Virgin Money UK PLC
Full Year 2022
Financial Results
Announcement

BASIS OF PRESENTATION

Virgin Money UK PLC ('Virgin Money', 'VMUK' or 'the Company'), together with its subsidiary undertakings (which together comprise 'the Group'), operate under the Clydesdale Bank, Yorkshire Bank and Virgin Money brands. This results announcement covers the results of the Group for the year ended 30 September 2022.

Statutory basis

Statutory information is set out on page 16 and within the financial statements.

Underlying basis

Management exclude certain items from the Group's statutory position to arrive at an underlying performance basis. A reconciliation from the underlying results to the statutory basis is shown on page 16 to 17 and rationale for the adjustments is shown on page 134.

Alternative performance measures (APMs)

The KPIs and performance metrics used in monitoring the Group's performance and reflected throughout this results announcement are determined on a combination of bases (including statutory, regulatory and alternative performance measures), as detailed at 'Measuring the Group's performance' on pages 124 to 133. APMs are closely scrutinised to ensure that they provide genuine insights into the Group's progress; however statutory measures are the key determinant of dividend paying capability.

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

FORWARD-LOOKING STATEMENTS

The information in this document may include forward-looking statements, which are based on assumptions, expectations, valuations, targets, estimates, forecasts and projections about future events. These can be identified by the use of words such as 'expects', 'aims', 'targets', 'seeks', 'anticipates', 'plans', 'intends', 'prospects', 'outlooks', 'projects', 'forecasts', 'believes', 'estimates', 'potential', 'possible', and similar words or phrases. These forward-looking statements, as well as those included in any other material discussed at any presentation, are subject to risks, uncertainties and assumptions about the Group and its securities, investments and the environment in which it operates, including, among other things, the development of its business and strategy, any acquisitions, combinations, disposals or other corporate activity undertaken by the Group, trends in its operating industry, changes to customer behaviours and covenant, macroeconomic and/or geo-political factors, the repercussions of the outbreak of coronaviruses (including but not limited to the COVID-19 outbreak), changes to its Board and/or employee composition, exposures to terrorist activity, IT system failures, cybercrime, fraud and pension scheme liabilities, changes to law and/or the policies and practices of the Bank of England (BoE), the Financial Conduct Authority (FCA) and/or other regulatory and governmental bodies, inflation, deflation, interest rates, exchange rates, tax and national insurance rates, changes in the liquidity, capital, funding and/or asset position and/or credit ratings of the Group, future capital expenditures and acquisitions, the repercussions of the UK's exit from the European Union (EU) (including any change to the UK's currency and the terms of any trade agreements (or lack thereof) between the UK and the EU), Eurozone instability, Russia's invasion of Ukraine, any referendum on Scottish independence, and any UK or global cost of living crisis or recession.

In light of these risks, uncertainties and assumptions, the events in the forward-looking statements may not occur. Forward-looking statements involve inherent risks and uncertainties. Other events not taken into account may occur and may significantly affect the analysis of the forward-looking statements. No member of the Group or their respective directors, officers, employees, agents, advisers or affiliates gives any assurance that any such projections or estimates will be realised or that actual returns or other results will not be materially lower than those set out in this document and/or discussed at any presentation. All forward-looking statements should be viewed as hypothetical. No representation or warranty is made that any forward-looking statement will come to pass. While every effort has been made to ensure the accuracy of the information in this document, the Group and its directors, officers, employees, agents, advisers and affiliates do not take any responsibility for the information in this document or to update or revise it. They will not be liable for any loss or damages incurred through the reliance on or use of it. No representation or warranty, express or implied, as to the truth, fullness, fairness, merchantability, accuracy, sufficiency or completeness of the information in this document or the materials used in and/or discussed at, any presentation is given.

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In addition, certain industry, market and competitive position data contained in this document and the materials used in and/or discussed at, any presentation, comes from the Group's own internal research and estimates based on the knowledge and experience of the Group's management in the markets in which the Group operates. While the Group reasonably believes that such research and estimates are reasonable and reliable, they, and their underlying methodology and assumptions, have not been verified by any independent source for accuracy or completeness, and are subject to change. Accordingly, undue reliance should not be placed on any of the industry, market or competitive position data contained in this document and the materials used in and/or discussed at, any presentation.

The information, statements and opinions contained in this document do not constitute or form part of, and should not be construed as, any public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments. The distribution of this document in certain jurisdictions may be restricted by law. Recipients are required by the Group to inform themselves about and to observe any such restrictions. No liability to any person is accepted in relation to the distribution or possession of this document in any jurisdiction. The information, statements and opinions contained in this document and the materials used in and/or discussed at, any presentation are subject to change.

Virgin Money UK PLC Full Year Results 2022

David Duffy, Chief Executive Officer:

“2022 has been a milestone year for Virgin Money. We have good momentum while delivering a strong performance and improved returns for our shareholders. We’ve changed the game in purpose-led flexible working to create an engaged, high-performing organisation that’s cost-efficient and agile, which will underpin targeted growth through further digital innovation.”

“While we have solid credit quality across our lending, we are aware that some customers will have to make difficult decisions in this environment, and we are proactively offering them help and support."

Summary financials

	12 months to 30 Sep 2022 £m	12 months to 30 Sep 2021 £m	Change %
Underlying net interest income (NII)	**1,592**	1,412	13
Underlying non-interest income	**163**	160	2
Total underlying operating income	**1,755**	1,572	12
Underlying operating and administrative expenses	**(914)**	(902)	1
Impairment (losses)/credit on credit exposures	**(52)**	131	n.m.
Underlying profit on ordinary activities before tax	**789**	801	(1)
Adjusting items	**(194)**	(384)	(49)
Statutory profit on ordinary activities before tax	**595**	417	43

Performance measures[1]

Total customer lending (£m)	**72,565**	71,996	0.8%
Net interest margin (NIM)	**1.85%**	1.62%	0.23%pts
Underlying cost: income ratio (CIR)	**52%**	57%	(5)%pts
Statutory return on tangible equity (RoTE)	**10.3%**	10.2%	0.1%pts
Dividends and share buybacks announced (£m)	**267**	14	n.m.
Common equity tier 1 (CET1) ratio (IFRS 9 transitional)	**15.0%**	14.9%	0.1%pts

(1) Refer to pages 124 to 133 for a range of metrics that are used to measure and track the Group’s performance.

Strong financial performance in 2022

- NIM expanded further to 1.85% (2021: 1.62%), supported by higher rates and further mix optimisation (Q4: 1.86%)
- Underlying non-interest income up 2% YoY, reflecting higher activity levels offsetting fair value movements
- Underlying costs of £914m were broadly stable YoY, in line with guidance, while CIR reduced 5%pts to 52%
- Pre-Provision Operating Profit of £841m, up 26% on 2021, reflecting stronger income and well-controlled costs
- Minor impairment charge of £52m (7bps cost of risk) reflecting updated macroeconomics, but with lower post model adjustments
- Underlying profit 1% lower YoY given £131m impairment release in 2021
- Statutory profit increased 43% YoY, reflecting higher income and lower adjusting items; statutory RoTE of 10.3% (2021: 10.2%)
- Credit quality remains robust with low and stable arrears; provision coverage of 62bps above pre-pandemic levels
- CET1 ratio remains strong at 15.0% (2021: 14.9%); announced further £50m buyback, taking 2022 buybacks to £125m; 7.5p final dividend (2022: 10p) means total 2022 shareholder distributions of £267m, equivalent to c.57% payout

Returning to net lending growth supported by continued strong relationship deposit inflows

- Strong relationship deposits growth, increasing 13% YoY to £34.6bn; continue to optimise overall deposits, down 2.3% to £65.4bn
- Overall lending growth (0.8%) in 2022 to £72.6bn; Unsecured +13.8% to £6.2bn driven by credit cards; Business lending (2.7%) to £8.2bn as lower Government lending offset 1.7% growth in BAU; Mortgages stable at £58.2bn but returned to growth in H2
- AIEAs were £86.3bn in FY22; Sep-22 spot balances were c£90bn, expect higher liquidity-related AIEAs through FY23

Strong Purpose-led delivery in first year of our accelerated digital strategy

- Launched cost of living hub to support customers with money saving suggestions, budgeting tools and links to external resources
- Strong reception for new digital products with 7% YoY growth in current account sales; record new credit card origination of c.630k (+49% YoY); c.650k cashback users; launched new Business M-Track and Marketplace; c.40k waitlist for Slyce
- A Life More Virgin supporting higher colleague engagement (+11%pt YoY); launched Agile change framework, increasing the speed of change at c.25% lower costs; property and branch footprint reduced c.50% YoY
- Delivered c.£69m of annualised gross savings this year; further progress on digitisation with 43% of key customer journeys automated (2021: 27%); mobilising cloud migration and removing legacy applications
- Delivering further propositions in 2023 including refreshed Wealth proposition, mortgage end-to-end digitisation and fully refreshed new digital home and travel insurance
- Anticipating the initial launch of our digital wallet early in 2023 with additional functionality to be added through the year

Outlook upgraded

- Expect NIM to be 185-190bps in FY23, based on current rate expectations, and including higher AIEAs; in the medium term, expect mix-driven NIM expansion and OOI to grow from digital proposition enhancements
- Cost:income ratio expected to improve further to c.50% in FY23; continue to target less than 50% in FY24
- Cost of risk anticipated to normalise around through the cycle level of 30-35bps in FY23
- Targeting growth in Unsecured & BAU Business, moderating in 2023; maintain mortgage market share in the medium term
- Will maintain CET1 above 14% in FY23 during period of macroeconomic uncertainty; expect to return to target 13-13.5% CET1 range by the end of FY24, after growth, distributions and RWA headwinds, including hybrid model implementation

- In line with the Group's updated capital framework, shareholder distributions to reflect 30% full year dividend pay-out, supplemented by buybacks, subject to ongoing assessment of surplus capital, market conditions and regulatory approval
- Expect c.11% statutory RoTE in FY24, consistent with target of greater than 10%

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Virgin Money UK PLC will today be hosting a presentation for analysts and investors covering the 2022 full year financial results starting at 08:30 GMT (19:30 AEDT) and this will be webcast live and is available at:

https://webcast.openbriefing.com/virgin-fy22/

A recording of the webcast and conference call will be made available on our website shortly after the meeting at:

https://www.virginmoneyukplc.com/investor-relations/results-and-reporting/financial-results/

A call for fixed income investors will be held at 09:00 GMT (20:00 AEDT) on Tuesday 22nd November 2022: Dial-in details: UK 0800 640 6441; All other locations: +44 20 3936 2999; Access code: 647668

Announcement authorised for release by Lorna McMillan, Group Company Secretary.
LEI: 213800ZK9VGCYYR6O495

Delivering against our strategy

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

David Duffy
Chief Executive Officer

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

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

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

Delivering for our stakeholders

While there remains more to deliver, FY22 saw a good start against the strategic agenda we set out a year ago. Our financial performance benefitted from stronger income and resilient asset quality given the higher interest rate trajectory and benign credit environment to date. Alongside this backdrop, the Group continued to execute against our strategic agenda, which combined with the environment, delivered robust returns as statutory RoTE remained stable at 10.3% (FY21: 10.2%). As a reflection of this performance, including high levels of capital generation, and after setting out our capital framework alongside our Interim results, the Board has announced the distribution of £267m of capital to shareholders through dividends and buybacks.

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

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

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

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

Strong financial momentum

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

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

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

Chief Executive Officer's introduction

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

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

Delivering against our strategic pillars

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

Pioneering Growth

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

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

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

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

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

Delighting our customers and colleagues

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

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

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

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

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

Chief Executive Officer's introduction

Targeting Super Straightforward Efficiency

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

Delivering Discipline and Sustainability

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

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

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

Developing our leadership for a digital world

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

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

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

Outlook

Virgin Money is well positioned to deliver a digital-led future of profitable growth, greater cost-efficiency, improved customer service and sustainable shareholder returns as we target our ambition of becoming the UK's best digital bank. It is encouraging to see our strategy, and an improving rate environment, combining to drive stronger financial performance as we now target a c.11% statutory RoTE in FY24. Having set out our capital framework earlier in the year, we look forward to continuing deliver robust shareholder returns.

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

We will continue to develop our digital wallet during FY23, combining many of these unique features with instalment credit, loyalty and payment capabilities.

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

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

David Duffy
Chief Executive Officer
20 November 2022

Building momentum in strategic and financial delivery

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

Clifford Abrahams
Chief Financial Officer

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

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

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

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

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

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

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

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

Financial highlights

Statutory profit before tax	Underlying profit before tax	Statutory RoTE
£595m	£789m	10.3%
2021: £417m	2021: £801m	2021: 10.2%

NIM	Underlying CIR	Cost of risk
1.85%	52%	7bps
2021: 1.62%	2021: 57%	2021: (18)bps

CET1 ratio	Loan growth	Relationship deposit growth
15.0%	0.8%	+13.2%
2021: 14.9%	2021: (0.6)%	2021: +19.2%

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

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

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

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

Underlying income

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

NII and NIM

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

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

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

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

Non-interest income

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

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

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

Underlying costs

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

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

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

Impairments

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

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

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

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

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

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

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

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

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

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

Adjusting items and statutory profit

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

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

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

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

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

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

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

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

Balance sheet

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

(1) Of which, £963m government lending (2021: £1,318m).
(2) Current account and linked savings balances.

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

Mortgage balances were broadly stable at £58.2bn as the Group prioritised margin over volume growth in a competitive environment, in line with the longer-term strategy. Overall housing demand remained strong throughout the year, while pricing remained competitive. During the final quarter of the year, mortgage spreads had begun to recover as increases in customer rates outpaced changes in swap rates, however heightened volatility towards the end of the financial year resulted in further pressure on mortgage margins.

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

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

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

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

Wholesale funding and liquidity
The Group maintains a robust funding and liquidity position. The Group's LDR increased 3%pts in the year to 111% (2021: 108%), primarily as a result of the continued reduction in more expensive term deposits. The Group's LCR of 138% (2021: 151%) continues to comfortably exceed both regulatory requirements and our more prudent internal risk appetite metrics, ensuring a substantial buffer in the event of any outflows.

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

Capital

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

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

Overview

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

Capital requirements

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

CET1 capital

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

RWAs

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

Robust capital position in the face of economic uncertainty

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

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

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

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

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

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

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

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

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

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

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

Guidance

FY23 outlook	Medium-term outlook
NIM 185-190bps	**Statutory RoTE** c.11% in FY24, consistent with target of >10%
Underlying costs c.50% CIR	**Growth** Targeting growth in Unsecured and Business (non-government), maintaining Mortgage market share
Cost of risk Normalise around the through-the-cycle level of c.30-35bps	**Income** Mix-driven NIM expansion
Restructuring costs c.£275m across FY22-FY24, with the majority in FY23	**Gross savings** Gross cost savings of c.£175m by FY24 generate headroom to absorb inflation and re-investment
Dividend 30% dividend payout supplemented with buybacks	**Underlying costs** Underlying CIR to be <50%

Medium-term outlook

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

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

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

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

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

Clifford Abrahams
Chief Financial Officer
20 November 2022

Chief Financial Officer's review

Summary income statement – statutory basis

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

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

Performance measures(1)

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

(1) For a definition of each of the performance measures, refer to 'Measuring the Group's performance' on pages 124 to 133.

Reconciliation of statutory to underlying results

The statutory basis presented within this section reflects the Group's results as reported in the financial statements. The underlying basis reflects the Group's financial performance as presented to the CEO, Executive Leadership Team and Board and excludes certain items that are part of the statutory results. The table below reconciles the statutory results to the underlying results, and full details on the adjusted items to the underlying results are included on page 134.

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

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

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

A disciplined approach to credit risk management supports the Group's operations and has underpinned its resilience in recently challenging times.

Credit risk is the risk that a borrower or counterparty fails to pay the interest or capital due on a loan, or other financial instrument. Credit risk manifests itself in the financial instruments and products that the Group offers, and in which it invests, and can arise in respect of both on- and off-balance sheet exposures.

Close monitoring, clear policies and a disciplined approach to credit risk management support the Group's operations, and have underpinned its resilience in recently challenging times. The emergence of the significant inflationary headwinds and cost of living pressures have the potential to affect customer resilience and debt affordability. The Group has taken a number of steps to support customers through this period of heightened affordability pressure, and ensure that its credit risk framework and associated policies remain effective and appropriate.

Managing credit risk within our asset portfolios

Risk appetite

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

The Group maintained a controlled approach to portfolio management and appetite for new lending origination as it continued to recognise some of the delayed impacts of COVID 19, with updates to underwriting criteria to reflect the uncertain economic environment and emerging inflationary headwinds. The FY23 RAS continues to consider the impact of those inflationary headwinds and cost of living pressures, and is focussed on supporting customers through this challenging period. Climate risk is an increasingly important component of the broader RMF and we have recognised this risk through the inclusion of climate-related risk factors within the FY22 RAS. The framework has been updated to embed climate risk considerations across various aspects of customer lending and credit risk management practices.

Measurement

The Group uses a range of statistical models, supported by both internal and external data, to measure credit risk exposures. These models underpin the IRB capital calculation for the Mortgage and Business portfolios, and account management activity for all portfolios. Further information on the measurement and calculation of ECL and the Group's approach to the impairment of financial assets can be found on page 20.

Political and economic risk is an emerging risk for the Group and includes the future impact on macroeconomic variables, which are used in the calculation of the Group's modelled ECL output. Further detail on the Group's use of macroeconomic variables in the year can be found on pages 39 to 41.

Mitigation

The Group maintains a dynamic approach to credit management and takes appropriate steps if individual issues are identified, or if credit performance has, or is expected to, deteriorate due to borrower, economic or sector-specific weaknesses.

The mitigation of credit risk within the Group is achieved through approval and monitoring of automated credit strategies, individual transactions, asset quality, analysis of the performance of the various credit portfolios, and oversight of credit portfolios across the Group. Portfolio monitoring techniques include product, industry, geographic concentrations and delinquency trends, as well as considering layered risks where customers may have more than one higher risk characteristic.

There is regular analysis of borrower ability to meet interest and capital repayment obligations, with early support and mitigating steps taken where required. The Group has taken additional steps to update affordability assessments in response to the inflationary and cost of living pressures facing customers. Credit risk mitigation is also supported, in part, by obtaining collateral, and corporate and personal guarantees where appropriate.

The key mitigating measures are described below.

Credit assessment and mitigation

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

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

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

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

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

Credit strategy and policy
Credit risks associated with lending are managed through the application of detailed lending policies and standards that outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms.

Significant credit risk strategies and policies are reviewed and approved annually by the Credit Risk Committee. For complex credit products and services, the Chief Credit Officer and Credit Risk Committee provide a policy framework that identifies, quantifies and mitigates risks. These policies and frameworks are delegated to, and disseminated under, the guidance and control of the Board and senior management, with appropriate oversight through governance committees.

Specialist credit teams provide oversight of credit portfolio performance as well as adherence to credit risk policies and standards. Activities include targeted risk-based reviews, providing an assessment of the effectiveness of internal controls and risk management practices. Bespoke assignments are also undertaken in response to emerging risks and regulatory requirements. Independent assurance reviews are regularly undertaken by Internal Audit.

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

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

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

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

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

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

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

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

Commercial property
Commercial property is a source of collateral on business lending, and means of mitigating loss in the event of default (within the Stage 3 Business balance of £376m, £106m is collateralised on property), (2021: Stage 3 Business balance of £235m, with £117m collateralised on property).
For commercial loans, collateral comprises first legal charges over freehold, or long leasehold property (including formal Companies House registration where appropriate). All commercial property collateral is subject to an independent, professional valuation when taken and thereafter subject to periodic review in accordance with policy requirements.

Non-property related collateral
In addition to residential and commercial property based security, the Group also takes other forms of collateral when lending. This collateral can involve obtaining security against the underlying loan through the use of cash collateral and/or netting agreements, both of which reduce the original exposure by the amount of collateral held, subject to volatility and maturity adjustments where applicable. It can also include specific or interlocking guarantees, and loan agreements, which include affirmative and negative covenants and, in some instances, guarantees of counterparty obligations.

The Group also provides asset-backed lending in the form of asset and invoice finance. Security for these exposures is held in the form of direct recourse to the underlying asset financed.

Generally, the Group does not take possession of collateral it holds as security, or call on other credit enhancements, that would result in recognition of an asset on its balance sheet.

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

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

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

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

The Group adopts two approaches in the measurement of credit risk under IFRS 9:

Individually assessed
A charge is taken to the income statement when an individually assessed provision (IA) has been recognised, or a direct write-off has been applied to an asset balance. These will be classified as Stage 3.

Collectively assessed
The Group uses a combination of strategies and statistical models that utilise internal and external data to measure the exposure to credit risk within the portfolios, and to calculate the level of ECL. This approach is supplemented by management judgement in the form of PMAs where necessary.

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

The calculated model ECL is determined using the following classifications:

Classification	ECL calculation period	Description
Stage 1	12 months	An exposure that is not credit-impaired on initial recognition and has not experienced a SICR since initial recognition.
Stage 2	Lifetime	An exposure that has experienced a SICR since initial recognition, but is not yet deemed to be credit impaired.
Stage 3	Lifetime	An exposure that is credit-impaired.

In addition, purchased or originated credit-impaired (POCI) financial assets are those that are assessed as being credit-impaired upon initial recognition. Once a financial asset is classified as POCI, it remains there until derecognition irrespective of any changes to its credit quality. POCI financial assets are included in Stage 3 with corresponding values disclosed by way of footnote to the relevant tables. The Group regards the date of acquisition as the origination date for purchased portfolios.

A Stage 2 ECL is required where a SICR has been identified, such as a deterioration in the PD since origination. Absent any specific SICR factors, the Group operates a 30 DPD backstop for classification as Stage 2, and 90 DPD for Stage 3. Forborne exposures can be classed as either Stage 2 or Stage 3 depending on the type of forbearance programme that has been applied to the customer.

The SICR criteria and triggers are parameters within the ECL calculation process and, as such, are considered under the same governance pathway as the Group's IFRS 9 models. This approach means that any changes to the triggers are initially submitted to and endorsed by the Credit Model Technical Forum, with formal approval provided by the MGC.

During the year, refinements were made to the SICR criteria within the Group's Business portfolio to more closely reflect the level of credit risk. On adoption of IFRS 9 from 1 October 2018, the Group had selected eCRS based SICR triggers as one of the tools for monitoring the credit risk on Business customers. The effectiveness of all triggers were reviewed during the year, including overlaps with other causes of stage migration, and the Group concluded that its hard triggers based on internal credit risk rating were ineffective when used in conjunction with the PD deterioration threshold. In addition, the threshold definition has been simplified and is now set at a 50% increase in the annualised PD since origination, subject to a 100bps floor in the movement. The overall impact of this refinement has resulted in more of the Business portfolio remaining in Stage 1 in the current year. As this change represents a revision to model parameters rather than a change of policy, comparatives have not been restated.

The Credit Risk Committee provides oversight on the adequacy of ECL provisioning with reviews and robust challenge of the calculation and management judgement recommendations. This includes the rationale behind the inclusion of PMAs, the basis on which these are calculated and the proposed timeline for their release.

The Boards' Audit Committee provides oversight to the ECL calculation and measurement of ECL, with reviews and robust challenge of all calculated outcomes and management judgements.

Further detail on the accounting policy applied to ECLs can be found in note 3.2 to the financial statements.

Accounting and regulatory credit loss frameworks
The approach to calculating credit losses differs between the accounting and regulatory frameworks applicable to the Group, with the most significant difference being that the concept of SICR, which moves exposures from a 12-month to a lifetime ECL calculation in the accounting framework, does not exist under the regulatory framework. The approach to staging under IFRS 9 is also not applicable under regulatory credit loss reporting.

Both frameworks calculate credit losses under a PD x LGD x EAD approach, with the regulatory IRB approach assessing these in the next 12 months, whereas the accounting framework under IFRS 9 requires these losses assessed on a forward-looking view, with a lifetime loss calculated where appropriate. Credit losses are supplemented by management judgements in the form of PMAs, where required, under the accounting framework.

Both the accounting and regulatory definitions of default are materially aligned, with default being triggered at 90 DPD, with the exception of the heritage Virgin Money mortgage models, that apply a 180 DPD regulatory default trigger under existing approved permissions. The definition of default will be fully aligned to 90 DPD when the regulatory models are updated in line with the hybrid model adoption, which is anticipated in 2023.

Cure periods
The Group aligns the regulatory cure periods for forborne exposures in its IFRS 9 staging criteria at a minimum period of either 24, or 36 months, depending on the forbearance programme utilised. Where exposures are classified as Stages 2 or 3 as a result of not being in a forbearance programme, these can cure when the relevant staging trigger is removed and no longer applicable.

Group credit risk exposures

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

The Group is also exposed to credit risk on its other banking and treasury-related activities, and holds £12.2bn (2021: £9.7bn) of cash and balances with central banks and £0.7bn (2021: £0.8bn) due from other banks at amortised cost, with a further £5.1bn (2021: £4.4bn) of financial assets at fair value through other comprehensive income (FVOCI). Additionally £11.0bn of cash is held with the BoE (2021: £8.3bn), and balances with other banks and financial assets at FVOCI are primarily held with senior investment grade counterparties. All other banking and treasury related financial assets are classed as Stage 1 with no material ECL provision held.

Maximum exposure to credit risk on financial assets and credit-related commitments

The following tables show the levels of concentration of the Group's financial assets and credit-related commitments:

	2022			2021		
	Gross loans and advances to customers £m	Credit-related commitments £m	Total £m	Gross loans and advances to customers £m	Credit-related commitments £m	Total £m
Mortgages	**58,464**	**4,200**	**62,664**	58,441	2,845	61,286
Unsecured	**6,513**	**11,057**	**17,570**	5,770	10,507	16,277
Business	**8,169**	**4,102**	**12,271**	8,340	3,769	12,109
Total	**73,146**	**19,359**	**92,505**	72,551	17,121	89,672
Impairment provisions on credit exposures(1)	**(454)**	**(3)**	**(457)**	(496)	(8)	(504)
Fair value hedge adjustment	**(941)**	**–**	**(941)**	(179)	–	(179)
Maximum credit risk exposure on lending assets	**71,751**	**19,356**	**91,107**	71,876	17,113	88,989
Cash and balances with central banks			**12,221**			9,711
Financial instruments at FVOCI			**5,064**			4,352
Due from other banks			**656**			800
Other financial assets at fair value			**78**			153
Derivative financial assets			**342**			140
Maximum credit risk exposure on all financial assets(2)			**109,468**			104,145

(1) The total ECL provision covers both on and off-balance sheet exposures, which are reflected in notes 3.2 and 3.13 respectively. All tables and ratios that follow are calculated using the combined on- and off-balance sheet ECL, which is consistent for all periods reported.

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

Group credit highlights

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

Group credit highlights	2022 £m	2021 £m
Impairment charge/(credit) on credit exposures		
Mortgage lending	(30)	(44)
Unsecured lending	178	(32)
Business lending	(96)	(55)
Total Group impairment (credit)/charge	52	(131)
Underlying impairment (credit)/charge(1) to average customer loans (cost of risk)	0.07%	(0.18%)
Key asset quality ratios		
% Loans in Stage 2	7.76%	14.09%
Loans in Stage 3	1.41%	1.32%
Total book coverage(2)	0.62%	0.70%
Stage 2 coverage(2)	4.72%	3.02%
Stage 3 coverage(2)	11.24%	9.59%

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

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

Credit risk

The Group has continued to maintain a stable lending book, with gross lending to customers of £73.1bn at 30 September 2022 (2021: £72.6bn). While the Mortgage book remained relatively stable, a small 1.2% reduction in Business lending was more than offset by 12.9% growth in the Unsecured lending book, mainly driven by credit card growth of £0.9bn in FY22 despite having tightened underwriting criteria in the second half of the year in response to rising living costs.

Asset quality was robust in the period and most of the key asset quality ratios remained broadly stable. However, other significant economic and geopolitical factors have the potential to impact the short to medium term performance of the portfolio, with the most significant of these anticipated to be cost of living pressures. The Group continues to support customers through this challenging period, with a controlled risk appetite and focus on responsible lending decisions.

The selection of appropriate PMAs is a major component in determining the Group's ECL, with the following considered to be key factors for the Group's portfolio at that date:

- All PMAs relating to the COVID-19 pandemic, including the move of balances to Stage 2 for customers taking a payment holiday, have been fully released from Stages 1 and 2 as the risk of potential default within the portfolio is no longer considered to be directly attributable to specifically pandemic effects.
- Application of a £27m adjustment for the cost of living crisis and the impact it may have on customers' ability to absorb higher day-to-day costs within available finances. This adjustment impacts both the Mortgage (£6m) and Unsecured (£21m) portfolios and is held in Stage 1.
- Recognising that the Business portfolio continues to face an uncertain economic environment, with an economic resilience PMA of £30m being recognised and is primarily held in Stage 2.

As such, the Group has recorded a total impairment provision of £457m at 30 September 2022, reflecting a 9% reduction from £504m at 30 September 2021, and a corresponding reduction in coverage from 70bps to 62bps. Within this, the modelled and IA provision has increased to £372m (2021: £297m) driven by the updated macroeconomic inputs and growth in Unsecured lending. PMAs have reduced in the period to £85m (2021: £207m).

The net reduction in provision has been offset by the individually assessed impairment charge of £106m in the year (2021: £79m), resulting in a net charge to the income statement of £52m (2021: net credit of £131m), and an associated cost of risk of 7bps (2021: (18)bps).

Gross loans and advances[1] ECL and coverage

2022			Unsecured									
	Mortgages		Cards		Loans and Overdrafts		Combined		Business[2]		Total[4]	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1	**54,791**	**93.7%**	**4,712**	**84.8%**	**612**	**64.1%**	**5,324**	**81.8%**	**6,270**	**76.7%**	**66,385**	**90.8%**
Stage 2 – total	**3,090**	**5.3%**	**774**	**13.9%**	**335**	**35.1%**	**1,109**	**17.0%**	**1,526**	**18.7%**	**5,725**	**7.8%**
Stage 2: 0 DPD	**2,763**	**4.7%**	**723**	**13.0%**	**327**	**34.3%**	**1,050**	**16.1%**	**1,499**	**18.4%**	**5,312**	**7.2%**
Stage 2: < 30 DPD	**158**	**0.3%**	**27**	**0.5%**	**3**	**0.3%**	**30**	**0.5%**	**9**	**0.1%**	**197**	**0.3%**
Stage 2: > 30 DPD	**169**	**0.3%**	**24**	**0.4%**	**5**	**0.5%**	**29**	**0.4%**	**18**	**0.2%**	**216**	**0.3%**
Stage 3[3]	**583**	**1.0%**	**72**	**1.3%**	**8**	**0.8%**	**80**	**1.2%**	**373**	**4.6%**	**1,036**	**1.4%**
	58,464	**100.0%**	**5,558**	**100.0%**	**955**	**100.0%**	**6,513**	**100.0%**	**8,169**	**100.0%**	**73,146**	**100.0%**
ECLs												
Stage 1	**10**	**17.9%**	**57**	**23.2%**	**6**	**15.8%**	**63**	**22.2%**	**12**	**10.3%**	**85**	**18.6%**
Stage 2 – total	**32**	**57.1%**	**156**	**63.4%**	**25**	**65.8%**	**181**	**63.7%**	**55**	**47.0%**	**268**	**58.6%**
Stage 2: 0 DPD	**28**	**49.9%**	**129**	**52.4%**	**22**	**57.9%**	**151**	**53.1%**	**55**	**47.0%**	**234**	**51.2%**
Stage 2: < 30 DPD	**2**	**3.6%**	**14**	**5.7%**	**1**	**2.6%**	**15**	**5.3%**	**–**	**0.0%**	**17**	**3.7%**
Stage 2: > 30 DPD	**2**	**3.6%**	**13**	**5.3%**	**2**	**5.3%**	**15**	**5.3%**	**–**	**0.0%**	**17**	**3.7%**
Stage 3[3]	**14**	**25.0%**	**33**	**13.4%**	**7**	**18.4%**	**40**	**14.1%**	**50**	**42.7%**	**104**	**22.8%**
	56	**100.0%**	**246**	**100.0%**	**38**	**100.0%**	**284**	**100.0%**	**117**	**100.0%**	**457**	**100.0%**
Coverage												
Stage 1		**0.02%**		**1.29%**		**1.06%**		**1.26%**		**0.22%**		**0.13%**
Stage 2 – total		**1.02%**		**21.94%**		**7.29%**		**17.22%**		**3.75%**		**4.72%**
Stage 2: 0 DPD		**1.02%**		**19.41%**		**6.41%**		**15.09%**		**3.76%**		**4.43%**
Stage 2: < 30 DPD		**0.81%**		**57.37%**		**33.67%**		**54.48%**		**3.57%**		**8.53%**
Stage 2: > 30 DPD		**1.25%**		**59.03%**		**52.92%**		**58.01%**		**1.47%**		**8.57%**
Stage 3[3]		**2.28%**		**50.96%**		**73.14%**		**53.51%**		**19.96%**		**11.24%**
		0.09%		**4.81%**		**3.88%**		**4.66%**		**1.59%**		**0.62%**

(1) Excludes loans designated at FVTPL, balances due from customers on acceptances, accrued interest and deferred and unamortised fee income.

(2) Business and total coverage ratio excludes the guaranteed element of government-backed loans.

(3) Stage 3 includes POCI for gross loans and advances of £56m for Mortgages and £1m for Unsecured (2021: £67m and £2m respectively); and ECL of (£1m) for Mortgages and (£2m) for Unsecured (2021: £Nil and (£2m) respectively).

(4) The COVID related PMAs held in 2021 were allocated across Stages 1 and 2 and have now been fully released. The cost of living PMAs are held in Stage 1 and the economic resilience PMA is primarily held in Stage 2.

2021	Mortgages		Unsecured: Cards		Unsecured: Loans and Overdrafts		Unsecured: Combined		Business[2]		Total[4]	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1	50,596	86.6%	4,100	88.1%	1,048	94.0%	5,148	89.2%	5,672	68.0%	61,416	84.7%
Stage 2 – total	7,192	12.3%	497	10.7%	56	5.0%	553	9.6%	2,433	29.2%	10,178	14.0%
Stage 2: 0 DPD	6,918	11.9%	466	10.1%	46	4.2%	512	8.9%	2,390	28.7%	9,820	13.5%
Stage 2: < 30 DPD	128	0.2%	16	0.3%	5	0.4%	21	0.4%	25	0.3%	174	0.2%
Stage 2: > 30 DPD	146	0.2%	15	0.3%	5	0.4%	20	0.3%	18	0.2%	184	0.3%
Stage 3[3]	653	1.1%	58	1.2%	11	1.0%	69	1.2%	235	2.8%	957	1.3%
	58,441	100.0%	4,655	100.0%	1,115	100.0%	5,770	100.0%	8,340	100.0%	72,551	100.0%
ECLs												
Stage 1	4	4.6%	32	20.0%	9	26.5%	41	21.1%	66	29.6%	111	22.0%
Stage 2 – total	64	73.6%	99	61.9%	19	55.9%	118	60.9%	120	53.8%	302	59.9%
Stage 2: 0 DPD	61	70.2%	82	51.3%	13	38.2%	95	49.0%	120	53.8%	276	54.8%
Stage 2: < 30 DPD	1	1.1%	8	5.0%	2	5.9%	10	5.2%	–	–	11	2.1%
Stage 2: > 30 DPD	2	2.3%	9	5.6%	4	11.8%	13	6.7%	–	–	15	3.0%
Stage 3[3]	19	21.8%	29	18.1%	6	17.6%	35	18.0%	37	16.6%	91	18.1%
	87	100.0%	160	100.0%	34	100.0%	194	100.0%	223	100.0%	504	100.0%
Coverage												
Stage 1		0.01%		0.85%		1.13%		0.91%		1.35%		0.18%
Stage 2 – total		0.88%		22.12%		42.01%		23.92%		5.43%		3.02%
Stage 2: 0 DPD		0.87%		19.51%		33.66%		20.64%		5.48%		2.84%
Stage 2: < 30 DPD		0.85%		58.36%		52.88%		57.27%		1.51%		6.90%
Stage 2: > 30 DPD		1.36%		64.46%		99.65%		73.48%		2.85%		8.99%
Stage 3[3]		2.81%		54.13%		64.02%		55.65%		17.31%		9.59%
		0.15%		3.79%		3.86%		3.80%		3.06%		0.70%

(1) Excludes loans designated at FVTPL, balances due from customers on acceptances, accrued interest and deferred and unamortised fee income.

(2) Business and total coverage ratio excludes the guaranteed element of government-backed loans.

(3) Stage 3 includes POCI for gross loans and advances of £56m for Mortgages and £1m for Unsecured (2021: £67m and £2m respectively); and ECL of (£1m) for Mortgages and (£2m) for Unsecured (2021: £Nil and (£2m) respectively).

(4) The COVID related PMAs held in 2021 were allocated across Stages 1 and 2 and have now been fully released. The cost of living PMAs are held in Stage 1 and the economic resilience PMA is primarily held in Stage 2.

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

			Personal									
	Mortgages		Cards		Loans and Overdrafts		Combined		Business		Total[3]	
2022	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD deterioration	**2,084**	**69%**	**401**	**52%**	**329**	**99%**	**730**	**66%**	**826**	**55%**	**3,640**	**64%**
Forbearance	**106**	**3%**	**9**	**1%**	**1**	**0%**	**10**	**1%**	**235**	**15%**	**351**	**6%**
AFD or Watch List[1]	**6**	**0%**	**–**	**0%**	**–**	**0%**	**–**	**0%**	**447**	**29%**	**453**	**8%**
> 30 DPD	**169**	**5%**	**24**	**3%**	**5**	**1%**	**29**	**3%**	**18**	**1%**	**216**	**4%**
Other[2]	**725**	**23%**	**340**	**44%**	**–**	**0%**	**340**	**30%**	**–**	**0%**	**1,065**	**18%**
	3,090	**100%**	**774**	**100%**	**335**	**100%**	**1,109**	**100%**	**1,526**	**100%**	**5,725**	**100%**
ECLs												
PD deterioration	**18**	**55%**	**73**	**47%**	**23**	**92%**	**96**	**53%**	**26**	**47%**	**140**	**53%**
Forbearance	**5**	**16%**	**3**	**2%**	**–**	**0%**	**3**	**2%**	**12**	**22%**	**20**	**7%**
AFD or Watch List[1]	**–**	**0%**	**–**	**0%**	**–**	**0%**	**–**	**0%**	**17**	**31%**	**17**	**6%**
> 30 DPD	**2**	**6%**	**13**	**8%**	**2**	**8%**	**15**	**8%**	**–**	**0%**	**17**	**6%**
Other[2]	**7**	**23%**	**67**	**43%**	**–**	**0%**	**67**	**37%**	**–**	**0%**	**74**	**28%**
	32	**100%**	**156**	**100%**	**25**	**100%**	**181**	**100%**	**55**	**100%**	**268**	**100%**

			Personal									
	Mortgages		Cards		Loans and Overdrafts		Combined		Business		Total[3]	
2021	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD deterioration	6,100	85%	300	60%	48	86%	348	63%	1,445	59%	7,893	78%
Forbearance	176	2%	11	2%	3	5%	14	3%	374	15%	564	6%
AFD or Watch List[1]	11	–	–	–	–	–	–	–	584	24%	595	6%
> 30 DPD	146	2%	15	3%	5	9%	20	4%	18	1%	184	2%
Other[2]	759	11%	171	35%	–	–	171	30%	12	1%	942	8%
	7,192	100%	497	100%	56	100%	553	100%	2,433	100%	10,178	100%
ECLs												
PD deterioration	43	67%	51	52%	14	74%	65	55%	52	43%	160	53%
Forbearance	4	6%	2	2%	1	5%	3	3%	24	20%	31	10%
AFD or Watch List[1]	–	–	–	–	–	–	–	–	32	27%	32	11%
> 30 DPD	2	3%	9	9%	4	21%	13	11%	–	–	15	5%
Other[2]	15	24%	37	37%	–	–	37	31%	12	10%	64	21%
	64	100%	99	100%	19	100%	118	100%	120	100%	302	100%

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

(2) Other includes high indebtedness, county court judgments and previous arrears, as well as a number of smaller value drivers.

