VIRGIN MONEY UK

Annual Report & Accounts 2020

Making you happier about money

Our Purpose guides the way we do business every day and we're all-in on it, from our Values and Behaviours to the products we offer and the experiences we create – but especially when it comes to our strategic ambition.

To disrupt the status quo.

It's a simple statement that tells you everything about our ambition. It's about thinking what money could be, instead of what it's always been. And we need to disrupt the status quo to do that.

What's inside

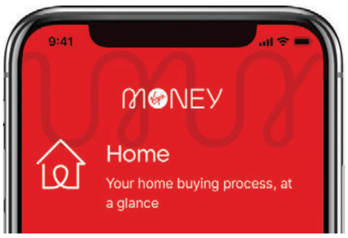
We are Virgin Money

We are the UK's 6th largest bank, with 6.5m customers, an innovative digital platform and a national network of branches, contact centres and relationship managers, and an ambition to disrupt the status quo of the personal and small business banking markets.

Our Purpose and ambition drive our strategic priorities:

Our Purpose	Making you happier about money
Our strategic ambition	To disrupt the status quo
Our strategic priorities	**Super straight-forward efficiency**; **Delighted customers and colleagues**; **Discipline and sustainability**; **Pioneering growth**
Powered by our	**Highly-trusted brand**; **People with Purpose**; **Digital leadership**
Delivered brilliantly in line with our Values	**Heartfelt service**; **Insatiable curiosity**; **Smart disruption**; **Red hot relevance**; **Straight up**; **Delightfully surprising**

Delivered through our three customer-focused divisions:



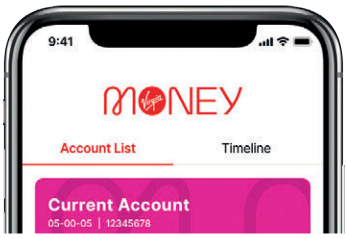
Mortgages

£58bn
of lending

Our ambition is to simplify mortgages to make consumers' lives better.

We meet all of our customers' mortgage needs, from buying a first home, to moving up, remortgaging or investing in buy-to-let (BTL) property, in a simple way that makes our customers' lives better.

Find out more on pages 28-29



Personal

£5bn
of lending

£53bn
of deposits

Our ambition is to help our customers live and bank in a more rewarding way.

As well as meeting our customers' everyday retail banking needs for current accounts, credit cards, loans and savings, we aim to help our customers live and bank in a more rewarding way.

Find out more on pages 30-31

Business

£9bn
of lending

£14bn
of deposits

Our ambition is to help business owners realise their potential and achieve their dreams.

A full relationship management proposition to small and medium enterprises across the UK, to meet their borrowing, financing and business account needs.

Find out more on pages 32-33

Strong governance at a challenging time

2020 has been a challenging year for all, but I am proud that Virgin Money has provided exceptional support to our customers, colleagues and communities and truly lived up to the intent of our Purpose of 'Making you happier about money'

Dear stakeholder,
2020 has been a challenging year for all. The COVID-19 pandemic has cast a long shadow over society, the economy, businesses and individuals and it is right to reflect on the impact that it has had. I would like to extend my sympathies and thoughts to all those who have been adversely impacted in some way.

COVID-19 has therefore been a major influence my first six months as Chairman, having succeeded Jim Pettigrew in May. I'd like to formally thank Jim for his service from 2012 onwards during a period of significant development for the Group, including the demerger and IPO from NAB, all the way through to the Virgin Money acquisition.

Our response to COVID-19
Since the crisis began, David Duffy and the Leadership Team have done an impressive job of simultaneously supporting customers while reinventing the way we work. We have prioritised the health and well-being of our colleagues and customers, and preserved the stability of the bank. The Board have been heavily involved in our Purpose-led response to the pandemic. This has included deep dives into our portfolios, monitoring the support we offer to customers and thoughtfully discussing how we best support our colleagues.

Supporting our customers through the pandemic has been our immediate priority, with 127k payment holidays provided and £1.2bn lent primarily through the government Bounce Back Loan Scheme (BBLS) and Coronavirus Business Interruption Loan Scheme (CBILS) lending schemes. We have also made good strategic progress, including the launch of the Virgin Money PCA and Personal Loans, and our well-received Home Buying Coach app for first time buyers.

We have continued to focus on our stakeholders as an integral part of what we do, from customer support and ensuring we are able to provide guidance to our customers who need it, to supporting our communities and strengthening our sustainability approach. This strategic report covers our progress in more detail, particularly in the discussion of our strategic priorities on pages 8 to 13 and our sustainability strategy on pages 16 to 21. You can also find more on how the Board has engaged with our stakeholders on page 61.

Clearly the sizeable credit loss provisions we have recognised, which reflect our conservative economic scenarios and weightings, has impacted our financial performance this year. However, we remain well-capitalised, well-funded and with a conservatively positioned lending portfolio, as we face into a challenging economic outlook.

Governance
I have started my tenure with some initial changes to further strengthen our governance approach incorporating direct investor feedback and updating for current best practice. The details of these changes are outlined in the Corporate Governance Report overview on pages 46-47. Looking forward, as Virgin Money evolves we will also thoughtfully consider the skills required of our Board, particularly with regard to the increasing importance of digital. I want to ensure we fully equip the Board to continue constructively challenging the executives as they deliver our on ambitious strategic plan.

Outlook
While the political and economic outlook remains highly uncertain and we have yet to see the full credit loss impact from the pandemic, we remain convinced that our self-help strategy remains the right one, although the timing of delivery of our strategic pillars and targets will need to be reviewed given the uncertain outlook we face. However, the Board believes that, assuming no further deterioration in expectations for the economic outlook or change in interest rates, Virgin Money has a clear path to delivering double digit statutory returns on tangible equity over time.

Finally, I would like to close by thanking all of our colleagues for their efforts and support in 2020, while thanking them in advance for their dedication in what we expect to be another challenging year in 2021.

Please also see my Q&A on page 60 of the Governance section

David Bennett
Chairman
24 November 2020

Supporting our stakeholders

Our primary focus has been to provide the very best support to our customers, colleagues and communities, but we have also continued to make strategic progress in a uniquely challenging environment.

I am extremely proud of the Purpose-led support we have provided to our customers, colleagues and communities throughout this year.

Dear stakeholder,
Without doubt, 2020 has been a uniquely challenging year for all of us. My priority from the outset has been to make sure that Virgin Money responds to the crisis in a way that reflects our Purpose and our Virgin Values. That means offering our customers the right support to navigate through the challenges the pandemic has brought about, protecting the health and well-being of our colleagues, while at the same time safeguarding our business for the future. We are committed to providing support for all of our customers during these difficult and uncertain times.

I am proud of how my colleagues have responded to these challenges and confident that we are building an organisation that reflects our Purpose of 'Making you happier about money'.

Supporting our customers, colleagues and communities
In Mortgages, we have granted c.67k payment holidays while in Personal, we have granted c.58k payment holidays, with >90% of these customers who have matured from their payment holiday having now returned to regular payments. In Business, our relationship managers have been proactively supporting customers with advice and financing solutions, while our participation in the various government-guaranteed lending schemes has seen us lend c.£1.2bn to provide much needed liquidity to businesses. You can find out more about our divisional customer support on pages 28-33.

Our colleagues are critical in how we have been able to support our customers and their safety has been our first priority throughout. We took a decision early in the crisis not to furlough any colleagues, and we continue to work hard to make sure those critical colleagues who need to be in our branches or offices receive the best support possible. We have more details on our colleagues on page 11.

Our strong heritage of community support also stepped up during the pandemic, with the Virgin Money Foundation making c.£900k of funding available for local charities responding to COVID-19. Virgin Money Giving (VMG) was an official fundraising partner of the 2.6 Challenge (which took place in lieu of the postponed Virgin Money London Marathon), helping support more than 3,000 charities to raise more than £10m, and our not-for-profit VMG platform continued to support fundraising efforts across the UK.

Pre-provision operating performance impacted by UK lockdowns
We reported a resilient first half pre-provision operating performance, but the second half has been impacted by the unprecedented deterioration in the economic environment.

Our balance sheet reflects this in different ways across the portfolios with a c.3% year-on-year contraction in our Mortgage book due to disciplined pricing in the first half in a competitive (pre-COVID-19) environment and the impact of lockdown on demand in the second half. In Business, our total book has grown by c.14%, but this is solely due to the government-guaranteed lending schemes where we have lent c.£1.2bn, with our underlying non-government-guaranteed lending down slightly across the year. In Personal, our c.4% lending growth reflects a strong first half and the resilience of our balance transfer credit card portfolio in the second half. In deposits, similar to most other banks, we have seen a significant increase in the year, up c.6%, with our relationship deposits increasing 20% as consumer spending slowed dramatically and a lot of businesses simply deposited government-guaranteed lending proceeds as cash.

As a consequence, the Group's total income reduced 6% year-on-year reflecting lower lending volumes, lower activity based fees and the margin impact of the base rate cut as well as excess liquidity costs.

While we continued to reduce our underlying cost base, down 3%, with c.£30m of net reductions after absorbing £14m of additional COVID-19 costs, pre-provision operating profit reduced by 10%.

Significant impairment provision drives a statutory loss
While it is clear that the near-term economic outlook is challenging, we have not yet seen significant specific provisions or credit losses in relation to the pandemic. However, the Board has chosen to apply conservative economic scenarios and weightings, supplemented by expert judgement credit risk overlays, in assessing its expected credit loss provisioning. In total, the Group has taken a substantial £501m provision charge during the year to significantly increase the Group's on-balance sheet credit provision to £735m, providing robust levels of coverage across all of our portfolios. This sizeable provision charge has led to a significantly reduced underlying profit before tax of £124m, down 77% year-on-year. Together with £292m of exceptional costs that primarily relate to our restructuring programmes and acquisition accounting unwind, the Group has reported a £141m statutory loss after tax for the year.

Robust balance sheet for an uncertain environment
Importantly our balance sheet remains robust as we enter a period of economic stress with an expected increase in credit losses. We have a defensive lending portfolio comprising 81% of prime, high-quality Mortgages, 12% of well diversified relationship-driven business lending and 7% of high-quality Personal lending. We also retain a resilient capital base with a transitional CET1 ratio of 13.4% and c.£950m of CET1 management buffer, which is in addition to our £735m of credit provisions. We continue to maintain a strong liquidity position with a Liquidity Coverage Ratio (LCR) of 140% and are prudently funded with a 107% loan-to-deposit ratio (LDR).

You can find out more about our financial performance and balance sheet strength in the CFO Review on pages 34-44.

Strategic progress during the year
During the year, we have continued to enhance our digital propositions through several major new releases to our online platforms which has enabled new features and capability, while our new API connectivity to a key mortgage intermediary sourcing system improves efficiency for our broker partners and us.

Although we did pause our rebrand activity planned for earlier in the year due to the UK lockdown, we have sought to strategically leverage our brand where possible through our extremely successful partnership that delivered the UK's first socially-distanced music festival in Newcastle over the summer and our 'Money on Your Mind' campaign. Both activities attracted widespread coverage across traditional media and social media creating great brand awareness.

In Mortgages, we launched our innovative Home Buying Coach app which supports first-time buyers through a mix of tools, calculators and content to help make buying a new home a happier experience. The app has been well received with over 10k downloads already and we expect it to be a great customer engagement tool over time.

In Personal, we launched the first-ever digital Virgin Money Current Account which is gaining good traction with customers and was rated as "Outstanding" by Moneyfacts with a perfect five-star score. More recently, we launched our market-leading basic bank account, the 'M Account', which forms a vital part of our financial inclusion strategy, and we also launched the Virgin Money Personal Loan product as another important step in our integration journey.

In Business, we were delighted to be awarded a £35 million grant from the BCR's Capability and Innovation Fund (CIF), which we will match-fund, and invest into enhancing our proposition to support us in becoming a true disruptor in the SME banking market and to offer a credible alternative to the incumbent banks under the Virgin brand.

In recognition of the progress we are making, our teams won several customer service awards this year. This includes 'Best Credit Card provider' for a third year in a row by the British Banking Award, the 'Mortgage Service Award' in the Simples Awards from Compare the Market and several awards at the UK Customer Experience Awards including a superb Gold in the 'Use of insight and feedback' category in recognition of our innovative 'Money on Your Mind' initiative.

You can find out more about our strategic progress on pages 8-13.

Enhancing our ESG approach
The events of 2020 have underscored the moral and commercial imperative for creating a sustainable business. As society continues to adjust to these new challenges, I believe we have an opportunity – and an obligation – to play a strong role in helping customers and communities navigate the road ahead. From transitioning to a greener economy and reimagining customer's business models, to developing more inclusive products and supporting fundraising in a digital age – we are working hard to be a force for good in society.

Our sustainability agenda is an integral part of delivering our Purpose of 'Making you happier about money' and is being embedded in everything we do. We are all on a journey to learn how best to do that, and I believe our refreshed ESG strategy provides a framework to accelerate the difference we are able to make to the global issues facing our planet and the local issues facing our communities. You can find out more on our sustainability approach on pages 16-21.

Outlook
While the outlook remains very uncertain and the range of potential outcomes is wide, Virgin Money enters this period from a position of strength. Over the coming months, we anticipate an increase in specific credit losses as unemployment starts to rise and as the government stimulus reduces, and we expect limited customer demand for lending. We recognise the very recent news of potential vaccines, but believe it is too early to incorporate this into our near-term forecasts at present. Our primary focus will remain on supporting all of our stakeholders, while progressing our strategic delivery through the completion of our transformation and rebrand activity, as well as the launch of exciting new propositions such as our new Virgin Money Business Current Account (BCA), our cashback and loyalty programmes, and a host of innovative new partnerships.

In the medium term, the Board believes that, assuming no significant further deterioration in expectations for the economic outlook or change in interest rates, Virgin Money has a clear path to delivering a double digit statutory RoTE over time, supporting future capital returns to investors. The improvement in returns will be built on: the normalisation of impairments and exceptional costs; ensuring we continue to reduce our cost base to reflect the future operating environment; optimising our balance sheet mix; and delivering a more efficient capital base over time, and we aim to come back with more specific guidance once the medium-term outlook has stabilised.

Finally, I have been inspired by the lengths our colleagues have gone to in supporting our customers and communities in difficult circumstances this year and want to thank them for their immense efforts, personal resilience and dedication. 2021 will no doubt require a similar level of commitment from us all to continue providing the right support and to deliver on our strategic ambitions. I also want to take the opportunity to extend my very best wishes to all of our customers, colleagues and investors in remaining safe and well.

David Duffy
Chief Executive Officer
24 November 2020

Operating in a challenging environment

Short-term impacts from COVID-19

Impact areas	What we have seen	Our response
Uncertain economic conditions	**The pandemic has led to the sharpest decline in GDP in modern times.** To cushion the impact, an unprecedented range and size of government support has been deployed to support the economy, businesses and individuals. In the short term, this has supported employment and house prices. However, the eventual removal of this support is expected to lead to adverse economic trends in 2021, which may also be impacted by the outcome of Brexit negotiations which remain unresolved at the time of writing.	**The market's range of forecasts as to the depth of the recession and shape of a potential recovery have been wide.** Given the level of uncertainty, we have adopted conservative economic assumptions and weightings into our strategic planning, our International Financial Reporting Standard (IFRS) 9 provisioning and our expectations for future demand. We have therefore been working to ensure we have the resources to manage through an expected period of economic stress. This has also influenced our more cautious outlook and guidance, as set out in the CFO review on page 34.
Customer behaviour	**The customer response to COVID-19 has been rational and pragmatic**. Both consumers and businesses have reduced spending, lowered demand for credit, and where possible, have increased deposit balances and accessed payment holidays. Business customers have also utilised the significant support from government-guaranteed lending schemes. New housing demand was initially limited by lockdown, but has returned to surprisingly buoyant levels as homeowners reassessed their structural housing needs and were incentivised by a temporary stamp duty reduction.	**Across our customer segments we have acted quickly to offer support to our existing customers.** Across the bank we have provided customers with c.127k payment holidays, using rapidly deployed and easy to use online solutions. In Business banking, our relationship managers have offered assistance and advice to customers, as well as administering the government-guaranteed lending schemes with c.£1.2bn lent to our customers. These unplanned customer support measures meant the Group incurred c.£14m of additional costs in 2020, causing us to exceed our original 2020 cost target.
Competitive banking	**Across the UK banking industry, most market participants have focused on their existing customers.** In Mortgages, operational capacity constraints has seen lenders attempt to restrict supply through increased pricing and reduced availability in order to manage capacity. In Personal, competitive pressure has eased somewhat as lenders have withdrawn products and promotional incentives. In Business, the market-wide lending demand has been for the government-guaranteed lending schemes which has cannibalised most participants business-as-usual (BAU) lending. Within the deposits markets, price competition has reduced as participants passed on base rate rises to protect margins and firms seek to manage their excess deposit positions.	**As with peers, we have prioritised support for existing customers, but have continued to support high-quality demand from new customers.** We like most peers have been impacted by some operational capacity constraints in Mortgages and sought to manage our supply. We have maintained our presence in the credit card market particularly for balance transfer products, but have been able to reduce promotional incentives in line with the market. In Business we continued to be active in the new lending market, but most demand has been through the government schemes. While in Deposits, we have sought to optimise our funding base and also launched new propositions such as our Virgin Money digital current account and our new market-leading 'M' basic bank account offering, which have been well received.
Developing digital	**COVID-19 has accelerated the existing trends towards digitisation and online activity within the economy.** In banking, online transactions increased markedly, with customers who were previously reluctant to use online services increasingly choosing or in some cases forced to do so during lockdown. In addition, banks have adapted rapidly to provide greater remote working capability, particularly for customer support, allowing colleagues to work and service customers from home rather than in centralised offices and branches. This is spurring an acceleration of investment and delivery by both incumbent banks and neo-banks to provide enhanced digital propositions to customers in both the consumer and business markets.	**Our rapid response to the pandemic has demonstrated our ability to implement change and digital solutions rapidly.** We implemented online solutions for payment holiday requests within days, and created online solutions to deploy CBILS and BBLS in just 10 days. The learnings developed across these projects can now be redeployed in the future as we deliver our longer-term plan. In addition, we rapidly facilitated the ability for two-thirds of our colleagues to work from home, as well as enabling customer-facing colleagues in Personal and Business to securely speak to customers from home. We also continued to make progress with our integration and transformation programmes that will support the delivery of a steady release of new and exciting digital propositions over time.
Regulatory developments	**The swift and pragmatic response from regulators to support banks through COVID-19 has been welcomed and appreciated.** Regulatory guidance around capital requirements, forbearance and payment holidays, as well as pausing some elements of regulatory supervision e.g. Annual Cyclical Scenario (ACS) stress test, has allowed banks to focus on providing customer support at a time of great concern. Allied to the broader fiscal and economic support from the UK government, this has enabled a rapid and effective sector-wide response to COVID-19.	**In common with peers, we welcomed recent regulatory developments and have adopted and adapted to the rapid customer support changes required.** The package of measures agreed with the industry across payment holidays, forbearance and government lending schemes have enabled us to provide comprehensive support to our customers at a time of need. Within that framework, we have however remained prudent in our approach to credit risk and continued to focus on the longer term in our planning, particularly with regards to capital.

Strategic report
Financial results
Governance
Risk report
Financial statements
Additional information

Medium term trends

The mid-range outlook	Our strategic response
While the decisive general election result in December 2019 suggested a period of greater clarity on economic policy, the pandemic has led to an unprecedented level of government intervention in the economy. The level to which this will be maintained is unclear, and with the difficult to assess implications of Brexit and subsequent impact on the pace of any recovery, the long-term economic outlook is highly uncertain. Our long-term economic forecasts for IFRS 9 provisioning are conservative and reflect a weighted-average trough in GDP of c.15% in 2020, unemployment to peak at c.10% in early 2021 and a house price peak-to-trough of 22%.	**While confident in the quality of our underwriting, the low-risk nature of our portfolios and the conservative assumptions in our provisioning, the unique combination of the pandemic and Brexit makes the out-turn for asset quality difficult to predict.** Further, while we remain confident that our existing strategy and 'self-help' opportunities to transform and digitise the business still exist, we have chosen to temper our expectations for customer growth, and the pace at which we will be able to grow income and reduce costs in the near-term. This means the achievement of our financial targets will be delayed, but we continue to expect the delivery of our strategy to enable the Group to deliver appropriate returns in the medium-term.
The impact on businesses and consumers is likely to persist for some time and certain sectors of the economy may suffer from continuing low customer demand or impacts from Brexit. As such, we expect consumers will continue to need support, and be cautious in their spending and investment plans. This lack of confidence is likely to lead to muted lending demand from both consumers and businesses, although the impact may be uneven, with some elements of the economy expected to perform better than others. There is also uncertainty as to the extent to which the Group's currently elevated deposit balances may unwind as consumers and businesses potentially utilise their liquidity at a time of economic stress.	**We will continue to support customers with appropriate forbearance, advice and restructuring of debt where appropriate.** We are increasing the amount of operational resources available to support customers in difficulty in anticipation of increased need for these services. We will continue to offer products within our target segments and in line with our long-term strategy, although new customer acquisition may be lower than previously expected in the near-term. We will also continue to develop our propositions and digital servicing capability to respond to greater customer demand for these services, while looking to optimise our balance sheet mix over the medium-term.
While competitive intensity has temporarily reduced in the short term, with a helpful widening of margins in mortgages in particular, we remain cautious in our assumptions around the long-term outlook as the environment normalises. With mortgage pricing influenced in part by capacity constraints, there is a risk that when capacity eventually returns pricing reverts to lower levels given the lower swap rate environment and a number of incumbent banks that retain significant liquidity surpluses. In addition, while neo-banks have suspended their more ambitious growth plans for now, we may see these return in time and also new entrants to the UK banking marketplace, for instance large American banks, or the technology giants. As such we continue to expect that UK banking will remain highly competitive over the medium term.	**Our medium-term strategy remains unchanged.** While the environment is more challenging than when we outlined our strategy at our Capital Markets Day in June 2019, our strategic pillars remain the right ones, albeit we will re-prioirtise their delivery. Our focus therefore remains on reducing our cost base, improving our customer and colleague experience, improving our capital efficiency and optimising our balance sheet mix over time. Through this, and developing our agile and innovative digital capability and outstanding customer service, we will aim to differentiate ourselves in the market through utilising the Virgin Money brand. This will be key to competing effectively and sustainably in a rapidly evolving competitive marketplace.
It is clear that COVID-19 has accelerated the existing trend towards digitisation in banking, which will support greater cost-efficiency and better service for customers. The pandemic has unleashed what appears to be a significant acceleration of the digitisation of the banking industry in the space of a few months and is likely to lead to rapid change over the coming years as the industry rapidly adapts to customers' evolving behaviours. In addition, the trends set in motion on home working also appear set to persist in the long term, with lower demand and requirements for space for traditional office working, and more flexible employment practices likely to become the norm. Across the industries we lend to in our Business portfolio, the impacts of digitisation on operating models and supply chains are likely to be varied but significant and will here also require us to adapt to support their needs.	**Our strategy had always been predicated on a significant digital transformation, with the implications of the pandemic both supporting that ambition, but also accelerating the timeframe for delivery.** The Group is therefore continuously evaluating the timetable and investment profile of its strategy, but the forward economic environment needs to stabilise before we are in a position to give detailed medium term guidance. The Group is however continuing with its investment and digital development in the near-term to position us for the future. We have learnt a great deal about remote digital development and the agile deployment of new technology, which we can take forward in our quest to disrupt the status quo. It is also likely that we will have opportunities to reduce our physical footprint and property and travel costs over the medium to long term as the operating environment evolves.
Although the short to medium-term outlook for the economy remains uncertain, we anticipate that as the environment normalises, so will the regulatory framework. Depending on the severity of any impacts from credit losses, there will be a time period over which banks will be expected to normalise their capital bases, repay government support and normalise approaches to customer forbearance.	**We will continue to operate with an appropriate capital base that supports the shape and strategy of our business.** We will also ensure we maintain our disciplined risk approach and look to optimise the Group's capital base as we seek to deliver sustainable returns over time. We will be ready to resume and engage with supervisory activities as they normalise in due course, including preparing for the ACS stress testing, building a buffer above our end-state Minimum Requirement for Own Funds and Eligible Liabilities (MREL) having met our minimum requirement already and meeting our enhanced regulatory requirements as a new Tier 1 bank.

Our strategy remains the right one

2020 marks a uniquely challenging year with a similarly challenging economic outlook, but we believe our strategy remains the right one to maximise value for our stakeholders over the medium term.

The right strategy for a challenging outlook
Since launching our refreshed strategy at our Capital Markets Day in June 2019, the environment has changed materially. The impacts of COVID-19 and the associated deterioration in the UK's economic outlook represent an additional challenge for all banks, as does the ongoing lower interest rate environment. However, against this backdrop, we believe our strategic priorities continue to be the right ones to underpin our ambition to disrupt the status quo.

A renewed focus on delivering our efficiency goals and building seamless digital capability to delight customers and colleagues remain core to delivering a compelling proposition and leveraging the strength of our brand. Continuing to deliver our Environmental, Social and Governance (ESG) commitments and operating in a sustainable way will also be important in how we operate and grow over the coming years.

The Board believes that, assuming no significant further deterioration in expectations for the economic outlook or change in interest rates, Virgin Money has a clear path to delivering double digit statutory returns on tangible equity over time.

Despite the challenges 2020 has posed to our customers, colleagues and communities, we continue to be well placed to play our part in the recovery. Delivering our strategic priorities remains the key to disrupting the status quo and we are more focused than ever on delivering on our strategic ambition."

David Duffy
Chief Executive Officer

Our Purpose and ambition drive our strategic priorities bringing value to our stakeholders

Making you happier about money

Disrupting the status quo

Strengths of a major bank

- Primary relationships
- Trusted brand, loyal customers
- Full personal and business offering
- Multiple distribution channels
- Digital capability and Open Banking
- Multi-product customers

Better than both MONEY

Strengths of a neo bank

- Innovative brand and edge
- Customer lifestyle intelligence
- 'Pay and play' functionality
- Innovative digital platform
- Digital money-management tools
- Limited back-end legacy systems

Our strategic priorities

Super straight-forward efficiency

- Realise transformation synergies
- Digitise and simplify the business
- Streamline our operating model

Pg 9 KPIs

Delighted customers and colleagues

- Enhance the customer experience
- Encourage digital adoption
- Colleagues delivering our Purpose

Pg 10-11 KPIs

Discipline and sustainability

- Maintain a disciplined risk approach
- Optimise the Group's capital base
- Deliver sustainable returns

Pg 12 KPIs

Pioneering growth

- Reshape balance sheet mix
- Grow margin accretive assets
- Grow low-cost relationship deposits

Pg 13 KPIs

Our stakeholders

Find out more Pg 61

Super straightforward efficiency

Realise transformation synergies

Digitise and simplify the business

Streamline our operating model

KPI	Our 2020 performance
Remain committed to material net cost reductions over the medium term with updated KPIs to follow when the environment stabilises	£917m (£947m 2019) Underlying operating costs
	59% (57% 2019) Underlying cost:income ratio (CIR)
	£139m (£156m 2019) Restructuring costs

What has COVID-19 meant for Super straightforward efficiency?
We remain committed to delivering significant net cost reductions and improved efficiency despite the impacts of COVID-19. After initially pausing our transformation programmes as the pandemic emerged, we restarted their delivery in July after assessing the impacts.

Despite COVID-19, our cost base for the year continued to reduce as the Group delivered further net cost savings through reduced headcount, third-party spend savings and integration benefits. We reduced our underlying cost base by 3% to £917m in line with our guidance for <£920m in FY20. However, this is inclusive of £14m of additional in-year costs related to COVID-19.

As the pandemic emerged, we responded quickly to the changing environment with around two-thirds of employees moving to remote working and providing additional support to those colleagues who were designated key workers and continued to work in their normal location.

Our ability to deliver substantial change quickly hasn't been limited to our colleagues, we rapidly delivered new end-to-end digital processes to support government-guaranteed loan schemes like CBILS and BBLS applications as well as digital solutions to support payment holiday applications.

Historically, change like this might normally have taken months, but it was delivered in a matter of weeks. The learnings from this sort of agile development are influencing our ongoing change management processes as we continue to execute our strategy.

Longer term, the implications from the pandemic are still emerging and it's likely to take some time to get clarity. Customer demand for digital solutions increased significantly as lockdown was imposed and the pandemic appears to have accelerated the digitisation trends that were already impacting the industry.

COVID-19 has reinforced our belief that an efficient cost base, deploying digital solutions and increased automation are key elements of our strategy to support us in our ambition of disrupting the status quo.

What else have we achieved in 2020 and what progress did we make on our KPIs?
Despite the impact of COVID-19 we delivered net cost reductions of c.£30m after absorbing £14m of incremental COVID-related costs, to deliver underlying FY20 costs of £917m.

While COVID-19 did set back the timing of some of our planned 2020 cost reduction programmes, we continued to simplify our operating model through organisation redesign as we bring teams and structures together, further systems integration and the start of rebranding our products under the single Virgin Money brand.

The income outlook is undoubtedly more challenging than at the time we set the targets in June 2019. We are taking measured and appropriate action to deliver greater efficiency across the division while underpinning an improved customer experience but expect a continued improvement by delivering our strategic priorities.

Given the timing of restarting our cost reduction programme and the timing of delivery of the benefits of our transformation programme, we'll see a continued benefit in 2021 from the changes delivered this year.

We have made good progress towards the straightforward, single brand of Virgin Money. As part of this work, where we used to provide a service to supply Clydesdale Bank-branded banknotes to certain institutions, this service is now being taken forward by other Scottish banknote issuers. However, we continue to dispense Clydesdale Bank notes from our Scottish stores and ATMs.

How will we achieve Super straightforward efficiency in 2021?
A combination of the actions taken in 2020 and the actions we will take in 2021 will continue to drive costs lower in FY21. We anticipate total underlying operating costs of <£875m in FY21 which will still include c.£10-15m of COVID-19 related costs that we expect to incur next year. To deliver this continued net reduction we anticipate incurring c.£75m of further Integration and Transformation costs in FY21.

Longer term, across the Group, one of the key takeaways from 2020 has been that we have the ability to accelerate our digitisation and deliver change at a much faster pace than we thought possible. As we continue to simplify the business and focus on greater automation, these learnings continue to leave us well placed to deliver future change programmes more quickly.

As we continue our cost reduction journey, we will continue to invest in the platform and in 2021, the benefit of the actions already taken will become increasingly visible as we deliver a simpler and more automated platform to support our future growth ambition and fulfil our Purpose of 'Making you happier about money'.

Delighted customers

Enhance the customer experience

Encourage digital adoption

KPI	Our 2020 performance
Top 3 In CMA business and personal banking service quality rankings over medium term	**9th** Virgin Money – personal (9th Yorkshire, 12th Clydesdale 2019)
	6th (5th 2019) Yorkshire – Business
	8th (9th 2019) Clydesdale – Business
>75% Personal digital adoption over medium term	**56%** (51% 2019) Digital adoption

What has COVID-19 meant for Customers?

The pandemic meant that customers' needs shifted dramatically. For those customers who were directly impacted, their focus was on accessing help and support, while those not impacted directly also changed focus towards saving and repaying debt. Therefore what it meant to be a delighted customer changed, with for instance, quick and easy digital access to a payment holiday now required, or detailed advice on available support from our Business Relationship managers. We also gave support to both customers and non-customers through our ground-breaking 'Money on Your Mind' advice service, with over 6,500 questions responded to since its launch in April and over 10m customer views to date.

Prior to the pandemic, we made significant strides in developing our approach to customers, seeking to understand customer frustrations and using best practice insight into the importance of emotional connection in delivering a differentiated customer experience. This is a crucial aspect within our Virgin Money Values and Purpose, which compel us to do things differently to the banking norm, putting customers at the heart of what we do.

This prepared us well for the demands of the pandemic, as is apparent in the reactions captured in our customer satisfaction data. We saw Relationship Net Promoter Score (NPS) and Smile scores improve dramatically around the onset of COVID-19, reflecting the support offered along with the compassionate and emotionally resonant way in which we sought to engage with customers. A prime example was in our Business division where customer satisfaction scores improved from 27% pre COVID-19 to 38% in Q3 2020.

What else have we achieved in 2020 and what progress did we make on our KPIs?

While we measure customer experience quality in numerous ways and across various activities, we have two main, ambitious metrics which we are aiming to deliver on – top three positions in the Competition and Markets Authority (CMA) service quality rankings and growth in digital adoption.

On the CMA front, we entered the Personal rankings as Virgin Money for the first time this year, following the launch of the Virgin Money PCA and rebrand of our 'B' current account proposition (the customers surveyed were our former B customers). While the headline 9th position does not appear a significant improvement on previous performance, this year's rankings now include two neo-banks in the top two positions. In comparison to our more natural competitors and the market we are targeting for disruption – high-street full-service incumbent banks – we fared well, with our score of 60% sitting towards the higher end of that group. That group is tightly clustered, meaning we have a clear opportunity to differentiate our performance in future through delivering on our pipeline brand, service and proposition improvements.

Our Business CMA scores remain under our heritage brands for now as the Business division focused on supporting existing customers through the pandemic. As the environment normalises and we rebrand and launch our new BCA in 2021, we would expect to see future improvement in our position under the Virgin Money brand.

Digital adoption among PCA customers improved to 56%, up from 51% in 2019. While this partly reflects the development of enhanced online facilities, we recognise that social distancing requirements will have been a supportive tailwind in encouraging more customers to use our digital services.

Finally, our work on customer experience and our innovative, pioneering 'Smile' score have been recognised through our being finalists in the UK Customer Satisfaction awards, and finalist in three awards in the 2020 'Customers at the heart of everything' awards – for best customer experience in financial services, best use of insight, and best use of feedback for 'Money on Your Mind'.

How will we Delight our customers in 2021?

We will build on the foundations laid during 2020, and continue to develop our customer experience, propositions and digital services. This will include the delivery, roll-out and full marketing of developments which we paused this year due to COVID-19.

We should also recognise that the economic environment may make it more challenging to delight customers, against a background of upheaval, and potentially higher unemployment and economic disruption. We will of course continue to provide empathetic, practical and simple support to our customers. We strongly believe that difficult times are an opportunity to really build a long-lasting customer relationships and value, and to tangibly demonstrate our commitment to living our Purpose of 'Making you happier about money'.

Delighted colleagues

Colleagues delivering our Purpose

KPI	Our 2020 performance
Maintain and improve colleague engagement	79% (76% 2019) Colleague engagement
40–60% Senior gender diversity over medium term	43% (36% 2019) Senior gender diversity

What has COVID-19 meant for Colleagues?
2020 has presented significant challenges and we are particularly proud of the way in which our colleagues have responded. Moreover, we are delighted that we have been able to deliver on, and in many respects, surpass our planned colleague agenda for the year.

We introduced our Purpose, Values and Behaviours in 2019 and our aim for 2020 was to truly embed these across the Group. Our response to the pandemic has accelerated our progress, and our Purpose of 'Making you happier about money' has been at the heart of decision making, and is firmly rooted in our DNA. Having a clear Purpose has been important both in terms of how our colleagues have responded to the needs of our customers, and how we have responded to the needs of our colleagues.

The safety and well-being of colleagues is always our top priority, and the pandemic has reinforced how important it is that we look after each other. We quickly made the decision to temporarily suspend reorganisation activity and committed to maintaining full pay without utilising the government's furlough scheme, enabling colleagues to focus on customer service. We acted swiftly to enable and support around 6,000 colleagues to work remotely, while providing a safe, socially distanced working environment for around 3,000 key workers in stores and call centres. We also provided additional assurance and support to vulnerable colleagues and led a series of sessions to help colleagues and people leaders deal with the challenges of COVID-19.

What else have we achieved in 2020 and what progress did we make on our KPIs?
Maintaining the flow of communication with colleagues has been more important than ever, enabling us to understand how colleagues were feeling as they adapted to new working practices and how we could better support them. In addition to our annual engagement survey, we ran frequent 'pulse' surveys and online 'jams' in which almost half of all colleagues have participated. Making our Leadership Team 'Let's Talk' sessions digital has also widened their reach, particularly for our store colleagues.

We developed our organisational structures to enable faster and more dynamic ways of working, and enhanced our digital capabilities to improve the working environment for colleagues.

As a result of our focus on supporting and delighting our colleagues, despite the challenging environment we were pleased to report an improved Colleague Engagement score of 79% (2019: 76%).

Inclusion remains at the heart of our culture and we use both formal policies and inclusion networks to help support colleagues to be themselves at work. As signatories to the Women in Finance Charter, we are committed to measuring our progress in improving our gender balance. We are pleased to have exceeded our target this year for the composition of our senior leadership team:

	Female	Male
Board members	3 (33%)	6 (67%)
Senior manager (excluding Executive Directors)	39 (44%)	50 (56%)
All colleagues	5,252 (59%)	3,650 (41%)

Our mean gender pay gap has improved to 30.6% in the 12 months to 5 April 2020 from 32.0% in the prior year. More details on our 2020 outcomes and our strategy in this area are published at www.virginmoneyukplc.com/corporate-sustainability/inclusion/.

While we sustain our focus on gender diversity, the Black Lives Matter movement encouraged us to review our overall inclusion approach. We've refreshed our strategy and put in place a comprehensive action plan which includes publishing our new inclusion pledge, rolling out training for colleagues, signing the Race at Work Charter and putting in place plans to broaden our pay gap reporting to include other protected groups during 2021.

In 2020, we maintained our Disability Confident Employer status, demonstrating our commitment to creating an inclusive working environment for colleagues and applicants with disabilities.

How will we Delight our colleagues in 2021?
We will continue to ask a lot of colleagues in 2021 with ongoing transformation activity alongside the challenges presented by the current environment. Throughout we will be guided by our Purpose in the support we provide to our colleagues.

We will also develop our colleague proposition as we look to build 'A Life More Virgin', which is our ambition to create a next generation work-life model, transforming how our people work, creating an enhanced, flexible working environment, responding to the developing trends, benefits and challenges of remote working.

Discipline and sustainability

Maintain a disciplined risk approach

Optimise the Group's capital base

Deliver sustainable returns

KPI	Our 2020 performance
Cost of risk KPI will be reviewed subject to the stabilisation of the post-COVID-19 environment	**68bps** (21bps 2019) Cost of risk
Risk scorecard Includes KPIs such as cost of risk, operational risk losses, complaints and adherence to lending policies	**On track** (On track 2019) Risk scorecard status
Common Equity Tier 1 (CET1) ratio target KPI will be reviewed subject to the stabilisation of the post-COVID-19 environment	**13.4%** (13.3% 2019) CET1 ratio
Statutory RoTE Assuming no further deterioration in the economic or rate environment, VM has a clear path to delivering a double-digit RoTE over time	**(6.2)%** ((6.8)% 2019) Statutory Return on Tangible Equity (RoTE)
Progressive and sustainable ordinary dividend	**No dividend** in 2020

What has COVID-19 meant for Discipline and sustainability?

COVID-19 has caused unprecedented volatility in economic forecasting and has negatively impacted the economic outlook in the UK substantially. At 68bps, cost of risk for FY20 is materially higher than FY19 reflecting the Group increasing its provision coverage levels from 0.50% in FY19 to 1.02% at FY20.

Economic assumptions used in the Group's IFRS 9 modelling of ECL have become progressively more conservative throughout 2020 and now incorporate a 15% weighted average GDP decline in 2020, a c.10% weighted average peak rate of unemployment in 2021 and a c.22% weighted average peak-to-trough fall in HPI. In addition, the probability weightings have been skewed to the more conservative scenarios (50% base and 45% downside) and overlays applied.

In aggregate, these actions have increased the Group's on balance sheet credit provision to £735m resulting in materially higher P&L impairment charges of £501m for the year, contributing to a statutory loss after tax for the Group in FY20 and negative statutory RoTE.

Despite making a statutory loss, the Group's transitional CET1 ratio increased 10bps over 2020 to 13.4%, as the benefit of IFRS 9 transitional relief and the Group's Excess Expected Loss (EEL) deduction offset the impairment impact on capital.

What else have we achieved in 2020 and what progress did we make on our KPIs?

2020 was an unexpectedly challenging year as the economic outlook materially changed and the cost of risk increased to 68bps as we took a conservative approach to our provisioning assumptions.

The other key characteristic of 2020 has been the unprecedented levels of government support that have been provided to customers in the form of government-guaranteed lending but also via the furlough scheme. These schemes have been effective in mitigating the worst short-term impacts on customer credit quality, however the extent of the impact as these schemes come to an end is currently uncertain and will take time to become clear.

We, alongside other UK banks, have seen customers saving more and opting to maintain significant current account balances in anticipation of the end of government support. This has meant strong growth in our low-cost relationship deposit base, a targeted area of growth for the Group. We remain cautious on the short-term outlook for these balances as they remain dependent on customer behaviour over the coming months and quarters.

Throughout the year the Group has also further enhanced its risk management approach given the deteriorating economic environment with a significant tightening of risk appetite for new lending and enhanced monitoring of the portfolios for signs of distress, with our risk scorecard remaining on track.

How will we achieve Discipline and sustainability in 2021?

While the outlook remains highly uncertain given the potentially wide range of economic outcomes from COVID-19, the primary drivers of a sustainable improvement in our RoTE remains within our control once the economic environment stabilises. Our ability to deliver cost-efficient growth, an improvement in the mix of our portfolios and greater capital optimisation will all remain in focus for 2021.

The Group's recognition of significant impairment charges in FY20 reflects the conservative weighted economic scenarios and expert judgement overlays applied ahead of the expected deterioration in future economic outlook. Current expectations are that, subject to no further material deterioration in the economic outlook, the Group's FY21 cost of risk will be lower than that for FY20.

We are also targeting a number of positive balance sheet management initiatives designed to support CET1 capital levels in 2021. We have identified initiatives that, subject to regulatory approval, could reduce the Group's risk-weighted assets (RWAs) in 2021 including our planned migration to credit cards IRB, improvements in our business models and the implementation of hybrid mortgage models. While they do remain subject to regulatory approval, they are likely to partly mitigate the expected headwinds from RWA inflation associated with credit rating migration, meaning the Group expects only a modest increase in RWAs in FY21.
In addition, the Group has tightened its risk appetite to ensure future underwriting fully recognises the evolving economic environment.

Finally, the Group expects that with lower expected future provision charges and a continued reduction in exceptional charges, the Group's profitability and returns will improve as it executes on its strategy, supporting our ambition for delivering progressive and sustainable dividends to our investors in the medium term.

Pioneering growth

Reshape balance sheet mix:
– Grow margin accretive assets
– Grow low-cost relationship deposits

KPI	Our 2020 performance
c.75% medium term Mortgages	81% (82% 2019) Mortgages
c.15% medium term Business	12% (11% 2019) Business
c.10% medium term Personal	7% (7% 2019) Personal
Above system asset growth medium term	(0.7)% (2.9% 2019) decline
High single-digit CAGR in relationship deposits medium term	20% (7.1% 2019) Growth in relationship deposits
<115% medium term Loan to deposit ratio	107% (114% 2019) Loan to deposit ratio

What has COVID-19 meant for Pioneering growth?
The pandemic disrupted the UK banking market with lending demand significantly lower in the second half of 2020. This, and our focus on supporting existing customers, meant that our growth and the strategic activities to support it have not progressed as planned.

As the pandemic hit, customers reduced spending and borrowing on personal credit, while the new purchase mortgage market effectively shut down for a period. Impacted businesses focused on how to survive through a period of great uncertainty, taking advantage of government support and lending schemes offering borrowing on favourable terms. Meanwhile, due to lower spending and customer prudence, deposit holdings across the UK increased markedly.

We reacted quickly to meet new customer needs for support, offering advice, payment holidays, and for our business customers, providing swift and easy access to the new government lending schemes. We did all of this using innovative, digitally-led processes.

The pandemic impacted on our ability to develop and market some of the propositions we had planned to launch this year. This included our partnership development work as businesses across the UK focused on their own COVID responses, but the opportunities for partnerships remain significant and we will revisit these again in time.

Within Virgin Money, we have been able to launch a number of new customer propositions despite the disruption – the first ever Virgin Money digital PCA, a market-leading basic bank account called 'M', and rebranding our Personal Loans offering as Virgin Money. Given the environment, we did not deploy significant marketing spend to support these launches, but still saw positive customer interest and encouraging take-up. Similarly, given the environment in the Business banking market, we paused the full rebrand of our heritage brands and launch of the new BCA.

What else have we achieved in 2020 and what progress did we make on our KPIs?
Strong demand for business lending through the government schemes (£1.2bn) in the second half saw business lending balances increase to 12% of the lending mix. While Personal lending also grew strongly in the first half, balances were impacted by COVID-19 in the second half as customers repaid debt and reduced spending, although we did see a partial pick up in volumes as lockdown eased over the summer.

In Mortgages, while we actively supported the return of the mortgage market post-lockdown, with innovations including our Home Buying Coach app for first time buyers, and providing products into higher LTV segments, we remained focused on optimising rather than growing, allowing the mortgage book to contract 3% in FY20.

On deposits, the initial launch of the Virgin Money current account was the major development, and despite limited marketing, the proposition was attractive enough to garner industry expert recommendations and encouraging customer interest. Business customers also built up deposit balances, often from storing government-guaranteed lending on deposit as a contingency.

These trends contributed to an unexpectedly strong level of growth in relationship deposits during 2020 of 20%. We expect some of these deposits to fall away over 2021 as customers potentially utilise cash under stress or as spending normalises. This means we would not expect a similar level of deposit growth to persist, but gives us a helpful tailwind in managing our mix and our reducing cost of funds in 2021.

How will we achieve Pioneering growth in 2021?
We will continue to support customers as they manage the impacts of COVID-19 and will also advance our broader strategic agenda.

In Mortgages, we will continue to optimise the division, offering excellent service to our customers, and focusing on more attractive segments where we can maximise risk-adjusted returns.

For Personal customers, having launched a host of attractive Virgin Money branded propositions in 2020, we will seek to develop and market these more actively when the time is right, ensuring a strong return on our investment and driving new customer acquisition. We will also develop partnerships to further build the attractiveness of our propositions to customers.

In the Business division, we plan to carry out the strategic initiatives we had to pause in 2020, such as rebranding to Virgin Money and launching our new and improved BCA. These will be supported by the £35m CIF grant from the BCR scheme which we will match-fund.

These and other innovative digital-led initiatives will allow us to continue to optimise our balance sheet mix in the medium term. However, significant uncertainty about the economic outlook and customer behaviour means we remain cautious in our expectations for customer demand and spend patterns in 2021.

Disrupting the status quo

We create value through our simple, UK-focused, disciplined and digitally-enabled business model.

What we do and where

We are the UK's 6th largest bank serving 6.5m customers, in the retail and small and medium sized business banking markets

Mortgages

Providing mortgages that meet customers' individual needs, from first-time buyers to landlords, both direct and through intermediaries

Personal Banking

Meeting everyday banking needs for current accounts, linked savings and other deposit accounts such as ISAs, along with credit cards, personal loans and overdrafts

Business Banking

Offering a full range of business banking products for small and medium-sized businesses, through our unique sector-focused relationship management proposition

Supporting society

The Virgin Money Foundation (VMF) supports grant making at a grassroots level in some of the most deprived areas of the UK, while our not-for-profit Virgin Money Giving (VMG) platform helps charities raise money cost-effectively

Key sources of value

People with Purpose

Powered by our Purpose, our colleagues have many years of experience in delivering great outcomes for customers in different contexts

Highly-trusted brand

The Virgin Money brand is nationally recognised and highly trusted, known for its customer focus and disruptive DNA, attracting strong customer awareness and consideration

Digital leadership

We have invested significantly to develop an innovative, scalable Open Banking-ready digital platform that supports all of our customers in one place

Full-service capability

We have full product capability, a track record of delivery and meaningful customer penetration in each of our key markets, with room to grow further

Strong relationships

We leverage strong relationships with our stakeholders comprising our 6.5m customers, c.9,000 colleagues and across the communities we operate in, as well as with investors in both the equity and debt markets, and the government and regulators

Driven by our operating model

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

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

Personal
Customer deposits

Businesses
Customer deposits

Investors
Wholesale funding/capital

We support our customers

Banking operations
Payment and transaction banking systems, branches, contact centres, customer service, product manufacture and operations, including digital facilities

Risk management
Overseeing a range of risks, including Operational, Credit, Financial, Strategic, Conduct, Capital, Liquidity and Funding within our prudent risk appetite

Liabilities costs us interest

-£

How we make money

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

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

Operating costs ...minus the costs of running our bank

What makes us different?

Purpose

Our Purpose, 'Making you happier about money' gives us a unique and clear guiding principle to drive our actions

Values

We operate with the unique customer-centric Virgin Group Values which help drive our culture and inform how we act and deliver for our customers

Brand

An innovative consumer champion brand that gives us the opportunity to disrupt the status quo in banking

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

...to deliver customer lending (assets) and other services through these divisions

Mortgages

Personal

Business

through bringing together our capabilities across:

Governance and oversight
As a Tier 1 bank we must adhere to stringent prudential and conduct regulations and maintain appropriate capital and liquidity levels in line with regulatory requirements

Resilience and security
Ensuring a resilient IT infrastructure, protecting the bank and our customers from cyber threats, fraud, theft, financial crime and more

Sustainability
Embedding sustainability into all our business practices and building and operating a bank for the long term to enable us to be a force for good

Assets earn us interest and fees

+£

Tax

Profit

...minus tax

...leaves us with profits or newly generated capital and TNAV

...to enable further business investment and growth as well as supporting potential dividends to investors

Innovation
Developing innovative solutions for our customers through leveraging our digital platform and partnering with others

Market position
Focused on the UK banking market, bringing together the best of both the scale, trust and products of a major bank, together with the innovation, nimble agility and edge of a neo-bank

Disruption
Our ambition to disrupt the status quo is underpinned by our resources, mindset and the unique combination of advantages we possess

And delivering for our stakeholders

Customers
Delivering great value products, and an outstanding customer experience – Making you happier about money (see p.10)

Colleagues
Providing meaningful careers, development and an inclusive and ambitious culture (see p.11)

Society
Contributing taxes and enhancing UK banking competition, along with a progressive sustainability and ESG agenda (see p.16)

Investors
Aspiring to improve our returns, grow net asset value and to pay sustainable dividends over time

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

Government and regulators
Working with government and regulators to support their objectives for a stable, customer-focused banking system

Delivering success for all our stakeholders:

Section 172 statement

In undertaking its duties, the Board continues to be mindful of the need to appropriately balance the interests and expectations of the Group's various stakeholders. In this report, we describe how we have considered and worked with and for stakeholders as we seek to achieve our purpose of 'Making you happier about money'.

