	**69**	
27	Other liabilities	**2,150**	**2,188**	
28	**Total liabilities**	**86,195**	**86,228**	

		A	B	C
As at 30 September 2023		Balance sheet as in published financial statements £m	Under regulatory scope of consolidation[1] £m	Ref:
	Shareholders' Equity			
29	Share capital and share premium	**2,792**	**2,792**	**f**
30	*of which: ordinary share capital*	***1,243***	***1,243***	**g**
31	*of which: share premium*	***1,549***	***1,549***	**h**
32	Other equity instruments	**594**	**594**	**i**
33	Other reserves	**503**	**503**	**j**
34	*of which: cash flow hedge reserve*	***496***	***496***	**k**
35	Retained earnings	**1,800**	**1,757**	
36	*of which: prior period retained earnings*	***2,214***	***2,214***	**l**
37	*of which: profits accrued in the year to date*	***249***	***245***	**m**
38	*of which: dividends paid/accrued in the period*	***(103)***	***(103)***	**n**
39	*of which: FY23 dividends*	***(145)***	***(172)***	**o**
40	*of which: AT1 coupons accrued for regulatory purposes in FY22*	***(13)***	***(13)***	**p**
41	*of which: FY23 dividends*	***(41)***	***(53)***	**q**
42	*of which: other movements in retained earnings*	***(361)***	***(361)***	**r**
43	**Total shareholders' equity**	**5,689**	**5,646**	

(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
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	n/a	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	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity 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
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	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 247,138,469	GBP 346,480,954	GBP 249,836,934	GBP 473,645,840	GBP 298,725,601
9	Nominal amount of instrument	GBP 1,243,153,821	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%	100%	100%	99.493%	99.840%	99.807%
UK-9b	Redemption price	100%	100%	100%	100%	100%	100%
10	Accounting classification	Equity	Equity	Equity	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	Various	13 March 2019	17 June 2022	14 December 2018	11 September 2020	19 May 2021
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated
13	Original maturity date	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
15	Optional call date, contingent call dates and redemption amount	n/a	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	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
18	Coupon rate and any related index	n/a	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
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	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	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	n/a	No	No	No	No	No
22	Non-cumulative or 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)
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
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	No	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, 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	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	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
34a	Type of subordination (only for eligible liabilities)	Statutory	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	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	Senior Unsecured	Senior Unsecured	Senior Unsecured
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

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	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	Yes	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	n/a
5	Post-transitional CRR rules	n/a	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	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	Senior Non-Preferred
8	Amount recognised in regulatory capital or eligible liabilities (currency in million, as of most recent reporting date)	GBP 299,683,475	GBP 349,961,056	GBP 498,823,242	GBP 398,425,196	GBP 432,955,911	GBP 430,182,949	GBP 297,084,788
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 433,405,021	EUR 500,000,000 GBP 433,405,021	EUR 300,000,000 GBP 300,000,000
UK-9a	Issue price	99.570%	100%	99.595%	99.589%	99.914%	99.666%	99.506%
UK-9b	Redemption price	100%	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	Liability – amortised cost
11	Original date of issuance	22 June 2017	20 August 2019	25 September 2018	3 September 2019	24 June 2020	14 February 2023	23 August 2023
12	Perpetual or dated	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	29 October 2028	23 August 2029
14	Issuer call subject to prior supervisory approval	Yes	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 = 29 October 2027 Reg Call No Loss Absorption Disq Call = Yes Tax Call = Yes Clean Up Call = Yes (at 80%) Redemption Price = 100%	Optional Call Date = 23 August 2028 Reg Call = No Loss Absorption Disq Call = Yes Tax Call = Yes Clean Up Call = Yes (at 80%) 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	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	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	4.625% per annum until 27 May 2023. Resets to a fixed rate equal to the 1-year Euro Mid-Swap Rate + 175bps, if not called	7.625% per annum until 23 August 2028. Resets to a fixed rate equal to the 1-year Benchmark Gilt Rate + 305bps, if not called
19	Existence of a dividend stopper	No	No	No	No	No	No	No
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
22	Non-cumulative or cumulative	n/a	n/a	n/a	n/a	n/a	n/a	n/a
23	Convertible or non-convertible	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	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	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	Yes	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	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	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)	Contractual	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	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	Senior Preferred
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

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 2023 £m	30 Sept 2022 £m
1	Total assets as per published financial statements	**91,883**	92,010
4	(Adjustment for exemption of exposures to central banks)	**(9,052)**	(9,792)
8	Adjustment for derivative financial instruments	**706**	522
9	Adjustment for securities financing transactions (SFTs)	**2,261**	2,974
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**2,999**	3,204
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital (leverage))	**(5)**	(5)
12	Other adjustments	**(2,247)**	(2,992)
13	**Total exposure measure**	**86,545**	85,921