(3) The COVID related PMAs held in 2021 were allocated to Stage 2 have now been fully released. The economic resilience PMA is primarily held in Stage 2.

Credit risk exposure and ECL, by internal PD rating, by IFRS 9 stage allocation
The distribution of the Group's credit exposures and ECL by internal PD rating is analysed below:

		Stage 1		Stage 2		Stage 3[1]		Total[2]	
2022		Lending £m	ECL £m	Lending £m	ECL £m	Lending £m	ECL £m	Lending £m	ECL £m
Mortgages	**PD range**								
Strong	0 – 0.74	**52,184**	**6**	**1,864**	**10**	**–**	**–**	**54,048**	**16**
Good	0.75 – 2.49	**2,302**	**2**	**641**	**5**	**–**	**–**	**2,943**	**7**
Satisfactory	2.50 – 99.99	**305**	**2**	**585**	**17**	**–**	**–**	**890**	**19**
Default	100	**–**	**–**	**–**	**–**	**583**	**14**	**583**	**14**
Total		**54,791**	**10**	**3,090**	**32**	**583**	**14**	**58,464**	**56**
Unsecured									
Strong	0 – 2.49	**4,795**	**42**	**413**	**26**	**–**	**–**	**5,208**	**68**
Good	2.50 – 9.99	**524**	**20**	**459**	**72**	**–**	**–**	**983**	**92**
Satisfactory	10.00 – 99.99	**5**	**1**	**237**	**83**	**–**	**–**	**242**	**84**
Default	100	**–**	**–**	**–**	**–**	**80**	**40**	**80**	**40**
Total		**5,324**	**63**	**1,109**	**181**	**80**	**40**	**6,513**	**284**
Business									
Strong	0 – 0.74	**4,808**	**5**	**719**	**17**	**–**	**–**	**5,527**	**22**
Good	0.75 – 9.99	**1,455**	**7**	**751**	**31**	**–**	**–**	**2,206**	**38**
Satisfactory	10.00 – 99.99	**7**	**–**	**56**	**7**	**–**	**–**	**63**	**7**
Default	100	**–**	**–**	**–**	**–**	**373**	**50**	**373**	**50**
Total		**6,270**	**12**	**1,526**	**55**	**373**	**50**	**8,169**	**117**

		Stage 1		Stage 2		Stage 3[1]		Total[2]	
2021		Lending £m	ECL £m	Lending £m	ECL £m	Lending £m	ECL £m	Lending £m	ECL £m
Mortgages	**PD range**								
Strong	0 – 0.74	46,984	3	4,555	19	–	–	51,539	22
Good	0.75 – 2.49	3,313	1	1,888	21	–	–	5,201	22
Satisfactory	2.50 – 99.99	299	–	749	24	–	–	1,048	24
Default	100	–	–	–	–	653	19	653	19
Total		50,596	4	7,192	64	653	19	58,441	87
Unsecured									
Strong	0 – 2.49	4,730	28	85	9	–	–	4,815	37
Good	2.50 – 9.99	411	12	325	54	–	–	736	66
Satisfactory	10.00 – 99.99	7	1	143	55	–	–	150	56
Default	100	–	–	–	–	69	35	69	35
Total		5,148	41	553	118	69	35	5,770	194
Business									
Strong	0 – 0.74	3,298	13	505	53	–	–	3,803	66
Good	0.75 – 9.99	2,374	53	1,823	40	–	–	4,197	93
Satisfactory	10.00 – 99.99	–	–	105	27	–	–	105	27
Default	100	–	–	–	–	235	37	235	37
Total		5,672	66	2,433	120	235	37	8,340	223

(1) Stage 3 includes POCI for gross loans and advances of £56m for Mortgages and £1m for Unsecured (2021: £67m and £2m respectively); and ECL of (£1m) for Mortgages and (£2m) for Unsecured (2021: £Nil and (£2m) respectively).

(2) The COVID related PMAs held in 2021 were allocated across Stages 1 and 2 and have now been fully released. The cost of living PMAs are held in Stage 1 and the economic resilience PMA is primarily held in Stage 2.

In terms of credit quality, 97% (2021: 97%) of the loan commitments and financial guarantee contracts were classed as either 'Good' or 'Strong' under the Group's internal PD rating scale.

Movement in gross lending balances and impairment loss allowance

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

	Stage 1		Stage 2		Stage 3[1]			
2022	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions[4] £m
Opening balance at 1 October 2021	**61,416**	**111**	**10,178**	**302**	**957**	**91**	**72,551**	**504**
Transfers from Stage 1 to Stage 2	**(8,287)**	**(45)**	**8,227**	**294**	**–**	**–**	**(60)**	**249**
Transfers from Stage 2 to Stage 1	**10,218**	**27**	**(10,282)**	**(145)**	**–**	**–**	**(64)**	**(118)**
Transfers to Stage 3	**(91)**	**–**	**(562)**	**(84)**	**650**	**101**	**(3)**	**17**
Transfers from Stage 3	**42**	**–**	**137**	**8**	**(187)**	**(12)**	**(8)**	**(4)**
Changes to model methodology	**443**	**1**	**(442)**	**(8)**	**–**	**–**	**1**	**(7)**
New assets originated or purchased[2]	**22,162**	**187**	**2,055**	**159**	**187**	**32**	**24,404**	**378**
Repayments and other movements[3]	**(3,434)**	**(42)**	**(155)**	**(65)**	**56**	**(15)**	**(3,533)**	**(122)**
Repaid or derecognised[3]	**(16,084)**	**(154)**	**(3,431)**	**(193)**	**(498)**	**(101)**	**(20,013)**	**(448)**
Write-offs	**–**	**–**	**–**	**–**	**(129)**	**(129)**	**(129)**	**(129)**
Recoveries	**–**	**–**	**–**	**–**	**–**	**30**	**–**	**30**
Individually assessed impairment charge	**–**	**–**	**–**	**–**	**–**	**107**	**–**	**107**
Closing balance at 30 September 2022	**66,385**	**85**	**5,725**	**268**	**1,036**	**104**	**73,146**	**457**

	Stage 1		Stage 2		Stage 3[1]			
2021	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions[4] £m
Opening balance at 1 October 2020	59,219	136	12,844	465	862	134	72,925	735
Transfers from Stage 1 to Stage 2	(11,131)	(62)	11,076	389	–	–	(55)	327
Transfers from Stage 2 to Stage 1	10,397	58	(10,484)	(284)	–	–	(87)	(226)
Transfers to Stage 3	(115)	(1)	(623)	(91)	734	108	(4)	16
Transfers from Stage 3	33	–	217	23	(253)	(25)	(3)	(2)
Changes to model methodology	–	–	–	–	–	–	–	–
New assets originated or purchased[2]	19,276	206	1,621	158	132	22	21,029	386
Repayments and other movements[3]	(2,955)	(59)	(933)	(140)	(16)	(72)	(3,904)	(271)
Repaid or derecognised[3]	(13,308)	(167)	(3,540)	(218)	(376)	(55)	(17,224)	(440)
Write-offs	–	–	–	–	(126)	(126)	(126)	(126)
Recoveries	–	–	–	–	–	26	–	26
Individually assessed impairment charge	–	–	–	–	–	79	–	79
Closing balance at 30 September 2021	61,416	111	10,178	302	957	91	72,551	504

(1) Stage 3 includes POCI for gross loans and advances of £56m for Mortgages and £1m for Unsecured (2021: £67m and £2m respectively), and ECL of (£1m) for Mortgages and (£2m) for Unsecured (2021: £Nil and (£2m) respectively). Nil for Business in both periods.

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

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

(4) The COVID related PMAs held in 2021 were allocated across Stages 1 and 2 and have now been fully released. The cost of living PMAs are held in Stage 1 and the economic resilience PMA is primarily held in Stage 2.

In addition to the above on-balance sheet position, the Group also has £19,359m of loan commitments and financial guarantee contracts (2021: £17,121m) of which £18,454m (95.3%) are held under Stage 1, £865m in Stage 2 and £40m in Stage 3 (2021: £16,001m (93.5%) held under Stage 1, £1,090m in Stage 2 and £30m in Stage 3). ECLs of £3m (2021: £8m) are included in the table above, of which £1m (2021: £2m) is held under Stage 1 and £2m (2021: £6m) under Stage 2.

Credit risk

Against the backdrop of a deteriorating UK economy, credit quality has remained solid throughout the year, with the overall portfolio performing well and no significant individually assessed provisions raised.

During the second half of 2022, refinements to the staging criteria in the Business portfolio were implemented to further enhance the calculation and align it more closely to the underlying level of credit risk inherent within the Business portfolio. The impact moved c. £443m of loans from Stage 2 to Stage 1, leading to a modelled ECL release of c. £7m, and an approx. 22% reduction in the balance of business loans in Stage 2.

The contractual amount outstanding on loans and advances that were written off during the reporting period, or still subject to enforcement activity was £4.3m (2021: £2.6m). The Group has not purchased any lending assets in the year (2021: none). Further information on staging profile is provided at a portfolio level in the respective portfolio performance section on the following pages.

Mortgage credit performance

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

Breakdown of Mortgage portfolio

2022	Gross lending £m	Modelled & IA ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage %	Average LTV %
Residential – capital repayment	**36,417**	**13**	**5**	**18**	**36,399**	**0.05%**	**54.2%**
Residential – interest only	**7,041**	**3**	**1**	**4**	**7,037**	**0.05%**	**45.4%**
BTL	**15,006**	**6**	**28**	**34**	**14,972**	**0.22%**	**52.4%**
Total Mortgage portfolio	**58,464**	**22**	**34**	**56**	**58,408**	**0.09%**	**52.7%**
2021							
Residential – capital repayment	35,192	19	21	40	35,152	0.10%	57.2%
Residential – interest only	8,341	6	2	8	8,333	0.10%	47.2%
BTL	14,908	8	31	39	14,869	0.24%	54.8%
Total Mortgage portfolio	58,441	33	54	87	58,354	0.15%	55.3%

Mortgage lending has remained flat on a net basis at £58.5bn (2021: £58.4bn) as the Group continued to prioritise margin in an increasingly competitive environment.

The portfolio continues to evidence solid underlying credit performance, with the majority (98%) of lending not yet past due at the balance sheet date (2021: 98%), and 94% of loans held in Stage 1 (2021: 87%). The successful return to normal payment patterns of customers taking advantage of COVID-19 payment holiday arrangements last year, drove the migration in balances from Stage 2 to Stage 1. A significant proportion of the portfolio is rated Strong at the balance sheet date (92% compared to 88% at 30 September 2021), and the volume and value of loans in forbearance has reduced to 4,636/£640m from 6,743/£830m, primarily due to customers successfully completing the forbearance reporting probation period and returning to fully performing status.

Stage 3 balances have remained low at 1.0% (2021: 1.1%) and 93% of the portfolio has an LTV of less than 75% (2021: 87%), with the weighted average LTV further reducing in the year to 52.7% (2021: 55.3%). All of these key metrics evidence a high quality mortgage portfolio, with relatively low risk of default, driven by sound lending decisions and underwriting criteria. Further detail on LTV bandings and forbearance measures is provided on the following pages.

The stability in the Mortgage portfolio metrics together with the improvement in the economic assumptions, such as house prices, have contributed to a release of £9m in the modelled ECL, taking the total modelled and IA ECL provision to £22m (2021: £33m). Total PMAs have similarly reduced in the period, as detailed below, from £54m to £34m. The total Mortgage portfolio impairment provision is £56m (2021: £87m).

The Group had previously introduced a PMA for payment holidays in 2020 at the outset of the COVID-19 pandemic; this PMA, which was £22m at 30 September 2021, has now been fully released as customers have successfully exited payment holiday arrangements and returned to normal repayment patterns. Due to the uncertain macroeconomic environment, however, a new PMA of £6m has been introduced in response to the cost of living crisis, to reflect the potential impact on debt affordability from rising base rates and other inflationary impacts. The PMA reflects the potential impact on ECL in the event of a monthly payment shock to household finances, applied to customers in Stage 1 that are not currently, or otherwise showing signs of financial difficulty.

Asset quality metrics for the BTL mortgage book remain robust, but the Group continues to hold a prudent level of provisioning for this customer cohort, with the related PMA held broadly stable at £25m (2021: £28m). Other small PMAs totalling £4m (2021: £4m) have been retained, taking total PMA's held to £34m, down from £54m at 30 September 2021.

The release of modelled provisions and PMAs has resulted in an impairment credit of £30m in the income statement (2021: credit of £44m) and associated cost of risk of (4)bps (2021: (7)bps). While the total book coverage has reduced in the year to 9bps, it remains higher than the pre-pandemic level of 7bps.

Collateral

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

Average LTV of Mortgage portfolio by staging

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

2021	Stage 1			Stage 2			Stage 3(2)			Total(3)		
LTV(1)	Loans £m	%	ECL £m	Loans £m	%	ECL £m	Loans £m	%	ECL £m	Loans £m	%	ECL £m
Less than 50%	19,907	39%	1	2,268	32%	6	274	41%	2	22,449	38%	9
50% to 75%	24,383	49%	1	3,648	51%	37	256	39%	3	28,287	49%	41
76% to 80%	3,123	6%	1	729	10%	9	49	8%	1	3,901	7%	11
81% to 85%	2,346	5%	1	426	6%	6	30	5%	1	2,802	5%	8
86% to 90%	715	1%	–	102	1%	3	17	3%	1	834	1%	4
91% to 95%	79	–	–	7	–	–	8	1%	1	94	–	1
96% to 100%	8	–	–	2	–	–	5	1%	–	15	–	–
Greater than 100%	35	–	–	10	–	3	14	2%	10	59	–	13
	50,596	100%	4	7,192	100%	64	653	100%	19	58,441	100%	87

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

(2) Stage 3 includes £56m (2021: £67m) of POCI gross loans and advances and (£1m) ECL (2021: £Nil).

(3) The payment holiday PMA held in 2021 was allocated to Stage 2 and has now been fully released. The cost of living PMA is held in Stage 1.

The Mortgage portfolio remains highly secured with 92.3% of mortgages, by loan value, having an indexed LTV of less than 75% (2021: 86.8%), and an average portfolio LTV of 52.7% (2021: 55.3%). New lending has increased the value of loans in Stage 1 with an LTV between 91% to 95%.

Forbearance

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

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

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
2022	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Formal arrangements	1,145	137	0.23%	8.6	6.23%
Temporary arrangements	518	82	0.14%	4.4	5.38%
Payment arrangement	1,211	133	0.23%	0.6	0.49%
Payment holiday	381	47	0.08%	0.1	0.27%
Interest only conversion	1,193	225	0.39%	0.8	0.35%
Term extension	66	5	0.01%	–	0.45%
Other	14	1	–	–	0.92%
Legal	108	10	0.02%	0.3	2.42%
Total mortgage forbearance	4,636	640	1.10%	14.8	2.31%
2021					
Formal arrangements	1,115	133	0.23	4.9	3.66
Temporary arrangements	675	100	0.17	6.8	6.81
Payment arrangement	1,865	176	0.30	2.3	1.30
Payment holiday	1,436	123	0.21	0.5	0.41
Interest only conversion	1,390	273	0.47	1.3	0.47
Term extension	127	12	0.02	0.1	0.57
Other	19	2	0.01	–	0.68
Legal	116	11	0.02	0.3	3.09
Total mortgage forbearance	6,743	830	1.43	16.2	1.95

As at 30 September 2022, forbearance totalled £640m (4,636 customers), a decrease from the 30 September 2021 position of £830m (6,743 customers). This level represents 1.10% of total mortgage balances (2021: 1.43%), with the decrease primarily driven by customers successfully completing the forbearance reporting probation period and returning to fully performing status.

When all other avenues of resolution, including forbearance, have been explored, the Group will take steps to repossess and sell underlying collateral. In 2022, there were 73 repossessions of which 7 were voluntary (2021: 33 including 13 voluntary). The number of repossessions has increased as court proceedings resume following the suspension during the COVID-19 pandemic. The Group remains committed to supporting the customer, and places the right outcome for them at the centre of this strategy.

IFRS 9 staging

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

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

2021	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[(1)] Gross loans £m	Stage 3[(1)] ECL £m	Total gross loans £m	Total provisions[(4)] £m
Opening balance at 1 October 2020	49,970	14	8,166	95	516	22	58,652	131
Transfers from Stage 1 to Stage 2	(8,172)	(4)	8,140	113	–	–	(32)	109
Transfers from Stage 2 to Stage 1	7,479	5	(7,522)	(101)	–	–	(43)	(96)
Transfers to Stage 3	(64)	–	(367)	(9)	429	7	(2)	(2)
Transfers from Stage 3	24	–	108	13	(137)	(4)	(5)	9
Changes to model methodology	–	–	–	–	–	–	–	–
New assets originated or purchased[(2)]	9,662	2	76	2	2	–	9,740	4
Repayments and other movements[(3)]	(2,141)	(11)	(405)	(36)	(38)	(3)	(2,584)	(50)
Repaid or derecognised[(3)]	(6,162)	(2)	(1,004)	(13)	(118)	(2)	(7,284)	(17)
Write-offs	–	–	–	–	(1)	(1)	(1)	(1)
Recoveries	–	–	–	–	–	1	–	1
Individually assessed impairment charge	–	–	–	–	–	(1)	–	(1)
Closing balance at 30 September 2021	50,596	4	7,192	64	653	19	58,441	87

(1) Stage 3 includes POCI for gross loans and advances of £56m (2021: £67m) and ECL of (£1m) (2021: £Nil).

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

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

(4) The payment holiday PMA held in 2021 was allocated to Stage 2 and has now been fully released. The cost of living PMA is held in Stage 1.

Despite economic uncertainty, the Mortgage portfolio continues to evidence strong performance and has benefited from positive house price movements. Coupled with the successful exit from payment holiday arrangements for those customers that took advantage of those measures during the pandemic, there has been a shift in balances from Stage 2 to Stage 1. The level of mortgage lending classed as Stage 1 increased from 86.6% in 2021 to 93.7%, with a corresponding decrease of assets in Stage 2 from 12.3% to 5.3%. Within the Stage 2 category, 4.7% of balances are not yet past due at the balance sheet date (2021: 11.9%), but falls within the Stage 2 classification predominantly due to PD deterioration. The proportion of mortgages classified as Stage 3 remains modest at 1.0% (2021: 1.1%).

These conditions have also contributed to an increase in assets classed as 'Strong' from 88% at 30 September 2021 to 92.4% at 30 September 2022, with over 97% (2021: 97%) of the Mortgage portfolio classed as 'Good' or 'Strong'.

The sustained quality in the internal PD ratings and high quality of collateral underpinning the book are key factors supporting the lower level of provision coverage.

Unsecured credit performance

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

Breakdown of Unsecured credit portfolio

2022	Gross lending £m	Modelled ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage %
Credit cards	**5,558**	**216**	**30**	**246**	**5,312**	**4.81%**
Personal loans	**925**	**32**	**2**	**34**	**891**	**3.57%**
Overdrafts	**30**	**4**	**–**	**4**	**26**	**12.57%**
Total Unsecured lending portfolio	**6,513**	**252**	**32**	**284**	**6,229**	**4.66%**
2021						
Credit cards	4,655	142	18	160	4,495	3.79%
Personal loans	1,082	14	17	31	1,051	3.57%
Overdrafts	33	3	–	3	30	11.14%
Total Unsecured lending portfolio	5,770	159	35	194	5,576	3.80%

Unsecured gross lending balances increased to £6.5bn (2021: £5.8bn) predominantly due to growth in credit card portfolio, while the personal loan portfolio continued to contract. The credit quality of the Unsecured portfolio remains high overall, with 97.9% of the portfolio in Stage 1 or Stage 2 not past due (2021: 98.1%) and a 1.2% in Stage 3 (2021: 1.2%). The level of customers in forbearance similarly remains low at 1.12% of the portfolio (2021: 1.30%).

Credit cards

Growth in the number of credit card accounts in the year of 20% has driven an increase in the lending balance of £0.9bn (21%). Average balances have remained fairly static throughout the year, as has the average level of facility utilisation. The credit quality of the cards portfolio remains high with 97.8% (2021: 98.2%) in stage 1 and stage 2 not past due, and a modest 1.3% in Stage 3 (2021: 1.2%).

While there has been minimal evidence of a deterioration in credit quality across the portfolio, as evidenced by these key metrics, the downturn in the broader UK economy has been reflected through the economic scenarios, resulting in an increase of £74m in the modelled ECL. Coverage of 481bps is consequently up 102bps from FY21, and is 139bps higher than pre-pandemic levels of 342bps.

The payment holiday PMAs introduced in response to COVID-19, which amounted to £4m for the cards book at 30 September 2021, have now been fully released. A new PMA has been established for cost-of-living shocks that are not yet fully observed and incorporated in the modelled ECL. This has been applied to a cohort of credit card customers who are susceptible to a payment shock, and has resulted in a £20m PMA. This has been allocated to Stage 1. A small number of previously held PMAs totalling £10m (2021: £14m) have also been retained.

Personal loans

While the personal loan portfolio represents only a small portion of our Unsecured and total Group portfolio, staging has shifted during the year with a reduction in Stage 1 balances from 94.0% to 64.1%, and a corresponding increase in Stage 2 not past due balances from 5.0% to 35.1%. This movement has had an impact on the staging profile for the whole Unsecured portfolio. This movement relates to personal lending made via the Group's JV arrangement with Salary Finance which has a cohort of customers who can be more susceptible to being impacted earlier, and harder, by cost of living shocks. During the year, the JV experienced an increased number of customers not maintaining scheduled loan repayments. Consequently, the Group has assessed the credit risk for this specific cohort of customers, and has now classified all lending with the JV (£318m) in Stage 2 (2021: £223m within Stage 1), together with an associated ECL of £19m (2021: £Nil).

Loan payment holiday PMAs, which were £8m at 30 September 2021, were fully released in the year. A new PMA of £1m has been established for cost-of-living shocks. Other PMAs have fallen from £9m in the prior year to £1m at the balance sheet date.

Taking the modelled provisions and PMAs together for the full Unsecured portfolio, the total ECL provision increased to £284m at 30 September 2022 (2021: £194m), resulting in a charge to the income statement in the year of £178m (2021: credit of £32m) and an increase in coverage ratio of 86bps to 466bps (2021: 380bps).

Forbearance

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

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
2022	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Credit card arrangements	**15,872**	**62**	**1.19%**	**24.3**	**39.47%**
Personal loan arrangements	**638**	**3**	**0.56%**	**1.4**	**40.33%**
Overdraft arrangements	**56**	**–**	**0.04%**	**–**	**30.76%**
Total Unsecured lending forbearance	**16,566**	**65**	**1.12%**	**25.7**	**39.51%**
2021					
Credit card arrangements	14,151	60	1.39%	23.9	39.88%
Personal loan arrangements	1,174	6	0.78%	3.3	49.61%
Overdraft arrangements	280	1	2.55%	0.4	51.89%
Total Unsecured lending forbearance	15,605	67	1.30%	27.6	40.98%

At 30 September 2022, credit cards forbearance totalled £62m (15,872 accounts), an increase from the 30 September 2021 position of £60m (14,151 accounts). This represents 1.19% of total credit cards balances (2021: 1.39%). The level of impairment coverage on forborne credit cards is stable at 39.5% (2021: 39.9%). Limited forbearance is exercised in relation to personal loans and overdrafts, with a reduction to £3m (0.54%) in the personal loans and overdrafts portfolio from £7m (0.85%) at 30 September 2021.

IFRS 9 staging

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

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

2021	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[1] Gross loans £m	Stage 3[1] ECL £m	Total gross loans £m	Total provisions[4] £m
Opening balance at 1 October 2020	4,660	70	823	194	67	37	5,550	301
Transfers from Stage 1 to Stage 2	(954)	(32)	951	209	–	–	(3)	177
Transfers from Stage 2 to Stage 1	859	21	(890)	(113)	–	–	(31)	(92)
Transfers to Stage 3	(19)	(1)	(100)	(68)	119	80	–	11
Transfers from Stage 3	2	–	3	2	(5)	(5)	–	(3)
Changes to model methodology	–	–	–	–	–	–	–	–
New assets originated or purchased[2]	1,319	17	38	6	1	–	1,358	23
Repayments and other movements[3]	(493)	(28)	(217)	(98)	15	(52)	(695)	(178)
Repaid or derecognised[3]	(226)	(6)	(55)	(14)	(29)	(25)	(310)	(45)
Write-offs	–	–	–	–	(99)	(99)	(99)	(99)
Recoveries	–	–	–	–	–	24	–	24
Individually assessed impairment charge	–	–	–	–	–	75	–	75
Closing balance at 30 September 2021	5,148	41	553	118	69	35	5,770	194

(1) Stage 3 includes POCI for gross loans and advances of £1m (2021: £2m) and ECL of (£2m) (2021: (£2m).

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

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

(4) The payment holiday PMA held in 2021 was allocated to Stage 2 and has now been fully released. The cost of living PMA is held in Stage 1.

The balance of unsecured lending in Stage 2 increased by 7.4% to 17.0% (2021: 9.6%), driven primarily by the observed deterioration of the Salary Finance lending. Of the Stage 2 category, 16.1% is not yet past due at the balance sheet date, but falls into the Stage 2 classification predominantly due to PD deterioration.

There has been a corresponding reduction in Stage 1 from 89.1% to 81.7%, while Stage 3 remains stable at 1.2% (2021: 1.2%).

Business credit performance

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

Breakdown of Business credit portfolio

2022	Gross lending £m	Government(1) £m	Total gross £m	Modelled & IA ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage(2) %
Agriculture	**1,392**	**66**	**1,458**	**5**	**1**	**6**	**1,452**	**0.45%**
Business services	**980**	**286**	**1,266**	**22**	**4**	**26**	**1,240**	**2.53%**
Commercial Real Estate	**597**	**10**	**607**	**3**	**–**	**3**	**604**	**0.54%**
Government, health and education	**1,008**	**54**	**1,062**	**8**	**2**	**10**	**1,052**	**0.95%**
Hospitality	**652**	**78**	**730**	**4**	**1**	**5**	**725**	**0.80%**
Manufacturing	**640**	**109**	**749**	**23**	**3**	**26**	**723**	**3.96%**
Resources	**133**	**8**	**141**	**3**	**1**	**4**	**137**	**2.37%**
Retail and wholesale trade	**330**	**128**	**458**	**7**	**1**	**8**	**450**	**2.51%**
Transport and storage	**291**	**56**	**347**	**4**	**1**	**5**	**342**	**1.44%**
Other	**1,089**	**262**	**1,351**	**20**	**4**	**24**	**1,327**	**2.11%**
Total Business portfolio	**7,112**	**1,057**	**8,169**	**99**	**18**	**117**	**8,052**	**1.59%**
2021								
Agriculture	1,361	80	1,441	7	5	12	1,429	0.89%
Business services	943	337	1,280	21	27	48	1,232	4.82%
Commercial Real Estate	667	13	680	4	3	7	673	1.00%
Government, health and education	1,031	73	1,104	7	10	17	1,087	1.62%
Hospitality	563	105	668	6	7	13	655	2.29%
Manufacturing	556	144	700	22	21	43	657	6.93%
Resources	95	8	103	3	4	7	96	6.85%
Retail and wholesale trade	623	248	871	14	14	28	843	4.13%
Transport and storage	300	80	380	4	4	8	372	2.50%
Other	883	230	1,113	17	23	40	1,073	4.42%
Total Business portfolio	7,022	1,318	8,340	105	118	223	8,117	3.06%

(1) Government includes all lending provided to business customers under UK Government schemes including Bounce back loan scheme, Coronavirus business interruption loan scheme, Coronavirus large business interruption loan scheme and Recovery loan scheme (RLS). This excludes £66m (2021: £Nil) of guarantee claim funds received from British Business Bank.

(2) Coverage ratio excludes the guaranteed element of government-backed loan schemes.

Gross Business lending reduced to £8.1bn (2021: £8.3bn) driven by reductions in government-guaranteed lending schemes as borrowers continued to repay balances, which more than offset underlying portfolio growth in the year. Excluding the government lending, core lending balances grew slightly as business activity, which had been generally subdued during the pandemic, grew in line with broader economic activity and improved business confidence. Growth is targeted to sectors and sub sectors where the Group has a well established expertise. Book mix remained fairly constant year on year as sector focused strategy was maintained, with lending to the agriculture, business services and government, health and education sectors continuing to account for almost half of the total book, at 46% in both years.

Business lending credit performance remained resilient, with balances in Stage 1 and Stage 2 not past due representing 95.1% of the portfolio (2021: 96.7%). The percentage of loans in Stage 1 increased to 76.8% (2021: 68.0%) largely due to changes applied to the SICR criteria (outlined on page 21) which, resulted in these customers migrating back to Stage 1. Across the portfolio 95% of lending was rated 'Strong' or 'Good' (2021: 96%). The previous Government interventions, including the ongoing loan schemes, continue to result in fewer customers entering forbearance; low levels were maintained with only 5.16% of the total portfolio being forborne at 30 September 2022 (2021: 5.82%).

Notwithstanding the strength of the portfolio, ongoing economic and political upheaval creates uncertainty over the potential for default occurring in the future. Key asset quality metrics continue to be monitored closely and a cautious approach to provisioning is being maintained. Stage 3 loans have increased to 4.6% driven primarily by bounce back loans (2021: 2.8%).

Despite these uncertainties, the refreshed macroeconomic scenarios have resulted in a small reduction of £6m in the modelled and IA provisions to £99m. At 30 September 2021, the Group recognised PMAs for sector stress (£80m) and PD neutralisation (£34m) together with other minor factors (£4m); each of these PMAs has been reviewed in the current year. While the removal of all COVID-19 restrictions is seen as a move away from the downside impact of the pandemic and is a rationale for a reduction in some sector stress, more recent geopolitical events in Ukraine and the cost of living crisis in the UK contribute to ongoing uncertainty over the impact that these broader economic conditions could have on UK businesses.

The models used to estimate ECL have been built and tested on the past two recessions, neither of which included the combination of historically high price inflation nor the significant shock to primary commodities and energy which are leading to economic stagnation at a time of modest interest rates and unemployment. Therefore, a new economic resilience PMA of £30m has been introduced. A small negative PMA of £12m is also held pending introduction of the Business LGD model which will be implemented in the coming year and other technical adjustments.

The above results in an overall provision of £117m (2021: £223m) and an impairment credit in the income statement of £96m for the year (2021: credit of £55m). Portfolio coverage has reduced to 159bps (2021: 306bps), reflecting the quality of the portfolio and little evidence of deterioration in asset quality to date.

Forbearance

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

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

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

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
2022	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Term extension	**154**	**118**	**1.36%**	**4.9**	**4.18%**
Payment holiday[(1)]	**81**	**193**	**2.23%**	**32.6**	**16.86%**
Reduction in contracted interest rate	**2**	**1**	**0.01%**	**0.0**	**1.33%**
Alternative forms of payment	**0**	**0**	**0.00%**	**0.0**	**0.00%**
Debt forgiveness	**2**	**1**	**0.01%**	**0.5**	**97.05%**
Refinancing	**9**	**2**	**0.02%**	**0.1**	**5.14%**
Covenant breach/reset/waiver	**41**	**133**	**1.53%**	**5.4**	**4.03%**
Total Business forbearance	**289**	**448**	**5.16%**	**43.5**	**9.71%**
2021					
Term extension	188	196	2.27%	10.2	5.19%
Payment holiday[(1)]	86	130	1.51%	17.6	13.48%
Reduction in contracted interest rate	1	1	0.01%	–	0.02%
Alternative forms of payment	1	13	0.15%	5.6	43.14%
Debt forgiveness	2	4	0.04%	–	0.67%
Refinancing	10	3	0.04%	0.2	7.21%
Covenant breach/reset/waiver	44	155	1.80%	8.2	5.27%
Total Business forbearance	332	502	5.82%	41.8	8.31%

(1) In the prior year, payment holidays granted in line with regulation were not classified as forbearance due to the extenuating circumstances arising from COVID-19. The standard approach of classifying payment holidays as forbearance resumed in August 2021.

Business portfolio forbearance has reduced from £502m (332 customers) at 30 September 2021 to £448m (289 customers) at 30 September 2022. Forbearance remains an important metric, reflecting the volume and value of concessions granted to customers on a non-commercial basis. Changes to forbearance levels reflect the proportion of business customers requiring support on non-standard terms and evidencing financial difficulty. As a percentage of the Business portfolio, forborne balances have reduced to 5.16% (2021: 5.82%) with impairment coverage slightly increasing to 9.71% (2021: 8.31%). Most forbearance arrangements relate to term extensions allowing customers a longer term to repay obligations in full than initially contracted.

Customers within the forbearance portfolio have received £26m of COVID-19 related support loans: £13m CBIL, £4m BBL and £9m RLS.

The table includes a portfolio of financial assets at fair value. The gross value of fair value loans subject to forbearance as at 30 September 2022 is £4.7m (2021: £5.3m), representing 0.05% of the total business portfolio (2021: 0.06%). The credit risk adjustment on these amounts totalled £0.1m (2021: £0.1m). Coverage is 2.99% (2021: 2.32%).

IFRS 9 staging

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

2022	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[3] Gross loans £m	Stage 3[3] ECL £m	Total gross loans £m	Total provisions[4] £m
Opening balance at 1 October 2021	**5,672**	**66**	**2,433**	**120**	**235**	**37**	**8,340**	**223**
Transfers from Stage 1 to Stage 2	**(1,382)**	**(13)**	**1,347**	**29**	**–**	**–**	**(35)**	**16**
Transfers from Stage 2 to Stage 1	**894**	**8**	**(908)**	**(28)**	**–**	**–**	**(14)**	**(20)**
Transfers to Stage 3	**(23)**	**–**	**(255)**	**(10)**	**273**	**14**	**(5)**	**4**
Transfers from Stage 3	**12**	**–**	**28**	**2**	**(39)**	**(2)**	**1**	**–**
Changes to model methodology	**443**	**1**	**(443)**	**(8)**	**–**	**–**	**–**	**(7)**
New assets originated or purchased[1]	**10,483**	**166**	**2,037**	**155**	**179**	**27**	**12,699**	**348**
Repayments and other movements[2]	**(442)**	**(72)**	**(167)**	**(34)**	**(22)**	**(8)**	**(631)**	**(114)**
Repaid or derecognised[2]	**(9,387)**	**(144)**	**(2,546)**	**(171)**	**(239)**	**(27)**	**(12,172)**	**(342)**
Write-offs	**–**	**–**	**–**	**–**	**(14)**	**(14)**	**(14)**	**(14)**
Recoveries	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**4**
Individually assessed impairment charge	**–**	**–**	**–**	**–**	**–**	**19**	**–**	**19**
Closing balance at 30 September 2022	**6,270**	**12**	**1,526**	**55**	**373**	**50**	**8,169**	**117**

2021	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3 Gross loans £m	Stage 3 ECL £m	Total gross loans £m	Total provisions[4] £m
Opening balance at 1 October 2020	4,589	52	3,855	176	279	75	8,723	303
Transfers from Stage 1 to Stage 2	(2,005)	(26)	1,985	67	–	–	(20)	41
Transfers from Stage 2 to Stage 1	2,059	32	(2,072)	(70)	–	–	(13)	(38)
Transfers to Stage 3	(32)	–	(156)	(14)	186	21	(2)	7
Transfers from Stage 3	7	–	106	8	(111)	(16)	2	(8)
Changes to model methodology	–	–	–	–	–	–	–	–
New assets originated or purchased[1]	8,295	187	1,507	150	129	22	9,931	359
Repayments and other movements[2]	(321)	(20)	(311)	(6)	7	(17)	(625)	(43)
Repaid or derecognised[2]	(6,920)	(159)	(2,481)	(191)	(229)	(28)	(9,630)	(378)
Write-offs	–	–	–	–	(26)	(26)	(26)	(26)
Recoveries	–	–	–	–	–	1	–	1
Individually assessed impairment charge	–	–	–	–	–	5	–	5
Closing balance at 30 September 2021	5,672	66	2,433	120	235	37	8,340	223

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

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

(3) This excludes £66m (2021: £Nil) of guarantee claim funds received from British Business Bank.

(4) The COVID related PMAs held in 2021 were allocated across Stages 1 and 2 and have now been fully released, the remaining Business PMAs are predominantly held in Stage 2.

The level of Business lending classed as Stage 1 has increased to 76.8% (2021: 68.0%), with a corresponding decrease of 10.5% in Stage 2 to 18.7% (2021: 29.2%), primarily driven by the revisions to the SICR triggers.

The majority (98%) of the portfolio in Stage 2 is not past due and is primarily in Stage 2 due to PD deterioration, in addition to proactive management measures such as early intervention, heightened monitoring and forbearance concessions. Stage 3 loans have increased to 4.6% driven primarily by bounce back loans (2021: 2.8%).

The proportion of assets classed as 'Strong' has increased to 68% (2021: 46%), with assets classed as 'Strong' or 'Good' now 95% (2021: 96%).

Other credit risks

Non-property related collateral

The following table shows the total non-property collateral held at 30 September 2022 in terms of cash, guarantees (guarantees are predominantly in relation to government-backed COVID-19 loans) and netting. The exposure amount shown below is the total gross exposure (net of credit provisions) for arrangements that have some form of associated collateral and is not the total exposure for each asset class, as this balance is disclosed elsewhere in this section.

2022	Cash £m	Guarantee £m	Netting £m	Debt securities £m	Other physical collateral £m	Receivables £m	Total £m	Exposure £m
Financial assets at amortised cost								
Loans and advances to customers								
Business	**7**	**970**	**237**	**–**	**464**	**501**	**2,179**	**2,397**
Cash and balances with central banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Due from other banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**7**	**970**	**237**	**–**	**464**	**501**	**2,179**	**2,397**
Of which: Stage 3								
Loans and advances to customers								
Business	**–**	**127**	**–**	**–**	**1**	**11**	**139**	**140**

2021	Cash £m	Guarantee £m	Netting £m	Debt securities £m	Other physical collateral £m	Receivables £m	Total £m	Exposure £m
Financial assets at amortised cost								
Loans and advances to customers								
Business	9	1,235	202	–	442	507	2,395	2,621
Cash and balances with central banks	5,894	–	–	–	–	–	5,894	8,093
Due from other banks	–	–	–	287	–	–	287	331
Total	5,903	1,235	202	287	442	507	8,576	11,045
Of which: Stage 3								
Loans and advances to customers								
Business	–	34	–	–	4	9	47	46

The removal of cash collateral reflected within central governments or central banks is due to a change in reporting following CRR II implementation, where the Term Funding Scheme is now reported under CCR rules. The debt securities collateral previously reported within due from other banks was in relation to a sale and repurchase agreement (repo) which is no longer held by the Group.

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

Following PRA approval in 2020, the Group moved to recognise asset finance and invoice finance collateral, being other physical collateral and receivables respectively, as eligible collateral from a credit risk mitigation perspective in relation to the foundation internal ratings based (FIRB) approach.

Corporates is the largest sector utilising other risk mitigation techniques, with all five methods utilised dependent on credit quality. The extent to which these will be used is dependent on the specific circumstances of the customer.

The Group is exposed to credit risk on its other banking and Treasury-related activities, which are subject to mitigation and monitoring. No material ECL provisions are held for these exposures.

Offsetting of financial assets and liabilities

The Group reduces exposure to credit risk through central clearing for eligible derivatives, and daily posting of cash collateral on such transactions as detailed in note 3.6 to the financial statements. The amounts offset on the balance sheet, as shown below, represent derivatives and variation margin collateral with central clearing houses, which meet the criteria for offsetting under IAS 32. The table excludes financial instruments not subject to offset and that are formally subject to collateral arrangements (e.g. loans and advances).