For our Section 172 statement, and more on how the Board has engaged with our stakeholders, please see page 61

Strong foundations for a sustainable future

At Virgin Money, our ambition is to drive positive social and environmental impact through everything we do to disrupt the status quo.

COVID-19 presented our business and the communities we serve with significant challenges and opportunities. This, at a time of increasing need for an effective global response to the issues facing our planet, gave us the opportunity to re-focus our approach to ESG issues and consider both our immediate priorities and longer-term aspirations.

Following a review of customer insight research and engagement with colleagues and suppliers, we refreshed our ESG strategy, setting new goals, near-term targets and bold aspirations in areas where we know we have more to do and want to push harder. Alignment of the ESG strategy to the overall Group strategy, as well as setting clear accountabilities for ESG, linked to reward, provides the foundation to firmly and deeply embed ESG in everything we do.

We are focused on where we can make the biggest difference to the environment and society, as a Purpose-led business dedicated to Making you happier about money.

As a signatory to the United Nations' Principles for Responsible Banking (UN PRB), we are committed to aligning our business with the Sustainable Development Goals (SDGs) and the Paris Agreement on Climate Change.

Our ESG goals and aspirations (see following pages) were developed in line with our Group strategic objectives (see below).

Read more at: virginmoneyukplc.com/corporate-sustainability

Our Purpose and ambition drive our strategic priorities:

	1	2	3	4
Big goals	**Put our (carbon) foot down**	**Build a brighter future**	**Open doors**	**Straight-up ESG**
ESG principles	Reduce the negative impacts of our operations, suppliers and partners on society and the environment	Deliver products and services that help our customers make a positive impact on society and the environment	Work with customers, colleagues and communities to encourage sustainable practices and economic activity that creates shared prosperity	Align our strategic goals to ESG and embed them in all areas of the business with robust targets, tracking and disclosures
Group strategic pillars	Super straightforward efficiency	Pioneering growth	Delighted customers and colleagues	Discipline and sustainability

ESG ambition

To drive positive social and environmental impact through everything we do to disrupt the status quo

Group purpose & ambition

Purpose: Making you happier about money

Ambition: Disrupt the status quo

Key – ESG alignment

(E) Environment (S) Social (G) Governance

(E)

1

Put our (carbon) foot down

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

Fast facts

1.70
GHG emissions intensity ratio*, a reduction from 1.95 in 2019

Zero landfill
No waste sent to landfill

100%
100% of our electricity is generated from renewable sources where the Bank is responsible for the supply

▼ 7%
Scope 1 and 2 emissions reduction from 2019

▼ 31%
Reduction in paper use since 2019

SDGs

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION

2030 aspirations

Net zero operational and supplier carbon emissions

Short to medium term targets
5% reduction in operational carbon emissions by 2021 from 2020 baseline
(Baseline: 2020 Scope 1 and Scope 2 carbon emissions of 14,320)

>75% of our top 100 suppliers to complete the CDP Supply Survey in 2021
(Baseline: 76% of top 45 suppliers completed the CDP Supplier Survey in 2020)

* Note: Intensity ratio of Greenhouse Gas (GHG) Emissions per average Full Time Equivalent (FTE) for our operational emissions (scope 1 and 2 emissions)

Net zero waste, operational and supplier emissions by 2030

We have made good progress this year in better understanding our carbon emissions and building our net zero road map. We have a clear plan for a steady reduction in operational emissions (scope 1 and scope 2) over the next five years and are undertaking energy efficiency and carbon reduction initiatives including significantly reducing the number of our data centres. However, we know we have levers we need to pull to reach net zero by 2030 and will be developing these initiatives over the coming year.

The changes to our working model in response to COVID-19 have helped the Group to decrease its energy footprint. Our corporate travel fell by almost 100% and our operational energy use by over 15% from April 2020 to September 2020 compared to the same period in 2019. As we build our vision for a Life more Virgin (our future working model), we plan to harness the positive environmental impacts from COVID-19 and will strive to minimise our personal and corporate energy consumption through reduced corporate travel, commuting and our ongoing energy efficiency programme. For further detail on our GHG emissions check out page 110.

The planned expansion of our digital capabilities will also reduce our impact on the environment by enhancing internal systems and customer processes to increase efficiency and deliver service improvements. This will mean a reduction in paper and allow us to make better use of our physical property space for collaboration and further innovation.

Carbon Disclosure Project (CDP) Supplier Survey on Climate Change

Over the next year we will be working to better understand our indirect (scope 3) emissions and build out a roadmap to reduce the emissions linked to our suppliers and partners. This year, we asked 45 of our largest suppliers to complete the CDP Supplier Survey on Climate Change, which 76% completed against a CDP average of 68%. We intend to send the survey to our top 100 suppliers in FY21, targeting a 75% response rate, supported by proactive engagement on our suppliers' carbon management plans.

We know we need to do much more to meet our aspirations. While our plans for this continue to move us in the right direction, our 2030 aspirations are, well, aspirational. We don't yet have all the answers on how we'll get there and we're still developing our vision for the future model of work, which is one of the major levers we can pull to reduce our operational emissions.

This next year is all about building our data and understanding, to then be clear on our priorities, roadmaps and milestones out to 2030 – and what more we need to do to meet our aspiration.

Strong foundations for a sustainable future

E S

2

Build a brighter future

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

Fast facts

£150m
in renewables lending (hydro-electric power generation, wind farms and other renewable energy)

Greening your home content
Developed for our first-time buyers to be made available through our Home Buying Coach App

https://uk.virginmoney.com/mortgages/home-buying-coach/

Aligning lending to ESG goals
Developed Sensitive Sector Policy Statement

https://www.virginmoneyukplc.com/corporate-sustainability/sensitive-sector-policy/

100
businesses have taken part in our Sustainability Benchmarking Tool pilot

https://www.virginmoneyukplc.com/corporate-sustainability/future-fit/

SDGs

8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES

2030 aspirations

At least halving our carbon emissions across everything we finance

Short to medium term targets
5% of business loan book comprised of sustainable leaders by FY22
(Baseline: c.2.8% of business lending to sustainable leaders based on pilot of beta Sustainability Benchmarking tool)

Short to medium term targets for our mortgage book are under development

Agriculture

Virgin Money lends more than £1.5 bn to the agriculture sector in the UK and is at the forefront of helping the sector meet its commitment to become net-zero by 2040. We have a dedicated team of specialist relationship managers who support farmers with investment in more extensive and lower carbon production systems. By supporting our customers' investment in agricultural technology (Ag-tech), we are also helping to reduce the carbon footprint in the sector and safeguard food security and local supply.

We want to empower our customers to take control of their money, providing innovative tools, products and services that help them make sustainable long-term decisions. As part of this, we are aspiring to at least halve the carbon emissions across everything we finance by 2030 and do what is needed to align with the 2015 Paris Agreement. Our starting position is strong with low levels of lending to carbon-intensive sectors (see page 178, risk section) but there remains work to do to fully understand how we will get there. We envisage our approach will incorporate green products and funding, and targeted lending growth as well as addressing residual carbon. We have begun engaging with customers, colleagues and industry forums to accelerate our thinking and build our plans.

Partnership for Carbon Accounting Financial (PCAF)

We have become members of PCAF to work with other UK banks to develop and implement a harmonised approach to assess and disclose the GHG emissions associated with our loans. We are focusing first on mortgages, which make up 81% of our lending, and agriculture, which is 2%. The harmonised accounting approach provides financial institutions with the starting point required to set science-based targets and align their portfolios with the Paris Climate Agreement.

Mortgages

Greening your home
We know we have an important role to play in helping our mortgage customers reduce the carbon footprint of their homes. With 15% of UK carbon emissions coming from heating our homes, we developed information and guides on 'greening homes' which we are making available to first-time buyers through our new Home Buying Coach app, and will expand over the coming months. Our mortgage book presents a sizable opportunity, but our aspiration to at least halve emissions across everything we finance by 2030 is stretching and the pathway to get there is not yet clear across the industry. This year, we have begun work to better understand the carbon intensity of our mortgage book, sourcing energy performance certificate (EPC) data and engaging with external forums, which will help us establish a detailed roadmap for our loan and investment-related Scope 3 emissions.

Business Lending

Future-Fit Development Council
We were the first bank members of the Future-Fit Development Council and have been working with Future-Fit to build a benchmarking tool for businesses to measure their progress against meeting the UN SDGs. The tool will evolve to provide support with tangible improvement actions. We have already piloted the tool with 100 customers to ensure we calibrate it in a way that means only businesses which are deemed to be at the forefront of sustainability can benefit from reduced cost of capital and increased access to finance. Following the pilot, we estimate that 2.8% of our business loans are currently provided to firms whose core activities materially enhance progress against the UN SDGs. This is measured using the beta version of our Virgin Money Sustainability Benchmarking Tool. During the year we will enhance coverage of our commercial loan book and capture and extend the use of the data generated by the tool to measure progress in ESG in our customer base.

Business Banking and renewables
Our Renewable Energy team manages a book of over £100m* and our plans envisage growth in this portfolio to £320m by FY25, projected to be materially in excess of overall loan book growth. Our lending to carbon-intensive sectors is relatively low, and this year we have increased transparency to our stakeholders by publishing our Sensitive Sectors Policy Statement.

* Renewable borrowing covering a diverse range of renewable energy generation, excluding the £50m of lending within the Agriculture loan book advanced specifically to fund renewable energy projects.

3

Open doors

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

Fast facts

over 132,000
young people have taken part in Make £5 Grow since inception

43%
women in senior leadership roles

over £500k
donated during our Charity of the Year partnership with Mencap

£104m
raised for UK charities through VMG in FY20

90%
of the Virgin Money Foundation's (VMF) grants were awarded to organisations in the top 20% of the of the Index of Multiple Deprivation

50,000
people able to take control of their finances with an affordable loan from our partnership with Salary Finance, which are predominately payroll deducted

SDGs

2030 aspirations

Customer: No Virgin Money customers paying a Poverty Premium*

Colleague: Sponsor diverse talent at every level and achieve a fully diverse top-quartile of the organisation (gender, ethnicity, disability, LGBT)

Community: Help 20k charities to raise £2bn since VMG's inception

Short to medium term targets
Customer: Solutions in place to identify and help at least 50% of Virgin Money customers facing a Poverty Premium by 2025

Colleague: 40-60% senior gender diversity over medium term (43% at FY20)

Community: Reach £1bn in fundraising by 2021 through VMG (£896m at FY20)

Modern slavery

Virgin Money has a zero-tolerance approach to slavery, servitude, forced labour and human trafficking (Modern slavery). We are committed to conducting business with honesty and integrity and treating everyone with dignity and respect. We are committed to working with our partners and suppliers to raise awareness and understanding of modern slavery and eliminating the practice from our supply chain.

You can read our Modern Slavery Statement https://www.virginmoneyukplc.com/corporate-sustainability/modern-slavery-act/

* The poverty premium is the extra cost that low income households pay to access basic services. With a UK average of £490 a year, one in ten poorer households pay a minimum of £780.

Our doors are open, and we aim to open doors, when it comes to Making you happier about money.

Customers: Financial inclusion
In July, we launched the Virgin Money M Account, a basic bank account that's far from basic. Offering customers digital servicing, a linked savings account, budgeting tools and an energy switching service, it also provides insights on financial vulnerability and its impact on people's banking experiences. Input was provided from Virgin Money's new Financial Inclusion Panel, which is made up of colleagues who have experience of vulnerabilities through either personal circumstances or caring responsibilities.

FinInc2020

We held our first financial inclusion event, FinInc2020, in July. Around 300 colleagues heard from 30 speakers (virtually, of course), as they shared a wealth of experience and insight on living with vulnerabilities or living without banking. Bringing our Purpose to life, it underlined the importance of being an inclusive bank, helping embed our vulnerable customer strategy and equipping colleagues to better understand the needs of the customers they design for or serve.

Our aspiration is to ensure none of our customers pay a Poverty Premium, by 2030. We are partnering with Fair By Design on this innovative work, which requires smart use of data to identify those customers, as well as providing new, targeted solutions. In the next year we will run a pilot to mitigate energy-related premiums, the biggest driver of overspend for low income households.

As part of our strategy to enhance outcomes for vulnerable customers, we are also embedding an Inclusive Design approach across the bank. This will deliver more progressive products, flexible servicing, tailored communications and well-being support for customers who most need it. One example of this is our Home Buying Coach app, which we will continue to enhance, to support customers' financial well-being.

Colleagues: Diversity & Inclusion
Inclusion is at the heart of our culture, and written into our values. We are striving to build a workforce which reflects the diversity of our customers, helping us better understand their needs, build stronger relationships, and tap into new ideas and innovation. While we've made progress, we know this is a complex challenge and we've got a long way to go. A critical next step is to disclose our current position and targets to help us demonstrate where we are now, understand our barriers and our next wave of actions. See page 11.

Communities: Supporting communities where we live and work
During the financial year, VMF awarded £1.5m to support local people in creating positive change in their community, including £872,000 for local charities responding to COVID-19. Targeting money to communities that need it most in the UK, their grants, along with additional non-financial support, ensures every £1 donated has maximum effect. 2020 has been a particularly challenging year for charities and VMG has provided additional support such as hosting online events and sharing market intelligence to help them combat the impact of COVID-19. As part of our new Charity of the Year partnership with Macmillan Cancer Support, colleagues who help customers in financial difficulty will receive specialist training on the impact of cancer and we will pilot a two-way referral process with Macmillan's financial guidance team. Our colleagues continue to be highly engaged in supporting their local communities, embracing the necessary shift to remote volunteering and adapting our Make £5 Grow programme for home schooling.

Strong foundations for a sustainable future

4

Straight-up ESG

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

Fast facts

ESG scorecard included in the Long Term Incentive Plan (LTIP)	Leadership Team Accountabilities for ESG strategy established
Board Risk Committee oversight of climate change and wider ESG principles through the principal and emerging risk framework	ESG targets included in each functional and division balanced scorecard for FY21

SDG

8 DECENT WORK AND ECONOMIC GROWTH

2030 aspiration

Variable remuneration linked to ESG progress

Short to medium term targets
Long-term incentives appropriately aligned to expanded ESG scorecard by 2022

Financial risk from climate change determined and disclosed for physical and transitional risk sectors by 2022

We take the same approach to ESG as we do to banking; it should be straight-up, heartfelt and relevant.

We have made good progress in embedding ESG into our decision-making frameworks. Our approach is to make sure our principles are transparent, easy to understand, and are used to guide and inform how we do business every day.

Over time, as our ESG strategy evolves, so too will the measures included in our ESG scorecard, ensuring we continue to set stretching targets that drive this agenda at pace and achieve the longer-term aspirations we have set out.

ESG governance

The Board plays an instrumental role in leading our ESG strategy, and this year we have set out a strengthened framework that facilitates dedicated discussions each quarter and embeds ESG into all relevant Board and sub-Board charters. ESG regularly features on the Leadership Team's agenda, and individual members of our Leadership Team sponsor our ESG goals.

We have established a Sustainability working group to act as custodians of our ESG strategy and to drive delivery of all related activities and targets. Working closely with our established Purpose Council, this will ensure our ESG strategy and our Purpose are fully integrated and mutually supportive.

Next year's focus will be on embedding the new ESG operating model and reporting such that our stakeholders can clearly understand how ESG informs our decision making in everything we do.

The Group has low levels of lending to carbon related assets at 0.1% (2019: 0.1%) of the Group's customer lending assets.

We are working to enhance both the way ESG is reflected in credit risk policies and our disclosure of financial risks from climate change.

We aim to provide affordability and transparency in everything we do, while safeguarding customers' data with advanced cyber security and data protection measures.

Task Force on Climate-related Financial Disclosures (TCFD)

We remain committed to developing our disclosures in line with the TCFD recommendations.

TCFD

TCFD focus area	Key progress in FY20	Focus areas for FY21
Governance Read more on pages 20, 110 and 178	Enhanced Board and Management committee ESG/climate risk governance, including refreshed charters and accountabilities.	Regular Board and Leadership Team deep dives planned on ESG, including climate-related risks and opportunities.
Strategy Read more on pages 16-18 and 178	Refreshed ESG strategy with new 'big goals' and aspirations (shaped by UN PRBs), including two focused on climate-related risks and opportunities, which are aligned to the Group's overall strategy and target material areas of the balance sheet: mortgages and agriculture.	Report progress against UN PRB framework. Expand dialogue with customers on climate-related risks and opportunities. Develop scenario analysis capabilities to inform future strategy refreshes.
Risk management Read more on pages 18 and 179	Continued to apply ESG Credit Policy and developed sensitive sectors statement. Analysis undertaken on Mortgages and business lending, including initial flood risk and transition risk analysis.	Expand sensitive sectors analysis to emerging sensitive sectors. Expand/develop the use of data and modelling to inform credit decisions and the customer journey.
Metrics and targets Read more on pages 17-18, 20 and 110	Set stretching aspirations and initial short-to-medium term targets for reduction in scope 1, 2 and 3 emissions as well as growth in low-carbon opportunities. Developed ESG balanced scorecard. Included scope 1 and 2 emissions in LTIP.	Develop roadmaps and interim milestones for moving towards our 2030 aspirations. Embed and expand ESG scorecards. Take part in industry-led forum to advance our carbon accounting and the setting of science-based targets.

Managing social and environmental challenges

Latest ESG index scores and non-financial reporting

ESG index scores

MSCI	BBB
Sustainalytics	27.5
CDP	C
DJSI	52/100

We are committed to managing ESG across our business. The Group has low exposure to sensitive sectors. This includes resources such as coal, oil and gas and identification of restricted and high-risk industries such as unregulated gambling activities, weapons subject to treaties and conventions, or nuclear-related activities. Policies will be reviewed in line with the continued development of our sustainability activities.

Non-financial reporting

As we develop more comprehensive disclosures in line with emerging recommendations and principles, we aim to continue to comply with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. The below table is to help stakeholders identify where they can find all relevant non-financial information in this report and online.

Non-financial reporting information

Reporting requirement	Policies and standards which govern our approach	Risk management and additional information			
Environmental matters	Environmental Reporting Policy Sustainability Policy	Being a force for good How we manage risk Stakeholder engagement	pg 16 to 21 pg 22 to 27 pg 61 to 63	Sustainablity Climate risk	pg 110 pg 178 to 179
Colleagues	Colleague Conduct Policy Fit and Proper Policy Health and Safety Policy Whistleblower Policy Physical and Personal Security Policy Inclusion Policy	Delighted colleagues Being a force for good How we manage risk Stakeholder engagement	pg 11 pg 16 to 21 pg 22 to 27 pg 61 to 63	People risk Corporate governance report Whistleblowing	pg 177 pg 54 to 64 pg 77
Human rights	Modern Slavery Statement Privacy and Data Protection Policy Information Security Policy	Modern Slavery Act Corporate governance report	pg 19 pg 54 to 64	Regulatory & compliance risk Technology risk	pg 170 pg 174
Social matters	Sustainability Policy Political Contact, Communications and Donations Policy Responsible Lending Policy Sanctions and Embargo Policy	Being a force for good How we manage risk Stakeholder engagement	pg 16 to 21 pg 22 to 27 pg 61 to 63	Corporate governance report	pg 54 to 64
Anti-corruption and anti-bribery	Anti-Bribery and Corruption Policy Anti-Money Laundering and Counter Terrorist Financing Policy Preventing Fraud and Cyber Enabled Crime Policy	How we manage risk Risk Committee report	pg 22 to 27 pg 78 to 82	Technology risk Financial crime risk	pg 174 pg 175
Policy embedding, due diligence and outcomes		How we manage risk	pg 22 to 27	Risk report	pg 111 to 180
Description of principal risks and impact of business activity		How we manage risk	pg 22 to 27	Risk report	pg 111 to 180
Description of the business model		We are Virgin Money	pg 2	How we generate value	pg 14 to 15
Non-financial key performance indicators		Our strategic priorities Being a force for good	pg 8 to 13 pg 16 to 21	Divisional reviews CFO review	pg 28 to 33 pg 34 to 44

Remaining on the front foot

Delivering industry-leading risk capability, and keeping the bank safe, while adding value in the most efficient, digitally enabled way for our customers and colleagues.

Q&A with Mark Thundercliffe
Group Chief Risk Officer

Q: How have you helped to support customers and colleagues through the challenges of COVID-19?
A: We have supported a wide range of actions designed to keep customers and colleagues safe during COVID-19. This included supporting the delivery of government lending schemes and other forms of relief, such as payment holidays. We also adapted our risk management practices as necessary to the changed environment, this included ensuring colleagues were able to work from home safely and effectively.

We established and led a robust programme of oversight and assurance, to ensure the Group provided appropriate assistance to vulnerable customers, and managed the risks arising from COVID-19 as effectively as possible.

Q: How has COVID-19 impacted your risk strategy?
A: While the Group's risk strategy remains unchanged, it has been refocused in light of the challenging economic environment.

The Risk Management Framework (RMF) has been refreshed in line with the current risk environment to ensure it remains fit for purpose, supports delivery of our new strategy, including revised sustainability and growth targets, and establishes a clear framework for escalating and reporting risks to the delivery of the strategic plan.

The principal and emerging risk landscape has been reassessed, resulting in the changes outlined overleaf, and reference to climate risk and operational resilience has been enhanced to reinforce the importance of sound management of these as they grow in prominence.

The 2021 Risk Appetite Statement (RAS) has been tightened in response to the challenging economic environment and reassessed in light of the Group's refreshed strategy. Changes take into account the risk profile impacts of initiatives proposed.

Q: What have you been most proud of this year?
A: My team, my colleagues across the Group and our customers, for tackling the difficult challenges we have all faced.

In addition, we have continued Risk's transformation, optimising our skills and resource base, while overseeing the planning and execution of COVID-19 responses, and how those support customers, including the vulnerable.

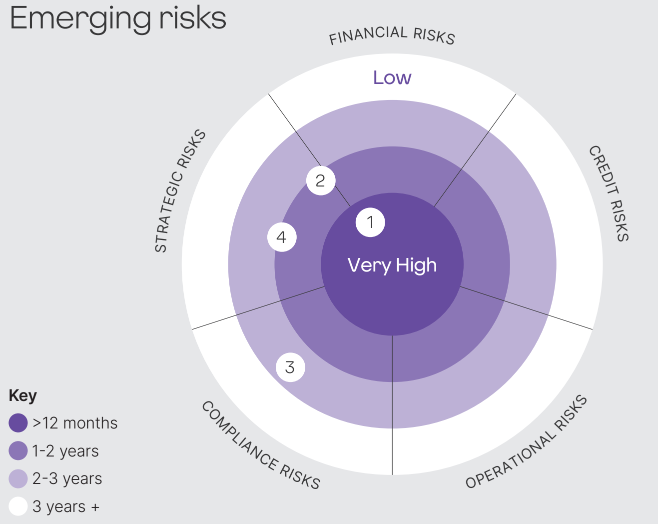
We have continued to develop our modelling capabilities, which will support prudent and sustainable growth. We have maintained an open dialogue with our regulators and continue to support important projects, such as the establishment of a comprehensive control framework in preparation for our inaugural participation in ACS testing next year.

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

Emerging risks are allocated a status based on their expected impact (from low to very high) and time to fully crystallise (from >12 months to 3+ years), in line with the definitions outlined in the RMF, and are subject to regular review across senior governance forums. This is illustrated in the chart below, with the numbers referencing the emerging risks overleaf.

Technology and cyber risk has been added as an emerging risk reflecting the increasing reliance on digital solutions across the Group. Technology risks which are known and already crystallising are addressed separately, within the existing technology risk framework. Competition is no longer classified as an emerging risk. The assessment of competition risks arising in the normal course of business is incorporated within the strategic and enterprise principal risk framework. Climate risk has been retained as an emerging risk to capture the inherently unknown and unpredictable elements.

Emerging risks



1. Geo-political and macroeconomic environment

Change in year
Pre-COVID ▲ Post-COVID ▲

The economic impacts of COVID-19 have yet to fully crystallise. Although the duration and depth of the downturn is uncertain, risks to credit and margin performance are expected, with significant disruption to both supply and demand already occurring. Increasing levels of unemployment could impact customers' ability to repay their lending.

The efficacy of monetary and fiscal policy, and the speed and ability with which the UK can return to normal operating conditions, will determine the overall economic impact for the UK and the Group.

Uncertainty remains over the future relationship between the UK and the EU and whether trade deal negotiations can be completed ahead of the transition period end date of 31 December 2020.

There is an increased possibility of a second Scottish independence referendum, driven by a greater visibility of policy differences through the COVID-19 response and ongoing Brexit negotiations.

Mitigating actions
The Group continues to monitor economic and political developments, in light of the ongoing uncertainty, considering potential consequences for its customers, products and operating model, including its sources of funding.

The Group actively monitors its credit portfolios and undertakes robust internal stress testing to identify sectors that may come under stress as a result of an economic slowdown in the UK.

2. Climate risk

Change in year
Pre-COVID ▲ Post-COVID ▲

There is significant uncertainty around the time horizon over which climate risks will materialise as well as the exact way in which they will occur.

Stakeholder expectations and regulatory attention could develop at pace, impacting the lending activities of the Group. Sudden shifts in sentiment, if not in line with the lending practices of the Group at that time, could lead to increased scrutiny and reputational damage.

Mitigating actions
The Group continues to consider climate change in its RMF, in line with its plan to align to regulatory expectations. Climate risks are also considered by the Board in its review and challenge of the strategic and financial plan and the Group's Sustainability Strategy.

3. Regulatory and governmental change

Change in year
Pre-COVID ▶ Post-COVID ▲

The suite of government support measures, introduced in reaction to the economic pressures created by COVID-19, are complex and nuanced. Any sudden or unexpected change to the rules and regulations governing the measures could create material disruption, requiring large-scale prioritisation decisions in a fast-paced environment.

The longevity of temporary changes (e.g. cancellation of the 2020 ACS), or the possible requirement for lasting changes, is unknown and may impact firms in the medium term.

Beyond COVID-19, there is continued evolution of the regulatory landscape, and the requirement to respond to ongoing prudential and conduct driven initiatives.

Mitigating actions
The Group continues to monitor emerging regulatory initiatives to identify potential impacts on its business model and ensure it is well placed to respond with effective regulatory change management.

The Group continues to work with regulators to ensure it meets all regulatory obligations, with identified implications of upcoming regulatory activity incorporated into the strategic planning cycle.

The Group has put multiple new policies in place to help ensure COVID-19 related government, regulatory and Group customer support arrangements are deployed correctly.

4. Technology and cyber risk

New emerging risk

The Group continues to operate in a highly competitive environment, with growth across a number of digital-only providers, and emerging signs of participation from large technology companies. These longer-term technological changes, coupled with the short-term operational challenges caused by COVID-19, are impacting the way in which customers access and use our products and services. This increases demand on systems and people, and our requirement to be flexible and responsive in a fast-paced, ever-changing environment.

Emerging risks around Cloud technology and Big Data are increasing, and the fast-moving global cyber risk challenges, for example those driven by large nation states, continue to impact the security and protection of our customer data. The resilience of systems security, payment and overall technology solutions is a focus of the regulator.

Mitigating actions
The potential impacts from new technologies, and from the changing ways in which customers use the Group's services, are continuously risk assessed, with action pre-emptively taken to safeguard the end-to-end resilience of critical processes.

The Group continues to invest in the security and resilience of its infrastructure, in order to improve services and minimise the risk of disruption to customers.

The Group has resilient continuity frameworks in place to support activities in an open banking, digitally reliant market.

Principal risks and uncertainties

The Group's principal risks could result in events or circumstances that might threaten the Group's business model, future performance, solvency, liquidity and reputation. The principal risk categories remain similar to those outlined in the Annual Report and Accounts 2019, with changes relating to: the identification of model risk as a principal risk and; the recognition of climate risk as a cross-cutting risk which manifests through the existing principal risk framework.

An overview of the Group's principal risks and mitigating actions is set out overleaf, while further information on all of the Group's principal risks can be found on pages 119 to 177 of the Risk report.

Operational resilience
Operational resilience underpins the Group's principal risks. It is defined as the ability of the Group to protect and sustain its most critical functions and underlying assets, while adapting to expected or unexpected operational stress or disruption, and having the capacity to recover from issues as and when they arise. Further information can be found on p180 of the Risk report.

Climate risk
Climate risk is not a standalone principal risk but manifests through existing principal risk types. The Group is exposed to physical, transition and reputation risks arising from climate change. Further information can be found on p178 of the Risk report.

Remaining on the front foot

Principal risk and description | **Alignment to strategic priorities** | **Mitigating actions**

Credit risk

The risk of loss of principal or interest stemming from a borrower's failure to meet contractual obligations to the Group in accordance with their agreed terms. Credit risk manifests at both a portfolio and transactional level.

Change in year

Pre-COVID ▲ Post-COVID ▲

- The Group applies detailed lending policies and standards which outline the approach to lending, underwriting, concentration limits and product terms.
- Credit risk is managed through risk appetite and risk limits reflected in approved credit policy.
- Ongoing monitoring and approval of individual transactions, regular asset quality reviews and independent oversight of credit decisions and portfolios.
- Portfolio monitoring techniques cover such areas as product, industry, geographical concentrations and delinquency trends.
- Stress test scenarios are regularly prepared to assess the adequacy of the Group's impairment provisions and the impact on RWAs and capital.

Financial risk

Financial risk includes capital risk, funding risk, liquidity risk, market risk and pension risk, all of which have the ability to impact the financial performance of the Group, if managed improperly.

Change in year

Pre-COVID ▶ Post-COVID ▲

- Funding and liquidity risk is managed in accordance with Board-approved standards, including the annual Internal Liquidity Adequacy Assessment Process (ILAAP) and strategic and contingency funding plans.
- The Group completes an annual Internal Capital Adequacy Assessment Process (ICAAP) which formally assesses the impact of severe, yet plausible, stress events to ensure that the appropriate level and type of capital underpins the strength of the balance sheet in both normal and stressed conditions.
- Board-approved risk appetite measures ensure funding and liquidity levels are monitored and managed in accordance with regulatory requirements and in support of the Group's strategy.
- Market risks (interest rate and foreign exchange risks) are monitored and managed in line with established policies and allocation of capital.

Model risk

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

Change in year

Pre-COVID ▶ Post-COVID ▲

- The Group has a model risk policy framework in place to manage and mitigate model risk, which encompasses the end to end model life cycle.
- The model risk policy standard defines roles and responsibilities in terms of model risk management.
- A suitably qualified Independent Model Validation function conducts model validations prior to model implementation, both when a model is changed and on a periodic basis.

Regulatory and compliance risk

The risk of failing to comply with relevant laws and regulatory requirements, not keeping regulators informed of relevant issues, not responding effectively to information requests (IRs), not meeting regulatory deadlines or obstructing the regulator.

Change in year

Pre-COVID ▶ Post-COVID ▲

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

Conduct risk

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

Change in year

Pre-COVID ▶ Post-COVID ▲

- The Group has an overarching conduct risk framework, with clearly defined policy statements and standards.
- There is ongoing reporting and development of conduct risk appetite measures to the Executive Risk Committee and the Board.
- The Group continually assesses evolving conduct regulations, customer expectations, and product and proposition development.
- A risk-based assurance framework is in place which monitors compliance with regulation and assesses customer outcomes.

Key – Group strategic priorities

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

COVID-19	Future focus
Impacts • Although the impacts on the Group's retail and business credit portfolios are yet to fully manifest, it is clear that credit risk remains heightened, with levels of defaults expected to increase over time, particularly once government support schemes come to an end. **Actions** • The Group has participated in all regulatory and government support schemes with a priority focus on supporting its existing customers through COVID-19. Capital repayment holidays, interest free overdrafts (for retail customers) and extensions of credit, as well as other flexible supporting measures, continue to be provided and monitored. • Policies, risk appetite, credit decisioning and supporting frameworks have been rebased, reviewed and updated to reflect the changing environment and risk profiles.	• The Group remains focused on continued and timely support for customers, scanning the horizon and ensuring there is focus on expected events and outcomes given the ever-changing external environment. • Group Credit Risk will put in place all necessary measures to ensure readiness for the expected economic downturn and consequent customer support.
Impacts • Changing trends in customers' use of deposits, particularly among businesses, and the impacts of loan payment holidays across mortgage, credit card and unsecured loan portfolios, have affected capital, liquidity and funding forecasting. • The possibility of low or even negative interest rates. **Actions** • Additional monitoring and controls over capital, funding and liquidity risks resulting from COVID-19 have been put in place. The Group has early visibility of movements in RWA or potential impacts to capital from higher credit losses and stands ready to take a range of management actions. • The introduction of the Bank of England's (BoEs) Term Funding Scheme with additional incentives for SMEs (TFSME) provides an alternative source of funding to wholesale markets and is included in the Group's funding plans.	• Our focus will be on managing the balance sheet through the challenging economic environment created by the fallout from COVID-19, as well as manging any uncertainty created by the UK's exit from the EU. This is combined with an ongoing landscape of regulatory change. • Following the cancellation of the 2020 BoE ACS exercise, we will support and oversee preparations for the Group's first ACS participation in 2021 and also have significant involvement in assurance work for the Group's Resolvability Assessment Framework. • A sustained period of low or even negative interest rates will create the potential for both adverse operational impacts and for increased pressure on margins. There will be ongoing focus on how to mitigate these effects.
Impacts • The uncertain economic environment has affected all model components including input data, default markers, outputs, model accuracy and performance. • The rapid application of COVID-19 model adjustments has increased the risk that particular implementations contain errors or unexpected outcomes. **Actions** • Model risk oversight remain actively engaged with model owners, carrying out pre-emptive model assessments to recognise and address key model risks and help validate COVID-19 driven adjustments or recalibrations. Further oversight is provided by the Model Governance Committee.	• Model risk management will continue to grow in sophistication and experience in the year ahead. Our oversight processes will be focused where model improvement and model risk mitigation add greatest value. • The Model Risk Oversight team continue to develop understanding of the Group's model portfolio and will continue to closely manage areas of greatest risk. We expect improved understanding of capital and provisioning impacts to model risk, and a stronger connection with operational risk.
Impacts • The Group has deployed multiple new policies and processes to implement government, regulatory and central bank COVID-19 support measures. Additional regulatory and compliance risks are associated with adherence to both COVID-19 specific regulatory guidance and with existing regulation. **Actions** • Additional risk assessments, governance processes and assurance activities have been deployed across the Group to ensure compliance with existing regulation and COVID-19 specific regulatory guidance.	• The Group recognises, and will continue to respond to, regulatory change and associated requirements for systems and processes across the banking industry as a whole. It will seek to comply with all regulations as they evolve, and as customer expectations continue to develop. • The Group will continue its implementations of major regulatory changes, including transition from London Interbank Offered Rate (LIBOR) and Payment Services Directive 2 (PSD2).
Impacts • Decisions are being made at pace in order to protect and support customers. There is the potential of failing to achieve good customer outcomes in this environment and in the future, as relief schemes come to an end. Furthermore, there is an increased risk of failure to recognise and appropriately manage financial difficulties or vulnerabilities. **Actions** • Additional monitoring and controls are in place to mitigate conduct risks arising from the execution of new policies and processes deployed in response to COVID-19.	• The Group remains focused on seeking to ensure that customers remain supported and that current and future customer products and services meet conduct standards and regulators' expectations. • Development will continue in the Group's capabilities to support customers through COVID-19 and vulnerable customer groups more generally, and in response to Financial Conduct Authority (FCA) guidance.

Remaining on the front foot

Principal risk and description	Alignment to strategic priorities	Mitigating actions
Operational risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. **Change in year** Pre-COVID ▶ Post-COVID ▲		• The Group has an established operational risk framework to identify, manage and mitigate operational risks. • Internal and external loss events are categorised using Basel II risk categories to ensure consistent assessment, monitoring and reporting of risks and events, including themes and remediation action required to prevent reoccurrence. • The Group undertakes regular, forward-looking scenario analysis to gain insight into the stresses the business could be subject to in the event of operational risk events materialising. • A framework is in place to ensure risks from individual changes are managed effectively, in line with the Group's risk appetite, with appropriate second-line oversight.
Technology risk The risk of loss resulting from inadequate or failed information technology processes. Technology risk includes cyber security, IT resilience, information security, data risk and payment risk. **Change in year** Pre-COVID ▶ Post-COVID ▲		• The Group has a data management framework governing the creation, storage, distribution, usage and retirement of data. • The payment risk framework outlines key scheme rules, regulations and compliance requirements to ensure that payment risk is managed within appetite. • The Board-approved security strategy focuses on the management of cyber risk, exposure and manipulation of confidential data and identity and access management. • These risks are managed by a number of controls that align to the industry recognised National Institute of Standards and Technology (NIST) Framework. • IT resilience is addressed by a programme of continuous monitoring over the currency of technology estate and disaster recovery. Furthermore, critical end to end business recovery and contingency plans are maintained and tested.
Financial crime risk The risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties. This includes money laundering, counter terrorist financing, sanctions, fraud and bribery and corruption. **Change in year** Pre-COVID ▶ Post-COVID ▲		• The Group has an established and evolving financial crime framework providing transparency and structure against which to develop and maintain consistency of approach to identify, manage and mitigate financial crime risk. • The Group continues to monitor existing, new and emerging risks and threats as a result of new laws and regulations, industry trends and economic and environment factors. • The Group operates a framework of risk-based systems and controls to minimise the extent to which its products and services can be used to commit or be subject to financial crime. Regular investments are made into the maintenance of these systems and ensure compliance. • Regular oversight of financial crime controls is undertaken to ensure they remain effective and in line with Board-approved risk appetite.
Strategic and enterprise risk The risk of significant loss of earnings or damage arising from decisions or actions that impact the long-term interests of the Group's stakeholders or from an inability to adapt to external developments, including potential execution risk as a result of transformation activity. **Change in year** Pre-COVID ▶ Post-COVID ▲		• Strategic and enterprise risk is addressed through the Board-approved five year Strategic and Financial Plan, refreshed during the year to incorporate and address the impacts of COVID-19. • The Group considers strategic and enterprise risk as part of ongoing risk reporting and the management of identified strategic risks is allocated to members of the Group's Leadership Team by the CEO. • The Group continues to develop and embed its sustainability agenda in managing environmental, climate, social and governance related risks. • Regular oversight activity with workstreams focused solely on the execution risk of delivering integration, placing customers' interest at the centre of all aspects of change.
People risk The risk of not having sufficiently skilled and motivated colleagues, who are clear on their responsibilities and accountabilities and behave in an ethical way. **Change in year** Pre-COVID ▶ Post-COVID ▲		• Roles, responsibilities and performance expectations are defined in role profiles and expanded through objective setting and ongoing performance management. The Group's cultural framework has a clearly defined Purpose, with Values and Behaviours that form the foundation of the performance management framework. • The quality and continuity of the Group's leadership is reviewed and assessed through succession planning and talent management activity.

COVID-19	Future focus
Impacts • Increased remote working, the implementation of new processes and pressure on customer support areas arising from changing customer needs all have the potential to increase the Group's operational risk profile, which could lead to increased errors or delays and subsequent loss. **Actions** • The Group has undertaken ongoing risk assessments for changes to processes and controls made in response to COVID-19, including remote working. Policy exceptions are tracked and additional controls implemented.	• The level and pace of planned change will require continued executive and risk management focus to ensure operational risk stays within appetite. • There will be a need for strong supplier management to safeguard the provision, enablement and delivery of critical processes through third parties.
Impacts • An increased risk of cyber attacks, due to phishing emails which use a COVID-19 theme, and breaches could have legal, regulatory or privacy implications. • Reliance on the availability of digital banking and remote network access has increased with solutions implemented to address system constraints and safeguard our connections. **Actions** • Additional fraud monitoring is in place and temporary process changes are being continually risk assessed. There continues to be enhanced focus on supplier service level agreements and contingency plans. • A significant amount of work has been undertaken to enable and improve homeworking conditions. System monitoring, incident management and escalation processes are in place with regular oversight performed.	• Ongoing investment in existing platforms across both heritage technology estates will be a key area of focus, in order to maintain resilience until duplication of systems and data centres is removed. • The ability to deliver digital enhancements and growth through online channels will come into focus as we strive to bring innovation and disruption to the banking sector.
Impacts • New policies and processes implemented in response to government, regulatory and central bank relief measures introduce additional fraud and financial crime risks. Support measures have been deployed at speed and there has been an enforced relaxation of certain controls. There is a risk that criminals may take advantage of customer and organisational vulnerabilities created by COVID-19. **Actions** • Additional risk assessments, governance processes and assurance activity has been deployed across the Group to ensure the ongoing balance between customer impacts and support and maintaining fraud loss within risk appetite.	• The Group will continue to develop its capabilities to mitigate financial crime in an external environment where threats continue to evolve and increase. • Investment will continue in the Group's anti-money laundering (AML) systems platforms and fraud prevention capabilities supporting customers.
Impacts • COVID-19 has increased the pace of change and unpredictability within the external environment, including in relation to economic conditions, regulation, and culture. There is a risk that the Strategic and Financial Plan does not adequately reflect these changes, or that we respond ineffectively to the cultural and societal changes it has brought about. **Actions** • The Strategic and Financial Plan is being refreshed to respond to the COVID-19 impacts experienced as well as those predicted. • The RMF has been refreshed in line with the new strategy and current risk environment, to ensure it remains fit for purpose now, and in FY21. • The FY21 RAS measures have been prepared alongside the finalisation of the plan, accounting for the risk profile impacts of the initiatives being proposed.	• The Strategic and Financial Plan retains a focus on optimising the Group's efficiency, with emphasis on supporting the change governance framework, to deliver positive outcomes for our customers. • The Group will continue to manage risks associated with COVID-19 and stands ready to execute further customer support arrangements if required. Information on how the Group has changed its strategic priorities in light of COVID-19 can be found on pages 6 and 7.
Impacts • An increased risk of colleague illness and absence, in addition to longer-term well-being risks, such as mental health impacts, may arise from the tighter restrictions introduced to curb the spread of COVID-19. These factors could increase pressure and reduce skills availability in key areas. **Actions** • The Group follows government advice with colleagues working from home where possible, and social distancing and additional cleaning measures in place to support key workers based in offices and branches. Vulnerable colleagues are being given additional support from our healthcare provider.	• Focus will remain on potential health, safety and well-being impacts of working environments implemented in response to COVID-19. • Embedding the Group's Purpose continues to be a priority as it leads to better customer service, greater colleague engagement, higher standards of conduct and enhanced business performance. • The Group's Remuneration Committee continues to explore remuneration design to balance incentivisation and motivation with appropriate risk management.

Mortgages – strengthening our customer relationships

Our ambition is to simplify mortgages to make consumers' lives better.

1

2020 Progress

Digitise the customer experience

We have continued to invest in the digitisation of the customer and broker experience. During 2020, we delivered Application Programming interface (API) connectivity to Lendex's intermediary sourcing system, removing the need to re-key data thereby improving efficiency for our broker partners and us.

Moving forward, we will implement a new digital front-end platform that integrates our heritage brands, improves the experience and delivers cost efficiencies.

A phased roll-out begins in 2021.

2

2020 Progress

Maximise relationships to create brand advocates

In August, we launched our unique and innovative Home Buying Coach app. Primarily aimed at first-time buyers, it gives customers insight, information and support at each stage of the home buying process.

The app features a mix of tools, calculators and content to help customers make buying a new home a happier and more enjoyable experience. The app has been well received by customers with over 10,000 downloads since launch.

3

2020 Progress

Optimise the division for value

We have made significant progress to optimise the business in 2020, including centralising the provision of mortgage advice into three centres of excellence, enabling our intermediary business development managers to sell and support across each of our heritage brands and propositions.

The full optimisation of the division, and subsequent realisation of efficiencies, will be enabled by our new digital front-end platform that will deliver full integration of our heritages.

Q&A with Hugh Chater
Group Mortgages Director

Q: How have you supported mortgage customers through the challenges of COVID-19?
A: At a time of great uncertainty, we recognised the need to support our customers and colleagues through the pandemic. We proactively and rapidly implemented flexible and remote working. This safeguarded service levels for customers, while allowing us to focus resource where it was most needed.

For our existing customers, we built an end-to-end digital solution for payment holiday requests at short notice. This made it simple and straightforward to apply. We were successful in helping c.67k existing customers arrange their payment holiday.

For new customers we harnessed technology to allow more valuations to take place remotely. This has kept transactions moving for customers and brokers, while also keeping our customers, colleagues and the bank safe.

Q: How has COVID-19 impacted your divisional strategy?
A: The pandemic has given us additional confirmation that our strategy to digitise and improve efficiency is the right one. We have seen a significant shift in wider consumer behaviour with a greater willingness to transact online. The mortgage market is ripe for disruption and we are now taking steps to accelerate delivery of our plans.

This year we have continued to press ahead with a number of key strategic initiatives despite the impacts of the pandemic. Our broker API connectivity and innovative Home Buying Coach app are now live and demonstrate our commitment to improving the experience for our customers.

Q: What have you been most proud of delivering this year?
A: Firstly, protecting and supporting our customers and colleagues at a time of concern, by remaining open for business, supporting customer needs and protecting service levels.

I'm also proud of our ability to design and deliver significant change at pace, and in a matter of days when needed. We have reacted and risen to new challenges, and at the same time been able to continue delivering on our strategic goals.

Q: What are your key priorities for 2021?
A: We will continue to provide our customers and colleagues with the support they need through the ongoing pandemic.

We will also accelerate delivery of our digital capabilities by expanding API connectivity, enhancing our Home Buying Coach and commencing the phased roll-out of our new digital front-end.

The team and I will remain unwavering in our drive to deliver on our Purpose of 'Making you happier about money'.

Market context

It has been an unprecedented year with significant market-wide disruption as a result of the pandemic. However, we have seen a period of recovery post-lockdown, driven by a strong home purchase market and stamp duty incentives. These elements have supported continued single digit house price growth.

Market gross lending for the year was £240bn, only 10% lower than the previous period with most transactions over lockdown simply delayed rather than lost.

The product transfer market continued to grow in 2020, increasing by c.3% year-on-year. There has been sustained activity and demand as lenders and brokers continue the trend of supporting existing customers. This has supported overall growth in mortgage market stock by c.3% on the previous year, which is in line with long-run growth rates.

Within the market, intensive price competition continued in the first half of the year. As the pandemic has evolved, lenders have tended to focus on servicing existing customers due to operational processing capacity constraints, with margins widening across the market as demand for mortgages has outstripped lender supply.

Our performance

In line with our plan to optimise for value, we targeted lower gross lending and a small reduction in our stock share of c.4%. We have maintained a strong retention performance with over £9bn of balances successfully retained, including 72% of balances maturing from a fixed or tracker rate product.

Intermediary partners remain central to our strategy and continued to account for 85% of new applications. Product transfers transacted through brokers increased to 44% (2019: 35%).

Taking a lower share of overall new volumes allowed us to focus on segments with relatively higher margins and risk-adjusted returns, while remaining within our risk appetite. Given the turnover within our book, the historical margin compression between existing mortgages and new mortgages is now also largely behind us.

Government support and payment holidays have mitigated the initial impacts of the pandemic on customer arrears and asset quality. Our low-risk portfolio, largely written under post Mortgage Market Review rules, continues to perform well and we have plans in place to continue to support customers if required. Payment holiday experience to date has been benign – we granted payment holidays to 20% of customers (by balance), but 98% of those who have matured from their payment holiday have returned to payments, with only 2% requiring further assistance so far.

Outlook

Given the ongoing economic and market uncertainty, in our view, the health of the mortgage market in 2021 rests on three key dynamics: the speed of recovery from the pandemic; the scale of unemployment; and the extent to which Brexit arrangements impact on the economy.

We expect market activity in the year to be weighted to the first half due to the expected removal in March of current short-term factors supporting the market including the stamp duty relief, pent-up demand post lockdown and the end of the current Help To Buy scheme.

Clearly an increase in unemployment is likely to drive a deterioration in market-wide asset quality, but we have increased our capacity to ensure we provide suitable support to those customers in financial difficulties when they need it.

We expect spreads to perform strongly during the first half of 2021, as a combination of low swap rates and customer demand see lenders maintain higher pricing to manage volumes. However, we expect demand and pricing to reduce in the second half as the stamp duty changes unwind and operational capacity returns. We will retain our focus on value and quality rather than growth.

Lastly, we recognise the imperative of providing an exceptional digital experience that satisfies the expectations of consumers and our broker partners. Our continuing digital transformation will enable us to build towards this strategic aim.

Our Mortgage division KPIs

Group Strategic Priority	Our KPI?	Target	2019	2020	Commentary
Pioneering growth	Mortgage stock market share	c.4% medium term	4.2%	4.0%	Gross new lending of £7.2bn (2019: £10.5bn) was lower due to the Impact of COVID-19 and our ongoing strategy of managing for value, with a 72% retention rate on maturing balances (2019: 74%).
	Mortgage share of balance sheet	c.75% medium term	82%	81%	Mortgages share of the Group's balance sheet reduced slightly as the mortgage book reduced 3% due to our focus on managing for value and the second half COVID-19 market impacts.
Delighted customers and colleagues	Virgin Money customer Smile score	>45% over medium term	– New metric created in 2020	44%	We have adopted this new bespoke 'Smile' customer service measure to align more closely with our Purpose of 'Making you happier about money', allowing us to track outcomes and delivery of our Purpose more accurately.
Super straightforward efficiency	Direct applications	25% of total	16% of total	15% of total	Small decline during 2020 due to the significant branch closure programme undertaken. Expect to drive a significant increase over time by leveraging our new digital proposition.
Discipline and sustainability	Mortgage cost of risk	Support Group net cost of risk *KPI to be reviewed*	Net cost of risk 1bp	Net cost of risk 16bps	Cost of risk is elevated due to the significant IFRS 9 impairment provisions taken in 2020 reflecting the Group's prudent application of more conservative economic scenarios and weightings, supplemented with expert judgement overlays, providing Mortgage provision coverage of 23bps.

Personal – supporting our customers

Our strategy is focused on transforming our relationship proposition, enhancing the customer experience and deepening our customer relationships.

1

2020 Progress

Transform our relationship proposition

We significantly strengthened our proposition with the launch of the Virgin Money PCA, an "Outstanding"-rated digital current account with a range of money management tools and attractive interest rates. We also launched 'M' our market leading basic bank account, which comes with digital budgeting and savings tools to help our customers develop greater financial resilience. Both accounts have been strongly featured in industry best buy coverage. We successfully completed the re-branding of our credit card and loan application journeys, with all new business now written as Virgin Money.