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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 2023 £m	30 Sept 2022 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	**91,144**	90,937
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(281)**	(241)
6	(Asset amounts deducted in determining Tier 1 capital (leverage))	**(1,367)**	(2,025)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**89,496**	88,671
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**370**	462
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**471**	402
13	**Total derivatives exposures**	**841**	864
	SFT exposures		
16	Counterparty credit risk exposure for SFT assets	**2,261**	2,974
18	**Total securities financing transaction exposures**	**2,261**	2,974
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	**17,980**	19,319
20	(Adjustments for conversion to credit equivalent amounts)	**(14,981)**	(16,115)
22	**Off-balance sheet exposures**	**2,999**	3,204
	Capital and total exposure measure		
23	Tier 1 capital (leverage)	**4,279**	4,268
24	Total exposure measure including claims on central banks	**95,597**	95,713
UK-24a	(-) Claims on central banks excluded	**(9,052)**	(9.792)
UK-24b	**Total exposure measure excluding claims on central banks**	**86,545**	85,921
	Leverage ratio		
25	Leverage ratio excluding claims on central banks (%)	**4.9%**	5.0%
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**4.9%**	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 (%)	**4.9%**	4.9%
UK-25c	Leverage ratio including claims on central banks (%)	**4.5%**	4.5%
26	Regulatory minimum leverage ratio requirement (%)	**3.25%**	3.25%

Appendices

21 Appendix 1: Disclosures for CB Group Consolidated continued

		Leverage ratio exposures	
		A	B
		30 Sept 2023 £m	30 Sept 2022 £m
	Additional leverage ratio disclosure requirements – leverage ratio buffers		
27	Leverage ratio buffer (%)	**0.7%**	0.0%
UK-27a	*of which: G-SII or O-SII additional leverage ratio buffer (%)*	**0.0%**	0.0%
UK-27b	*of which: countercyclical leverage ratio buffer (%)*	**0.7%**	0.0%
	Additional leverage ratio disclosure requirements – disclosure of mean values		
UK-31	*Average total exposure measure including claims on central banks*	**96,178**	95,870
UK-32	*Average total exposure measure excluding claims on central banks*	**86,202**	86,078
UK-33	*Average leverage ratio including claims on central banks*	**4.4%**	4.4%
UK-34	*Average leverage ratio excluding claims on central banks*	**4.9%**	4.9%

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

		Leverage ratio exposures	
		30 Sept 2023 £m	30 Sept 2022 £m
UK-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**81,811**	80,904
UK-3	Banking book exposures, of which:	**81,811**	80,904
UK-4	*Covered bonds*	**1,335**	1,471
UK-5	*Exposures treated as sovereigns*	**6,596**	5,384
UK-6	*Exposures to regional governments, Multilateral Development Bank, international organisations and public sector entities not treated as sovereigns*	**109**	181
UK-7	*Institutions*	**927**	511
UK-8	*Secured by mortgages of immovable properties*	**60,546**	60,588
UK-9	*Retail exposures*	**6,268**	6,273
UK-10	*Corporates*	**4,918**	4,677
UK-11	*Exposures in default*	**704**	728
UK-12	*Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)*	**408**	1,091

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.
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. *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.'
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.

Term	Definition
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 Valuation Adjustment **(CVA)** / Credit risk 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.
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.

Appendices

22 Appendix 2: Glossary continued

Term	Definition
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.
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.

Term	Definition
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).
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)**	The PRA publishes a list of other systemically important institutions on an annual basis as is required under the Capital Requirements Directive (2013/36/EU) (CRD) as implemented in the Capital Requirements (Capital Buffers and Macro-prudential measures) Regulations 2014. The Group was designated was an O-SII in December 2022, however is not currently required to hold a related O-SII capital buffer. This capital requirement is to be met with CET1 capital and varies depending on the degree of systemic importance of the institution.

Appendices

22 Appendix 2: Glossary continued

Term	Definition
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.
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.

Term	Definition
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.
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
ASA	Alternative standardised approach
ASF	Available stable funding
AT1	Additional Tier 1
BIA	Basic indicator approach
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
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
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
FVOCI	Fair value through other comprehensive income
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
IRRBB	Interest rate risk in the Banking Book
ISDA	International Swaps and Derivatives Association

Appendices

23 Appendix 3: Abbreviations continued

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
MRM	Model Risk Management
NII	Net interest income
NPL	Non-performing loan
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
STS	Simple, transparent and standardised
T1	Tier 1
T2	Tier 2
TC	Total Capital
VaR	Value at Risk

Additional information

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)]
Non-Executive Director	Sara Weller[(3)(4)]

Executive Directors

David Duffy
Clifford Abrahams

Group Company Secretary	Lorna McMillan
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.

(3) Member of the Governance and Nomination Committee.

(4) Sara Weller was appointed to the Board on 3 October 2022.