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

The net amounts presented in the table are not intended to represent the Group's exposure to credit risk, as the Group will use a wide range of strategies to mitigate credit risk in addition to netting and collateral.

				Net amounts not offset on balance sheet		
2022	Gross amounts £m	Gross amounts offset on balance sheet[1] £m	Net amounts presented on balance sheet £m	Subject to master netting agreements £m	Cash collateral pledged/received[2] £m	Net amount[3] £m
Assets						
Derivative financial instruments[4]	**3,340**	**(2,998)**	**342**	**(46)**	**(182)**	**114**
Liabilities						
Derivative financial instruments[4]	**1,797**	**(1,469)**	**328**	**(46)**	**(32)**	**250**
Securities sold under repurchase agreement	**703**	**–**	**703**	**(703)**	**–**	**–**
2021						
Assets						
Derivative financial instruments[4]	413	(273)	140	(76)	(1)	63
Liabilities						
Derivative financial instruments[4]	678	(469)	209	(76)	(50)	83

(1) The net balance of £1,529m (2021: £196m) relates to variation margin offset under IAS 32 and reflected on other balance sheet lines.

(2) Cash collateral amounts not offset under IAS 32 in respect of derivatives with other banks are included within due from and due to other banks. Cash collateral amounts not offset under IAS 32 in respect of derivative with central clearing houses is included within other assets and other liabilities.

(3) Cash collateral amounts are limited to the net balance sheet exposure in order to exclude any over collateralisation. In addition to cash collateral, the Group has pledged securities collateral in respect of derivative transactions subject to master netting agreements of £594m (2021: £274m). This is not offset under IAS 32 or presented as collateral on the balance sheet.

(4) Derivative financial instruments comprise both trading and hedging derivative assets and liabilities.

Macroeconomic assumptions, scenarios, and weightings

The Group's ECL allowance at 30 September 2022 was £457m (2021: £504m).

Macroeconomic assumptions

The Group engages Oxford Economics to provide a wide range of future macroeconomic assumptions, which are used in the scenarios over the five-year forecast period, reflecting the best estimate of future conditions under each scenario outcome. The macroeconomic assumptions were provided by Oxford Economics on 1 September 2022 and changes in macroeconomic assumptions between 1 September 2022 and 30 September 2022 have been considered as part of the PMAs. The Group has identified the following key macroeconomic drivers as the most significant inputs for IFRS 9 modelling purposes: UK GDP growth, inflation, house prices, base rates, and unemployment rates. The external data provided is assessed and reviewed on a quarterly basis to ensure appropriateness and relevance to the ECL calculation, with more frequent updates provided as and when the circumstances require them. Further adjustments supplement the modelled output when it is considered that not all the risks identified in a product segment have been accurately reflected within the models, or for other situations where it is not possible to provide a modelled outcome.

As the UK economy gradually recovered from the impact of COVID-19, the outlook continues to be as uncertain than it was at this point in 2021. Recent (and further anticipated) bank base rate rises, concerns over rising energy prices (despite recent UK Government announcements on the assistance it will provide customers), the increase in national insurance contributions, and the headwinds from higher inflation have all had an impact on household incomes in 2022. The potential impact on the UK economy of the Russian invasion of Ukraine remains uncertain, but as the Group has no direct lending in that region, it is hoped that any impact will be modest and short term. Against this fast moving and evolving environment, the Group has continued to assess the possible IFRS 9 economic scenarios to select appropriate forecasts and weightings. The selection of scenarios and the appropriate weighting to apply are considered and debated by an internal review panel quarterly with final proposed recommendations for use in the IFRS 9 models made to ALCO for formal approval. The three scenarios selected, together with the weightings applied, have been updated to reflect the current economic environment and are:

Scenario	30 Sept 2022 (%)	30 Sept 2021 (%)
Upside	10	15
Base	55	50
Downside	35	35

The Group continue to select three scenarios, with the largest weighting applied to the base scenario. In the current year, there is a 5% shift in the weightings from the Upside scenario towards the Base scenario, reflecting a lesser degree of confidence in the Upside scenario over the short to medium term as a result of the updated macroeconomic assumptions. The Group's current weighting applied to the Downside scenario is appropriate when considered in the context of the overall scenario weightings applied and remains unchanged from the previous year.

Upside (10%)[(1)]

- GDP increased sharply by 8.7% in the first quarter of 2022 (Q1 2022 v Q1 2021), before slowing down to a c.2.0%-3.0% increase in each of the remaining quarters in 2022 against the 2021 positions. Overall year-on-year growth in 2022 is forecast at 3.9%, with a slight decrease to 2.8% in 2023, before rising slightly in 2024 and 2025 and reverting to a more modest increase in 2026.
- Inflation rises steeply and peaks at 12.9% in Q4 2022 (and lasting into Q1 2023) from a low base of 0.6% at Q1 2021. Inflation reverts back but remains high for the remainder of 2023, falling to 2.0% in Q2 2024 and sub 2.0% from the following quarter for the remaining forecast period.
- BoE base rate rises are anticipated throughout 2022 and are expected to continue into 2023, peaking at 3.0% in Q2 2023 and remaining there for the rest of 2023. Slight declines are expected throughout 2024, reaching 2.3% in Q4 2024 and continue at that rate for the remainder of the forecast period.
- HPI Q4 annual growth of 8.3% in 2022, declining to (2.3%) in 2023, before rising again over the next three years finishing in 2026 with a year on year growth of 6.5%.
- Unemployment peaks in Q3 2023, at 4.3%, and drops gradually to 3.8% by Q4 2024. From then, there is no significant movement over the remaining forecast period, reaching 3.6% in Q1 2026 where it remains until the end of 2026.

(1) The time periods referenced in this section relate to calendar years unless otherwise stated.

Base (55%)

- GDP increased sharply by 8.7% in the first quarter of 2022 (Q1 2022 v Q1 2021) before contracting in Q2 2022, with overall year-on-year growth in 2022 forecast at 3.6%, and falling to 0.3% in 2023. GDP recovers over the remaining forecast period at between 2.1% and 2.7%.
- Inflation peaks at 12.7% in Q4 2022 before recovering and reverting to under 1% by Q1 2024. Inflation rises slightly but remains under 2% from Q1 2026 for the remaining forecast period.
- BoE base rate hits a high of 2.5% in Q1 2023 and steadily declines over the forecast period reaching 1.8% in Q4 2023 and remaining there until the end of 2025. A further reduction to 1.7% is anticipated in Q1 2026 and remains at that level for the remainder of the year.
- HPI steadily rises to Q4 2022 before modestly reverting from then until Q4 2024 when it rebounds slowly each quarter thereafter until the end of the forecast period. Overall, HPI Q4 2022 annual growth of 6.8%, which regresses to (4.6%) in 2023 and remains negative into 2024, before reverting to positive growth in 2025 and finishing 2026 back up at 6.7%.
- Unemployment peaks at 4.7% in Q3 2023 and drops to 4.1% by Q4 2024. From then, there is no significant movement with unemployment averaging just under 4% in 2025, and steadily declining and reaching 3.7% for the final two quarters of 2026.

Downside (35%)

- GDP increased sharply to 8.7% (Q1 2022 v Q1 2021) before turning negative for the final quarter of 2022 to (2.8%) (Q4 2022 v Q4 2021), and remains sluggish over the remaining forecast period. The overall year-on-year growth is 2.6% in 2022, falling to (8.9%) in 2023, before reverting to sluggish growth of 0.8% in 2024, rising to 2.1% for the remaining forecast period.
- Inflation hits 11.9% in Q4 2022 before declining and turning negative by Q4 2023, and remains negative for the first three quarters of 2024. From there, inflation rises steadily each quarter reaching 1.7% in Q3 2026 and remains at this level for Q4 2026.
- The BoE base rate reaches 2.3% in Q4 2022 before steadily falling back to 0.5% by Q3 2024 where it stays for the remaining forecast period.
- HPI falls steadily and deeply from Q4 2022 to Q3 2025, but then experiences modest increases in each quarter until the end of the forecast period, but finishes well below the levels experienced in 2021. Overall, HPI in Q4 2023 is forecast decline annually (13.3%), with a slight improvement to (11.6%) in 2024, and not turning positive until 2026.
- Unemployment rises steadily and peaks at 7.4% in Q3 2025 and improves slightly over remainder of the forecast period. Overall, unemployment averages at 4.0% in 2022, rising to 7.3% by 2025, before improving modestly to finish at 7.1% in 2026.

Base case–2022 v 2021[(1)]

The following table shows how the Group's base case assumptions in the current year have changed from those used at 30 September 2021:

Year	Assumption	2021 %	2022 %	2023 %	2024 %	2025 %	2026 %
30 September 2022	Base rate		1.4	2.2	1.8	1.8	1.7
	Unemployment		3.9	4.6	4.4	3.8	3.8
	GDP		3.6	0.3	2.1	2.7	2.1
	Inflation		9.4	7.5	0.6	0.7	1.5
	HPI		6.8	(4.6)	(3.0)	4.4	6.7
30 September 2021	Base rate	0.1	0.1	0.1	0.3	0.5	
	Unemployment	4.8	4.6	4.3	4.0	3.9	
	GDP	7.3	6.7	2.1	1.5	1.5	
	Inflation	2.1	2.7	1.9	1.8	1.8	
	HPI	5.0	(1.6)	0.6	2.7	3.9	

(1) Macroeconomic assumptions provided by Oxford Economics on 1 September 2022 and reported on a calendar year basis unless otherwise stated. The changes in macroeconomic assumptions between 1 September 2022 and 30 September 2022 have been considered as part of the PMAs.

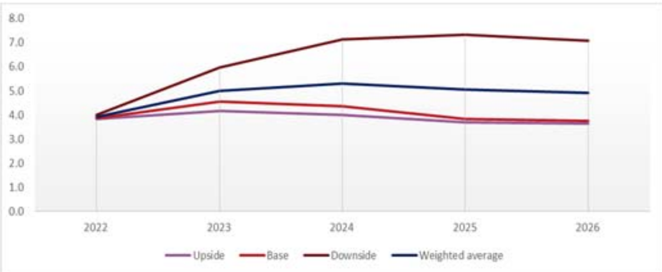
The base case macroeconomic estimates and assumptions used at 30 September 2021 reflected the forward-looking view at that time, which recognised the impact of the further lockdown measures introduced in Q4 2020, together with the successful vaccine roll-out programme which resulted in much more positive base case assumptions. The headwinds of inflation and cost of living crisis, and the resultant actions of the BoE to curb inflation dominated much of 2022 and resulted in the significant changes to assumptions over the relatively short term.

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

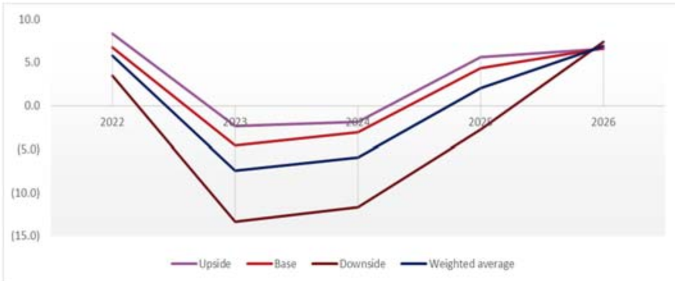
2022	Unemployment %	GDP %	HPI %
Upside	**3.9**	**3.1**	**3.3**
Base	**4.1**	**2.1**	**2.0**
Downside	**6.3**	**0.4**	**(3.4)**
2021			
Upside	3.9	4.6	4.6
Base	4.3	3.8	2.1
Downside	6.5	2.1	(5.8)

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

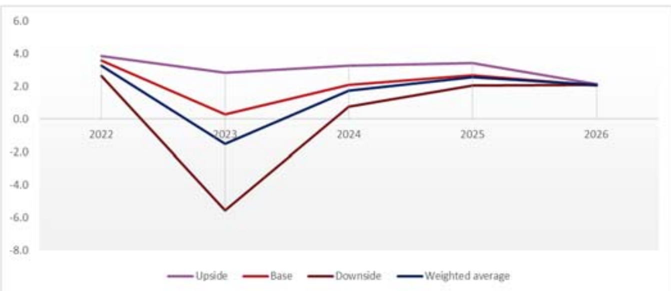
Unemployment – simple average



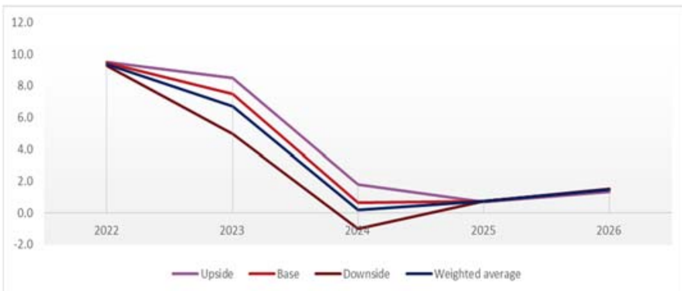
HPI – year-on-year movement



GDP – year-on-year movement



While there are inflationary pressures at present that are impacting the Group's ECL calculations, the following graph demonstrates the expected relatively short-term nature of these over the forecast period (year-on-year movement):



The full range of the key macroeconomic assumptions is included in the table on page 45.

The use of estimates, judgements and sensitivity analysis

The following are the main areas where estimates and judgements are applied to the ECL calculation:

The use of estimates

Asset lifetimes

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

Economic scenarios

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

2022	Probability Weighted[1] £m	Upside £m	Base £m	Downside £m
Mortgages	**15**	**12**	**13**	**23**
Unsecured of which:	**251**	**236**	**237**	**279**
Cards	**216**	**209**[4]	**208**	**233**
Personal loans and overdrafts[3]	**35**	**27**	**29**	**46**
Business[2]	**53**	**39**	**43**	**97**
Total	**319**	**287**	**293**	**399**

(1) In addition to the probability weighted modelled provision shown in the table, the Group holds £85m relative to PMAs (2021: £207m) and £38m of individually assessed provision (2021: £31m).

(2) Business and total ECLs in the above table have been calculated using the new LGD model and while not fully implemented in the year, the impact of this was incorporated into the total Business ECLs via the use of PMAs. Consequently, the probability weighted Business and total ECLs reported in the above table are £15m lower than the actual figures for the year.

(3) Salary Finance contributes more that 50% of the combined Personal Loans and overdrafts ECL.

(4) Due to a minor model interaction effect, the 100% ECL for Upside is marginally higher than the Base case.

2021	Probability Weighted £m	Upside £m	Base £m	Downside £m
Mortgages	24	16	19	37
Unsecured of which:	159	155	155	167
Cards	142	139	139	147
Personal loans and overdrafts	17	16	16	20
Business	83	47	61	127
Total	266	218	235	331

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

Certain asset classes are less sensitive to specific macroeconomic factors, showing lower relative levels of sensitivity. To ensure appropriate levels of ECL, the relative lack of sensitivity is compensated for through the application of PMAs, further detail of which can be found on page 44.

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

Mortgages: Unemployment and HPI

Unsecured: Unemployment

Business: Unemployment and HPI

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

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

The following table discloses the ECL impact of HPI changes on the Group's Mortgage and Business lending:

	2022 £m	2021 £m
Mortgages +10%	**(1)**	(2)
Business +10%	**(1)**	(2)
Mortgages -10%	**2**	3
Business -10%	**2**	3

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

	2022 £m	2021 £m
Mortgages +1%	**1**	1
Unsecured +1%	**15**	4
Business +1%	**4**	6
Mortgages -1%	**(1)**	(1)
Unsecured -1%	**(15)**	(4)
Business -1%	**(3)**	(4)

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

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

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

Refinements were made to the application of SICR on the Group's Business portfolio in the year. Please refer to pages 21 and 35 for further detail.

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

The table below illustrates this approach with reference to the Group's Mortgage, Unsecured (credit cards) and Business portfolios. In each case the illustration is of the PD threshold based on a 5-year full lifetime PD (not the annualised equivalent). The business example reflects the thresholds appropriate for term lending.

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

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

	2022 £m	2021 £m
A 10% movement in the mortgage portfolio from Stage 1 to Stage 2[(1)]	**+9**	+6
A 10% movement in the credit card portfolio from Stage 1 to Stage 2[(1)]	**+87**	+69
A 10% movement in the business portfolio from Stage 1 to Stage 2[(1)]	**+18**	+13
A PD stress which increases PDs upwards by 20% for all portfolios	**+106**	+94

(1) The comparative has been restated in line with the current year presentation.

Definition of default

The PD of a credit exposure is a key input to the measurement of the ECL allowance. Default under Stage 3 occurs when there is evidence that a customer is experiencing significant financial difficulty, which is likely to affect the ability to repay amounts due. The Group utilises the 90 DPD backstop for default purposes.

PMAs

PMAs were £85m in 2022 (2021: £207m) and are included within the total ECL provision of £457m (2021: £504m).

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

Mortgages: the Group continue to monitor the level of ECL held on BTL mortgages due to uncertainty of the impact on landlords and tenants and have maintained the PMA for this cohort of customers. A new PMA was introduced to reflect an impact on debt affordability as a result of rising energy prices and other inflationary effects.

Unsecured: a new PMA was introduced for debt affordability as a reaction to the reduction in customers' reduced disposable incomes. Other PMAs are also held with the most material being £10m for the potential impact on the sale or future recovery value of Unsecured written-off debt, which can fluctuate in the current environment.

Business: the current uncertain economic environment is also impacting the Business portfolio, where higher prices, wage inflation pressure and rising interest rates are all headwinds faced by customers. The Group has recognised these pressures and introduced an economic resilience PMA accordingly.

The impact of PMAs on the Group's ECL allowance and coverage ratios is as follows:

	Mortgages	Unsecured	Business	Total
2022	**£34m**	**£33m**[(1)]	**£18m**	**£85m**
% of total ECL	**70%**	**11%**	**21%**	**20%**
Coverage – total	**0.09%**	**4.66%**	**1.59%**	**0.62%**
Coverage – total ex PMAs	**0.02%**	**4.13%**	**0.93%**	**0.45%**
2021	£54m	£35m	£118m	£207m
% of total ECL	62%	18%	53%	41%
Coverage – total	0.15%	3.80%	3.06%	0.70%
Coverage – total ex PMAs	0.06%	3.11%	1.44%	0.41%

(1) The actual value £32.47m has been rounded up to ensure the table casts.

The reduction in PMAs in the year of £122m predominantly reflects the removal of (i) sector specific PMAs in the Business portfolio (£80m) that were necessary as the UK economy continued to feel the effects of Covid-19 and the outlook for businesses remained uncertain, and (ii) the impact of payment holidays on the Mortgage portfolio (£20m) as Covid-19 related support was withdrawn.

PMAs are primarily held in Stages 1 and 2 and are discussed in more detail in the divisional commentary on pages 28 to 37.

The Group assesses and reviews the need for and quantification of PMAs on a quarterly basis, with the CFO recommending the level of PMAs on a portfolio basis to the Board Audit Committee twice a year at each external reporting period. The Group has strengthened the governance around PMAs in the year, with the Model Risk Oversight and Group Credit Oversight teams reviewing the methodology supporting material PMAs and presenting their findings to the Board Audit Committee.

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

Macroeconomic assumptions

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

2022

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

2021

Scenario	VMUK weighting	Economic measure[2]	2021 %	2022 %	2023 %	2024 %	2025 %
Upside	15%	Base rate	0.2	0.6	1.2	1.5	1.6
		Unemployment	4.3	3.8	3.9	3.8	3.6
		GDP	8.1	8.8	2.8	1.8	1.5
		Inflation	2.4	3.7	2.5	1.6	1.8
		HPI	8.2	0.8	5.2	5.2	3.6
Base	50%	Base rate	0.1	0.1	0.1	0.3	0.5
		Unemployment	4.8	4.6	4.3	4.0	3.9
		GDP	7.3	6.7	2.1	1.5	1.5
		Inflation	2.1	2.7	1.9	1.8	1.8
		HPI	5.0	(1.6)	0.6	2.7	3.9
Downside	35%	Base rate	0.0	(0.5)	(0.5)	(0.5)	(0.3)
		Unemployment	5.6	6.7	6.8	6.8	6.4
		GDP	4.4	2.4	1.1	1.0	1.7
		Inflation	1.5	0.7	0.8	2.2	1.7
		HPI	(2.9)	(15.2)	(12.1)	(3.5)	4.9
Weighted average		Base rate	0.1	0.0	0.1	0.2	0.4
		Unemployment	5.0	5.2	5.1	4.9	4.7
		GDP	6.4	5.5	1.9	1.4	1.6
		Inflation	2.0	2.1	1.6	1.9	1.8
		HPI	2.7	(6.0)	(3.2)	0.9	4.2

(1) Macroeconomic assumptions provided by Oxford Economics on 1 September 2022 and reported on a calendar year basis unless otherwise stated. The changes in macroeconomic assumptions between 1 September 2022 and 30 September 2022 have been considered as part of the PMAs.

(2) The percentages shown for base rate, unemployment and inflation are averages. GDP is the year-on-year movement, with HPI the Q4 v Q4 movement.

Strong foundations supporting resilience and growth.

The financial risk framework underpins the Group's robust balance sheet, ensuring strategy is resilient and responsive to external pressures and changing regulatory obligations.

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

Risk appetite

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

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

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

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

Capital risk

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

Measurement

The Group manages capital in accordance with prudential rules issued by the PRA and the FCA, which are implemented through the CRD IV CRR regulatory framework. Pillar 1 capital requirements are calculated in respect of credit risk, operational risk, market risk, counterparty credit risk and credit valuation adjustments. The capital requirements are calculated using the following approaches:

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

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

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

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

Regulatory capital developments

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

COVID-19 regulatory capital developments
Following the BoE's announcements in 2020 regarding supervisory and prudential policy measures to address the challenges of COVID-19, the requirements relating to compliance with updates to definition of default and mortgage IRB models were extended. The Group did not adopt hybrid mortgage models in FY22 and intends to do so in FY23.

As part of the Group's implementation of mortgage IRB models (including Hybrid PD), we will consider the need to apply an overlay to increase RWAs in advance of formal approval of models. A final figure has not yet been determined although this may be in the range of £1-1.5bn of RWAs.

The Group continues to apply relevant relief measures introduced by regulatory and supervisory bodies to help address and alleviate various COVID-19 driven financial impacts. These include amendments to the CRR introduced by the 'Quick Fix' package in June 2020, which introduced a number of beneficial modifications, including changes to IFRS 9 transitional arrangements for capital.

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

Policy Statement 22/21 confirmed the PRA's treatment to fully deduct software assets from CET1 capital, applicable from 1 January 2022. The PRA's view is that intangible assets are not sufficiently loss absorbent on a going concern basis to warrant recognition as CET1 capital.

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

Solvency Stress Test and Annual Cyclical Scenarios
The Group was a participant in the BoE SST in 2021. This was the first time the Group had been involved in the BoE's stress testing for major banks. The Group will be an on-going participant in the BoE's Annual Cyclical Scenario (ACS). Results from the SST were published by the BoE at the end of 2021 and were used by the Financial Policy Committee (FPC) to assess the stress severity required to threaten resilience and test the Group's ability to absorb losses and continue to lend. The Group's results on both a transitional and non-transitional basis were in excess of the published reference rates and the Group was not required to take any additional capital actions or to submit a revised capital plan.

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

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

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

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

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

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

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

In recent years, the PRA has also taken a thematic interest in the quality of regulatory reporting across the industry, specifically focusing on the completeness, accuracy and timing of regulatory reports. This has resulted in a number of s166 Skilled Person Reviews being commissioned over the governance, controls and processes supporting the regulatory reporting framework. The Group is subject to such a review which commenced this year and which will ultimately lead to enhancements to the governance and control framework of the Group's regulatory reporting. In May the Board approved that EY be recommended to the PRA as the preferred Skilled Person to undertake the review and the PRA subsequently approved EY's appointment. The review is scheduled to finalise towards the end of calendar year 2022.

Capital resources
The Group's capital resources position as at 30 September 2022 is summarised below:

Regulatory capital(1)	30 Sept 2022 £m	30 Sept 2021 £m
Statutory total equity	**6,340**	5,473
CET1 capital: regulatory adjustments(2)		
Other equity instruments	**(666)**	(915)
Defined benefit pension fund assets	**(650)**	(551)
Prudent valuation adjustment	**(5)**	(5)
Intangible assets	**(256)**	(208)
Goodwill	**(11)**	(11)
Deferred tax asset relying on future profitability	**(302)**	(258)
Cash flow hedge reserve	**(699)**	(10)
AT1 coupon accrual	**(13)**	(19)
Foreseeable dividend on ordinary shares	**(106)**	(14)
Excess expected loss	**(100)**	–
Share buyback	**(13)**	–
IFRS 9 transitional adjustments	**114**	134
Total regulatory adjustments to CET1	**(2,707)**	(1,857)
Total CET1 capital	**3,633**	3,616
AT1 capital		
AT1 capital instruments	**666**	697
Total AT1 capital	**666**	697
Total Tier 1 capital	**4,299**	4,313
Tier 2 capital		
Subordinated debt	**1,020**	1,019
Total Tier 2 capital	**1,020**	1,019
Total regulatory capital	**5,319**	5,332

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

(2) A number of regulatory adjustments to CET1 capital are required under CRD IV regulatory capital rules.

Regulatory capital flow of funds[1]	2022 £m	2021 £m
CET1 capital[2]		
CET1 capital at 1 October	**3,616**	3,271
Share capital and share premium	**(1)**	2
Retained earnings and other reserves (including special purpose entities)	**428**	449
Prudent valuation adjustment	**–**	1
Amendment to software asset deduction rules[3]	**(151)**	151
Intangible assets	**103**	118
Deferred tax asset relying on future profitability	**(44)**	(107)
Defined benefit pension fund assets	**(99)**	(81)
AT1 distribution paid already deducted from CET1	**19**	21
Dividend paid already deducted from CET1	**14**	–
Foreseeable distributions	**(119)**	(33)
Share buyback	**(13)**	–
Excess expected losses	**(100)**	–
IFRS 9 transitional relief	**(20)**	(176)
Total CET1 capital at 30 September	**3,633**	3,616
AT1 capital		
AT1 capital at 1 October	**697**	915
AT1 instrument issued net of costs	**346**	–
AT1 instrument repurchased	**(377)**	–
Less other equity instruments not qualifying as AT1	**–**	(218)
Total AT1 capital at 30 September	**666**	697
Total Tier 1 capital at 30 September	**4,299**	4,313
Tier 2 capital		
Tier 2 capital at 1 October	**1,019**	749
Capital instruments issued: subordinated debt	**–**	298
Capital instruments purchased: subordinated debt	**–**	(30)
Amortisation of issue costs	**1**	2
Tier 2 capital at 30 September	**1,020**	1,019
Total capital	**5,319**	5,332

(1) Data in the table is reported under CRD IV on a fully loaded basis with IFRS 9 transitional arrangements applied.

(2) CET1 capital is comprised of shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.

(3) The full deduction treatment for software assets was reinstated by the PRA in January 2022.

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

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

Subsequent to the report date, the Group announced its intention to redeem the remaining £73m of those AT1 securities on their call date in December 2022.

Risk weighted assets

Minimum capital requirements	2022 Exposure £m	2022 RWA £m	2022 Minimum capital requirements £m	2021 Exposure £m	2021 RWA £m	2021 Minimum capital requirements £m
Retail mortgages	**62,545**	**9,155**	**732**	61,146	10,010	801
Business lending	**11,959**	**6,196**	**497**	11,670	6,040	483
Other retail lending	**17,408**	**4,817**	**385**	16,201	4,311	345
Other lending	**18,165**	**277**	**22**	15,467	326	26
Other[1]	**584**	**637**	**51**	765	856	69
Total credit risk	**110,661**	**21,082**	**1,687**	105,249	21,543	1,724
Credit valuation adjustment		**258**	**21**		103	8
Operational risk		**2,623**	**210**		2,481	198
Counterparty credit risk		**185**	**15**		105	8
Total	**110,661**	**24,148**	**1,933**	105,249	24,232	1,938

(1) The items included in the Other exposure class that attract a capital charge include items in the course of collection, fixed assets, intangible assets on software less than three years old (2021 only), prepayments, other debtors and deferred tax assets that are not deducted.

RWA movements	12 months to 30 September 2022 IRB RWA £m	STD RWA £m	Non-credit risk RWA[2] £m	Total £m	Minimum capital requirements £m	12 months to 30 September 2021 IRB RWA £m	STD RWA £m	Non-credit risk RWA[2] £m	Total £m	Minimum capital requirements £m
Opening RWA	**15,699**	**5,844**	**2,689**	**24,232**	**1,938**	15,846	5,642	2,911	24,399	1,953
Asset size	**267**	**575**	**–**	**842**	**68**	(553)	152	–	(401)	(32)
Asset quality	**(959)**	**4**	**–**	**(955)**	**(75)**	(644)	16	–	(628)	(50)
Model updates[1]	**(64)**	**–**	**–**	**(64)**	**(5)**	1,086	–	–	1,086	87
Methodology and policy	**–**	**(160)**	**–**	**(160)**	**(13)**	(36)	151	–	115	9
Other	**–**	**(124)**	**377**	**253**	**20**	–	(117)	(222)	(339)	(29)
Closing RWA	**14,943**	**6,139**	**3,066**	**24,148**	**1,933**	15,699	5,844	2,689	24,232	1,938

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

(2) Other RWA includes operational risk, credit valuation adjustment and counterparty credit risk.

RWA reduced c.£0.1bn to £24.1bn primarily due to the impact of improvements to the HPI offsetting the impact of higher lending and increased other non-credit RWAs.

As well as the HPI improvements of £1.5bn, the asset quality movement includes RWA increases relating to the increased risk weights associated with higher mortgage pipeline commitments.

Model updates include a reversal of the £344m in RWA specific to COVID-19 related PMAs, with a new PMA of £280m to account for increased RWAs arising from Forced Sale Discounts. A further PMA of £47m to the Business portfolio relating to the new definition of default was introduced in January 2022, and this was largely offset by a reduction of £46m RWAs following recalibration of PDs throughout the year.

Methodology and policy movement is largely driven by the removal of the £151m RWA uplift in relation to the CRR Quick Fix amendments in respect of intangible assets, which was removed from January 2022.

The other movement in standardised RWAs reflects reductions to exposures to fixed assets (£39m RWA), deferred tax assets (£43m RWA) and SPV deposits with other institutions (£58m RWA), partially offset by increases to other assets including prepayments and items in the course of collection.

Other non-credit risk RWA movements include an Operational Risk RWA uplift of £142m due to a higher proportion of revenue within Commercial Banking business line over the last three years, compared to the three years prior to September 2021. CCR and CVA RWAs have increased by £80m and £155m respectively, driven by the move to the more risk sensitive SA-CCR methodology per PS22/21 from 1 January 2022 and increased market volatility in recent months.

IFRS 9 transitional arrangements

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

	30 September 2022	
Available capital (amounts)	IFRS 9 Transitional basis £m	IFRS 9 Fully loaded basis £m
CET1 capital	**3,633**	**3,519**
Tier 1 capital	**4,299**	**4,185**
Total capital	**5,319**	**5,205**
RWA (amounts)		
Total RWA	**24,148**	**24,056**
Capital ratios		
CET1 (as a percentage of RWA)	**15.0%**	**14.6%**
Tier 1 (as a percentage of RWA)	**17.8%**	**17.4%**
Total capital (as a percentage of RWA)	**22.0%**	**21.6%**
Leverage ratio		
Leverage ratio total exposure measure	**83,771**	**83,657**
UK leverage ratio	**5.1%**	**5.0%**

Transitional arrangements in CRR mean the regulatory capital impact of ECL is being phased in over time. Following the CRR Quick Fix amendments package, which applied from 27 June 2020, relevant provisions raised from 1 January 2020 through to 2024 have a CET1 add-back percentage of 75% in 2022, reducing to 50% in 2023 and 25% in 2024.

At 30 September 2022, £114m of IFRS 9 transitional adjustments (2021: £134m) have been applied to the Group's capital position in accordance with CRR: £7m of static and £107m of dynamic adjustments (2021: £10m static and £124m dynamic).

Capital requirements

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

	30 September 2022	
Minimum requirements	CET1	Total capital
Pillar 1(1)	**4.5%**	**8.0%**
Pillar 2A	**1.7%**	**3.1%**
Total capital requirement	**6.2%**	**11.1%**
Capital conservation buffer	**2.5%**	**2.5%**
UK countercyclical capital buffer	**0.0%**	**0.0%**
Total (excluding PRA buffer)(2)	**8.7%**	**13.6%**

(1) The minimum amount of total capital under Pillar 1 of the regulatory framework is determined as 8% of RWA, of which at least 4.5% of RWA are required to be covered by CET1 capital.

(2) The Group may be subject to a PRA buffer as set by the PRA but is not permitted to disclose the level of any buffer.

The Group continues to maintain a significant surplus above its capital requirements. At September the group maintained CET1 capital in excess of its requirements equal to 6.3% of RWAs (equivalent to £1,521m).

The PRA sets a Group specific Pillar 2A requirement for risks which are not captured within the Pillar 1 requirement. Together Pillar 1 and Pillar 2A represent the Group's Total Capital Requirement or TCR, which is the minimum requirement which must be met at all times. During the year the PRA updated the Group's Pillar 2A requirement to £744m, representing a material reduction in Pillar 2A from 30 September 2021 of £209m. At September 2022 this resulted in a TCR of 11.1% of RWAs (equivalent to £2,676m) of which 6.2% must be met with CET1 capital (equivalent to £1,505m).

In October 2022 the PRA communicated an update to the Group's Pillar 2A requirement setting it as 2.97% of RWAs, of which 1.67% must be met with CET1 capital. In line with previous guidance this requirement has been set as a percentage of RWAs, rather than the fixed nominal Pillar 2A requirements set during 2020 and 2021 in response to COVID-19. Applying this updated requirement as at 30 September 2022 would result in a modest reduction in total capital requirements of £27m and CET1 requirements of £15m.

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

The Group's CCyB reflects an exposure weighted average of the CCyB rates applicable in the geographies the Group operates in. Currently this reflects only the UK. In December 2021, the FPC announced it felt that domestic risks to UK financial stability have returned to around their pre-COVID levels. It subsequently provided guidance that the UK CCyB rate would increase to 1%, effective December 2022, rising to 2% from July 2023 to align with its guidance for the CCyB rate under standard risk conditions. The FPC has noted the considerable uncertainties in relation to the economic outlook and will continue to monitor the situation and stands ready to vary the UK CCyB rate – in either direction – in line with the evolution of economic conditions, underlying vulnerabilities and the overall risk environment.

Currently, the Group does not meet the criteria for the application of either a global or domestic systemically important institution buffer.

MREL

MREL position	2022 £m	2021 £m
Total capital resources[1][2]	5,319	5,332
Eligible senior unsecured securities issued by Virgin Money UK PLC[2]	2,423	2,408
Total MREL resources	7,742	7,740
Risk-weighted assets	24,148	24,232
Total MREL resources available as a percentage of risk-weighted assets	32.1%	31.9%
UK leverage exposure measure	83,771	83,415
Total MREL resources available as a percentage of UK leverage exposure measure	9.2%	9.3%

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

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

The BoE as the UK Resolution Authority has published its framework for setting a minimum requirement for own funds and eligible liabilities (MREL). This requires the Group to hold capital resources and eligible debt instruments equal to the greater of two times the Total Capital Requirement (TCR) or 6.5% of the leverage exposure measure. In addition to MREL the Group must also hold any applicable capital buffers, which together with MREL represent the Group's loss-absorbing capacity (LAC) requirement.

As at 30 September 2022, MREL resources were £7.7bn (FY21: £7.7bn), equivalent to 32.1% of RWAs (FY21: 31.9%). This provides prudent headroom of £1.7bn or 7.2% above LAC requirement of 24.9%.

Dividend

Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements. At 30 September 2022, the Company had accumulated distributable reserves of £1,056m (2021: £792m).

The Board has recommended a final dividend for the financial year ended 30 September 2022 of 7.5p per share.

Share buyback

At the end of June 2022, the Group announced a share buyback programme with an initial repurchase of £75m in aggregate between ordinary shares of £0.10 each listed on the LSE and CDIs, each representing one share listed on the ASX. Subject to trading liquidity, Virgin Money intends to repurchase shares and CDIs in approximately equal proportions. The buyback commenced on 30 June 2022 and will end no later than 17 December 2022.

On 21 November 2022 an extension to the share buyback programme was announced with an intent to repurchase a further £50m in aggregate of shares and CDIs, ending no later than 2 May 2023.

Leverage

Leverage ratio	2022 £m	2021 £m
Total Tier 1 capital for the leverage ratio		
Total CET1 capital	**3,633**	3,616
AT1 capital	**666**	697
Total Tier 1 capital	**4,299**	4,313
Exposures for the leverage ratio		
Total assets	**91,907**	89,100
Adjustment for off-balance sheet items	**3,204**	2,884
Adjustment for derivative financial instruments	**282**	91
Adjustment for securities financing transactions	**2,974**	2,235
Adjustment for qualifying central bank claims	**(11,955)**	(9,094)
Other adjustments	**(2,641)**	(1,801)
UK leverage ratio exposure(1)	**83,771**	83,415
UK leverage ratio(1)(2)	**5.1%**	5.2%
Average UK leverage ratio exposure(3)	**83,985**	83,213
Average UK leverage ratio(3)	**5.0%**	5.0%

(1) As the UK leverage ratio is now the single leverage ratio exposure measure, the analysis of the CRD IV leverage ratio has been replaced with the UK equivalent for this period and the comparative.

(2) IFRS 9 transitional capital arrangements have been applied to the leverage ratio calculation.

(3) The transitional average leverage exposure measure is based on the daily average of on-balance sheet items and month-end average of off-balance sheet and capital items over the quarter (1 July 2022 to 30 September 2022).

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

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

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

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

capital: Tier 1 capital defined on an IFRS 9 transitional basis; and

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

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

The Group's UK leverage ratio of 5.1% (2021: 5.2%) exceeds the UK minimum ratio of 3.25%.

Funding and liquidity risk

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

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

Exposures
The Group is predominantly funded by Personal and Business customers. Customer funding is supported by the Group's ongoing wholesale funding programmes, medium-term secured funding issuance (e.g. the Group's securitisation programmes), Regulated Covered Bonds and unsecured medium-term notes. The Group also has access to and has drawn against the BoE TFS and TFSME, both schemes introduced to support the UK through periods of instability.

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

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

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

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

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

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

Monitoring
Liquidity is monitored and measured daily by the Group, with reporting conducted through ALCO and the Executive Risk Committee. In a stress situation or in adverse conditions, the level of monitoring and reporting is increased commensurate with the nature of the stress event, as demonstrated in the Group's response to COVID-19.

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

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

As a participant in the BoE SMF, the Group had access to funding via the TFS and TFSME. TFSME was launched in April 2020 to provide cost-effective funds to banks to support additional lending to the real economy and incentivise lending to SMEs during a period of economic disruption caused by COVID-19. During 2022, the Group repaid the remaining outstanding TFS amounts.

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

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

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

Sources of funding
The table below provides an overview of the Group's sources of funding as at 30 September 2022:

	2022 £m	2021 £m
Total assets	**91,907**	89,100
Less: other liabilities[1]	**(3,122)**	(3,060)
Funding requirement	**88,785**	86,040
Funded by:		
Customer deposits	**65,434**	66,971
Debt securities in issue	**8,509**	7,678
Due to other banks	**8,502**	5,918
of which:		
Secured loans	**7,230**	5,896
Securities sold under agreements to repurchase	**1,205**	–
Transaction balances with other banks	**17**	–
Deposits with other banks	**50**	22
Equity	**6,340**	5,473
Total funding	**88,785**	86,040

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

The Group's funding objective is to prudently manage the sources and tenor of funds in order to provide a sound base from which to support sustainable lending growth. At 30 September 2022, the Group had a funding requirement of £88,785m (2021: £86,040m) with the majority being used to support loans and advances to customers.