2

2020 Progress

Enhance the customer experience

We put an enormous focus on supporting customers through COVID-19, where the success of that effort was reflected in improved customer satisfaction scores. Our new digitally-focused product offerings and enhanced mobile apps provided existing customers with new routes to access support during the pandemic. We continue to develop our digital offering for new customers, through improved onboarding and servicing capabilities.

3

2020 Progress

Deepen our customer relationships

During 2020, we have continued to develop our relationship propositions and have seen a significant growth in relationship deposits during the period. We recognise that customers have been holding higher savings buffers through the pandemic and we would not expect this year's rate of growth to be maintained. However, over time, we see scope to deepen the customer relationship by continuing to offer customers considerably better value than high-street peers and building on our partnership opportunities.

Q&A with Fergus Murphy
Group Personal Banking Director

Q: How have you supported Personal customers through the challenges of COVID-19?

A: We launched brand-new digital processes quickly to provide c.58k payment holidays and have been proactive in supporting our most vulnerable customers. We maintained branch opening hours beyond our high street peers and the provision of an £500 interest free overdraft buffer subsequently became mandated by the FCA as an industry-wide requirement. We will continue to provide assistance to the small proportion of customers that currently need it, while remaining ready to extend further support, should the economic environment deteriorate.

Q: How has COVID-19 impacted on your divisional strategy?

A: We reprioritised our investment plans to facilitate acceleration of our digital and online capabilities to provide the best possible support to our customers. The increased digital adoption we have subsequently seen during the pandemic is complementary to our existing, digital-led strategy. We've made great progress in continuing to launch new Virgin Money products and propositions all developed and delivered through remote working. Customers have behaved rationally – saving more where they can and paying down debt – and this has reduced demand for new lending. However, our credit card, personal loan and relationship deposit propositions give us a great platform to grow as the macro-economic environment recovers.

Q: What have you been most proud of delivering this year?

A: Our teams passion to do the right thing for our customers has been inspiring, and I think that will enhance our reputation in the long run. Maintaining branch availability, coupled with excellent contact centre support and our brilliant Red Team as a resource for customers drove increased advocacy. The new PCA propositions really showcase who we are, and how we wish to treat customers – that is, better than other high-street banks. The 'M' account is the first basic bank account to offer the latest cutting-edge money management features to this under-provided customer segment – a real highlight of this year.

Q: What are your key priorities for 2021?

A: Our priority remains looking after customers affected by the pandemic who need our support. Beyond that, I'm really excited by the opportunities our PCA propositions give us to attract new customers and optimise our deposit mix. On the lending side, there are great opportunities to take market share prudently – by continuing to digitally originate high credit quality customers via compelling propositions. Finally, we want to drive higher digital adoption and increase overall customer satisfaction as we develop our offering and build on this year's good work transforming, enhancing and deepening customer relationships.

Market context

The personal deposits market has grown c.10% over the past twelve months (2019: c.4%), with growth biased to the second half impacted by a range of COVID-19 factors. Following BoE base rate reductions, we have seen competitors reprice deposits, with larger peers reaching near the 0% interest rate floor on several products.

Customers markedly reduced spending on credit cards during lockdown and peers also tightened risk appetite by reducing product availability and increasing pricing, including shorter promotional durations. Customer spending has since partly recovered and market growth resumed in July. Given the macroeconomic outlook and restrictions on a range of spending (including travel and hospitality), customer spending patterns changed which reduced lending growth.

The 'high cost of credit review' alongside the economic impacts of the pandemic has significantly altered the dynamics of overdraft pricing and customer behaviour. While many peers have APRs around 40% as standard, the majority of our customers pay 19.9% and our provision of a £500 interest free buffer for those impacted by COVID-19 subsequently became the FCA's expectation for all firms.

Our performance

The Personal division delivered positive operating performance and continued momentum against our strategy in 2020. We supported 46k credit card customers and 12k personal loan customers through payment holidays, with >90% of those customers who have matured from their payment holiday returning to payments.

We have also seen a significant 16% growth in lower cost relationship deposits due to customer pandemic savings and we continued to optimise pricing within our term deposit portfolio as we optimise mix.

In personal lending our focus on high quality customers and balance transfer lending has served us well. Balance transfer lending provides greater stability in customer balances than revolving credit, with our cards balances up 3.8% over the year, ahead of the market. We have, however, actively tightened underwriting and reduced our promotional interest-free periods, improving profitability of our lending, despite lower income from customer spending.

We also launched the VM personal loan, driving a 30% increase in applications, but as with credit cards, we have carefully tightened our underwriting to ensure asset quality remains amongst the strongest in our peer group. Our partnership with Salary Finance is also progressing well, providing an important source of affordable credit and financial empowerment for credit-worthy borrowers who would not always be able to access mainstream lending.

Outlook

In personal lending, while customer demand may dip as the economy worsens, we will continue to focus on higher credit quality customers looking to manage their finances prudently and sustainably.

In deposits, the significant growth in excess of our funding requirements in 2020 provides the opportunity to focus on optimising the portfolio while using the Virgin Money PCA to attract new customers at a lower cost of funds over time.

Although we delayed some initiatives in 2020, we did accelerate our digital agenda. This provides the platform to leverage the strong Virgin Money brand and full suite of products, with marketing activity to recommence. We'll continue transforming our digital proposition to enhance the experience in line with evolving customer expectations.

Our Personal division KPIs

Group Strategic Priority	Our KPI?	Target	2019	2020	Commentary
Pioneering growth	Growth in Personal relationship deposits	High single-digit CAGR over medium term	5.5%	16%	COVID-19 has led to consumers saving more in current accounts and linked savings under lockdown, which significantly boosted growth in relationship deposits in the period, but we expect this will be partially utilised in 2021.
	Personal Current Account market share	c.3.5% medium term	2.4%	2.3%	Balances increased 16% to £9.4bn reflecting customer savings under lockdown, but market share is broadly stable reflecting our focus on existing customers during the pandemic and the temporary pausing of our Virgin Money rebrand activity and delays to new proposition launches.
	Personal share of balance sheet	c.10% medium term	7%	7%	The Personal share of the Group's balance sheet remained stable reflecting muted demand for unsecured lending during the period due to the impact of COVID-19.
Delighted customers and colleagues	CMA personal service quality rankings	Top 3 medium term	9th YB 12th CB	9th Virgin Money	We now participate under the Virgin Money brand with our new PCA proposition. Our Red Team and 'Money on Your Mind' initiatives have also improved our proposition to customers. This year, the neo-banks are also now included in the rankings and went straight into the top 2 rankings; as such relative to last year we have improved our position.
Super straightforward efficiency	Digital adoption	>75% medium term	51%	56%	Our digital adoption increased 5%pts in the period reflecting the ongoing investment in our digital proposition and the impact of COVID-19 on customers' digital usage.
	Virgin Money customer Smile score	>75% medium term	– New metric created in 2020	54%	We have adopted this new bespoke 'Smile' customer service measure to align more closely with our Purpose of 'Making you happier about money', allowing us to track outcomes and delivery of our Purpose more accurately.
Discipline and sustainability	Personal cost of risk	Support Group net cost of risk *KPI to be reviewed*	Net cost of risk 271bps	Net cost of risk 423bps	Cost of risk is elevated due to the significant IFRS 9 impairment provisions taken in 2020 reflecting the Group's prudent application of more conservative economic scenarios and weightings, supplemented with expert judgement overlays, providing Personal provision coverage of 591bps.

Business – providing support to businesses

Our strategy is focused on expanding our business relationship model nationally, including launching Virgin Money for business customers with an enhanced customer experience.

1

2020 Progress

Expand our relationship proposition nationally

Our participation in government-backed lending schemes has seen our business lending customer base double as we support customers across the UK. While responding to COVID-19 has been our key focus during the second half, we continued to prepare for our planned expansion into new sectors and geographies. Before the pandemic, we saw strong organic loan growth and added a good share of new RBS switchers, helping us further expand our customer base outside of our former regional heartlands.

2

2020 Progress

Launch Virgin Money for business customers

Given the need to focus on supporting our existing customers through the pandemic, we paused the launch of the Virgin Money brand into the business market and our new BCA. In 2021, we will progress both, rapidly rebranding Clydesdale and Yorkshire Banks to Virgin Money and, providing a single, new brand with a clear position in the UK business banking market and differentiated relationship-driven proposition.

3

2020 Progress

Enhance the customer experience

We have continued to enhance our digital Business Internet Banking offering, including new payment functionality such as International Funds Transfers. We have now migrated c.12k customers to our new and enhanced platform and all of our customers will be migrated by January 2021. Our recent award of £35m of Banking Competition Remedies (BCR) CIF investment will allow us to further enhance and accelerate the delivery of an innovative digital Business banking platform in 2021.

Q&A with Gavin Opperman Group Business Banking Director

Q: How have you supported Business customers through the challenges of COVID-19?
A: COVID-19 has impacted most of our customers in some way. 90% of our staff engage directly with customers, and that is our culture – to engage and talk directly with customers every single day. Our purpose of 'Making you happier about money' was clearly demonstrated in the hard work and energy we brought to those conversations and the way we supported customers through capital repayment holidays and the rapid deployment of the government-guaranteed loan schemes.

Our relationship-banking model and our sector specialisms helped us respond – our close links to customers, combined with a real appreciation of their businesses, allowed us to very quickly and accurately gauge business stress levels as the pandemic struck, and then adapt our approach sector by sector.

Q: How has COVID-19 impacted on your divisional strategy?
A: After our strong performance in the first half, the second half of the year was necessarily more focused on existing customers, with our teams pivoting to work where customer need was greatest, regardless of their regular role. As events have settled, we've remained alive to opportunities arising from the rapid evolution of business models we've seen in some sectors.

But it also meant that we've delayed some of our strategic plans – the launch of the Virgin Money brand into the business market and our new BCA proposition – as we focused our people and resources on supporting customers. Equally we've established new customer relationships through government-backed borrowing and seen deposit balances rise. We'll need to work out the implications of those dynamics and the potential for some unwinding of lending and deposits during 2021.

Q: What have you been most proud of delivering this year?
A: This year, I've been immensely proud of the effort that the team put in to supporting our loyal customers when they needed us most. For instance, in just 10 days we launched a new product with a new digital journey, end-to-end fulfilment capability and all of the legal documents to be ready to go live on the Day-1 launch of each government lending scheme.

Q: What are your key priorities for 2021
A: First, continue to support our customers – both through provision of facilities and further tech enablement – regardless of whether that's to handle further headwinds or to help them recover. Second, rebrand our Clydesdale and Yorkshire business banks to Virgin Money. Third, make progress in building new capabilities, funded by the recent £35m CIF funding award, that will support us to really shake up the UK's SME banking market.

Market context

After a relatively benign first half from a market perspective, where businesses benefited from a degree of apparent certainty around Brexit following the UK general election, the pandemic created significant disruption across the economy in the second half. Sectors across the market have been impacted to different degrees, with agriculture and technology businesses seeing limited disruption, while shutdowns impacted sectors such as hospitality and retail.

Government support for business' cash flows was swift and welcome, with unprecedented levels of lending support provided to our target SME segment of the market. As the pandemic unwinds this is likely to mean a significant reduction in ongoing lending. This injection of liquidity has resulted in higher cash reserves held in deposits by customers, with businesses storing surplus funds in business accounts. Brexit uncertainty also resumed as negotiations with the EU hardened, and while final outcomes are unclear, this is another potential risk for businesses to contend with.

2020 performance

During 2020, Business divisional lending grew by 14% to £8.9bn while deposits grew by 25% to £14.1bn. During the first half, the division made good progress against our strategy and growth targets, but the pandemic changed our operational dynamics in H2. Our participation in the government-guaranteed lending schemes, BBLS/CBILS/CLBILS, saw us lend £1.2bn to customers, many of whom previously only had a savings relationship with us. As would be expected, customers who borrowed through these schemes held that cash in the deposit facilities we provide them to pre-fund any potential future cash flow strain. While lending under the government schemes was marked relative to our BAU loan book, we took lower than our natural share of lending against the schemes – which we believe reinforces the cash flow resilience of our sectoral approach.

Further, we supported our customers by providing access to capital repayment holidays at pace, in addition to providing bespoke advice via our specialist relationship managers. Despite the substitution of BAU demand with government scheme lending in H2, we maintained our market presence where we continued to see demand.

Specific impairments have to date been limited, reflecting the holistic support that has been provided to customers by ourselves and the government stimulus. Our portfolio is defensively positioned, in terms of both recurring revenues and collateralisation, plus we have limited exposures to sectors such as travel, hospitality, airlines, oil & gas. This has supported asset quality and specific provisioning to date.

Outlook

The outlook for businesses – and the wider economy – remains highly uncertain. The support to date has mitigated the immediate impact of the stress on our customers, but as that support unwinds and with potential adverse Brexit impacts also to come, the economy is expected to deteriorate in 2021 with an increase in credit losses.

Given the strong growth in government scheme lending, we expect business lending demand to be very muted in 2021. The dynamics of how businesses manage the additional debt, particularly as interest becomes payable on BBLS is hard to predict; some well-performing businesses may simply repay loans, others will need to service the payments, others will default. This will also impact the liabilities side of the balance sheet, as businesses potentially begin to use liquidity.

From an asset quality perspective, we believe that we are well positioned and adequately provided under IFRS 9 for future losses, based on our conservative economic assumptions and weightings. We do expect to see an increased level of defaults in 2021, with impacts varying by sector depending on the emerging trends in each.

In 2021, we will remain nimble, stay close to our customers and use our relationship model to continue to offer support and guidance. We will also continue to make progress on our strategic initiatives including the full launch of the Virgin Money brand for business and to utilise the £35m BCR CIF award in disrupting UK business banking.

Our Business division KPIs

Group Strategic Priority	Our KPI?	Target	2019	2020	Commentary
Pioneering growth	Growth in Business relationship deposits	High single-digit CAGR over medium term	9.3%	26%	COVID-19 has led to a significant increase in relationship deposits as most businesses reduced investment and simply deposited their proceeds from the government-guaranteed lending schemes into cash accounts for liquidity purposes to pre-fund future cash flow risks.
	BCA market share	c.6% medium term	3.8%	3.9%	Balances increased 29% to £8.9bn reflecting liquidity management by businesses, but our market share is stable reflecting our focus on existing customers.
	Business share of balance sheet	c.15% medium term	11%	12%	Business share of the Group's balance sheet increased to 12% reflecting the strong take-up of government-guaranteed lending with £1.2bn lent through the schemes.
Delighted customers and colleagues	CMA business banking service quality rankings	Top 3 medium term	5th YB 9th CB	6th YB 8th CB	Our two heritage brands were broadly unchanged from 2019 as we paused our rebrand and proposition launches due to COVID-19, but expect the launch of the Virgin Money brand and new BCA proposition to resonate.
Super straightforward efficiency	Businesses using digital as primary channel	70% medium term	52%	55%	The proportion of Businesses using digital as a primary channel increased slightly, but we expect our new digital BCA capability to drive further improvements over time.
	Volume of BCAs opened digitally	75% medium term	51%	56%	BCAs opened digitally increased 5%pts due to onboarding process improvements, but we expect enhancements as part of the new BCA to increase this further over time.
Discipline and sustainability	Business cost of risk	Support Group net cost of risk *KPI to be reviewed*	Net cost of risk 30bps	Net cost of risk 212bps	Cost of risk is elevated due to the significant IFRS 9 provisions taken in 2020 reflecting the Group's prudent application of more conservative economic scenarios and weightings, providing Business provision coverage of 391bps.

Cautious approach in an unprecedented environment

2020 has been a challenging year and our financial results reflect the cautious approach we have taken in assessing the economic outlook and future credit losses.

2020 has been unprecedented in the challenges it has created for the banking industry and this is reflected in our financial performance for the year.

Enda Johnson
Interim Group Chief Financial Officer

CFO review contents

Analysis of:

Review of the year

2020 has been a uniquely challenging year for the banking industry and our business, and this is reflected in our financial performance for the year. We have been primarily focused on supporting our customers, colleagues and communities, while at the same time ensuring the stability of the bank. Despite the challenges, we did continue to execute on some key integration milestones, while delaying delivery of some of our strategic, transformation activity. Importantly, we have also taken a cautious approach to our credit impairment provisioning for what is likely to be a severe economic shock with an expected rise in specific credit losses in the period to come.

Balance sheet impacted by the pandemic

The COVID-19 pandemic has had very different impacts across our various lending segments, demonstrating the value of a diverse portfolio. Total customer lending was down 0.7% in the year to £72.5bn primarily due to a reduction in the mortgage book as we maintained our discipline in a competitive market in the first half, with demand in the second half reducing substantially owing to the pandemic restrictions. This was partly offset by increased balances in Business with £1.2bn of incremental lending primarily under the government-guaranteed BBLS and CBILS lending schemes, and growth in Personal from a strong first half performance and resilience of the balance transfer credit card portfolio in the second half. Total customer deposits increased 5.8% to £67.5bn reflecting both consumer savings behaviour under lockdown and businesses depositing government-guaranteed lending proceeds for liquidity.

Pre-provision operating profit impacted by income headwinds

Our Net Interest Margin (NIM) of 1.56% (FY19: 1.66%) was delivered within our guidance range as it stabilised towards the end of the year following the base rate reductions, but which nonetheless reduced Net Interest Income (NII) 6% year-on-year. Non-interest income was also down 7% in the period largely due to lower activity-based fees and the impact of the 'high cost of credit review' in our Personal division. Total income was therefore down 6% on FY19 at £1,542m. Operating costs of £917m were 3% lower on the prior year, despite absorbing £14m of COVID-19 related costs. The challenging income environment led to an increase in our cost:income ratio to 59% and resulted in a 10% year-on-year reduction in pre-provision profit.

Significant impairment provisions drive a statutory loss

The Group took a cautious approach to assessing its IFRS 9 impairment provisions by applying deliberately conservative economic assumptions and scenario weightings, coupled with expert judgement credit risk overlays, to increase the Group's on-balance sheet provisions to £735m and a total coverage ratio of 102bps. This has led to the Group recognising £501m of impairment charges (68bps cost of risk) inclusive of write-offs in the period. This sizeable

Financial highlights

Statutory loss after tax £(141)m 2019: £(179)m	**Underlying profit before tax** £124m 2019: £539m	**Underlying RoTE** 0.6% 2019: 10.8%
NIM 1.56% 2019: 1.66%	**Underlying CIR** 59% 2019: 57%	**Cost of risk** 68bps 2019: 21bps
CET1 ratio 13.4% 2019: 13.3%	**Loan growth** (0.7)% 2019: +2.9%	**Relationship deposit growth** +20.3% 2019: +7.1%

provision charge primarily explains the 77% year-on-year reduction in underlying profit to £124m compared to FY19 (£539m), with an underlying RoTE of 0.6% (FY19: 10.8%)

After exceptional costs of £292m, including £139m of integration and transformation costs and £113m of acquisition accounting unwind, the Group recorded a statutory loss after tax of £141m.

Robust capital, liquidity and funding position
Importantly though, the Group's balance sheet remains robust as we enter a period of economic stress with a transitional CET1 ratio of 13.4%. The Group therefore retains a significant CET1 management buffer in excess of its Capital Requirements Directive IV (CRD IV) minimum CET1 requirement of 9.5%, equating to c.£950m, in addition to the Group's £735m of on-balance sheet credit provisions. The Group also maintains a strong liquidity position with an LCR of 140% and a stable funding position with a loan-to-deposit ratio of 107%.

Conclusion
2020 has been a difficult year for all, but I am happy with the way our colleagues have risen to the challenge of supporting our customers and communities, while ensuring the stability of the bank. Our conservative provisioning assumptions mean we have robust coverage levels going into a period of economic stress.

In the medium term, the Group believes that, assuming no significant further deterioration in expectations for the economic outlook or change in interest rates, Virgin Money has a clear path to delivering double digit statutory returns on tangible equity over time. The improvement in returns will be built on: the normalisation of impairments and exceptional costs; ensuring we continue to reduce our cost base to reflect the future operating environment; optimising our balance sheet mix; and delivering a more efficient capital base over time.

Basis of preparation note
Statutory basis: The statutory results are set out at the end of this section on page 43.

Underlying basis: The results are adjusted to remove certain items that do not promote an understanding of historical or future trends of earnings or cash flows, and therefore allows a more meaningful comparison of the Group's underlying performance. A reconciliation from the underlying results to the statutory basis is shown on page 44 and management's rationale for the adjustments is shown on page 259.

Pro forma comparative results: We have prepared pro forma comparative results for the Group as if Virgin Money UK PLC and Virgin Money Holdings (UK) PLC had always been a combined group, in order to assist in explaining trends in financial performance. A reconciliation between the results on a comparative pro forma basis and a statutory basis is included on page 44. The pro forma comparative results are also presented on an underlying basis as there were a number of factors which had a significant effect on the comparability of the Group's financial position and results. Any reference to pro forma results relates to the prior period only as the pro forma basis is not applicable in the current period due to the combined group being in operation for the entire year.

Cautious approach in an unprecedented environment

Income

Summary for the year ended 30 September	2020 £m	2019 £m	Change
Underlying net interest income	**1,351**	1,433	(6)%
Underlying non-interest income	**191**	206	(7)%
Total underlying operating income	**1,542**	1,639	(6)%
Net interest margin	**1.56%**	1.66%	(10)bps
Average interest-earning assets	**86,826**	86,362	1%

Overview

Income was 6% lower than FY19 at £1,542m, primarily reflecting the impact of the pandemic in the second half of the year and rate changes. NII was the key driver falling 6% versus FY19 to £1,351m. NIM was 10bps lower year-on-year at 1.56% and as expected this was primarily driven by the remaining front versus back book mortgage margin compression, the impact of the base rate cut and excess liquidity costs due to elevated deposit levels.

NII and NIM

Asset yields fell 19bps in the year with mortgage pricing remaining the primary contributor. As expected, we continued to see pressure from front book pricing being below average back book rates, leading to an average reduction in yield of 14bps compared to FY19, while average balances also declined slightly during the year. We remained selective in terms of our participation in the market in the first half while the second half was impacted by the pandemic restrictions. The more recent improvement in mortgage spreads will be beneficial and should be seen in the FY21 results given the typical completion time for mortgages.

In Business, a 40bps reduction in yields was primarily due to lower LIBOR rates and the impact of the Group's new lending being primarily lower-yielding government-guaranteed lending through the BBLS and CBILS. The strong average balance sheet growth associated with this largely offset the lower yield to drive a stable NII performance in the period.

In Personal, growth in average balances drove an NII improvement while yields expanded 19bps primarily due to the seasoning of the credit card book which performed favourably against our effective interest rate (EIR) assumptions. Elsewhere, the average yield on the Group's liquid assets fell 27bps reflecting the BoE base rate reduction.

Liability yields decreased 9bps relative to FY19, reflecting the impact of the BoE base rate cut and proactive repricing as we continued our strategy of optimising our deposit mix. Consumer and business pandemic-related savings behaviours saw an increase in average balances across lower yielding current accounts and savings products, despite the yields on both reducing. While on a spot basis our term deposit book reduced, average balances were broadly stable reflecting the more back-ended repricing activity during the year evidenced in the lower yield.

Wholesale funding costs reduced during the year primarily due to a significant reduction in average balances following the Group's initial Term Funding Scheme (TFS) repayments, a reduction in repo funding and lower secured residential mortgage-backed securities (RMBS) funding owing to the Group's elevated customer deposit balances. The average yield reduced primarily due to rate reductions following the BoE base rate cut and optimisation of the funding stack.

Following the reduction in Bank Base Rate to 0.1%, and noting future market rate expectations, the Group concluded that its 5-year structural hedge had generated maximum value. During Q3 the Group's term structural hedges were fully unwound, locking in expected NII contributions from the hedges over the next 5 years. The Group has offset future uncertainty around the path for base rates through the designation of a portion of the Group's CET1 management buffer to the risk, by agreeing a set of predefined triggers that could result in the Group amending its policy which are reviewed monthly and by measuring different base rate sensitivities as part of its stress testing framework. Based on the current rate outlook, the Group expects no significant adverse impact on NII in FY21 to having maintained a 5-year rolling approach, but it does make the Group more rate sensitive in relation to both an increase or decrease in base rate. The prospect of negative rates in the UK remains highly uncertain not least because of the operational challenges regarding implementation, the interplay with 0% product floors and because of uncertainty on market and competitor reaction to such a move.

In FY21 we anticipate a NIM that is broadly flat on the FY20 level (1.56%), assuming no change in the interest rate environment. This reflects more favourable mortgage pricing, the structural maturity profile of our mortgage book and deposit re-pricing opportunities.

Non-interest income

Non-interest income declined 7% year-on-year to £191m. This included a £16m one-off gilt sales gain during FY20, a fair value gain of £12m (vs. a £15m loss in FY19), partly offset by the absence of c.£20m of fee income earned from the Investments business that was transferred into a joint venture (JV) with Aberdeen Asset Management PLC (AAM) in FY19.

Excluding these impacts, divisional non-interest income of £161m reduced £37m (down 19%) year-on-year. This is largely due to a reduction in Personal fee income of £31m comprising a £16m impact from the implementation of the changes required in response to the 'high cost of credit review' and £13m from lower credit card transaction fee income primarily due to the effects of lockdown spending reductions. Mortgage non-interest income reduced £5m due to lower originations as a result of the pandemic restrictions on the mortgage market. Business fee income was broadly stable during the period, but benefited from a one-off £4m gain in relation to a growth finance business sale participation fee, absent which it would have been down slightly reflecting lower activity based fees.

With the second-half impact on non-interest income a reflection of lower activity levels and with uncertainty as to how quickly this rebounds, coupled with a further UK lockdown currently in force at the time of writing, it is expected that non-interest income will remain subdued.

Average balance sheet	2020 Average balance £m	2020 Interest income/ (expense) £m	2020 Average yield/(rate) %	2019 Average balance £m	2019 Interest income/ (expense) £m	2019 Average yield/(rate) %
Interest earning assets						
Mortgages	**59,464**	**1,446**	**2.43**	60,288	1,551	2.57
Business lending[1]	**8,296**	**313**	**3.77**	7,542	314	4.17
Personal lending	**5,366**	**423**	**7.88**	4,670	359	7.69
Liquid assets	**11,968**	**62**	**0.52**	12,298	98	0.79
Due from other banks	**1,727**	**5**	**0.30**	1,564	13	0.86
Swap income/other	**–**	**(78)**	**n/a**	–	(11)	n/a
Other interest earning assets	**5**	**–**	**n/a**	–	–	–
Total average interest earning assets	**86,826**	**2,171**	**2.50**	86,362	2,324	2.69
Total average non-interest earning assets	**3,696**			3,545		
Total average assets	**90,522**			89,907		
Interest bearing liabilities						
Current accounts	**12,301**	**(13)**	**(0.10)**	11,570	(19)	(0.16)
Savings accounts	**27,430**	**(227)**	**(0.83)**	24,366	(214)	(0.88)
Term deposits	**22,175**	**(348)**	**(1.57)**	22,877	(370)	(1.62)
Wholesale funding	**15,972**	**(228)**	**(1.42)**	19,427	(288)	(1.48)
Other interest bearing liabilities	**180**	**(5)**	**n/a**	–	–	–
Total average interest bearing liabilities	**78,058**	**(821)**	**(1.05)**	78,240	(891)	(1.14)
Total average non-interest bearing liabilities	**7,633**			6,590		
Total average liabilities	**85,691**			84,830		
Total average equity	**4,831**			5,077		
Total average liabilities and average equity	**90,522**			89,907		
Net interest income		**1,350**	**1.56**		1,433	1.66

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

Costs

For the year ended 30 September	2020 £m	2019 £m	Change
Personnel expenses	**336**	365	(8)%
Depreciation and amortisation expenses	**139**	111	25%
Other operating and administrative expenses	**442**	471	(6)%
Total underlying operating and administrative expenses	**917**	947	(3)%
Underlying CIR	**59%**	57%	2%pts

Overview

Underlying operating expenses reduced 3% year-on-year to £917m with the cost:income ratio of 59% increasing slightly due to the challenging operating environment and adverse COVID-19-related income impacts during the year.

Net cost reductions of £30m in the year were inclusive of c.£14m of incremental COVID-19-related costs including £7m of investment in systems to accommodate payment holidays and BBLS, and the remainder being extra resource to support customers.

Much of the underlying cost reductions in the year came from lower personnel costs, down 8%, as the Group continued with its integration programmes to reduce headcount and remove duplicate costs.

Other operating and administrative expenses also reduced by 5% as we started to realise third-party spend savings and operational cost reductions from the integration programme progress, but this was partly offset by the COVID-19-related system costs.

Depreciation and amortisation increased primarily as a result of adoption of IFRS 16 with c.£25m of amortisation on lease right-of-use assets replacing the rent expense previously recognised.

We expect to achieve further net cost reductions in FY21 underpinned by the completion of our integration programme with incremental cost savings from headcount reductions, third party spend and property. However, we do anticipate incurring c.£10-15m of ongoing COVID-19 related costs in FY21. The Group is therefore targeting an underlying operating cost base of <£875m in FY21, down from £917m in FY20.

Cautious approach in an unprecedented environment

Impairments

	Credit provisions at 30 September 2019 £m	Credit provisions at 30 September 2020 £m	Gross lending at 30 September 2020 £bn	Coverage ratio 2020 bps	Net cost of risk 2020 bps	% of loans in Stage 2 at 30 September 2020	% of loans in Stage 3 at 30 September 2020
Mortgages	40	131	58.6	23	16	14%	0.9%
Personal of which:	175	301	5.6	591	423	15%	1.2%
Credit cards	*145*	*222*	*4.5*	*537*	*355*	*12%*	*1.2%*
Personal loans and overdrafts	*30*	*79*	*1.1*	*824*	*721*	*28%*	*1.4%*
Business	147	303	8.7	391(1)	212	44%	3.2%
Total of which	**362**	**735**	**72.9**	**102**	**68**	**18%**	**1.2%**
Stage 2	*168*	*465*	*12.8*	*366*			
Stage 3	*115*	*134*	*0.9*	*1,574*			

(1) Government-guaranteed loan balances excluded for purposes of calculating the Business division coverage ratio.

Overview

The Group has increased its on-balance sheet credit provisions to £735m to ensure appropriate levels of provision coverage across its portfolios, with a total coverage ratio of 103bps. This resulted in the Group recording a total impairment charge of £501m in FY20 (68bps cost of risk) inclusive of write-offs.

Conservative economic weightings and overlays

The Group has taken a cautious approach to assessing its impairment provisions in order to set aside appropriate portfolio provision coverage for the anticipated economic deterioration and increase in credit losses that is expected over the coming period.

The Group has updated its IFRS 9 accounting models with the latest economic scenarios from Oxford Economics and selected a conservative weighting skewed heavily towards the more adverse economic scenarios, partly to reflect the high degree of uncertainty over the path of the virus in 2021 including the potential for further lockdowns. The weightings applied were a 5% weighting to the upside scenario, 50% to the base scenario and 45% to the downside. The weighted economic scenario includes a c.15% GDP trough in 2020, peak unemployment of c.10% in calendar Q1 2021 and a peak-to-trough house price decline of 22%. This resulted in a significant increase in the Group's modelled and individually assessed ECL to £549m (FY19: £313m).

To supplement the models, the Group also applied expert credit risk judgement through post-model adjustments (PMAs). These are designed to account for factors that the models cannot incorporate or where the sensitivity is not as would be expected under what is an unprecedented economic stress scenario. Through this process, the Group prudently applied PMAs of £186m (FY19: £49m) comprising overlays in relation to the Group's expected payment holiday experience and the evolving macroeconomic dynamics that may not be fully captured in inputs or models.

As expected, the IFRS 9 model updates and overlays resulted in significant portfolio stage migration, with loans classified as Stage 2 increasing from 6% of the portfolio to 18% at 30 September 2020. Importantly though, 98% of Stage 2 lending balances remain <30DPD as the stage migration largely reflects the modelled PD migration impact from the economic updates and overlays applied.

The Group has not yet seen any significant credit losses nor been required to make any significant specific provisions in relation to the pandemic impact. The impairment provisions recognised during the year reflect the Group's best estimate of the level of provisions required for future credit losses as calibrated under the Group's conservative weighted economic assumptions and following the application of expert credit risk judgement overlays.

The Group has therefore significantly increased its provision coverage levels across all of its portfolios. In Mortgages, the coverage ratio of 23bps is deemed appropriate for the high-quality portfolio of lending we possess. Our Personal lending book coverage ratio of 591bps includes 537bps of coverage for our high-quality, affluent-customer-led credit card portfolio and 824bps of coverage for our personal loans and overdrafts book, with the much larger weighting of credit cards dampening our total Personal coverage level relative to some peers' total unsecured portfolios. In Business, our coverage ratio of 391bps reflects our sub-investment grade SME lending book, while the 44% of Stage 2 lending balances (FY19: 30%) is reflective of our conservative assumptions and our early adoption of the European Banking Authority (EBA) future requirement to keep forborne assets in Stage 2 for a minimum of two years.

Payment holidays

Virgin Money continues to actively support its Mortgage and Personal customers through this difficult time with payment holidays where appropriate, although the level of new requests reduced significantly after the peak in April. Across the portfolios we have only c.1-4% of portfolio balances on a payment holiday and of those payment holidays that have matured the vast majority of customers (>90%) have returned to payments, with only a small proportion currently requiring further support. The key payment holiday statistics are set out below.

Outlook

The Group's recognition of significant impairment charges in FY20 reflects the conservative weighted economic scenarios and expert judgement overlays applied, ahead of an expected deterioration in the future economic environment. Current expectations are that, subject to no further material deterioration in the economic outlook, the Group's FY21 cost of risk will be lower than that for FY20.

Payment holidays status

Product	Total balances of payment holidays granted to date	Representing % of balances	Total balances of payment holidays still in force	Representing % of balances	% of matured payment holiday customers returning to payment	% of matured payment holiday customers requiring support or in arrears
Mortgages	£11.9bn	20%	£2.5bn	4%	98%	2%
Credit Cards	£219m	5%	£31m	1%	92%	8%
Personal Loans	£103m	11%	£26m	3%	95%	5%

Exceptional items and statutory loss

	2020 £m	2019 £m
Underlying profit on ordinary activities before tax	**124**	539
Exceptional items		
– Integration and transformation costs	**(139)**	(156)
– Acquisition accounting unwinds	**(113)**	(87)
– Legacy conduct costs	**(26)**	(433)
– Other items	**(14)**	(128)
Loss on ordinary activities before tax	**(168)**	(265)
Add Virgin Money Holdings (UK) PLC pre-acquisition loss(1)	**–**	33
Statutory loss on ordinary activities before tax	**(168)**	(232)
Tax credit	**27**	53
Statutory loss for the year	**(141)**	(179)
Underlying RoTE	**0.6%**	10.8%
Statutory RoTE	**(6.2)%**	(6.8)%
Tangible Net Asset Value (TNAV) per share	**244.2p**	249.2p

(1) In order to reconcile the 2019 pro forma loss to the statutory loss, the pre-acquisition results of Virgin Money Holdings (UK) PLC are removed.

Overview

The Group's underlying profit before tax was £124m (FY19: £539m) down significantly year-on-year primarily due to the significant impairment provision charge recognised of £501m. The Group therefore made a statutory loss after tax of £141m after deducting £292m of exceptional costs incurred during the year, as well as a tax credit of £27m. The exceptional item charges incurred in FY20 were however significantly lower than FY19 due to the non-recurrence of significant one-off acquisition costs and legacy PPI conduct charges.

Underlying RoTE of 0.6% was significantly lower than the prior year of 10.8%, reflecting the lower underlying profit due to the sizeable impairment provision. Statutory RoTE was therefore negative after reflecting the integration & transformation costs and acquisition accounting unwind charges incurred.

TNAV per share reduced 5p in FY20 to 244.2p, with TNAV build of 34p from underlying pre-provision profit after tax being more than offset by 28p of impairment provision charges and a net 11p adverse impact from other movements including exceptional item charges partly offset by a pension scheme actuarial gain.

Integration and transformation costs

Due to the impact of COVID-19, the Group delayed some of its planned restructuring activity in the first half, but recommenced the majority of the programmes in the final quarter. This led to spend of £139m in the period primarily relating to the integration programmes. This spend has supported the delivery of net cost savings in FY20 and will also deliver run-rate savings into FY21. The Group expects to continue its integration and transformation programmes in FY21 and anticipates a further c.£75m of costs during the year to deliver this.

Acquisition accounting unwinds

The Group recognised fair value acquisition net accounting adjustments at the time of the Virgin Money acquisition that would be unwound through the income statement over the remaining life of the related assets and liabilities (c.5 years). £113m was charged in FY20 which included the reclassified fair value unwind related to legacy Virgin Money hedges which had previously been recognised in underlying non-interest income. The Group now expects a further c.£150m of total acquisition accounting unwind charges over the next five years, which is expected to see the majority of this charge incurred over the next 1-2 years.

Legacy conduct

The Group raised £26m of further provisions in relation to non-PPI customer redress matters in the year, relating to several outstanding legacy issues, none of which is material in its own right.

No further payment protection insurance (PPI) related provisions were recognised in FY20 and the Group has made good progress in processing its outstanding PPI complaints and information requests during the year. The Group has processed all of its information requests and now has just c.30k complaints left to review, which it expects to complete by the turn of the calendar year and in line with its current provision estimate.

Other items

The Group incurred £14m of other one-off exceptional costs during the year, primarily reflecting the growth opportunity projects relating to the RBS switching scheme and set-up costs relating to the AAM JV.

Taxation

On a statutory basis, the tax credit was £27m on a pre-tax loss of £168m, an effective rate of 16%. The overall credit is less than the statutory rate of 19% due to the impact of non-deductible expenses (tax effect of £5m). The banking surcharge is not payable this period. Included within the overall credit is £37m related to changes in the corporation tax rate and a further £15m related to tax on Additional Tier 1 (AT1) distributions now reflected via the income statement (in prior periods tax related to AT1 distributions was recorded via changes in equity). These credits were offset by a reduction of £51m in the value of tax losses recognised, reflecting a fall in forecast profits against which such losses can be recognised.

On an underlying basis, the Group tax charge was £24m on underlying profits of £124m, an effective rate of 19%. As outlined above, the impact of the rate change and AT1 credits is offset by the reduction in asset for losses recognised, resulting in an effective rate that matches the statutory mainstream tax rate.

Outlook

The Group expects its profitability to improve going forward as the provision charge normalises, assuming no further deterioration in the economic environment, and the exceptional charges reduce in line with expectations. The gap between underlying and statutory is also expected to decrease significantly over the medium term.

Cautious approach in an unprecedented environment

Balance sheet

As at 30 September	2020	2019	Change
Mortgages	**58,290**	60,079	(3.0)%
Personal	**5,219**	5,024	3.9%
Business	**8,948**	7,876	13.6%
of which BBLS	**809**	–	n/a
of which CBILS	**334**	–	n/a
Total customer lending	**72,457**	72,979	(0.7)%
Relationship deposits(1)	**25,675**	21,347	20.3%
Non-linked savings	**20,729**	20,197	2.6%
Term deposits	**21,107**	22,243	(5.1)%
Total customer deposits	**67,511**	63,787	5.8%
Wholesale funding	**14,227**	18,506	(23.1)%
of which TFS	**4,108**	7,342	(44.0)%
of which TFSME	**1,300**	–	n/a
LDR	**107%**	114%	(7)%pts
LCR	**140%**	152%	(12)%pts

(1) Current account and linked savings balances.

Overview

The Group's balance sheet during FY20 has been impacted by the pandemic in very different ways across our portfolios. At an aggregate level our total customer lending has reduced by 0.7% to £72.5bn primarily due to a contraction in our Mortgage book, while our total customer deposits have increased by 5.8% to £67.5bn reflecting pandemic-related consumer and business behaviours.

Customer lending and deposit balances

In our Mortgages business, balances declined 3.0% to £58.3bn as we actively chose to maintain our pricing discipline in a competitive (pre-COVID-19) environment in the first half, while the second half was impacted by the UK lockdown restrictions on the housing market. The house purchase market has picked up significantly during the second half of the year and while the Group is participating in this increased flow, the benefit will not be seen until FY21 given the typical mortgage completion timeframes.

Personal lending growth of 3.9% to £5.2bn was mainly focused on our high-quality credit card business where we continued our long standing strategy of origination focused on affluent customers with high levels of disposable income, with good growth in our personal loan book also due to our digital originations. Our credit card lending balances have remained more resilient than the market due to our high proportion of balance transfer card balances which make up a significant proportion of our portfolio and are more stable at times of tempered demand. Credit card activity slowed significantly during lockdown with volumes c.55% lower than usual in April/May, and while spending did improve over the summer it is still not back to pre-pandemic levels and is expected to remain muted particularly if future lockdowns are imposed.

Business lending increased 13.6% to £8.9bn, although this growth was solely due to the government-guaranteed lending schemes (BBLS/CBILS/CLBILS) through which the Group lent £1.2bn to businesses to provide much needed liquidity. Underlying business lending shrank slightly by £0.1bn reflecting lower BAU demand.

Customer deposit balances grew 5.8% in the period to £67.5bn. The growth came primarily in relationship deposits which rose 20.3% to £25.7bn as consumer spending slowed dramatically under lockdown and businesses generally deposited government-guaranteed lending proceeds into cash accounts for liquidity. Elsewhere, we continued to optimise the deposit base with a 5.1% reduction in term deposits.

Wholesale funding and liquidity

The Group maintains a strong funding and liquidity position and has no reliance on short-term wholesale funding. The 12%pts reduction in the LCR over the period highlights the Group's ability to operate more efficiently, while continuing to comfortably exceed both regulatory requirements and more prudent internal risk appetite metrics.
In addition to its liquid asset buffer averaging c.£12bn over the past 12 months, the Group has a significant amount of pre-positioned collateral eligible for use in a range of central bank facilities, ensuring a substantial buffer in the event of any sudden outflows.

Supplementing the customer deposit position, we ensure appropriate diversification in our funding through a number of well-established wholesale funding programmes. In January, we successfully completed the issuance of further mortgage-backed securities from the Group's Lanark programme, raising £500m equivalent. This was supported by £475m of Tier 2 subordinated debt issuance in September which strengthened the Group's capital stack, as well as €500m of senior unsecured debt issuance in June as we continue to build a buffer over our final MREL requirements.

During the period, the Group repaid £3.2bn of its TFS drawings, leaving £4.1bn outstanding. At the same time, the Group drew £1.3bn from the BoE's new TFSME, extending the duration and optimising our funding flexibility to support customers through this period of stress.

Total wholesale funding reduced to £14.2bn during the year (FY19: £18.5bn), principally as a result of the growth in customer deposits allowing us to optimise the funding stack. This resulted in a 7%pts reduction in the Group's LDR over the period to 107%.

Outlook

As we look into FY21, we expect muted lending demand reflecting the anticipated deterioration in the economy, while the trajectory for deposits is more uncertain and will depend on the extent to which consumers & businesses need to utilise the savings they have built.

Capital

As at 30 September	2020	2019	Change
CET1 ratio (IFRS 9 transitional)	**13.4%**	13.3%	0.1%pts
CET1 ratio (IFRS 9 fully loaded)	**12.2%**	12.9%	(0.7)%pts
Total capital ratio	**20.2%**	20.1%	0.1%pts
MREL ratio	**28.4%**	26.6%	1.8%pts
UK leverage ratio	**4.9%**	4.9%	–%pts
RWAs (£m)	**24,399**	24,046	1.5%
of which Mortgages (£m)	**9,484**	8,846	7.2%
of which Business (£m)	**6,716**	7,124	(5.7)%
of which Personal (£m)	**4,151**	4,042	2.7%

Overview

The Group has maintained a robust capital position with a CET1 ratio (IFRS 9 transitional basis) of 13.4% and a total capital ratio of 20.2%. The significant impairment provision charges recognised during the year have largely been offset by IFRS 9 transitional relief and EEL deductions on a transitional basis. The Group's CET1 ratio on an IFRS 9 fully loaded basis did however reduce to 12.2%.

Capital requirements

Following completion of the Group's ICAAP, the PRA updated the capital requirements for the Group. The Pillar 2A CET1 requirement was reduced from 2.9% to 2.5% and the Group's fully-loaded CRD IV minimum CET1 capital requirement is now 9.5%.

CET1 capital

The Group's transitional CET1 ratio increased by 8bps in the period. Pre-provision underlying profit generated CET1 of 165bps, with the 121bps of impairment provision charges offset by 119bps of IFRS 9 transitional relief and EEL deduction. RWA growth in the period consumed 19bps of CET1 and included the adverse mortgage model changes of 29bps offset by the SME supporting factor relief of 39bps. After AT1 distributions of 28bps, the Group generated 116bps of underlying CET1 capital. The Group also incurred exceptional item charges including restructuring costs and acquisition accounting unwind totalling 82bps along with other charges of 26bps.

Risk-weighted assets

RWAs increased c.£0.4bn (1.5%) during the period, largely reflecting the impact of implementing the planned Mortgage model changes that increased RWAs by c.£0.5bn, offset by a reduction in Business RWAs primarily due to the impact of the SME supporting factor relief that reduced RWAs by c.£0.7bn. RWAs in the Personal portfolio broadly tracked lending volumes, with non-credit RWAs stable.

Robust capital position in the face of economic uncertainty

The significant impairment provisions taken during the year to increase the Group's on-balance sheet provisions to £735m means that the Group holds appropriate levels of provision coverage as we go into a period of economic stress with an expected increase in credit losses. In addition, the Group also retains a significant CET1 management buffer of c.£950m in excess of its CRD IV regulatory requirement, providing further potential loss-absorbing capacity. The Board has concluded that it is prudent to conserve capital and has not proposed an ordinary dividend for FY20, but still has an ambition to deliver a sustainable and progressive dividend over time.

MREL

The Group's MREL ratio increased to 28.4%, comfortably exceeding both its interim and expected 2022 end-state MREL requirement. This means future MREL issuance is focused on building a prudent management buffer over the expected end-state MREL requirement, with £0.5bn to £0.75bn of further MREL eligible senior unsecured issuance planned in FY21.

Outlook

Looking into 2021, the Group anticipates RWA inflation and a reduction in IFRS 9 transitional relief through ratings migrations as the economy deteriorates, but expects partial offsets through RWA efficiency opportunities including the move to IRB for credit cards, business model updates and hybrid mortgage models. The in-year transitional CET1 ratio trajectory will be impacted by the timing of the RWA inflation, but the RWA opportunities and expected EBA software intangible benefit mean we currently expect to finish the year around c.13% on a transitional CET1 ratio basis. The Group is also preparing for the ACS stress test in 2021 which will be an important input into the Group's medium term capital targets.

CET1 ratio in-year movements	2020
Opening CET1 ratio (IFRS 9 transitional)	**13.3%**
Pre-provision capital generated (bps)	**165**
Impairment provision charge (bps)	**(121)**
Impairment provision regulatory adjustments(1) (bps)	**119**
RWA growth(2) (bps)	**(19)**
AT1 distributions (bps)	**(28)**
Underlying capital generated (bps)	**116**
Integration and transformation costs (bps)	**(47)**
Acquisition accounting unwind (bps)	**(35)**
Other (bps)	**(26)**
Net capital generated (bps)	**8**
Closing CET1 ratio (IFRS 9 transitional)	**13.4%**

(1) Impairment provision regulatory adjustments include IFRS 9 transitional relief of 82bps and movements in EEL of 37bps.
(2) Includes mortgage model changes of (29)bps and SME supporting factor relief of 39bps.

Cautious approach in an unprecedented environment

Guidance reflects level of economic uncertainty

FY21 financial guidance

Net Interest Margin (NIM)

Broadly flat on FY20 level

Underlying costs

<£875m (incl. £10-15m of COVID costs)

Cost of risk

Lower than FY20 level

Medium-term outlook:

The Board believes that, assuming no significant further deterioration in expectations for the economic outlook or change in interest rates, Virgin Money has a clear path to delivering double digit statutory returns on tangible equity over time. Specific medium-term guidance will be provided when there is more certainty on the forward economic trajectory.

Outlook

Given the unprecedented nature of COVID-19, the exact economic outlook for the UK is clearly evolving and remains hard to predict with any high degree of certainty at this stage. We recognise the very recent news of a potential vaccine but have determined that it is too early to incorporate this in our near-term forecasts at present.

The implications of the future reduction in the various UK government economic support measures and the impact of current lockdown restrictions are unclear at present, while the threat of further future lockdowns remains. The outcome of these will be key in determining the size of the shock to GDP, future unemployment levels and the associated shape of any recovery. The UK's Brexit negotiations are also not yet concluded and there is still a risk of a no-deal outcome that would adversely impact the economy further and could lead to a more prolonged downturn and consequent slower recovery.

However, the Group enters this period from a position of balance sheet strength and we remain agile in managing the emerging risks, while continuing to support our customers, colleagues and communities.

Given the aforementioned uncertainties and fluidity of the operating environment, while it is possible for the Group to give indicative financial guidance for FY21, it is not appropriate at this stage to give firm medium-term guidance.

FY21 financial guidance

While the Group's NIM reduced in FY20 due to the continued compression in mortgage margins and the BoE base rate cut, in FY21 we anticipate a NIM that is broadly flat on the FY20 level (1.56%) assuming no change in the rate environment. This reflects more favourable mortgage pricing, the structural maturity profile of our mortgage book and deposit re-pricing opportunities.

With the second-half impact on non-interest income a reflection of lower activity levels and with uncertainty as to how quickly this rebounds, coupled with a further UK lockdown currently in force at the time of writing, it is expected that non-interest income will remain subdued.

On costs, we expect to achieve further net cost reductions in FY21 underpinned by the completion of our integration programme with incremental cost savings from headcount reductions, third-party spend and property, but we do currently anticipate incurring c.£10-15m of ongoing COVID-19 related costs in FY21. The Group is therefore targeting an underlying operating cost base of <£875m in FY21, down from £917m in FY20.

On cost of risk, the Group's recognition of significant impairment charges in FY20 reflects the conservative weighted economic scenarios and expert judgement overlays applied, ahead of an expected deterioration in the future economic environment. Current expectations are that, subject to no further material deterioration in the economic outlook, the Group's FY21 cost of risk will be lower than FY20.

Medium-term expectations

In the medium term, the Group believes that, assuming no significant further deterioration in expectations for the economic outlook or change in interest rates, Virgin Money has a clear path to delivering double digit statutory returns on tangible equity over time. The improvement in returns will be built on: the normalisation of impairments and exceptional costs; ensuring we continue to reduce our cost base to reflect the future operating environment; optimising our balance sheet mix; and delivering a more efficient capital base over time.