Customer deposits
The majority of the Group's funding requirement was met by customer deposits of £65,434m (2021: £66,971m). Customer deposits comprise interest-bearing deposits, term deposits and non-interest-bearing demand deposits from a range of sources including Personal and Business customers. Throughout the year, funding has been managed at a level to support customer lending, with a higher proportion from wholesale, including usage of TFSME and reduced volumes of customer deposits.

Equity
Equity of £6,340m (2021: £5,473m) was also used to meet the Group's funding requirement. Equity comprises ordinary share capital, retained earnings, other equity investments and a number of other reserves. For full details on equity refer to note 4.1 within the consolidated financial statements.

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

The LCR decreased from 149% to 138% during the year and remains comfortably above regulatory and internal risk appetite.

LCR	2022 £m	Restated 2021[1] £m
Eligible liquidity buffer	**13,139**	10,996
Net stress outflows	**9,537**	7,369
Surplus	**3,602**	3,627
LCR	**138%**	149%

(1) In the prior year, certain business customer deposits were incorrectly classified as Corporates, as opposed to Financial Institutions. Due to the different liquidity outflow assumptions applied, this resulted in net outflows being understated by £80m and the LCR overstated by 2%. These deposits have been reclassified as Financial Institutions and the prior year comparative has been updated to align with the current year presentation.

The liquid asset portfolio provides a buffer against sudden and potentially sharp outflows of funds. Liquid assets must therefore be high-quality so they can be realised for cash and cannot be encumbered for any other purpose (e.g. to provide collateral for payments systems).

The volume and quality of the Group's liquid asset portfolio is defined through a series of internal stress tests across a range of time horizons and stress conditions. The liquid asset portfolio is primarily comprised of cash at the BoE, UK Government securities (Gilts) and listed securities (e.g. bonds issued by supra-nationals and AAA-rated covered bonds).

The key risk driver assumptions applied to the scenarios are:

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

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

As at 30 September 2022, the Group held eligible liquid assets well in excess of 100% of net stress outflows and Pillar 2 liquidity requirements, as defined through internal risk appetite.

Liquid asset portfolio[1]	2022 £m	2021 £m	Change %	Average 2022 £m	Average 2021 £m
Level 1					
Cash and balances with central banks	9,795	7,060	38.7	7,632	7,232
UK Government treasury bills and gilts	512	771	(33.6)	905	779
Other debt securities	2,827	3,239	(12.7)	2,993	3,296
Total level 1	13,134	11,070	18.6	11,530	11,307
Level 2[2]	117	23	408.7	32	24
Total LCR eligible assets	13,251	11,093	19.5	11,562	11,331

(1) Excludes encumbered assets.

(2) Includes Level 2A and Level 2B.

Cash and balances with central banks of £12,221m, as per note 3.4, include: £2,094m of assets that are encumbered to support the issuance of Scottish bank notes (excluding notes not in circulation) and to support payments systems; £266m of mandatory central bank deposits; and £62m excluded from LCR to cover operating expenses.

Financial assets at FVOCI of £5,064m, as per note 3.7, include: £1,535m of encumbered UK government treasury bills and gilts, £317m of which is encumbered to support Operational Continuity in Resolution.

The NSFR was implemented by the PRA on 1 January 2022 based on Basel standards. The ratio as at 30 September 2022 is 136% (2021: 134%) comfortably in excess of the binding minimum requirement of 100%.

Encumbered assets

The Group manages the level of asset encumbrance to ensure appropriate volumes of assets are maintained to support future planned and potential stressed funding requirements. Encumbrance limits are set in the Group RAS and calibrated to ensure that after a stress scenario is applied, the balance sheet can recover over an acceptable period of time. Reasons for asset encumbrance include, among others, supporting the Group's secured funding programmes to provide stable term funding to the Group, the posting of assets in respect of drawings under the TFSME scheme, use of assets as collateral for payments systems in order to support customer transactional activity and providing security for the Group's issuance of Scottish bank notes.

Encumbered assets by asset category

	Assets encumbered with non-central bank counterparties				Other assets					
						Assets not positioned at the central bank				
30 September 2022	Covered Bonds £m	Securitisations £m	Other £m	Total £m	Positioned at the central bank (including encumbered) £m	Readily available for encumbrance £m	Other assets capable of being encumbered £m	Cannot be encumbered £m	Total £m	Total £m
Loans and advances to customers	**4,268**	**4,620**	**–**	**8,888**	**14,879**	**28,647**	**17,054**	**2,353**	**62,933**	**71,821**
Cash and balances with central banks	**–**	**–**	**–**	**–**	**2,879**	**9,342**	**–**	**–**	**12,221**	**12,221**
Due from other banks	**67**	**305**	**269**	**641**	**–**	**–**	**15**	**–**	**15**	**656**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**342**	**342**	**342**
Financial instruments at FVOCI	**–**	**–**	**1,535**	**1,535**	**–**	**3,529**	**–**	**–**	**3,529**	**5,064**
Other assets	**–**	**–**	**40**	**40**	**–**	**–**	**218**	**1,545**	**1,763**	**1,803**
Total assets	**4,335**	**4,925**	**1,844**	**11,104**	**17,758**	**41,518**	**17,287**	**4,240**	**80,803**	**91,907**

	Assets encumbered with non-central bank counterparties				Other assets					
						Assets not positioned at the central bank				
30 September 2021	Covered Bonds £m	Securitisations £m	Other £m	Total £m	Positioned at the central bank (including encumbered) £m	Readily available for encumbrance £m	Other assets capable of being encumbered £m	Cannot be encumbered £m	Total £m	Total £m
Loans and advances to customers	2,618	4,970	–	7,588	14,108	30,175	17,419	2,719	64,421	72,009
Cash and balances with central banks	–	–	–	–	2,827	6,884	–	–	9,711	9,711
Due from other banks	352	310	76	738	–	–	62	–	62	800
Derivative financial instruments	–	–	–	–	–	–	–	140	140	140
Financial instruments at FVOCI	–	–	586	586	–	3,766	–	–	3,766	4,352
Other assets	–	–	296	296	–	–	270	1,522	1,792	2,088
Total assets	2,970	5,280	958	9,208	16,935	40,825	17,751	4,381	79,892	89,100

The Group's total non-central bank asset encumbrance increased by £1,896m to £11,104m as at 30 September 2022. This was primarily due to an increase in encumbered mortgages, supporting Covered Bond funding.

Assets and liabilities by maturity

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

30 September 2022	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity[1] £m	Total £m
Assets							
Financial assets at amortised cost							
Loans and advances to customers	**764**	**2,378**	**1,019**	**7,241**	**55,053**	**5,296**	**71,751**
Cash and balances with central banks	**11,015**	**–**	**–**	**–**	**–**	**1,206**	**12,221**
Due from other banks	**575**	**81**	**–**	**–**	**–**	**–**	**656**
Financial assets at FVTPL							
Loans and advances to customers	**–**	**2**	**1**	**21**	**46**	**–**	**70**
Derivative financial instruments	**2**	**46**	**71**	**190**	**33**	**–**	**342**
Other financial assets	**–**	**–**	**–**	**–**	**–**	**8**	**8**
Financial assets at FVOCI	**–**	**620**	**602**	**1,917**	**1,925**	**–**	**5,064**
Other assets	**–**	**7**	**152**	**1**	**1**	**1,634**	**1,795**
Total assets	**12,356**	**3,134**	**1,845**	**9,370**	**57,058**	**8,144**	**91,907**
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	**48,750**	**3,786**	**10,209**	**2,689**	**–**	**–**	**65,434**
Debt securities in issue	**–**	**485**	**1,047**	**6,669**	**308**	**–**	**8,509**
Due to other banks	**67**	**285**	**250**	**7,900**	**–**	**–**	**8,502**
Financial liabilities at FVTPL							
Derivative financial instruments	**3**	**9**	**29**	**253**	**33**	**–**	**327**
Other liabilities	**1,822**	**135**	**134**	**54**	**59**	**591**	**2,795**
Total liabilities	**50,642**	**4,700**	**11,669**	**17,565**	**400**	**591**	**85,567**
Off-balance sheet items							
Financial guarantees	**–**	**33**	**23**	**12**	**44**	**–**	**112**
Other credit commitments	**19,247**	**–**	**–**	**–**	**–**	**–**	**19,247**
Total off-balance sheet items	**19,247**	**33**	**23**	**12**	**44**	**–**	**19,359**

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

30 September 2021	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity[1] £m	Total £m
Assets							
Financial assets at amortised cost							
Loans and advances to customers	766	1,966	1,051	6,654	56,812	4,627	71,876
Cash and balances with central banks	8,337	–	–	–	–	1,374	9,711
Due from other banks	800	–	–	–	–	–	800
Financial assets at FVTPL							
Loans and advances to customers	–	3	12	44	74	–	133
Derivative financial instruments	1	8	21	102	8	–	140
Other financial assets	–	–	–	–	–	20	20
Financial assets at FVOCI	–	35	448	2,176	1,693	–	4,352
Other assets	–	14	192	2	1	1,859	2,068
Total assets	9,904	2,026	1,724	8,978	58,588	7,880	89,100
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	49,477	4,079	9,327	4,088	–	–	66,971
Debt securities in issue	–	145	1,141	6,392	–	–	7,678
Due to other banks	18	2	1,248	4,650	–	–	5,918
Financial liabilities at FVTPL							
Derivative financial instruments	1	5	38	94	71	–	209
Other liabilities	2,104	52	87	65	70	473	2,851
Total liabilities	51,600	4,283	11,841	15,289	141	473	83,627

Off-balance sheet items							
Financial guarantees	–	20	21	15	45	–	101
Other credit commitments	17,020	–	–	–	–	–	17,020
Total off-balance sheet items	17,020	20	21	15	45	–	17,121

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

Cash flows payable under financial liabilities by contractual maturity

30 September 2022	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity £m	Total £m
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	**48,750**	**3,801**	**10,291**	**2,732**	**–**	**–**	**65,574**
Debt securities in issue	**–**	**521**	**1,294**	**7,863**	**315**	**–**	**9,993**
Due to other banks	**67**	**289**	**492**	**8,793**	**–**	**–**	**9,641**
Financial liabilities at FVTPL							
Trading derivative financial instruments	**–**	**12**	**40**	**63**	**14**	**–**	**129**
Hedging derivative liabilities							
Contractual amounts payable	**–**	**21**	**557**	**1,720**	**–**	**–**	**2,298**
Contractual amounts receivable	**–**	**(6)**	**(459)**	**(1,477)**	**–**	**–**	**(1,942)**
Other liabilities	**1,822**	**135**	**134**	**54**	**59**	**591**	**2,795**
Total liabilities	**50,639**	**4,773**	**12,349**	**19,748**	**388**	**591**	**88,488**

30 September 2021	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity £m	Total £m
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	49,477	4,104	9,403	4,127	–	–	67,111
Debt securities in issue	–	148	1,283	6,886	–	–	8,317
Due to other banks	18	2	1,258	4,756	–	–	6,034
Financial liabilities at FVTPL							
Trading derivative financial instruments	–	16	38	31	20	–	105
Hedging derivative liabilities							
Contractual amounts payable	–	5	244	1,750	25	–	2,024
Contractual amounts receivable	–	(9)	(199)	(1,614)	–	–	(1,822)
All other liabilities	2,104	52	87	65	70	473	2,851
Total liabilities	51,599	4,318	12,114	16,001	115	473	84,620

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

Analysis of debt securities in issue by residual maturity
The table below shows the residual maturity of the Group's debt securities in issue:

	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total 2022 £m	Total 2021 £m
Covered bonds	**4**	**13**	**3,450**	**–**	**3,467**	1,852
Securitisation	**462**	**586**	**524**	**308**	**1,880**	2,389
Medium-term notes	**6**	**447**	**1,796**	**–**	**2,249**	2,422
Subordinated debt	**13**	**1**	**899**	**–**	**913**	1,015
Total debt securities in issue	**485**	**1,047**	**6,669**	**308**	**8,509**	7,678
Of which issued by Virgin Money UK PLC	**19**	**448**	**2,695**	**–**	**3,162**	3,437

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

Material risk for the Group	Outlook as at	As at	
	30 Sept 2022[1]	30 Sept 2022	30 Sept 2021
Virgin Money UK PLC			
Moody's	Stable	Baa1	Baa2
Fitch	Stable	BBB+	BBB+
Standard & Poor's	Stable	BBB-	BBB-
Clydesdale Bank PLC			
Moody's[2]	Stable	A3	Baa1
Fitch	Stable	A-	A-
Standard & Poor's	Stable	A-	A-

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

In March 2022, Standard & Poor's affirmed Virgin Money UK PLC's and Clydesdale Bank PLC's ratings with stable outlook, reflecting their view that the Group will maintain a sound capital position, deliver statutory profit for full-year 2022 and maintain strong asset quality metrics. This rating reflects the agency's view of the UK economy at the time, coupled with the Group's improving asset quality outlook, conservative risk appetite and robust provisioning.

In June 2022, Moody's upgraded the long-term ratings of Virgin Money UK PLC and Clydesdale Bank PLC by 1-notch, reflecting the closure of payment protection insurance (PPI), finalisation of integration, stable asset quality during the pandemic and strong allowance against loan losses, sound funding & liquidity position and new long-term CET1 target of 13–13.5%. At the same time Moody's reaffirmed the 'Stable' outlook on all of Virgin Money UK PLC's and Clydesdale Bank PLC's ratings.

In July 2022, Fitch affirmed the ratings of Virgin Money UK PLC and Clydesdale Bank PLC with 'Stable' outlook.

As at 20 November 2022, there have been no other changes to the Group's long-term credit ratings or outlooks since the report date.

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

Exposures
The Group's principal exposure comes from structural interest rate risk. It comprises the sensitivity of the Group's current and future NII and economic value to movements in market interest rates. The major contributors to interest rate risk are:

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

The Group provides foreign exchange products and derivative products to enable customers to manage risks within their businesses. As a result of these activities, the Group may be exposed to forms of market risk that would arise from movements in the price on these products. These risks are not a material component of the Group's risk profile. Controls include the hedging of these products as and when they arise.

Financial risk

Measurement

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

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

- basis point sensitivity analysis is performed daily and compares the potential impact of a one basis point (0.01%) change on the present value of all future cash flows;
- NII sensitivity assesses changes to earnings over a 12-month time horizon as a result of interest rate movements and changes to customer behaviour;
- VaR is measured on a statistical basis using a 99% confidence level based on daily rate movements over a ten-year history set with a one-year holding period;
- economic value of equity is measured in line with PRA Rulebook with all six interest rate shock scenarios assessed on a quarterly basis, including customer optionality stresses. Reporting is performed including and excluding equity;
- static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing);
- investment term for capital is modelled with a benchmark term agreed by ALCO;
- investment term for core non-interest-bearing assets and liabilities is modelled on a behavioural basis with a benchmark term agreed by ALCO;
- assumptions covering the behavioural life of products and customer behaviour for optionality are reviewed and approved by ALCO; and
- credit spread risk in the banking book (CSRBB) is assessed through VaR applied to the Group's liquid asset buffer portfolio. CSRBB is measured at a 99% confidence level based on daily spread movements over a ten-year history set with a three-month holding period.

Foreign exchange risk is assessed based on the absolute exposure to each currency.

Mitigation

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

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

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

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

Monitoring

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

Value at Risk	Duration risk(1)		Credit spread	
	2022 £m	2021 £m	2022 £m	2021 £m
As at 30 September	**17**	2	**41**	45
Average value during the year	**19**	2	**48**	48
Minimum value during the year	**14**	1	**41**	45
Maximum value during the year	**27**	3	**52**	52

(1) The history set for duration risk VaR was increased from two years to ten years and the holding period increased from one day to one year from 1 October 2021 under internal methodology. This results in the significant increase in the reported risk positions year on year with the change in parameters resulting in larger rate shocks applied in the VaR analysis.

Net interest income

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

12 months NII sensitivity	30 Sept 2022 £m	30 Sept 2021 £m
+ 25 basis point parallel shift	**18**	30
+100 basis point parallel shift	**66**	100
- 25 basis point parallel shift	**5**	(23)

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

The key assumptions and limitations are outlined below:

the sensitivities are calculated based on a static balance sheet and it is assumed there is no change to margins on reinvestment of maturing fixed rate products;

there are no changes to basis spreads with the rate change passed on in full to all interest rate bases;

administered rate products receive a full rate pass on in the rate fall scenario, subject to internal product floor assumptions. In the rate rise scenario administered products receive a rate pass on in line with internal scenario specific pass on assumptions;

additional commercial pricing responses and management actions are not included; and

while in practice hedging strategy would be reviewed in light of changing market conditions, the sensitivities assume no changes over the 12-month period.

Market risk linkage to the balance sheet

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

	2022 £m	2021 £m	Interest rate duration	Optionality	Basis	Credit spread	Foreign exchange
Assets							
Financial assets at amortised cost							
Loans and advances to customers	71,751	71,876	•	•	•		•
Cash and balances with central banks	12,221	9,711	•		•		
Due from other banks	656	800	•		•		•
Financial assets at FVTPL							
Loans and advances to customers	70	133	•	•	•		•
Derivative financial instruments	342	140	•		•		•
Other financial assets	8	20	•				•
Financial instruments at FVOCI	5,064	4,352	•		•	•	•
Other assets	1,795	2,068	•				•
Total assets	91,907	89,100					
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	65,434	66,971	•	•	•		•
Debt securities in issue	8,509	7,678	•		•		•
Due to other banks	8,502	5,918	•		•		•
Financial liabilities at FVTPL							
Derivative financial instruments	327	209	•		•		•
Other liabilities	2,795	2,851	•				•
Total liabilities	85,567	83,627					

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

30 September 2022	Overnight £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Non-interest bearing £m	Total £m
Assets							
Financial assets at amortised cost							
Loans and advances to customers	7,293	8,796	13,234	41,514	1,699	(785)	71,751
Cash and balances with central banks	10,765	12	37	196	–	1,211	12,221
Due from other banks	656	–	–	–	–	–	656
Financial assets at FVTPL							
Loans and advances to customers	–	30	4	16	20	–	70
Derivative financial assets	–	–	–	–	–	342	342
Financial assets at FVOCI	1,265	525	320	1,159	1,733	62	5,064
Other assets	40	38	113	604	–	1,008	1,803
Total assets	20,019	9,401	13,708	43,489	3,452	1,838	91,907
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	7,026	18,725	13,449	26,077	–	157	65,434
Debt securities in issue	3,606	191	432	4,686	–	(406)	8,509
Due to other banks	8,438	12	–	–	–	52	8,502
Financial liabilities at FVTPL							
Derivative financial instruments	–	–	–	–	–	327	327
Other liabilities	1,717	–	–	–	–	1,078	2,795
Equity	–	264	573	3,306	350	1,847	6,340
Total liabilities and equity	20,787	19,192	14,454	34,069	350	3,055	91,907
Notional value of derivatives managing interest rate sensitivity	16,448	(359)	(239)	(12,146)	(3,704)	–	–
Total interest rate gap	15,680	(10,150)	(985)	(2,726)	(602)	(1,217)	–
Cumulative interest rate gap	15,680	5,530	4,545	1,819	1,217	–	–

30 September 2021	Overnight £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Non-interest bearing £m	Total £m
Assets							
Financial assets at amortised cost							
Loans and advances to customers	3,978	12,399	14,199	39,732	1,568	–	71,876
Cash and balances with central banks	8,182	12	37	196	–	1,284	9,711
Due from other banks	538	262	–	–	–	–	800
Financial assets at FVTPL							
Loans and advances to customers	–	83	8	20	22	–	133
Derivative financial assets	–	–	–	–	–	140	140
Financial assets at FVOCI	1,147	537	228	1,172	1,268	–	4,352
Other assets	–	38	113	604	–	1,333	2,088
Total assets	13,845	13,331	14,585	41,724	2,858	2,757	89,100
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	4,619	27,599	11,877	22,874	2	–	66,971
Debt securities in issue	2,329	272	198	4,879	–	–	7,678
Due to other banks	5,918	–	–	–	–	–	5,918
Financial liabilities at FVTPL							
Derivative financial instruments	–	–	–	–	–	209	209
Other liabilities	–	–	–	–	–	2,851	2,851
Equity	723	421	573	3,756	–	–	5,473
Total liabilities and equity	13,589	28,292	12,648	31,509	2	3,060	89,100
Notional value of derivatives managing interest rate sensitivity	21,786	(1,891)	(7,089)	(10,415)	(2,391)	–	–
Total interest rate gap	22,042	(16,852)	(5,152)	(200)	465	(303)	–
Cumulative interest rate gap	22,042	5,190	38	(162)	303	–	–

LIBOR replacement

The Group's LIBOR cessation programme successfully met the 2021 GBP regulatory and industry milestones. Treasury proactively transitioned all external transactions across issuance, hedging and liquid assets and over 90% of Business Lending customer transactions also switched from LIBOR to alternative reference rates (ARRs), with numbers continuing to reduce.

The Group engaged with the BoE's Working Group on Sterling Risk Free Reference Rates and other industry forums in transitioning to SONIA/ARRs and ensured the risks of being unable to offer products with suitable reference rates are mitigated and that full consideration is given to the other risks, including legal, conduct, financial and operational risks, that may arise.

As at 30 September 2022, all market-facing derivative flows are executed against SONIA. The focus for 2023 is ongoing management of the small business lending tough legacy and USD cohort. Processes have been implemented to ensure continued effort to move customers off synthetic LIBOR to ARRs throughout 2022.

Financial instruments that have yet to transition to alternative benchmark rates are summarised below:

Amounts yet to be transitioned

30 September 2022	Non derivative financial assets – carrying value(1)(2) £m	Non derivative financial liabilities – carrying value £m	Derivatives – nominal amount(1)(3) £m
GBP LIBOR	**94**	**–**	**67**
Other(4)	**164**	**–**	**–**
Cross currency swaps			
GBP LIBOR to USD LIBOR			**–**
Total	**258**	**–**	**67**

30 September 2021	Non derivative financial assets – carrying value(1)(2) £m	Non derivative financial liabilities – carrying value £m	Derivatives – nominal amount(1)(3) £m
GBP LIBOR	2,037	–	4,754
Other(4)	157	–	–
Cross currency swaps			
GBP LIBOR to USD LIBOR			95
Total	2,194	–	4,849

(1) Excludes exposures that are expected to expire or mature before the Interbank Offered Rate (IBOR) ceases.

(2) Gross carrying amount excluding allowances for ECLs.

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

(4) Comprises financial instruments referencing other IBOR rates yet to transition to alternative benchmark rates (Euro, USD, AUD).

Pension risk

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

Defined benefit pension schemes provide a promise to pay members a pre-determined level of income at retirement which is independent of the contributions, investments and returns (the scheme assets) used to fund these benefit promises (the scheme liabilities). The operation of a defined benefit pension scheme gives rise to several risks, for example, movements in equity valuations, changes in bond yields, life expectancy of scheme members, movements in interest and inflation rates and changes in legislation. The Group also supports a defined contribution scheme, however the nature of this type of scheme places the investment and liability risk on the member rather than the Group.

Pension risk is the risk that, at any point in time, the value of the scheme assets is not enough to meet the current or expected future value of the scheme liabilities. This risk will continue to exist until the scheme is formally wound up, either if all the liabilities are transferred to a third party (for example an insurer) or once all individual member benefits have been honoured.

Risk appetite

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

Assets

The Trustee governs investments according to a Statement of Investment Principles. This is reviewed and agreed by the Trustee Board on a regular basis, with the Bank consulted on any proposed changes. The Statement of Investment Principles is drafted in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it). This sets out the Scheme objectives and the journey plan to meet these objectives.

This results in an appropriate mix of return-seeking assets as well as liability matching assets to better match future pension obligations. The split of Scheme assets is shown within note 3.9 of the Group's consolidated financial statements. The fair value of the assets was £3.2bn as at 30 September 2022 (2021: £4.6bn).

Financial risk

Liabilities

The retirement benefit obligations are a series of future cash outflows with relatively long duration and are responsive to movements on many of the inputs including interest rates. On an IAS 19 basis these cash flows are primarily sensitive to changes in the expected long-term price inflation rates (Retail Price Index (RPI)/Consumer Price Index (CPI)), the life expectancy of members and the discount rate (linked to yields on AA corporate bonds):

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

The actual outcome on Scheme valuations will also be affected by hedging and investment decisions made by the Trustees and inflationary caps within the terms of the Scheme.

Exposure

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

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

Within the Scheme itself, risk arises because the assets (e.g. equities, bonds/gilts, property) are exposed to market valuation movements, within and between asset classes, while the liabilities are more sensitive to interest rate and inflation rate changes, and changes in other actuarial assumptions which may not be borne out in experience, for example life expectancy.

Mitigation

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

Several other activities have been implemented by the Group and Trustee with the specific aim of reducing risk in the Scheme, including increasing the levels of inflation, interest rate hedging and several member benefit reforms, culminating in closure to future accrual for most members.

The Group has signed a contingent security arrangement to provide the Trustee with protection to partially mitigate the risk of adverse changes impacting the Scheme's assets or liabilities. This arrangement also provided security for the Group's obligations under a Recovery Plan, however all payments subject to that Plan have now been made. Further information is shown within note 3.9 to the Group's consolidated financial statements.

The Bank and the Trustee continue to explore other cost-effective options to further reduce risk within the Scheme, for example, approaches for hedging against longevity risk.

Monitoring

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

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

The Scheme's de-risking plan has delivered resilience to stress-testing and continued improvements in Group and Trustee valuations.

Liability Driven Investment (LDI) portfolios are commonly used by pension schemes to protect against adverse movements in interest rates and inflation. In the case of interest rates, this protects against falls in rates which increase the value of a scheme's liabilities. The general trend since LDI strategies were introduced has been long-term interest rates falling, and LDI has helped schemes to maintain more stable and improved funding positions. However, when interest rates rise instead of fall, LDI derivatives require collateral to be posted in order to maintain the same level of interest rate and inflation protection. Therefore sufficient liquidity is needed to meet such a collateral call.

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

Over the year to 30 September 2022, gilt yields have risen significantly. The Scheme therefore posted additional collateral, resulting in there being net £335m collateral posted by the Scheme as at 30 September 2022 (compared to net £65m collateral posted by the counterparties as at 30 September 2021). As at 30 September 2022, the Scheme is still estimated to have sufficient collateral headroom available to meet further rises in interest rates of more than 3%. The Scheme also has over £1bn of further assets which could be liquidated within a week if needed to meet collateral calls.

Although increased collateral postings have been required, the Scheme's funding position for IAS 19 purposes has improved over the year to 30 September 2022. The IAS 19 position continues to drive the Group's Pillar 2A and regulatory stress testing processes.

The next Triennial Valuation is due to complete by end FY23 (effective date 30 September 2022). The Trustee funding position at 30 September 2022 is a surplus, indicating no further contributions will be required.

Directors’ responsibility statement in respect of the Annual Report & Accounts

The responsibility statement below has been prepared in connection with the Company’s full Annual Report and Accounts for the year ending 30 September 2022. Certain parts thereof are not included within this announcement.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

The Directors consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s and Group’s position and performance, business model and strategy.

David Duffy
Chief Executive Officer
20 November 2022

Consolidated income statement

For the year ended 30 September	Note	2022 £m	2021 £m
Interest income		**2,215**	1,906
Other similar interest		**2**	4
Interest expense and similar charges		**(641)**	(553)
Net interest income	2.2	**1,576**	1,357
Gains less losses on financial instruments at fair value		**(17)**	(5)
Other operating income		**157**	137
Non-interest income	2.3	**140**	132
Total operating income		**1,716**	1,489
Operating and administrative expenses before impairment losses	2.4	**(1,069)**	(1,203)
Operating profit before impairment losses		**647**	286
Impairment (losses)/credit on credit exposures	3.2	**(52)**	131
Profit on ordinary activities before tax		**595**	417
Tax (expense)/credit	2.5	**(58)**	57
Profit for the year		**537**	474
Attributable to:			
Ordinary shareholders		**467**	395
Other equity holders		**70**	79
Profit for the year		**537**	474
Basic earnings per share (pence)	2.6	**32.4**	27.3
Diluted earnings per share (pence)	2.6	**32.3**	27.3

All material items dealt with in arriving at the profit before tax for the above years relate to continuing activities.

The notes on pages 75 to 123 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 30 September	Note	2022 £m	2021 £m
Profit for the year		**537**	474
Items that may be reclassified to the income statement			
Change in cash flow hedge reserve			
Gains during the year		**962**	99
Transfers to the income statement		**(13)**	24
Taxation thereon – deferred tax charge		**(260)**	(33)
	4.1.5	**689**	90
Change in FVOCI reserve			
Gains during the year		**15**	33
Transfers to the income statement		**(4)**	–
Taxation thereon – deferred tax charge		**(1)**	(11)
		10	22
Total items that may be reclassified to the income statement		**699**	112
Items that will not be reclassified to the income statement			
Change in defined benefit pension plan	3.9	**122**	54
Taxation thereon – deferred tax charge		**(50)**	(46)
Taxation thereon – current tax credit		**6**	21
Total items that will not be reclassified to the income statement		**78**	29
Other comprehensive income, net of tax		**777**	141
Total comprehensive income for the year, net of tax		**1,314**	615
Attributable to:			
Ordinary shareholders		**1,244**	536
Other equity holders		**70**	79
Total comprehensive income for the year, net of tax		**1,314**	615

The notes on pages 75 to 123 form an integral part of these financial statements.

Consolidated balance sheet

As at 30 September	Note	2022 £m	2021 £m
Assets			
Financial assets at amortised cost			
Loans and advances to customers	3.1	**71,751**	71,876
Cash and balances with central banks	3.4	**12,221**	9,711
Due from other banks		**656**	800
Financial assets at FVTPL			
Loans and advances to customers	3.5	**70**	133
Derivative financial instruments	3.6	**342**	140
Other financial assets	3.5	**8**	20
Financial assets at FVOCI	3.7	**5,064**	4,352
Property, plant and equipment		**211**	250
Intangible assets and goodwill	3.8	**267**	373
Current tax assets		**–**	13
Deferred tax assets	2.5	**146**	377
Defined benefit pension assets	3.9	**1,000**	847
Other assets		**171**	208
Total assets		**91,907**	89,100
Liabilities			
Financial liabilities at amortised cost			
Customer deposits	3.10	**65,434**	66,971
Debt securities in issue	3.11	**8,509**	7,678
Due to other banks	3.12	**8,502**	5,918
Financial liabilities at FVTPL			
Derivative financial instruments	3.6	**327**	209
Current tax liabilities		**1**	–
Deferred tax liabilities	2.5	**350**	296
Provisions for liabilities and charges	3.13	**50**	104
Other liabilities	3.14	**2,394**	2,451
Total liabilities		**85,567**	83,627
Equity			
Share capital and share premium	4.1	**148**	149
Other equity instruments	4.1	**666**	915
Capital reorganisation reserve	4.1	**(839)**	(839)
Merger reserve	4.1	**2,128**	2,128
Other reserves	4.1	**766**	71
Retained earnings		**3,471**	3,049
Total equity		**6,340**	5,473
Total liabilities and equity		**91,907**	89,100

The notes on pages 75 to 123 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 20 November 2022 and were signed on its behalf by:

David Duffy
Chief Executive Officer

Clifford Abrahams
Chief Financial Officer

Virgin Money UK PLC, Registered number: 09595911

Consolidated statement of changes in equity

	Note	Share capital and share premium £m	Capital reorg' reserve £m	Merger reserve £m	Other equity instruments £m	Other reserves: Capital redemption reserve £m	Other reserves: Deferred shares reserve £m	Other reserves: Equity based comp' reserve £m	Other reserves: FVOCI reserve £m	Other reserves: Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
		4.1.1	4.1.3	4.1.4	4.1.2	4.1.5	4.1.5	4.1.5	4.1.5	4.1.5		
As at 1 October 2020		147	(839)	2,128	915	–	16	10	11	(80)	2,624	4,932
Profit for the year		–	–	–	–	–	–	–	–	–	474	474
Other comprehensive income, net of tax		–	–	–	–	–	–	–	22	90	29	141
Total comprehensive income for the year		–	–	–	–	–	–	–	22	90	503	615
AT1 distributions paid		–	–	–	–	–	–	–	–	–	(79)	(79)
Ordinary shares issued		2	–	–	–	–	–	–	–	–	–	2
Transfer from equity based compensation reserve		–	–	–	–	–	–	(1)	–	–	1	–
Equity based compensation expensed		–	–	–	–	–	–	5	–	–	–	5
Settlement of Virgin Money Holdings (UK) Limited share awards		–	–	–	–	–	(2)	–	–	–	–	(2)
As at 30 September 2021		149	(839)	2,128	915	–	14	14	33	10	3,049	5,473
Profit for the year		–	–	–	–	–	–	–	–	–	537	537
Other comprehensive income, net of tax		–	–	–	–	–	–	–	10	689	78	777
Total comprehensive income for the year		–	–	–	–	–	–	–	10	689	615	1,314
AT1 distributions paid		–	–	–	–	–	–	–	–	–	(70)	(70)
Dividends paid to ordinary shareholders		–	–	–	–	–	–	–	–	–	(50)	(50)
Ordinary shares issued		2	–	–	–	–	–	–	–	–	–	2
Share buyback		(3)	–	–	–	3	–	–	–	–	(63)	(63)
Transfer from equity based compensation reserve		–	–	–	–	–	–	(9)	–	–	9	–
Equity based compensation expensed		–	–	–	–	–	–	5	–	–	–	5
Settlement of Virgin Money Holdings (UK) Limited share awards		–	–	–	–	–	(3)	–	–	–	1	(2)
AT1 issuance		–	–	–	346	–	–	–	–	–	–	346
AT1 redemption		–	–	–	(595)	–	–	–	–	–	(20)	(615)
As at 30 September 2022		**148**	**(839)**	**2,128**	**666**	**3**	**11**	**10**	**43**	**699**	**3,471**	**6,340**

The notes on pages 75 to 123 form an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 September	Note	2022 £m	2021 £m
Operating activities			
Profit on ordinary activities before tax		**595**	417
Adjustments for:			
Non-cash or non-operating items included in profit before tax	5.2	**(1,326)**	(1,225)
Changes in operating assets	5.2	**1,212**	832
Changes in operating liabilities	5.2	**(238)**	(1,026)
Payments for short-term and low value leases		**(2)**	(1)
Interest received		**2,112**	2,088
Interest paid		**(378)**	(461)
Tax paid		**(59)**	(27)
Net cash provided by operating activities		**1,916**	597
Cash flows from investing activities			
Interest received		**47**	19
Proceeds from maturity of financial assets at FVOCI		**479**	1,079
Proceeds from sale of financial assets at FVOCI		**194**	–
Purchase of financial assets at FVOCI		**(2,019)**	(521)
Purchase of shares issued by UTM		**(4)**	(12)
Proceeds from sale of property, plant and equipment		**1**	6
Purchase of property, plant and equipment		**(13)**	(26)
Purchase and development of intangible assets	3.8	**(53)**	(80)
Net cash (used in)/provided by investing activities		**(1,368)**	465
Cash flows from financing activities			
Interest paid		**(246)**	(161)
Repayment of principal portions of lease liabilities	3.16	**(26)**	(28)
Redemption of AT1 securities		**(614)**	–
Proceeds from issuance of AT1 securities		**347**	–
Redemption and principal repayment on RMBS and covered bonds	3.11	**(1,264)**	(1,543)
Redemption and principal repayment on medium-term notes/subordinated debt	3.11	**–**	(30)
Issuance of RMBS and covered bonds	3.11	**2,480**	–
Issuance of medium-term notes/subordinated debt	3.11	**–**	732
Amounts drawn down under the TFSME		**2,550**	3,350
Amounts repaid under the TFS		**(1,244)**	(2,864)
Purchase of own shares		**(53)**	–
AT1 distributions	4.1.2	**(70)**	(79)
Ordinary dividends paid		**(50)**	–
Net cash provided by/(used in) financing activities		**1,810**	(623)
Net increase in cash and cash equivalents		**2,358**	439
Cash and cash equivalents at the beginning of the year		**10,253**	9,814
Cash and cash equivalents at the end of the year	5.2	**12,611**	10,253

Consolidated statement of cash flows

Movements in liabilities arising from financing activities

	Note	Term funding schemes[1] £m 3.12	Restated debt securities in issue £m 3.11	Lease liabilities £m 3.16	Restated total £m
At 1 October 2020		5,397	8,758	175	14,330
Cash flows:					
Issuances		–	732	–	732
Drawdowns		3,350	–	–	3,350
Redemptions		–	(1,573)	–	(1,573)
Repayment		(2,864)	–	(28)	(2,892)
Non-cash flows:					
Fair value and other associated adjustments[2]		12	(183)	–	(171)
Additions to right-of-use asset in exchange for increased lease liabilities		–	–	4	4
Remeasurement		–	–	1	1
Movement in accrued interest		1	7	2	10
Unrealised foreign exchange movements[2]		–	(69)	–	(69)
Unamortised costs		–	6	–	6
At 1 October 2021		5,896	7,678	154	13,728
Cash flows:					
Issuances		–	2,480	–	2,480
Drawdowns		2,550	–	–	2,550
Redemptions		–	(1,264)	–	(1,264)
Repayment		(1,244)	–	(26)	(1,270)
Non-cash flows:					
Fair value and other associated adjustments		–	(400)	–	(400)
Additions to right-of-use asset in exchange for increased lease liabilities		–	–	4	4
Remeasurement		–	–	(4)	(4)
Movement in accrued interest		28	8	4	40
Unrealised foreign exchange movements		–	5	–	5
Unamortised costs		–	2	–	2
At 30 September 2022		7,230	8,509	132	15,871

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

(2) The accumulated amount of the fair value adjustments on the debt securities in issue has been restated in the comparative year in line with the current year presentation. The restatement had no impact on the debt securities in issue balance, however fair value and other adjustments have increased in the comparative period by £59m from £124m to £183m and unrealised foreign exchange movements has decreased by £59m from £128m to £69m.

The notes on pages 75 to 123 form an integral part of these financial statements.

Notes to the consolidated financial statements

Section 1: Basis of preparation

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

The Group has adopted the UK Finance Code for Financial Reporting Disclosure and has prepared the 2022 Annual Report and Accounts in compliance with the Code.

1.1 General information
The Company is a public company limited by shares, incorporated in the United Kingdom under the Companies Act and registered in England and Wales.

The consolidated financial statements comprise those of the Company and its controlled entities, together the 'Group'.

1.2 Basis of accounting
On 1 October 2021, the Group transitioned to preparing consolidated financial statements under UK adopted International Accounting Standards (IAS) which is a change in accounting framework. This had no impact on the recognition, measurement or disclosure of financial information presented in the year.

The consolidated financial statements have been prepared in accordance with UK adopted IASs. The comparative year financial statements were prepared and presented in accordance with IASs in conformity with the Companies Act 2006 and IFRSs adopted pursuant to regulation (EC) No. 1606/2002 as it applied in the European Union. This also included the early adoption of 'Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2', which had been endorsed by the EU and UK in January 2021 and included in UK adopted IAS.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value through profit or loss and other comprehensive income. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

1.3 Presentation of risk, offsetting and maturity disclosures
Certain disclosures required under IFRS 7 'Financial instruments: disclosures' and IAS 1 'Presentation of financial statements' have been included within the Risk management section of this results announcement.

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

In assessing the Group's going concern position as at 30 September 2022, the Directors have considered a number of factors, including the current balance sheet position (which reflected the Group's consideration of the potential impact of climate-related risks), the Group's strategic and financial plan, taking account of possible changes in trading performance and funding retention, and stress testing and scenario analysis. The assessment concluded that the Group has sufficient capital and liquidity for at least the next 12 months. The Group's capital ratios and its total capital resources are comfortably in excess of PRA requirements and internal stress testing indicates the Group can withstand severe economic and competitive stresses.