On capital, while in the near term we expect to continue operating with a significant buffer (currently 390bps) in excess of our MDA threshold of 9.5%, over the medium term as economic conditions stabilise we intend to operate a dynamic CET1 ratio target. This will comprise of an appropriate management buffer in excess of our MDA threshold that will be calibrated to ensure that the Group remains well capitalised taking into account regulatory developments including next year's ACS stress test, the prevailing risk environment and an ability to withstand stresses at all times.

The Group also understands the importance of capital returns to our shareholders, and we believe that the delivery of our strategy will allow Virgin Money to consistently generate significant capital over time that can be redeployed into both returns accretive growth and returns to shareholders.

Enda Johnson
Interim Group Chief Financial Officer
24 November 2020

Summary income statement

For the year ended 30 September	2020 £m	2019 £m	Change %
Net interest income	**1,283**	1,514	(15)
Non-interest income	**160**	235	(32)
Total operating income	**1,443**	1,749	(17)
Operating and administrative expenses	**(1,104)**	(1,729)	(36)
Operating profit before impairment losses	**339**	20	1,595
Impairment losses on credit exposures	**(507)**	(252)	101
Statutory loss on ordinary activities before tax	**(168)**	(232)	(28)
Tax credit	**27**	53	(49)
Statutory loss after tax	**(141)**	(179)	(21)

The Group has recognised a statutory loss after tax of £141m (30 September 2019: loss of £179m). The statutory loss in 2020 was due to the significant increase in impairment provision charges due to COVID-19, coupled with several ongoing exceptional items including integration and transformation costs, and acquisition accounting unwind charges. In 2019 the statutory loss largely reflected the significant one-off costs relating to the acquisition of Virgin Money Holdings (UK) PLC and PPI conduct charges. 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 related to the integration reduce.

Key Performance Indicators[1]

	12 months to 30 Sep 2020	12 months to 30 Sep 2019	Change
Profitability			
Statutory RoTE	**(6.2)%**	(6.8)%	0.6%pts
Statutory CIR	**76%**	99%	(23)%pts
Statutory return on assets	**(0.16)%**	(0.23)%	0.07%pts
Statutory basic loss per share	**(15.3)p**	(17.9)p	2.6p

(1) For a definition of each of the KPIs, refer to 'Measuring financial performance – glossary' on pages 257 to 258. The KPIs include statutory, regulatory and alternative performance measures.

Cautious approach in an unprecedented environment

Reconciliation of statutory to underlying results

The statutory basis presented within this section reflects the Group's results as reported in the financial statements, incorporating Virgin Money Holdings (UK) PLC from 15 October 2018. The pro forma comparative basis includes the consolidated results of Virgin Money Holdings (UK) PLC as if the acquisition had occurred on 1 October 2018. The underlying results reflect the Group's results prepared on an underlying basis as presented to the CEO, Executive Leadership Team and Board. These exclude certain items that are included in the statutory results, as management believes that these items are not reflective of the underlying business and do not aid meaningful period-on-period comparison. 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 259.

2020 income statement	Statutory results £m	Integration and transformation costs £m	Acquisition accounting unwinds £m	Legacy conduct £m	Other £m	Underlying basis £m
Net interest income	**1,283**	–	**68**	–	–	**1,351**
Non-interest income	**160**	–	**28**	–	**3**	**191**
Total operating income	**1,443**	–	**96**	–	**3**	**1,542**
Total operating and administrative expenses before impairment losses	**(1,104)**	**139**	**11**	**26**	**11**	**(917)**
Operating profit before impairment losses	**339**	**139**	**107**	**26**	**14**	**625**
Impairment losses on credit exposures	**(507)**	–	**6**	–	–	**(501)**
(Loss)/profit on ordinary activities before tax	**(168)**	**139**	**113**	**26**	**14**	**124**
Financial performance measures						
RoTE	**(6.2%)**	**3.3%**	**2.6%**	**0.6%**	**0.3%**	**0.6%**
CIR	**76.5%**	**(8.1)%**	**(6.6)%**	**(1.5)%**	**(0.8)%**	**59.5%**
Return on assets	**(0.16)%**	**0.12%**	**0.10%**	**0.02%**	**0.01%**	**0.09%**
Basic EPS	**(15.3)p**	**7.9p**	**6.5p**	**1.5p**	**0.8p**	**1.4p**

2019 income statement	Statutory results £m	Include Virgin Money pre-acquisition results £m	Pro forma results £m	Integration and transfor-mation costs £m	Acquisition accounting unwinds £m	Legacy conduct £m	Other £m	Underlying basis £m
Net interest income	1,514	22	1,536	–	(23)	–	(80)	1,433
Non-interest income	235	9	244	–	–	–	(38)	206
Total operating income	1,749	31	1,780	–	(23)	–	(118)	1,639
Total operating and administrative expenses before impairment losses	(1,729)	(60)	(1,789)	156	7	433	246	(947)
Operating profit/(loss) before impairment losses	20	(29)	(9)	156	(16)	433	128	692
Impairment losses on credit exposures	(252)	(4)	(256)	–	103	–	–	(153)
(Loss)/profit on ordinary activities before tax	(232)	(33)	(265)	156	87	433	128	539
Financial performance measures								
RoTE	(6.8)%	(0.7)%	(7.5)%	3.5%	2.0%	9.9%	2.9%	10.8%
CIR	99%	1%	100%	(10)%	1%	(26)%	(8)%	57%
Return on assets	(0.23)%	(0.03)%	(0.26)%	0.15%	0.09%	0.43%	0.13%	0.54%
Basic EPS	(17.9)p	(1.7)p	(19.6)p	9.3p	5.1p	25.7p	7.6p	28.1p

Governance


Virgin MONEY
Virgin MONEY
new balance
TAGHeuer
10:15:02
ABBOTT WORLD MARATHON MAJORS
PACE 1
THOMPSON

Chairman's governance review

The Board's primary objective remains to drive our strategy ensuring the long-term sustainable success of Virgin Money.

David Bennett
Chairman

The following pages provide details of our Board and Executive Leadership Team and explain how the governance framework of VMUK operates. The report also highlights the key areas of focus for the Board and its principal committees during the period to 30 September 2020.

Dear shareholder,
I am pleased to present my first corporate governance report as your Chairman. This report sets out our approach to governance in practice, the work of the Board in 2020 and includes reports from the Governance and Nomination Committee, the Audit Committee and the Risk Committee. The report from the Remuneration Committee is included in the Directors' remuneration report.

The Board recognises the importance of meeting the Group's responsibilities and duties to shareholders and all other stakeholders. The Board's approach is to ensure that the Group applies the highest principles of corporate governance and that such principles are embedded into the culture and operations of our business. Our commitment to good governance underpins our strategy and ensures we continually challenge our assumptions and risks. The Board keeps our Purpose, making you happier about money, central to its decision making to deliver value and make the biggest positive difference for all stakeholders, for the environment and our society. An overview of the range of matters that the Board considered this year is provided on pages 57 to 58 and details of how the Board took into account shareholder and wider stakeholder interests in its discussions and decision making are set out on pages 61 to 63.

A refreshed Board
After eight years on the Board and six of those as Chairman, Jim Pettigrew retired in May 2020. The Board and I are grateful for Jim's leadership of the Board and stewardship of Virgin Money during his time as Chairman. The process to identify and appoint Jim's successor is set out in the Governance and Nomination Committee report on page 67.

During the year, Clive Adamson, Adrian Grace, Teresa Robson-Capps, Fiona MacLeod and Ian Smith retired from the Board and I'd like to thank them for their hard work and service over the past few years.

Succession planning and the composition of the Board and its committees are key parts of our governance framework and this year, listening to investor feedback and updating for current practice, the Governance and Nomination Committee led a review of the balance of the Board resulting in a reduction in its size in line with market norms for companies of our size. Changes were also made to the chairmanship and membership of the Board committees. These changes are described in the report from the Governance and Nomination Committee on page 65. The Board continues to comprise Directors who bring deep sector knowledge, continuity of experience and insight from both of our heritage businesses, and as Virgin Money evolves we will also thoughtfully consider the skills required of our Board in the future.

Board effectiveness evaluation
This year, the annual evaluation of Board effectiveness was externally facilitated by Lintstock Limited between September 2019 and January 2020 and was overseen by the Governance and Nomination Committee. The process, insights and action plan are described on pages 68 to 70.

Responding to the COVID-19 pandemic
The Board met frequently during the height of the COVID-19 pandemic to oversee Virgin Money's response to safeguard the health and well-being of our colleagues, customers and communities while protecting the Bank. Practically speaking, we've held all Board and Board committee meetings electronically since March and Directors continue to keep in close contact with the Executive Leadership Team and colleagues from across the business despite the remote working arrangements that have been in place for a substantial part of the year. The Board continues to keep engaged on the response plans in preparation for a potential escalation in the pandemic in addition to how our business will change and adjust building on the lessons learned from the crisis. An overview of this governance in action is on page 59.

Continuing our strategic journey
Our ambition remains to disrupt the status quo as a full-service digital bank and the Board's primary objective remains to drive our strategy ensuring the long-term sustainable success of Virgin Money. The Board held a series of sessions with management in the second half of the year to work through the impact of the pandemic on our strategy. These sessions were valuable in providing management with the opportunity to draw on the breadth of skills, experience and perspectives of Non-Executive Directors and for them to challenge management on how our plans need to adapt to a post-COVID-19 environment. You can read more about our progress in the Strategic report on page 6 and on the focus of the strategy sessions on page 59.

UK Corporate Governance Code
2020 was the first year that the UK Corporate Governance Code 2018 (Code) has applied to Virgin Money. Our statement of compliance with the Code is on page 49.

Looking ahead
I am delighted to have been appointed your Chairman and look forward to leading the Board and ensuring its continued effectiveness over the coming year.

David Bennett
Chairman
24 November 2020

Our Board in 2020

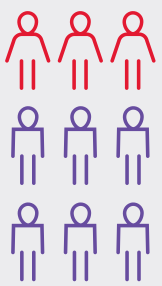
Board and Committee composition and attendance[1]

Board member	Board meetings	Governance and Nomination Committee	Audit Committee	Risk Committee	Remuneration Committee	Independent
David Bennett (Chairman)[4]	10/10	7/7	4/4[9]	4/4[9]	7/8[2]	(on appointment)
Jim Pettigrew (former Chairman)[3]	6/6	4/5[2]	–	–	6/6	(on appointment)
Executive Directors						
David Duffy	10/10	–	–	–	–	No
Ian Smith[5]	10/10	–	–	–	–	No
Non-Executive Directors						
Clive Adamson[6]	2/3[2]	–	2/2	1/2[2]	–	
Paul Coby	10/10	2/2[10]	2/2[10]	7/7	2/2[10]	
Geeta Gopalan	10/10	1/2[2],[12]	4/4[11]	7/7[12]	1/2[2],[12]	
Adrian Grace[7]	5/6[2]	–	–	–	5/6[2]	
Fiona MacLeod[5]	9/10[2]	7/7	–	6/7[2]	8/8	
Darren Pope	10/10	1/2 [2],[14]	6/6	2/2[14]	4/4[13]	
Teresa Robson-Capps[8]	7/8[2]	–	4/4	–	–	
Amy Stirling	10/10	2/2[15]	–	–	–	No
Tim Wade	10/10	6/7[2]	6/6	7/7	2/2[16]	

(1) Data is based on scheduled meetings from 1 October 2019 to 30 September 2020 only. Additional ad hoc meetings of the Board and Board Committees also took place during the year.
(2) Unable to attend the meeting due to a prior unavoidable commitment.
(3) Jim Pettigrew stepped down as Chairman of the Board, as Chair of the Governance and Nomination Committee, and as a member of the Remuneration Committee on 5 May 2020.
(4) David Bennett was appointed Chairman of the Board and Chair of the Governance and Nomination Committee from 6 May 2020.
(5) Fiona MacLeod and Ian Smith stepped down from the Board on 30 September 2020.
(6) Clive Adamson stepped down from the Board, as Chair of the Risk Committee and a member of the Audit Committee on 29 November 2019.
(7) Adrian Grace stepped down from the Board and as Chair of the Remuneration Committee on 1 May 2020.
(8) Teresa Robson-Capps stepped down from the Board and as a member of the Audit Committee on 30 June 2020.
(9) David Bennett ceased to be a member of the Audit Committee and of the Risk Committee on 6 May 2020.
(10) Paul Coby was appointed a member of the Audit Committee, of the Governance and Nomination Committee and of the Remuneration Committee from 1 July 2020.
(11) Geeta Gopalan was appointed Chair of the Risk Committee and a member of the Audit Committee from 30 November 2019.
(12) Geeta Gopalan was appointed a member of the Governance and Nomination Committee and of the Remuneration Committee from 1 July 2020.
(13) Darren Pope was appointed a member of the Remuneration Committee from 3 February 2020 and Chair of the Remuneration Committee from 2 May 2020.
(14) Darren Pope was appointed a member of the Risk Committee and of the Governance and Nomination Committee from 1 July 2020.
(15) Amy Stirling was appointed a member of the Governance and Nomination Committee from 1 July 2020.
(16) Tim Wade was appointed a member of the Remuneration Committee from 1 July 2020.

Board diversity as at 30 September 2020

Gender diversity



Female 3
Male 6

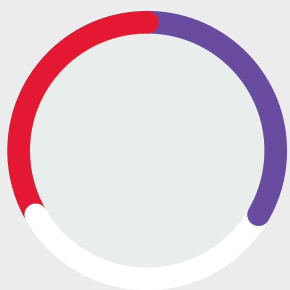
Composition by age

55 years and below 4
56 years and above 5

Composition by role

Executive Directors 2
Chair 1
Non-Executive Director 1
Independent Non-Executive Directors 5

Compostion by tenure



0 – 2 years 3
2 – 4 years 3
4 – 6 years 3

The UK Corporate Governance Code 2018

Our compliance with the Code

2020 is the first year in which the Company has reported against the Code (which is available at www.frc.org.uk) and in accordance with the new statutory requirements set out in The Companies (Miscellaneous Reporting) Regulations 2018. The Board confirms that the Company applied the principles and complied with all the relevant provisions of the Code throughout the year with the exception of provision 36 which requires that the Remuneration Committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares. Under the Group's Executive Director Remuneration Policy, a significant proportion of variable pay is delivered in shares over a seven-year timeframe with no acceleration on departure. Upon the vesting of shares at the end of the deferral period, a regulatory holding period is applied as required. Therefore, it is the Board's view that the Company complies with best practice and the spirit of Code provision 36 in all material respects, despite there being no formal post-employment shareholding policy having been implemented.

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

Our Board of Directors

Chairman

David Bennett
Chairman

GOV REM

Joined the Group
October 2015 and became Chairman in May 2020

Skills, experience and contribution
- Deep experience gained over 35 years in retail banking and financial services
- Extensive experience in strategic planning and implementation
- Significant board governance experience including at Chairman level
- Credibility with stakeholders
- Strong leadership qualities

David is an experienced Chairman and Non-Executive Director. His extensive business career includes time as Group Finance Director of Alliance & Leicester plc for six years before becoming its Group Chief Executive. Following the acquisition of Alliance & Leicester plc by Banco Santander he was Executive Director on the Board of Abbey National plc. He was formerly Chairman of Homeserve Membership Limited and Together Financial Services Limited, was a Non-Executive Director on the Board of Bank of Ireland (UK) PLC and has significant Non-Executive Director experience in listed environments which has included easyJet plc and CMC Markets PLC.

External appointments
Chairman of Ashmore Group plc and Non-Executive Director of PayPal (Europe) S.a.r.l et Cie, S.C.A and David Bennett Advisory Limited.

Executive Director

David Duffy
Executive Director and Chief Executive Officer

Joined the Group
June 2015

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

David has over three decades of extensive experience in banking and financial services in both the UK and internationally. Prior to joining the Group, David was Chief Executive Officer at Allied Irish Banks plc and previously of Standard Bank International where he had responsibility for operations in the UK, Europe, Latin America and Asia. He was also previously Head of Global Wholesale Banking Network with ING Group and President and Chief Executive of the ING wholesale franchises in the United States and Latin America. David is a past president of the Banking and Payments Federation of Ireland and a past Director of the European Banking Federation.

External appointments
Senior Independent Director of UK Finance Limited, the industry body representing leading firms providing finance, banking, markets and payments-related services in or from the UK; HM Treasury Fintech Envoy for England; and a Board member of The Northern Powerhouse Partnership.

Non-Executive Directors

Tim Wade
Senior Independent Non-Executive Director

AUDIT GOV REM RISK

Joined the Group
September 2016

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

Tim is an experienced Chief Financial Officer with a breadth of financial services experience. His previous non-executive director roles include Macquarie Bank International Limited, Friends Life Group Limited, Monitise plc and The Access Bank UK Limited. He was a Managing Director at AMP Group, responsible for both its Bank and the Virgin Direct (now Virgin Money) JV. Earlier in his career he was Group Chief Financial Officer at Colonial Limited in Melbourne, Australia where he oversaw the company's IPO and was involved in its acquisition by Commonwealth Bank.

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

Key

- AUDIT Audit Committee
- GOV Governance and Nomination Committee
- REM Remuneration Committee
- RISK Risk Committee
- Chair

Paul Coby
Independent
Non-Executive Director

AUDIT GOV REM RISK

Joined the Group
June 2016

Skills, experience and contribution

- Extensive information technology, e-commerce and digital transformation experience
- Highly regarded chief information officer
- Strong board governance experience across diverse industries
- Significant experience in IT strategy development and implementation

Paul has extensive experience as a chief information officer. He is currently Chief Information Officer at Johnson Matthey, a FTSE 100 global leader in sustainable technologies, and prior to that was the first John Lewis partnership CIO responsible for creating a unified IT function and an integrated cyber security programme. He spent 15 years at BA accountable for the design, development and operation of BA's IT strategy. His previous roles have included Chairman of the Société Internationale de Télécommunications Aéronautiques, Non-Executive Director at Pets at Home Group plc and P&O Ferries Limited, Chairman of the eSkills UK CIO Board, and Chairman of the oneworld CIO Group.

External appointments
Chief Information Officer of Johnson Matthey PLC.

Geeta Gopalan
Independent
Non-Executive Director

RISK AUDIT GOV REM

Joined the Group
October 2018

Skills, experience and contribution

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

Geeta has extensive financial services, retail banking and payments industry experience. Geeta was formerly Executive Chair of Monitise Europe, a non-executive director at VocaLink and Vice Chair of the Big Lottery Fund England. Among the many roles in her career, Geeta was Director of Payment Services with HBOS plc and previously Managing Director, UK Retail Bank and Business Development Head EME at Citigroup. She is a chartered accountant.

External appointments
Non-Executive Director and Chair of the Audit Committee of Funding Circle Holdings Plc, Non-Executive Director of Ultra Electronic Holdings Plc and Non-Executive Director and Chair of the Risk Committee at Wizink Bank S.A.

Darren Pope
Independent
Non-Executive Director

REM AUDIT GOV RISK

Joined the Group
October 2018

Skills, experience and contribution

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

Darren brings considerable and highly relevant experience in retail banking and financial services. His previous appointments include Chief Financial Officer of TSB Bank plc where he took the lead role in the divestment of the TSB business from Lloyds Bank plc and its subsequent IPO and takeover. Prior to that he held several executive and senior retail banking and finance roles at Lloyds Banking Group plc.

External appointments
Senior Independent Non-Executive Director and Chair of the Audit Committee of Equiniti Group plc, Senior Independent Non-Executive Director and Chair of the Audit and Risk Committees at Network International Holdings plc and adviser at Silicon Valley Bank (UK branch).

Our Board of Directors

Non-Executive Directors

Amy Stirling
Non-Executive Director

GOV

Joined the Group
October 2018

Skills, experience and contribution
- Extensive financial leadership, management and board experience
- Experience across a range of sectors including telecommunications, financial services and commerce
- Significant experience in strategic planning and implementation
- Chartered accountant and experienced Chief Financial Officer

Amy brings invaluable brand and consumer perspectives and insights from her role as Chief Financial Officer at Virgin Group. Her previous appointments include Non-Executive Director and Chair of the Audit & Risk Committee at the UK Cabinet Office; Non-Executive Director and Chair of the Audit Committee at Pets at Home Group plc; Chief Financial Officer of The Princes Trust; and Chief Financial Officer at TalkTalk Telecom Group Plc.

External appointments
Chief Financial Officer of the Virgin Group and Non-Executive Director of RIT Capital Partners plc where she chairs the Audit and Risk Committee.

Group Company Secretary

Lorna McMillan
Group Company Secretary

Joined the Group
September 1994

Skills, experience and contribution
- Extensive board, governance and general management experience
- Significant banking and risk management experience
- Worked in financial services for over 25 years

Lorna was appointed Group Company Secretary in January 2019 and prior to that was Company Secretary from October 2014. She has broad experience and knowledge gained from over 25 years in the Group having held various roles in personal and business banking, wholesale banking, risk management and legal and governance areas.

Our Executive Leadership Team

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

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

Members

1. David Duffy
Chief Executive Officer

2. Hugh Chater
Group Mortgages Director

3. Lucy Dimes
Group Chief Strategy and Transformation Officer

4. Kate Guthrie
Group Human Resources Director

5. Fraser Ingram
Group Chief Operating Officer

6. Enda Johnson
Interim Group Chief Financial Officer

7. Fergus Murphy
Group Personal Banking Director

8. Gavin Opperman
Group Business Banking Director

9. Helen Page
Group Brand and Marketing Director

10. James Peirson
Group General Counsel

11. Mark Thundercliffe
Group Chief Risk Officer

12. Emma Tottenham
Group Corporate Communications and Sustainability Director

How our Board operates

The Board is the principal decision-making body of the Group and is collectively responsible to shareholders for promoting the long-term success of the Company.

The Board's role is to provide leadership through effective oversight and review. It sets, and monitors progress against, the Group's strategic priorities and establishes its culture, values, ethics and standards. It sets the Group's risk appetite, monitors operational and financial performance and reporting, ensures the Group is adequately resourced with effective controls and remuneration policies, and that there are appropriate succession planning arrangements in place. Many of these matters are overseen by Committees of the Board.

At the date of this report, the Board comprises the Chairman, an Executive Director, four independent Non-Executive Directors and one Non-Executive Director appointed by Virgin Enterprises Limited. The names of the Directors together with their biographies, including their skills, experience and contribution to the Board are on pages 50 to 52.

The balance of skills, experience, independence, knowledge and diversity on the Board is overseen by the Governance and Nomination Committee. This is reviewed annually or whenever appointments are considered. The Governance and Nomination Committee leads the process for Board appointments, making recommendations to the Board.

Board operations

The Board held ten scheduled meetings during the year. In addition to scheduled meetings, the Board holds ad hoc meetings when matters of a time-critical nature need escalating to the Board for information or decision. In 2020, several ad hoc meetings were held in the period from March to June to consider and approve matters impacting the Group that were linked to the COVID-19 pandemic. During the year, the Chairman also held a number of meetings with Non-Executive Directors without the Executive Directors present.

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

Each Board meeting follows a tailored agenda agreed in advance by the Chairman, Chief Executive Officer and Group Company Secretary. The Board agenda setting and meeting process is illustrated on page 55. The Board recognises the need to prioritise its time to focus on the most material strategic and business critical items, while ensuring the continual monitoring and oversight of key issues. The Chairman ensures Board meetings are structured to facilitate open discussion, debate and challenge.

Board governance framework

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

Governance and Nomination Committee
- Reviews the composition of the Board
- Considers succession planning arrangements for Board and Executive Leadership Team roles
- Leads, and recommends to the Board, the appointment of new Directors
- Oversees the annual Board Effectiveness Review

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

Risk Committee
- Monitors and recommends to the Board the Group's risk appetite
- Monitors the Group's risk profile including financial and operational risks
- Considers the Group's principal and emerging risks
- Oversees conduct and compliance

Remuneration Committee
- Sets the overarching remuneration principles and parameters for the Group
- Reviews and approves the remuneration of the Chairman, Executive Directors and certain other senior Group employees
- Oversees other remuneration issues

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

During Board days, time is also allowed for deep dives, for example into areas of strategic importance or to brief Directors on emerging issues of relevance to the Board. Deep dives provide the opportunity for Directors to gain deeper insight and build their knowledge by hearing from subject matter experts, asking questions and debating the impacts for the Group in an informal way. Further information on the deep dive topics during the year can be found within the Board Activities section on page 57.

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

The list of matters reserved for the Board is set out in the Board Charter available on our website (www.virginmoneyukplc.com).

Board agenda setting

Start of the Board year	The Chairman, Chief Executive Officer and Group Company Secretary agree a calendar of Board agenda items for the year.
Setting the agenda for each Board meeting	The Group Company Secretary drafts the Board agenda and discusses it with the Chairman and Chief Executive Officer, agreeing the prioritisation and allocation of time for the most material matters. Non-Executive Directors may notify the Group Company Secretary of specific topics to be raised at meetings and the Group Company Secretary informs the Chairman if this is the case.
The Board pack is prepared and issued	The Group Company Secretary reviews all reports to ensure they are succinct and focused on the most relevant information. The Board pack is then published on a secure electronic Board portal usually one week prior to the Board meeting to ensure Directors have sufficient time to fully prepare for the meeting and request additional information if necessary.
The Board day	The Chairman holds a private session with Non-Executive Directors to agree the matters of concern or focus that Non-Executive Directors would specifically like to discuss during the meeting. A typical Board meeting will start with a report from the Chief Executive Officer covering progress against the Strategic Plan and various internal and external stakeholder matters. Time is then prioritised on matters linked to strategy, customer service and experience, financial, risk, and operational performance and the Board are provided with the opportunity to challenge and seek further information from management before making decisions. Following the Board meeting, Non-Executive Directors usually hold a private session without management present.
After the meeting	The Group Company Secretary produces the minutes and circulates actions from the meeting and meets with the Chairman to review the meeting and to agree the immediate points of follow up.

Board committees

The Board discharges some of its responsibilities through, and is supported by, its Committees which provide oversight and make recommendations on the matters delegated to them by the Board. The Board has established four principal Board Committees as shown on the previous page. From time to time, the Board establishes special purpose Committees to assist it in overseeing specific areas that may require additional attention. A Transformation and Integration Committee was established during the period to provide specific focus on the effective integration of the heritage Clydesdale Bank and Virgin Money businesses.

Board Committee membership and attendance at meetings is set out on page 48. Each Committee is led by an experienced Chair and membership consists solely of Non-Executive Directors.

The Chairs of each Board Committee provide a report on Committee business at each Board meeting, including the matters being recommended by a Committee for Board approval.

The process for setting a Committee agenda and running a Committee meeting mirrors that of the Board and the Charter for each principal Board Committee is available on our website (www.virginmoneyukplc.com).

How our Board operates

Information and support

The Chairman, through the Group Company Secretary and with the support of management, is responsible for ensuring communication flows between the Board and its Committees and that information received by the Board is of high quality. In addition to the main Board papers, supplementary background material is regularly provided via the electronic Board portal and Directors are able to seek clarification or further detail from management where necessary. All Directors are provided with sufficient resources to undertake their duties and have access to the advice of the Group Company Secretary in relation to the discharge of their duties and matters of governance. In appropriate circumstances, Directors may obtain, at the Group's expense, independent professional advice where they judge it necessary to discharge their responsibilities as Directors.

Training and development

The Chairman leads the training and development of the Board and of individual Directors and regularly reviews and agrees with each Director their individual and collective training and development needs. The Group Company Secretary maintains a training and development log for each Director.

For Directors joining the Board, the Chairman ensures that on appointment each Director receives a full, formal and tailored induction which reflects a Director's skills, experience and Board role. Directors who take on new roles (or change roles) during the year participate in an induction programme tailored to their new or changed role.

Time commitments

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

The time commitments of Directors are considered by the Board on appointment and are reviewed annually. External appointments must be agreed with the Chairman and disclosed to the Board before appointment, with an indication of the time involved. During the year, the Governance and Nomination Committee kept under review the number of external directorships held by each Director and considered the limits on the number of directorships imposed by relevant regulations. Following this year's review, the Board is satisfied that there are no Directors whose time commitment is considered to be a matter for concern. No Director took on a significant external appointment, as defined by the Board, during the year.

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

Information about each Director's attendance at Board and Board Committee meetings is set out on page 48.

Managing conflicts of interest

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

Board relations with shareholders

The Board is committed to engagement with its shareholders and a key focus this year was introducing major shareholders to our new Chairman, David Bennett. Given the restrictions on travel due to the pandemic, this was facilitated by a series of video conference calls with investors in July. While the Chief Executive Officer and Group Chief Financial Officer, along with the Group Chief Strategy and Transformation Officer, visited our major shareholders in Australia in December 2019 following the publication of our 2019 full-year results, investor engagement following the onset of COVID-19 was necessarily held on a remote basis. The Chief Executive Officer and Group Chief Financial Officer held an additional conference call for shareholders in March to discuss our initial response to the pandemic, and followed the announcement of our interim results in May with a remote shareholder roadshow. The Group was also represented at a number of virtual investor conferences across the year which allowed members of the management team to meet a range of investors.

The Board receives regular feedback on share price performance, investor and analyst views and changes to the shareholder register. The Board recognises that the Annual General Meeting (AGM) is an important event in the corporate calendar and provides another opportunity to engage with shareholders and hear their views. All resolutions proposed at the AGM held in January 2020, which were considered on a poll, were duly passed by the Company's shareholders.

Board activities

Key – Group strategic priorities

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

Below are details of the main topics of Board discussion and decision making during the year. The link between these topics and our strategic priorities is also highlighted. On pages 62 and 63 we have provided more detailed examples of where the Board considered stakeholders in key business decisions throughout the year.

Strategy

Approved the refreshed FY20-FY22 Strategic Plan, including the revised ESG strategy, and Financial Plan

Received updates on performance of key strategic programmes including projects to improve the customer experience and digitally enable our business

Received updates on activities of the Virgin Group including from a brand and external communications perspective

Approved the annual Group Tax Strategy

Financial and business performance

Received updates from the Chief Executive Officer on key external, stakeholder and business matters and from each customer division; tracked performance to Capital Markets Day commitments

Received reports from the Group Chief Financial Officer on Group financial performance and forecasts, including oversight of the capital and funding position

Approved the Group Annual Report and Accounts, the Interim Financial Report and reviewed quarterly trading updates

Approved reporting in accordance with the Capital Requirements Regulations (CRR) (Pillar 3 Disclosures)

Financial and business performance continued

Received reports from the Group Chief Operating Officer on customer service, technology, resilience and business continuity, information and cyber security, complaints and other conduct matters

Structure and capital

Approved the Funding Principles and Funding Plan

Approved the Capital Plan and received updates on the capital outlook; reviewed capital stress test outputs and held deep dives on the Capital Plan build, the stress testing framework and model risk

Received briefings on the requirements of the BoE stress testing Assessment Framework

Approved the refreshed ICAAP and ILAAP

Risk and control

Approved the Group RAS and monitored performance against risk appetite

Received reports from both the Prudential Regulation Authority (PRA) and FCA following routine annual reviews and approved actions and responses

Risk and control continued

Reviewed reports from the Group Chief Risk Officer on the Group risk profile covering all principal and emerging risks; conducted a deep dive on technology risk and regulatory, conduct and compliance risks

Approved the annual Money Laundering Reporting Officer's report

Received updates on the Senior Manager and Certification Regime and approved role holders as a result of the extension of the regime

Received updates regarding effectiveness of whistleblowing disclosure activity

Approved the Operational Resilience Strategy incorporating the Cyber Security Strategy

Approved the renewal of the Group's insurance arrangements

Customers and our stakeholders

Received and reviewed reports on priorities and activities in relation to the Group's corporate communications

Reviewed and discussed plans for engaging the Board on customer, brand and marketing matters; monitored metrics measuring brand health and customer advocacy; kept updated on sponsorship activity

Kept updated on the support for vulnerable customers

Board activities during the year

Customers and our stakeholders continued

Received updates on new customer initiatives including the launch of new products, propositions and partnerships

Considered matters relating to the Group's charitable body

Approved the annual statement on Modern Slavery

Approved material contracts with third parties

Approved the Group's ESG strategy; kept updated on the Group's ESG activity and had a briefing on climate change

Colleagues and culture

Reviewed and agreed the arrangements for workforce engagement including their effectiveness

Discussed organisational culture and development including a review of KPIs in the culture dashboard and reviewed the annual colleague engagement survey outputs; kept updated on embedding our organisational Purpose, Values and Behaviours

Reviewed and approved the Group Inclusion Statement and kept updated on progress against the Group Diversity and Inclusion Strategy with a specific focus on supporting BAME colleagues and customers

Approved the Board Diversity and Inclusion Policy and targets

Received updates on health, safety and well-being in the Group

Discussed talent, diversity and succession planning for the Group including the Board and Executive Leadership Team

Corporate governance

Received recommendations from the Governance and Nomination Committee and approved several Board and Board Committee appointments, including the appointment of David Bennett as Chairman of the Board

Considered and approved the Delegated Authority Framework

Considered and approved findings from the externally-facilitated Board Effectiveness Review, including agreeing actions to ensure continuous improvement; completed the annual review of Board Committee Charters and effectiveness

Carried out an annual review of corporate governance policies

Undertook a review of fees paid to Non-Executive Directors

Received updates on arrangements for the Group AGM, approved the Notice of AGM, the resolutions to be put to shareholders and the related documentation

Approved matters in relation to the Group's JV with AAM

COVID-19

As referenced elsewhere throughout the report, 2020 required the Board to consider the effects of the COVID-19 pandemic on our business, our customers, our colleagues and other stakeholders and this saw an increased level of Board activity between March and June. This included the following activities:

Additional meetings of the Board were convened focusing specifically on our response to COVID-19

COVID-19 continued

Received updates from the Incident Management team on COVID-19 contingency planning and responses, including operational and technical preparations to maintain critical processes; customer and colleague response; strategic programme impacts; Group performance impacts; regulatory considerations; and stakeholder engagement

Reassessed the timing of planned integration activity and agreed to put role redundancies and branch closures on hold for a period

Considered specifically the support being provided to customers, for example through payment holidays and the Group's participation in the support schemes launched by the government; reviewed how the Group was supporting vulnerable customers and managing conduct, collections and complaints activity

Kept updated on the arrangements being put in place to support colleagues whether working from home or in our stores, contact centres and office locations; reviewed related colleague communications

Reviewed business performance, balance sheet resilience and KPIs which was reported in our Q3 Trading Update in July; kept updated on the strength of the Group's capital position and the adequacy of provisions for a potential increase in credit losses

Kept updated on the support being provided to our communities, including waiving the VMG platform fee for a period to support fundraisers; the pledges of support from the VMF to local community organisations; and the launch of the Virgin Money Red team to answer money questions whether you bank with us or not

As the crisis phase of the Group's response passed, the Board has been engaged on shaping the future working model building on the operational lessons learned from the pandemic and colleague feedback

Governance in action

Board engagement on strategy

This year, the Board held a series of Strategy Sessions focusing on the impact of the COVID-19 pandemic on our strategy and against the backdrop of an uncertain economic outlook. The Chief Executive Officer, Group Chief Financial Officer and Group Strategy and Transformation Officer led the process and other members of the Executive Leadership Team were involved depending on the focus of each session.

Each session was designed to cover specific topics and Board members were provided with briefing materials in advance ensuring that the time the Board spent together was discussion focused with plenty of time for points of challenge, debate and questions. This approach meant the Board was highly engaged in the process to set the refreshed Strategic and Financial Plan.

Session topic	Summary
March External environment	The Board was provided with a briefing note giving an update on the external landscape, our divisional development plans, our programmes of delivery and our overall delivery and investment plan for FY22. The March Strategy Session was due to take place at the time the COVID-19 pandemic was escalating and was therefore postponed and picked up again in April.
April COVID-19 impact	Our first opportunity to discuss our reaction to COVID-19, including the outlook for the UK economy and the Group's financial outlook.
May Customer division ambitions	This session focused on an overview of our customer divisions' ambitions at a high level and the Board also agreed the planning timelines and discussed FY21 strategic focus areas.
June Gross view of new end state	In this session, our customer divisions' end state outcomes were presented, the investment priorities and constraints were discussed and implied business capability and customer outcomes were reviewed.
September Emerging Financial Plan and advanced draft Strategic Plan	Two sessions were held in September. The first focused on an early view of the Financial Plan for FY21-FY23 including the target balance sheet shape. The second session covered the draft Strategic Plan with much of the discussion focused on brand, commercial strategies, delivery of change and cost plans and an updated view of balance sheet shape. The proposed ESG strategy was also covered.
October Updated Strategic Plan and Financial Plan	Final strategic plans for our divisions were presented along with FY21 delivery plans; the updated Financial Plan was reviewed.
November Final Plans	The final Strategic and Financial Plan outcomes aligned to risk appetite are presented for approval.

Board oversight of our Purpose-led culture

The Group's Purpose, making you happier about money, guides the way we do business every day delivered through our Virgin Values. We set up our Purpose Council to oversee and manage the factors that are critical to being a Purpose-led Company. The Purpose Council is led by James Peirson, Group General Counsel on behalf of the Executive Leadership Team and each business unit is represented. Purpose Council members drive the Group's Purpose across the organisation ensuring consistency of message and challenging business units to be truly Purpose-led. The Board recognises that culture is critical to developing the right environment to deliver the best outcomes for customers and provides oversight and direction of culture activities. It does this through assessing and monitoring progress through regular updates submitted to Board meetings. The Governance and Nomination Committee held detailed discussions during the year in respect of the Board's engagement with its workforce as this allows it to obtain better colleague insights, particularly in respect of the Group's culture, Values and Behaviours. As a result of this oversight, our thinking on culture and associated activities is regularly refined to incorporate insight from our colleagues, which helps to understand the progress we are making and those areas where we can continue to improve.

Workforce engagement

In 2020, the Governance and Nomination Committee, on behalf of the Board, reviewed the Group's approach to how it engages with its workforce. For the purposes of Virgin Money, the definition of workforce includes permanent, fixed term and zero hours colleagues along with contractors and agency workers. The Governance and Nomination Committee noted that there were several internal and external developments in relation to workforce engagement to consider since it agreed the previous approach in 2019, including further development of the Group's Purpose and culture and a new working environment as a result of COVID-19. The workforce engagement approach agreed in 2019, which was to leverage existing channels of colleague engagement, has been successful in providing the Board with regular insight of the views of the workforce via a Culture Dashboard report, updates on key colleague metrics and colleague survey data, and discussions facilitated by the Group Human Resources Director. This reporting has been supplemented with opportunities for Directors to meet face to face with colleagues. The following are examples of where the Board has considered workforce feedback in its discussion and decision making.

- **COVID-19 response:** The Board has received regular updates on colleague experience, including specifically the outcomes of the April colleague pulse survey, which was focused on our COVID-19 response. The Board has supported a number of key proposals which address colleague concerns which included approving spend to provide colleagues with the right kit to better enable remote working and the provision of PPE for essential workers.
- **Black Lives Matter:** The Black Lives Matter protests across the country in June marked a step change in the focus on inclusion of those from ethnic minority groups. The Board supported a number of activities including the production of a topical podcast with Geeta Gopalan, Non-Executive Director, and interventions to create additional career opportunities for minority colleagues.
- **Consideration of remuneration across the workforce:** As the impact of COVID-19 on business performance became clear during the second half of the financial year, the Remuneration Committee kept colleague remuneration front of mind recognising the considerable efforts of all colleagues and those in front-line roles in particular.

Governance in action

Following the 2020 review, the Committee agreed that leveraging existing channels will remain the chosen mechanism for workforce engagement rather than one of the options suggested in the Code. Directors agreed that there were steps that could be taken to further enhance the Boards' engagement with the workforce, including broadening its reach through the use of digital tools and agreed elements to be taken forward to ensure insight and two-way engagement which included bi-annual People Updates delivered by the Group Human Resources Director to the Board; Non-Executive Director participation in the Purpose Council and colleague inclusion network events; and an annual programme of events allowing Non-Executive Directors to meet with small groups of colleagues to hear about their views on specific topics through the year.

Time will be factored into each Board agenda for Directors to report back on colleague viewpoints to ensure all Directors are aware and to inform Board discussions and decision making.

Q&A with the Chairman, David Bennett
Board effectiveness during COVID-19

Q: How have you found your first few months as Board Chairman and what governance changes have you made to date?
A: It has certainly been a unique year in which to have become Chairman given the emergence and ongoing impacts of the COVID-19 pandemic. It has thrown up numerous challenges that we couldn't have foreseen and I would like to say thank you to all our colleagues who have performed extremely well given the circumstances. I feel, as a business, we have risen to the challenges of supporting our customers through the pandemic despite the difficult economic backdrop while at the same time ensuring we have kept colleagues safe.

Since becoming Chairman, I have worked hard to reduce the overall size and costs of the Board to make it more efficient and effective and we now have a Board of six Non-Executive Directors compared to 11 at the beginning of the year. All the independent Non-Executive Directors serve as members of all principal Board Committees which enables them to fully understand all of the issues being discussed in detail and removes the need for separate briefings or summary reports. Amy Stirling, a Non-Executive Director, also joined the Governance and Nomination Committee.

Q: You took on the role as the COVID-19 pandemic was in full flight. How has the Board adjusted its ways of operating as a result and what lasting changes will it make?
A: The main way in which we have adjusted is that we have held all Board and Committee meetings online since March 2020. Our IT team worked incredibly hard at very short notice to make video calls and meetings part of normal activity across the Group and we have also embraced this as a Board with no interruptions to our planned schedule of meetings. Board members are now used to structuring challenge and having good engagement virtually but the pandemic has obviously restricted our ability to visit and interact with colleagues at our various operational and office locations. We have tried to bridge this gap by increasing the frequency of our video interactions with members of the Executive Leadership Team, and other senior colleagues, and my view is that Non-Executive Directors are now speaking more regularly with management than ever before due to the technology now available to us. It does raise questions as to how often the Board will need to meet face to face in the future and I can see a blend of video and face to face meetings being our chosen approach given how well video meetings have worked and that it enables us to reduce travelling time and of course, our carbon footprint.

Q: Last year Virgin Money launched a new Purpose, making you happier about money. What's the Board's perspective on how that Purpose has helped drive the Group's response to the COVID-19 pandemic?
A: Our Purpose has ensured that the Board has been even more mindful of how the pandemic could impact our customers. All Board papers provide detail on how each matter aligns with our Purpose. Furthermore, the launch of our 'Money on Your Mind' campaign allowed us to engage with both our customers and wider society in relation to their financial concerns in an empathetic way.

Q: How would you rate Virgin Money's governance and how do you see it changing in 2021 and beyond?
A: I rate our Governance very highly. I feel we have a strong Board and Executive Leadership Team who all recognise that good governance leads to better decision making. The changes I have made to the Board, which I touched on earlier, mean that all Board members are across all issues – there are no blind spots for anyone – and this leads to more efficient, and improved decision making. I see our governance continuing to change to reflect the needs of the business going forwards, and we will be focused on ensuring both that the execution of the Group's strategy is properly overseen and challenged and that we deliver an improved experience for our customers. In 2021 and beyond, I see an increasing focus on ESG matters, the UK's departure from the EU and the potential for a second Scottish independence referendum and we have previously set up special purpose Board Committees to focus on specific matters such as these – this may be something we need to do again in the future.

Q: What are the Board's priorities for the coming year?
A: Firstly, I would say to continue to focus on delivering good service and products that meet the needs of our customers and in particular, to pay close attention to ensuring we achieve the right outcomes for our vulnerable customers. The Board will also be heavily focused on the delivery of the Group's strategy. Continuing to drive down our costs and make the business more efficient will continue to be a top priority for the Board, as will ensuring we manage our capital in a prudent way. Consideration of ESG factors, such as reducing the Group's carbon footprint, driving diversity, and thinking carefully about how ESG should factor into our lending activity considerations, I expect to feature more prominently. The continued safety of our colleagues during the COVID-19 pandemic will also be a key priority for the Board. I think our priorities can be summed up quite simply: safe customers, safe colleagues and a safe Bank.

Stakeholder engagement and Board decision making

Stakeholder engagement and Board decision making (s.172 compliance)

The Companies Act 2006 sets out the general duties which directors owe to a company. New legislation has been introduced to help shareholders better understand how directors have discharged their duty to promote the success of the Company, while having regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 (s.172 factors). As in previous years, the Directors continued to exercise all their duties in the year to 30 September 2020, while having regard to these and other factors as they reviewed and considered proposals from senior management and governed the Company on behalf of its shareholders through the Board.

The information included in the table below provides a signpost to where more detail can be found of some of the key areas where the Board considered s.172 factors in its discussions during the year.

S.172 factor	Examples	Page
Consequence of any decision in the long term	Strategy	8-9
	Integration and transformation	8-13
Interests of employees	Workforce engagement	59
	'A life more Virgin'	11
Fostering business relationships with suppliers, customers and others	Enhancing the customer experience	10
	Supplier payment terms	15
Impact of operations on the community and the environment	Corporate and Social Responsibility	17, 20-21
Maintaining a reputation for high standard of business conduct	Governance and Board operations	54
	Sustainability	16
Acting fairly between members of the Company	Stakeholder engagement	61-63

The Board is fully committed to engaging, consulting and responding to the needs of all stakeholders which is a fundamental part of our culture and strategy for long-term sustainable success. Board members participate in a range of stakeholder engagement activities to increase their understanding of the business and the issues that matter to our stakeholders.

Our stakeholders	Key	Some examples of how we engage with our stakeholders
Colleagues		Executive Directors host interactive 'Let's Talk' sessions (which Non-Executive Directors are also invited to join) with colleagues to understand their views. An annual 'myVoice' colleague survey, the results and key outcomes from which are considered by the Board.
Customers		Our monthly customer and marketing insight reports help bring us closer to our customer and how they feel about us. We receive and respond to future money management worries through our 'Money on Your Mind' communication channels.
Government and regulators		We engage with the UK Government through regular bilateral meetings and events and our representation on the FiAB Board and Banking & Economy Group facilitates regular engagement with the Scottish Government. Feedback from the FCA and PRA on specific matters is discussed regularly at Board and Committee meetings.
Investors		The AGM is an opportunity for shareholders to meet with Directors and ask questions. The Chairman and other Board members regularly meet with large institutional investors to discuss the performance of the business and to take investor feedback.
Partners and suppliers		Senior executives represent the Group on the Boards of our JV partnerships with Salary Finance and AAM. Our use of an online supplier management portal, accessible by us and our suppliers, supports us in framing the regular discussions we have with our suppliers.
Society		Significant time is spent engaging with our communities through the grassroots work carried out by the VMF as well as feedback loops from colleague volunteering and our Charity of the Year partnership. We also engage in industry forums looking at our role on environmental matters, including climate change. These are all considered at Board level.

Stakeholder engagement and Board decision making

Considering our stakeholders in business decisions is not only the right thing to do, but is fundamental to delivering on our Company Purpose and ambition and our ability to drive value creation over the longer term. Delivering this in the midst of a global pandemic, while balancing the needs and expectations of our stakeholders and maintaining relationships, has been a critical and challenging task but an important one during a significant year for the Company.

It is important that our Board understands the areas of interest or concern for our key stakeholders when it makes decisions. To ensure stakeholder considerations are a key part of our decision making, papers impacting different stakeholder groups are presented throughout the year to the Board and its principal Committees. Like any business, there will be certain decisions that may have an adverse impact on one or more stakeholder groups but we strive to act in the best interests of the Group and all stakeholders and we will always aim to be fair and balanced in our approach. The more detailed examples of Board activities during the year that follow are of strategically important matters where the Board considered key decisions that directly affected these groups, and the outcomes as a result of the Board discussions.

Key Board discussion area

COVID-19

Stakeholder(s) considered

The Group's response to the COVID-19 pandemic, and the impacts on our stakeholders, were discussed in depth at Board meetings throughout the year as the pandemic progressed. The Board challenged and approved a number of specific COVID-19 responses as a result of these discussions. Further detail on the impacts to our stakeholders and how we have responded to the challenges that were raised by COVID-19 are set out on page 6.

Key Board discussion area

Transformation of the Board

Stakeholder(s) considered

The Board has undergone several changes during the year as it looks to set itself up for the future. The appointment of our new Chairman was as a result of a carefully considered Board succession plan and outreach activities were held with larger investors to introduce our new Chairman to them. During the appointment process, consideration was given by the Governance and Nomination Committee to the continuity that our new Chairman would bring for investors and colleagues given his prior role as Deputy Chairman and Senior Independent Director. Reducing the size of the Board has been something our shareholders have said they were keen to see. We have taken this feedback on board and have managed to achieve this in the past 12 months through our Board succession plan. We have also liaised with our regulators to successfully appoint new Chairs to all of our Board Committees with the exception of the Audit Committee which Tim Wade continues to Chair.

Key Board discussion area

Pushing the digital boundaries

Stakeholder(s) considered

The Board supported the plans to build digital propositions that create memorable experiences for our customers and it considered the development and launch of our innovative Home Buying Coach app, created in collaboration with a third-party Fintech, which is designed to help first-time buyers achieve their goal of owning a home.

Stakeholder(s) considered

The Board considered and supported the launch of the 'M' account – a market leading basic bank account designed for customers with financial difficulties or vulnerabilities, which is a vital part of our financial inclusion strategy, with full-service digital banking offered through an app and online.

Stakeholder(s) considered

The Board considered our additional investment in IT and homeworking equipment which has enabled the majority of our colleagues to work safely and productively from home during the COVID-19 pandemic and management continue to engage with colleagues to shape our future working model to reflect the changing attitude and requirements of both customers and colleagues.

Key Board discussion area

A life more Virgin

2020 has presented us with a number of operational challenges but it has also led to the Board considering and approving matters which allow us to continue on our transformation journey to the new Virgin Money including:

Stakeholder(s) considered

An updated and accelerated ESG strategy which sets out our ESG ambition and key principles including the development and roll-out of a new ESG governance framework.

Stakeholder(s) considered

The launch of the Virgin Money Unity arena – the UK's first dedicated socially distanced music venue – in Newcastle to support the creative industry in the midst of the COVID-19 pandemic.

Stakeholder(s) considered

Putting in place a plan of action to improve the engagement with Black, Asian and ethnic minority (BAME) colleagues and customers. The Board was presented with the opportunity to speak with, and listen to, ethnic minority colleagues to understand their perspectives and needs.

Key Board discussion area

Progress on cost savings

Stakeholder(s) considered

The Board continues to closely monitor the Group's expenditure and its progress against its cost saving targets through regular updates provided by the Group Chief Financial Officer. As outlined in our FY20 results, our cost reductions remained in line with expectations pre-COVID-19 but we anticipate c.£10-15m of ongoing temporary COVID-19 related costs in FY21.

Stakeholder(s) considered

In March 2020, due to the ongoing uncertainty of the impacts of COVID-19 on our stakeholders, the Board considered and approved that the planned integration programme should be put on hold as we prioritised support for customers and colleagues during the pandemic. The Board considered carefully the appropriate moment to recommence this work and judged that reflecting the measures put in place during lockdown, our integration activity would restart in July 2020 and will deliver cost synergies in FY21.

Key Board discussion area

Governance and accountability

Stakeholder(s) considered

The Board considered and approved a new Delegation of Authority Framework which set out the matters delegated by the Board to the Chief Executive Officer and beyond and provided clarity for colleagues on responsibilities and approval limits including in relation to partner and supplier contract approval authorities.

Stakeholder(s) considered

The Governance and Nomination Committee considered and agreed that the Company's approach to workforce engagement should be refreshed and recommended changes to improve its effectiveness in line with the FRC's recommendation and new governance requirements.

Stakeholder(s) considered

Our July 2020 Board meeting was attended by senior representatives of the PRA which allowed the Board to hear and discuss current regulatory views and insights.

Key Board discussion area

Shaping for the future

Stakeholder(s) considered

Specific Board sessions were held to consider the impact of COVID-19 on the Group's strategy. These sessions considered many stakeholder impacts including how to support customers during the crisis, how to keep our colleagues safe, the opportunities available to work with partners to accelerate our digitalisation agenda, our return and capital targets, and broadening the scope of our ESG agenda.

Stakeholder(s) considered

Consideration of the size of our estate so that it meets the needs of our business and the communities we operate going forward, was a key matter of focus for the Board in FY20. The Board approved that we will work with partners to redevelop our office 'Hubs' to refocus them as community space for our 'flexible colleagues' to meet, collaborate and celebrate, as well as offering touch down space for occasional working.

Board roles

The Chairman leads the Board and is responsible for its overall effectiveness. There is a clear division of responsibilities between the Chairman and Chief Executive Officer with the Chairman responsible for leading the Board while the Chief Executive Officer manages the day-to-day running of the business.

The Board includes an appropriate combination of Executive and Non-Executive (and, in particular, independent Non-Executive) Directors, such that no one individual or small group of individuals dominates the Board's decision making. Non-Executive Directors provide constructive challenge, strategic guidance, offer specialist advice and hold management to account. The Board, supported by the Group Company Secretary, ensures that it has the processes, policies, information, time and resources it needs in order to function effectively and efficiently.

The Board has an established framework of delegated financial, commercial and operational authorities, which define the scope and powers of the Chief Executive Officer and of operational management.

The key responsibilities of Board members and the Group Company Secretary are outlined below.

Role	Responsibility
Chairman	• Leads the Board in organising its business and agenda to ensure it is effective. • Ensures the Board as a whole is constructive, forward looking, and primarily focused on strategy, performance and key value creation matters. • Guides the Board to establish the culture, values and ethics of the Company. • Promotes the highest standards of corporate governance including ensuring openness and debate are welcomed. • Ensures that accurate, timely and high-quality supporting information is received. • Ensures Board induction, evaluation and development are a priority. • Promotes effective communication with the Company's shareholders.
Senior Independent Non-Executive Director	• Provides a sounding board for the Chairman. • Serves as a trusted intermediary within the Board. • Ensures that all Directors' views are communicated to the Chairman. • Available to shareholders if matters cannot be resolved through the usual channels of communication with the Chairman or other Directors. • Maintains relationships with major shareholders to understand any issues they may have. • Meets with the Non-Executive Directors without the Chairman at least annually and leads on the ongoing monitoring and annual evaluation of the Chairman's performance.
Chief Executive Officer (Executive Director)	• Leads the Executive Leadership Team in the day-to-day management of the Group, ensuring its effective running. • Maintains a close relationship with the Chairman. • Responsible for designing, coordinating and proposing to the Board all activities to implement the Group strategy and objectives. • Represents the Group to external and internal stakeholders, ensuring effective engagement processes are in place.
Non-Executive Directors	• Bring an external perspective, knowledge, experience and insight. • Apply sound judgement, objectivity and bring challenge to the activities of the Board. • Develop and set the Group's strategy and monitor its implementation. • Review the Risk Management Framework. • Support and constructively challenge Executive Directors. • Satisfy themselves on the integrity of financial information, taking account of the views and concerns of stakeholders. • Have a principal role in appointing and, where necessary, removing Executive Directors. • Create appropriate succession plans and approve appropriate levels of remuneration for Executive Directors.
Group Company Secretary	• Ensures the Board receives high-quality information in a timely manner. • Supports the Chairman to ensure Board effectiveness. • Provides advice to the Board, in particular in respect of Corporate Governance developments. • Ensures compliance with the Group Corporate Governance Framework. • Manages Director induction and professional development. • Facilitates communications with shareholders, as appropriate, and ensures due regard is paid to their interests.

Governance and Nomination Committee report

Through delivery of our succession plan we have in place a smaller, cohesive Board that will provide the informed insight and constructive support and challenge that will be critical in the year ahead.

David Bennett
Chair, Governance and Nomination Committee

Members

David Bennett (Chair)
Paul Coby
Geeta Gopalan
Darren Pope
Amy Stirling
Tim Wade

Dear shareholder,
I am pleased to bring you my first report as Chairman of the Governance and Nomination Committee (Committee) and to update you on the Committee's activity for the year ended 30 September 2020. Set out on pages 67 to 68 is an overview of the main topics of Committee discussion and decision making during the year.

The Committee welcomed Paul Coby, Geeta Gopalan, Darren Pope and Amy Stirling from 1 July 2020 meaning all Non-Executive Directors are now members. I would like to thank Fiona MacLeod and Jim Pettigrew for their contributions to the Committee during the year.

Board changes
Following the Company's announcement on 24 January 2020 that Jim Pettigrew planned to retire as Chairman, the Committee initiated a search process for his successor under the leadership of Fiona MacLeod. Fiona stepped in as an alternative to me, as Senior Independent Director at the time, leading the process as I was a candidate for the role and therefore conflicted. An overview of the thorough search and selection process followed is provided on page 67. Jim retired from the Board on 5 May 2020. Upon becoming Board Chairman on 6 May 2020, I also became Chair of the Committee and stood down as a member of the Audit Committee and of the Risk Committee. Tim Wade succeeded me as Senior Independent Director from 6 May 2020.

In my Chairman's Governance Review on page 46, I described that there had been a review of the balance of the Board this year culminating in a reduction in the size of the Board, and changes to the composition of the Board's committees, all of which was overseen by the Committee with recommendations made to the Board. Clive Adamson stepped down from the Board on 29 November 2019 and was succeeded as Chair of the Risk Committee by Geeta Gopalan on 30 November 2019. Geeta also became a member of the Audit Committee on the same date. On 30 January 2020, the Company announced Ian Smith's resignation as Group Chief Financial Officer and Ian stepped down as Executive Director on 30 September 2020, leaving the Company on 14 October 2020. In line with our Board Succession Plan, Adrian Grace left the Board on 1 May 2020, Teresa Robson-Capps on 30 June 2020 and Fiona MacLeod on 30 September 2020. Darren Pope joined the Remuneration Committee on 3 February 2020 and succeeded Adrian as Chair of the Remuneration Committee on 2 May 2020.

In June 2020, we announced several other changes to the membership of Board committees effective from 1 July 2020 reflecting the ongoing review of committee membership. On the Committee's recommendation, all continuing independent Non-Executive Directors have been appointed as members of all principal Board committees ensuring that more Board members are fully engaged on the specialist areas of focus and deeper insights at Committee level. This also frees up Board meetings to focus on the most material decisions and matters reserved for the Board.

Succession planning and ensuring we have a diverse and inclusive Board
Succession planning at both a Board and management level continued to be a key area of focus for the Committee during the year, including the succession plan for the Group Chief Financial Officer.

Governance and Nomination Committee report

The Committee will continue to keep under review the structure, size and composition of the Board and its committees, making recommendations to the Board. Consideration is given to succession arrangements on a contingency basis for sudden and unforeseen departures, and over the medium and longer term aligned to the evolution of our strategy and the objectives and skills needed on the Board in the future. This has included a refresh of the Board skills assessment during the year and the creation of a skills matrix with areas to further strengthen the Board skill set identified and being progressed to ensure we continue to have in place a strong Board with the relevant experience to oversee the next phase of the Group's development. Diversity and inclusion was a key focus of the Committee's succession planning work this year and the Board places great emphasis on ensuring that its membership reflects diversity in the broadest sense. The Committee recommended a refreshed Board Diversity and Inclusion Policy to the Board incorporating both a gender and, for the first time, an ethnicity target.

At a management level the Committee also spent time challenging the adequacy of succession plans covering the Executive Leadership Team and other senior management roles, mindful of the skills needed as the Group's transformation to a full-service digital bank continues. As part of this work, the Committee was updated on the strength and depth of the Group's senior talent pipeline and the action being taken to nurture and develop our leaders of the future. The Board is committed to ensuring that our succession plans promote diversity and inclusion at all levels across the Group.

Board effectiveness evaluation

This year's evaluation was externally facilitated by Oliver Ziehn from Lintstock Limited and overseen by the Committee. The Committee recommended to the Board an action plan to address the key areas identified for improvement and has kept the implementation of the action plan under review, reporting progress to the Board.

The external evaluation also included an assessment of the Committee's effectiveness. A recommendation was to improve the visibility of the work of the Committee which we addressed by appointing all Non-Executive Directors as members. Additionally, action was taken to broaden engagement on the Board Succession Plan and on management succession arrangements. The Committee also conducted its own review of its effectiveness relative to its Charter. The findings from this review, which were reported to the Board, concluded that the Committee had met its key objectives and carried out its responsibilities effectively having made the recommended improvements.

UK Corporate Governance Code

We have included our statement of compliance with the Code on page 49.

Looking ahead

The Committee will continue to keep the Company's governance arrangements under review to ensure they are effective and support the changing nature of our business in the wake of the COVID-19 pandemic.

David Bennett
Chair, Governance and Nomination Committee

Committee role and responsibilities

The role of the Committee is to keep the Board's governance, composition, skills, experience, knowledge, independence and succession arrangements under review, including the succession arrangements for the members of the Executive Leadership Team. The Committee reports to the Board and makes recommendations to ensure that Virgin Money's arrangements are consistent with good corporate governance standards and best practice.
The Committee is responsible for:

- regularly reviewing the structure, size and composition of the Board and its Committees and recommending to the Board any changes;
- regularly reviewing both Board and Executive Leadership Team succession plans and making recommendations to the Board;
- leading the selection and appointment process for new Directors and recommending appointment to the Board;
- making recommendations to the Board about the time required from Non-Executive Directors, the independence of Non-Executive Directors, the annual re-election by shareholders of Directors, and the appointment of any Executive Director;
- setting the criteria for, and overseeing the annual evaluation of, the performance of the Board, its Committees and each Director;
- monitoring corporate governance trends, initiatives or proposals in relation to best practice and making recommendations to the Board on any improvements required; and
- developing and recommending to the Board the Boards' Diversity and Inclusion Policy.

A full list of the responsibilities of the Committee are set out in its charter which is regularly reviewed. The charter can be accessed on the Group's website (www.virginmoneyukplc.com).

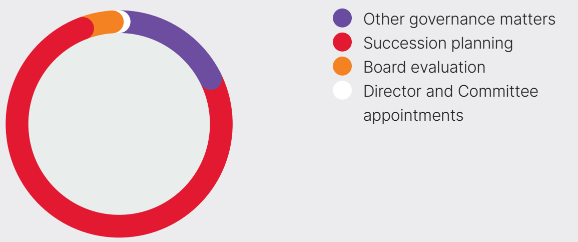
Committee composition and operations

During the year, changes were made to include all Non-Executive Directors in the Committee's membership. Details of the skills and experience of Committee members can be found in their biographies on pages 50-52. The Chief Executive Officer, Group Human Resources Director and Group Company Secretary regularly attend Committee meetings as appropriate depending on the Committee's business

Committee meetings

During the year the Committee held seven scheduled meetings and six additional meetings to consider succession planning matters. Details of meeting attendance are set out on page 48.

How the Committee spent its time



Search and selection process – Board Chairman appointment

During the year, the Committee initiated the search process for a successor to the Board Chairman which culminated in the appointment of David Bennett as Chairman on 6 May 2020.

Fiona MacLeod led the process and chaired meetings of the Committee which dealt with Chairman succession matters. Neither the exiting Chairman nor Mr Bennett attended those Committee meetings. The Chief Executive Officer was fully engaged in the process.

Key considerations

The Committee, in consultation with the Chief Executive Officer, prepared a specification and set the criteria for the new appointment having regard to a range of factors. These included the skills, experience, knowledge and characteristics required to lead the Board; the cultural style and inclusive leadership required; and the expertise and track record needed to support the Board and Executive Leadership Team in delivering the medium and longer-term strategy. The selection process assessed a high-quality cadre of external and internal candidates. David Bennett's extensive 35-year retail banking, financial services and broader non-financial services experience were a compelling combination and made him an ideal match to our requirements. The continuity he has brought to the Board through the COVID-19 period has proved invaluable. David's biography is on page 50.

The search and selection process

The process led by the Committee for the Board Chairman appointment is set out on this page. A structured timetable was adopted for the process and regular Committee discussions and updates held throughout.

Step 1	The Committee appointed Ridgeway Partners Limited to assist with the search process based on the role criteria. Aside from assisting with some executive recruitment and other Board composition work, Ridgeway Partners has no other connection to the Company or individual Directors.
Step 2	The Committee reviewed an initial list of potential internal and external candidates. A shortlist was agreed.
Step 3	Internal and external shortlist candidates were interviewed by Fiona MacLeod and Tim Wade (being members of the Committee), and Darren Pope and Geeta Gopalan. The Chief Executive Officer also met with the shortlist candidates.
Step 4	Following feedback from the shortlist interviews at Step 3, a preferred candidate was selected. Paul Coby and Amy Stirling met with the preferred candidate.
Step 5	The Committee reviewed the final interview feedback. After further consideration, including considering the other demands on the preferred candidate's time, the Committee recommended to the Board the appointment of David Bennett.
Step 6	The Board approved David's appointment upon completion of final checks, and the regulatory approval required.

Activities during the year

Below are details of the main topics of Committee discussion and decision making during the year.

Key area of focus	Committee review and conclusion
Board and Board Committee composition	• Completed the annual review of the structure, size and composition of the Board and Board Committees including the balance of skills and diversity and made recommendations to the Board. Details of Board composition changes during the year are set out in the Directors' report on page 105. • Led the Board Chairman succession activity and recommended to the Board the appointment of David Bennett as Chairman and Chair of the Committee. • Recommended to the Board the appointment of Tim Wade as Senior Independent Non-Executive Director. • Considered and recommended to the Board various changes to the composition of Board Committees. • Updated the skills matrix in view of Board changes and considered how this would shape the Board succession plan; identified and took steps to progress actions to strengthen the Board skill set.
Board and executive succession planning	• Agreed the succession plans for key Board roles on a contingency basis and kept the medium and longer-term plans under review. • Kept under review the adequacy of executive and senior management succession plans including 'Ready Now' successors for Leadership Team roles. • Received reports on the Group's senior talent pipeline. • Oversaw the process to select a successor to the Group Chief Financial Officer role and recommended the appointment of Enda Johnson as interim Group Chief Financial Officer to the Board.
Annual Board and Committee evaluation	• Oversaw the externally facilitated Board performance evaluation; recommended an action plan to the Board and monitored progress. • Reviewed the recommendations from the external evaluation relevant to the Committee's own performance; conducted a review of the Committee's effectiveness relative to its Charter. • Agreed the approach to the FY21 performance evaluation of the Board, Committees, Chairman and individual Directors to be conducted internally.

Governance and Nomination Committee report

Key area of focus	Committee review and conclusion
Diversity	• Reviewed and recommended to the Board, the Board Diversity and Inclusion Policy and the setting of targets for gender and ethnic diversity. • Monitored progress against the Group Diversity and Inclusion Policy and strategy. • Applied a diversity lens when considering Board composition and succession planning at a Board and management level.
Governance	• Reviewed and refreshed the Company's approach to workforce engagement and recommended changes to improve its effectiveness. • Assessed Directors' independence, reviewed time commitments and identified candidates to be recommended for re-election. • Conducted a review of the conflicts of interest register. • Recommended the Corporate Governance Report to the Board and approved the Committee's own report. • Reviewed the Committee's Charter.

Board composition and independence

The size of the Board is considered to be suitable in the context of a highly complex commercial and regulatory operating environment and consists of the appropriate combination of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision making.

The Committee monitors whether there are any relationships or circumstances which may affect a Director's independence and assesses independence annually. It is the Company's policy that at least half of the Board should be independent Non-Executive Directors. Following this year's review, the Committee recommended to the Board that all Directors, other than Amy Stirling, are independent in character and judgement, and the Board supported this conclusion. Amy Stirling is not considered by the Board to be independent as her appointment as a Non-Executive Director is pursuant to the right of Virgin Enterprises Limited to nominate a director under the terms of the Group's Trade Mark Licence Agreement. The Chairman was considered independent on appointment.

Annual re-election to the Board

In accordance with the Code, all of the continuing Directors of the Company will seek re-election at the next AGM and further information in support of their re-election will be set out in the Notice of Meeting. The Board believes that all Directors continue to be effective and contribute to the Company's long-term sustainable success and further details are provided in Directors' biographies which will be contained in the Notice of Meeting.

Diversity and the Board

As a Board, we are proud that inclusion is at the heart of our culture, is written into our Values, and is being driven through meaningful actions across our business. We are striving to build a workforce which reflects the diversity of our customers, helping us to understand their needs, make more rounded solutions, build stronger relationships, and tap into new ideas and innovation. As part of our inclusion strategy, we want to build a truly inclusive culture, where every colleague and customer feels they belong. This is why we are embedding inclusion within all the key drivers of cultural change including performance, selection, development and the diversity of our Board members. The Board Diversity and Inclusion Policy – which is available on our website (www.virginmoneyukplc.com/corporate-sustainability/inclusion) sets out the approach to diversity and inclusion in the composition of the Board and covers at a high level the approach to diversity at all levels within Virgin Money, which is governed by Virgin Money's Group Diversity and Inclusion Policy and strategy. The Board is committed to ensuring that its membership reflects diversity in the broadest sense and while all Board appointments are made on the basis of individual competence and merit, recruitment of Board members considers diversity of skills, background and personal strengths to provide the range of perspectives, insights and challenge needed to have a positive impact on the quality of decision making. In reviewing the policy this year, the Board approved targets to aspire to, and meet the target set by the Hampton Alexander Review to have a minimum of 33% female representation on the Board and to meet the target set by the Parker Review Committee to have at least one Director of colour by 2024 or as soon as possible after that date. As at 30 September 2020, there were three female Directors on the Board (33%) and one Director of colour. Information on inclusion and gender composition in relation to our wider workforce, including our Extended Leadership Team, can be found on page 11.

During the year, the Committee and Board tracked progress in both gender diversity and broader inclusion metrics and commitments through the Culture Dashboard and focused particularly on ethnic minority inclusion and our support for BAME colleagues and customers. You can read more about how inclusion is being driven through meaningful actions across the business on page 11.

Review of the Board's effectiveness

Continually monitoring and improving our performance

The annual Board effectiveness evaluation allows an objective focus on areas of strength and areas for development thereby driving the Board's continuous improvement. This year's evaluation was externally facilitated by Oliver Ziehn from Lintstock Limited. Lintstock has no other connection with the Company or individual Directors. The evaluation also included a review of the performance of the Board's principal committees, the Chairman and individual Directors. The Committee oversaw the evaluation process and delegated to Fiona MacLeod, a Non-Executive Director, and the Group Company Secretary to lead the engagement with Lintstock. The review sought the views of Directors on a range of topics including Board composition and dynamics; governance and information; strategy; risk management and internal control; succession planning and human resources management; and priorities for change.

The four stages of the review were as follows.

Role	Responsibility
Stage 1 Survey	The evaluation commenced in September 2019 with three short online surveys covering the Board and its committees, the Chairman's role and an individual questionnaire asking each Director to reflect on their own performance. Surveys were completed by Directors and by members of the Executive Management Team who regularly interface with the Board and its committees.
Stage 2 Interviews	During October 2019, the survey responses were discussed in detail in individual interviews held between Oliver Ziehn and each Director and members of the Executive Management Team.
Stage 3 Board observation	A member of the Lintstock team observed the proceedings of the October 2019 Board meeting and access to the papers for this meeting was provided to assist Lintstock in assessing the quality of the information provided to the Board.
Stage 4 Results and Board discussion	A report was produced by Lintstock setting out their observations from Stages 1–3. The report included Lintstock's view of the areas of potential improvement in Board effectiveness, the priorities for the coming year and their recommendations. The draft report was first discussed with the Chairman, other members of the Governance and Nomination Committee and the Chief Executive Officer in December 2019 and then with the full Board at a feedback session attended by Oliver Ziehn in January 2020. The feedback session provided an opportunity to discuss the key themes that had emerged from the review. The report was finalised following the Board discussion.

Board evaluation insights

Overall, the findings were positive. The report recognised that the Board steered the Group through a period of considerable evolution in recent years following our IPO and the acquisition of Virgin Money. The outcomes reflected the focus of the Board on continuous improvement and a particular strength was the amount of work undertaken with respect to embedding our organisational culture and purpose. The Chairman led the Board in considering and responding to the evaluation and in agreeing a concise set of actions, many of which had already been identified to Directors as areas to focus and improve on.

Action plan

	Key recommendations from the 2020 evaluation	Progress and actions taken
Composition and dynamics	• Consider reducing the size of the Board and adjusting the mix of skills on the Board aligned to strategy development.	• Board size reduced during the year from 11 Non-Executive Directors to six as at the date of this report. • Skills assessment refreshed; areas to strengthen the Board skill set identified and being progressed.
Governance and information	• Redesign Board agendas to increase the time spent on the most important issues and produce more concise Board materials. • Revisit the programme of Board engagement outside of Board meetings. • Achieve even more challenge between Non-Executive Directors and management including more interaction outside of Board meetings.	• Agenda reshaped, review of Board materials undertaken and new, more concise structure introduced. • New programme of workforce engagement activity agreed and implemented. • Board minutes more effectively record the points of challenge in Board discussions.
Strategy	• Review Board level governance over the integration and transformation programme.	• Board Transformation and Integration Committee established as a special purpose committee to oversee investment and change.
Succession planning and HR management	• Refresh the executive and top-level succession plan and improve structured coverage of succession and talent development topics at Board level.	• Regular succession and talent updates factored into the annual Board calendar. • Review of longer-term succession strategy for senior roles completed.

The Board will continue to drive actions to improve its effectiveness and will report on progress made in the 2021 Annual Report and Accounts.

Governance and Nomination Committee report

Committees
Lintstock also provided a report on the performance and effectiveness of each Board Committee which was reviewed initially by the Committee Chair and Group Company Secretary and then by the Committee. Each Committee was assessed as being effective and operating well overall relative to their areas of responsibility. Where specific recommendations for improvement were identified, each Committee agreed the action to be taken.

Chairman and individual Directors
Lintstock provided a report on the Chairman's performance which was discussed with the Chairman. Feedback specific to individual Directors was shared with the Chairman for use in meetings to inform personal development. All Directors demonstrated commitment to their roles and contributed effectively.

Audit Committee report

The Audit Committee plays a vital role in the strong governance framework in place at Virgin Money by providing independent challenge and oversight to significant matters including external disclosures and the Group's internal control environment.

Tim Wade
Chair, Audit Committee

Members

Tim Wade (Chair)	
Paul Coby	
Geeta Gopalan	
Darren Pope	

Dear shareholder,
I am pleased to bring you this report on behalf of the Audit Committee (Committee) which outlines the key matters and issues faced by the Committee during the year ended 30 September 2020. The significant challenge and changes to the ways in which the Group was required to operate as a result of COVID-19 were a key focus for the Committee in addition to the ongoing matters relating to ensuring the integrity of financial reporting and related disclosures and monitoring the Group's internal control framework. The Committee welcomed Geeta Gopalan and Paul Coby as members from 30 November 2019 and 1 July 2020 respectively. Geeta's wealth of experience of strategic matters in the financial services industry and Paul's deep understanding of IT activity and related controls will add to the Committee's skill set and further enhance the quality of its work on behalf of shareholders. The Committee's thanks also go to David Bennett and Dr Teresa Robson-Capps for their contributions as Committee members during the year and to Robert Beattie who retired from the role as Group Director Internal Audit (GDIA). Robert has been succeeded by Alan Kelly and the Committee look forward to working with Alan going forwards.

Provisioning
A key topic of discussion for the Committee during the year was in relation to the calculation of expected credit loss (ECL) provisioning outcomes as a result of COVID-19 in line with the IFRS 9 financial reporting requirements. The Committee heard how the ECL under IFRS 9 had been assessed in a highly uncertain and changing environment. The Committee also heard details of the control environment that supports the credit models, reviewed the selection of key economic scenarios, and management's PMAs, in addition to the proposed ECL modelled charges and disclosures that were included in the Group's Q3 trading update and its interim and full-year financial statements.

Conduct provisioning and related provisioning balances, including in relation to PPI, continues to be an area kept under close review by the Committee with detailed updates provided on the progress being made in addressing the key aspects of the PPI remediation programme.

Internal and external audit
The Committee continued to oversee the role of Internal Audit with regular updates being provided throughout the year from the GDIA and his team. The Committee was pleased to see a successful transition of the role of GDIA from Robert Beattie to Alan Kelly and to see that the Internal Audit team was able to adjust its plan to quickly react and implement assurance work in response to COVID-19. This work demonstrated that adequate controls were in place across the business while the Group supported its customers through the issues which arose as a result of the pandemic. Regular updates were also received from the external auditor and among other key matters, the Committee considered the findings and observations raised in relation to the potential impact of COVID-19 on key accounting judgements and the operational risks driven by COVID-19 developments. The Committee heard details of remote auditing processes implemented during the year as a result of colleagues being required to work from home and it was assured that this had not impacted on the required standard of audit work continuing to be achieved.

Audit Committee report

The Committee held private sessions with both the GDIA and external audit which continue to prove extremely useful as they provide members with the opportunity to raise specific questions and conduct more detailed discussions in relation to matters of importance for the Group without management being present.

Other key areas of focus

A key area of focus for the Committee continues to be ensuring the integrity of the Group's financial reporting and related disclosures. The key accounting judgements were presented to the Committee, and the material judgements and assumptions on which they are based were carefully considered. Members of the Committee provided valuable independent challenge and oversight in this regard, as it also did in respect of the various internal control procedures and processes it reviewed during the year.

The Committee receives regular updates on the Group's Whistleblowing Programme and I continue to act as Group Whistleblowing Champion where I am responsible for ensuring the independence and effectiveness of the programme. The Committee was satisfied that management dealt with reported whistleblowing cases appropriately and provided challenge to management in respect of the effectiveness of the programme.

Committee performance evaluation

The Committee's effectiveness is reviewed annually against the Code, including its charter and activities over the year, to confirm its activities are in line with its remit. This year, an external review of the Committee's effectiveness was carried out which rated the performance of the Committee very highly, with the leadership provided by the Committee Chair and the support provided by Internal Audit attracting particular praise. An internal review of the Committee's effectiveness relative to its Charter indicated that the Committee met its key objectives and discharged its responsibilities effectively.

Looking ahead

The Committee will continue to challenge and provide oversight of the key matters within its remit in order to obtain confidence that the Group continues to be managed in a controlled manner. The credit impairment provisions will be a key area of focus for the Committee over the next year as will the Group's wider financial disclosures in light of the potential economic impact of the COVID-19 global pandemic.

Tim Wade
Chair, Audit Committee

Committee role and responsibilities

The Committee assists the Board by providing oversight in relation to the Group's financial and regulatory reporting and the risk management systems and internal controls in place to support the successful management of the business. The Committee's key focus is also to monitor the performance of the internal audit function and external audit. The Committee is responsible for:

- assisting the Group in carrying out its responsibilities in relation to monitoring the integrity of the Group's accounting policies, public announcements, financial statements and financial reporting processes;
- monitoring the effectiveness of the Group's internal financial controls systems;
- monitoring the effectiveness of the Group's internal audit and external audit functions; and
- monitoring the effectiveness of the Group's whistleblowing procedures.

A full list of the responsibilities of the Committee is set out in its charter which is regularly reviewed. The charter can be accessed on the Company's website (www.virginmoneyukplc.com).

Committee composition and operations

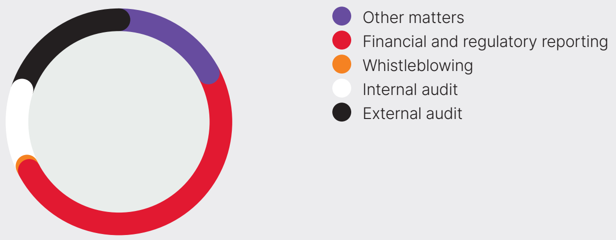
The Committee comprises four independent Non-Executive Directors who collectively have considerable experience of the financial services and banking industries. Details of the Committee members' skills and experience can be found in their biographies on pages 50 to 52. Tim Wade, Chair, an experienced Chief Financial Officer and a chartered accountant, is deemed to have recent and relevant financial experience for the purposes of the Code. In addition to the Committee members, regular attendees include the Board Chairman, Chief Executive Officer, Group Chief Financial Officer, Group Chief Risk Officer, Group General Counsel, Group Head of Finance, GDIA and the external auditor.

The Committee recognises the common interest in issues relevant to both the Committee and the Risk Committee and joint meetings of the Committees took place during the year where matters including the FY21 Risk Management Assurance Plan and the FY21 Internal Audit Plan were discussed and approved.

Committee meetings

During the year, the Committee held six scheduled meetings, one scheduled joint Audit and Risk Committee meeting and two additional meetings. These additional meetings were to consider the ECL provisioning outcomes as at 31 March 2020 and to be provided with an update on the external auditor's Written Auditor Reporting to the PRA. Details of meeting attendance are set out on page 48.

How the Committee spent its time



Activities during the year

Significant financial reporting judgements

The areas of judgement considered, key conclusions reached, and actions taken by the Committee during the year, which ensure that appropriate rigour has been applied to the 2020 Annual Report and Accounts, are detailed below. This included the consideration of management's review of the key critical accounting estimates and judgements, with the conclusion that they had been applied appropriately and the disclosures presented were sufficient.

Key area of review and challenge		Committee review and conclusion
Accounting, tax and financial reporting	The appropriateness of the Company's financial statements, including the content of the Interim Financial Report, Annual Report and Accounts, related results announcements, quarterly results announcements and supporting analyst presentations.	The Committee reviewed the process for the production of the reports under the remit of the Group Chief Financial Officer and the level of involvement of cross-functional subject matter experts, including monitoring the procedures in place to ensure that all contributors attested to the completeness, accuracy and appropriateness of the disclosures provided.
Accounting policies and practices	The critical accounting policies, disclosure obligations and changes in accounting requirements including those relating to the Group's implementation of IFRS 16 with effect from 1 October 2019. Further detail on the adoption and transitional disclosures of IFRS 16 can be found in notes 1.10 and 5.4. The Group's use and explanation of alternative performance measures (APMs). Further detail on APMs can be found in the 'measuring financial performance – glossary' section of the Annual Report & Accounts commencing on page 257.	**The Committee:** • reviewed with both management and the external auditor, the critical accounting estimates and judgements, and significant accounting policies and disclosures for the Group's interim and annual financial statements during the year; • received regular updates from the Group Accounting Policy Team and external auditor on key changes and developments in financial reporting requirements; • reviewed the Group's judgements, policies and proposed disclosures relating to the adoption of IFRS 16 ('Leases') with effect from 1 October 2019; and • reviewed the approach to APM adjustments and received regular updates on the determination and presentation of APMs. These demonstrated how the Group's financial performance on a statutory basis reconciled to the underlying view as presented by management. The Committee agreed with management's conclusions on the items to be adjusted in presenting an underlying position including integration costs, and acquisition-related impacts.
PPI	The level of provisions required for both redress and administrative costs in relation to past conduct-related matters require assumptions to be made that are based upon a combination of historical data and management judgement. The impact of PPI on the Group results has significantly reduced in the year as a result of the industry deadline in August 2019. Further information on and disclosures relating to provisions for conduct matters are set out in note 3.14.	**The Committee:** • reviewed and challenged the assumptions made by management when assessing the level of provisions required for PPI and other conduct related matters; and • reviewed in detail proposals in relation to PPI and other conduct scenarios (including potential redress and administrative costs) presented by management and agreed that no further increase to the PPI provision was necessary in the year to September 2020. Based upon the most recent information, the Committee concluded that management assumptions were supportable and that the conduct provisions recorded at 30 September 2020 were appropriate.

Audit Committee report

Key area of review and challenge		Committee review and conclusion
Impairment losses on loans and advances	The Group's loans and advances are subject to impairment losses which are measured on an ECL basis. The process of calculating the collectively assessed element of the ECL balance for both the 12-month ECL allowance (Stage 1) and the lifetime ECL allowance (Stages 2 and 3) requires the use of significant estimates and judgements over issues such as the estimation of the probability of default (PD), macroeconomic indicators, scenarios and weightings in arriving at a probability weighted forward-looking ECL allowance, and the use of PMAs. The most significant factor responsible for the increase in the Group's ECL allowance in FY20 was COVID-19 and how this is expected to impact our customers. Further information on and disclosures relating to the Group's ECL impairment allowance are set out in the credit risk section of the Risk report starting on page 119 and in note 3.2.	**The Committee:** • reviewed regular reports from management in relation to the level of ECL impairment provisioning, with the key focus being on the assumptions used within the collectively assessed element of the provision. This included the measures taken by management in assessing the expected impact of COVID-19 on the Group's customers and how this adequately translated into the ECL allowance; • reviewed and challenged the inputs (including the scenario and weightings changes in the year) and resulting output of the base models, with a particular focus on probabilities of default, the estimate of future recoveries and the impact of COVID-19 on the staging for ECL assessment; • reviewed and challenged the level of PMAs included within the ECL impairment allowance and the rationale for their inclusion; • assessed outputs against peer and wider industry benchmarks; and • agreed that the judgements and assumptions used were necessary and appropriate at 30 September 2020.
EIR	The Group offers a range of mortgage and credit card products, interest income on which is recognised using the EIR method. This provides a level yield over the anticipated behavioural life of the product. In addition, certain fees and costs that are directly attributable and integral to the generation of a financial instrument are deferred and released to the income statement over the expected life of the relevant product. Further informaton on and disclosures relating to the Group's use of EIR accounting are set out in note 2.2.	**The Committee:** • received regular updates from management on the operation of the EIR models and how these impacted the Group's results; • reviewed and challenged the inputs, methodologies and assumptions applied to these models, in particular those around customer prepayment profiles and behaviours; and • was satisfied that the inputs, methodologies and assumptions used by management in operating EIR accounting for the Group at 30 September 2020 are appropriate and supportable.
Deferred tax assets	The largest elements of the Group's deferred tax asset are historic losses and capital allowances. In assessing the recoverability of the deferred tax asset on the balance sheet, management has exercised judgement over the forecast future profitability of the Group and the number of years over which to take account of future profits, i.e. the period over which profits can be reliably estimated. Further information on and disclosures relating to the Group's deferred tax asset position as at 30 September 2020 are set out in note 3.9.	**The Committee:** • reviewed the recoverability of deferred tax assets throughout the year; • considered the judgements made by management over the forecast future profitability of the Group and the time horizon over which the use of tax losses was foreseeable in light of the continuing and progressively tightening restrictions on their use; and • agreed that the recognition of a deferred tax asset balance of £326m at 30 September 2020 was appropriate.
Retirement benefit obligations	The actuarial valuation of the Group's defined benefit scheme liabilities involves making several financial and demographic assumptions, including: discount rate; future inflation rates; and future mortality rates. Further information on and disclosures relating to the Group's retirement benefit obligations at 30 September 2020 are set out in note 3.10.	**The Committee:** • reviewed the discount and inflation rate assumptions proposed by management at 30 September 2020 against a benchmark range provided by the external adviser and concurred with these key assumptions; and • agreed that the discount and inflation rates used in the calculation of the retirement benefit obligations at 30 September 2020 were appropriate.

Other significant issues

Financial reporting regulators

During the year, the Group received a request for information from the Financial Reporting Council (FRC) in relation to the Group's 2019 Annual Report and Accounts. Following a review by the Committee, the FRC was provided with additional information in respect of the assessment of the carrying values of subsidiaries in the Company's financial statements, and subsequently received confirmation in writing that it had closed its enquiries[1].

Going concern

The Committee reviewed and challenged the going concern assessment undertaken by management including assessments of the Group's capital, liquidity and funding position and consideration of the principal risks and uncertainties set out on pages 24 to 27. The Committee concluded that the Company and Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements and confirmed to the Board that it was appropriate for the Group's financial statements to be prepared on a going concern basis.

Long-term viability

The Committee reviewed and challenged the viability assessment (including the three-year time horizon selected) undertaken by management in the 2020 Annual Report & Accounts.

The Committee considered the process to support the Viability Statement in conjunction with an assessment of principal risks and strategy/business model disclosures, taking into account the assessment by the Risk Committee of stress testing results and risk appetite and impacts due to COVID-19. The Committee recommended the draft Viability Statement (as set out on page 107) to the Board for approval.

Assessment of fair, balanced and understandable reporting

The Committee considered, at the request of the Board, the comprehensive review process which supports the Board and Committee in reaching its conclusion as to whether the 2020 Annual Report & Accounts is fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy.

The production of the 2020 Annual Report & Accounts was managed by the Interim Group Chief Financial Officer, with overall governance and coordination provided by a cross-functional team of senior management led by the Group Head of Finance. A robust review process of inputs into the 2020 Annual Report & Accounts by contributors from across the business was conducted to ensure disclosures were balanced, accurate and verified, and further comprehensive reviews were conducted by senior management. The Committee then formally reviewed the draft 2020 Annual Report & Accounts in advance of final review and sign-off by the Board.

The following questions are some of those that the Committee asked itself as part of the review process:

Is the report fair?

- Has the whole story been presented and are there any significant matters omitted which should have been included?
- Do the financial statements contain narrative which is consistent with that used in the Strategic Report to describe the performance of the business?

Is the report balanced?

- Are the statutory and adjusted measures set out clearly and given appropriate prominence?
- Has the report been properly considered as a document that has been prepared for shareholders?
- Is the reporting consistent throughout the report, from the Strategic Report through to the Financial Statements and does it remain consistent when these sections are read independently of one another?
- Are the key judgements explained in the narrative reporting consistent with the disclosures set out in the financial statements?

Is the report understandable?

- Is the structure and framework of the report clear and understandable?
- Is the layout clear and linked throughout enabling the whole story to be understood?
- Are important messages highlighted well enough throughout the document?

Conclusion

After careful review and consideration of all relevant information, including principal risks and ongoing risk reporting, the Committee was satisfied that, taken as a whole, the 2020 Annual Report & Accounts is fair, balanced and understandable and has affirmed that view to the Board.

(1) The FRC's review was based on the Group's Annual Report & Accounts and did not benefit from detailed knowledge of the Group's business or the transactions entered into. The closure of the FRC enquiries provides no assurance that the Group's Annual Report & Accounts are correct in all material respects, as the FRC's role is not to verify information but to ensure compliance with reporting requirements. The FRC accepts no liability for reliance on its closure letter from the Group or any third party, including but not limited to investors and shareholders.

Audit Committee report

Internal Audit

The following matters were considered by the Committee during the year in respect of its responsibility to monitor the role and effectiveness of the Internal Audit function (including the role of the GDIA):

- approval of the audit plan, including any material changes, and monitoring of progress towards its delivery on a quarterly basis;
- quarterly reports from Internal Audit on activities undertaken and a six-monthly assessment of the overall control environment;
- major findings of significant internal audits, and the responses to these from management;
- regular interactions with the GDIA including private sessions with the Committee and Committee Chair and specific audit planning workshops;
- an annual assessment of the independence and performance of the GDIA who continued to report directly to the Chair of the Committee, with a secondary reporting line to the Chief Executive Officer for administrative purposes;
- a review of the results of the annual survey to assess the performance of Internal Audit which was circulated to Non-Executive Directors and the Extended Leadership Team;
- the adequacy of Internal Audit resources, including the financial budget and capability to draw on external specialists when appropriate;
- a review of benchmarking information relating to the size and capability of the Internal Audit function and the results of Internal Audit Quality Assurance Assessments; and
- revisions to the Internal Audit Charter (available at www.virginmoneyukplc.com), which sets out the role and responsibilities of the function, were approved.

The Committee concluded that the Internal Audit function was sufficiently resourced and skilled to operate as a standalone entity.

External auditor

The Committee oversees the effectiveness of the external auditor (Ernst & Young LLP (EY)) and during the year it approved the annual external audit plan, received updates on the progress of the audit, including the responses to challenges caused by COVID-19, reviewed the external auditor engagement letter and agreed the auditor's remuneration (the Committee was authorised by shareholders at the 2020 AGM to agree the remuneration of the external auditor). Steven Robb has fulfilled the role of Senior Statutory Auditor for a fourth year, and in keeping with auditor rotation rules, will step down on completion of this year's audit. He will be replaced by Andy Bates, who will assume the Senior Statutory Auditor responsibility for the Group from next year. All other audit partners and audit senior management are required to rotate at least every seven years.

During the year, the Committee also:

- reviewed the findings of the external audit including key judgements and the level of challenge provided by the external auditor;
- reviewed management's responses to control findings, non-compliance and any other findings identified by external audit;
- reviewed the FRC's Audit Quality Review Team report on the FY19 EY audit. The Committee challenged EY on the main areas the report had identified as requiring improvement and the remedial actions EY would take as a result in respect of its audit work in FY20. The Committee received subsequent updates from EY as to how the audit was progressing in light of their committed actions; and
- considered the wider external audit market generally, assessing relevant industry specific information and events.

The Committee considered the effectiveness of the audit process and the external auditor performance as part of an annual performance review which takes into account management's assessment of audit effectiveness. The assessment focused on the areas of judgement; mindset and culture; skills, character and knowledge; with an overarching assessment of quality control. The Committee concluded that it was satisfied with the external auditor's performance and recommended to the Board a proposal for the reappointment of the auditor at the Company's AGM.

External auditor independence and remuneration

Both the Board and the external auditor have safeguards in place to protect the independence and objectivity of the external auditor which are detailed in the External Auditor Independence Policy Standard (Policy Standard). This policy is reviewed at least annually and was refreshed during 2020. The Policy Standard details the nature of the services that the external auditor may not undertake and specifies that non-audit services may not be pre-approved and are subject to prior approval from the Committee or a delegate. In certain cases, the external auditor may be selected over another service provider due to their detailed knowledge and understanding of the Group's operations. Any allowable non-audit service with a value above £100,000 requires approval from the Chair of the Committee. The Policy Standard also specifies that the overall fee for non-audit services be continually monitored and should not exceed 70% of the average audit fee over the prior three-year period. The total amount paid to the external auditor in 2020 was £3,980k (2019: £3,801k). The Committee challenged the external auditor on whether this fee level was sufficient to facilitate an effective audit, and received satisfaction on this point. Non-audit services of £651k (2019: £725k) performed by the auditor during the year included providing accounting opinions and comfort letters in respect of the issues of Global Medium Term Note debt instruments; profit attestations; and a Client Assets Sourcebook audit. Payments by the Group for both audit and non-audit services provided in 2020 and 2019 are further detailed in note 2.4 to the financial statements. The Policy Standard also regulates the appointment of former audit colleagues to senior finance positions in the Group.

Statutory Audit Services Compliance

The Committee confirms that the Group has complied during the year of financial review and to the date of this report with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, which relates to the frequency and governance of tenders for the appointment of the external auditor and the setting of a policy on the provision of non-audit services.

EY has been the external auditor for Clydesdale Bank PLC and other Group entities since January 2005. Following a competitive tender in respect of the Group audit in early 2015, EY was appointed as the Company's external auditor on 14 January 2016, shortly before the Company became the holding company of the Group. EY will have fulfilled the maximum 20 year duration allowed for external audit appointments under the Statutory Auditors and Third Country Auditors Regulations 2016 in respect of the financial year ending 30 September 2024. In keeping with the CMA's requirements, the Committee intends to agree a timeline for the next competitive tender process over the coming year, which it will set out in the FY21 Annual Report & Accounts.

Risk management and internal control systems

Detailed information in respect of the internal controls and risk management systems for the Group's financial reporting process are provided within the Risk report on pages 111 to 180. Specific matters that the Committee considered during the year included:

- reviewing the output of Internal Audit reports (including thematic and focused reviews of prudential, credit, conduct and strategic change risks) to confirm the effectiveness of the Group's internal control and risk management systems;
- consideration of the three lines of defence assurance plans; and
- considered the findings of the external auditor in connection with the Group's control environment.

The Committee concluded that it was content that financial reporting internal controls were sufficiently robust and were operating effectively.

Regulatory compliance

The Committee provided oversight of the Group's compliance with all necessary regulatory reporting which included reviewing the integrity of the Pillar 3 Disclosures and recommending approval by the Board and providing oversight of significant management judgement in the regulatory returns to the Group's regulators (the PRA, FCA, BoE and EBA).

Whistleblowing

The Chair of the Committee is the Whistleblowers' Champion in accordance with the Senior Managers and Certification Regime, with responsibility for overseeing the integrity, independence and effectiveness of the Group's policies and procedures on whistleblowing. The Committee has oversight of the whistleblowing policy standard and operational framework, seeking assurance it is adequately designed and operating effectively within the Group. The Committee received and considered periodic whistleblowing reports covering the Group's whistleblowing arrangements, including monitoring the trends in reported and substantiated whistleblowing cases, training and awareness of colleagues, and the effectiveness of the whistleblowing programme. The Committee also regularly reports on its consideration of whistleblowing arrangements to the Board.

Risk Committee report

In a year when unprecedented risks have crystallised, the Committee focused on assisting the Board to ensure that the Group's response enabled a safe and resilient Bank.

Geeta Gopalan
Chair, Risk Committee

Members

Geeta Gopalan (Chair)
Paul Coby
Darren Pope
Tim Wade

Dear shareholder

I am pleased to present the Risk Committee's (Committee) report for the financial year ended 30 September 2020 following my appointment as Chair on 30 November 2019. This report provides an overview of the Group's approach to risk management and how the Committee has provided oversight and advice to the Board in relation to principal and emerging risk exposures and how these are managed and mitigated in line with business strategy. The Committee also focused on ensuring the Group maintained a robust and effective RMF, and promoted a positive risk culture across the Group.

The Committee is grateful to all colleagues, especially those in the Risk teams, who have worked hard to ensure safe and fair outcomes for the Group, customers and stakeholders. I would also like to thank Clive Adamson, my predeccesor as Chair, for his contributions to the Committee and welcome Darren Pope as a member of the Committee from 1 July 2020. Darren's extensive retail banking and financial services background are extremley valuable to the Committee when considering the key risks facing the Group.

Since March 2020, COVID-19 has impacted the Group's risk profile and risk appetite. Please see the Strategic report on pages 2 to 44 and the Risk report on pages 111 to 180 for more detailed information on how COVID-19 has impacted the Group's risk profile, operations, people and strategy.

Risk framework and policies

The refreshed RMF, implemented in October 2019, established an overarching framework for the identification, measurement and management of risk in a clear and transparent way, including risk categorisation, risk appetite and policy management.

The Committee oversaw the embedded Group's three lines of defence model, ensuring a clear division of responsibilities was maintained between the day-to-day operations and risk oversight and assurance activities. Risk appetite developments were monitored in order to respond to the exceptional challenges posed by COVID-19, including the implementation of a range of government, regulatory and central bank measures to support customers, and operational changes to ensure colleagues can work from home.

The Committee continued to provide oversight of the internal and external stress testing exercises including enhancements to model risk management.

Virgin Money Holdings (UK) PLC integration

The Board Transformation and Integration Committee, a special purpose committee of the Board, was established in November 2019 to provide Board level oversight for activities required to integrate and transform the Group. However, the Board retains overall responsibility for providing oversight and challenge of the Group's integration activities.

While the Group remains committed to the delivery of its transformation programmes, the decision was taken to pause integration activity and reassess the investment portfolio as a whole, to allow greater focus on delivering for our customers during COVID-19. As a result, the Committee requested and reviewed risk assessments of the implications of placing projects on hold and mitigating actions to address these risks until the investment portfolio activity was agreed in October 2020.

The Committee reviewed the Group's response to COVID-19 focusing on the evolution of credit risk and particularly model risk as well as potential conduct risk arising from various government support programmess. Forbearance measures, cyber and operational risks from remote working were also considered.

Principal and emerging risks
The following report sets out the principal and emerging risks the Committee evaluated over the year. Further details on the wider risk profile and RMF can be found in the Risk Overview within the Strategic report on pages 2 to 44 and the Risk report on pages 111 to 180.

Committee performance evaluation
In line with the requirements of the Code, an external review of the Committee's effectiveness was carried out this year and it rated the performance of the Committee highly overall. An internal review carried out also confirmed that the Committee had met its key objectives and discharged its responsibilities in line with its charter.

Looking ahead
The Committee will continue to focus on areas within its remit and will challenge and provide oversight of the continued risks associated with the COVID-19 pandemic, the Bank's participation in the BoE's concurrent stress testing and operational resilience. Emerging risks, including the financial and transition risks associated with climate change, and model risk management, will be a key focus in FY21.

Associated impacts on the Group's risk profile as a result of the continued challenging macroeconomic growth outlook and the continued integration of the Group, including the resultant customer value proposition changes for all customers and colleagues, will continue to be closely monitored by the Committee.

Geeta Gopalan
Chair, Risk Committee

Committee role and responsibilities
The Committee assists the Board to set the Group's risk appetite and to ensure that the Group maintains an effective RMF. The Committee also supports the Board by assessing key current and emerging risks and their mitigation, and by leading the development and embedding of a culture that supports risk awareness and the fair treatment of customers.