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

The Directors' report contained in the Group's Annual Report & Accounts provides further detail on the Group's going concern and viability assessment.

1.5 Basis of consolidation
Controlled entities are all entities (including structured entities) to which the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An assessment of control is performed on an ongoing basis.

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

The Group's interests in JV entities are accounted for using the equity method and then assessed for impairment in the relevant holding companies' financial statements.

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

Section 1: Basis of preparation

1.6 Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, the 'functional currency'. The consolidated financial statements are presented in pounds sterling (GBP), which is also the Group's presentation currency, rounded to the nearest million pounds sterling (£m) unless otherwise stated.

Transactions and balances

The Group records an asset, liability, expense or revenue arising from a transaction using the closing exchange rate between the functional and foreign currency on the transaction date. At each subsequent reporting date, the Group translates foreign currency monetary items at the closing rate. Foreign exchange differences arising on translation or settlement of monetary items are recognised in the income statement during the year in which the gains or losses arise.

Foreign currency non-monetary items measured at historical cost are translated at the date of the transaction, with those measured at fair value translated at the date when the fair value is determined. Foreign exchange differences are recognised directly in equity for non-monetary items where any component of associated gains or losses is recognised directly in equity. Foreign exchange differences arising from non-monetary items, whereby the associated gains or losses are recognised in the income statement, are also recognised in the income statement.

1.7 Financial instruments

Recognition and derecognition

Financial instruments are recognised when the Group becomes party to the contractual provisions of the instrument. Purchases and sales of financial assets classified within FVTPL or FVOCI are recognised on trade date.

The Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers the right to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Financial liabilities are derecognised when the Group has discharged its obligation to the contract, or the contract is cancelled or expires.

Classification and measurement

The Group measures a financial asset or liability on initial recognition at its fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability (with the exception of financial assets or liabilities at FVTPL, where transaction costs are recognised directly in the income statement as they are incurred).

Financial assets

Subsequent accounting for a financial asset is determined by the classification of the asset depending on the underlying business model and contractual cash flow characteristics. This results in classification within one of the following categories: i) amortised cost; ii) FVTPL; or iii) FVOCI.

A financial asset is measured at amortised cost when: (1) the asset is held within a business model whose objective is achieved by collecting contractual cash flows; and (2) the contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding. The amortised cost classification applies to the Group's loans and advances to customers (note 3.1), cash and balances from central banks (note 3.4) and balances due from other banks. Financial assets classified at amortised cost are subject to ECL requirements as detailed in note 3.2.

Specific accounting policies for financial assets at FVTPL and FVOCI can be found in notes 3.5 and 3.7 respectively.

Financial liabilities

All financial liabilities are measured at amortised cost, except for financial liabilities at FVTPL. Such liabilities include derivative contracts, other than those which are financial guarantee contracts or designated and effective hedging instruments.

Repurchase agreements

Securities sold subject to repos are retained in their respective balance sheet categories. The associated liabilities are included in amounts due to other banks based upon the counterparties to the transactions. The difference between the sale and repurchase price of repos is treated as interest and accrued over the life of the agreements using the effective interest method.

Offsetting

This can only occur, and the net amount be presented on the balance sheet, when the Group currently has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Section 1: Basis of preparation

1.8 Property, plant and equipment

The Group's property, plant and equipment is carried at cost, less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to acquisition of the asset. Impairment is assessed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

All items of property, plant and equipment are depreciated or amortised using the straight line method, at rates appropriate to their estimated useful life to the Group. The annual rates of depreciation or amortisation are:

- Buildings — 50 years
- Leases (leasehold improvements) — the lower of the expected lease term or the asset's remaining useful life
- Fixtures and equipment — 3–10 years

Residual values and useful lives of assets are reviewed at each reporting date. Depreciation is recognised within operating expenses in the income statement. The policy for lessee accounting is provided in note 3.16.

1.9 Critical accounting estimates and judgements

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

Area	Estimates	Judgements	Further detail
Impairment provisions on credit exposures	Asset lifetimes Economic scenarios	SICR Definition of default PMAs	Credit risk section of Risk management and note 3.2
EIR	Product life Post promotion attrition and yield	Standard variable rate Macroeconomic factors Model risk reserve (MRR)	Note 2.2
Deferred tax		Period for the recoverability of deferred tax assets	Note 2.5
Retirement benefit obligations	Discount rate Inflation assumptions Mortality assumptions		Note 3.9

Critical accounting estimates and judgements related to climate change

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

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

The Group's customer lending is the most significant financial asset exposed to the potential impact of climate-related risks, primarily the ECL implications and the ability of the customer to meet their contractual payments. As a UK-based bank with no significant lending outside of the UK, the Group considers the potential for material ECLs to emerge as a result of climate change in the short term to be negligible.

Other non-financial assets that may be impacted include the Group's deferred tax asset and the pension assets held by the Group's defined benefit pension scheme. The Group assesses the recoverability of deferred tax assets over a six-year corporate planning time horizon which incorporates all aspects of the Group's future performance and expectations. The Trustee of the defined benefit pension scheme is responsible for all investment decisions, and these are made in accordance with a Statement of Investment Principles which incorporates climate change considerations. In addition, by necessity, the investment decisions made by the Trustees are normally medium to long term in nature.

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

Section 1: Basis of preparation

1.10 New accounting standards and interpretations

The Group has adopted the following International Accounting Standards Board (IASB) pronouncement in the current financial year:

Amendment to IFRS 16 and COVID-19 related rent concessions beyond June 2021 was issued in March 2021 and endorsed for use in the UK in May 2021. The original amendment (issued in May 2020 and effective for annual reporting periods beginning on or after 1 June 2020) introduced the optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. The IASB subsequently extended the period of application of the practical expedient to 30 June 2022, effective for annual reporting periods beginning on or after 1 April 2021. These pronouncements had no material impact on the Group's consolidated financial statements as it does not receive rent concessions.

The Group also acknowledges the decision by the IFRS Interpretations Committee (IFRIC) in April 2022, which concluded that certain demand deposits with restrictions should be presented as part of the cash and cash equivalents balance. The IFRIC agenda decision was considered but there are no impacts that would require a change in accounting policy for demand deposits.

New accounting standards and interpretations not yet adopted

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

1.11 Other changes in the year

The following changes took place during the year:

Hedge accounting

The Group has changed the presentation of certain items in the derivative financial instruments note to the financial statements (note 3.6), with the relevant sections of the note restated. These are presentational changes only and have no impact on the Group's primary financial statements or net asset position.

The restatement was necessary to correct the historic presentation of the foreign exchange component of the fair value hedge adjustment, with the following restatements made:

Derivative financial instruments – hedge accounting (note 3.6)

The spot foreign exchange element was previously excluded from the disclosures. This has been corrected and impacts both the hedging instrument and the hedged item. The impact of the restatement on the previous year disclosure is as follows:

	Change in fair value of hedging instrument in the year used for ineffectiveness measurement	
Hedging instrument	Original £m	Restated £m
Fair value hedges		
Foreign exchange and interest rate risk		
Cross currency swaps	(12)	(86)
Total derivatives designated as fair value hedges	**488**	**414**

	Accumulated hedge adjustment on the hedged item		Change in fair value of hedged items in the year used for ineffectiveness measurement	
Hedged item	Original £m	Restated £m	Original £m	Restated £m
Fair value hedges				
Fixed rate currency issuances	(13)	72	17	91
Total	**(273)**	**(188)**	**(498)**	**(424)**

Expected credit losses

During the year, the Group made refinements to the operation of the SICR criteria within the Business portfolio. Further detail can be found in the credit risk section within the Risk report, pages 21 and 35. These refinements do not require any change to the prior period reported position.

Section 2: Results for the year

2.1 Segment information

The Group's operating segments are operating units engaged in providing different products or services and whose operating results and overall performance are regularly reviewed by the Group's Chief Operating Decision Maker, the Executive Leadership Team.

The Group operates under four commercial lines: Mortgages, Unsecured, Business, and Deposits, which are reported through the Chief Commercial Officer. At this point in time, the business continues to be reported to the Group's Chief Operating Decision Maker as a single segment and decisions made on the performance of the Group on that basis. Segmental information will therefore continue to be presented on this single segment basis.

Summary income statement

	2022 £m	2021 £m
Net interest income	1,576	1,357
Non-interest income	140	132
Total operating income	1,716	1,489
Operating and administrative expenses	(1,069)	(1,203)
Impairment (losses)/credit on credit exposures	(52)	131
Segment profit before tax	595	417
Average interest earning assets	86,275	86,947

The Group has no operations outside the UK and therefore no secondary geographical area information is presented. The Group is not reliant on a single customer. Liabilities are managed on a centralised basis.

2.2 Net interest income

Accounting policy

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

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

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

Interest income on financial assets in impairment Stages 1 and 2 is recognised on the gross carrying value of the financial asset using the original EIR. Once a financial asset or group of similar financial assets has been categorised as credit-impaired (Stage 3), interest income is recognised on the net carrying value (after deducting the ECL allowance from the gross lending) using the asset's original EIR. The interest income for POCI financial assets is calculated using the credit-adjusted EIR applied to the amortised cost of the financial asset from initial recognition. The Group recognises and presents the reversal of ECLs following the curing of a credit impaired financial asset as a reversal of impairment losses. The Group's policy on ECLs can be found in note 3.2.

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

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

Included in interest income is finance lease income which is recognised at a constant periodic rate of return on the net investment.

2.2 Net interest income continued

Critical accounting estimates and judgements

EIR

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

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

Mortgages

For mortgage products the main accounting estimates and judgements when assessing the cash flows are the product life (including assumptions based on observed historic customer behaviour when in a standard variable rate (SVR) period) and the applicable SVR. As at 30 September 2022, a total EIR adjustment of £201m (2021: £210m) has been recognised for mortgages. This represented 0.3% (2021: 0.4%) of the balance sheet carrying value of gross loans and advances to customers for mortgage lending. The net impact of the mortgage EIR adjustments on the income statement in the year represented (0.7)% of gross customer interest income for mortgages (2021: 1.4%).

Product life

This primarily involves assumptions of customer behaviour when a fixed rate product comes to an end and reverts to the Group's SVR. The Group currently assumes that 85% (2021: 85%) of customers will have fully repaid or switched to a new product within two months of reverting to SVR.

SVR

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

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

Sensitivity analysis

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

Sensitivity impact on the mortgage EIR adjustment	2022 (£m)	2021 (£m)
+/- 1 month change to the timing of customer repayments, redemptions and product transfers	16/(13)	12/(10)
50bps increase to the BoE base rate not passed through to the Group's SVR	(46)	(43)

Credit cards

An EIR adjustment arises on credit card products that have a low introductory rate, followed by a higher reversionary rate in future years when the promotional period expires. However, receipt of such interest income depends on the customer staying with the Group beyond promotional expiry and therefore significant judgement is involved in forecasting customer behaviour and estimating the future cash flows. Key behavioural assumptions include an estimation of the utilisation of available credit, transaction and repayment activity and the retention of the customer balance after the end of a promotional period. As at 30 September 2022, a total EIR adjustment of £285m (2021: £273m) has been recognised for credit cards. This represented 5.5% (2021: 6.4%) of the balance sheet carrying value of gross loans and advances to customers for credit cards. The impact of the net credit card EIR adjustments on the income statement in the year represented 3.3% of gross customer interest income for credit cards (2021: 24.3%).

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

Post-promotional yield

The yield on a credit card following the post-promotional period is a significant estimate within the EIR assumptions. Yield is a function of the Interest Bearing Balance (IBB) and the APR charged to customers. IBB is impacted by customer behaviour and while there is evidence to support the expected IBB following the post-promotional period, there is inherent risk that this data may differ in the future. If the IBB differs to the Group's estimate it can have a material impact on the revised future cash flows. Based on recent experience, the Group has applied an average IBB of 55% (2021: 55%) following the end of the promotional period.

2.2 Net interest income continued

Post-promotional attrition
The level of repayment in the post-promotional period is a key sensitivity within the EIR assumptions. There is evidence to support the expected behaviour of customers after the end of promotional periods, however there is inherent risk that this data may not be indicative of actual future behaviour. If the proportion of customers who repay their balance post-promotion differs to the Group's estimate it can have a material impact on the revised future cash flows. Based on recent experience, the Group has applied a long run average attrition rate of 1.5% per month (2021: 1.5% per month) following the end of the promotional period.

Macroeconomic factors
When determining assumptions, the Group has considered the impact to customers of inflationary pressures including high energy and utility costs and the recent and anticipated future base rate rises. As a result, temporary adjustments have been made to assumptions. Post promotional IBB has been decreased to 50% for 12 months and balance attrition has been increased to reflect a reduction in retail and balance transfer transaction activity for 12 months. If, however, the stress period was to increase to 24 months, the Group estimates it would result in a negative present value adjustment of approximately £35m, which would be recognised in the income statement.

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

Sensitivity impact on the credit card EIR adjustment	2022 (£m)	2021 (£m)
+/- 5 ppts change to post-promotional IBB assumption(1) (9.1% relative increase/decrease)	**34/(28)**	31/(31)
+/- 0.5 ppts change to post-promotional monthly balance attrition rate (33% relative increase/decrease)	**(20)/23**	(23)/27

MRR
The complicated nature of EIR models means the Group exercises prudence on the modelled outcome and therefore chooses to hold a MRR in relation to both mortgages and credit cards to mitigate the risk of estimation uncertainty.

In arriving at the level of MRR, the Group assesses the judgements made within the EIR modelling and applies severe downside stress scenarios to quantify emerging or potential risks. This allows the Group to hold an appropriate level of MRR across both asset classes. The MRR is reviewed quarterly based on the conditions prevalent at the time and adjusted where necessary.

(1) Where the IBB assumption is already equal to or less than 50% IBB, no further adjustment has been made on the basis this already represents a downside economic stress.

	2022 £m	2021 £m
Interest income		
Loans and advances to customers	2,095	1,880
Loans and advances to other banks	70	8
Financial assets at FVOCI	50	18
Total interest income	2,215	1,906
Other similar interest		
Financial assets at FVTPL	5	9
Derivatives economically hedging interest bearing assets	(3)	(5)
Total other similar interest	2	4
Less: interest expense and similar charges		
Customer deposits	(342)	(361)
Debt securities in issue	(227)	(168)
Due to other banks	(70)	(20)
Other interest expense	(2)	(4)
Total interest expense and similar charges	(641)	(553)
Net interest income	1,576	1,357

Section 2: Results for the year

2.3 Non-interest income

Accounting policy

Gains less losses on financial instruments at fair value

This includes fair value gains and losses from three distinct activities:

- Derivatives classified as held for trading – the full change in fair value of trading derivatives is recognised inclusive of interest income and expense arising on those derivatives except when economically hedging other assets and liabilities at fair value as outlined in note 2.2.
- Other financial assets designated at FVTPL – these relate principally to the Group's fixed interest rate loan portfolio (note 3.5), which were designated at inception as FVTPL. The fair value of these loans is derived from the future loan cash flows using appropriate discount rates and includes adjustments for credit risk and credit losses. The valuation technique used is reflective of current market practice.
- Hedged assets, liabilities and derivatives designated in hedge relationships – fair value movements are recognised on both the hedged item and hedging derivative in a fair value hedge relationship, the net of which represents hedge ineffectiveness, and hedge ineffectiveness on cash flow hedge relationships (note 3.6).

Fees and commissions

Fees and commissions receivable which are not an integral part of the EIR are recognised as income as the Group fulfils its performance obligations. The Group's principal performance obligations arising from contracts with customers are in respect of current accounts, debit cards and credit cards. The Group provides the service and consequently generates the fee and commission income monthly, with amounts recognised in income on this basis. Costs incurred to generate fee and commission income are charged to fees and commissions expense as they are incurred.

	2022 £m	2021 £m
Gains less losses on financial instruments at fair value		
Held for trading derivatives	6	6
Financial assets at fair value[(1)]	(19)	4
Ineffectiveness arising from fair value hedges (note 3.6)	46	(10)
Amounts recycled to profit and loss from cash flow hedges[(2)] (note 3.6)	(4)	(5)
Ineffectiveness arising from cash flow hedges (note 3.6)	(46)	–
	(17)	(5)
Other operating income		
Net fee and commission income	134	124
Margin on foreign exchange derivative brokerage	19	16
Gains on sale of financial assets at FVOCI	4	–
Share of JV loss after tax	(4)	(5)
Other income	4	2
	157	137
Total non-interest income	140	132

(1) Included within financial assets at fair value is a credit risk gain on loans and advances at fair value of £1m (2021: £1m gain), and a fair value gain on equity investments of £2m (2021: £15m gain).

(2) In respect of terminated hedges.

Section 2: Results for the year

2.3 Non-interest income continued

The Group's unrecognised share of losses of JVs for the year was £8m (2021: £1m). For entities making losses, subsequent profits earned are not recognised until previously unrecognised losses are extinguished. The Group's unrecognised share of losses net of unrecognised profits on a cumulative basis of JVs is £9m (2021: £1m).

Non-interest income includes the following fee and commission income disaggregated by income type:

	2022 £m	2021 £m
Current account and debit card fees	**102**	90
Credit cards	**52**	38
Insurance, protection and investments	**8**	10
Other fees[(1)]	**26**	29
Total fee and commission income	**188**	167
Total fee and commission expense	**(54)**	(43)
Net fee and commission income	**134**	124

(1) Other fees include mortgages, invoice and asset finance and ATM fees.

2.4 Operating and administrative expenses before impairment losses

Accounting policy
Staff costs primarily consist of wages and salaries, accrued bonus and social security costs arising from services rendered by employees during the financial year.

The Group recognises bonus costs where it has a present obligation that can be reliably measured. Bonus costs are recognised over the relevant service period required to entitle the employee to the reward.

The Group's accounting policies on pension expenses and equity based compensation are included in notes 3.9 and 4.2 respectively.

	2022 £m	2021 £m
Staff costs	**435**	426
Property and infrastructure	**38**	89
Technology and communications	**119**	121
Corporate and professional services	**135**	160
Depreciation, amortisation and impairment	**179**	191
Other expenses	**163**	216
Total operating and administrative expenses	**1,069**	1,203

Section 2: Results for the year

2.4 Operating and administrative expenses before impairment losses continued

Staff costs comprise the following items:

	2022 £m	2021 £m
Salaries and wages	**254**	248
Social security costs	**30**	30
Defined contribution pension expense	**50**	49
Defined benefit pension credit	**(24)**	(8)
Compensation costs	**310**	319
Equity based compensation[1]	**4**	8
Bonus awards	**27**	22
Performance costs	**31**	30
Redundancy and restructuring	**3**	29
Temporary staff costs	**13**	13
Other[2]	**78**	35
Other staff costs	**94**	77
Total staff costs	**435**	426

(1) Includes National Insurance on equity based compensation.

(2) Includes a one-off cost of living allowance of £7m (2021: £Nil).

The defined benefit pension credit in the current period includes a credit of £10m (2021: £5m) arising from the ongoing Pension Increase Exchange (PIE) exercise which will complete in calendar year 2023 (note 3.9). A PIE gives members the option to exchange future increases on their pensions for a one-off uplift to their current pension.

The average number of FTE employees of the Group during the year was made up as follows:

	2022 Number	2021 Number
Managers[1]	**2,574**	2,691
Clerical staff	**4,292**	4,724
	6,866	7,415

(1) Includes a combination of managers with and without staff responsibilities.

The average monthly number of employees was 7,829 (2021: 8,613). All staff are contracted employees of the Group and its subsidiary undertakings. The average figures above do not include contractors.

Auditor's remuneration included within other operating and administrative expenses:

	2022 £'000	2021 £'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	**24**	23
Fees payable to the Company's auditor for the audit of the Company's subsidiaries[1]	**4,564**	4,272
Total audit fees	**4,588**	4,295
Audit related assurance services	**262**	255
Other assurance services	**1,877**	330
Total non-audit fees	**2,139**	585
Fees payable to the Company's auditor in respect of associated pension schemes	**107**	79
Total fees payable to the Company's auditor	**6,834**	4,959

(1) Includes the audit of the Group's structured entities.

Section 2: Results for the year

2.4 Operating and administrative expenses before impairment losses continued

Non-audit fees of £2.1m (2021: £0.6m) were paid to the auditor during the year for services including the skilled person reporting as required by the PRA, the review of the Interim Financial Report, PRA Written Auditor Reporting, comfort letters for the global medium-term note and covered bond programmes, TFSME assurance, client money reviews and profit attestations.

Out of pocket expenses of £13k (2021: £Nil) were borne by the Group during the year.

2.5 Taxation

Accounting policy
Income tax on the profit or loss for the year comprises current and deferred tax.

Income tax is recognised in the income statement except to the extent that it is related to items recognised directly in equity, in which case the tax is also recognised in equity (excluding AT1 distributions where the tax impact is recognised in the income statement).

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

A deferred tax asset is recognised for unused tax losses and unused tax credits only if it is probable that future taxable amounts will arise against which those temporary differences and losses may be utilised.

Critical accounting estimates and judgements
In arriving at the Group's deferred tax asset balance of £146m (2021: £377m), significant judgement is exercised on the component of deferred tax assets that relate to tax losses carried forward of £302m (2021: £255m).

The Group has assessed the potential for the recovery of these tax losses carried forward for this component of deferred tax assets at 30 September 2022 and considers it probable that sufficient future taxable profits will be available against which the underlying deductible temporary differences can be utilised over the corporate planning horizon. Deferred tax assets are recognised to the extent that they are expected to be utilised over six years from the balance sheet date. If instead of six years the period were five years or seven years, the recognised deferred tax asset would be £115m or would remain at £146m respectively. If Group profit forecasts were 10% lower than anticipated, the deferred tax asset would be £140m. This is only £6m lower than the reported position as there is excess plan profit capacity for losses to be recognised; all historic tax losses are now recognised on the balance sheet. All tax assets arising will be used within the UK.

	2022 £m	2021 £m
Current tax		
Current year	**81**	62
Adjustment in respect of prior years	**4**	–
	85	62
Deferred tax		
Current year	**(21)**	(124)
Adjustment in respect of prior years	**(6)**	5
	(27)	(119)
Tax expense/(credit) for the year	**58**	(57)

Section 2: Results for the year

2.5 Taxation continued

The tax assessed for the year differs from that arising from applying the standard rate of corporation tax in the UK of 19%. A reconciliation from the expense implied by the standard rate to the actual tax expense/(credit) is as follows:

	2022 £m	2021 £m
Profit on ordinary activities before tax	**595**	417
Tax expense based on the standard rate of corporation tax in the UK of 19% (2021: 19%)	**113**	79
Effects of:		
Disallowable expenses	**4**	13
Bank levy	**–**	1
Conduct indemnity adjustment	**(12)**	58
Deferred tax assets recognised	**(83)**	(126)
Impact of rate changes	**23**	(92)
AT1 distribution	**(13)**	(15)
Banking surcharge	**28**	20
Adjustments in respect of prior years	**(2)**	5
Tax expense/(credit) for the year	**58**	(57)

In February 2022 legislation was enacted to reduce the banking surcharge from 8% to 3%, and to increase the threshold below which it is not chargeable to £100m (previously £25m). The changes are effective for current tax from 1 April 2023 but, in accordance with accounting standards, have effect for deferred tax in the current year. The impact is a reduction in the value of deferred tax assets, reflected within the £23m charge to the income statement above.

The Group has recognised deferred tax in relation to the following items in the balance sheet, income statement, and statement of other comprehensive income:

Movement in deferred tax (liability)/asset

	Acquisition accounting adjustments £m	Cash flow hedge reserve £m	Gains on financial instruments at FVOCI £m	Tax losses carried forward £m	Capital allowances £m	Pension spreading £m	Other temporary differences £m	Total deferred tax assets £m	Defined benefit pension scheme surplus £m	Total deferred tax liabilities £m
At 1 October 2020	(10)	23	(4)	151	113	9	23	305	(253)	(253)
Income statement (charge)/credit	–	1	–	104	11	–	6	122	(3)	(3)
Other comprehensive income charge	–	(33)	(11)	–	–	(4)	(2)	(50)	(40)	(40)
At 30 September 2021	(10)	(9)	(15)	255	124	5	27	377	(296)	(296)
Income statement credit/(charge)	2	2	–	47	(13)	–	(2)	36	(9)	(9)
Other comprehensive income charge	–	(260)	(1)	–	–	(5)	(1)	(267)	(45)	(45)
At 30 September 2022	**(8)**	**(267)**	**(16)**	**302**	**111**	**–**	**24**	**146**	**(350)**	**(350)**

Other temporary differences include the IFRS 9 transitional adjustment of £11m and equity based compensation of £6m (2021: £15m and £9m respectively).

The Group has deferred tax assets of £146m (2021: £377m), the principal components of which are tax losses of £302m (2021: £255m) and capital allowances of £111m (2021: £124m) offset by the cash flow hedge reserve deferred tax liability of £267m (2021: £9m). The Group also has deferred tax liabilities of £350m (2021: £296m) in relation to the defined benefit pension surplus.

The deferred tax assets and liabilities detailed above arise primarily in Clydesdale Bank PLC which has a right to offset current tax assets against current tax liabilities and is party to a Group Payment Arrangement for payments of tax to HMRC. Therefore, in accordance with IAS 12, deferred tax assets and deferred tax liabilities have also been offset in this year where they relate to payments of income tax to this tax authority.

Historic trade tax losses are now fully recognised (2021: unrecognised deferred tax asset of £112m representing trading losses with a gross value of £449m). The Group also has historic non-trading losses of £6m gross, tax value £1m; a deferred tax asset has not been recognised in respect of these losses as their use cannot be foreseen.

On 17 October 2022, the Chancellor of the Exchequer confirmed that the UK corporation tax rate will increase to 25% from 1 April 2023. On 17 November 2022 it was confirmed that the previously enacted reduction in Banking Surcharge to 3%, with an allowance of £100m, would proceed, also from 1 April 2023. In line with the requirements of IAS 12, these enacted tax rates have been used to determine the deferred tax balances at 30 September 2022.

Section 2: Results for the year

2.6 Earnings per share

Accounting policy

Basic EPS

Basic EPS is calculated by taking the profit attributable to ordinary shareholders of the parent company and then dividing this by the weighted average number of ordinary shares outstanding during the year after deducting the weighted average of the Group's holdings of its own shares.

Diluted EPS

This requires the weighted-average number of ordinary shares in issue to be adjusted to assume conversion of all dilutive potential ordinary shares. These arise from awards made under equity based compensation schemes. Share awards with performance conditions attaching to them are not considered to be dilutive unless these conditions have been met at the reporting date.

The Group presents basic and diluted loss per share data in relation to the ordinary shares of Virgin Money UK PLC.

	2022 £m	2021 £m
Profit attributable to ordinary equity holders for the purposes of basic and diluted EPS	**467**	395

	2022	2021
Weighted-average number of ordinary shares in issue (millions)		
– Basic	**1,441**	1,442
Adjustment for share awards made under equity based compensation schemes	**3**	1
– Diluted	**1,444**	1,443
Basic earnings per share (pence)	**32.4**	27.3
Diluted earnings per share (pence)	**32.3**	27.3

Basic earnings per share has been calculated after deducting 0.3m (2021: 0.1m) ordinary shares representing the weighted-average of the Group's holdings of its own shares.

Note 4.1 provides details of the share buyback programme including buybacks intended for beyond 30 September 2022.

Section 3: Assets and liabilities

3.1 Loans and advances to customers

Accounting policy
Loans and advances to customers arise when the Group provides money directly to a customer and includes mortgages, term lending, overdrafts, credit card lending, lease finance and invoice financing. They are recognised initially at fair value and are subsequently measured at amortised cost, using the effective interest method, adjusted for ECLs (note 3.2). They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

Leases entered into by the Group as lessor, where the Group transfers substantially all the risks and rewards of ownership to the lessee, are classified as finance leases. The leased asset is not held on the Group balance sheet; instead, a finance lease is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Interest income is recognised in interest receivable, allocated to accounting years to reflect a constant periodic rate of return.

	2022 £m	2021 £m
Gross loans and advances to customers	**73,146**	72,551
Impairment provisions on credit exposures[1] (note 3.2)	**(454)**	(496)
Fair value hedge adjustment	**(941)**	(179)
	71,751	71,876

(1) ECLs on off-balance sheet exposures of £3m (2021: £8m) are presented as part of the provisions for liabilities and charges balance (note 3.13).

The Group has a portfolio of fair valued business loans of £70m (2021: £133m) which are classified separately as financial assets at FVTPL on the balance sheet (note 3.5). Combined with the above, this is equivalent to total loans and advances of £71,821m (2021: £72,009m).

The fair value hedge adjustment represents an offset to the fair value movement on hedging derivatives transacted to manage the interest rate risk inherent in the Group's fixed rate Mortgage portfolio.

The Group has transferred a proportion of mortgages to the securitisation and covered bond programmes (note 3.3).

Lease finance
The Group leases a variety of assets to third parties under finance lease arrangements, including vehicles and general plant and machinery. The cost of assets acquired by the Group during the year for the purpose of letting under finance leases and hire purchase contracts amounted to £46m (2021: £9m) and £405m (2021: £301m) respectively.

Finance lease receivables are presented in the statement of financial position within loans and advances to customers. The maturity analysis of lease receivables, including the undiscounted lease payments to be received, are as follows:

Gross investment in finance lease and hire purchase receivables

	2022 £m	2021 £m
Less than 1 year	**269**	257
1-2 years	**170**	156
2-3 years	**117**	99
3-4 years	**66**	50
4-5 years	**46**	26
More than 5 years	**24**	26
	692	614
Unearned finance income	**(45)**	(30)
Net investment in finance lease and hire purchase receivables	**647**	584

Finance income recognised on the net investment in the lease was £21m (2021: £19m) and is included in interest income in the income statement (note 2.2).

3.2 Impairment provisions on credit exposures

Accounting policy
At each reporting date, the Group assesses financial assets measured at amortised cost, as well as loan commitments and financial guarantees not measured at FVTPL, for impairment. The impairment loss allowance is calculated using an ECL methodology and reflects: (i) an unbiased and probability weighted amount; (ii) the time value of money which discounts the impairment loss; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

SICR assessment and staging
The ECL is calculated as either a 12-month (Stage 1) or lifetime ECL depending on whether the financial asset has suffered a SICR since origination (Stage 2) or has otherwise become credit impaired (Stage 3) as at the reporting date. The Group uses a PD threshold curve (distinct for each portfolio) to assess for a SICR in addition to the 30 DPD and 90 DPD backstops for recognising Stage 2 and Stage 3 provisions respectively.

Financial assets can move between stages when the relevant staging criteria are no longer satisfied subject to certain restrictions for forborne assets. If the level of impairment loss reduces in a subsequent year, the previously recognised impairment loss allowance is reversed and recognised in the income statement.

POCI financial assets are those which are assessed as being credit impaired upon initial recognition. Once a financial asset is classified as POCI, it remains there until derecognition irrespective of its credit quality at each reporting date. POCI financial assets are disclosed separately from those financial assets in Stage 3. The Group regards the date of acquisition as the origination date for purchased portfolios.

The Group has not made use of the low credit risk option under IFRS 9 for loans and advances at amortised cost. Further detail on the low credit risk option can be found in note 3.7.

The ECL assessment is performed on either a collective or individual basis:

Collective: these assets are assessed and provided for on a group or a pooled basis due to the existence of shared risk characteristics for as long as they retain those similar characteristics. Financial assets are considered to have shared risk characteristics when, at a given point in time, they will tend to display a similar PD and credit risk profile and can be allocated to Stages 1, 2 or 3.

Individual: these assets are assessed and provided for at the financial instrument level, with the assessment (which is governed by the Group's Credit Policy) taking into consideration a range of likely potential outcomes relating to each customer and their associated financial assets. These will be allocated to Stage 3.

Regardless of the calculation basis, the Group generates a modelled ECL allowance at the individual financial instrument level. The modelled ECL output can be supplemented by management judgements in the form of PMAs where appropriate.

Write-offs and recoveries
When there is no reasonable expectation of recovery for a loan, it is written off against the related provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment charge in the income statement.

The Group's impairment policy for debt instruments at FVOCI is included in note 3.7. The impact of the ECL methodology on the Group's cash and balances with central banks and due from other banks balances held at amortised cost is immaterial. ECLs relating to loan commitments and financial guarantees can be found in note 3.13.

Critical accounting estimates and judgements
ECL methodology requires the Group to apply estimates and exercise judgement when calculating an impairment allowance for credit exposures.

Further information on the chosen scenarios, macroeconomic assumptions, and scenario weightings used in the ECL calculation, including management's use of PMAs together with sensitivity analysis, is contained in the credit risk section of Risk management on pages 39 to 45.

3.2 Impairment provisions on credit exposures continued

Movement in impairment provisions on credit exposures

	2022 £m	2021 £m
Opening balance	**496**	735
Charge/(credit) for the year[1]	**57**	(132)
Amounts written off	**(129)**	(126)
Recoveries of amounts written off in previous years	**30**	26
Transfer of off-balance sheet ECLs to provisions (note 3.13)	**–**	(7)
Closing balance	**454**	496

(1) The £52m charge (2021: £131m credit) for impairment losses on credit exposures shown in the income statement also includes a £5m credit (2021: £1m charge) in respect of off-balance sheet ECLs (note 3.13).

Off-balance sheet ECLs are presented as part of the provisions for liabilities and charges balance (note 3.13).

3.3 Securitisation and covered bond programmes

Accounting policy
The Group sponsors the formation of structured entities, primarily for the purpose of facilitation of asset securitisation and covered bond transactions, the full details of which can be found in note 6.2 to the Company financial statements. The Group has no shareholding in these entities, but is exposed, or has rights, to variable returns and has the ability to affect those returns. The entities are consolidated in the Group's financial statements in accordance with note 1.5.

Securitisation
The Group has securitised a portion of its retail mortgage loan portfolio under both master trust (Lanark and Lannraig) and standalone (Gosforth) securitisation programmes. The securitised mortgage loans have been assigned at principal value to bankruptcy remote structured entities. The securitised debt holders have no recourse to the Group other than the principal and interest (including fees) generated from the securitised mortgage loan portfolio.

The externally held securitised notes in issue are included within debt securities in issue (note 3.11). There are a number of notes held internally by the Group which are used as collateral for repurchases and similar transactions or for credit enhancement purposes.

Covered bond
A subset of the Group's retail mortgage loan portfolio has been ring-fenced and assigned to a bankruptcy remote limited liability partnership, Eagle Place Covered Bonds LLP, to provide a guarantee for the obligations payable on the covered bonds issued by the Group.

The covered bond partnership is consolidated with the mortgage loans retained on the Group balance sheet and the covered bonds issued included within debt securities in issue (note 3.11). The covered bond holders have dual recourse: firstly, to the bond issuer on an unsecured basis; and secondly, to the LLP under the Covered Bond Guarantee secured against the mortgage loans.

Under both the securitisation and covered bond programmes, the mortgage loans do not qualify for derecognition because the Group remains exposed to the majority of the risks and rewards of the mortgage loan portfolio, principally the associated credit risk. The Group continues to service the mortgage loans in return for an administration fee and is also entitled to any residual income after all payment obligations due under the terms of the programmes and senior programme expenses have been met. A deemed loan liability is recognised in the programme sponsor for the proceeds of the funding transaction.

Significant restrictions
Where the Group uses its financial assets to raise finance through securitisation and the sale of securities subject to repurchase agreements, the assets become encumbered and are not available for transfer around the Group.

3.3 Securitisation and covered bond programmes continued

The assets and liabilities in relation to securitisation and covered bonds in issue at 30 September are as follows:

	2022		2021	
	Loans and advances securitised £m	Notes in issue £m	Loans and advances securitised £m	Notes in issue £m
Securitisation programmes				
Lanark	**3,776**	**2,768**	4,383	3,396
Lannraig	**768**	**622**	921	693
Gosforth 2017-1	**–**	**–**	712	591
Gosforth 2018-1	**872**	**745**	1,107	887
	5,416	**4,135**	7,123	5,567
Less held by the Group		**(2,260)**		(3,181)
		1,875		2,386
Covered bond programmes				
Clydesdale Bank PLC	**–**	**–**	999	742
Clydesdale Bank PLC (formerly Virgin Money PLC)	**6,739**	**3,450**	3,960	1,100
	6,739	**3,450**	4,959	1,842

During the year the Clydesdale Bank PLC Global Covered Bond Programme ceased activity and the Series 2012-2 Covered Bonds transferred to the Clydesdale Bank PLC (formerly Virgin Money PLC) Global Covered Bond Programme. There was no financial impact to the Group in relation to this transfer.

The fair values of financial assets and associated liabilities relating to the securitisation programmes were £5,235m and £1,878m respectively (2021: £7,171m and £2,406m) where the counterparty to the liabilities has recourse only to the financial assets.

There were no events during the year that resulted in any Group transferred financial assets being derecognised.

The Group has contractual and non-contractual arrangements which may require it to provide financial support as follows:

Securitisation programmes
The Group provides credit support to the structured entities via reserve funds, which are partly funded through subordinated debt arrangements and by holding junior notes. Exposures are shown in the table below:

	2022 £m	2021 £m
Beneficial interest held	**1,239**	1,521
Subordinated loans	**42**	1
Junior notes held	**978**	1,206
	2,259	2,728

Looking forward through future reporting years there are a number of date-based options on the notes issued by the structured entities which could be actioned by them as issuer. These could require the Group, as sponsor, to provide additional liquidity support.

Covered bond programmes
The nominal level of over-collateralisation was £3,127m (2021: £2,827m) in the Clydesdale Bank PLC (formerly Virgin Money PLC) programme. In the prior year there was also £541m over-collateralisation in the Clydesdale Bank PLC programme. From time to time the obligations of the Group to provide over-collateralisation may increase due to the formal requirements of the programme.

Under all programmes, the Group has an obligation to repurchase mortgage exposures if certain mortgage loans no longer meet the programme criteria.

Section 3: Assets and liabilities

3.4 Cash and balances with central banks

Accounting policy
Cash and balances with central banks are measured at amortised cost, using the effective interest method, and are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership. These balances form part of the Group's treasury-related activities and are mostly short term in nature and repayable on demand or within a short timescale, generally three months.

	2022 £m	2021 £m
Cash assets	**1,206**	1,374
Balances with central banks (including EU payment systems)	**11,015**	8,337
	12,221	9,711
Less mandatory deposits with central banks[1]	**(266)**	(258)
Included in cash and cash equivalents (note 5.2)	**11,955**	9,453

(1) Mandatory deposits are not available for use in the Group's day-to-day business and are non-interest bearing.

3.5 Financial assets at fair value through profit or loss

Accounting policy
A financial asset is measured at FVTPL if it: (i) does not fall into one of the business models for amortised cost (note 1.7) or FVOCI (note 3.7); (ii) is specifically designated as FVTPL on initial recognition in order to eliminate or significantly reduce a measurement mismatch; or (iii) is classified as held for trading.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling in the near term, forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Associated gains and losses are recognised in the income statement as they arise (note 2.3).

Loans and advances
Included in financial assets at FVTPL is a historical portfolio of loans (sales ceased in 2012). Interest rate risk associated with these loans is managed using interest rate derivative contracts and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans is £70m (2021: £133m). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £1m (2021: £2m); the change for the current year is a decrease of £1m (2021: decrease of £1m), of which £1m (2021: £1m) has been recognised in the income statement.

Other financial assets
Included in other financial assets are £7m (2021: £19m) of unlisted securities and £1m (2021: £1m) of debt instruments.

Note 3.15 contains further information on the valuation methodology applied to financial assets held at FVTPL and their classification within the fair value hierarchy. Details of the credit quality of financial assets is provided in the Risk management section of this results announcement.