The Committee is responsible for:

- providing oversight and advice to the Board in relation to current and potential future risk exposures of the Group and future risk strategy, including matters relating to risk appetite and tolerance and stress testing activities; determination of risk appetite and tolerance; and the effectiveness of the RMF, Policy Management Framework, and in conjunction with the Audit Committee, financial and non-financial internal controls required to manage risk;
- making recommendations to the Board on matters such as risk appetite, tolerance and particular risks;
- providing oversight and advice to the Board within the context of the risk appetite approved by the Board;
- overseeing the implementation and review of risk management and internal compliance systems including reviewing management's plans for mitigation of the top and emerging risks;
- monitoring the effectiveness of the Group's fraud and AML procedures and overseeing the application of those Group policies and procedures relating to the responsibilities of the Committee adopted across the Group; and
- promoting a risk awareness culture within the Group.

A full list of the responsibilities of the Committee are set out in its charter which is regularly reviewed. The charter can be accessed on the Company's website (www.virginmoneyukplc.com).

Committee composition and operations
The Committee comprises four independent Non-Executive Directors. Details of the Committee members' skills and experience can be found in their biographies on pages 50 to 52. In addition to the Committee members, regular attendees include the Board Chairman, Chief Executive Officer, Group Chief Financial Officer, Group Chief Operating Officer, Group Chief Risk Officer, Group General Counsel, Group Director Internal Audit and Risk Chief Compliance Officer.

The Group Chief Risk Officer presents a report at each Committee that provides a view of the principal and emerging risks faced by the Group and is invited to provide his perspectives on the risk profile of the Group. Subject matter experts are invited to Committee meetings to present on a variety of topics including deep dive analysis on specific risk matters. Updates are provided to the Board following each Committee meeting summarising challenges and key decisions. These updates are supported by the Group Chief Risk Officer's Report.

Private sessions were held with the Group Chief Risk Officer during the year to provide additional opportunity for open dialogue and feedback.

Risk Committee report

The Committee recognises the common interest in issues relevant to both the Committee and the Audit Committee, including the assurance activities which span all three lines of defence. Joint meetings of the Committees took place during the year where matters including the FY21 Risk Management Assurance Plan and the FY21 Internal Audit Plan were discussed and endorsed.

Committee meetings

During the year, the Committee held seven scheduled meetings, one scheduled joint Audit and Risk Committee meeting and three additional meetings to consider prudential regulatory related matters, the impact of COVID-19 on the business and review and approval of the Annual Report & Accounts risk disclosures. Details of meeting attendance are set out on page 48.

How the Committee spent its time

Key matters considered by the Committee during the year

Key matter considered		Committee review and conclusion
RAS and stress testing	Reviewing and endorsing the Group's risk appetite.	**The Committee:** • reviewed and endorsed the FY20 risk appetite for Board approval which was recalibrated to Group level, giving consideration to the individual mortgages, personal and business divisions, the prevailing economic market conditions, the anticipated risk profile and the revised strategic priorities outlined at Capital Markets Day to ensure appropriate risk tolerances are in place; and • reviewed and endorsed Board approval of changes to the FY20 RAS as a result of the impact of COVID-19 on the Group's principal risk categories including credit risk and the 'lower for longer' interest rate environment in which it operates.
Risk management	Overseeing the risk profile and risk management of the Group within the Board approved RAS.	**The Committee:** • reviewed regular Group Chief Risk Officer reports of performance against each principal risk and risk appetite measure, challenging the adequacy of management actions in respect of actual or potential breaches of red and amber RAS metrics; • approved the annual Risk Management Assurance and first line Operational Assurance Plans and received regular updates on the adequacy and effectiveness of the application of the risk control framework; • reviewed and challenged programme updates on the progress of integration activity; • reviewed the key risks relating to the COVID-19 activity de-prioritisation/deferral process; • reviewed and discussed the opinions within the annual Money Laundering Reporting Officer's Report on the effectiveness of the Group's AML framework; • carried out an assessment of the Viability Statement in the 2020 Annual Report & Accounts and advised the Board and Audit Committee to that effect; and • in conjunction with the Audit Committee, reviewed and approved the Group's control environment.
Model risk	Providing oversight and reviewing the management of model risk.	**The Committee:** • reviewed deep dive analysis to ensure the Model Risk Management Framework, associated policies and the models used, remain effective to support customers during COVID-19; and • discussed model validation including remedial actions and model risk resourcing to ensure the Risk function have the required skilled resources to deal with the increasing complexity of the models.
Risk culture	Ensuring that all colleagues operate in line with the Group's risk-focused culture.	**The Committee:** • continually assessed risk culture, including considering risk events and undertaking root cause analysis; and • considered any risk adjustments to be taken into account by the Remuneration Committee when making remuneration decisions.

As part of the RMF, during the year the Committee maintained oversight of the following identified principal risks and associated emerging risks.

Principal risk		Committee review and conclusion
Credit risk	The risk of loss of principal or interest stemming from a borrower's failure to meet contractual obligations to the Group in accordance with their agreed terms. Credit risk manifests at both a portfolio and transactional level.	**The Committee:** • regularly reviewed the performance of the loan portfolio including assessing immediate and ongoing COVID-19 impacts across all products. This included revisions to appetite, credit policies and frameworks. Further considerations included high LTV concentrations, the slowing housing market, and customer behaviours including indebtedness levels and outlook; and • oversaw the implementation and performance of the suite of government financial support measures including: capital payment holidays, CBILS and new/increased overdraft facilities.
Financial risk	This covers several categories of risk which, if improperly managed, will have an adverse effect on the financial performance of the Group. They include capital risk, funding risk, liquidity risk, market risk, climate risk and pension risk. Reviewing and endorsing the ICAAP, ILAAP and dry-run results of the ACS stress test for Board approval.	**The Committee:** • closely monitored the Group's funding and capital positions giving due consideration to any additional risks arising from increased market uncertainty; • discussed and noted regular reports from the Group Treasurer which provided updates on the Group's exposure to financial risk including pension risk management; the work being done to consider changes to the investment profile of the Bank's structural hedges from rolling five years to overnight; and activity being undertaken to phase out LIBOR; • discussed and noted regular updates on the impacts from climate change including the final risks from the climate change plan covering governance, risk management, scenario analysis, disclosure and opportunities, in order to comply with the PRA's expectations by the end of 2021; and • reviewed and endorsed the ICAAP and ILAAP for Board approval as required by the PRA, and the dry run results of the 2020 ACS annual stress test. This latter submission was subsequently postponed by the PRA in order to alleviate operational burdens on banks following the COVID-19 outbreak. **Emerging risk:** • climate risk.
Model risk	This risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.	**The Committee:** • monitored the changes to the model risk management practices; and • reviewed deep dive analysis to understand the model risks from COVID-19 and resulting changes to the Model Risk Management Policy.
Regulatory and compliance risk	This is the risk of failing to comply with relevant laws and regulatory requirements, not keeping regulators informed of relevant issues, not responding effectively to IRs, not meeting regulatory deadlines or obstructing the regulator.	**The Committee:** • received updates on matters relating to GDPR compliance and assurance activity; • reviewed deep dive analysis on conduct risk issues faced by the Bank and various elements of regulatory and conduct risks emerging from COVID-19 including the implications for Senior Managers under the Senior Managers and Certification Regime; • regularly reviewed status updates on upcoming regulatory deliverables and actions; and • in conjunction with the Audit Committee, reviewed and approved the FY21 first and second line Risk Assurance Plans, and approved subsequent changes to the second line Risk Assurance Plan to increase customer outcome testing activity as a result of COVID-19. **Emerging risk:** • regulatory and government change.
Conduct risk	The risk of undertaking business in a way that is contrary to the interests of customers, resulting in inappropriate customer outcomes or detriment, regulatory censure, redress costs and/or reputational damage.	**The Committee:** • regularly reviewed and challenged comprehensive conduct risk MI providing greater insight into the risks throughout the customer journey across all major product areas including 29 customer outcomes, conduct risk RAS measures and complaints performance; • conducted deep dive analysis on the Bank's conduct performance and key themes including: the embedding of the vulnerable customer strategy; the enhanced approach to identifying vulnerable customers; customer complaints management and the impact of COVID-19 on capacity and performance; integration risks; operational resilience and the impact of third-party service delivery; and • monitored the continued progress to remediate key legacy conduct issues throughout the year, including PPI and other remediation programmes.

Risk Committee report

Principal risk		Committee review and conclusion
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	**The Committee:** • monitored the operational risks arising from COVID-19 including increased remote working, the implementation of new automated processes, increased systems monitoring and customer support capacity; and • challenged and approved the operational risk scenarios and their resulting output for inclusion in the ICAAP to support the operational risk capital calculation.
Technology risk	This is the risk of loss resulting from inadequate or failed information technology processes. Technology risk includes cyber security, IT resilience, information security, data privacy and payment risk.	**The Committee:** • reviewed operational updates on the current status of change and IT risk management including information security, digital adoption and transformation and service issues (trends and volumes); and • reviewed the impact of COVID-19 and the risks arising from colleague remote working environments, increased security risks and the accelerated digital activity required to launch the new government-backed financial measures. **Emerging risk:** • technology and cyber risk.
Financial crime risk	This is the risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties. This includes money laundering, counter terrorist financing, sanctions, fraud and bribery and corruption.	**The Committee:** • oversaw the effectiveness of the Financial Crime Framework which provided insight on the monitoring, management and mitigation of financial crime; • reviewed the COVID-19 associated risks arising from increased remote working and resulting changes made to a number of fraud and financial crime controls; and • reviewed the annual Money Laundering Reporting Officer's report.
Strategic and enterprise risk	The risk of significant loss of earnings or damage arising from decisions or actions that impact the long-term interests of the Group's stakeholders or from an inability to adapt to external developments, including potential execution risk as a result of integration and transformation activity.	**The Committee:** • reviewed integration programme updates from the three lines of defence including risks associated with activity placed on hold or de-scoped due to COVID-19; • considered the regular updates from the Group Chief Risk Officer on strategic and enterprise risks; and • received regular updates on the Group's response to climate change risk including, in line with regulatory requirements, a plan setting out the activity that would be undertaken in the next three years in relation to climate change governance; risk management; scenario analysis; disclosure and opportunities. **Emerging risk:** • geo-political and macroeconomic environment.
People risk	The risk of not having sufficiently skilled and motivated colleagues, who are clear on their responsibilities and accountabilities and who behave in an ethical way.	**The Committee:** • reviewed updates on the key people risks emerging as a result of COVID-19 including tracking and monitoring of colleague welfare, colleague communications and measures implemented in the workplace to safeguard colleagues; and • provided oversight of transitional risk assessments in respect of key organisational changes.

An overview of how COVID-19 has impacted the Group's principal risks and mitigating actions can be found on pages 24-27 of the Risk overview.

Further information on the Group's principal risks, emerging risks, approach to risk appetite, risk culture and the RMF, can be found in the Risk report beginning on page 111.

Internal control

Board responsibility

The Board is responsible for the Group's systems of internal control. The internal control framework is designed to facilitate effective and efficient operations, ensure a high quality of internal and external reporting, and ensure compliance with applicable laws and regulations. The Directors and management are committed to maintaining a robust control framework as the foundation for the delivery of effective risk management. Owing to the limitations inherent in any internal control framework, the controls have been designed to manage and mitigate, rather than eliminate, the risk of failure to achieve the Group's business objectives and can provide only reasonable, not absolute, assurance against material misstatement or loss. The Directors acknowledge their responsibilities in relation to the Group's internal control framework and for reviewing its effectiveness.

The Board confirms that throughout the year ended 30 September 2020 and up to the date of approval of this Annual Report & Accounts, there have been rigorous processes in place to identify, evaluate and manage the principal risks faced by the Group, including those that would threaten its business model, future performance, solvency or liquidity, the likelihood of a risk occurring and the costs of control in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the FRC.

In order to assist in the identification and management of the principal risks, the Board has established a RMF which is integrated into the Group's overall framework for risk governance, and has developed a system of regular reports from management. The Board has authorised the Risk Committee to oversee the Group's compliance with the Board's approved RAS, RMF and risk culture. Further details can be found in the Risk report on pages 111 to 180.

Reviews by the Board

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

Control effectiveness

A review of the effectiveness of controls is regularly undertaken across the Group, providing an assessment and statement on the effectiveness of the Group's control environment. Each business unit is required to produce a control effectiveness statement which is approved by the relevant Executive Leadership Team member with independent oversight and challenge by Operational Risk and principal risk owners. This provides assurance to the Board, via the Audit and Risk Committees, that no new material control issues have been identified and that robust management actions are in place to address specific known gaps.

Overall assessment

Over the past year, the Group has made further enhancements to the RMF and risk reporting, appetite and policy setting. Particular focus has been on the design and implementation of an RMF and a set of risk frameworks applicable for the enlarged Group, which are now in place enabling a common understanding, consistent approach and ability to report consistently on risk matters across the Group up to, and including, the Risk Committee. The control environment remains stable with the 2020 Control Effectiveness Statement providing assurance that ineffective controls are escalated appropriately and have adequate action plans in place.

The Risk Committee, in conjunction with the Audit Committee, concluded that the Group's risk management and internal control framework in relation to the Group's risk profile and strategy was effective and adequate. The Board therefore remained satisfied that the system of internal control continued to be effective in identifying and assessing the various risks to the Group and in monitoring and reporting progress on their potential impact.

Statement by the Chair of the Remuneration Committee

2020 has been an exceptionally challenging year. In response to these extraordinarily circumstances and further to our normal prudent approach, the Group's remuneration arrangements are characterised by additional restraint.

Darren Pope
Chair, Remuneration Committee

Members

Darren Pope (Chair)
David Bennett
Paul Coby
Geeta Gopalan
Tim Wade

Directors' remuneration report contents

Dear shareholder,

On behalf of the Board and as Chair of the Remuneration Committee, I am pleased to present the Directors' remuneration report for the year ended 30 September 2020. The report aims to set out simply and transparently how the Committee addressed its responsibilities during the year and to explain the rationale for its decision making in respect of 2020.

I was appointed as Committee Chair on 2 May 2020 having been a member of the Board since 15 October 2018 and previously a member of Virgin Money Holdings (UK) PLC's Remuneration Committee from March 2017 to October 2018. I would like to take this opportunity to thank Adrian Grace for his previous leadership of the Committee as well as his support during the transfer of responsibilities.

The onset of COVID-19 has presented a unique series of challenges for all stakeholders and the work of the Committee this year has focused on managing remuneration decisions in light of the experiences of all stakeholders. That said, nothing should detract from the heroic work of all colleagues in the Group in continuing to smoothly deliver services to our customers in these exceptional circumstances.

2020 AGM and Directors' Remuneration Policy

At the AGM in January 2020, shareholders supported both the new Directors' Remuneration Policy, and the Directors' remuneration report for 2019, with votes in favour of 99.5% and 82.7% respectively. These voting outcomes provide the Committee with assurance that shareholders are satisfied both with the Group's remuneration framework and the way in which this structure is implemented. The Committee is not recommending any changes to structure, with only modest changes to LTIP measures (see below). We of course continue to explore ongoing developments to our remuneration model.

2020 review

The Remuneration Committee's year end decision making is focused on overseeing fair remuneration outcomes for all colleagues for 2020 and on setting robust, forward-looking performance targets to support the delivery of the ongoing strategy. In the context of the economic impact resulting from the current pandemic, the Committee is challenged – like many of our counterparts across the UK and beyond – to strike a balance in its approach to remuneration; taking heed of the impact of the pandemic on business performance and shareholders, while recognising the significant efforts and sacrifices that the Group's workforce has made during the year and the need to retain and incentivise colleagues going forward.

In response to these extraordinary circumstances and further to our normal prudent approach, the Group's remuneration arrangements this year are characterised by additional restraint.

Voluntary salary donations

In April, the Leadership Team, including the Executive Directors, volunteered that they should not receive the cash element of any bonus award for 2020. At the same time, the CEO committed to donate one-third of his salary to charity for the remaining six months of the financial year. In July, Non-Executive Directors made the collective decision to donate 20% of their fees to charities of their individual choice for the remaining three months of the year.

Annual bonus and pay outcomes for 2020

The annual bonus pool is determined based on performance against the Group's scorecard with targets set at the beginning of the year. In 2020, a strong outcome was recorded against the scorecard measure for relationship deposit growth and all the challenging non-financial targets for the year were met or exceeded despite the environment. Given the economic consequences of the pandemic, however, the Group's ability to meet financial targets which underpin the 2020 annual bonus structure has of course been compromised.

We ultimately determined that no bonus or annual salary increases will be awarded in respect of 2020. This was a difficult decision given the Board's view that the team has delivered an exceptional level of performance in navigating the Group through uncharted territory and, at the same time, protecting customers and colleagues. A flat-rate recognition award of £500 will be made to colleagues below the Group's most senior management level. This award is intended to financially recognise the dedication demonstrated by our colleagues in serving our customers throughout this challenging period. The Committee's decision not to award bonuses reflects the application of downward discretion to the formulaic outcome, as set out on page 90 of this report.

2017 LTIP award

Following the end of the three-year performance period applicable to the 2017 LTIP award, the Committee assessed outcomes against the financial and non-financial performance targets. The Group's performance against these targets has been significantly impacted by the external environment in the final year of the performance period. The Committee has determined a final outcome of 32% of the maximum opportunity (see details on page 91). In reaching this conclusion, a small adjusting judgement was required in relation to the IRB accreditation metric. Our expectation is that this would have been achieved in full by 30 September 2020, were it not for delays caused as a result of COVID-19. While outside of the Group's control, taking this into account, the Committee believes a fair outcome in relation to this metric is 50% of maximum. Shares under this award remain subject to ongoing deferral and create critical alignment between shareholders and senior executives. Shares will be released in tranches from December 2020 to June 2025.

2020 LTIP award

As a Committee, we are also mindful of the influence of external factors on the outcomes not only in respect of the 2020 annual bonus, but also on inflight LTIP awards. In order to retain and appropriately incentivise the current Leadership Team to deliver on the Group's strategic goals, the Committee's intention is to grant 2020 LTIP awards at the normal level, consistent with previous years' awards and in line with the remuneration policy. The Committee will take necessary steps to mitigate excessive windfall gains on vesting.

Given the unprecedented nature of the pandemic, and with the precise economic outlook for the UK remaining certain, it is not appropriate at this stage for the Group to give firm medium-term guidance. Therefore, while we have disclosed in this report the weightings applicable to the 2020 LTIP award which remain aligned to our ongoing strategic goals, it is not possible to set the specific targets that underpin the financial elements of these awards which represent 55% of the total. We commit to engaging with shareholders during 2021 to establish the targets as more clarity arises and hope to set these within six months. The non-financial measures for the 2020 LTIP will incorporate the Group's ESG commitments, with the inclusion of a carbon emissions target alongside existing colleague engagement and diversity metrics.

Remuneration considerations across the Group

In last year's report we voluntarily reported the CEO to all-colleague pay ratio, ahead of the mandatory requirement. In this year's report we have provided a more comprehensive disclosure in line with the new reporting requirements. The CEO's total pay year-on-year is significantly lower in 2020 versus 2019 (59% reduction). This results from the inclusion of two long-term incentive awards in the 2019 single figure total compared with the more modest outturn for 2020 driven by the factors outlined in this statement. While the headline ratio has therefore significantly reduced compared with last year's unusually high figure, the ratio is likely to increase from the 2020 number in future years where target performance is met or exceeded.

The Group's approach to remuneration is intended to provide competitive, transparent and fair rewards and this is regularly monitored by our pay review process. The Committee recognises the growing importance of high quality data in enabling effective governance and decision making, particularly in relation to colleagues from protected groups. The processes that support the Group's annual Gender Pay report (published at www.virginmoneyukplc.com/corporate-sustainability/inclusion/) have informed our thinking in this area. We are committed to reporting similar data across other colleague groups and will ensure this information is used to support our drive to oversee fair outcomes for all colleagues.

Executive Director changes

In January this year, it was announced that Ian Smith intended to leave his position as Group CFO. Ian remained in his role for the entire financial year, stepping down from the Board of Directors on 30 September 2020 and leaving Group service on 14 October 2020. Ian was not eligible for a 2020 annual bonus and will not receive a 2020 LTIP award. In accordance with the Group's remuneration policy and the relevant share plan rules, Ian's unvested share awards lapsed at the end of his employment.

Statement by the Chair of the Remuneration Committee

Committee changes and alignment with risk
The Committee was strengthened this year with the appointment of Paul Coby, Geeta Gopalan and Tim Wade as members. Paul, Geeta, Tim and I are also members of the Risk Committee ensuring a strong alignment between risk and remuneration. I would like to thank Fiona MacLeod and Jim Pettigrew for their contribution during the year.

Regulatory remuneration reporting as a Tier 1 firm
Following completion of the Financial Services and Markets Act 2000 (FSMA) Part VII process in October 2019, the Group became a Tier 1 firm and, as a consequence, has complied with the additional remuneration reporting requirements for the 2020 financial year. Our pre-existing good practice as a Tier 2 firm has helped the transition to the new regulatory requirements. Nonetheless, we spent considerable time during the year reviewing our processes to ensure they meet the enhanced expectations for Tier 1 firms.

Corporate governance changes
The Committee has taken account of the Code in its approach to the Group's remuneration practices. The Committee's approach is to adhere to best practice reporting standards, disclosure and transparency and for consistent treatment of executive remuneration when compared with the treatment of the wider workforce. As the Group navigates the impact of the current pandemic, these guiding principles remain as important as ever. The Committee plans to align the CEO's pension contribution with the rate applied to the majority of colleagues at or before the next policy review.

Committee performance evaluation
The Committee's effectiveness is reviewed annually against the Code, including its charter and activities during the year, to confirm activities are aligned with its remit. This year, an external review of the Committee's effectiveness was carried out. The Committee collectively reviewed the feedback and agreed to continue to evolve the Committee's effectiveness through a programme of continuous improvement. An internal review of the Committee's effectiveness relative to its charter indicated that the Committee met its key objectives and discharged its responsibilities effectively.

The 2020 Directors' remuneration report will be subject to an advisory vote at the next AGM. I am pleased to recommend the report, and this statement, to you ahead of the AGM.

Darren Pope
Chair, Remuneration Committee
24 November 2020

Committee role and responsibilities
The Committee assists the Board in overseeing remuneration arrangements, particularly those of the senior management and employees covered by the Remuneration Code. The Committee is responsible for:

- providing oversight and advice to the Board in relation to the Group's remuneration policy;
- considering and implementing remuneration arrangements of the Chairman of the Board, Executive Directors, members of the Leadership Team and the Company Secretary;
- considering and approving remuneration arrangements for other senior executives and employees covered by the Remuneration Code while having oversight for remuneration scales and structure across the Group.

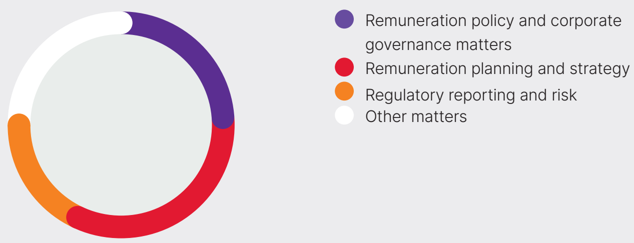
A full list of the responsibilities of the Committee are set out in its charter which is regularly reviewed. The charter can be accessed on the Company's website: www.virginmoneyukplc.com

Committee composition and operations
The Committee comprises four independent Non-Executive Directors and the Board Chairman who was considered independent on appointment as Board Chairman. Details of the Committee members' skills and experience can be found in their biographies on pages 50 to 52.

The CEO, Group Human Resources Director, Head of Reward and Pensions, Group Company Secretary and the Committee's independent remuneration adviser, PricewaterhouseCoopers LLP (PwC), regularly attend Committee meetings as appropriate depending on the Committee's business.

Committee meetings
The Committee held eight scheduled meetings and two additional meetings to consider LTIP and regulatory matters. Details of meeting attendance are set out on page 48.

How the Committee spent its time



Activities during the year

The significant matters addressed by the Committee during the financial year ended 30 September 2020 are described below:

Key area of focus	Committee review and conclusion
Fixed and variable pay	• Approved 2019 variable remuneration awards for Executive Directors, other senior management, material risk takers (MRT) and all-colleague awards under the Group Team Bonus for the 2019 financial year. • Reviewed and approved salary proposals for individual Executive Directors (no change) and senior management. Approved the budget and principles for the all-colleague pay review. • Considered and approved the 2019 long-term and 2020 short-term performance measures, taking into consideration investor views. • Considered and noted Executive Director and senior management personal objectives for 2020. • Considered external market insight when undertaking annual review of the Board Chairman's fee. • Considered impact of COVID-19 on Group-wide remuneration. • Approved the outcome of the 2016 LTIP award. • Approved MRT termination and commencement awards.
Governance, risk and other matters	• Considered and approved the implementation of the new Directors' Remuneration Policy for 2020. • Approved the 2019 Directors' remuneration report. • Reviewed and approved changes and confirmed MRT population throughout the year. • Considered all regulatory requirements, including changes to the Companies Act and the UK Corporate Governance Code, which have become effective within 2020 (see page 88), and the additional reporting requirements applicable to the Group since becoming a Tier 1 bank. • Considered enhancements to risk adjustment process. • Considered appropriate risk reporting, including corporate risks and conduct risks and approved any corporate or individual risk adjustments to variable pay. • Considered and reviewed the 2020 planned activities. • Considered activities to enhance the Group's pay gap reporting. • Reviewed the Committee's charter.

Following the end of the 2020 financial year, Committee meetings have taken place at which final 2020 variable remuneration outcomes for all colleagues, including the Chief Executive Officer, other senior management and MRTs, have been determined. The Committee also determined the performance outcome for the 2017 LTIP award following completion of the three-year performance period on 30 September 2020.

Advisers to the Committee

PriceWaterhouseCoopers LLP (PwC) were first appointed as independent advisers to the Remuneration Committee in 2015 and have been advisers since this date. During the 2020 financial year, PwC advised the Committee on all aspects of the Directors' Remuneration Policy. PwC also provide professional services in the ordinary course of business including assurance, advisory, tax and legal advice. There are processes in place to ensure no conflict of interest exists in the provisions of these services. PwC is a member of the Remuneration Consultants Group, whose voluntary code of conduct is designed to ensure objective and independent advice is given to remuneration committees. Fees of £182,000 excluding VAT (2019: £164,000) were paid based on the time spent on advice provided to the Remuneration Committee in respect of Directors' remuneration for the financial year.

Voting from 2020 AGM

	Votes for		Votes against		Withheld
	Number of shares	% of votes	Number of shares	% of votes	Number of shares
Directors' Remuneration Policy (2020 AGM)	998,049,041	99.50	5,037,177	0.50	11,636,931
Directors' remuneration report (2020 AGM)	831,649,025	82.67	174,356,549	17.33	8,714,173

Activities during the year

How the Committee has applied the remuneration principles of the 2018 Corporate Governance Code

The Group's remuneration policies and practices are aligned to the remuneration principles of the Code and aim to:

- support the Group's Purpose, Values and Strategy – variable pay is designed to reward the delivery of the Group's strategy. Performance metrics for variable pay are aligned to the Group's KPIs and strategic priorities. These include non-financial metrics linked to the Group's Purpose and Values;
- promote long-term sustainable success – a substantial proportion of pay for Executive Directors is subject to performance and is awarded in shares which are deferred and held over an extended period of up to eight years. This ensures that Executive Directors are fully committed to sustainable long-term performance; and
- allow application of independent judgement and discretion – the Committee may exercise discretion to ensure outcomes are a fair and accurate reflection of overall business and individual performance, and wider circumstances.

The Remuneration Committee is mindful of the requirement to engage with colleagues to explain how our executive remuneration aligns with wider pay policies and has plans to share this year's Directors' remuneration report with colleagues as part of the Board's broader workforce engagement activities in 2021.

Examples of how the Remuneration Committee has addressed the factors set out in Provision 40 of the Code are provided in the table below:

Principle	Approach
Simplicity, clarity and proportionality	The remuneration policy is designed to retain simplicity while complying with all relevant regulatory requirements and meeting shareholder expectations. Remuneration elements include fixed pay (base salary, pension and benefits) and variable pay (annual bonus and LTIP). Targets for annual bonus and LTIP awards are aligned to the Group's strategic priorities. This provides clarity to shareholders and other stakeholders on the relationship between the successful delivery of the Group's strategy and remuneration paid. The Committee's overriding discretion ensures that remuneration outcomes are aligned with Group performance. As reflected in the Chair's statement on page 84, the Committee considers overall pay and conditions for colleagues across the Group as a whole when determining Executive Director outcomes.
Risk and alignment to culture	The remuneration policy supports the Group's RMF and delivers outcomes over short and long-term horizons with appropriate performance and risk adjustments. Risk and conduct considerations are taken into account as part of the decision making process for variable pay awards. Annual and long-term incentives are designed to drive behaviours consistent with the Group's Purpose, Values and Strategy. Performance metrics include non-financial metrics linked to the Group's Purpose and Values, such as measures to improve customer satisfaction, diversity and colleague engagement. The Group's performance philosophy that success will be achieved through alignment with strategic goals and working together is underpinned by a team-based annual bonus. To support this approach to performance management, the annual bonus for colleagues is aligned with the performance of the business. When the Group performs well, colleagues will share in this success and therefore everyone is rewarded for the contribution they make to the Group's success. This aligns Executive Directors and the wider workforce, encouraging colleagues to work collaboratively as one team and therefore reduces behavioural risks. While this approach is adopted for the majority of colleagues across the Group, incentive outcomes for colleagues employed in Control Functions are based on an assessment of functional objectives rather than the performance of the Group.
Predictability	The remuneration policy (included in the 2019 Directors' remuneration report) describes the Purpose, operation and maximum potential of each remuneration element and illustrates a range of potential outcomes for Executive Directors. Details of the use of discretion and malus and clawback provisions are also explained in the remuneration policy.

Remuneration at a glance

How do incentive performance measures align to our strategy?

Our strategic priorities

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

2020 Annual bonus – performance weightings[1]

Super straightforward efficiency	Delighted customers and colleagues	Discipline and sustainability	Pioneering growth
Underlying PBT 12%	Personal NPS 8%	Underlying RoTE 16%	Relationship deposit growth 16%
Underlying CIR 8%	Colleague engagement 12%		
Total underlying costs 8%			

2020 LTIP – performance weightings[1]

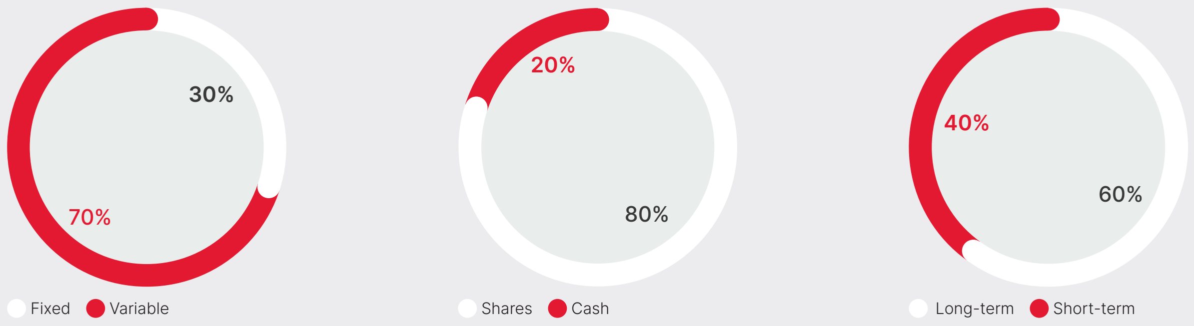
Super straightforward efficiency	Delighted customers and colleagues	Discipline and sustainability	Pioneering growth
Underlying CIR 10%	CMA ranking 10%	Statutory RoTE 25%	Relationship deposit growth 10%
Operating costs 10%	ESG scorecard 15%	Risk scorecard 20%	

(1) The percentages represent the weighting attributable to each performance measure. Annual bonus measures also include a 20% weighting attributable to Executive Director personal performance.

How does remuneration align to long-term shareholder value?

Total Remuneration

Variable Remuneration



The above percentages are based on maximum opportunity under the remuneration policy

Remuneration at a glance

How does pay align to performance?

Single figure total remuneration

Fixed | Bonus | LTIP | Demerger award

David Duffy Chief Executive Officer

		Fixed	Bonus	LTIP	Demerger award	Total
2020	Actual outcome	£1.3m		£0.1m		**£1.4m**
2019(1)	Actual outcome	£1.3m	£0.4m	£0.3m	£1.3m	£3.3m

Ian Smith Chief Financial Officer

		Fixed	Bonus	LTIP	Demerger award	Total
2020	Actual outcome	£0.6m				**£0.6m**
2019(1)	Actual outcome	£0.6m	£0.2m	£0.1m	£0.4m	£1.3m

(1) 2019 single figure totals included an exceptional Demerger Award

2020 Remuneration outcomes

2020 Annual bonus performance

Category	Measure	Weighting	Performance achievement versus targets: Threshold	Target	Maximum	CEO outcome as % maximum opportunity
Super straightforward efficiency	Underlying PBT	12%	£521m	£561m	£601m	0%
			£124m Threshold not met			
	Underlying CIR	8%	57%	55%	53%	0%
			59.5% Threshold not met			
	Total underlying costs	8%	£910m	£895m	£880m	0%
			£917m Threshold not met			
Delighted customers and colleagues	Personal NPS	8%	25	28	31	5.33%
				Actual: 29		
	Colleague engagement	12%	74%	76%	78%	12.0%
					Actual: 79%	
Discipline and sustainability	Underlying RoTE	16%	10.0%	10.8%	11.5%	0%
			0.6% Threshold not met			
Pioneering growth	Relationship deposit growth	16%	8%	10%	12%	16.0%
					Actual: 20%	
Personal objectives		20%	Summary of CEO performance on page 97.			see below
Adjustment made			See below			(33.33%)
Final outcome		100%				**0%**

Given the impact of COVID-19 on the Group's overall financial performance, as explained in the Chair's statement, the Remuneration Committee determined that no bonus award would be made to David Duffy for 2020. Under the bonus rules, Ian Smith was not eligible for an annual bonus for 2020 having left employment on 14 October 2020 by way of resignation.

2017 LTIP performance (1 October 2017 – 30 September 2020)[1]

Category	Measure	Weighting	Performance achievement versus targets: Threshold	Target	Maximum	Outcome as % maximum
Sustainable customer growth	Retail NPS	10%	21	24 (Actual: 25)	27	7.3%
	Digital adoption	7.5%	50.0%	52.5%	55.0% (Actual: 55.4%)	7.5%
Efficiency	CIR	22.5%	58.0% (59.5% Threshold not met)	55.0%	52.0%	0%
	RoTE	22.5%	10.0% (7.4% Threshold not met)	11.0%	12.0%	0%
	IRB accreditation	10%	see below			5.0%
Risk and compliance	Bad and doubtful debts/average loans	7.5%	35 bps Threshold not met	<30bps		0%
	Cumulative operational risk losses	7.5%	<£30m	<£25m (Actual: £25.2m)	<£20m	4.4%
	Complaints per 1,000	7.5%	3.7 (Actual: 3.6)	3.5	3.3	3.3%
Customer-focused culture	Colleague engagement	2.5%	72.0%	77.0% (Actual: 79%)	82.0%	1.9%
	Senior leadership diversity	2.5%	38.0%	40.0%	42.0% (Actual: 43%)	2.5%
Final outcome		100%				**31.9%**

(1) The performance measures for the 2017 LTIP were set prior to the announcement of the Group's revised strategy at the Capital Markets Day in June 2019. For the 2018 LTIP onwards measures are aligned to the strategic priorities, see pages 98 and 99.

Following the end of the three-year performance period applicable to the 2017 LTIP award, the Committee assessed outcomes against the financial and non-financial performance targets. The Committee determined the final performance outcome as 32% of the maximum opportunity. With reference to Internal Ratings Based (IRB) accreditation, the target for this measure was set at the beginning of the performance period on the basis that full accreditation would merit 100% vesting for this measure but that 0% would vest if accreditation had not been achieved. At the end of the performance period IRB accreditation had not been approved in full by the PRA. However, the Group met all associated deadlines with this project and the failure to achieve accreditation by 30 September 2020 is attributed to delays in processing the Group's application caused as a result of COVID-19, and thus outside of the Group's control. The expectation is this metric would have been achieved by 30 September 2020 were it not for COVID-19. Taking full account of all relevant factors, the Committee has applied judgement in determining that the fair outcome for this measure is a 50% vesting.

How does executive remuneration for 2020 align with the wider workforce?

	Executive Director	All colleagues
Salary	No pay increase for 2021	No pay increases for majority of colleagues for 2021
Bonus	No bonus award for 2020	No bonus awards for 2020 £500 recognition award made to colleagues below most senior management level
LTIP	2017 LTIP vested at 32% 2020 LTIP to be granted in December 2020	Some senior managers eligible to participate in LTIP

Directors' Remuneration Policy

Abridged

In this section, we provide a summary of the key elements of the remuneration policy, which was formally approved by shareholders at the AGM on 29 January 2020.

It is intended that approval of the remuneration policy will be sought at three-yearly intervals, unless amendments are required in the interim, in which case appropriate shareholder approval will be sought. The full policy can be found on pages 106 to 116 of the 2019 Directors' remuneration report, included in the 2019 Annual Report and Accounts, available at www.virginmoneyukplc.com

The table below summarises the key elements of the remuneration framework for Executive Directors, including how this was implemented in 2020 and how we intend to implement it in 2021.

Element and purpose		Operation
Salary	Recruit, reward, retain and recognise role responsibilities	Base salaries are paid monthly and reviewed annually with any increases normally aligned in percentage terms with increases awarded to other colleagues.
Pension	Recruit, reward, retain and contribute towards funding for retirement	Executive Directors are entitled to participate in the Group defined contribution pension scheme or may receive a cash allowance in lieu of an employer pension contribution. The maximum contribution or cash allowance is 20% of salary. Newly-appointed Executive Director contributions will be aligned with the pension benefits available to the majority of colleagues (currently 13%).
Benefits	To provide competitive benefits	A range of benefits are provided to Executive Directors including private medical insurance, health assessments, life assurance, car allowance/car and 30 days' holiday. A cap of £250,000 applies to the current Chief Executive Officer's standard benefits including pension.
Bonus	To reward Group and personal performance in line with strategic objectives	Annual bonuses are discretionary and are based on Group and individual performance measures within the year. The measures, their weighting and targets are set annually with awards determined by the Committee at the end of the financial year. The annual bonus may be delivered in shares and/or cash. The equity-based element of the award will be made under the Deferred Equity Plan (DEP). Regulatory holding periods may be applied as necessary upon the vesting of upfront awards and at the end of the required deferral period for deferred awards. Taken together with the LTIP and any relevant awards under the all-employee Share Incentive Plan (SIP), the total variable remuneration opportunity in respect of a financial year is limited by the 2:1 ratio of variable pay to fixed pay, subject to the LTIP opportunity being at least half of the total variable pay opportunity. The Committee can, at its discretion, apply malus and/or clawback to all or part of any bonus award.
LTIP	Delivery of the Group's strategy and growth in shareholder value	Awards are subject to performance conditions aligned with the Group's long-term strategic goals. Performance conditions are normally tested over a period of three financial years. Upon the vesting of shares at the end of the required deferral period, a regulatory holding period may be applied as necessary. The weighting of metrics will be determined before grant with no more than 25% of the maximum vesting for threshold performance. The Committee has discretion, in exceptional circumstances, to amend targets, measures or weightings if a corporate event takes place (for example a major transaction, including a change of control, or capital raising) that in the opinion of the Committee causes the targets, measures or weightings to be no longer appropriate or such adjustment to be reasonable. The Committee can, at its discretion, apply malus and/or clawback to all or part of any LTIP award. Taken together with the annual bonus opportunity and any relevant awards under the all-employee SIP, the total variable remuneration in respect of a financial year is limited by the 2:1 ratio of variable pay to fixed pay (excluding recruitment awards), subject to the LTIP opportunity being at least half of the total variable pay opportunity.
Shareholding guidelines		Executive Directors are expected to build up a specified holding of Group shares equivalent to a percentage of salary. Chief Executive Officer: 200% of salary. Group Chief Financial Officer: 150% of salary. 60% of net shares received from share awards must be retained until this requirement is met. Post-employment: Under the remuneration policy, a significant proportion of variable pay is delivered in shares over a seven-year timeframe with vested shares subject to a further holding period.

Directors' Remuneration Policy and principles

The remuneration principles support the Group's culture and its long-term business strategy. Executive Director remuneration is linked to individual performance, business results, shareholder experience, fair customer outcomes and prudent risk management. Remuneration arrangements are fully compliant with, and will be operated in line with, all remuneration regulatory requirements.

The remuneration policy is intended to:

- provide competitive, transparent and fair rewards and benefits;
- reward achievement of short and long-term individual performance and business strategy;
- align the interests of Executive Directors and shareholders;
- deliver outcomes over short and long-term horizons with appropriate performance and risk adjustments;
- support the risk management framework which is set by reference to the risk appetite of the Group; and
- ensure the Group is able to attract, recognise, motivate and retain Executive Directors as the Group grows.

Implementation in 2020		Implementation in 2021
David Duffy **£1,020,000 p.a.**	**Ian Smith** **£510,000 p.a.**	**David Duffy** **£1,020,000 p.a.**
David Duffy **18% of salary**	**Ian Smith** **19% of salary**	**David Duffy** **18% of salary** Newly-appointed Executive Directors will have pension contributions aligned with majority of colleagues
Including car allowance, private medical insurance and other taxable benefits		No change
Maximum opportunity (% of salary): **David Duffy** **118%** No 2020 bonus awards will be paid to Executive Directors **Performance against 2020 scorecard can be found on page 90**	**Ian Smith** **117%**	Maximum opportunity (% of salary) **David Duffy** **118%**
2020 LTIP award to be granted in December 2020: **David Duffy** **Award of 177% of salary** **Details of 2020 LTIP award are provided on page 99**		Maximum opportunity in 2021: **David Duffy** **177% of salary**
David Duffy **200% of salary** **Requirement not yet met** **Details of Director shareholdings can be found on page 104**	**Ian Smith** **150% of salary** **Requirement not yet met**	No change in shareholding requirement

Strategic report Financial results Governance Risk report Financial statements Additional information

Directors' Remuneration Policy – abridged

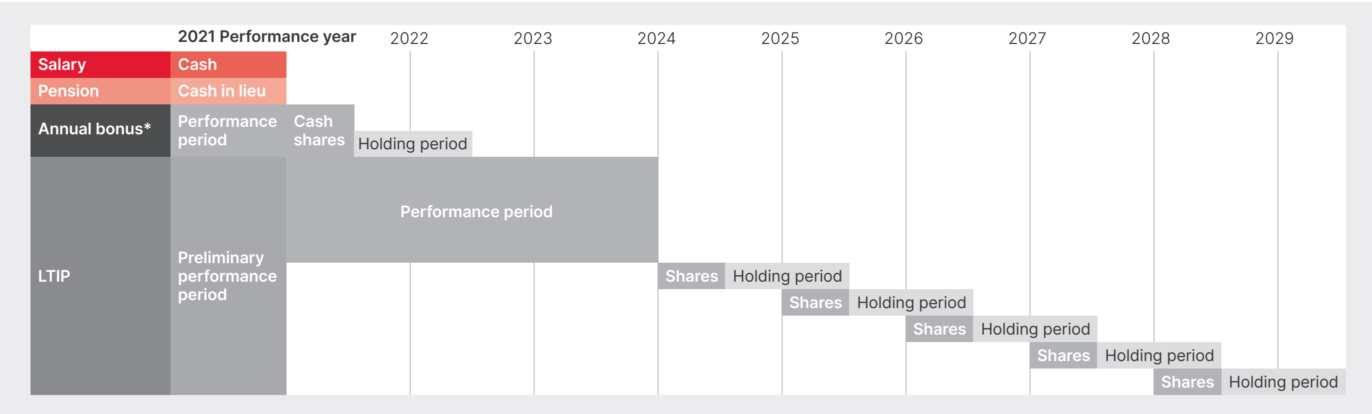
Risk adjustments, malus and clawback

Bonus and LTIP awards may be reduced before they are released (malus) or may be subject to clawback where the Committee determines that an adjustment should apply. Clawback may be applied up to seven years from the award date, or ten years where an investigation has commenced.

Circumstances in which malus and/or clawback may be applied include, but are not limited to, where:

- there is material misstatement of the Group's financial results;
- there is reasonable evidence of individual misbehaviour or material error;
- the Group suffers a material downturn in financial performance;
- the Group suffers a material failure of risk management;
- a determination by the Committee that the circumstances on which it has based any discretion in respect to good leaver treatment were misrepresented at the time or have subsequently changed so that it would have exercised its discretion differently;
- individual conduct has, in the reasonable opinion of the Committee, caused serious harm to the reputation of and/or significant financial loss to the Group or the relevant business unit;
- an error is made in the calculation of the extent of vesting of an award that resulted in an overpayment to the individual; and
- any other matter which, in the reasonable opinion of the Committee, is required to be taken into account to comply with prevailing legal and/or regulatory requirements, which, for the avoidance of doubt, includes any regulations or guidance published by a relevant regulator from time to time.

Illustration of delivery timeframe for 2021 remuneration



* Annual bonus awards are normally delivered in a combination of cash and shares and are subject to deferral, in line with regulatory requirements, taking into account total variable pay awarded for the year including LTIP. Any share releases are subject to a post-vest holding period in line with regulatory requirements and market practice.

Remuneration policy – Non-Executive Directors

Non-Executive Directors receive fees set at a rate that reflects the value to the Group and expected time commitment given the added regulatory complexity within the financial services sector. The following table sets out the fees payable for the year ending 30 September 2021, in line with the rates that were approved by the Board in September 2020 and that are reviewed annually. The Non-Executive Directors are reimbursed for expenses they incur in performing their duties. Any tax arising on such reimbursed expenses is borne by the Group.

	Implementation in 2020	Implementation in 2021
Chairman(1)	£375,000	£375,000
Non-Executive Director	£75,000	£75,000
Senior Independent Director	£30,000	£30,000
Chair Audit Committee	£35,000	£35,000
Chair Risk Committee	£35,000	£35,000
Chair Remuneration Committee	£35,000	£35,000
Member Audit Committee	£15,000	£15,000
Member Risk Committee	£15,000	£15,000
Member Remuneration Committee	£15,000	£15,000
Chair Governance and Nomination Committee	£35,000	£35,000
Member Governance and Nomination Committee	£15,000	£15,000

(1) Paid as a combined fee for the role as Chairman and Chair of the Governance and Nomination Committee.

Service contracts and provisions

	Provision	Details
Election	All Executive Directors are subject to annual re-election.	
Notice periods within Executive Directors' service contracts	12-months' notice from Company. 12-months' notice from Executive Directors.	Executive Directors may be required to work during the notice period, unless determined otherwise.
Confidentiality	Six-month post-termination restrictive covenants.	Executive Directors are subject to a confidentiality undertaking without limitation in time, as well as to six-month post-termination restrictive covenants covering non-competition; non-solicitation of and non-dealing with clients; non-interference with suppliers or contractors; and non-solicitation of colleagues.
Outside appointments	Executive Directors may accept outside appointments in other listed companies and retain any fees received.	The Board Chairman is required to approve appointments in advance. Agreement from the Board must be sought before Executive Directors accept any additional non-executive roles outside of the Group. Procedures are in place to ensure that regulatory limits on the number of directorships held are complied with. Details of the directorships held can be found in the biographies section of the Corporate governance report.

The notice periods and dates of service contracts for Executive Directors are shown below:

Executive directors	Notice period	Date of service contract
David Duffy	12 months	25 November 2015
Ian Smith[(1)]	12 months	3 December 2015

(1) Ian Smith stepped down as an Executive Director on 30 September 2020.

The dates of current Non-Executive Directors' letters of appointment are shown below:

Non-Executive Directors	
David Bennett	23 November 2015
Paul Coby	19 May 2016
Geeta Gopalan	24 July 2018
Darren Pope	26 July 2018
Amy Stirling	30 July 2018
Tim Wade	8 September 2016

Annual report on remuneration

In this section we provide greater detail on how the remuneration policy was implemented in 2020.

Outcomes for 2020

Executive Directors – single total figure of remuneration (audited)

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of the financial year to 30 September 2020 (and the prior financial year). The subsequent sections detail additional information for each element of remuneration.

	David Duffy		Ian Smith	
£000s	2020	2019	2020	2019
Salary	**1,020**	1,020	**510**	510
Benefits and allowances	**55**	50	**10**	10
Pension and pension allowance	**184**	183	**98**	98
Total fixed remuneration	**1,259**	1,253	**618**	618
Annual bonus	**–**	445	**–**	220
LTIP(1)(2)	**92**	267	**–**	123
Other awards	**–**	1	**–**	1
2015 demerger award	**–**	1,310	**–**	393
Total variable remuneration	**92**	2,023	**–**	737
Total remuneration	**1,351**	3,276	**618**	1,355

(1) The average share price between 1 July 2020 and 30 September 2020 of 89.88p has been used to indicate the value of the 2017 LTIP. The award was granted in 2017 based on a share price of 313.2p. Share price movement has reduced the valuation of the award by £228,157 for David Duffy compared with the corresponding value at the time of grant.

(2) The values for 2016 LTIP (including dividend equivalents) for 2019 have been restated to reflect the share price on the date of vesting (112.42p on 9 March 2020).

Salary

As disclosed in last year's report, the Executive Directors did not receive a salary increase for 2020. The salary shown for David Duffy is gross of £168,300 (one-third of salary for the last six months of the year) that was directly donated to charity through Give-As-You-Earn.

Benefits

Executive Directors receive private medical cover, health assessment and life assurance. During 2020, David Duffy received an annual car allowance of £30,000 (2019: £30,000) and other taxable benefits including home to work travel and security totalling £25,228 (2019: £19,784). Ian Smith received an annual car allowance of £6,840 (2019: £6,840) and other taxable benefits to the value of £2,695 (2019: £2,817).

Pension

David Duffy and Ian Smith opted out of the Group's defined contribution pension plans and, in line with policy, received cash allowances in lieu of pension contributions.

Bonus

Given the impact of COVID-19 on the Group's overall financial performance, the Remuneration Committee determined that no bonus award would be made to David Duffy for 2020. Further details on performance against the Group scorecard is provided in the Remuneration at a glance section (page 90). A summary of performance against personal objectives is set out on the following page. Under the bonus rules, Ian Smith was not eligible for an annual bonus for 2020 having left employment on 14 October 2020 by way of resignation.

Personal awards (20% weighting)
The CEO's personal objectives focus on the delivery of the Group's strategic priorities and the successful management of risk.