3.6 Derivative financial instruments

Accounting policy
The Group uses derivative financial instruments to manage exposure to interest rate, contractually specified inflation and foreign currency risk. Interest rate risk arises primarily due to the mismatch, or duration, between repricing dates of interest-bearing assets and liabilities, or basis risk from assets and liabilities repricing to different reference rates. Contractually specified inflation risk arises from financial instruments whose cash flows are linked to an inflation index. Currency risk arises when assets and liabilities are not denominated in the functional currency of the entity. Derivatives are recognised on the balance sheet at fair value on trade date and are measured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The notional amount of a derivative contract is not recorded on the balance sheet but is disclosed as part of this note.

Netting
Derivative assets and liabilities are offset against collateral received and paid respectively, and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis. Amounts offset on the balance sheet represent the Group's centrally cleared derivative financial instruments and collateral paid to/from central clearing houses, which meet the criteria for offsetting under IAS 32.

Hedge accounting
The Group elects to apply hedge accounting for the majority of its risk management activity that uses derivatives. This results in greater alignment in the timing of recognition of gains and losses on hedged items and hedging instruments and therefore reduces income statement volatility. The Group does not have a trading book, however derivatives that do not meet the hedging criteria, or for which hedge accounting is not applied, are classified as held for trading.

The Group has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. The method of recognising the fair value gain or loss on a derivative depends on whether it is designated as a hedging instrument and the nature of the item being hedged. Certain derivatives are designated as either hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (a cash flow hedge); or hedges of the fair value of recognised assets or liabilities or firm commitments (a fair value hedge).

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. Specifically, the separate component of equity (note 4.1) is adjusted to the lesser of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the expected future cash flows on the hedged item from the inception of the hedge. Any remaining gain or loss on the hedging instrument is recognised in the income statement. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge is discontinued or no longer meets the criteria for hedge accounting, any cumulative gain or loss remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. This movement in the fair value of the hedged item is made as an adjustment to the carrying value of the hedged asset or liability.

Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement over the remaining life of the asset or liability.

Derivatives held for trading
Changes in value of held for trading derivatives are immediately recognised in the income statement (note 2.3).

The tables below analyse derivatives between those designated as hedging instruments and those classified as held for trading:

	2022 £m	2021 £m
Fair value of derivative financial assets		
Designated as hedging instruments	**277**	94
Designated as held for trading	**65**	46
	342	140
Fair value of derivative financial liabilities		
Designated as hedging instruments	**201**	143
Designated as held for trading	**126**	66
	327	209

3.6 Derivative financial instruments continued

Cash collateral totalling £241m (2021: £18m) has been pledged and £38m has been received (2021: £76m) in respect of derivatives with other banks. These amounts are included within due from and due to other banks respectively. Net collateral received from clearing houses, which did not meet offsetting criteria, totalled £149m (2021: collateral placed of £82m) and is included within other assets and other liabilities.

The derivative financial instruments held by the Group are further analysed below. The notional contract amount is the amount from which the cash flows are derived and does not represent the principal amounts at risk relating to these contracts.

Total derivative contracts

	2022			2021		
	Notional contract amount £m	Fair value of assets £m	Fair value of liabilities £m	Notional contract amount £m	Fair value of assets £m	Fair value of liabilities £m
Derivatives designated as hedging instruments						
Cash flow hedges						
Interest rate swaps (gross)	**35,753**	**1,988**	**930**	24,886	71	90
Less: net settled interest rate swaps[1]	**(33,188)**	**(1,803)**	**(900)**	(21,500)	(64)	(79)
Interest rate swaps (net)[2]	**2,565**	**185**	**30**	3,386	7	11
Fair value hedges						
Interest rate swaps (gross)	**16,600**	**1,201**	**636**	30,707	295	447
Less: net settled interest rate swaps[1]	**(14,611)**	**(1,144)**	**(570)**	(25,260)	(209)	(390)
Interest rate swaps (net)[2]	**1,989**	**57**	**66**	5,447	86	57
Cross currency swaps[2]	**2,113**	**35**	**105**	1,880	1	75
	4,102	**92**	**171**	7,327	87	132
Total derivatives designated as hedging instruments	**6,667**	**277**	**201**	10,713	94	143
Derivatives designated as held for trading						
Foreign exchange rate related contracts						
Spot and forward foreign exchange[2]	**599**	**26**	**20**	805	13	12
Cross currency swaps[2]	**–**	**–**	**–**	490	–	3
Options[2]	**1**	**–**	**–**	1	–	–
	600	**26**	**20**	1,296	13	15
Interest rate related contracts						
Interest rate swaps (gross)	**1,411**	**52**	**66**	734	14	31
Less: net settled interest rate swaps[1]	**(665)**	**(50)**	**–**	–	–	–
Interest rate swaps (net)[2]	**746**	**2**	**66**	734	14	31
Swaptions[2]	**10**	**–**	**2**	10	–	1
Options[2]	**501**	**16**	**17**	495	1	2
	1,257	**18**	**85**	1,239	15	34
Commodity related contracts	**199**	**21**	**21**	97	17	17
Equity related contracts	**–**	**–**	**–**	1	1	–
Total derivatives designated as held for trading	**2,056**	**65**	**126**	2,633	46	66

(1) Presented within other assets and other liabilities.

(2) Presented within derivative financial instruments.

3.6 Derivative financial instruments continued

Hedge accounting
The hedging strategy of the Group is divided into micro hedges, where the hedged item is a distinctly identifiable asset or liability, and portfolio hedges, where the hedged item is a homogenous portfolio of assets or liabilities.

In some hedge accounting relationships, the Group designates risk components of hedged items as follows:

- benchmark interest rate risk as a component of interest rate risk, such as the SONIA component;
- exchange rate risk for foreign currency financial assets and financial liabilities;
- inflation risk where it is a contractually specified component of a debt instrument; and
- components of cash flows of hedged items, for example certain interest payments for part of the life of an instrument.

Other risks such as credit risk and liquidity risk are managed by the Group but are not included in the hedge accounting relationship. Changes in the designated risk component usually account for the largest portion of the overall change in fair value or cash flows of the hedged item.

Portfolio cash flow hedges
The Group applies macro cash flow hedge accounting to a portion of its floating rate financial assets and liabilities. The hedged cash flows are a group of forecast transactions that result in cash flow variability from resetting of interest rates, reinvestment of financial assets, or refinancing and rollovers of financial liabilities. This cash flow variability can arise on recognised assets or liabilities or highly probable forecast transactions. The hedged items are designated as the gross asset or liability positions allocated to time buckets based on projected repricing and interest profiles. The Group aims to maintain a position where the principal amount of the hedged items is greater than or equal to the notional amount of the corresponding interest rate swaps used as the hedging instruments. The hedge accounting relationship is reassessed on a monthly basis with the composition of hedging instruments and hedged items changing frequently in line with the underlying risk exposures. If necessary, the hedge relationships are de-designated and redesignated based on the effectiveness test results.

Micro cash flow hedges
Floating rate issuances that are denominated in currencies other than the functional currency of the Group are designated in cash flow hedges with cross currency swaps. There are no active micro cash flow hedges at the Group's balance sheet date.

Portfolio fair value hedges
The Group applies macro fair value hedging to a portion of its fixed rate mortgages. The Group determines hedged items by identifying portfolios of homogeneous loans based on their contractual maturity and other risk characteristics. Loans within the identified portfolios are allocated to repricing time buckets based on expected, rather than contractual, repricing dates. The hedging instruments are designated to those repricing time buckets. Hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed loans due to the hedged risk against the fair value movements of the derivatives.

The aggregated fair value changes in the hedged loans are recognised on the Group's balance sheet as an asset. At the end of every month, in order to minimise the ineffectiveness from early repayments and accommodate new exposures, the Group voluntarily de-designates the hedge relationships and redesignates them as new hedges. Fair value hedging of fixed rate deposits was discontinued in 2020, and the hedge adjustment recognised on the Group's balance sheet is amortised to profit and loss over the life of the hedged item.

Micro fair value hedges
The Group uses this hedging strategy on GBP, inflation or foreign currency denominated fixed rate assets held at FVOCI and GBP and foreign currency denominated fixed rate debt issuances by the Group. Where assets and liabilities are exposed to multiple risk components, for example interest rate and foreign currency risk, these components are simultaneously designated as hedged risks within the same hedge relationship.

Hedge ineffectiveness
Hedge ineffectiveness can arise from:

- mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences;
- differences in timing of cash flows of hedged items and hedging instruments;
- changes in expected timings and amounts of forecast future cash flows; and
- derivatives used as hedging instruments having a non-zero fair value at the time of designation.

Additionally, for portfolio fair value hedges of the Group's fixed rate mortgage portfolio, ineffectiveness also arises from the difference between forecast and actual repayments (e.g. prepayment risk).

The Group has no remaining hedge relationships exposed to LIBOR and as no uncertainty remains regarding interest rate benchmark reform, the Group no longer applies the reliefs provided by 'Interest Rate Benchmark Reform – Phase 1 and Phase 2 amendments' to hedge accounting. Further detail on the Group's approach to managing the risk of LIBOR replacement, including derivatives designated as held for trading that have not yet transitioned, is provided on page 65.

3.6 Derivative financial instruments continued

Summary of hedging instruments in designated hedge relationships
In the table below, the Group sets out the accumulated adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year:

	2022				2021			
		Carrying amount				Carrying amount		
	Notional contract amount £m	Assets £m	Liabilities £m	Change in fair value of hedging instrument in the year used for ineffectiveness measurement(2) £m	Notional contract amount £m	Assets £m	Liabilities £m	Change in fair value of hedging instrument in the year used for ineffectiveness measurement(2)(3) £m
Cash flow hedges								
Interest rate risk								
Interest rate swaps(1)	**35,753**	**1,988**	**930**	**916**	24,886	71	90	127
Foreign exchange risk								
Cross currency swaps	**–**	**–**	**–**	**–**	–	–	–	(28)
Total derivatives designated as cash flow hedges	**35,753**	**1,988**	**930**	**916**	24,886	71	90	99
Fair value hedges								
Interest rate risk								
Interest rate swaps(1)	**16,150**	**1,059**	**361**	**1,052**	30,707	295	447	500
Inflation and interest rate risk								
Inflation linked interest rate swaps(1)	**450**	**142**	**275**	**96**	–	–	–	–
Foreign exchange and interest rate risk								
Cross currency swaps	**2,113**	**35**	**105**	**6**	1,880	1	75	(86)
Total derivatives designated as fair value hedges	**18,713**	**1,236**	**741**	**1,154**	32,587	296	522	414

(1) As shown in the total derivatives contracts table on page 94, for centrally cleared derivatives, where the IAS 32 'Financial Instruments: Presentation' netting criteria is met, the derivative balances are offset within other assets.
For all other derivatives, the derivative balances are presented within derivative financial instruments.

(2) Changes in fair value of cash flow hedging instruments are recognised in other comprehensive income. Changes in fair value of fair value hedging instruments are recognised in the income statement in non-interest income.

(3) The change in fair value of the hedging instrument used for ineffectiveness measurement has been restated in the comparative year in line with the current year presentation, as detailed in note 1.11.

Summary of hedged items in designated hedge relationships
In the table below, the Group sets out the accumulated adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

3.6 Derivative financial instruments continued

	2022			2021		
	Change in fair value of hedged item in the year used for ineffectiveness measurement £m	Cash flow hedge reserve Continuing hedges £m	Cash flow hedge reserve Discontinued hedges £m	Change in fair value of hedged item in the year used for ineffectiveness measurement £m	Cash flow hedge reserve Continuing hedges £m	Cash flow hedge reserve Discontinued hedges £m
Cash flow hedges						
Interest rate risk						
Gross floating rate assets and gross floating rate liabilities(1)	(962)	979	(14)	(127)	2	13
Foreign exchange risk						
Floating rate currency issuances(2)	–	–	–	29	–	–
Total	(962)	979	(14)	(98)	2	13

	2022				2021			
	Carrying amount of hedged items Assets £m	Carrying amount of hedged items Liabilities £m	Accumulated hedge adjustment on the hedged item £m	Change in fair value of hedged items in the year used for ineffectiveness measurement £m	Carrying amount of hedged items Assets £m	Carrying amount of hedged items Liabilities £m	Accumulated hedge adjustment on the hedged item(3) £m	Change in fair value of hedged items in the year used for ineffectiveness measurement(3) £m
Fair value hedges								
Interest rate risk								
Fixed rate mortgages(4)	**9,520**	**–**	**(941)**	**(779)**	24,265	–	(179)	(420)
Fixed rate customer deposits(5)	**–**	**–**	**(2)**	**–**	–	–	(5)	–
Fixed rate FVOCI debt instruments(6)	**2,443**	**–**	**(613)**	**(629)**	3,010	–	(115)	(197)
Fixed rate issuances(2)	**–**	**(2,392)**	**350**	**388**	–	(2,779)	39	107
Inflation and interest rate risk								
Fixed rate FVOCI debt instruments(6)	**589**	**–**	**(105)**	**(96)**	–	–	–	–
Foreign exchange and interest rate risk								
Fixed rate currency FVOCI debt instruments(6)	**76**	**–**	**(3)**	**(3)**	78	–	–	(5)
Fixed rate currency issuances(2)	**–**	**(1,954)**	**83**	**11**	–	(1,730)	72	91
Total	**12,628**	**(4,346)**	**(1,231)**	**(1,108)**	27,353	(4,509)	(188)	(424)

(1) Highly probable future cash flows arising from loans and advances to customers, due to customers and debt securities in issue.

(2) Hedged item is recorded in debt securities in issue.

(3) The accumulated hedge adjustment on the hedged item and the change in fair value of the hedged items used for ineffectiveness measurement have been restated in the comparative year in line with the current year presentation, as detailed in note 1.11.

(4) Hedged item and the cumulative fair value changes, are recorded in loans and advances to customers.

(5) Hedge relationship was discontinued in 2020. The fair value adjustment taken will be amortised over the remaining life of the hedged items, and is recorded in customer deposits.

(6) Hedged item is recorded in financial assets at FVOCI.

3.6 Derivative financial instruments continued

	2022				2021			
			Reclassified into income statement as				Reclassified into income statement as	
	Hedge ineffectiveness recognised in income statement(1) £m	Effective portion recognised in other comprehensive income £m	Net interest income £m	Non-interest income £m	Hedge ineffectiveness recognised in income statement(1) £m	Effective portion recognised in other comprehensive income £m	Net interest income £m	Non-interest income £m
Cash flow hedges								
Interest rate risk								
Gross floating rate assets and gross floating rate liabilities	**(46)**	**962**	**17**	**(4)**	–	127	10	(5)
Foreign exchange risk								
Floating rate currency issuances	**–**	**–**	**–**	**–**	–	(28)	–	–
Total gains/(losses) on cash flow hedges	**(46)**	**962**	**17**	**(4)**	–	99	10	(5)

	Hedge ineffectiveness recognised in income	
	2022 £m	2021 £m
Fair value hedges		
Interest rate risk		
Fixed rate mortgages	**33**	(10)
Fixed rate FVOCI debt instruments	**(2)**	1
Fixed rate issuances	**1**	(1)
Inflation and interest rate risk		
Fixed rate FVOCI debt instruments	**–**	–
Foreign exchange and interest rate risk		
Fixed rate currency FVOCI debt instruments	**(1)**	–
Fixed rate currency issuances	**15**	–
Total losses on fair value hedges(1)	**46**	(10)

(1) Recognised in gains less losses on financial assets at fair value.

3.7 Financial assets at fair value through other comprehensive income

Accounting policy
A financial asset is measured at FVOCI when: (i) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (ii) the contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding unless the financial asset is designated at FVTPL on initial recognition. An option for equity investments that are not held for trading can be taken to classify them at FVOCI where an irrevocable election is made at initial recognition. This option is available for each separate investment. The Group has not exercised this option for any equity investments.

Interest income and impairment gains and losses on FVOCI assets are measured in the same manner as for assets measured at amortised cost and are recognised in the income statement, with all other gains or losses recognised in other comprehensive income as a separate component of equity in the year in which they arise. Gains and losses arising from changes in fair value are included as a separate component of equity until sale when the cumulative gain or loss is transferred to the income statement. For all FVOCI assets, the gain or loss is calculated with reference to the gross carrying amount.

Debt instruments at FVOCI are subject to the same impairment criteria as amortised cost financial assets (note 3.2), with the ECL element recognised directly in the income statement. As the financial asset is fair valued through other comprehensive income, the change in its value includes the ECL element, with the remaining fair value change recognised in other comprehensive income. Any reversal of the ECL is recorded in the income statement up to the value recognised previously.

A low credit risk option is available which allows entities not to assess whether there has been a significant increase in credit risk since initial recognition where the financial asset is deemed as being of low credit risk at the reporting date. The result of exercising the low credit risk exemption is that the financial assets are classed under Stage 1 with a 12-month ECL calculation applied.

The Group exercises the low credit risk option for debt instruments classified as FVOCI, recognising the high credit quality of the instruments. No material ECL provision is held for these financial assets.

Financial assets at FVOCI consists of £5,064m of listed securities (2021: £4,352m).

Note 3.15 contains further information on the valuation methodology applied to financial instruments at FVOCI at 30 September 2022 and their classification within the fair value hierarchy. Details of the credit quality of financial assets is provided in the Risk management section of this results announcement.

3.8 Intangible assets and goodwill

Accounting policy
Capitalised software is stated at cost, less amortisation and any provision for impairment.

Identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred. Capitalised software costs are amortised on a straight-line basis over their expected useful lives, usually between three and ten years. Impairment losses are recognised in the income statement as incurred.

Goodwill arises on the acquisition of an entity and represents the excess of the fair value of the purchase consideration and direct costs of making the acquisition over the fair value of the Group's share of the net assets at the date of the acquisition. Goodwill is not subject to amortisation and is tested for impairment on an annual basis.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, which typically arises when the benefits associated with the software were substantially reduced from what had originally been anticipated or the asset has been superseded by a subsequent investment. In such situations, an impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal or its value-in-use.

Intangible assets which are fully amortised are reviewed annually to consider whether the assets remain in use.

	Capitalised software £m	Goodwill £m	Core deposit intangible £m	Total £m
Cost				
At 1 October 2020	1,028	11	6	1,045
Additions	80	–	–	80
Write-off	(65)	–	–	(65)
At 30 September 2021	1,043	11	6	1,060
Additions	53	–	–	53
Write-off	(28)	–	–	(28)
Disposal	(8)	–	–	(8)
At 30 September 2022	**1,060**	**11**	**6**	**1,077**
Accumulated amortisation and impairment				
At 1 October 2020	552	–	2	554
Charge for the year	123	–	1	124
Impairment	9	–	–	9
At 30 September 2021	684	–	3	687
Charge for the year	81	–	3	84
Impairment	47	–	–	47
Disposal	(8)	–	–	(8)
At 30 September 2022	**804**	**–**	**6**	**810**
Net book value				
At 30 September 2022	**256**	**11**	**–**	**267**
At 30 September 2021	359	11	3	373

All (2021: all) of the software additions form part of internally generated software projects.

A £62m charge (2021: £68m) (comprising write-offs of £17m (2021: £65m) and impairments of £45m (2021: £3m)) was recognised in the year following a reassessment of the Group's accounting practices on the capitalisation of internally generated software against the backdrop of the move to an Agile project delivery.

Section 3: Assets and liabilities

3.9 Retirement benefit obligations

Accounting policy
The Group makes contributions to both defined benefit and defined contribution pension schemes which entitle employees to benefits on retirement or disability.

Defined contribution pension scheme
The Group recognises its obligation to make contributions to the scheme as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit pension scheme
A liability or asset is recognised on the balance sheet in respect of the defined benefit scheme and is measured as the difference between the present value of the defined benefit obligation less the fair value of the defined benefit scheme assets at the reporting date. The present value of the defined benefit obligation for the scheme is discounted by high-quality corporate bond rates that have maturity dates approximating to the terms of the defined benefit obligation. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme. In assessing whether a surplus is recoverable, the Group considers its current right to obtain a refund or a reduction in future contributions and does not anticipate any future acts by other parties that could change the amount of the surplus that may ultimately be recovered.

Pension expense attributable to the Group's defined benefit scheme comprises current service cost, past service cost resulting from a scheme amendment or curtailment, net interest on the net defined benefit obligation/asset, gains or losses on settlement and administrative costs incurred. Where actuarial remeasurements arise, the Group recognises such amounts directly in equity through the statement of comprehensive income in the year in which they occur. Actuarial remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in actuarial assumptions.

The Group's principal trading subsidiary, Clydesdale Bank PLC, is the sponsoring employer of the Yorkshire and Clydesdale Bank Pension Scheme, a defined benefit pension scheme, which was closed to future benefit accrual for the majority of current employees on 1 August 2017.

The following table summarises the present value of the defined benefit obligation and fair value of plan assets for the Scheme as at 30 September:

	2022 £m	2021 £m
Active members' defined benefit obligation	**(9)**	(16)
Deferred members' defined benefit obligation	**(987)**	(1,973)
Pensioner and dependant members' defined benefit obligations	**(1,220)**	(1,800)
Total defined benefit obligation	**(2,216)**	(3,789)
Fair value of Scheme assets	**3,216**	4,636
Net defined benefit pension asset	**1,000**	847
Post-retirement medical benefits obligations(1)	**(2)**	(2)

(1) Post-retirement medical benefits obligations are included within other liabilities (note 3.14).

The Group's pension arrangements
The current version of the Scheme was established under trust on 30 September 2009 with the assets held in a Trustee administered fund. The Trustee is responsible for the operation and governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, sets out the framework for funding defined benefit occupational pension plans in the UK.

The Group has implemented several reforms to the Scheme to manage the obligation. It closed the Scheme to new members in 2004 and since April 2006 has provided benefits accruing on a career average revalued earnings basis. On 1 August 2017, the Scheme was closed to future benefit accrual for the majority of current employees, with both affected and new employees' future pension benefits being provided through the Group's existing defined contribution scheme, 'My Retirement'. The income statement charge for this is separately disclosed in note 2.4.

The Group also provides post-retirement healthcare under a defined benefit scheme for some pensioners and their dependant relatives for which provision has been made on a basis consistent with the methodology applied to the defined benefit pension scheme. This is a closed scheme and the provision will be utilised over the life of the remaining scheme members. The obligation in respect of this scheme was £2m at 30 September 2022 (2021: £2m) and is included within other liabilities in note 3.14.

3.9 Retirement benefit obligations continued

Scheme valuations

There are a number of means of measuring liabilities in the defined benefit schemes, with the ultimate aim of the Trustee being that the Scheme is 100% funded on an agreed self-sufficiency basis (which is where the Scheme is essentially self-funded and does not need to call on the Group for any additional funding). The two bases used by the Group to value its obligations are: (i) an IAS 19 accounting basis; and (ii) a Trustee's Technical Provision basis.

(i) IAS 19 accounting basis

The valuations of the Scheme assets and obligations are calculated on an accounting basis in accordance with the applicable accounting standard IAS 19 which provides the basis for the accounting framework and methodology for entries in the income statement, balance sheet and capital reporting. The principal purpose of this valuation is to allow comparison of pension obligations between companies. The obligation under an accounting valuation can be higher or lower than those under a Trustee's Technical Provision valuation.

The rate used to discount the obligation on an IAS 19 basis is a key driver of any potential volatility and is based on yields on AA rated high-quality corporate bonds, regardless of how the Trustee of the Scheme invests the assets. The accounting valuation under IAS 19 can therefore move adversely because of low rates and narrowing credit spreads which are not fully matched by the Scheme assets. Inflation is another key source of volatility and arises as a result of member benefits having an element of index linking, which causes the obligation to increase in line with rises in long-term inflation assumptions. In practice however, over the long term, the relationship between interest and inflation rates tends to be negatively correlated resulting in a degree of risk offset.

(ii) Trustee's Technical Provision basis

This valuation basis reflects how much money the Trustee considers is required now in order to provide for the promised benefits as they come up for payment in the future. The Trustee is responsible for ensuring that the calculation is conducted prudently on an actuarial basis, considering factors including the Scheme's investment strategy and the relative financial strength of the sponsoring employer.

A key aspect of this valuation is the investment strategy the Trustee proposes to follow as part of the policy for meeting the Scheme's obligations. Because there are no guarantees about investment returns over long periods, legislation requires the Trustee to consider carefully how much of their expected future investment returns it would be prudent for them to account for in advance.

During 2020 the Trustee concluded the latest triennial valuation for the Scheme, which was conducted in accordance with Scheme data and market conditions as at 30 September 2019. The valuation resulted in an improvement in the Scheme's funding position, with a reported surplus of £144m (previously a deficit of £290m) and a technical provisions funding level of 103% (previously 94%). As the 2019 valuation outcome was a funding surplus, the future payments to the Scheme were limited solely to those relating to a payment holiday agreed between the Group and Scheme Trustee in respect of contributions due under the prior 2016 valuation. These totalled £52m and were paid in full by the end of September 2021.

The next triennial valuation is due to be conducted in 2023 with Scheme data and market conditions as at 30 September 2022.

Scheme assets are not subject to the same valuation differences as Scheme obligations and are consistently valued at current market value.

3.9 Retirement benefit obligations continued

IAS 19 position

The Scheme movements in the year are as follows:

	2022				2021			
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Cumulative impact in other comprehensive income £m	Present value of obligation £m	Fair value of plan assets £m	Total £m	Cumulative impact in other comprehensive income £m
Balance sheet surplus at 1 October	**(3,789)**	**4,636**	**847**		(3,958)	4,681	723	
				(248)				(302)
Total expense								
Past service credit	**9**	**–**	**9**		3	–	3	
Interest (expense)/income	**(84)**	**104**	**20**		(61)	73	12	
Administrative costs	**–**	**(5)**	**(5)**		–	(6)	(6)	
Total (expense)/income recognised in the consolidated income statement	**(75)**	**99**	**24**		(58)	67	9	
Remeasurements								
Return on Scheme assets greater than discount rate	**–**	**(1,393)**	**(1,393)**	**(1,393)**	–	(19)	(19)	(19)
Actuarial:								
Loss – experience adjustments	**(16)**	**–**	**(16)**	**(16)**	(15)	–	(15)	(15)
Gain – demographic assumptions	**36**	**–**	**36**	**36**	2	–	2	2
Gain – financial assumptions	**1,495**	**–**	**1,495**	**1,495**	86	–	86	86
Remeasurement gains/(losses) recognised in other comprehensive income	**1,515**	**(1,393)**	**122**	**122**	73	(19)	54	54
Contributions and payments								
Employer contributions	**–**	**7**	**7**		–	61	61	
Benefit payments	**105**	**(105)**	**–**		99	(99)	–	
Transfer payments	**28**	**(28)**	**–**		55	(55)	–	
	133	**(126)**	**7**		154	(93)	61	
Balance sheet surplus at 30 September	**(2,216)**	**3,216**	**1,000**		(3,789)	4,636	847	
				(126)				(248)

In July 2021, the Trustees communicated a Pension Increase Exchange (PIE) exercise to members. A PIE gives members the option to exchange future increases on their pensions for a one-off uplift to their current pension. The exercise is being undertaken in three phases and is due to complete in calendar year 2023. A past service credit of £10m has been recognised in the year to 30 September 2022 (2021: £5m) in line with member acceptance of the PIE offer by the balance sheet date; the balance of the credit will be recognised next calendar year as the exercise concludes.

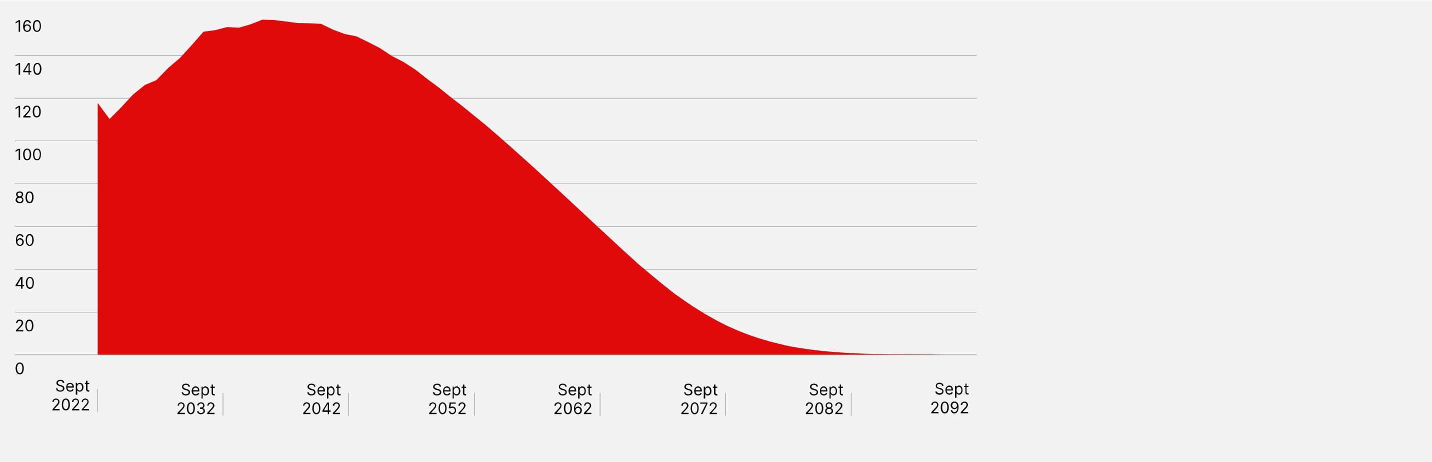
The expected contributions and benefit payments for the year ending 30 September 2023 are £10m (2022: £7m) and £118m (2022: £115m) respectively.

The Group and Trustee have entered into a contingent security arrangement (the ‘Security Arrangement’) (note 5.3).

3.9 Retirement benefit obligations continued

Maturity of Scheme liabilities

The estimated maturity period of Scheme obligations on an IAS 19 accounting basis is as follows:



The discounted mean term of the defined benefit obligation at 30 September 2022 is 14 years (2021: 18.5 years).

Scheme assets

In order to meet the obligations of the Scheme, the Trustee invests in a diverse portfolio of assets, with the level and volatility of asset returns being a key factor in the overall investment strategy. The investment portfolio is subject also to a range of risks typical of the types of assets held, such as: equity risk; credit risk on bonds; currency risk; interest rate and inflation risk; and exposure to the property market. The Trustee's investment strategy (including physical assets and derivatives) seeks to reduce the Scheme's exposure to these risks. In managing interest rate and inflation risks, the investment strategy seeks to hold portfolios of matching assets (including derivatives) that enable the Scheme's assets to better match movements in the value of liabilities due to changes in interest rates and inflation.

As at 30 September 2022, the interest rate and inflation rate hedge ratios were 97% and 95% respectively (2021: 95% and 95%) of the obligation when measured on a self-sufficiency basis. This strategy reflects the Scheme's obligation profile and the Trustee's and the Group's attitude to risk. The Trustee monitors the investment objectives and asset allocation policy on a regular basis.

The Trustee's investment strategy involves two main categories of investments:

Matching assets – a range of investments that provide a match to changes in obligation values.

Return seeking assets – a range of investments designed to provide specific, planned and consistent returns.

3.9 Retirement benefit obligations continued

The major categories of plan assets for the Scheme, stated at fair value, are as follows:

	2022				2021			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Bonds								
Fixed government	**350**	**–**	**350**		894	–	894	
Index-linked government	**1,314**	**–**	**1,314**		1,815	–	1,815	
Global sovereign	**90**	**2**	**92**		117	4	121	
Corporate and other	**781**	**37**	**818**		1,011	47	1,058	
	2,535	**39**	**2,574**	**80%**	3,837	51	3,888	84%
Equities[(1)]								
Global equities	**–**	**137**	**137**		–	150	150	
Emerging market equities	**–**	**14**	**14**		–	16	16	
UK equities	**–**	**7**	**7**		–	8	8	
	–	**158**	**158**	**5%**	–	174	174	4%
Other								
Secured income alternatives	**–**	**229**	**229**		–	197	197	
Derivatives[(2)]	**–**	**(83)**	**(83)**		–	6	6	
Repurchase agreements	**–**	**(803)**	**(803)**		–	(719)	(719)	
Property	**–**	**59**	**59**		–	122	122	
Alternative credit	**–**	**645**	**645**		–	597	597	
Infrastructure	**–**	**194**	**194**		–	161	161	
Cash	**–**	**243**	**243**		–	209	209	
Equity options	**–**	**–**	**–**		1	–	1	
	–	**484**	**484**	**15%**	1	573	574	12%
Total Scheme assets	**2,535**	**681**	**3,216**	**100%**	3,838	798	4,636	100%

(1) Equity investments are classified as unquoted reflecting the nature of the funds in which the Scheme invests directly. The underlying investments within those funds are, however, mostly quoted.

(2) Derivative financial instruments are used to modify the profile of the assets of the Scheme to better match the Scheme liabilities. Derivative holdings may lead to increased or decreased exposures to the physical asset categories disclosed above.

At 30 September 2022, the Scheme had employer-related investments within the meaning of Section 40 (2) of the Pensions Act 1995 totalling £2m (2021: £2m).

3.9 Retirement benefit obligations continued

Actuarial assumptions

The following assumptions were used in arriving at the IAS 19 defined benefit obligation:

	2022 % p.a.	2021 % p.a.
Financial assumptions		
Discount rate	**5.45**	2.08
Inflation (RPI)	**3.58**	3.40
Inflation (CPI)	**2.94**	2.77
Career average revalued earnings revaluations:		
Pre 31 March 2012 benefits (RPI)	**3.58**	3.40
Post 31 March 2012 benefits (CPI capped at 5% per annum)	**2.90**	2.73
Pension increases (capped at 2.5% per annum)	**2.21**	2.16
Pension increases (capped at 5% per annum)	**3.37**	3.23
Rate of increase for pensions in deferment	**2.91**	2.73

Demographic assumptions

	2022 Years	2021 Years
Post-retirement mortality:		
Current pensioners at 60 – male	**27.0**	27.2
Current pensioners at 60 – female	**29.3**	29.4
Future pensioners at 60 – male	**28.0**	28.3
Future pensioners at 60 – female	**30.4**	30.5

Critical accounting estimates and judgements

The value of the Group's defined benefit pension scheme requires management to make several assumptions. The key areas of estimation uncertainty are:

discount rate applied: this is set with reference to market yields at the end of the reporting year on high-quality corporate bonds in the currency and with a term consistent with the Scheme's obligations. The average duration of the Scheme's obligations is approximately 20 years. The market for bonds with a similar duration is illiquid and, as a result, significant management judgement is required to determine an appropriate yield curve on which to base the discount rate;

inflation assumptions: this is set with reference to market expectations of the RPI measure of inflation for a term consistent with the Scheme's obligations, based on data published by the BoE. Other measures of inflation (such as CPI, or inflation measures subject to an annual cap) are derived from this assumption; and

mortality assumptions: the cost of the benefits payable by the Scheme will also depend upon the life expectancy of the members. The assumptions for mortality rates are based on standard mortality tables (as adjusted to reflect the characteristics of Scheme members) which allow for future improvements in life expectancies.

The table below sets out the sensitivity and impact on the balance sheet surplus position of the Scheme, the defined benefit obligation and pension cost to changes in the key actuarial assumptions:

ASSUMPTION CHANGE		Balance sheet surplus £m	Obligation £m	Pension cost £m
Discount rate	+0.25%	(63)	(70)	(7)
	−0.25%	64	74	6
Inflation	+0.25%	36	43	2
	−0.25%	(34)	(43)	(2)
Life expectancy	+1 year	(67)	67	4
	−1 year	67	(67)	(4)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated.

Section 3: Assets and liabilities

3.10 Customer deposits

	2022 £m	2021 £m
Interest bearing demand deposits	**46,457**	46,839
Term deposits	**13,951**	15,097
Non-interest bearing demand deposits	**4,952**	4,936
	65,360	66,872
Accrued interest payable	**74**	99
	65,434	66,971

3.11 Debt securities in issue

Accounting policy
Debt securities comprise short and long-term debt issued by the Group including commercial paper, medium-term notes, covered bonds and RMBS notes.

Debt securities are initially recognised at fair value, being the issue proceeds, net of transaction costs incurred. These instruments are subsequently measured at amortised cost using the effective interest method resulting in premiums, discounts and associated issue costs being recognised in the income statement over the life of the instrument.

Where relevant fair value hedge adjustments have been applied.

The breakdown of debt securities in issue is shown below:

	Medium-term notes £m	Subordinated debt £m	Securitisation £m	Covered bonds £m	Total £m
2022					
Debt securities	**2,236**	**899**	**1,875**	**3,450**	**8,460**
Accrued interest payable	**13**	**14**	**5**	**17**	**49**
	2,249	**913**	**1,880**	**3,467**	**8,509**
2021					
Debt securities	2,409	1,001	2,386	1,842	7,638
Accrued interest payable	13	14	3	10	40
	2,422	1,015	2,389	1,852	7,678

Key movements in the year are shown in the table below[(1)].

	2022				2021			
	Issuances		Redemptions		Issuances		Redemptions	
	Denomination	£m	Denomination	£m	Denomination	£m	Denomination	£m
Medium-term notes	**–**	**–**	**–**	**–**	EUR	432	–	–
Subordinated debt	**–**	**–**	**–**	**–**	GBP	300	GBP	30
Securitisation	**GBP**	**700**	**USD, GBP**	**1,264**	–	–	USD, EUR, GBP	1,543
Covered bonds	**EUR, GBP**	**1,780**	**–**	**–**	–	–	–	–
		2,480		**1,264**		732		1,573

(1) Other movements relate to foreign exchange, hedging adjustments and the capitalisation and amortisation of issuance costs.

Section 3: Assets and liabilities

3.11 Debt securities in issue continued

The following tables provide a breakdown of the medium-term notes and subordinated debt by instrument as at 30 September:

Medium-term notes (excluding accrued interest)

	2022 £m	2021 £m
VM UK 3.125% fixed-to-floating rate callable senior notes due 2025	**299**	299
VM UK 4% fixed rate reset callable senior notes due 2026	**444**	509
VM UK 3.375% fixed rate reset callable senior notes due 2026	**317**	359
VM UK 4% fixed rate reset callable senior notes due 2027	**331**	390
VM UK 2.875% fixed rate reset callable senior notes due 2025	**413**	424
VM UK 0.375% fixed rate reset callable senior notes due 2024	**432**	428
	2,236	2,409

Subordinated debt (excluding accrued interest)

	2022 £m	2021 £m
VM UK 7.875% fixed rate reset callable subordinated notes due 2028	**249**	248
VM UK 5.125% fixed rate reset callable subordinated notes due 2030	**400**	458
VM UK 2.625% fixed rate reset callable subordinated notes due 2031	**250**	295
	899	1,001

Details of securitisation and covered bond issuances are included in note 3.3.

Full details of all notes in issue can be found at https://www.virginmoneyukplc.com/investor-relations/debt-investors/.

3.12 Due to other banks

	2022 £m	2021 £m
Secured loans	**7,230**	5,896
Securities sold under agreements to repurchase(1)	**1,205**	–
Transaction balances with other banks	**17**	–
Deposits from other banks	**50**	22
	8,502	5,918

(1) The underlying securities sold under agreements to repurchase have a carrying value of £1,873m (2021: £Nil).

Secured loans comprise amounts drawn under the TFSME scheme (including accrued interest). In 2021, secured loans included both TFS and TFSME scheme drawings (including accrued interest).

Section 3: Assets and liabilities

3.13 Provisions for liabilities and charges

Accounting policy
Provisions for liabilities and charges are recognised when a legal or constructive obligation exists as a result of past events, it is probable that an outflow of economic benefits will be necessary to settle the obligation, and the obligation can be reliably estimated. Provisions for liabilities and charges are not discounted to the present value of their expected net future cash flows except where the time value of money is considered material.