David Duffy

Strategic priority	Achievements in the year
Super straightforward efficiency	• Delivered strong, visible leadership across the Group in an uncertain and changing environment with 73% of colleagues having confidence in the decision making of the CEO and his Leadership Team; • Adaptation of colleague communication including 18 business unit Q&A sessions and eight Let's Talk and Type sessions; • Continued to hold prominent industry position with external roles held as Board member of Northern Powerhouse, FinTech Ambassador for the government, Senior Independent Director for UK Finance and attendance at over 25 industry roundtable events during the year.
Delighted customers and colleagues	• Continued to embed our Purpose with 82% of colleagues having an awareness of why the Group is purpose-led; • Positive employee culture reflected in +3% improvement in colleague engagement score to 79%; • Resilient operational performance across all customer channels with all contact centres and 95% of store network remaining open during the pandemic; • Rapid response to government support scheme for SMEs; • Implementation of Money on Your Mind digital channel support; • Effective work from home arrangements put in place for 6,000 colleagues.
Discipline and sustainability	• Risk Management framework refreshed in line with the Group's new strategy with Model Risk promoted to principal risk status and Climate Risk being treated as both an emerging risk and a cross-cutting risk. • Critical credit model developments and capital benefits delivered in line with RAS including finalised Credit Cards IRB Accreditation application and financial risk RAS metrics based on the latest Capital Plan, recognising regulatory guidance that banks should maintain lending during the COVID-19 stress and reflecting the full reduction in the Counter-cyclical Capital Buffer • Strengthened leadership team through reorganisation of responsibilities and developed short and medium-term succession plans.
Pioneering growth	• Supported the Group strategy to disrupt the status-quo through the development of the Group's digital offering to customers and colleagues; • 56% increase in personal digital adoption; • Roll out of the M account and the home buying coach; • Digitalisation of payment holiday process; • Enhanced ESG strategy has been developed and reviewed by Board.

LTIP

(i) LTIP awards included in 2020 Single Figure Table

2017 LTIP award (granted November 2017)

Awards were granted over shares to the value of 100% of salary in November 2017 with performance conditions tested over the three financial years to 30 September 2020. Performance against the targets results in a 32% outcome. A breakdown of performance outcome against each target is included in the Remuneration at a glance section on page 91. Share awards granted under this award will be released in tranches from December 2020 to June 2025. Ian Smith's 2017 LTIP award lapsed on 14 October 2020, the date his Group service ended.

As detailed in the 2019 Directors' remuneration report, the Committee reviewed the appropriateness of the 2017 performance conditions taking account of the acquisition of Virgin Money Holdings (UK) PLC in October 2018, part way through the relevant performance period. Following the Capital Markets Day in June 2019, all performance measures applicable to LTIP awards for 2017 were reassessed and where appropriate, recalibration was applied to financial measures. The strategy presented at the Capital Markets Day prioritised deposit growth ahead of customer lending growth. The customer lending growth measure was therefore removed from the 2017 LTIP with the weighting distributed across the remaining measures (excluding digital adoption) in proportion to their original weighting.

Annual report on remuneration

(ii) Prior year LTIP awards subject to ongoing performance conditions

2018 LTIP award (granted December 2018)

Performance measures are shown in the table below:

Underlying performance measures		Weighting	Threshold	Target	Maximum
Super straightforward efficiency	Cost:income ratio	10.0%	52%	50%	49.5%
	Operating cost outcome	10.0%	£840m	£825m	£815m
Delighted customers and colleagues	Colleague engagement	2.5%	70%	72%	74%
	Senior colleague diversity	2.5%	40%	42%	44%
	CMA ranking	8.33%	Top 8	Top 5	Top 3
	Digital adoption	8.33%	54%	56%	58%
Discipline and sustainability	Return on tangible equity	30.0%	9.5%	10.5%	10.75%
	Risk scorecard(1)	20.0%			
Pioneering growth	Relationship deposit growth	8.33%	5%		10%

(1) Performance to be assessed by the Committee based on several qualitative and quantitative inputs such as feedback from the Chair of the Board Risk Committee and achievement of the long-term objectives of the organisation. Specific focus will be on customer complaints, operational risk losses and cost of risk.

The award was granted on 20 December 2018 and will vest based on the performance over the period from 1 October 2018 to 30 September 2021. Subject to performance outcomes, the award will be released over three to seven years from the date of grant, with the net shares received (post-taxation) subject to further regulatory holding periods as required.

2019 LTIP award (granted December 2019)

Performance measures are shown in the table below:

Underlying performance measures		Weighting	Threshold	Target	Maximum
Super straightforward efficiency	Cost:income ratio(1)	10.0%	47%	45%	44.5%
	Operating cost outcome(1)	10.0%	£790m	£780m	£770m
	Restructuring costs	5.0%	£378m	£360m	£342m
Delighted customers and colleagues	Colleague engagement	5.0%	73%	76%	77%
	Senior colleague gender diversity	5.0%	41%	43%	45%
	CMA ranking	10.0%	Top 5	Top 3	Top 2
Discipline and sustainability	Return on tangible equity(2)	25.0%	11.0%	12.0%	12.25%
	Risk scorecard(3)	20.0%			
Pioneering growth	Relationship deposit growth	10.0%	5%		10%

(1) Cost:income ratio and operating costs are on an underlying basis.

(2) RoTE is on a statutory basis.

(3) Performance will be assessed by the Committee based on several qualitative and quantitative inputs such as feedback from the Chair of the Board Risk Committee and achievement of the long-term objectives of the organisation. Specific focus will be on customer complaints, operational risk losses and cost of risk.

The award was granted on 9 December 2019 and will vest based on the performance over the period from 1 October 2019 to 30 September 2022. Subject to performance outcomes, the award will be released over three to seven years from the date of grant, with the net shares received (post-taxation) subject to further regulatory holding periods as required.

(iii) 2020 LTIP (to be granted in 2020)

The following award will be made to the Chief Executive Officer in December 2020.

2020 LTIP award	Percentage of salary[(1)]	Face value of award	Type of interest awarded	End of performance period	Percentage receivable for threshold performance	Percentage receivable for target performance
David Duffy	177%	£1,805,400	Conditional rights to VMUK PLC shares	30 Sep 2023	25%	60%

(1) The award will be based on a percentage of salary as at 30 September 2020. For the purposes of determining the 2:1 cap, a discount is applied in line with regulatory requirements.

The weightings applicable to the 2020 LTIP award are included in the table below. As explained in the Chair's statement, we are not currently able to set the specific targets that will underpin the financial elements of this award. We commit to engaging with shareholders during 2021 to establish these targets and hope to set these within six months. Our approach to setting the non-financial targets has been to closely align with the Group's strategic objectives and has involved collaboration with the other Committee chairs.

The performance period will be from 1 October 2020 to 30 September 2023 (2021 to 2023 financial years). Subject to performance outcomes, the awards will vest from December 2023 to December 2027 with 60% vesting for target performance and 25% vesting for threshold performance. At each vest date, the net number of shares received (post-taxation) will be subject to a retention period in line with regulatory requirements.

Underlying performance measures		Weighting	Threshold	Target	Maximum
Super straightforward efficiency	Cost:income ratio[(1)]	10%			
	Operating cost outcome[(1)]	10%			
Delighted customers and colleagues	ESG Scorecard[(2)]	15%			
	CMA Ranking	10%	Top 5	Top 3	Top 2
Discipline and sustainability	RoTE[(3)]	25%			
	Risk scorecard[(4)]	20%			
Pioneering growth	Relationship deposit growth	10%			

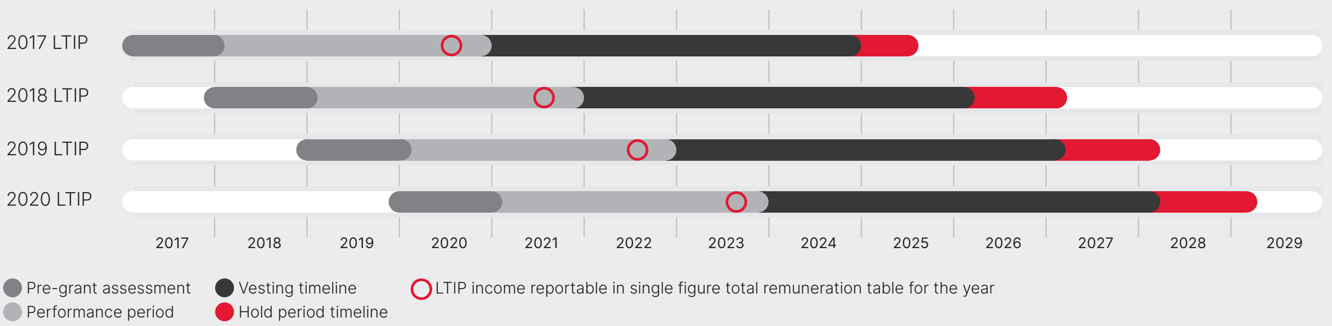
(1) Cost:income ratio and operating costs are on an underlying basis.

(2) Performance will be assessed by the Committee based on qualitative and quantitative measures applied to operational carbon emissions and our progression to net zero operational carbon emissions by 2030, senior leadership diversity and colleague engagement.

(3) RoTE is on a statutory basis.

(4) Performance will be assessed by the Committee based on several qualitative and quantitative inputs such as feedback from the Chair of the Board Risk Committee and achievement of the long-term objectives of the organisation. Specific focus will be on customer complaints, operational risk losses, cost of risk and Credit Risk Policy compliance.

LTIP deferral timeline



Annual report on remuneration

Payments to past Directors (audited)
No payments were made to any former Executive Directors during the year.

Executive Directors' payments for loss of office (audited)
No payments were made during this or the previous year.

Non-Executive Directors' payments for loss of office (audited)
No payments were made during the current or previous year.

Non-Executive Directors' fees (audited)
The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director for the year ended 30 September 2020. The fees reported in the table in respect of 2019 include amounts paid in respect of Virgin Money PLC Board Committee roles. The Virgin Money PLC Board Committee fees did not apply in 2020.

	Fees		Benefits		Total	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Clive Adamson[(1)]	**26**	155	**–**	–	**26**	155
David Bennett[(2)]	**294**	255	**–**	–	**294**	255
Paul Coby[(2)]	**103**	110	**–**	–	**103**	110
Geeta Gopalan[(2)]	**130**	135	**–**	–	**130**	135
Adrian Grace [(1)]	**65**	120	**–**	–	**65**	120
Fiona MacLeod[(1)(2)]	**122**	140	**–**	–	**122**	140
Darren Pope[(2)]	**120**	135	**–**	–	**120**	135
Jim Pettigrew[(1)(3)]	**429**	410	**–**	–	**429**	410
Teresa Robson-Capps[(1)]	**69**	110	**–**	–	**69**	110
Amy Stirling[(4)]	**–**	–	**–**	–	**–**	–
Tim Wade[(2)]	**159**	155	**–**	–	**159**	155
Total	**1,517**	1,725		–	**1,517**	1,725

(1) The following Non-Executive Directors retired from the Board during the year: Clive Adamson (29 November 2019); Adrian Grace (1 May 2020); Jim Pettigrew (5 May 2020); Teresa Robson-Capps (30 June 2020); Fiona MacLeod (30 September 2020).

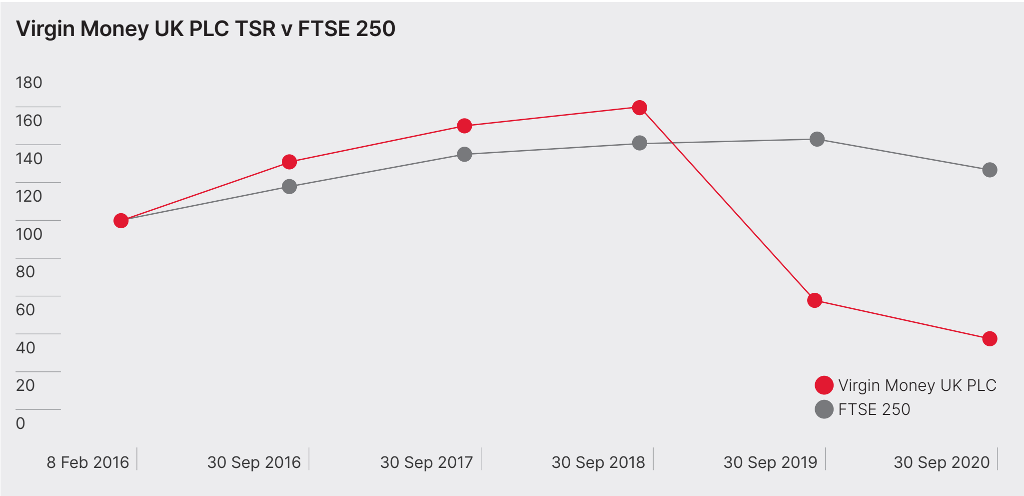
(2) The fees shown are gross of donations made through Give-As-You-Earn for the last three months of the financial year.

(3) 2020 fees include agreed terms at end of service.

(4) Amy Stirling does not receive any fees.

Total shareholder return (TSR) performance

The graph shows the value of £100 invested in the Group's shares since listing, compared with the total returns of the FTSE 250 Index. The graph shows the TSR generated by both the movement in share value and the reinvestment over the same period of dividend income. The Committee considers the FTSE 250 as representative of the current market capitalisation of the Group.



Chief Executive Officer historic remuneration

The table below sets out the total remuneration delivered to the Chief Executive Officer since IPO:

Chief Executive Officer	2016	2017	2018	2019	2020
Total single figure (£000)(1)	2,048	2,056	1,833	3,374	**1,351**
Annual short-term incentive payment level achieved (% of maximum opportunity)	80%	82%	62%	37%	**0%**
Demerger award (% of maximum opportunity)				100%	**n/a**
Long-term incentive vesting level achieved (% of maximum opportunity)(2)	–	–	–	62%	**32%**

(1) 2019 total is the figure reported in the 2019 single figure table. This has been restated in this year's single figure table to reflect the value of the 2016 LTIP on the date the award vested.

(2) No LTIP awards vested during 2016, 2017 or 2018

Pay ratio

The following table shows the ratio between the total pay of the Chief Executive and the lower quartile, median and upper quartile pay of employees.

	Method(1)	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019(2)	A	132:1	97:1	60:1
2020(3)	**A**	**56:1**	**42:1**	**26:1**

(1) Methodology option A has been used and was selected on the basis that it provided the most accurate means of identifying the median, lower and upper quartile colleagues. Total remuneration for the colleagues identified at the 25th percentile, median and 75th percentile was calculated for the 2019 and 2020 financial years for all employees of the Group as at 30 September 2019 and 30 September 2020. Payroll data from 1 October to 30 September and variable remuneration outcomes approved in November following the financial year were used.

(2) Although the median pay gap was reported last year, the 25th and 75th percentiles relating to 2019 are being reported for the first time.

(3) The average share price between 1 July 2020 and 30 September 2020 of 89.88p has been used to indicate the value of shares vesting under the 2017 LTIP.

The pay at each quartile used to calculate the ratio is set out in the table below:

	25th percentile		Median		75th percentile	
	Total pay	Of which is salary	Total pay	Of which is salary	Total pay	Of which is salary
2020	**£24, 047**	**£22,330**	**£31,892**	**£27,546**	**£52,329**	**£45,745**

The median pay ratio has decreased from 97:1 in 2019 to 42:1 in 2020. This has resulted primarily from the inclusion of two long term incentive awards and an annual bonus in the 2019 CEO single figure total compared with one long-term incentive award in 2020. Although the median pay ratio has markedly reduced year-on-year, the ratio is likely to increase from the 2020 number in future years where target performance is met or exceeded.

Annual report on remuneration

Change in Directors' remuneration compared with colleagues

The table below shows the percentage change in remuneration for Directors between 2019 and 2020 compared with the average percentage change in the remuneration of colleagues. The year-on-year movements in Non-Executive Director fees are attributable to a number of factors including: the payment of fees in respect of Virgin Money PLC Board Committee roles in 2019, that did not apply in 2020; the different Committee roles undertaken by each Non-Executive Director over the two-year period; and part-year service where Non-Executive Directors stepped down during 2020.

Percentage change in remuneration between 2019 and 2020	Salary/Fee	Benefits	Bonus
All colleagues[1]	**3%**	**12%**	**(67%)**
David Duffy (CEO)	**0%**	**10%**	**(100%)**
Ian Smith (CFO)[2]	**0%**	**0%**	**(100%)**
Clive Adamson[2]	**(83%)**	**0%**	**n/a**
David Bennett	**15%**	**0%**	**n/a**
Paul Coby	**(6%)**	**0%**	**n/a**
Geeta Gopalan	**(4%)**	**0%**	**n/a**
Adrian Grace[2]	**(46%)**	**0%**	**n/a**
Fiona MacLeod[2]	**(13%)**	**0%**	**n/a**
Jim Pettigrew[2]	**5%**	**0%**	**n/a**
Darren Pope	**(11%)**	**0%**	**n/a**
Teresa Robson-Capps[2]	**(37%)**	**0%**	**n/a**
Amy Stirling	**n/a**	**0%**	**n/a**
Tim Wade	**3%**	**0%**	**n/a**

(1) The percentages for 'All colleagues' reflect the average percentage change in FTE salary, taxable benefits and allowances, and bonus for colleagues employed by the Group at both 30 September 2019 and 30 September 2020.

(2) The following Directors stepped down from the Board during the year: Clive Adamson (29 November 2019); Adrian Grace (1 May 2020); Jim Pettigrew (5 May 2020); Teresa Robson-Capps (30 June 2020); Fiona MacLeod and Ian Smith (both 30 September 2020).

Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in the 2020 financial year:

Overall spend	Disbursements from profit in 2020 financial year £m	Disbursements from profit in 2019 financial year £m	% Change
Dividend[1]	**–**	–	–
Overall spend on pay including Executive Directors[2]	**396**	421	(6%)

(1) No dividend was declared in respect of the year ended 30 September 2020 (2019: £Nil).

(2) 2019 and 2020 numbers as per note 2.4 of the consolidated financial statements.

Statement of Directors' shareholding and share interests (audited)

	Owned outright	Number of shares: Unvested (not subject to performance conditions)	Number of shares: Unvested (subject to performance conditions)	Total at year end
David Duffy				
Ordinary shares	**906,592**			
Breakdown of unvested shares:				
DEP Awards		**80,459**		
LTIP Awards		**102,166**	**2,409,368**	
				3,498,585
Ian Smith				
Ordinary shares	**394,438**			
Breakdown of unvested shares:				
DEP Awards		**36,973**		
LTIP Awards		**46,993**	**1,197,877**	
				1,676,281

Breakdown of Executive Director share interests under each of the Group's share plans

Further details in respect of the unvested shares included in the Directors' interest table above are provided in the following tables. The details are in relation to the Executive Directors and no other Directors hold any awards under the Group share plans (2019: none).

DEP and LTIP awards	Start of year	Awarded during the year	Vested during the year	Lapsed during the year	Unvested at year end	Date of grant	Grant price	Market value at date of grant £000	Notes
David Duffy									
2017 DEP	80,459	–	–	–	**80,459**	24 Nov 17	313.2	536	Vests from December 2020 to June 2022
2019 DEP		127,507	127,507	–	**–**	09 Dec 19	174.5	223	
2016 LTIP	233,056	–	233,056	–	**–**	09 Mar 17	266.03	1,000	
2017 LTIP	319,284	–	–	217,118	**102,166**	24 Nov 17	313.2	1,000	Vests from December 2020 to June 2025
2018 LTIP	1,142,421	–	–	–	**1,142,421**	20 Dec 18	189.7	2,167	Vests from December 2021 to December 2026
2019 LTIP		1,266,947	–	–	**1,266,947**	09 Dec 19	174.5	2,211	Vests from December 2022 to December 2027
Ian Smith									
2017 DEP	36,973	–	–	–	**36,973**	24 Nov 17	313.2	246	Award lapsed on 14 October 2020
2019 DEP	–	63,037	63,037	–	**–**	09 Dec 19	174.5	110	
2016 LTIP	107,205	–	107,205	–	**–**	09 Mar 17	266.03	460	
2017 LTIP	146,871	–	–	99,878	**46,993**	24 Nov 17	313.2	460	Award lapsed on 14 October 2020
2018 LTIP	567,983	–	–	–	**567,983**	20 Dec 18	189.7	1,077	Award lapsed on 14 October 2020
2019 LTIP	–	629,894	–		**629,894**	09 Dec 19	174.5	1,099	Award lapsed on 14 October 2020

DEP

Conditional share awards were granted under the DEP in December 2019 in respect of 2019. The face value of the portion of David Duffy and Ian Smith's annual bonus awards that were delivered via DEP awards was £222,500, and £110,000 respectively.

These values were converted into the number of shares shown in the table above using the middle market share price on the day immediately preceding grant, being 174.5p. The awards vested immediately, with resultant shares (post-taxation) subject to a 12-month holding period. Awards remain subject to clawback provisions. Details of these awards are included in the table alongside the awards made in respect of 2017.

LTIP

Conditional share awards were made to Executive Directors under the LTIP in December 2019. Awards were granted based on 177% of salary for David Duffy (£1,805,400) and 176% of salary for Ian Smith (£897,600). These values were converted into the number of shares shown in the table above using the middle market share price on the day immediately preceding grant which was discounted to reflect the absence of dividend equivalents during the period from grant to vest in accordance with the Directors' Remuneration Policy. The face value at the date of grant included in the table reflects the middle market share price multiplied by the number of shares awarded. Performance conditions apply (as set out on page 98) with no more than 25% of the maximum vesting for threshold performance. Performance conditions are measured over a three-year performance period to 30 September 2022. Awards are subject to malus and clawback provisions. Subject to performance outcomes, awards will be released over three to seven years with resultant shares (post-taxation) subject to a regulatory hold period. Details of these awards are included in the table above alongside the LTIP awards made in respect of 2016, 2017 and 2018.

Annual report on remuneration

SIP

Ian Smith participated in the monthly purchase of shares through the SIP until he left the Group on 14 October 2020.

Save As You Earn (SAYE)

No offers under the SAYE plan have been made (2019: none).

Shares held at 30 September 2019 and at 30 September 2020 by Executive and Non-Executive Directors who held office during the year are shown below:

Directors	Ordinary shares beneficially owned at 30 September 2019 (or date of appointment if later)	Transactions during year	Number of shares	Notes	Ordinary shares beneficially owned at 30 September 2020 (or date of cessation if earlier)
David Duffy	713,784	9 December 2019	67,368	Net number of shares from vesting of upfront DEP award	
		9 March 2020	62,706	Net number of shares from vesting of tranche 1 of 2016 LTIP award	
		9 September 2020	62,734	Net number of shares from vesting of tranche 2 of 2016 LTIP award	906,592
Ian Smith(1)	303,447	9 December 2019	32,672	Net number of shares from vesting of upfront DEP award	
		9 March 2020	28,295	Net number of shares from vesting of tranche 1 of 2016 LTIP award	
		9 September 2020	28,309	Net number of shares from vesting of tranche 2 of 2016 LTIP award	
		Various	1,715	Acquisition of shares through SIP	394,438
Clive Adamson(1)	–				–
David Bennett	16,386				16,386
Paul Coby	–				–
Geeta Gopalan	–				–
Adrian Grace(1)	16,220				16,220
Fiona MacLeod(1)	7,000				7,000
Jim Pettigrew(1)	100,000				100,000
Darren Pope	–				–
Teresa Robson-Capps(1)	–				–
Amy Stirling	–				–
Tim Wade	50,000				50,000

(1) The following Directors stepped down from the Board during the year: Clive Adamson (29 November 2019); Adrian Grace (1 May 2020); Jim Pettigrew (5 May 2020); Teresa Robson-Capps (30 June 2020); Ian Smith and Fiona MacLeod (both 30 September 2020).

There have been no other changes to the above interests between 30 September 2020 and the date of this report.

Shareholding requirement

Executive Directors are required to build up a holding of the Group's shares. This is set at 200% of base salary for the CEO and 150% of base salary for the CFO. Detailed below are the beneficial holdings of ordinary shares as at 30 September 2020 for each Executive Director, together with an indicative net value of unvested share awards that are not subject to ongoing performance conditions.

Director	Base salary	Requirement as % of base salary	Wholly owned shares(1),(2)	Net number of share awards not subject to performance conditions(3)	Value(4)	Shareholding requirement met?
David Duffy	£1,020,000	200%	906,592	96,791	£732,269	No
Ian Smith(5)	£510,000	150%	394,438	43,662	£319,725	No

(1) Ordinary shares beneficially-owned and holdings of connected persons. This includes shares held via the Group SIP – David Duffy (661 shares), Ian Smith (4,191 shares).

(2) Includes CHESS Depositary Interests (CDIs) which represent interests in ordinary shares beneficially-owned by David Duffy (4,080 shares).

(3) Includes projected net number of shares due under unvested awards over Group shares which are not subject to ongoing performance conditions. Assumes a deduction from unvested rights to reflect the tax and National Insurance due on the release of shares at a rate of 47% for the Chief Executive Officer and 48% for the Chief Financial Officer.

(4) Values are based on 30 September 2020 closing price of 72.98p.

(5) The above table reflects the position as at 30 September 2020. On 14 October 2020 Ian Smith left Group service and forfeited his unvested share awards.

Directors' report

Corporate governance report

The Corporate governance report, on pages 54 to 104, together with this report, satisfies the requirements of the Corporate Governance Statement for the purpose of the FCA's Disclosure and Transparency Rules (DTR).

Directors

The names and biographies of the current Directors of the Company are shown on pages 50 to 52.

Particulars of Directors' emoluments and interests in shares in the Company are given on pages 87 to 104 of the Directors' Remuneration report. During the year, no Director had a material interest in any significant contract to which any Group Company was a party.

AGM

The arrangements for the Company's next AGM and details of the resolutions to be proposed, together with explanatory notes, will be set out in the Notice of AGM to be published on the Company's website (www.virginmoneyukplc.com).

Appointment and retirement of Directors

The appointment, retirement and/or replacement of Directors is governed by the Articles of Association of the Company (Articles), the Code and the Companies Act 2006. The Articles may be amended only by a special resolution of the shareholders in a general meeting. In line with the requirements of the Code, all continuing Directors will submit themselves for re-election at the next AGM.

Board composition changes

Changes to the composition of the Board since 1 October 2019 up to the date of this report are shown in the table below.

Name	Role	Date of appointment	Date of resignation
Clive Adamson	Independent Non-Executive Director		29 November 2019
Adrian Grace	Independent Non-Executive Director		1 May 2020
Jim Pettigrew	Chairman		5 May 2020
David Bennett	Chairman	6 May 2020	
Tim Wade	Senior Independent Director	6 May 2020	
Teresa Robson-Capps	Independent Non-Executive Director		30 June 2020
Fiona MacLeod	Independent Non-Executive Director		30 September 2020
Ian Smith	Executive Director		30 September 2020

Directors' indemnities and insurance

The Directors have each entered into individual deeds of access, insurance and indemnity with the Group which indemnify the Directors to the maximum extent permitted by law. Each such provision constitutes a 'third-party indemnity provision' and a 'qualifying indemnity provision' for the purposes of the Companies Act 2006. These provisions are in force for the benefit of the Directors at the date of this report, and during the financial year to which this report relates. Such deeds are available for inspection at the Company's registered office.

The Group has an insurance policy in place for the benefit of all trustees, colleagues, Directors, officers, members and partners of the Company while acting in the capacity of a trustee or administrator of employee benefit or pension plans. This policy indemnifies the Directors, trustees and administrators of the occupational pension schemes operated by the Group, against liability incurred by them in connection with the management and administration of the pension schemes. This insurance policy constitutes a 'pension scheme indemnity provision' and a 'qualifying indemnity provision' for the purposes of the Companies Act 2006. These provisions are in force for the benefit of the Directors of Trustee Companies at the date of this report, and during the financial year to which this report relates. Such policy is available for inspection at the Company's registered office.

In addition, the Group had appropriate Directors' and Officers' Liability Insurance cover in place throughout the financial year.

Profits and dividends

The Group loss before tax for the financial year ended 30 September 2020 amounted to £168m (2019: loss of £232m). The loss attributable to the ordinary shareholders for the year ended 30 September 2020 amounted to £220m (2019: loss of £253m). As at 30 September 2020, the distributable reserves of the Company were £789m (2019: £1,015m). The Directors do not recommend the payment of a dividend in respect of the financial year ended 30 September 2020 (2019: nil).

Share capital, control and Directors' powers

Shares in the Company are listed on both the London Stock Exchange (LSE) and the Australian Securities Exchange (ASX) (in the form of CDIs). The Company is required to comply with the disclosure requirements of the LSE and also of the ASX insofar as they relate to the Company's foreign exempt listing in Australia.

Details of the movements in allotted share capital during the year, together with the rights and obligations attaching to the Company's shares, are shown in note 4.1.1 to the consolidated financial statements.

There are no restrictions on voting rights of securities in the Company. The Notice of AGM specifies deadlines for determining attendance and voting entitlements at the AGM.

The Group operates an Employee Benefit Trust (EBT), which holds ordinary shares on trust for the benefit of employees and former employees of the Group, and their dependants, which is used in conjunction with the Group's employee share schemes. While ordinary shares are held in the EBT, the voting rights in respect of these ordinary shares are exercised by the trustees of the EBT.

Directors' report

Where participants in an employee SIP operated by the Company are the beneficial owners of shares but not the registered owners, the voting rights are normally exercised at the discretion of participants.

With the exception of restrictions on the transfer of ordinary shares under the Company's SIP there are no restrictions which exist on the transfer or holding of securities in the Company under its Articles and there are no shares carrying special rights with regards to the control of the Company.

Subject to the Articles and provisions of relevant statutes, the Board may exercise all powers of the Company.

The Company may only amend its Articles of Association if its shareholders pass a special resolution to this effect.

Acquisition of own shares

At the AGM of the Company held on 29 January 2020 a resolution was passed that the Directors were authorised to purchase up to a maximum of 143,621,891 ordinary shares representing approximately 10% of the issued ordinary share capital. A renewal of authority will be sought at the next AGM. Further information is set out in the Notice of AGM.

Political donations

The Group did not give any money for political purposes nor did it make any political donations to political parties or other political organisations, or to any independent election candidates, or incur any political expenditure during the year. At the AGM in 2020, shareholders gave authority under Part 14 of the Companies Act 2006 to make political donations and incur political expenditure up to a maximum aggregate amount of £100,000. This authorisation was sought for prudence as it is the Group's policy not to make any political donations to political parties or incur political expenditure within the ordinary meaning of those words. Given the wide definition of donations and expenditure within the Companies Act 2006, activities which form part of the regular operations of the Group such as communicating with government at local, national and European level and funding events to which politicians are invited, may be covered.

Financial risk management objectives and policies

Information about internal controls and financial risk management systems in relation to financial reporting and Board review can be found on page 77 of the Corporate governance report.

Information about financial risk management objectives and policies in relation to the use of financial instruments can be found in the Risk report on pages 111 to 180.

Post balance sheet events

On 17 November 2020 the Group announced that Clifford Abrahams had been appointed Executive Director and Group Chief Financial Officer and that it was expected that he would join in March 2021, subject to regulatory approval.

Information included in the Strategic report

The following information that would otherwise be required to be disclosed in this report and which is incorporated into this report by reference can be found on the following pages of the Strategic report.

Subject	Page reference
Future developments	2-44
Engagement with colleagues, customers, suppliers and others	61-63
Equality of employment opportunities	11
Summary of Group results	34-44
Directors' biographies and Directors during the year	48, 50-52
Principal risks and uncertainties	24-27

Substantial shareholdings

Information provided to the Company pursuant to the FCA's DTR is published on Regulatory Information Services and on the Company's website.

As at 24 November 2020, being the latest practiable date prior to the publication of this document, the following information has been received, in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital. The information provided below was correct at the date of notification; however, the date received may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

	Total number Of shares	% of Voting rights	Direct/indirect interest
Virgin Group Holdings Limited	188,083,550	13.07	Direct
Firetrail Investments Pty Limited	78,964,452	5.49	Direct
Perpetual Limited and Subsidiaries	60,787,499	4.23	Direct
Sumitomo Mitsui Trust Holdings, Inc.	56,654,348	3.94	Direct
Investors Mutual Limited	53,659,761	3.73	Direct
Schroders PLC	44,572,459	3.10	Indirect

Going concern

The Group's Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that the Group has the resources to continue in business for the foreseeable future.

The Group's use of the going concern basis for preparation of the accounts is discussed in note 1.4 of the Group's consolidated financial statements.

Viability statement

Assessment of principal risks

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in order to achieve its strategic objectives.

In line with the Code requirements, the Directors have performed a robust assessment of the principal risks facing the Group, including those that would threaten its business model and future performance, solvency or liquidity.

The principal risks the Group actively monitors and manages are described on pages 24 to 27 of the Strategic report. An assessment of the impact COVID-19 has had on those risks, and the mitigating actions taken in response, is also included.

Risk management and internal controls

As described in the Corporate governance report on page 83 and the Risk report on page 114, the Group's risk management and internal control systems are monitored at Board level. A review of the effectiveness of those systems has been performed incorporating all material controls, including financial, operational and compliance controls.

Viability

Time horizon

The directors have an obligation in accordance with provision 31 of the Code to confirm that they believe that both the Company and the Group will be able to continue in operation, and to meet their liabilities as they fall due. The Code requires the Directors to explain in the Annual Report & Accounts how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate.

The Directors have determined that a three year period to 30 September 2023 is an appropriate period over which to perform the assessment. This is the period over which forecasts have a greater level of certainty. The Board monitors a longer-term strategic and financial plan which extends beyond the three year period. This longer-term strategic and financial plan provides less certainty of outcome but provides a robust planning tool against which strategic decisions can be made.

Considerations

The recent economic developments caused by the COVID-19 pandemic, including the monetary and fiscal measures taken by the BoE, could have a material impact on the Group's future financial performance. In making this assessment the Directors have considered a wide range of information, the current state of the balance sheet, principal and emerging risks which could impact the performance of the Group and the Group's strategic and financial plan, including detailed forecasts of capital, funding and liquidity.

As detailed in pages 2 to 44 of the Strategic report, the overall Group strategy which underpins the Group's financial, capital and funding plans is unchanged and is substantially a refresh of the strategy communicated at the most recent Capital Markets Day.

The Group's process for creating financial forecasts considers these strategic objectives, the risks required in order to meet those objectives and the risk appetite limits in place. The Group's planning process involves multiple economic scenarios being considered reflecting the volatility of the ever-changing macroeconomic environment due to the ongoing global COVID-19 pandemic and uncertainty around Brexit. Detailed modelling is then completed for selected economic outcomes in order to form the projections for the financial plan and their associated impacts on the Group's capital ratios. Sensitivities are modelled around key risks.

The financial, capital, and funding plans are reviewed and challenged by the Board to confirm that they fully reflect the Group's strategic ambitions, whilst ensuring that they are based on sound assumptions and remain within the Group's risk appetite.

Assessment

The Group has an established business model and robust financial position at 30 September 2020. Capital and liquidity metrics are forecast to remain above Board risk appetite and regulatory requirements. Internal stress testing indicates the Group can withstand severe economic and competitive stresses.

Based upon this assessment, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three years to 30 September 2023. There is no information contained within the outer years of our financial forecasts which would cause the Directors to conclude that the Group would not remain viable in the longer term.

This assessment is further supported by the Directors' robust review and challenge of the outcomes of the 2019 ICAAP and ILAAP, which assess the Group's future projections of capital adequacy, liquidity and funding.

Information relevant to this assessment can be found in the following sections of the Annual Report and Accounts:

- a financial summary, including a review of the latest income statement and balance sheet, is provided in the Financial results section pages 34 to 44;
- the Group's capital position is included in the Balance sheet and financial risks section of the Risk report pages 148 to 168;
- the Group's liquidity position is described in the Balance sheet and financial risks section of the Risk report pages 148 to 168;
- the Group's principal risks and policies and processes for managing those risks are described in the Risk report and summarised on pages 24 to 27;
- the Group's business model and strategy are described in the Strategic report pages 2 to 20; and
- the Group's approach to stress testing, which includes reverse stress testing, is described in the Risk report on page 117.

Research and development activities

The Group does not undertake formal research and development activities although it does invest in products and services in each of its business lines in the ordinary course of business.

Disclosure of information under Listing Rule (LR) 9.8.4R

Additional information required to be disclosed by LR 9.8.4R, where applicable to the Group, can be found in the following sections of this report:

Subject	Page reference
Publication of unaudited financial information	The disclosures within the Risk report (pages 111 to 180) are unaudited unless otherwise stated.
Allotment of equity securities	236
Significant contracts	254

Change of control

The Group is not party to any significant agreements that are subject to change of control provisions in the event of a takeover bid, other than the following:

- Virgin Money Holdings (UK) PLC is a shareholder in Virgin Money Unit Trust Managers Limited (UTM) which has entered into a JV with AAM. Where either shareholder (Virgin Money Holdings (UK) PLC or AAM) in the JV has a change of control event, the JV will terminate unless such change of control has prior approval of the other shareholder; and
- a Trade Mark Licence Agreement with Virgin Enterprises Limited (Virgin) under which Virgin has granted a licence to Virgin Money UK PLC to use the 'Virgin' and 'Virgin Money' trademarks. Virgin has the right to terminate the agreement within 30 days of a change of control of Virgin Money UK PLC unless it is a Permitted Change of Control. A Permitted Change of Control is one arising from (a) an IPO on a recognised stock exchange or (b) any other sale of shares of Virgin Money UK PLC which has been pre-approved by Virgin in writing. Virgin can withhold consent only in the event that the third-party purchaser is a direct competitor of Virgin or another Virgin licensee in the UK, or it is involved in any activity or possesses a reputation or financial standing which would be likely to materially damage the value or reputation of the Virgin brand.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. The Group financial statements are prepared in accordance with IFRSs as adopted by the EU and applicable law and the Group has elected to prepare the parent company financial statements on the same basis. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that year. In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with International Accounting Standard (IAS) 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance; and
- state that the Group and Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations.

A copy of the financial statements is available on our website (www.virginmoneyukplc.com/investors).

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 & 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.

Independent auditor and audit information

The Directors who were members of the Board at the time of approving the Report of the Directors are listed on pages 50-52. Having made enquiries of fellow Directors and of the Group's auditor, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's auditor is unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditor is aware of that information

In accordance with section 485 of the Companies Act 2006, a resolution to reappoint Ernst & Young LLP, and to authorise the Audit Committee to agree their remuneration, will be proposed at the next AGM.

On behalf of the Board

Lorna McMillan
Group Company Secretary
24 November 2020

Virgin Money UK PLC. Registered No. 09595911

Our Greenhouse Gas emissions performance

The Group GHG reporting is undertaken in line with our obligations under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, and the UK's recently released Streamlined Energy & Carbon Reporting regulations. GHG emissions are reported in accordance with the GHG Protocol, which sets a global standard for how to measure, manage and report emissions.

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

During the last 12 months, we have continued to implement a number of energy efficiency initiatives including purchasing green energy on electricity contract renewal, LED light replacements and switching to energy efficient mechanical and electrical assets on renewal.

Our GHG emissions in 2020

The reporting year for GHG emissions in the Group ran from 1 July 2019 to 30 June 2020.

Scope	2020	2019
Scope 1 emissions Generated from the gas and oil used in all buildings where the Group operates; emissions generated from Group-owned and leased vehicles used for business travel; and fugitive emissions arising from the use of air conditioning and chiller/refrigerant plant to service the Group's property portfolio.	**3,716***	4,055
Scope 2 emissions Generated from the use of electricity in all buildings from which the Group operates.	**10,604***	11,285
Scope 3 emissions Relate to business travel undertaken by all colleagues using rail, private vehicles, hired vehicles, contracted taxi services, air travel, waste, water and paper.	**5,391**	6,277
Total	**19,711**	21,617

The GHG emissions above are measured in tonnes of carbon dioxide equivalent units (tCO2e). The above Scope 2 figures use location-based emissions. Using market-based emissions for energy would reduce total Scope 2 emissions for the Group from 10,604* to 895*.

Scope 1 and 2 emissions for the 12 months to 30 June 2020 are 7% less than the prior year. Key factors driving a reduction in emissions has been the impact of COVID-19 which reduced energy consumption from March by c15% and a reduction in the Group's property footprint of c9%. This is partially offset by the fact 2020 is the first year to include a full 12 months of Virgin Money data. The 2019 comparison includes 12 months data for CYBG but only 9 months for Virgin Money as the business was acquired in October 2018.

All GHG emissions data is based on actual figures, with the exception of those emissions relating to business travel and energy consumed in properties where the landlord controls the supply and recharges the Group via a service charge arrangement or where actual meter readings were not available before the year end. In these instances an average rate per kWh has been used.

Intensity ratio

The Group has chosen to use an intensity ratio of GHG per average FTE for scope 1 and 2 location based emissions. Using FTE offers a simple way to measure and monitor Group performance on emissions and is also a useful way to benchmark and compare with other organisations.

Scope (1 & 2)	2020	2019
GHG emissions per average FTE	**1.70***	1.95

Note The intensity ratio is calculated as the sum total of scope 1 and scope 2 emissions divided by the average FTE count (which was 8,414) during the reporting year.

Independent limited assurance

The Group engaged KPMG LLP to undertake an independent limited assurance engagement over the selected information highlighted in this report with a * using the assurance standards ISAE(UK)3000 and ISAE 3410 KPMG has issued an unqualified opinion over the selected information. KPMG's full assurance statement is available on the Group website.

Environmental targets

We set ourselves short term environmental targets to measure the Group's performance over a 12-month period in comparison to a 2019 baseline. The GHG and Water targets have been met. The energy target has not been met principally because the baseline only included 9 months data for Virgin Money. New targets have been set for the next 12 month, 3 year and 5 year periods.

Area	2019 baseline*	2020 Actual	% change	% target	Performance
GHG – measured by CO_2	21,617	**19,711**	-8.8%	-5%	Target met
Energy (gas and electric) – measured by KWH (m)	58.297	**59.878**	2.7%	-5%	Target not met
Water consumption – measured by m^3 volume	96,077	**90,008**	-6.3%	-2%	Target met

Risk report


Say hello to brighter money.
Moneyfacts has rated our shiny new current account as 'outstanding'. Who are we to argue?
Search Virgin Money Current Account or visit us in Market Street
MONEY
debit
MONEY
PORKY BLINDERS
COSTA
SAMSUNG

Contents

Keeping customers and colleagues safe

Effective risk management is critical to realising the Group's strategy of pioneering growth, with delighted customers and colleagues, while operating with super straightforward efficiency, discipline and sustainability. The safety and soundness of the Group is aligned to Our Purpose and is a fundamental requirement to enable our customers and stakeholders to be 'happier about money'.

Risk culture

Risk culture is focused on the Group's understanding of the risks it takes, which is key to enabling its strategy to disrupt the status quo.

Personal accountability is at the heart of the Group's risk culture. This is enabled through the risk management accountability model and formal delegation framework which support colleagues to make risk-based decisions. Colleagues are recruited with the core skills, abilities and attitude required to fulfil their role. They are provided with training and development to ensure they maintain and develop the required levels of competence. This supports colleagues in making risk-based decisions and judgements.

Culture is shaped by many aspects including: Purpose, Values and Behaviours that set a 'Tone from the Top'; the Group's and regulatory Codes of Conduct; operating principles; policy statements and standards; the risk management operating model; and an approved articulation of risk appetite that aligns to, and supports, strategic objectives.

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

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

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

The Board Risk Committee continually assesses risk culture and Internal Audit provides an independent view of risk culture to the Board Audit Committee through a risk and control-related management awareness assessment assigned to the majority of audits.

Risk strategy

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

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

Keeping customers and colleagues safe

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

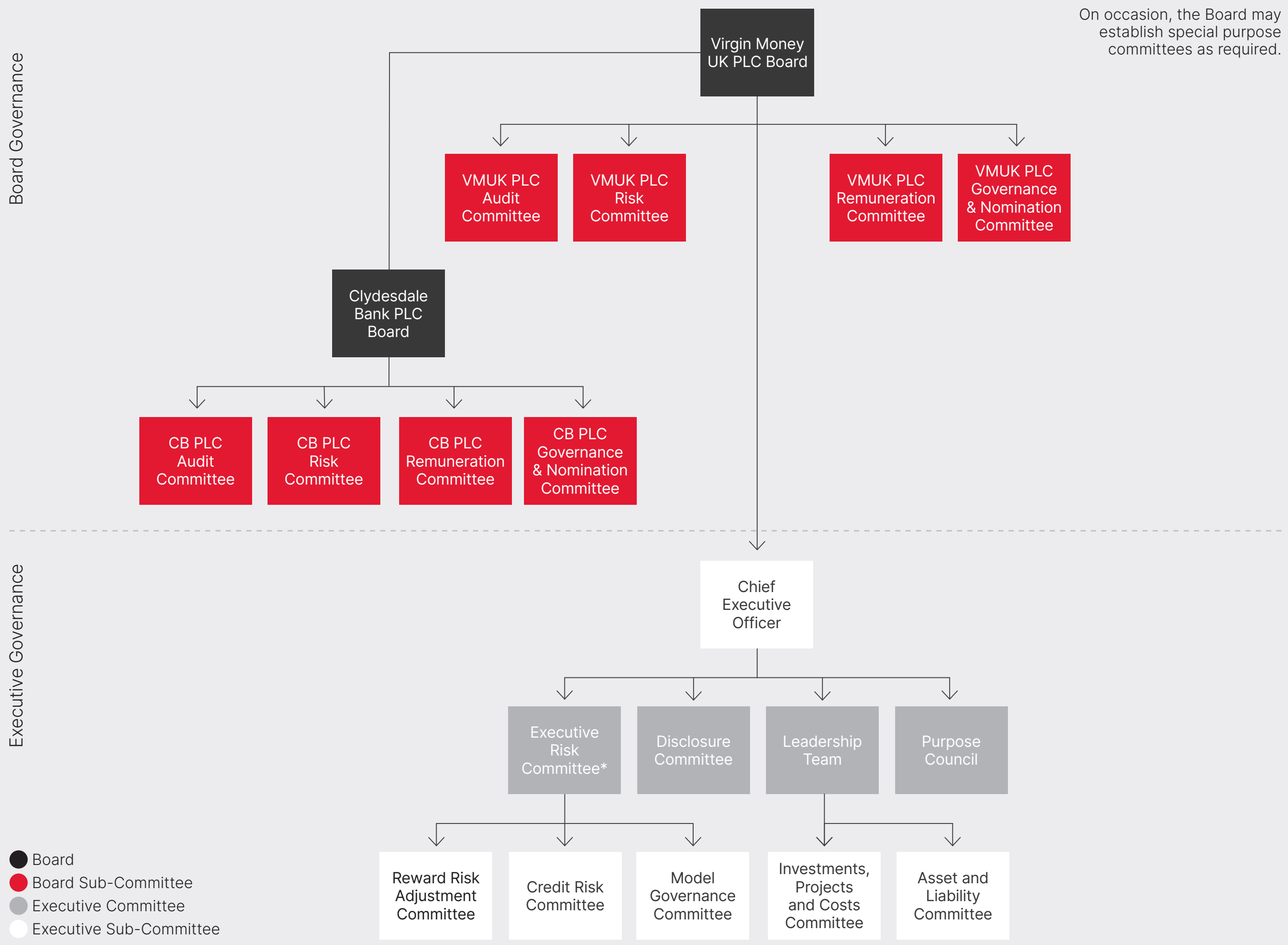
The Risk Appetite Framework (RAF) sets out the mandatory governance requirements for the creation, management and oversight of the RAS.

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

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

Risk governance and oversight
The Group has a structured risk governance framework to support the Board of Directors' aim of achieving long-term and sustainable growth through the Group's Purpose of 'Making you Happier about Money'. This includes a number of committees with a specific risk management focus, although all committees consider risk matters in accordance with the Group's RMF. The Group's risk governance structure strengthens risk evaluation and management, while also positioning the Group to manage the changing regulatory environment in an efficient and effective manner. Oversight of the risk governance structure is facilitated by the Board.

Governance Committee framework



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

N.B. Virgin Money PLC has a similar Board and Board Committee governance framework to Clydesdale Bank PLC. Virgin Money PLC Board and Board Committees meet as and when required.

During the year, the Group considers the effectiveness of the Executive Committee governance framework in order to ensure it remains fit for purpose. The following Executive Committees have been established under the authority of the CEO:

Committees	Risk focus
Executive Leadership Team	The Executive Leadership Team supports the CEO in leading the Group to be a strong, customer-focused bank for its communities, by focusing on four strategic priorities: pioneering growth; delighting customers and colleagues; being straightforward and efficient; and being disciplined and acting in a sustainable manner.
Executive Risk Committee	The Executive Risk Committee supports the CEO in respect of risk and control accountabilities and serves to provide leadership focus on key risk issues, including: • endorsing the RAS for approval by the Board; • overseeing and challenging the enterprise-wide risk performance and control environment of the Group and business units, including the effective use of policy, frameworks and tools; • monitoring the status of regulatory relationships, the reputation of the Group in relation to its regulators and the changing state of the regulatory landscape, including the impacts for and readiness of the Group for future changes; • monitoring the strength of risk capability and capacity, including risk training and education plans to ensure an effective risk and control framework; and • reviewing and endorsing risk policies, frameworks and tools for use across the Group.
Disclosure Committee	The Disclosure Committee is responsible for ensuring the Group complies with its continuous disclosure obligations for exchanges on which it has equity and debt securities listed.
Purpose Council	The Purpose Council oversees and manages the factors that are critical to being a purpose-led organisation. The Council maintains focus on agreed objectives, outcomes and benefits, and focuses on removing obstacles in the way of being a purpose-led organisation.

The Executive Risk Committee is supported by the following committees:

Credit Risk Committee	The Credit Risk Committee is responsible for ensuring that the credit risk management framework and associated policies remain effective. The Committee has oversight of the quality, composition and concentrations of the credit risk portfolio and recommends strategies to adjust the portfolio to react to changes in market conditions.
Model Governance Committee	The Model Governance Committee supports the Executive Risk Committee and subsequently the Board in fulfilling its governance responsibilities for material models and rating systems. The Committee oversees the integration and ongoing use of models across the Group, specifically considering the fitness for purpose, usability and scalability of models.
Reward Risk Adjustment Committee	The Reward Risk Adjustment Committee is responsible for considering and providing feedback to the Board Risk Committee and the Remuneration Committee in relation to risk events which may affect awards of variable pay and therefore ensuring that the Group complies with its regulatory requirements in respect of establishing and maintaining a robust risk adjustment process.