	Employee related costs provision £m	Customer related provision £m	Property provision £m	Off-balance sheet ECL provisions(1) £m	Total
As at 1 October 2020	16	130	26	–	172
Transfer of ECL from impairment provisions	–	–	–	7	7
Charge to the income statement	31	78	39	1	149
Utilised	(25)	(189)	(10)	–	(224)
As at 30 September 2021	22	19	55	8	104
Charge to the income statement	2	8	–	–	10
Utilised	(17)	(14)	(28)	(5)	(64)
As at 30 September 2022	**7**	**13**	**27**	**3**	**50**

(1) The Group's ECL accounting policy can be found in (note 3.2).

During the year, the Group has refined its methodology for categorising provisions for liabilities and charges to align with current business operations. There has been no change to the total provisions in the prior year and comparatives have been amended to conform with the current year's presentation.

The change took the original provision categories and analysed this further to align with business operations. The revised prior year categories of PPI redress provision (£1m), customer redress and other provisions (£28m) and property closure and redundancy provision (£67m) is now allocated to employee related costs provision (£22m), customer related provision (£19m) and property provision (£55m). PPI redress provision of £1m has been reallocated to customer related provision, £10m of customer redress and other provisions has been reallocated in part £3m to employee related costs provision and £7m to property provision, and restructuring provisions of £19m which were previously included within property closure and redundancy provision has been reallocated to employee related costs provision.

Employee related costs provision
This includes provision for staff redundancies and for NIC on equity based compensation. During the year, provisions of £2m (2021: £31m) were raised relating to staff redundancy costs.

Customer related provision
This relates to customer matters, legal proceedings, claims arising in the ordinary course of the Group's business and other matters. A number of these matters are now reaching a conclusion and the risk that the final amount required to settle the Group's potential liabilities in these matters being materially more than the remaining provision is now considered to be low.

Property provision
This includes costs for stores and office closures. During the year, provisions of £Nil (2021: £39m) were raised relating to store and office closures.

Section 3: Assets and liabilities

3.14 Other liabilities

Accounting policy
Deferred grants
Deferred grants are recognised when there is reasonable assurance that the grant will be received and that any conditions attached to the grant will be complied with. Where the grant relates to costs, it is released to the income statement on a systematic basis in line with the incurring of the related costs. Where the grant relates to the cost of an asset, it is released and recognised directly against the cost of the asset when incurred.

	2022 £m	2021 £m
Notes in circulation	**1,822**	2,104
Accruals and deferred income	**74**	76
Deferred grant	**–**	20
Other	**498**	251
	2,394	2,451

In 2021, the Group received £9m from the Capability and Innovation Fund (as part of the RBS alternative remedies package), which has been utilised under the terms of the grant application during the year. As part of the grant the Group is subject to delivering a number of public commitments. These commitments can be found on Banking Competition Remedies (BCR's) (the awarding body) website. As at 30 September 2022 the Group is currently on track with the delivery of these commitments.

The movement in the deferred grant is shown below:

	2022 £m	2021 £m
Opening balance	**20**	35
Grants received	**–**	9
Utilised against income statement spend in the year	**(20)**	(24)
Closing balance	**–**	20

Section 3: Assets and liabilities

3.15 Fair value of financial instruments

Accounting policy
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.

When available, the Group measures the fair value of a financial instrument using quoted prices in an active market for that instrument. Where no such active market exists for the particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions where possible, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. In doing so, fair value is estimated using a valuation technique that makes maximum possible use of market inputs and that places minimal possible reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, which represents the fair value of the consideration paid or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits or losses on the transaction date.

In certain limited circumstances, the Group applies the fair value measurement option to financial assets including loans and advances where the inherent market risks (principally interest rate and option risk) are individually hedged using appropriate interest rate derivatives. The loan is designated as being carried at FVTPL to offset the movements in the fair value of the derivative within the income statement and therefore avoid an accounting mismatch. When a loan is held at fair value, a statistical-based calculation is used to estimate credit losses attributable to adverse movements in credit risk on the assets held. This adjustment to the credit quality of the asset is then applied to the carrying amount of the loan to arrive at fair value and recognised in the income statement.

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 fair value measurements – quoted prices (unadjusted) in active markets for an identical financial asset or liability.
- Level 2 fair value measurements – inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements – inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

For the purpose of reporting movements between levels of the fair value hierarchy, transfers are recognised at the beginning of the reporting year in which they occur.

(a) Fair value of financial instruments recognised on the balance sheet at amortised cost

The tables show a comparison of the carrying amounts of financial assets and liabilities measured at amortised cost, as reported on the balance sheet, and their fair values where these are not approximately equal.

There are various limitations inherent in this fair value disclosure, particularly where prices are derived from unobservable inputs due to some financial instruments not being traded in an active market. The methodologies and assumptions used in the fair value estimates are therefore described in the notes to the tables. The difference between carrying value and fair value is relevant in a trading environment but is not relevant to assets such as loans and advances.

	2022		2021	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to customers(1)	**71,751**	**69,277**	71,876	72,229
Financial liabilities				
Customer deposits(2)	**65,434**	**65,069**	66,971	67,012
Debt securities in issue(3)	**8,509**	**8,515**	7,678	8,050
Due to other banks(2)	**8,502**	**8,485**	5,918	5,918

(1) Loans and advances to customers are categorised as Level 3 in the fair value hierarchy with the exception of £1,098m (2021: £1,057m) of overdrafts which are categorised as Level 2.

(2) Categorised as Level 2 in the fair value hierarchy.

(3) Categorised as Level 2 in the fair value hierarchy with the exception of £3,156m of listed debt (2021: £3,704m) which is categorised as Level 1.

3.15 Fair value of financial instruments continued

The Group's fair values disclosed for financial instruments at amortised cost are based on the following methodologies and assumptions:

(a) Loans and advances to customers – The fair values of loans and advances are determined by firstly segregating them into portfolios which have similar characteristics. Contractual cash flows are then adjusted for ECLs and expectations of customer behaviour based on observed historic data. The cash flows are then discounted at a weighted average cost of capital (appropriate to the portfolio) to arrive at an estimate of their fair value.

(b) Customer deposits – The fair value of deposits is determined using a replacement cost method which assumes alternative funding is raised in the most advantageous market. The contractual cash flows have been discounted using a funding curve with credit spreads reflecting the tenor of each deposit.

(c) Debt securities in issue – The fair value is taken directly from quoted market prices where available or determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

(d) Due to other banks – The fair value is determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

(b) Fair value of financial instruments recognised on the balance sheet at fair value

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, using the fair value hierarchy described above:

	Fair value measurement 2022				Fair value measurement 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Financial assets at FVOCI	**5,064**	**–**	**–**	**5,064**	4,352	–	–	4,352
Loans and advances at FVTPL	**–**	**70**	**–**	**70**	–	133	–	133
Other financial assets at FVTPL	**–**	**4**	**4**	**8**	–	14	6	20
Derivative financial assets	**–**	**342**	**–**	**342**	–	139	1	140
Total financial assets at fair value	**5,064**	**416**	**4**	**5,484**	4,352	286	7	4,645
Financial liabilities								
Derivative financial liabilities	**–**	**327**	**–**	**327**	–	209	–	209
Total financial liabilities at fair value	**–**	**327**	**–**	**327**	–	209	–	209

There were no transfers between Level 1 and 2 in the current or prior year.

The Group's valuations for financial instruments that are measured subsequent to initial recognition at fair value are based on the following methodologies and assumptions:

(a) FVOCI – The fair values of listed investments are based on quoted closing market prices.

(b) Loans and advances to customers (Level 2) – The fair value is derived from data or valuation techniques based upon observable market data and non-observable inputs as appropriate to the nature and type of the underlying instrument.

(c) Other financial assets at FVTPL (Level 2) – Represents £4m of Visa Inc. Series A preferred stock received following a conversion event in July 2022. The fair value of the preference shares has been calculated by taking the year end New York Stock Exchange share price for Visa inc. The prior year amount represented £14m of an unlisted equity investment that was valued based on an offer of purchase by an independent third party, with the sale concluded in January 2022.

(d) Other financial assets at FVTPL (Level 3) – Partly represents £1m (2021: £4m) of Visa Inc. Series B preferred stock received as partial consideration for the sale of the Group's share in Visa Europe. The preferred stock is convertible into Visa Inc. common stock or its equivalent at a future date, subject to potential reduction for certain litigation losses that may be incurred by Visa Europe. The fair value of the preference shares has been calculated by taking the year end New York Stock Exchange share price for Visa Inc. and discounting for illiquidity and clawback related to contingent litigation. For other unlisted equity investments, the Group's share of the net asset value or the transaction price respectively is considered the best representation of the exit price and is the Group's best estimate of fair value.

(e) Derivative financial assets and liabilities (Level 2) – The fair values of derivatives, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from discounted cash flow models or option pricing models as appropriate.

Section 3: Assets and liabilities

3.15 Fair value of financial instruments continued

Level 3 movement analysis:

	2022	2022	2021	2021
	Derivative financial assets £m	Financial assets at FVTPL £m	Financial assets at FVTPL £m	Derivative financial assets £m
Balance at the beginning of the year	**1**	6	5	–
Fair value gains recognised[1]				
In profit or loss – unrealised	**(1)**	**–**	1	1
Settlements	**–**	(2)	–	–
Balance at the end of the year	**–**	4	6	1

(1) Net gains or losses were recorded in non-interest income.

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

The Group has limited exposure to Level 3 fair value measurements. If all risks inherent in the valuations were to crystallise in their entirety, total assets would reduce by £4m which would be recognised directly in the income statement.

3.16 Lessee accounting

Accounting policy

The Group as lessee

The Group leases offices, stores and other premises, and sub-leases certain premises which are no longer occupied by the Group. The Group applies a single lessee accounting model to all lease arrangements it enters into from the date on which the leased asset is available for use, with the exception of low value leases and short-term leases (less than 12 months) in respect of which the associated lease payments are expensed in the income statement on a straight line basis over the lease term.

Under the single lessee accounting model, the Group recognises a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, comprising the initial amount of the lease liability plus any initial direct costs incurred and any lease payments made at or before the lease commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term, subject to review for impairment. The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot readily be determined (as is the case in the majority of the leasing activities of the Group), the incremental borrowing rate. The liability is remeasured when there is a change in future lease payments arising from a change in an index or a rate or a change in the Group's assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the right-of-use asset or is recorded in the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

Termination options are included in several leases across the Group with a small number of leases having extension options. These terms are used to maximise operational flexibility in terms of managing contracts. In determining judgements on the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Periods covered by termination options are only included in the lease term if it is reasonably certain that the lease will not be terminated. The assessment of the lease term is reviewed if a significant event or a significant change in circumstances occurs that is within the control of the Group.

The Group as sub-lessor

Sub-leases are classified as finance leases if substantially all the risks and rewards incidental to ownership of the underlying asset are transferred, otherwise they are classified as operating leases. Finance sub-leases are recognised in other assets representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Interest income is recognised reflecting a constant periodic rate of return. Operating sub-lease income is recognised in the income statement on a straight line basis over the lease term.

Section 3: Assets and liabilities

3.16 Lessee accounting continued

a) Amounts recognised in the income statement
The income statement includes the following amounts related to leases:

	2022 £m	2021 £m
Interest expense and similar charges		
Interest expense	**(2)**	(3)
Other operating income		
Income from operating sub-leases where the Group is a lessor	**1**	1
Operating and administrative expenses		
Depreciation and impairment of right-of-use assets	**(26)**	(28)
Expense relating to short-term leases	**(1)**	(1)
Expense relating to leases of low-value assets that are not short-term leases	**(1)**	(1)
Amounts recognised in the income statement	**(29)**	(32)

Total leasing cash outflow in the year was £28m (2021: £29m).

b) Amounts recognised on the balance sheet
Right-of-use assets

	2022 £m	2021 £m
As at 1 October	**135**	161
Additions	**4**	4
Remeasurements	**1**	1
Disposals	**(1)**	(2)
Depreciation and impairment	**(26)**	(29)
As at 30 September	**113**	135

All right-of-use assets relate to leases of land and buildings and are presented within property, plant and equipment on the balance sheet.

The Group reviewed its existing surplus estate population for impairment. Where it is expected the Group can sub-lease the property, the recoverable amount was determined based on expected sub-lease income. Where the Group does not expect to be able to generate any cash inflows beyond the closure date, the value-in-use was determined to be £Nil. It was concluded that 19 properties (2021: 22) should be impaired following a reduction in value-in-use, resulting in an impairment charge of £4m (2021: £1m). In addition, an impairment of £5m was recognised in the current year in relation to right-of-use assets for office estate where no further economic benefit was expected following exit. In the prior year the Group announced the closure of 30 stores leased by the Group and to relocate four stores to more prime locations in existing towns. The right-of-use assets were assessed following the above methodology resulting in an impairment charge of £5m.

Sub-leases
Future undiscounted minimum payments receivable in respect of sub-leased assets at 30 September were as follows:

	2022 £m	2021 £m
Operating leases	**1**	1
Finance leases	**3**	5
	4	6

Lease liabilities

	2022 £m	2021 £m
Lease liabilities(1)	**132**	154

(1) Lease liabilities are presented within other liabilities on the balance sheet.

Section 3: Assets and liabilities

3.16 Lessee accounting continued

Future undiscounted minimum payments under lease liabilities at 30 September are as follows:

Amounts falling due	2022 £m	2021 £m
Within 1 year	**22**	26
Between 1 and 5 years	**60**	73
Over 5 years	**66**	78
	148	177

c) Lease commitments not recognised on the balance sheet

In addition to the lease liabilities recognised on the balance sheet, the Group also has lease commitments relating to leases which have not yet commenced at the balance sheet date. Future undiscounted minimum payments on leases which are yet to commence were as follows:

Amounts falling due	2022 £m	2021 £m
Within 1 year	**4**	–
Between 1 and 5 years	**22**	21
Over 5 years	**99**	104
	125	125

Section 4: Capital

4.1 Equity

Accounting policy

Equity

The financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

(a) They impose no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group.

(b) Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are no longer at the discretion of the Company.

4.1.1 Share capital and share premium

	2022 £m	2021 £m
Share capital	**141**	144
Share premium	**7**	5
Share capital and share premium	**148**	149

	2022 Number of shares	2021 Number of shares	2022 £m	2021 £m
Ordinary shares of £0.10 each – allotted, called up and fully paid				
Opening ordinary share capital	**1,439,993,431**	1,438,574,687	**144**	144
Issued under employee share schemes	**2,982,745**	1,418,744	**–**	–
Share buyback programme	**(34,445,188)**	–	**(3)**	–
Closing ordinary share capital	**1,408,530,988**	1,439,993,431	**141**	144

The holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders of the Company. All shares in issue at 30 September 2022 rank equally with regard to the Company's residual assets.

A final dividend in respect of the year ended 30 September 2021 of 1p per ordinary share in the Company, amounting to £14m, was paid in March 2022.

An interim dividend in respect of the year ended 30 September 2022 of 2.5p per ordinary share in the Company, amounting to £36m, was paid in June 2022.

The Directors have recommended a final dividend in respect of the year ended 30 September 2022 of 7.5p per ordinary share in the Company to be paid in March 2023. The payment of the final dividend is subject to approval of the shareholders at the 2023 AGM. These financial statements do not reflect the recommended dividend.

On 30 June 2022 the Company announced a share buyback programme, with an initial repurchase of up to £75m in aggregate between its ordinary shares of £0.10 each listed on the LSE and CDIs, each representing one share, listed on the ASX. Subject to trading liquidity, the Company intends to repurchase shares and CDIs in approximately equal proportions. The buyback commenced on 30 June 2022 and will end no later than 17 December 2022. 34m shares, with a nominal value of £3m, were repurchased in the year ended 30 September 2022 for a total consideration of £50m (2021: £Nil). All shares repurchased were cancelled and the nominal value of the share cancellation transferred to the capital redemption reserve with the premium paid deducted from retained earnings.

Section 4: Capital

4.1 Equity continued

On 21 November 2022 the Company announced an extension to the share buyback programme with an intent to repurchase a further £50m in aggregate of shares and CDIs. Subject to trading liquidity, the Company again intends to repurchase shares and CDIs in approximately equal proportions. The buyback extension will commence on 21 November 2022 and will end no later than 2 May 2023.

Share premium represents the aggregate of all amounts that have ever been paid above par value to the Company when it has issued ordinary shares.

A description of the other equity categories included within the consolidated statement of changes in equity, and significant movements during the year, is provided below:

4.1.2 Other equity instruments

Other equity instruments comprises AT1 capital which consists of the following Perpetual Contingent Convertible Notes:

- Perpetual securities (fixed 8% up to the first reset date) issued on 8 February 2016 with a nominal value of £73m and optional redemption on 8 December 2022. On 17 June 2022, securities totalling £377m (representing 83.86% of the original £450m principal amount) were redeemed. On 10 October 2022 it was announced that the remaining securities would be redeemed on the optional redemption date.
- Perpetual securities (fixed 9.25% up to the first reset date) issued on 13 March 2019 with a nominal value of £250m and optional redemption on 8 June 2024.
- Perpetual securities (fixed 8.25% up to the first reset date) issued on 17 June 2022 with a nominal value of £350m and optional redemption on 17 June 2027.

On 10 November 2021, perpetual securities with a nominal value of £230m were redeemed in full.

The issues are treated as equity instruments in accordance with IAS 32 ‘Financial Instruments: Presentation’ with the proceeds included in equity, net of transaction costs of £7m (2021: £15m). AT1 distributions of £70m were paid in the year (2021: £79m).

4.1.3 Capital reorganisation reserve

The capital reorganisation reserve of £839m was recognised on the issuance of the Company’s ordinary shares in February 2016 in exchange for the acquisition of the entire share capital of the Group’s previous parent company, CYB Investments Limited (CYBI). The reserve reflects the difference between the consideration for the issuance of the Company’s shares and CYBI’s share capital and share premium.

4.1.4 Merger reserve

A merger reserve of £633m was recognised on the issuance of the Company’s ordinary shares in February 2016 in exchange for the acquisition of the entire share capital of CYBI. An additional £1,495m was recognised on the issuance of the Company’s ordinary shares in October 2018 in exchange for the acquisition of the entire share capital of Virgin Money Holdings (UK) Limited. The merger reserve reflects the difference between the consideration for the issuance of the Company’s shares and the nominal value of the shares issued.

4.1.5 Other reserves

Own shares held and treasury shares

Virgin Money Holdings (UK) Limited established an EBT in 2011 in connection with the operation of its share plans. On the date of acquisition by the Company, the shares held in the EBT were converted to the Company’s shares at a ratio of 1.2125 Company shares for each Virgin Money Holdings (UK) Limited share. The investment in own shares as at 30 September 2022 is £0.6m (2021: £0.2m). The market value of the shares held in the EBT at 30 September 2022 was £0.4m (2021: £0.2m).

As part of the buyback programme, the Company has entered a non-discretionary arrangement with Citigroup Global Markets Limited to purchase shares as riskless principal and to make trading decisions independently of the Company. Any purchase of shares pursuant to this engagement will be carried out on the LSE or other recognised investment exchange. This arrangement results in the recognition of a liability (included within due to other banks) and a deduction from retained earnings of £11m at 30 September 2022 (2021: £Nil). The liability will reduce as shares are repurchased and cancelled with the impact on share capital and capital redemption reserve as described elsewhere within this note.

Capital redemption reserve

Under UK companies legislation, when shares are redeemed or purchased wholly or partly out of the company’s profits, the amount by which the company’s issued share capital is diminished must be transferred to the capital redemption reserve. The capital maintenance provisions of UK companies legislation apply to the capital redemption reserve as if it were part of the company’s paid up share capital. The nominal value of the shares repurchased and cancelled under the buyback programme during 2022 has been transferred to the capital redemption reserve.

Deferred shares reserve

The deferred shares reserve comprises shares to be issued in the future relating to employee share plans in regard to the settlement of outstanding Virgin Money Holdings (UK) Limited share awards, which will be settled through the issuance of the Company’s shares at a future date in line with the vesting profile of the underlying plans.

Equity based compensation reserve

The Group’s equity based compensation reserve records the value of equity settled share based payment benefits provided to the Group’s employees as part of their remuneration that has been charged through the income statement and adjusted for deferred tax.

FVOCI reserve

The FVOCI reserve records the unrealised gains and losses arising from changes in the fair value of financial assets at FVOCI. The movements in this reserve are detailed in the consolidated statement of comprehensive income.

Section 4: Capital

4.1 Equity continued

Cash flow hedge reserve

The cash flow hedge reserve represents the effective portion of cumulative post-tax gains and losses on derivatives designated as cash flow hedging instruments that will be recycled to the income statement when the hedged items affect profit or loss.

	2022 £m	2021 £m
At 1 October	**10**	(80)
Amounts recognised in other comprehensive income:		
Cash flow hedge – interest rate risk		
Effective portion of changes in fair value of interest rate swaps	**962**	127
Amounts transferred to the income statement	**(13)**	(5)
Taxation	**(260)**	(33)
Cash flow hedge – foreign exchange risk		
Effective portion of changes in fair value of cross currency swaps	**–**	(28)
Amounts transferred to the income statement	**–**	29
At 30 September	**699**	10

4.2 Equity based compensation

Accounting policy

The Group operates a number of equity settled share based compensation plans in respect of services received from certain of its employees. The fair value of the services received is recognised as an expense. The total amount to be expensed is measured by reference to the fair value of the Company's shares, performance options or performance rights granted, including, where relevant, any market performance conditions and any non-vesting conditions. The impacts of any service and non-market performance vesting conditions are not included in the fair value and instead are included in estimating the number of awards or options that are expected to vest.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. A corresponding credit is recognised in the equity based compensation reserve, adjusted for deferred tax. In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between the start of the service period and the grant date.

At the end of each reporting year, the Group revises its estimates of the number of shares, performance options and performance rights that are expected to vest based on the non-market and service vesting conditions. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to the equity based compensation reserve.

The equity settled share based payment charge for the year is £5m (2021: £5m).

Virgin Money UK PLC awards

The Group issues awards to employees under the following share plans:

Plan	Eligible employees	Nature of award	Vesting conditions(1)	Grant dates(2)
DEP(3)	Selected employees	Conditional rights to shares	Continuing employment or leaving in certain limited circumstances	2017, 2018, 2019, 2020 and 2021
LTIP	Selected senior employees	Conditional rights to shares	Continuing employment or leaving in certain limited circumstances and achievement of delivery of the Group's strategic goals and growth in shareholder value	2017, 2018, 2019, 2020 and 2021
SIP	All employees	Non-conditional share award	Continuing employment	2016, 2017 and 2019

(1) All awards are subject to vesting conditions and therefore may or may not vest.
(2) The year in which grants have been made under the relevant plan.
(3) Grants made under the DEP are made the year following the financial year to which they relate.

4.2 Equity based compensation continued

Further detail on each plan is provided below:

DEP

Under the plan, employees are awarded conditional rights to Virgin Money UK PLC shares. The shares are subject to forfeiture conditions including forfeiture as a result of resignation, termination by the Group or failure to meet compliance requirements. Awards include:

- the upfront and deferred elements of bonus awards where required to comply with the PRA Remuneration Code or the Group's deferral policy; and
- buyout of equity from previous employment.

LTIP

Under the plan, employees are awarded conditional rights to Virgin Money UK PLC shares. The shares are subject to forfeiture conditions including forfeiture as a result of resignation, termination by the Group or failure to meet compliance requirements. The performance conditions of the plan must be met over a three-year performance period. The measures reflect a balanced approach between financial and non-financial performance and are aligned to the Group's strategic goals. Measures, relative weightings and the quantum for assessing performance are outlined in the Directors' remuneration report contained in the Group's Annual Report & Accounts.

SIP

At the date of the awards, eligible employees are awarded Group shares which are held in the SIP Trust. Awards are not subject to performance conditions and participants are the beneficial owners of the shares granted to them, but not the registered owners. Voting rights over the shares are normally exercised by the registered owner at the direction of the participants.

Awards/rights made during the year

Plan	Number outstanding at 1 October 2021	Number awarded	Number forfeited	Number released	Number outstanding at 30 September 2022	Average fair value of awards at grant pence
DEP						
2016 Commencement	2,620	–	–	(1,310)	**1,310**	266.03
2017 Bonus	49,909	–	–	(47,789)	**2,120**	313.20
2018 Bonus	170,649	–	–	(34,129)	**136,520**	192.35
2019 Bonus	85,544	–	–	(6,384)	**79,160**	174.50
2019 Commencement	19,843	–	–	(11,797)	**8,046**	174.50
2020 Commencement	19,570	–	–	(9,970)	**9,600**	135.40
2021 Bonus	–	590,513	(10,536)	(579,977)	**–**	172.65
2021 Commencement	–	107,747	–	–	**107,747**	142.70
LTIP						
2017 LTIP	380,924	–	–	(111,295)	**269,629**	313.20
2018 LTIP	4,751,736	–	(1,906,079)	(845,346)	**2,000,311**	190.47
2019 LTIP	7,680,636	–	(739,329)	–	**6,941,307**	174.50
2020 LTIP	10,379,519	–	(2,019,760)	–	**8,359,759**	135.40
2021 LTIP	–	6,761,290	(273,467)	–	**6,487,823**	172.65
SIP(1)						
2015 Demerger	629,169	–	–	(629,169)	**–**	194.67
2017 Free Share	564,118	–	–	(564,118)	**–**	313.20
2019 Free Share	1,684,854	–	(58,794)	(1,626,060)	**–**	202.53

(1) Shares awarded under the SIP do not have a release date but become available to award holders without restriction following the completion of relevant service conditions. The service conditions applicable to each of the awards in the table above has now been completed and, since no ongoing charge is taken in respect of these awards, the values in the table reflect that all awards have now fully vested and are available to award holders without restriction, with no awards still to vest as at 30 September 2022.

Determination of grant date fair values

The grant date fair value of the awards has been taken as the market value of the Company's ordinary shares at the grant date. Where awards are subject to non-market performance conditions, an estimate is made of the number of awards expected to vest in order to determine the overall share based payment charge to be recognised over the vesting period. Awards were granted under the LTIP and DEP on 9 December 2021, based on the middle market share price on the day immediately preceding the grant (172.65p).

The Group has not issued awards under any plan with market performance conditions.

Section 5: Other notes

5.1 Contingent liabilities and commitments

Accounting policy
Financial guarantees
The Group provides guarantees in the normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party and are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. The rating of the Group as a guarantee provider enhances the marketability of the paper issued by the counterparty in these circumstances.

The ECL requirements as described in note 3.2 apply to loan commitments and financial guarantee contracts, with the ECL allowance held as part of the provision for liabilities and charges balance (note 3.13).

Contingent liabilities
Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless they are remote.

The table below sets out the amounts of financial guarantees and commitments which are not recorded on the balance sheet. Financial guarantees and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The amounts do not represent the amounts at risk at the balance sheet date but the amounts that would be at risk should the contracts be fully drawn upon and the customer default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

Financial guarantees

	2022 £m	2021 £m
Guarantees and assets pledged as collateral security:		
Due in less than 3 months	**33**	20
Due between 3 months and 1 year	**23**	21
Due between 1 year and 3 years	**9**	13
Due between 3 years and 5 years	**3**	2
Due after 5 years	**44**	45
	112	101
Other credit commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**19,247**	17,020

Capital commitments
The Group committed to providing additional funding of up to £5.5m over an eight-month period from June 2021 to enable the JV UTM to support the business transformation and to meet its regulatory capital and liquidity requirements, of which £Nil was the remaining commitment as at 30 September 2022 (2021: £4m). Further detail on UTM can be found in the JVs and associates section of note 5.3.

The Group had future capital expenditure which had been contracted for, but not provided for, at 30 September 2022 of £0.4m (2021: £0.2m).

Other contingent liabilities
Conduct risk related matters
There continues to be uncertainty with judgement required in determining the quantum of conduct risk related liabilities, with note 3.13 reflecting the Group's current position where a provision can be reliably estimated. Until all matters are resolved the final amount required to settle the Group's potential liabilities for conduct related matters remains uncertain.

The Group will continue to reassess the adequacy of provisions for these matters and the assumptions underlying the calculations at each reporting date based upon experience and other relevant factors at that time.

Legal claims
The Group is named in and is defending a number of legal claims arising in the ordinary course of business. No material adverse impact on the financial position of the Group is expected to arise from the ultimate resolution of these legal actions.

Section 5: Other notes

5.2 Notes to the statement of cash flows

	2022 £m	2021 £m
Adjustments included in the profit before tax		
Interest receivable	**(2,217)**	(1,910)
Interest payable	**641**	553
Depreciation, amortisation and impairment (note 2.4)	**179**	191
Derivative financial instruments fair value movements	**17**	5
Impairment losses/(credit) on credit exposures (note 3.2)	**52**	(131)
Equity based compensation (note 4.2)	**4**	5
Gain on disposal of FVOCI assets (note 2.3)	**(4)**	–
Other non-cash movements	**2**	62
	(1,326)	(1,225)
Changes in operating assets		
Net (increase)/decrease in:		
Balances with supervisory central banks	**(3)**	(38)
Derivative financial instruments	**1,847**	269
Financial assets at FVTPL	**57**	30
Loans and advances to customers	**(713)**	491
Defined benefit pension assets	**(7)**	(61)
Other assets	**31**	141
	1,212	832
Changes in operating liabilities		
Net increase/(decrease) in:		
Due to other banks	**1,235**	(50)
Derivative financial instruments	**119**	(41)
Customer deposits	**(1,510)**	(644)
Provisions for liabilities and charges	**(50)**	(72)
Other liabilities	**(32)**	(219)
	(238)	(1,026)

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition. This includes cash and liquid assets and amounts due to other banks (to the extent less than 90 days).

	2022 £m	2021 £m
Cash and balances with central banks (less mandatory deposits)	**11,955**	9,453
Due from other banks (less than three months)	**656**	800
	12,611	10,253

5.3 Related party transactions

The Group undertakes activity with the following entities which are considered to be related party transactions:

Yorkshire and Clydesdale Bank Pension Scheme

The Group provides banking services to the Scheme, with customer deposits of £12m (2021: £40m). Pension contributions of £7m were made to the Scheme in the year (2021: £61m).

The Group and the Trustee to the Scheme (note 3.9) have entered into a contingent Security Arrangement which provides additional support to the Scheme by underpinning recovery plan contributions and some additional investment risk. The security is in the form of a pre-agreed maximum level of assets that are set aside for the benefit of the Pension Scheme in certain trigger events. These assets are held by Red Grey Square Funding LLP, an insolvency remote consolidated structured entity.

Joint ventures and associates

The Group holds investments in JVs of £10m (2021: £10m). The total share of loss for the year was £4m (2021: £5m). In addition, the Group had the following transactions with JV entities during the period:

- Salary Finance – the Group provides Salary Finance with a revolving credit facility funding line, of which the current gross lending balance was £318m (2021: £223m) and the undrawn facility was £32m (2021: £37m). The facility is held under Stage 2 for credit risk purposes (2021: Stage 1), with an ECL allowance of £19m (2021: £Nil) held against the lending; further detail on the ECL allowance is provided in the credit risk section within this results announcement. Additionally, the Group received £10m (2021: £6m) of interest income from Salary Finance in the year. Board approval is in place for this facility up until March 2023 with £400m being the approved limit.
- UTM – the Group provides banking services to UTM which has resulted in amounts due of £4m (2021: £3m). Additionally, the Group received £7m of recharge income in the year (2021: £7m) from UTM in accordance with a Service Level Agreement in respect of resourcing, infrastructure and marketing. During the year, the Group provided £4m of additional funding to UTM (2021: £12m).

Other related party transactions with Virgin Group

The Group has related party transactions with other Virgin Group companies[(1)]:

- Licence fees due to Virgin Enterprises Limited for the use of the Virgin Money brand trademark resulted in an amount payable of £5m (2021: £4m), with expenses incurred in the year of £15m (2021: £14m).
- The Group incurs credit card commissions and air mile charges with Virgin Atlantic Airways Limited (VAA) in respect of an agreement between the two parties. Amounts payable to VAA totalled £1m (2021: £2m) and expenses of £16m were incurred in the year (2021: £12m).
- The Group incurs charges and receives commissions concerning the cashback incentive scheme with Virgin Red Limited in relation to the credit card and PCA portfolio. Amounts receivable from Virgin Red totalled £0.1m (2021: £Nil), amounts payable totalled £1m (2021: £Nil) and during the year this resulted in expenses of £3m (2021: £0.8m) along with income of £0.5m (2021: £Nil).
- The Group has an arrangement with Virgin Start Up Limited to host a series of events, podcasts and videos and other digital content. During the year this resulted in expenses of £0.5m (2021: £0.1m).
- The Group paid £7m (2021: £Nil) of ordinary dividends to Virgin Group Holdings Limited.

(1) All companies were incorporated in England and Wales with the exception of Virgin Group Holdings Limited, which was incorporated in the British Virgin Islands.

Charities

The Group provides banking services to The Virgin Money Foundation which has resulted in customer deposits of £1m (2021: £1m). The Group has made donations of £1m in the year (2021: £1m) to the Foundation to enable it to pursue its charitable objectives. The Group has also provided a number of support services to the Foundation on a pro bono basis, including use of facilities and employee time. The estimated gift in kind for support services provided during the year was £0.4m (2021: £0.4m).

Compensation of key management personnel (KMP)

KMP comprises Directors of the Company and members of the Executive Leadership Team.

	2022 £m	2021 £m
Salaries and short-term benefits	**9**	9
Equity based compensation[(1)]	**3**	3
	12	12

(1) The expense recognised in the year is in accordance with IFRS 2 ‘Equity based compensations’, including associated employers’ NIC.

Section 5: Other notes

5.3 Related party transactions continued

The following information regarding Directors' remuneration is presented in accordance with the Companies Act 2006.

	2022 £m	2021 £m
Aggregate remuneration(1)	**5**	3

(1) Aggregate remuneration includes amounts paid for the 2022 year and amounts paid under the LTIPs in relation to the 2018 LTIP award. LTIP figures in the single figure table for Executive Directors' 2022 remuneration in the Remuneration report contained in the Group's Annual Report & Accounts relate to the 2019 LTIP award in respect of the 2020–2022 LTIP performance period cycle.

None of the Directors were members of the Group's defined contribution or defined benefit pension schemes during 2022 (2021: none).

None of the Directors hold share options and none were exercised during the year (2021: none).

Transactions with KMP

KMP, their close family members, and any entities controlled or significantly influenced by the KMP have undertaken the following transactions with the Group in the normal course of business. The transactions were made on the same terms and conditions as applicable to other Group employees, or on normal commercial terms:

	2022 £m	2021 £m
Loans and advances	**1**	3
Deposits	**1**	2

No provisions have been recognised in respect of loans provided to the KMP (2021: £Nil). There were no debts written off or forgiven during the year to 30 September 2022 (2021: £Nil). Included in the above are five (2021: six) loans totalling £0.3m (2021: £0.3m) made to Directors. In addition to the above, there are guarantees of £Nil (2021: £Nil) made to Directors and their related parties.

5.4 Pillar 3 disclosures

UK Capital Requirements Regulation

Pillar 3 disclosure requirements are set out within the Disclosure (CRR) part of the PRA rulebook. The disclosures required under the PRA framework are substantially equivalent to those required by Part Eight of the EU CRR. The consolidated disclosures of the Group, for the 2022 financial year, will be issued concurrently with the Annual Report and Accounts and can be found at www.virginmoneyukplc.com/investor-relations/results-and-reporting/annual-reports/.

5.5 Post balance sheet events

On 21 November 2022 the Company announced an extension to the share buyback programme with an intent to repurchase a further £50m in aggregate of shares and CDIs. Subject to trading liquidity, the Company again intends to repurchase shares and CDIs in approximately equal proportions. The buyback extension will commence on 21 November 2022 and will end no later than 2 May 2023.

Measuring the Group's performance

As highlighted within the Strategic report, Financial results, Directors' remuneration report, and Risk report, all contained in the Group's Annual Report & Accounts, a range of metrics are considered that measure and track the Group's performance. Some of these metrics will be the Group's KPIs, which are a set of quantifiable measurements used to gauge the Group's overall long-term performance. Others are not referred to as KPIs, but are still useful metrics for the Group to reflect on and are disclosed to aid comparisons with peers.

These metrics fall into two main categories:

- Financial – which are further split into:
  - IFRS based – meaning the basis of the calculation is derived from a measure that can be found and is directly required under generally accepted accounting principles (GAAP); and
  - Non-IFRS based – these are also referred to as APMs and can be derived from non-GAAP measures.
- Non-Financial – being those that are not directly linked to the Group's financial performance, but more in relation to other external factors.

Non-IFRS based financial performance metrics can be calculated on either a statutory or an 'underlying' basis; with further detail on how the underlying measure is arrived at, along with management's reasoning for excluding the impact of certain items from the Group's current underlying performance rationale, can be found on page 134, directly following this section.

Financial performance metrics

Profitability:

Metric	KPI	LTIP	LTIP Year	Basis	Definition/formula	Why it matters?
Gross annualised cost savings	Yes	No	N/a	Non-IFRS	Annualised gross cost savings benefits driven from the Group's efficiency programmes.	It provides an annualised progress indicator for the Group's accelerated digital strategy and stated target of delivering approximately £175m of additional cost savings by FY24, enabled by £275m of restructuring investment.
Statutory return on tangible equity (RoTE)	Yes	Yes	2022 2021 2020 2019	Non-IFRS	Statutory profit after tax attributable to ordinary equity holders as a percentage of average tangible equity (average total equity less intangible assets and AT1) for a given year.	It's an indicator of the Group's profitability and gives the return generated for shareholders as a percentage of the Group's tangible equity.

	2022	2021	2020
Statutory profit after tax attributable to ordinary equity holders (a)	**£467m**	£395m	£(220)m
Average tangible equity (b)	**£4,539m**	£3,875m	£3,554m
Statutory RoTE (a)/(b)	**10.3%**	10.2%	(6.2)%

Metric	KPI	LTIP	LTIP Year	Basis	Definition/formula	Why it matters?
Underlying cost:ratio (CIR)	Yes	Yes	2021 2020 2019	Non-IFRS	Underlying operating and administrative expenses as a percentage of underlying total operating income for a given year.	It's a measure of efficiency in terms of how total operating expenses compare to total operating income on an underlying basis.

	2022	2021	2020
Underlying operating and administrative expenses (a)	**£914m**	£902m	£917m
Underlying total operating income (b)	**£1,755m**	£1,572m	£1,542m
Underlying CIR (a)/(b)	**52.1%**	57.4%	59.5%

Metric	KPI	LTIP	LTIP Year	Basis	Definition/formula	Why it matters?
Net interest margin (NIM)	No	No	N/a	Non-IFRS	Underlying NII as a percentage of average interest earning assets (which is adjusted to exclude short-term repos used for liquidity management purposes) for a given year.	It's an indicator of the Group's profitability by showing the difference between how much the Group is earning in interest on its loans compared to how much it is paying out in interest on deposits.

	2022	2021	2020
Underlying NII (a)	**£1,592m**	£1,412m	£1,351m
Average interest earning assets (b)	**£86,275m**	£86,947m	£86,826m
Short-term repos used for liquidity management (c)	**£12m**	£16m	£16m
NIM (a)/((b)-(c))	**1.85%**	1.62%	1.56%

Measuring the Group's performance

Financial performance metrics continued
Profitability continued:

<table>
<tr><th>Metric</th><th>KPI</th><th>LTIP</th><th>LTIP Year</th><th>Basis</th><th>Definition/formula</th><th>Why it matters?</th></tr>
<tr><td>Statutory basic earnings per share (EPS)</td><td>No</td><td>No</td><td>N/a</td><td>IFRS</td><td>Statutory profit after tax attributable to ordinary equity shareholders, divided by the weighted average number of ordinary shares in issue for a given year (which includes deferred shares and excludes own shares held or contingently returnable shares).
<table>
<tr><th></th><th>2022</th><th>2021</th><th>2020</th></tr>
<tr><td>Statutory profit/(loss) after tax attributable to ordinary equity shareholders (a)</td><td>£467m</td><td>£395m</td><td>£(220)m</td></tr>
<tr><td>Weighted average number of ordinary shares in issue (b)</td><td>1,441m</td><td>1,442m</td><td>1,440m</td></tr>
<tr><td>Statutory basic earnings/(loss) per share (a)/(b)</td><td>32.4p</td><td>27.3p</td><td>(15.3)p</td></tr>
</table></td><td>It's an indicator of the Group's profitability on a statutory basis.</td></tr>
<tr><td>Statutory CIR</td><td>No</td><td>No</td><td>N/a</td><td>Non-IFRS</td><td>Statutory operating and administrative expenses as a percentage of statutory total operating income for a given year.
<table>
<tr><th></th><th>2022</th><th>2021</th><th>2020</th></tr>
<tr><td>Statutory operating and administrative expenses (a)</td><td>£1,069m</td><td>£1,203m</td><td>£1,104m</td></tr>
<tr><td>Statutory total operating income (b)</td><td>£1,716m</td><td>£1,489m</td><td>£1,443m</td></tr>
<tr><td>Statutory CIR (a)/(b)</td><td>62.3%</td><td>80.8%</td><td>76.5%</td></tr>
</table></td><td>It's a measure of efficiency in terms of how total operating expenses compare to total operating income on a statutory basis.</td></tr>
<tr><td>Statutory return on assets</td><td>No</td><td>No</td><td>N/a</td><td>Non-IFRS</td><td>Statutory profit after tax as a percentage of average total assets for a given year.
<table>
<tr><th></th><th>2022</th><th>2021</th><th>2020</th></tr>
<tr><td>Statutory profit/(loss) after tax (a)</td><td>£537m</td><td>£474m</td><td>£(141)m</td></tr>
<tr><td>Average total assets (b)</td><td>£89,504m</td><td>£90,537m</td><td>£90,522m</td></tr>
<tr><td>Statutory return on assets (a)/(b)</td><td>0.60%</td><td>0.52%</td><td>(0.16)%</td></tr>
</table></td><td>It's an indicator of the Group's profitability on a statutory basis.

Underlying return on assets is no longer considered to be a performance measure, with the focus being on the statutory measure.</td></tr>
<tr><td>Underlying basic EPS</td><td>No</td><td>No</td><td>N/a</td><td>Non-IFRS</td><td>Underlying profit after tax attributable to ordinary equity shareholders, divided by the weighted average number of ordinary shares in issue for a given year (which includes deferred shares and excludes own shares held or contingently returnable shares).
<table>
<tr><th></th><th>2022</th><th>2021</th><th>2020</th></tr>
<tr><td>Underlying profit after tax attributable to ordinary equity shareholders (a)</td><td>£612m</td><td>£691m</td><td>£20m</td></tr>
<tr><td>Weighted average number of ordinary shares in issue (b)</td><td>1,441m</td><td>1,442m</td><td>1,440m</td></tr>
<tr><td>Underlying basic earnings per share (a)/(b)</td><td>42.4p</td><td>47.9p</td><td>1.4p</td></tr>
</table></td><td>It's an indicator of the Group's profitability on an underlying basis.</td></tr>
</table>

Financial performance metrics continued
Profitability continued:

<table>
<tr><th>Metric</th><th>KPI</th><th>LTIP</th><th>LTIP Year</th><th>Basis</th><th>Definition/formula</th><th>Why it matters?</th></tr>
<tr><td>Underlying profit before tax</td><td>No</td><td>No</td><td>N/a</td><td>Non-IFRS</td><td>Statutory profit before tax plus total underlying adjustments to the statutory view of performance.
<table>
<tr><th></th><th>2022</th><th>2021</th><th>2020</th></tr>
<tr><td>Statutory profit/(loss) before tax (a)</td><td>£595m</td><td>£417m</td><td>£(168)m</td></tr>
<tr><td>Restructuring charges (b)</td><td>£82m</td><td>£146m</td><td>£139m</td></tr>
<tr><td>Acquisition accounting unwinds (c)</td><td>£35m</td><td>£88m</td><td>£113m</td></tr>
<tr><td>Legacy conduct (d)</td><td>£8m</td><td>£76m</td><td>£26m</td></tr>
<tr><td>Other (e)</td><td>£69m</td><td>£74m</td><td>£14m</td></tr>
<tr><td>Underlying profit before tax (a) + (b) + (c) + (d) + (e)</td><td>£789m</td><td>£801m</td><td>£124m</td></tr>
</table></td><td>It's an indicator of the Group's profitability on an underlying basis.</td></tr>
<tr><td>Underlying profit after tax attributable to ordinary equity shareholders</td><td>No</td><td>No</td><td>N/a</td><td>Non-IFRS</td><td>Underlying profit before tax less underlying tax charge, less AT1 distributions. The underlying tax charge (or credit) is the difference between the statutory tax charge (or credit) and the tax attributable to exceptional items.
<table>
<tr><th></th><th>2022</th><th>2021</th><th>2020</th></tr>
<tr><td>Underlying profit before tax (a)</td><td>£789m</td><td>£801m</td><td>£124m</td></tr>
<tr><td>Underlying tax charge (b)</td><td>£107m</td><td>£31m</td><td>£25m</td></tr>
<tr><td>AT1 distributions (c)</td><td>£70m</td><td>£79m</td><td>£79m</td></tr>
<tr><td>Underlying profit after tax attributable to ordinary equity shareholders (a) - (b) - (c)</td><td>£612m</td><td>£691m</td><td>£20m</td></tr>
</table></td><td>It's an indicator of the Group's profitability on an underlying basis.</td></tr>
<tr><td>Underlying RoTE</td><td>No</td><td>No</td><td>N/a</td><td>Non-IFRS</td><td>Underlying profit after tax attributable to ordinary equity holders as a percentage of average tangible equity (average total equity less intangible assets and AT1) for a given year.
<table>
<tr><th></th><th>2022</th><th>2021</th><th>2020</th></tr>
<tr><td>Underlying profit after tax attributable to ordinary equity holders (a)</td><td>£612m</td><td>£691m</td><td>£20m</td></tr>
<tr><td>Average tangible equity (b)</td><td>£4,539m</td><td>£3,875m</td><td>£3,554m</td></tr>
<tr><td>Underlying RoTE (a)/(b)</td><td>13.5%</td><td>17.8%</td><td>0.6%</td></tr>
</table></td><td>It's an indicator of the Group's profitability on an underlying basis and gives the return generated for shareholders as a percentage of the Group's tangible equity.</td></tr>
</table>

Measuring the Group's performance

Lending (Basis – non-IFRS):

Metric	KPI	LTIP	LTIP Year	Definition and formula (where applicable)	Why it matters?
Target lending segment asset growth	Yes	No	N/a	Target lending segment asset growth over the year. Target lending is defined as Unsecured and BAU Business lending (excluding Government lending schemes noting these are closed and in run off.	It's an indicator of how well the Group is performing against its 'pioneering growth' strategic priority.
Relationship deposits growth	No	Yes	2021 2020	Relationship deposit growth over the year.	It's an indicator of how well the Group is performing against its 'pioneering growth' strategic priority.

	2022	2021	2020
Total lending – current year (a)	**£13,448m**	£12,573m	£13,006m
Total lending – prior year (b)	**£12,573**	£13,006m	£12,900m
Target lending growth ((a)-(b))/(b)	**7.0%**	(3.3)%	0.8%

	2022	2021	2020
Total relationship deposits – current year (a)	**£34,649m**	£30,596m	£25,675m
Total relationship deposits – prior year (b)	**£30,596m**	£25,675m	£21,347m
Relationship deposit growth ((a)-(b))/(b)	**13.2%**	19.2%	20.3%

Measuring the Group's performance

Asset quality (Basis – non-IFRS):

Metric	KPI	LTIP	LTIP Year	Definition/formula	Why it matters?
Impairment charge to average customer loans (cost of risk)	No	No	N/a	Impairment losses on credit exposures as a percentage of average customer loans (defined as loans and advances to customers, other financial assets at fair value and due from customers on acceptances).	It's an indicator of the asset quality of the Group's lending portfolio.

	2022	2021	2020
Impairment charge/(credit) (a)	**£52m**	£(131)m	£501m
Average customer loans (b)	**£71,989m**	£72,447m	£73,403m
Cost of risk (a)/(b)	**0.07%**	(0.18)%	0.68%

Metric	KPI	LTIP	LTIP Year	Definition/formula	Why it matters?
% of loans in Stage 2	No	No	N/a	Stage 2 loans as a percentage of gross loans and advances.	It allows period on period comparison of stage 2 loans as a percentage of overall gross loans and advances and therefore provides insight into the asset quality of the Group's lending portfolio over time.

	2022	2021	2020
Stage 2 loans (a)	**£5,736m**	£10,178m	£12,844m
Gross loans and advances (b)	**£73,146m**	£72,551m	£72,925m
% of loans in stage 2 (a)/(b)	**7.8%**	14.1%	17.7%

Metric	KPI	LTIP	LTIP Year	Definition/formula	Why it matters?
% of loans in Stage 3	No	No	N/a	Stage 3 loans as a percentage of gross loans and advances.	It allows period on period comparison of stage 3 loans as a percentage of overall gross loans and advances and therefore provides insight into the asset quality of the Group's lending portfolio over time.

	2022	2021	2020
Stage 3 loans (a)	**£1,038m**	£957m	£862m
Gross loans and advances (b)	**£73,146m**	£72,551m	£72,925m
% of loans in stage 3 (a)/(b)	**1.4%**	1.3%	1.2%

Metric	KPI	LTIP	LTIP Year	Definition/formula	Why it matters?
Total book coverage	No	No	N/a	Total impairment provisions on credit exposures as a percentage of total customer loans.	It provides a measure of the level of provision the Group holds for the total lending portfolio.

	2022	2021	2020
Impairment provisions on credit exposures (a)	**£457m**	£504m	£735m
Gross loans and advances (b)	**£73,146m**	£72,551m	£72,925m
Total book coverage (a)/(b)	**0.62%**	0.70%	1.03%

Metric	KPI	LTIP	LTIP Year	Definition/formula	Why it matters?
Stage 2 coverage	No	No	N/a	Stage 2 impairment provisions as a percentage of stage 2 gross loans and advances.	It provides a measure of the level of provision the Group holds for the lifetime of the Stage 2 lending portfolio.

	2022	2021	2020
Stage 2 impairment provisions on credit exposures (a)	**£268m**	£302m	£465m
Stage 2 gross loans and advances (b)	**£5,736m**	£10,178m	£12,844m
Total stage 2 book coverage (a)/(b)	**4.72%**	3.02%	3.66%

Measuring the Group's performance

Asset quality continued (Basis – non-IFRS):

Metric	KPI	LTIP	LTIP Year	Definition/formula	Why it matters?
Stage 3 coverage	No	No	N/a	Stage 3 impairment provisions as a percentage of stage 3 gross loans and advances.	It provides a measure of the level of provision the Group holds for the lifetime of the Stage 3 lending portfolio.

	2022	2021	2020
Stage 3 impairment provisions on credit exposures (a)	**£104m**	£91m	£134m
Stage 3 gross loans and advances (b)	**£1,038m**	£957m	£862m
Total stage 3 book coverage (a)/(b)	**11.24%**	9.59%	15.73%

Measuring the Group's performance

Capital (Basis – non-IFRS):

Metric	KPI	LTIP	LTIP Year	Definition/formula	Why it matters?
Announced shareholder distributions	Yes	No	N/a	Dividends announced for the year plus buybacks as a percentage of statutory profit after tax attributable to ordinary shareholders.	It shows how much of our profits after tax and distributions we are paying out to our shareholders.

	2022	2021	2020
Interim dividend (a)	**£36m**	n/a	n/a
Final dividend (b)	**£106m**	£14m	n/a
Buybacks (c)	**£125m**	n/a	n/a
Statutory profit after tax attributable to ordinary equity holders (d)	**£467m**	£395m	£(220)m
Announced shareholder distributions ((a)+(b)+(c))/(d)	**57%**	4%	n/a

Metric	KPI	LTIP	LTIP Year	Definition/formula	Why it matters?
Common Equity Tier 1 (CET1) ratio (IFRS 9 transitional)	No	No	N/a	CET1 capital as a percentage of RWAs, on an IFRS 9 transitional basis.	It's an indicator of bank solvency that gauges the strength of the Group's CET1 capital relative to risk weighted assets.

	2022	2021	2020
CET1 capital (IFRS 9 transitional) (a)	**£3,633m**	£3,616m	£3,271m
RWA (IFRS 9 transitional) (b)	**£24,148m**	£24,232m	£24,399m
CET1 ratio (IFRS 9 transitional) (a)/(b)	**15.0%**	14.9%	13.4%

Metric	KPI	LTIP	LTIP Year	Definition/formula	Why it matters?
CET1 ratio (IFRS 9 fully loaded)	No	No	N/a	CET1 capital as a percentage of RWAs, on an IFRS 9 fully loaded basis.	It's an indicator of bank solvency that gauges the strength of the Group's CET1 capital without adjusting for temporary IFRS 9 relief.

	2022	2021	2020
CET1 capital (IFRS 9 fully loaded) (a)	**£3,519m**	£3,482m	£2,961m
RWA (IFRS 9 fully loaded) (b)	**£24,056m**	£24,156m	£24,246m
CET1 ratio (IFRS 9 fully loaded) (a)/(b)	**14.6%**	14.4%	12.2%

Metric	KPI	LTIP	LTIP Year	Definition/formula	Why it matters?
Tier 1 ratio	No	No	N/a	Tier 1 capital as a percentage of RWAs.	It's an indicator of bank solvency that gauges the strength of the Group's Tier 1 capital relative to risk weighted assets.

	2022	2021	2020
Tier 1 capital (a)	**£4,299m**	£4,313m	£4,186m
RWA (b)	**£24,148m**	£24,232m	£24,399m
Tier 1 ratio (a)/(b)	**17.8%**	17.8%	17.2%

Measuring the Group's performance

Capital continued (Basis – non-IFRS):

Metric	KPI	LTIP	LTIP Year	Definition/formula	Why it matters?
Total capital ratio	No	No	N/a	Total capital resources as a percentage of RWAs.	It's an indicator of bank solvency that gauges the strength of the Group's total capital relative to risk weighted assets.

	2022	2021	2020
Total capital (a)	£5,319m	£5,332m	£4,935m
RWA (b)	£24,148m	£24,232m	£24,399m
Total capital ratio (a)/(b)	22.0%	22.0%	20.2%

Metric	KPI	LTIP	LTIP Year	Definition/formula	Why it matters?
Tangible net asset value **(TNAV)** per share	No	No	N/a	Tangible equity (total equity less intangible assets and AT1) divided by the number of ordinary shares in issue at the year end (which includes deferred shares and excludes own shares held).	It represents the value per share of the Group based on the Group's tangible net assets and can be used as a comparison against the current market share price.

	2022	2021	2020
Tangible equity (a)	**£5,407m**	£4,185m	£3,526m
Number of ordinary shares in issue (b)	**1,409m**	1,440m	1,439m
Deferred shares (c)	**3m**	5m	6m
Own shares held (d)	**0.3m**	0.1m	0.2m
Tangible net asset value per share (a)/((b)+(c)-(d))	**383.0p**	289.8p	244.2p

Metric	KPI	LTIP	LTIP Year	Definition/formula	Why it matters?
Total shareholder return **(TSR)**	No	Yes	2022	Share price at the end of the financial period, less the share price at the start of the financial period including dividends received over the period, divided by the share price at the start of the financial period.	The use of total shareholder return enables us to target a measure that is directly linked to an investor's total return on a share, incorporating both share price movement and dividends paid.

	2022	2021	2020
Share price at the end of the financial period (a)	**124.3p**	204.4p	73.0p
Share price at the start of the financial period (b)	**204.4p**	73.0p	114.9p
Dividends (assuming reinvestment) (c)	**3.2p**	n/a	n/a
Total shareholder return ((a)-(b)+(c))/(b)	**(37.6)%**	180.1%	(36.5)%

Measuring the Group's performance

Non-financial performance metrics:

Metric	KPI	LTIP	LTIP Year	Definition and formula (where applicable)	Why it matters?
Colleague engagement	Yes	No	N/a	Outcomes from the MyVoice colleague engagement survey preceding the end of the financial year.	Measures our understanding of employee sentiment noting our Purpose of Making you happier about money extends to our colleagues and ensures our customers will be supported by delighted colleagues working in a healthy, flexible, digitally-led environment.
Customer complaints per 1,000 accounts	Yes	No	N/a	In line with FCA regulations, number of complaints per thousand accounts calculated as $\frac{\text{Total number of complaints received in 6 month period to reporting date}}{\text{Total number of accounts as at reporting date}} \times 1,000$ Currently excludes complaints relating to Insurance and Pure Protection FCA reporting group given historically skewed influence of legacy PPI	Provides a measure to benchmark against peers and drives accountability within the Group to improve customer service and ensure we are making our customers happier about money
Digital primacy	Yes	No	N/a	It measures the proportion of active PCA and Card customers who are digital only in their engagement with Virgin Money. To qualify, each customer must: 1. be digitally adopted and active (successfully logged in to the mobile app in the past 90 days); 2. signed up to our paperless proposition; 3. not transacted in stores within the last 90 days; and 4. have not completed an authenticated call with contact centres in the past 90 days.	Measures the level of digitisation across our customer journeys whilst demonstrating the realisation of our ambition 'to be the UK's best digital bank.'
Group Smile score	Yes	No	N/a	% of interactions scored as a 'Smile'. A 'Smile' is determined by our customers and only counted as a 'Smile' if they score the following three aspects at the highest ranking: • Whether the customer got what they wanted on an interaction. • How easy the interaction was. • How the interaction made them feel.	It's a score that is used to supplement NPS however we use the Smile scores as our key customer experience metric given its ability to capture the role of emotion in customer advocacy.
Total active relationship customer accounts	Yes	No	N/a	Active PCA, BCA and Card customer accounts where active is defined as > £0 balance for Cards; transaction in the last 12 months for PCA and BCA customer accounts.	It's an indicator of how well the Group is performing against its 'pioneering growth' strategic priority.

Measuring the Group's performance

Non-financial performance metrics:

Metric	KPI	LTIP	LTIP Year	Definition and formula (where applicable)	Why it matters?
ESG scorecard	No	Yes	2022	Demonstrating progress against the Group's short, medium and long term targets for: 1. Senior colleague gender representation(1); 2. Senior colleague ethnic minority representation(1); 3. Group-wide ethnic minority representation(1); 4. Carbon emissions, Scope 1 and 2; 5. Net zero plan delivery (financed emissions reduction); and 6. Colleague engagement. (1) As a percentage of the population declared.	Our ESG scorecard tracks our progress in creating a sustainable future and the inclusion of an ESG scorecard within our LTIP ensures that Executive Director remuneration is aligned with the Group's aspiration to drive positive social and environmental impact through everything we do.
Risk scorecard	No	Yes	2022	Demonstrating progress against the Group's targets for customer complaints, operational risk losses, cost of risk, Group risk profile and Group risk appetite.	Our Risk scorecard demonstrates our commitment to, and monitoring of, prudent risk management within the business, and its inclusion within our LTIP ensures Executive Director remuneration is aligned with the Group's aspirations to deliver exceptional customer experience and ensure operations and processes drive resilience and positive customer outcomes.

Underlying adjustments to the statutory view of performance

Management exclude certain items from the Group's statutory position to arrive at an underlying performance basis. Management's approach to underlying adjustments is aligned to the European Securities and Markets Authority (ESMA) guidelines on APMs and recommendations are subject to review and agreement by the Board Audit Committee. Additional detail on these items is provided below to help understand their exclusion from underlying performance.

Item	2022 £m	2021 £m	Reason for exclusion from the Group's current underlying performance
Restructuring charges	**(82)**	(146)	The current period costs relate to the Group's Digital-First strategy. The Group expects to incur c.£275m of restructuring charges across FY22-24. FY21 costs represented the Group's three year integration plan following the acquisition of Virgin Money Holidays (UK) PLC and comprised a number of one-off expenses that were required to realise the anticipated cost synergies.
Acquisition accounting unwinds	**(35)**	(88)	This consists principally of the unwind of the IFRS 3 fair value adjustments created on the acquisition of Virgin Money Holdings (UK) PLC in October 2018. These represent either one-off adjustments or are the scheduled reversals of the accounting adjustments that arose following the fair value exercise required by IFRS 3. These will continue to be treated as non-underlying adjustments over the expected three to five-year period until they have been fully reversed.
Legacy conduct	**(8)**	(76)	These costs are historical in nature and are not indicative of the Group's current practices.
Other:			
SME transformation	**–**	(1)	These costs related to the transformation of the Group's Business banking proposition and mainly comprised costs associated with the RBS incentivised switching scheme.
UTM transition costs	**(9)**	(6)	These costs relate to UTM's transformation costs principally for the build of a new platform for administration and servicing.
VISA Shares	**2**	1	A one-off gain on conversion of Visa B Preference shares to Series A preference shares.
Internally developed software adjustments	**(62)**	(68)	These costs relate to the write-off of WIP and intangible asset balances held on the balance sheet as a result of a reassessment of the Group's practices on capitalisation against the backdrop of the move to an Agile project delivery.
Total other	**(69)**	(74)	
Total underlying adjustments	**(194)**	(384)	

Glossary

Term	Definition
Additional Tier 1 (AT1)	Securities that are considered AT1 capital in the context of CRD IV.
Agile	Agile working is about bringing people, processes, connectivity and technology, time and place together to find the most appropriate and effective way of working.
arrears	A customer is in arrears (or in a state of delinquency) when they fail to adhere to their contractual payment obligations resulting in an outstanding loan that is unpaid or overdue. When a customer is in arrears, the total outstanding loans on which payments are overdue are said to be delinquent.
average assets	Represents the average of assets over the year adjusted for any disposed operations.
Bank	Clydesdale Bank PLC.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2004.
Basel III	Reforms issued by the BCBS in December 2017 with subsequent revisions.
basis points (bps)	One hundredth of a percent (0.01%); meaning that 100 basis points is equal to 1%. This term is commonly used in describing interest rate movements.
Board	Refers to the Virgin Money UK PLC Board or the Clydesdale Bank PLC Board as appropriate.
Bounce back loan scheme	A scheme implemented by the UK Government to provide financial support to businesses across the UK that were losing revenue, and seeing their cash flow disrupted as a result of COVID-19, enabling them to benefit from £50,000 or less in finance.
Business lending	Lending to non-retail customers, including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
carbon related assets	Assets tied to the energy and utilities sectors under the Global Industry Classification Standard (mapped to internal industry classifications), excluding water utilities and independent power and renewable electricity producer industries.
carrying value (also referred to as carrying amount)	The value of an asset or a liability in the balance sheet based on either amortised cost or fair value principles.
cash and cash equivalents	For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and non-mandatory deposits with central banks and amounts due from other banks with a maturity of less than three months.
Code	The 2018 UK Corporate Governance Code.
collateral	The assets of a borrower that are used as security against a loan facility.
commercial paper	An unsecured promissory note issued to finance short-term credit requirements. These instruments have a specified maturity date and stipulate the face amount to be paid to the investor on that date.
Common Equity Tier 1 capital (CET1)	The highest quality form of regulatory capital that comprises total shareholders' equity, less goodwill and intangible assets and certain other regulatory adjustments.
Company	Virgin Money UK PLC.
Coronavirus business interruption loan scheme	A scheme implemented by the UK Government to provide financial support to smaller businesses across the UK that were losing revenue, and seeing their cash flow disrupted, as a result of COVID-19.
Coronavirus large business interruption loan scheme	A scheme implemented by the UK Government to provide financial support to mid-sized and larger businesses across the UK that were suffering disruption to their cash flow due to lost or deferred revenues as a result of COVID-19.
counterparty	The other party that participates in a financial transaction, with every transaction requiring a counterparty in order for the transaction to complete.
Coverage ratio	Impairment allowance as at the year end shown as a percentage of gross loans and advances as at the year end.
covered bonds	A corporate bond with primary recourse to the institution and secondary recourse to a pool of assets that act as security for the bonds on issuer default. Covered bonds remain on the issuer's balance sheet and are a source of term funding for the Group.
CRD IV	European legislation to implement Basel III. It replaces earlier European CRDs with a revised package consisting of a new CRD and a new CRR. CRD IV sets out capital and liquidity requirements for European banks and harmonises the European framework for bank supervision. See also 'Basel III'.
credit conversion factor (CCF)	CCFs are used in determining the EAD in relation to a credit risk exposure. The CCF is an estimate of the proportion of undrawn and off-balance sheet commitments expected to be drawn down at the point of default.
Credit impaired financial asset	A financial asset that is in default or has an individually assessed provision. This is also referred to as a 'Stage 3' impairment loss and subject to a lifetime ECL calculation. The Group considers 90 DPD as a backstop in determining whether a financial asset is credit impaired.
Credit risk mitigation	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set-off or netting.
CRR II	Capital Requirements Regulation (EU) 575/2013 and Directive (EU) 2013/36, revised by Regulation (EU) 2019/876 and Directive (EU) 2019/878, as implemented in the UK by PRA Policy Statement 22/21 and incorporated into the PRA Rulebook from 1 January 2022.
customer deposits	Money deposited by individuals or corporate entities that are not credit institutions, and can be either interest bearing, non-interest bearing or term deposits.
days past due (DPD)	The number of days a facility has borrowing in excess of an agreed or expired limit or, where facilities are subject to a regular repayment schedule, contractual payments are not fully up to date.

Additional information

Glossary

Term	Definition
default	A customer is in default when either they are more than 90 DPD on a credit obligation to the Group, or are considered unlikely to pay their credit obligations in full without recourse to actions such as realisation of security (if held).
delinquency	See 'arrears'.
Demerger	The demerger of the Group from NAB which took effect on 8 February 2016 pursuant to which all of the issued share capital of CYB Investments Limited was transferred to the Company (formerly CYBG PLC) by NAB in consideration for the issue and transfer of the Company (formerly CYBG PLC) shares to NAB in part for the benefit of NAB (which NAB subsequently sold pursuant to the Company's IPO) and in part for the benefit of NAB shareholders under a scheme of arrangement under part 5.1 of the Australian Corporations Act.
derivative	A financial instrument that is a contract or agreement whose value is related to the value of an underlying instrument, reference rate or index.
effective interest rate (EIR)	The rate used to calculate interest income or expense under the effective interest method.
encumbered assets	Assets that have been pledged as security, collateral or legally 'ring-fenced' in some other way which prevents those assets being transferred, pledged, sold or otherwise disposed.
exposure	A claim, contingent claim or position which carries a risk of financial loss.
exposure at default (EAD)	The estimate of the amount that the customer will owe at the time of default.
fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.
forbearance	The term generally applied to the facilities provided or changes to facilities provided to assist borrowers, who are experiencing, or are about to experience, a period of financial stress.
Gen Z	The current generation of young people born between the mid to late 1990s and the early 2010s.
Group	Virgin Money UK PLC and its controlled entities.
hedge ineffectiveness	Represents the extent to which the income statement is impacted by changes in fair value or cash flows of hedging instruments not being fully offset by changes in fair value or cash flows of hedged items.
IFRS 9	The financial instrument accounting standard which was adopted by the Group with effect from 1 October 2018.
IFRS 9 transitional adjustments – dynamic	That part of the transitional adjustments on regulatory capital arising from the increase in impairment provisions (on non-credit impaired exposures) from the date of initial adoption of IFRS 9 to the reporting date.
IFRS 9 transitional adjustments – static	That part of the transitional adjustments on regulatory capital arising from the increase in impairment provisions on initial adoption of IFRS 9 from those calculated under IAS 39.
impairment allowances	An ECL provision held on the balance sheet for financial assets calculated in accordance with IFRS 9. The impairment allowance is calculated as either a 12-month or a lifetime ECL.
impairment losses	The ECL calculated in accordance with IFRS 9 and recognised in the income statement with the carrying value of the financial asset reduced by creating an impairment allowance. Impairment losses are calculated as either a 12-month or lifetime ECL.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Group's assessment and management of balance sheet risks relating to funding and liquidity.
Internal Ratings-Based approach (IRB)	A method of calculating credit risk capital requirements using internal, rather than supervisory, estimates of risk parameters.
investment grade	The highest possible range of credit ratings, from 'AAA' to 'BBB', as measured by external credit rating agencies.
Level 1 fair value measurements	Financial instruments whose fair value is derived from unadjusted quoted prices for identical instruments in active markets.
Level 2 fair value measurements	Financial instruments whose fair value is derived from quoted prices for similar instruments in active markets and financial instruments valued using models where all significant inputs are observable.
Level 3 fair value measurements	Financial instruments whose fair value is derived from valuation techniques where one or more significant inputs are unobservable.
lifetime ECL	The ECL calculation performed on financial assets where a SICR since origination has been identified. This can be either a 'Stage 2' or 'Stage 3' impairment loss depending on whether the financial asset is credit impaired.
Listing Rules	Regulations applicable to any company listed on a UK stock exchange, subject to the oversight of the UK Listing Authority (UKLA). The Listing Rules set out mandatory standards for any company wishing to list its shares or securities for sale to the public.
loan to value ratio (LTV)	A ratio that expresses the amount of a loan as a percentage of the value of the property on which it is secured.
location-based emissions	Calculated using the average emissions intensity of the grids on which energy consumption occurs, using mostly grid-average emission factor data.
loss-absorbing capacity (LAC) requirement	The required level of MREL resources that the Group is required to hold to meet its MREL requirement and applicable capital buffers set by the BoE.
loss given default (LGD)	The estimate of the loss that the Group will suffer if the customer defaults (incorporating the effect of any collateral held).
market-based emissions	Calculated as the electricity that companies have purposefully chosen to purchase. It derives emission factors from contractual instruments, which include any type of contract between two parties for the sale and purchase of energy bundled with attributes about the energy generation, or for unbundled attribute claims.

Glossary

Term	Definition
medium-term notes	Debt instruments issued by corporates, including financial institutions, across a range of maturities.
Minimum Requirement for Own Funds and Eligible Liabilities (MREL)	A minimum requirement for institutions to maintain equity and eligible debt liabilities, to help ensure that if an institution fails the resolution authority can use these financial resources to absorb losses and recapitalise the continuing business.
National Databank	The National Databank provides free mobile data, texts and calls to people in need via Good Things Foundation's network of local community partners.
net interest income (NII)	The amount of interest received or receivable on assets, net of interest paid or payable on liabilities.
Net Promoter Score (NPS)	This is an externally collated customer loyalty metric that measures loyalty between a provider, who in this context is the Group, and a consumer.
Paris Climate Agreement	Legally binding international treaty to limit global warming to below 2 degrees Celsius, and preferably to 1.5 degrees Celsius above pre-industrial levels.
Personal lending	Lending to individuals rather than institutions excluding mortgage lending which is reported separately.
probability of default (PD)	The probability that a customer will default over either the next 12 months or lifetime of the account.
Recovery loan scheme **(RLS)**	A scheme implemented by the UK Government to provide financial support to small and medium sized businesses across the UK to promote growth and investment following the disruption caused by COVID-19.
regulatory capital	The capital which the Group holds, determined in accordance with rules established by the PRA.
relationship deposits	Current account and linked savings balances.
residential mortgage-backed securities (RMBS)	Securities that represent interests in groups or pools of underlying mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and principal).
ring-fencing	A regime of rules which require banks to change the way that they are structured by separating retail banking services from investment and international banking. This is to ensure the economy and taxpayers are protected in the event of any future financial crises.
risk appetite	The level and types of risk the Group is willing to assume within the boundaries of its risk capacity to achieve its strategic objectives.
risk-weighted asset (RWA)	On and off-balance sheet assets of the Group are allocated a risk weighting based on the amount of capital required to support the asset.
sale and repurchase agreement (repo)	A short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or a reverse repo.
Scheme	The Group's defined benefit pension scheme, the Yorkshire and Clydesdale Bank Pension Scheme.
Science based targets	Science based targets provide a clearly defined pathway for companies and financial institutions to reduce GHG emissions, helping prevent the worst impacts of climate change and future-proof business growth. Targets are considered 'science based' if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to 1.5°C above pre-industrial levels.
Scope 1/2/3 emissions	Scope 1, 2, and 3 emissions are a way of categorising business emissions, accounting for both direct and indirect emitted GHGs. Scope 1 emissions are GHGs released directly from a business. Scope 2 emissions are indirect GHGs released from the energy purchased by an organisation. Scope 3 emissions are also indirect GHG emissions, accounting for upstream and downstream emissions of a product or service, and emissions across a business's value chain.
secured lending	Lending in which the borrower pledges some asset (e.g. property) as collateral for the lending.
securitisation	The practice of pooling similar types of contractual debt and packaging the cash flows from the financial asset into securities that can be sold to institutional investors in debt capital markets. It provides the Group with a source of secured funding that can achieve a reduction in funding costs by offering typically 'AAA' rated securities secured by the underlying financial asset.
significant increase in credit risk (SICR)	The assessment performed on financial assets at the reporting date to determine whether a 12-month or lifetime ECL calculation is required. Qualitative and quantitative triggers are assessed in determining whether there has been a SICR since origination. The Group considers 30 DPD as a backstop in determining whether a SICR since origination has occurred.
standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the own funds or liquidity which a bank holds.
structured entity	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). An SE may take the form of a corporation, trust, partnership or unincorporated entity. SEs are often created with legal arrangements that impose strict limits on the activities of the SE. May also be referred to as an SPV.
subordinated debt	Liabilities which rank after the claims of other creditors of the issuer in the event of insolvency or liquidation.
Term Funding Scheme (TFS)	A scheme launched in 2016 by the BoE to allow banks and building societies to borrow from the BoE at rates close to base rate. This is designed to increase lending to businesses by lowering interest rates and increasing access to credit.
Tier 1 capital	A measure of a bank's financial strength defined by CRD IV. It captures CET1 capital plus other Tier 1 securities (as defined by CRD IV) in issue, subject to deductions.

Glossary

Term	Definition
Tier 2 capital	A component of regulatory capital, including qualifying subordinated debt, eligible collective impairment allowances and other Tier 2 securities as defined by CRD IV.
unsecured lending	Lending in which the borrower pledges no assets as collateral for the lending (such as credit cards and current account overdrafts).
value at risk (VaR)	A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

Additional information

Abbreviations

AFD	Approaching financial difficulty
AGM	Annual General Meeting
ALCO	Asset and Liability Committee
APM	Alternative Performance Measure
ASX	Australian Securities Exchange
AT1	Additional Tier 1
ATM	Automated teller machine
BCA	Business current account
BCBS	Basel Committee on Banking Supervision
BCR	Banking Competition Remedies
BNPL	Buy now, pay later
BoE	Bank of England
bps	Basis points
BTL	Buy-to-let
CBES	Climate Biennial Exploratory Scenario
CBI	Confederation of British Industry
CCF	Credit conversion factor
CCyB	Countercyclical Capital Buffer
CDI	CHESS Depositary Interest
CDP	Carbon Disclosure Project
CER	Certified Emissions Reduction
CET1	Common Equity Tier 1 Capital
CIR	Cost to income ratio
CMA	Competition and Markets Authority
CPI	Consumer Price Index
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSRBB	Credit spread risk in the banking book
CYBI	CYB Investments Limited
DEP	Deferred Equity Plan
DPD	Days past due
DTR	Disclosure Guidance and Transparency Rules
EAD	Exposure at default
EBA	European Banking Authority
EBT	Employee benefit trust
ECL	Expected credit loss
EIR	Effective interest rate
EPC	Energy performance certificate
EPS	Earnings per share
ESG	Environmental, social and governance
FCA	Financial Conduct Authority
FIRB	Foundation internal ratings-based
FPC	Financial Policy Committee
FRC	Financial Reporting Council
FTE	Full time equivalent
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GAAP	Generally Accepted Accounting Principles
GDIA	Group Director Internal Audit
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GHG	Greenhouse Gases
G-SII	Global Systemically Important Institution
HMRC	Her Majesty's Revenue and Customs
HPI	House Price Index
HQLA	High Quality Liquid Asset
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBOR	Interbank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standard
ILAAP	Internal Liquidity Adequacy Assessment Process
IPO	Initial Public Offering
IRB	Internal ratings-based
IRRBB	Interest rate risk in the banking book
ISA	International Standards on Auditing
ISDA	International Swaps and Derivatives Association
ISSB	International Sustainability Standards Board
JV	Joint venture
KMP	Key management personnel
KPI	Key Performance Indicator
LAC	Loss-absorbing capacity
LCR	Liquidity coverage ratio
LDR	Loan to deposit ratio
LGBTQ+	Lesbian, gay, bisexual, transgender, queer (or questioning) plus
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LSE	London Stock Exchange
LTIP	Long-term incentive plan
LTV	Loan to value
MGC	Model Governance Committee
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MRT	Material Risk Takers
NAB	National Australia Bank Limited
NII	Net interest income
NIM	Net interest margin
NPS	Net promoter score
NSFR	Net stable funding ratio
NZBA	Net-Zero Banking Alliance
PBT	Profit before tax
PCA	Personal current accounts
PCAF	Partnership for Carbon Accounting Financials

Abbreviations

PD	Probability of Default
PIE	Pension Increase Exchange
PMA	Post model adjustment
POCI	Purchased or originated credit impaired
PPI	Payment protection insurance
PRA	Prudential Regulation Authority
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
RLS	Recovery Loan Scheme
RMBS	Residential mortgage-backed securities
RMF	Risk Management Framework
RoTE	Return on Tangible Equity
RPI	Retail Price Index
RWA	Risk-weighted asset
SASB	Sustainability Accounting Standards Board
SAYE	Save As You Earn
SDG	Sustainable Development Goal
SICR	Significant increase in credit risk
SIP	Share Incentive Plan
SME	Small or medium-sized enterprise
SMF	Sterling Monetary Framework
SONIA	Sterling Overnight Index Average
SST	Solvency Stress Test
STEM	Science, Technology, Engineering and Maths
STIP	Short-term Incentive Plan
TCFD	Task Force on Climate-related Financial Disclosures
TFS	Term Funding Scheme
TFSME	Term Funding Scheme with additional incentives for SMEs
TNAV	Tangible net asset value
TNFD	Taskforce on Nature-related Financial Disclosures
UN PRB	United Nations' Principles for Responsible Banking
UNEPFI	United Nations Environment Programme Finance Initiative
UTM	Virgin Money Unit Trust Managers Limited
VAA	Virgin Atlantic Airways Limited
VaR	Value at risk
VIU	Value-in-use
WIP	Work-in-progress
YBHL	Yorkshire Bank Home Loans Limited
YoY	Year-on-year

Country by country reporting

The Capital Requirements (Country by Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of the European Union's CRD IV. The purpose of the Regulations is to provide clarity on the source of the Group's income and the locations of its operations.

The vast majority of entities that are consolidated within the Group's financial statements are UK registered entities. The activities of the Group are described in the Strategic report contained in the Group's Annual Report & Accounts.

	2022 UK
Average FTE employees (number)	**6,866**
Total operating income (£m)	**1,716**
Profit before tax (£m)	**595**
Corporation tax paid (£m)	**59**
Public subsidies received (£m)	**–**

The only other non-UK registered entity of the Group is a Trustee company that is part of the Group's securitisation vehicles (Lanark and Lannraig). Lannraig Trustees Limited is registered in Jersey. This entity plays a part in the overall securitisation process by having the beneficial interest in certain mortgage assets assigned to it. This entity has no assets or liabilities recognised in its financial statements with the securitisation activity taking place in other UK registered entities of the structures. This entity does not undertake any external economic activity and has no employees. The results of this entity as well as those of the entire Lanark and Lannraig securitisation structures are consolidated in the financial statements of the Group.

Other information

The financial information included in this results announcement does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2022 were approved by the directors on 20 November 2022 and will be delivered to the Registrar of Companies following publication in December 2022. The auditor's report on those accounts was unqualified and did not include a statement under sections 498(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the Companies Act 2006.