The Executive Leadership Team is supported by the following committees:

Investments, Projects & Costs Committee(1)	The Investments, Projects & Costs Committee is responsible for overseeing the management of sustainable costs across the Group while supporting its growth ambitions, aligned to risk appetite.
Asset and Liability Committee	The Asset and Liability Committee is responsible for monitoring the performance of the Group against the Board approved capital and funding plans. The Committee focuses on the Group's financial risks including capital, funding, liquidity and interest rate risk to ensure that the Group's activity complies with regulatory and corporate governance requirements and also delivers Group policy objectives. The impact of pension risk on capital is also assessed by ALCO.

(1) The Efficiency and Investment Committee was dissolved on 23 October 2019 and the first meeting of the Investments, Projects & Costs Committee was held on 21 November 2019.

Keeping customers and colleagues safe

Three lines of defence

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

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

Control is exercised through a clearly defined delegation of authority, with communication and escalation channels throughout the Group.

Three lines of defence

3rd Line of Defence

Internal Audit provides independent assurance over the risk management, governance and internal control processes.

2nd Line of Defence

Risk Management designs and owns the Risk Management Strategy, Risk Management Framework, Policy Management Framework and Risk Appetite Statement, monitoring and facilitating the implementation of effective risk management practices across the Group.

1st Line of Defence

Business Units take ownership, responsibility and accountability for directly assessing, controlling and mitigating risks and issues.

Risk management framework

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

Risk policies and procedures

The policy framework is a key component of the Group's RMF, providing structure and governance for the consistent and effective management of policies. In developing the policy framework, the Group sets the tone that demonstrates the risk culture expected across the organisation. This aligns with the behavioural expectations for all colleagues which form a core part of our performance management approach. Policy statements and supporting policy standards define the minimum control requirements which must be observed across the Group to manage material sources of risk within risk appetite.

Risk management and internal controls

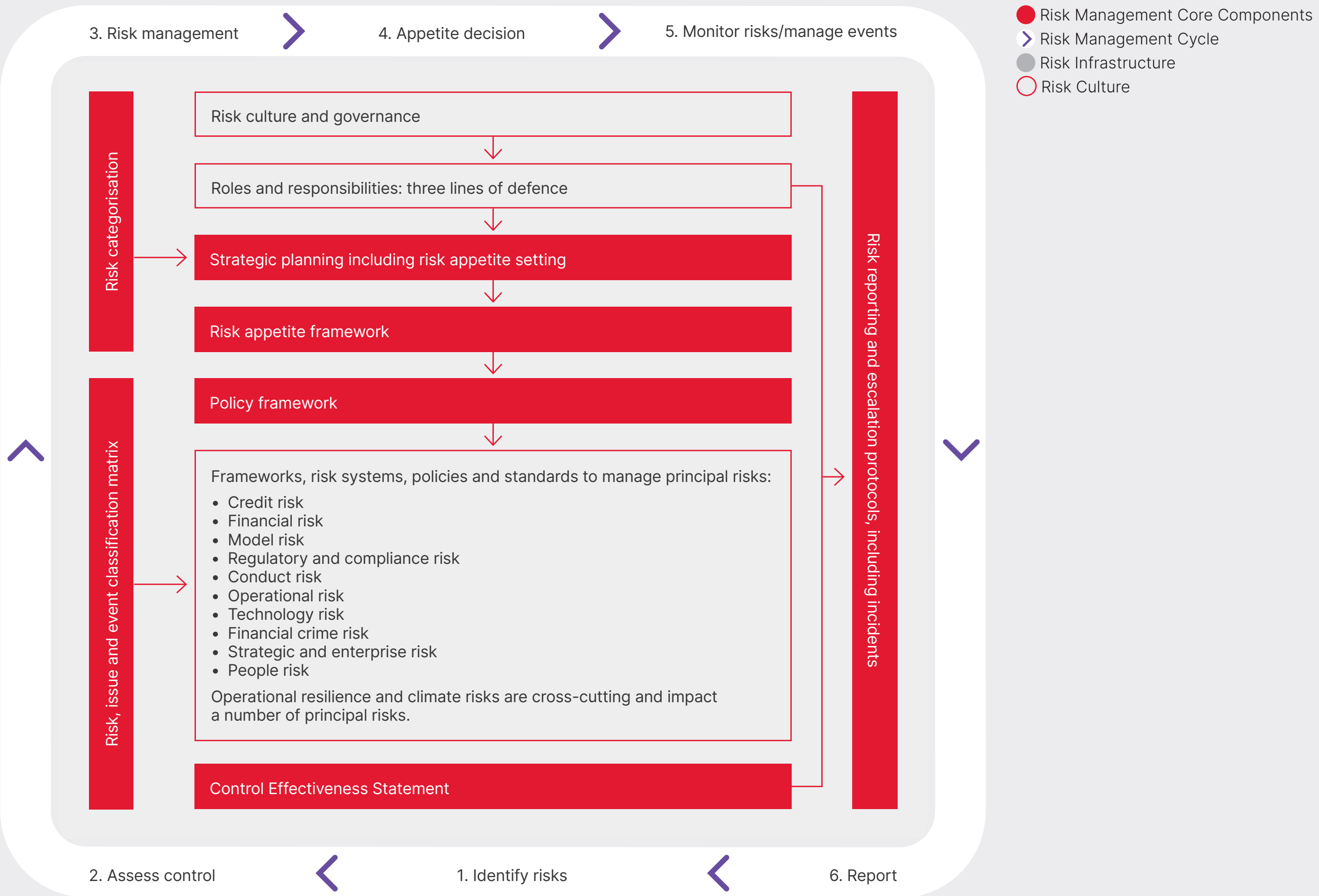
The Board actively monitors the Group's risk management and internal control systems. A review of the effectiveness of those systems has been performed incorporating all material financial, operational and compliance controls.

Stress testing

Stress testing is an important and widely recognised risk management tool, used to assess the vulnerability of financial institutions and identify risks under adverse economic scenarios. The Group uses stress testing in strategic, capital and liquidity planning, and to inform risk appetite, risk mitigation and contingency planning.

The Group undertakes stress testing using specific idiosyncratic scenarios and following the Basel Committee principles which utilise, where appropriate, scenarios provided by the BoE.

Risk Management Framework



Keeping customers and colleagues safe

The Board and senior management are actively involved in the stress testing process, reviewing, challenging and approving all aspects of stress testing, from the consideration of scenarios to be tested, to the outcomes and mitigating actions. The involvement of the Board and senior management is considered essential for the effective operation of stress testing and the manner in which the results inform strategic planning and risk appetite. Reverse stress testing is also undertaken to assess the types of risks that would pose fundamental threats to the viability of the Group's business model.

The BoE 2020 ACS was cancelled as a result of COVID-19, to free up operational capacity and to help lenders continue to meet the needs of UK households and businesses.

The Group will take part in its inaugural BoE concurrent stress test in 2021 and a significant amount of work has been undertaken to ensure preparedness for all requirements.

Principal and emerging risk categories

In line with the UK Corporate Governance Code requirements, the Board has performed a robust assessment of the Group's principal and emerging risks, including those that could result in events or circumstances that might threaten the Group's business model, future performance, solvency or liquidity and reputation. In deciding on the classification of principal risks, the Board considered the potential impact and probability of the related events and circumstances and the timescale over which they may occur.
In assessing emerging risks, the Board considered what procedures are in place to identify emerging risks and how they are being managed or mitigated.

COVID-19 impacts on principal risks

COVID-19 is impacting individuals, businesses and communities and has increased the Group's risk profile. The measures introduced to support the economy create new operational, conduct, enforceability and financial risks for the Group. These risks are being managed and will be monitored over time. The most material impacts are disclosed on pages 6 and 7 of the Strategic report. Further information can also be found in the individual principal risk sections on pages 119 to 180 of the Risk report.

The Group's principal and emerging risks are disclosed on pages 22 to 27 of the Strategic report.

Credit risk

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

While 2020 has undoubtedly been a difficult year, the shape and credit quality of our lending portfolio meant we were well positioned to face the economic challenges brought about by COVID-19. We started the year with a well-diversified portfolio, with 82% of our lending portfolio from a low LTV mortgage book, 11% from a business lending portfolio in solidly performing sectors, and the remaining 7% from a high quality personal lending portfolio, and this mix remained largely constant through the year. We adhered to our principles of managing our lending portfolio with a controlled risk appetite and prudent approach to underwriting with additional changes to our underwriting criteria introduced in response to the economic events.

The emergence of COVID-19 towards the end of the first half of the year and the resulting lockdown inevitably put pressure on all businesses and individuals, however the additional support available in the form of government backed lending and payment holidays has undoubtedly eased the immediate pressures. Nevertheless, our assessment of the economic environment is cautious given the risks to the downside which remain and we have applied prudent macroeconomic forecasts and conservative weightings to those forecasts which has caused us to reassess the likelihood of future loss in our lending portfolio and resulted in us increasing our provision for future expected credit losses, both at the half year and year end. Accordingly, we have recorded an underlying impairment charge of £501m in the year to 30 September 2020, an increase of £348m from the prior year charge of £153m. We have kept this position under close watch throughout the year and updated our view on a quarterly basis.

A key indicator of the underlying quality of the lending portfolio is the movement in staging over time and the levels of arrears in the portfolios. Arrears levels have remained largely stable across all portfolios as government interventions and payment holiday support has been deployed. Whist we have seen a deterioration in staging with 81% of the Group's lending portfolio now in stage 1 at 30 September 2020 (2019: 93%), this is principally due to probability of default (PD) migration rather than arrears, with the level of the portfolio < 30 DPD remaining stable at 98.5% (2019: 98.6%). Stage 3 balances have similarly remained stable. In summary, whilst an element of migrations to stage 2 reflect a level of financial difficulty for certain customers, stage migrations in the year have generally been reflective of more negative macroeconomic forecasts rather than a deterioration in the underlying quality of our book. Furthermore, a significant proportion of customers who have taken advantage of the COVID-19 payment holidays available have already resumed their normal payment patterns and we will continue to closely monitor these customers going forward.

In setting our provision for expected future credit losses at the year end, we have adopted prudent macroeconomic forecasts and weightings and deployed these within our credit models. Where it has not been possible to fully quantify new or emerging risks in modelled outcomes, or we have assessed limitations in our models, expert judgement has been applied to determine an appropriate level of additional post-model adjustments (PMAs); the level of PMAs is inevitably higher this year at £186m (2019: £49m) due largely to the impact of COVID-19 variables which, given the unprecedented nature of the economic shock, could not be fully incorporated into the latest models. In combination, these factors ensure the Group has suitably provided against expected future losses, with a provision of £735m at 30 September 2020 (2019: £362m). This increased level of provision results in overall coverage of 1.02% (2019: 0.50%), which we consider to be balanced and appropriate for our portfolio at the present time.

Notwithstanding the level of prudence we have exercised in measuring ECLs this year, and the recent announcement regarding positive progress in the development of a COVID-19 vaccine, the economic outlook remains challenging. We will continue to monitor and assess the quality of our credit portfolios as we navigate through these difficult times.

The Credit risk report which now follows has been structured into the sections below in order to further explain our considerations:

- **Managing risk within our portfolios:** addresses the various frameworks, policies, approaches and mitigations deployed to manage and oversee credit risk;
- **Measuring credit risk within our portfolios:** covers the Group's approach to ECL methodologies and calculations as well as the approach to credit estimates and judgements, including PMAs;
- **Portfolio performance:** summarises the key credit performance measures and influencing factors set out at Group level, supported by commentary on each of the three divisions: Mortgages, Personal, and Business, and
- **Supporting our customers in times of need:** informs the various support mechanisms the Group has deployed to support customers.

A range of technical tables and analysis is also included.

Group credit highlights

	30 Sep 2020 (audited) £m	30 Sep 2019 (audited) £m
Underlying impairment charge on credit exposures	**501**	153
Impairment provisions: Modelled	**496**	266
PMA	**186**	49
Individually assessed	**53**	47
Impairment provisions held on credit exposures	**735**	362

Credit risk

Managing risk within our credit 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 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, regular asset quality reviews and the independent oversight of credit decisions and portfolios.

The COVID-19 pandemic continues to present significant risks to the Group's credit portfolios. However, the Group remains focused on supporting customers and colleagues through the exceptional challenges that have crystallised over the past few months. The FY2021 RAS will continue to consider the impact of COVID-19, remaining agile, focused and responsive, to ensure we are addressing new and developing risks in a safe and controlled manner.

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 approval for the mortgage and business portfolios and the standardised approach for the personal 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 122.

The Group's portfolios are subject to regular stress testing. Stress test scenarios are regularly prepared to assess the adequacy of the Group's impairment provision and the impact on RWAs and capital. Management will consider how each stress scenario may impact on different components of the credit portfolio. The primary method applied uses migration matrices, modelling the impact of PD rating migrations and changes in portfolio default rates to changes in macroeconomic factors to obtain a stressed position for the credit portfolios. Loss given default (LGD) is stressed based on a range of factors, including property price movements.

Mitigation

The Group maintains a dynamic approach to credit management and takes necessary 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 individual transactions and asset quality, analysis of the performance of the various credit risk portfolios, and independent oversight of credit portfolios across the Group. Portfolio monitoring techniques cover such areas as product, industry or geographic concentrations and delinquency trends.

There is regular analysis of the borrower's ability to meet their interest and capital repayment obligations with early support and mitigation steps taken where required. Credit risk mitigation is also supported, in part, by obtaining collateral and corporate and personal guarantees where appropriate.

Other 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 personal customers. The approval process uses credit scorecards, as well as manual underwriting, and involves a review of an applicant's previous credit history using information held by credit reference agencies.

The Group also assesses the affordability of the borrower under stressed scenarios including increased interest rates. In addition, the Group has in place quantitative thresholds, such as maximum limits on the level of borrowing to income and 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 with a LTV less than 95%. The Group has maximum percentage LTV limits which depend upon the loan size. 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 who provide dedicated support for customers experiencing financial difficulty. Credit decisions utilise credit scoring techniques and manual underwriting, as appropriate. These tasks are performed by skilled and competent specialists acting within agreed delegated authority levels set in accordance with their experience and capabilities.

Credit strategy and policy

Credit risks associated with lending are managed through the application of detailed lending policies and standards which 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 which identifies, quantifies and mitigates risks including, but not limited to, those that have arisen as a result of the impacts of COVID-19. 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 teams oversee 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 by which those portfolios are managed, are regularly reviewed. This entails the production and analysis of regular portfolio monitoring reports for review by senior management.

Controls over rating systems

The Group has a Model Risk Oversight team that sets common minimum standards. The standards are designed to ensure risk models and associated rating systems are developed consistently and are of sufficient quality to support business decisions and meet regulatory requirements. The Group performs an annual self-assessment of its ratings systems to ensure ongoing CRR compliance supported by all three lines of defence.

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 their fair value is positive) which, in relation to derivatives, may only be a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk is managed as part of the 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 with whom it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, credit risk associated with the favourable contracts is reduced by a master netting arrangement to the extent that, if any counterparty failed to meet its obligations in accordance with the agreed terms, all amounts with the counterparty are terminated and settled on a net basis. Derivative financial instrument contracts are typically subject to the International Swaps and Derivatives Association (ISDA) master netting agreements, as well as Credit Support Annexes, where relevant, around collateral arrangements attached to those ISDA agreements. Derivative exchange or clearing counterparty agreements exist where contracts are settled via an exchange or clearing house.

Collateral

Collateral held as security and other credit enhancements can be summarised as follows:

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 using either professional or indexed (subject to policy rules and confidence levels) valuations.

Commercial property

Commercial property is the Group's main source of collateral on business lending and means of mitigating loss in the event of default. Collateral for the majority of commercial loans 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 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.

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

Further detail on collateral can be found on pages 133-134.

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 and considers strategies to adjust the portfolio to react to changes in market conditions.
- RAS measures: Measures are monitored monthly and reviewed bi-annually, at a minimum, or where specific action is merited, for example RAS was amended at pace in response to COVID-19. Regular review ensures 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 comparing the portfolio against market benchmarks.
- Single large exposure excesses: All excesses are reported to the Transactional Credit Committee and the Chief Credit Officer. Any exposure which continues, or is expected to continue, beyond 30 days will also be submitted to the Transactional Credit Committee with proposals to correct the exposure within an agreed period, not to exceed 12 months.

Forbearance

Forbearance is considered to take place when the Group grants concessions to assist customers who are experiencing, or who are about to experience, difficulties in meeting their financial commitments to the Group. 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 either at drawdown of the facility, or which 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 they adequately capture and reflect the most recent customer behaviours and market conditions.

Credit risk

Measuring risk within our credit portfolios

The Group adopts two approaches to the measurement of credit risk:

Individually assessed approach

A charge is taken to the consolidated income statement when an individually assessed provision has been recognised or a direct write-off has been applied to an asset balance.

Collectively assessed approach

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 is supplemented by management judgement in the form of PMAs where necessary.

At each reporting date, the Group assesses financial assets measured at amortised cost, as well as loan commitments and financial guarantees not measured at fair value through profit or loss, 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 calculated ECL is determined using the following classifications:

Classification	ECL calculation period	Description
Stage 1	12 months	A loan that is not credit-impaired on initial recognition and has not experienced a significant increase in credit risk (SICR).
Stage 2	Lifetime	If a significant increase in credit risk has occurred since initial recognition, the loan is moved to stage 2 but is not yet deemed to be credit-impaired.
Stage 3	Lifetime	If the loan is credit-impaired it is moved to stage 3.

In addition to the above stages, purchased or originated credit-impaired (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. POCI financial assets are included within those financial assets 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 PD since origination, subject to the 30 days past due (DPD) backstop, with Stage 3 required where there is credit impairment subject to the 90 DPD backstop.

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

ECLs under IFRS 9 use economic forecasts, models and judgement to provide a forward-looking assessment of the required provisions. PMAs have been used to address known limitations in the Group's models or data. Due to the current severe economic conditions, government and Group interventions to support customers, and uncertainty arising from COVID-19, the Group has not relied upon modelled outcomes alone. Following detailed analysis, expert credit judgement has been applied, resulting in additional PMAs to ensure the ECL calculation reflects the full set of plausible circumstances including data limitations, customer support measures, rapidly changing customer behaviours and the emerging nature of COVID-19 risks.

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

Portfolio performance

How our portfolios have performed

Credit risk exposures are classified into mortgage, personal and business portfolios. In terms of loans and advances, credit risk arises both from amounts loaned and commitments to extend credit to customers. To ensure appropriate credit limits exist, especially for business lending, a single large exposure policy is in place and forms part of the risk appetite measures that are monitored and reported on a monthly basis. The overall composition and quality of the credit portfolio is monitored and regularly reported to the Board and, where required, to the relevant supervisory authorities.

Exposures are also managed in accordance with the large exposure reporting requirements of the CRR. Unless otherwise noted, the amount that best represents the maximum credit exposure at the reporting date is the carrying value of the financial asset.

Maximum exposure to credit risk (audited)
The table below shows the maximum exposure to credit risk including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements. The table also shows the maximum amount of commitments from the Group's banking operations.

	30 Sep 2020 (audited) £m	30 Sep 2019 (audited) £m
Cash and balances with central banks (note 3.4)	**9,107**	10,296
Financial instruments at fair value through other comprehensive income (FVOCI) (note 3.7)	**5,080**	4,328
Due from other banks	**927**	1,018
Other financial assets at fair value (note 3.5)	**203**	267
Derivative financial assets (note 3.6)	**318**	366
Loans and advances to customers (note 3.1)	**72,430**	73,095
	88,065	89,370
Financial guarantees (note 5.1)	**95**	113
Other credit commitments (note 5.1)	**16,775**	15,158
Maximum credit risk exposure	**104,935**	104,641

All Treasury-related financial assets are classed as Stage 1 financial assets under IFRS 9.

Included within cash and balances with central banks is £7.2bn of cash held with the BoE (2019: £8.4bn). Due from other banks is all with senior investment grade counterparties. Financial instruments at FVOCI and the credit rating of counterparties are discussed in note 3.7.

Concentration of lending assets

The following tables show the levels of concentration of the Group's loans and advances.

Gross loans and advances to customers[(1)]	30 Sep 2020 (audited) £m	30 Sep 2019 (audited) £m
Property – mortgage	**58,652**	60,391
Instalment loans to individuals and other personal lending (including credit cards)	**5,550**	5,280
Agriculture, forestry, fishing and mining	**1,634**	1,494
Manufacturing	**884**	793
Wholesale and retail	**961**	766
Property – construction	**339**	167
Financial, investment and insurance	**97**	104
Government and public authorities	**19**	30
Other commercial and industrial	**4,789**	4,221
	72,925	73,246
Impairment provisions on credit exposures	**(735)**	(362)
Fair value hedge adjustment	**240**	211
	72,430	73,095

(1) The Group has a portfolio of fair valued business loans of £190m (2019: £253m) loans and advances to customers (note 3.1) which are classified separately as financial assets at fair value through profit or loss on the balance sheet. At 30 September 2020 the most significant concentrations of exposure were in agriculture, forestry, fishing and mining (29%), real estate (28%), health and social work (18%), and government and public authorities (9%).

Contingent liabilities and credit-related commitments	30 Sep 2020 (audited) £m	30 Sep 2019 (audited) £m
Property – mortgage	**3,088**	2,642
Instalment loans to individuals and other personal lending (including credit cards)	**9,674**	9,069
Agriculture, forestry, fishing and mining	**375**	302
Manufacturing	**692**	582
Wholesale and retail	**563**	472
Property – construction	**136**	119
Financial, investment and insurance	**173**	103
Government and public authorities	**348**	350
Other commercial and industrial	**1,821**	1,632
	16,870	15,271

Credit risk

Key credit metrics

	30 Sep 2020 (audited) £m	30 Sep 2019 (audited) £m
Impairment provisions held on credit exposures		
Mortgage lending	**131**	40
Personal lending	**301**	175
Business lending	**303**	147
Total impairment provisions	**735**	362

	30 Sep 2020 (audited) £m	Pro forma 30 Sep 2019 (unaudited) £m
Underlying impairment charge on credit exposures		
Mortgage lending	**95**	4
Personal lending	**223**	124
Business lending	**183**	25
Total underlying impairment charge	**501**	153
Asset quality measures:		
Underlying impairment charge(1) to average customer loans (cost of risk)	**0.68%**	0.21%
Stage 3 assets to customer loans	**1.19%**	1.09%
Total provision to customer loans(2)	**1.02%**	0.50%
Stage 3 provision to Stage 3 loans	**15.62%**	14.32%

(1) Inclusive of gains/losses on assets held at fair value and elements of fraud loss but excludes the acquisition accounting impact on impairment losses shown on page 259.

(2) This includes the government-backed portfolio of Bounceback Loans (BBLs), Coronavirus Business Interruption Loans (CBILs) and Coronavirus Large Business Interruption Loans (CLBILs).

Group credit performance

Total loans and advances to customers decreased by £0.3bn in the year, reflecting the Group's focus on supporting existing customers, muted demand for new borrowing and the impact of changing customer behaviours as lending was paid down more rapidly. Mortgage lending decreased by £1.7bn, offset by a £1.1bn increase in business lending and a £0.3bn increase in personal lending.

The Group's impairment provision increased by £373m to £735m during the year, primarily due to the Group's assessment of the impact of COVID-19 on future credit losses. This assessment adopts multiple forward-looking, macroeconomic scenarios with higher probability weights applied to a worsening economic outlook. In addition, PMAs have been applied where required.

The Group's underlying impairment charge has increased from £153m to £501m during the year mainly due to the use of revised economic scenarios in credit impairment models and the application of judgement based PMAs to reflect emerging COVID-19 risks. Increases are most evident in the personal and business portfolios, reflecting their heightened sensitivity to significant deterioration in unemployment and GDP forecasts.

As at 30 September 2020 the Group's cost of risk was 68bps (30 September 2019: 21bps), further reflecting the pessimistic economic outlook.

Underlying credit portfolio performance remains stable, as evidenced by the proportion of Stage 3 loans to total customer loans of 1.19% (2019: 1.09%). There has been no material deterioration in asset quality measures, arrears and default levels remain low, and forbearance levels remain static. This is due to a combination of customer support measures, controlled risk appetite and a continued focus on responsible lending decisions. Customer support measures include participating in government-backed loan schemes and offering payment holidays, augmented by other temporary fiscal stimulus such as furlough and HMRC payment deferrals. Further commentary on the types of customer support provided can be found in the divisional commentary on pages 28–33. The proportion of total provisions to total customer loans has increased to 1.02% (30 September 2019: 0.50%) reflecting the expectation that additional losses will emerge as the level of COVID-19 support subsides and the economy hardens.

Mortgage credit performance

	30 Sep 2020	30 Sep 2019
Gross loans and advances	**£58.7bn**	£60.4bn
Impairment charge	**£95m**	£4m
Cost of risk	**16bps**	1bps
Provision to customer loan ratio/£	**23bps/£131m**	7bps/£40m
% Loans in Stage 2	**13.9%**	3.0%
% Loans in Stage 3	**0.9%**	0.8%
% Forborne loans	**1.08%**	0.98%
90+ DPD	**0.43%**	0.32%
LTV of mortgage portfolio	**57.3%**	57.2%

Portfolio and impairment (Pages 123, 135-136)
The Group's mortgage lending has reduced from £60.4bn to £58.7bn in the year to 30 September 2020, reflective of underlying contraction in the portfolio. This aligns with the divisional strategy to maintain disciplined pricing in a competitive environment and reflects the effect of lockdown on the UK housing market, particularly in the second half of the financial year. Demand for new mortgage lending was muted and the Group focused on providing much needed support for existing customers.

The impairment provision has increased by £91m to £131m as at 30 September 2020. This gives rise to a provision to customer loan coverage ratio of 23bps, an increase of 16bps from 2019. Consistent with the other portfolios, this reflects the adoption of a prudent approach to setting impairment provisions in expectation of future economic deterioration and heightened credit losses due to the impact of COVID-19.

The mortgage portfolio continues to evidence strong underlying credit quality, with no material deterioration in asset quality measures. This is supported by prudent risk appetite setting, robust credit underwriting disciplines and a continued focus on responsible lending.

It remains unclear how the residential property market and mortgage customers will react post COVID-19, and the extent to which house prices could be impacted. This could affect customers' ability to pay and the level of security provided, which is a significant factor in limiting losses. Regional and social differences may begin to emerge as the UK recovers from the impact of COVID-19 with certain households potentially disproportionately affected. This level of granular detail cannot be fully reflected within the macroeconomic forecasts and models and requires a detailed level of judgement and expertise to estimate the potential impact on ECL.

The impairment charge has increased by £91m to £95m in the year to 30 September 2020. £29m of this increase relates to the adoption of more conservative forward-looking macroeconomic scenarios with higher probability weights applied to a worsening economic outlook. Further analysis, with appropriate expert judgement, determined that PMAs should also be applied to address impacts on calculation inputs or model sensitivities. This resulted in a further £62m increase in ECL, £43m of which relates to the longer-term implications for customers who have taken a payment holiday. Analysis indicates that a proportion of these customers are expected to experience difficulty in returning to their contractual repayment profile leading to a level of forbearance, delinquency or potentially default. Further PMAs have also been raised to address the risk of high house prices relative to income, heightened sensitivity for BTL customers and for certain customers with a high indebtedness index.

IFRS 9 staging (Pages 135-142)
Despite the application of more negative economic forecasts and additional PMAs, 85.2% of mortgage lending remains classed as Stage 1 (2019: 96.2%). The reduction during the year reflects the expected COVID-19 impact on customers. This has led to a corresponding increase of 10.9% in Stage 2 to 13.9% (2019: 3.0%). Stage migrations reflect updated macroeconomic forecasts, triggering a more negative outlook and increasing the volume of mortgage customer accounts exhibiting SICR. The migration to Stage 2 also recognises, through PMAs, that some customers with payment holidays will have experienced a SICR.

Mortgage IFRS 9 PDs are driven by underlying internal credit scores adjusted for forward-looking macroeconomics. Of the Stage 2 mortgage balances, 87% are as a result of PD deterioration influenced by revised macroeconomic forecasts. The changes in PD grades observed at 30 September 2020 do not reflect any deterioration in credit scores but rather the migration to more conservative macroeconomic forecasts. While there has been a reduction from 92% (2019) to 81% of assets classed as 'Strong', the proportion of assets classed as 'Good' has increased to 14% (2019: 5%), with the result that over 95% of the mortgage portfolio still remains 'Good' or better.

The proportion of mortgages classified as Stage 3 remains modest and stable at 0.9% (2019: 0.8%).

Credit risk

Asset quality, collateral and LTV (Pages 133)
The mortgage portfolio remains very well secured with 83% of mortgages, by loan value, having an indexed LTV less than 75%, with an average portfolio LTV of 57.3% (2019: 57.2%). The proportion of the portfolio over 90% LTV has remained stable at 1.9% (2019: 2.1%) and the proportion over 80% LTV has increased only slightly to 11.1% as at 30 September 2020 (30 September 2019: 10.7%).

90+ DPD arrears as at September 2020 of 0.43% (2019: 0.32%) remains low and less than the market average of 0.8%. Mild deterioration in arrears was observed prior to COVID-19, in line with industry experience. Further deterioration in delinquency has occurred due to COVID-19 as customers have moved through arrears however a moratorium on repossessions has prevented action being taken resulting in a small number of loans being in arrears longer than would typically be expected under normal circumstances. The underlying arrears for the year continues to evidence a stable portfolio, with improving bureau scores and reduced customer indebtedness, accepting that payment holidays will have benefitted customers and there will be challenges ahead.

Payment holidays (Page 129)
20% of mortgage customers, by balance, applied for and were granted a payment holiday. Of the payment holidays which have matured by 30 September 2020, 98% of customers have resumed payment in line with previously contracted terms with only 2% requiring further support or having moved into arrears. Only 4% of customers, by balance, have an active payment holiday in force at 30 September 2020. The Group will continue to support customers in line with their needs and revised regulatory guidance.

Forbearance (Page 130-131)
A key indicator of underlying mortgage portfolio health is the level of forbearance granted. As at 30 September 2020, forbearance totalled £636m (5,621 customers), an increase from the 30 September 2019 position of £589m (5,061 customers). This represents 1.08% of total mortgage balances (2019: 0.98%). Forbearance remains an important metric, reflecting the volume and value of concessions granted to customers on a non-commercial basis. The increase in forbearance is driven by additional volumes of tailored arrangements. The majority of customers benefitting from these arrangements are expected to return to fully performing status when the temporary support arrangements expire. Payment holidays granted in line with regulation have not been classified as forbearance.

Personal credit performance

	30 Sep 2020			30 Sep 2019		
	Credit cards	Loans & overdrafts	Total personal	Credit cards	Loans & overdrafts	Total personal
Gross loans and advances	**£4.5bn**	**£1.1bn**	**£5.6bn**	£4.2bn	£1.1bn	£5.3bn
Impairment charge	**£153m**	**£70m**	**£223m**	£107m	£17m	£124m
Cost of risk	**355bps**	**721bps**	**423bps**	290bps	192bps	271bps
Provision to customer loan ratio/£	**537bps/£222m**	**824bps/£79m**	**591bps/£301m**	342bps/£145m	322bps/£30m	339bps/£175m
% Loans and advances in Stage 2	**11.6%**	**28.0%**	**14.8%**	8.9%	4.4%	8.0%
% Loans and advances in Stage 3	**1.2%**	**1.4%**	**1.2%**	1.3%	1.4%	1.3%
% Forborne loans	**0.63%**	**0.88%**	**0.67%**	0.53%	1.10%	0.70%
90+ DPD	**0.38%**	**0.52%**	**0.41%**	0.54%	0.67%	0.57%

Portfolio and impairment (Pages 123, 135-136)
Of the £5.6bn total personal lending, the majority is credit cards at £4.5bn, with the balance comprising personal loans and overdrafts. The modest year-on-year growth in the portfolio reflects the changed environment, more muted demand for credit and customers' prudent action in response to COVID-19, paying down lending where they have been able to do so. Arrears levels remain stable as customers continue to behave responsibly and benefit from the various forms of government support, including payment holidays. Most customers who have sought a payment holiday have now reverted to normal terms. Further detail is provided on page 129.

The impairment provision has increased by £126m to £301m as at 30 September 2020, driving an increase in the provision coverage ratio of 252bps to 591bps. £36m of the increase results from the modelled application of more negative macroeconomic forecasts, with the remaining increase due to additional PMAs. £23m of the PMAs reflect the longer-term implications for customers who have taken a payment holiday. Analysis indicates that a proportion of these customers are expected to experience difficultly in returning to the contractual repayment profile leading to a level of forbearance, delinquency and potentially default currently masked by support measures. £17m relates to an assumption that the sale or future recovery value of unsecured written-off debt will potentially reduce and result in an adjustment being required to loss given default assumptions in the ECL calculation, and £14m relates to the assumption that improvements in customer risk profiles through bureau data inputs are temporary and therefore not reflective of the longer-term expectations. The majority of the residual PMA increase is to address a lack of sensitivity in the modelled outcome, particularly for the personal loan portfolio.

Cost of risk for the year of 423bps (2019: 271bps) is reflective of this higher allowance.

IFRS 9 staging (Pages 135-142)
The adoption of more negative economic forecasts and additional PMAs has driven movement from Stage 1 to Stage 2, with Stage 2 increasing by 6.8% to 14.8% (2019: 8.0%) requiring additional allowance for lifetime loss. 84% of the portfolio remains in Stage 1.

Personal portfolio PD is most sensitive to the rate of unemployment, which is forecast to peak at c.10%. The increased forecast assumption results in a deterioration in PD, influencing the migration of customer loans into Stage 2. Of the Stage 2 Personal balances, 77% are as a result of PD deterioration influenced by revised macroeconomic forecasts (2019: 41%). Stage 3 personal lending remains modest and stable at 1.2% (2019: 1.3%).

Asset quality
Asset quality has been assisted by the credit strategies deployed during the year to control and, where determined, tighten origination controls. The total credit cards arrears balance of 1.4% is supported by payment holidays and prudent customer behaviours (2019: 1.7%). The majority of payment holidays have now matured, and customers have returned to normal payment terms. New lending continues to focus on segments with lower levels of economic volatility with portfolio level exposures to non-homeowners, lower age demographics and self-employed remaining low.

Lending performance also remains strong with 90+ DPD measures at a cyclical low point of 0.41% (2019: 0.57%).

Payment holidays (Page 129)
5% of credit card customers were granted a payment holiday. Where those holidays have matured, 92% of customers have reverted to repay in line with previously contracted terms and 8% have either sought additional support or fallen into arrears. Of the 11% of personal loan customers granted a payment holiday, 95% of those which have matured have reverted to normal terms with 5% seeking further support or in arrears. 1% of credit cards customers and 3% of personal loan customers had an active payment holiday arrangement in place at 30 September 2020. The Group will continue to support customers in line with their needs and revised regulatory guidance.

Forbearance (Pages 130-131)
Limited forbearance is exercised in relation to personal loans and overdrafts, with a modest reduction to £8.4m (0.88% of the personal lending portfolio) from £11.5m (1.10%) at 30 September 2019. As at 30 September 2020, credit cards forbearance totalled £27m (6,309 customers), an increase from the 30 September 2019 position of £24m (5,522 customers). This represents 0.63% of total credit cards balances (2019: 0.53%). The increase in credit cards forbearance is driven by additional volumes of payment arrangements. The level of impairment coverage on forborne loans has increased to 47.2% from 41.3% at 30 September 2019 reflecting a more prudent approach to ECL. Payment holidays granted in line with regulation have not been classified as forbearance.

Business credit performance

	30 Sep 2020	30 Sep 2019
Gross loans and advances	**£8.7bn**[1]	£7.6bn
Impairment charge	**£183m**	£25m
Cost of risk	**212bps**	30bps
Provision to customer loan ratio/£[2]	**391bps/£303m**	193bps/£147m
% Loans in Stage 2	**44.2%**	30.2%
% Loans in Stage 3	**3.2%**	3.6%
% Forborne loans	**5.92%**	6.38%
90+ DPD	**0.27%**	0.47%

(1) Inclusive of government backed loan schemes.
(2) Coverage ratio excludes government-backed loan schemes.

Portfolio and impairment (Pages 123, 135-136)
Business lending has increased by £1.1bn during the year to £8.7bn as at 30 September 2020 (2019: £7.6bn). This includes lending under government-backed loan schemes, which contributed to £1.2bn of portfolio growth in the year. Further information can be found on p129.

There has been no significant deterioration in underlying asset quality measures. The Group entered the pandemic with a defensively positioned portfolio biased away from sectors expected to experience disruption such as Hospitality and Retail, towards sectors expected to be resilient, such as Agriculture and Health & Social Care.

The impairment provision has increased by £156m to £303m as at 30 September due to the expectation of greater pressures on the portfolio in 2021 from COVID-19 and Brexit. The impairment charge for the year to 30 September 2020 was £183m giving a cost of risk of 212bps.

The resultant coverage ratio of provisions to customer loans of 391bps increased by 198bps from 2019, reflective of the composition of the Group's generally sub-investment grade SME portfolio. Historically selective risk appetite choices have limited exposures to more sensitive sectors such as Hospitality, Retail, Travel, Construction and Commercial Real Estate. Even in the absence of increased default or arrears experience, the prudent economic forecasts applied caused PDs across the business portfolio to worsen with the accompanying increase in coverage reflective of the impact of COVID-19 through increased PDs including further migrations from 12-month to lifetime loss coverage.

The Group does not hold any level of PMA for business lending as at 30 September 2020. The policies and frameworks in place to identify business customers experiencing financial difficulty are operating effectively, meaning internal rating systems respond appropriately as levels of customer difficulty heighten. The overall level of modelled provision for business loans is assessed as sufficient in the context of the portfolio shape and strength, and considering the extensive number of sector and segment reviews undertaken in recent months. Regular customer and portfolio level analysis is completed to ensure early identification of business customers likely to experience financial difficulty. This enables prompt relationship manager engagement with customers and appropriate early support interventions.

Credit risk

IFRS 9 staging (Pages 135-142)
The application of the revised, more negatively biased, forecast economic scenarios has resulted in heightened portfolio stage migration with 44.2% of balances in Stage 2 (2019: 30.2%). This reflects the Group's prudent assumptions and the early adoption of the EBA requirements to retain forborne assets in Stage 2 for a minimum of two years. Business migration to Stage 2 can result from a range of triggers. Since 30 September 2019, there has been a notable shift with economic forecasts weighing more heavily and 75% of balances in Stage 2 now associated with a deterioration in PD as a result of forward-looking economic forecasts, most notably GDP. As at 30 September 2019, deterioration was more typically associated with discrete internal ratings downgrades and only 2% of Stage 2 migrations were a consequence of forward-looking economic indicators. Business loans in Stage 3 remain modest and stable at 3.2% (2019: 3.6%).

The PDs for business lending combine both internal ratings information and forward-looking economic forecasts. These economic forecasts, which include double-digit GDP falls in 2020 and a relatively weak recovery, are the material drivers of the PD and stage migrations across the year. The deteriorations in PD and staging have not been driven to any material extent by observed evidence of impairment through either internal downgrades or the emergence of arrears or defaults. While the proportion of assets classed as 'Strong' has reduced to 11% (FY19: 32%), assets classed as 'Good' have increased to 73% (2019: 62%), and over 84% of the business portfolio still remains 'Good' or better.

Asset quality
Asset quality is notably influenced by the support provided to customers, including government-backed loan schemes, and the Group's prudent risk appetite and risk frameworks which seek to ensure early identification of customers in difficulty. The early identification and escalation of customers evidencing deteriorating positions ensures the Group is intervening early and providing appropriate types of support to changing customer circumstances.

Arrears measures are stable to improving, with 90+ DPD of 0.27% as at 30 September 2020 (2019: 0.47%). During the year, the proportion of business customer accounts classed as categorised (watch, default and impaired), by value, has increased from 8.13% to 8.61% of the total business book. The Group has clear strategies in place to work with each customer and the marginal increase reflects the lack of significant increase in the proportion of customers evidencing financial distress.

Payment holidays (Page 129)
23% of eligible customers took advantage of a repayment holiday and, of those which have matured, 98% have returned to regular payment by 30 September 2020. Only 1% of business customer balances, equating to £108m, have an active payment holiday in force at 30 September 2020. Of the initial population granted a holiday, 2% have sought further support or have fallen into arrears. The Group will continue to support customers in line with their needs and revised regulatory guidance.

Forbearance (Page 132)
Business portfolio forbearance has increased from £509m (368 customers) at 30 September 2019 to £539m (368 customers) at 30 September 2020. Forbearance remains an important metric, reflecting the volume and value of concessions granted to customers on a non-commercial basis. Moves in forbearance 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 5.92% (2019: 6.38%) while impairment coverage, in line with actions taken on expected credit losses, has increased to 14.3% (2019: 10.87%). The majority of forbearance arrangements relate to term extensions allowing customers a longer term to repay their obligations in full than initially contracted. Payment holidays granted in line with regulation have not been classified as forbearance.

Supporting our customers in times of need

During the year, the Group participated in the various UK Government-backed loan schemes for businesses, in addition to offering payment holidays to mortgage, personal and business customers.

Government backed loan schemes

The following loan schemes were introduced by the government in April and May 2020, with changes made to their operation announced in September 2020:

Bounce Back Loans (BBLs): loans of between £2,000 and £50,000 are available under this scheme with a fixed rate of lending available for up to ten years, with no repayments due in the first year. Changes to the scheme included customers applying to pay interest only for six months (up to a maximum of three applications) with the additional potential for a six-month payment holiday for both capital and interest payments (this can only be requested where the customer has already made six repayments of principal). The government guarantees 100% of the lending.

Coronavirus Business Interruption Scheme (CBILs): loans of over £50,000 to a maximum of £5m are available under this scheme. They attract a variable rate of lending with no arrangement fees or interest paid by the borrower in the first 12 months. The government pays the fees and interest and guarantees 80% of the lending. The maximum loan term is six years.

Coronavirus Large Business Interruption Scheme (CLBILs): loans of over £50,000, up to a maximum of £200m (in aggregate) are available under this scheme with a variable rate of lending and terms of between three months and three years. The government guarantees 80% of the lending.

The Group has the following lending under these schemes as at 30 September 2020:

(Unaudited)	No of customers	Drawn balance (£m)	Average loan size (£m)	% of total Business lending
BBLs	28,077	809	0.03	9%
CBILs	907	334	0.37	3%
CLBILs	3	20	6.59	Immaterial

The deadline for applications for loans under the schemes is 31 January 2021.

Payment holidays

The Group continues to actively support customers through COVID-19, offering payment holidays where appropriate, although the level of new requests has reduced significantly since the peak in April 2020. Following the announcement of further national COVID-19 restrictions at the end of October 2020, the Group will continue to align with all applicable FCA guidance in respect of payment holidays and anticipates extending their availability to impacted customers requesting a payment holiday prior to the 31 January 2021 deadline.

	Payment holidays granted to date		Payment holidays currently in force at end September 2020		Of matured payment holidays	
(Audited)	Total balances £m	% of Total balances	Total balances £m	% of Total balances	% Resumed repayment	% Further treatment/arrears
Mortgages	11,908	20%	2,525	4%	98%	2%
Credit cards	219	5%	31	1%	92%	8%
Personal	103	11%	26	3%	95%	5%
Business	2,072	23%	108	1%	98%	2%

Credit risk

Forbearance

The Group makes every effort to treat customers fairly and aligns its forbearance practices to that principle. While forbearance alone is not necessarily an indicator of impaired status, it is a trigger for a review of the customer's credit profile and forbearance is only granted when there is a realistic prospect of the customer repaying all facilities in full. If there is any concern over future cash flows and the Group incurring a loss, then forborne loans will also be classified as impaired in accordance with the Group's impairment policy.

As a consequence of the Group's decision to early adopt the EBA probationary rules relative to forbearance, exposures classified as forborne and performing at the date forbearance is granted continue to be reported as subject to forbearance for a minimum period of two years from that date (the probation period). Exposures classified as forborne, which are non-performing when customers were granted forbearance, cannot exit non-performing status for a minimum of 12 months from the date forbearance was granted and cannot exit forbearance status for a further two years from the date of returning to performing status (three years in total). Forbearance frameworks are reviewed on a regular basis to ensure the operational processes remain appropriate and, where required, system changes are made to enhance forbearance data capture.

The Group has identified a number of situations that in isolation are not considered to be forbearance:

- facilities that have been temporarily extended pending review and where no concession has been granted for reasons relating to the actual or apparent financial stress of a customer;
- a reduction in asset quality to a level where actual, or apparent, financial stress is not evident;
- where changes are made to the terms of a borrower's interest structure or repayment arrangement on a commercial basis; and
- late provision of financial information, in the absence of other indicators of financial difficulty, is not in all cases considered a non-commercial breach of non-financial covenants.

Where the Group has made a demand for repayment, the customer's facilities have been withdrawn or where a debt repayment process has been initiated, the exposure is classified as forborne if the debt is subject to any of the mentioned forbearance concessions.

Customers who requested COVID-19 related support, including payment holidays, and who were not the subject of any wider SICR triggers, or who were otherwise assessed as having the ability in the medium term to be viable and meet risk appetite criteria, were not considered to have been granted forbearance.

Where the Group has identified customers who require remedial action to return them within risk appetite over the medium term, or who were showing signs of financial stress before COVID-19, such customers are considered to have been granted forbearance with exposures categorised as Stage 2 and subject to a lifetime ECL assessment.

Mortgage and Personal forbearance

The Group utilises various forbearance measures for mortgage and personal customers, specific to the individual customer and their circumstances. 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.

Debt management for mortgage customers in financial difficulty

To support customers who are encountering financial difficulties, cases are managed on an individual basis, with the circumstances of each customer considered separately and the action taken judged as being affordable and sustainable for the customer. Operationally, the provision and review of such assistance is controlled by various methods. These include the application of an appropriate policy framework, controls around the execution of policy, regular review of the different treatments to confirm that they remain appropriate, monitoring of customers' performance, including the level of payments received, and management visibility of the nature and extent of assistance provided and the associated risk.

Help is provided through specialist teams, such as the Financial Care Team, where tailored repayment programmes can be agreed. Customers are actively supported and referred to free money advice agencies when they have multiple credit facilities, including those at other lenders that require restructuring.

One component of the Group's approach is to contact customers showing signs of financial difficulty to discuss their circumstances and offer solutions to prevent their accounts falling into arrears.

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

As at 30 September 2020 (audited)	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Mortgages					
Formal arrangements	**1,194**	**145**	**0.25**	**7.2**	**4.94**
Temporary arrangements	**792**	**100**	**0.17**	**5.2**	**5.21**
Payment arrangement	**1,475**	**141**	**0.24**	**2.8**	**1.96**
Payment holiday	**1,454**	**157**	**0.26**	**2.3**	**1.45**
Interest only conversion	**379**	**64**	**0.11**	**0.4**	**0.58**
Term extension	**163**	**13**	**0.02**	**0.1**	**0.89**
Other	**28**	**3**	**0.01**	**–**	**1.13**
Legal	**136**	**13**	**0.02**	**1.0**	**7.87**
Total mortgage forbearance	**5,621**	**636**	**1.08**	**19.0**	**2.98**
Personal – credit cards					
Payment arrangement	**6,309**	**27**	**0.63**	**12.5**	**47.23**
Total cards forbearance	**6,309**	**27**	**0.63**	**12.5**	**47.23**

As at 30 September 2019 (audited)					
Mortgages					
Formal arrangements	1,352	157	0.26	4.4	2.83
Temporary arrangements	913	119	0.20	3.1	2.62
Payment arrangement	1,118	113	0.19	1.6	1.41
Payment holiday	981	114	0.19	0.7	0.58
Interest only conversion	358	54	0.09	0.3	0.57
Term extension	174	16	0.03	0.1	0.64
Other	35	3	0.00	–	0.50
Legal	130	13	0.02	0.3	2.46
Total mortgage forbearance	5,061	589	0.98	10.5	1.79
Personal – credit cards					
Payment arrangement	5,522	24	0.53	9.5	41.30
Total cards forbearance	5,522	24	0.53	9.5	41.30

The increase in mortgage forbearance is primarily driven by payment arrangements, typically where an account is in arrears and the agreement to adjust payments gives a path to clear the overdue amounts. Short-term payment holidays have also increased with the vast majority returning to fully performing status at the end of the agreed term.

When all other avenues of resolution, including forbearance, have been explored, the Group will take steps to repossess and sell underlying collateral. In the year to 30 September 2020, there were 57 repossessions of which 21 were voluntary (12 months to 30 September 2019: 66 including 14 voluntary).

The increase in credit cards forbearance is the result of payment arrangements being extended to customers where COVID-19 payment holidays were not deemed to be a suitable solution.

Other Personal lending forbearance

The Group currently exercises limited forbearance strategies in relation to current accounts and personal loans. The Group has assessed the total loan balances subject to forbearance on other types of personal lending to be £8.4m as at 30 September 2020 (30 September 2019: £11.5m), representing 0.88% of the personal lending portfolio (30 September 2019: 1.10%).

Impairment provisions on forborne balances totalled £3.4m as at 30 September 2020 (30 September 2019: £3.6m) providing overall coverage of 40.59% (30 September 2019: 31.58%).

Credit risk

Business forbearance

Forbearance is considered to exist for business customers where one or more concession is granted 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, on the basis of 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	
	Number of customers	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
As at 30 September 2020 (audited)					
Term extension	**199**	**211**	**2.31**	**27.5**	**13.05**
Deferral of contracted capital repayments	**92**	**115**	**1.26**	**23.1**	**20.08**
Reduction in contracted interest rate	**2**	**1**	**0.01**	**0.1**	**6.75**
Alternative forms of payment	**1**	**–**	**–**	**–**	**64.36**
Debt forgiveness	**2**	**4**	**0.05**	**0.2**	**4.66**
Refinancing	**15**	**6**	**0.07**	**1.8**	**29.37**
Covenant breach/reset/waiver	**57**	**202**	**2.22**	**24.4**	**12.10**
Total business forbearance	**368**	**539**	**5.92**	**77.1**	**14.30**
As at 30 September 2019 (audited)					
Term extension	187	153	1.93	14.9	9.70
Deferral of contracted capital repayments	98	134	1.68	15.0	11.16
Reduction in contracted interest rate	3	1	0.02	–	3.37
Alternative forms of payment	2	7	0.08	0.4	5.37
Debt forgiveness	2	4	0.05	–	1.06
Refinancing	16	10	0.12	1.5	15.03
Covenant breach/reset/waiver	60	200	2.50	23.6	11.82
Total business forbearance	368	509	6.38	55.4	10.87

The number of business customers granted forbearance as at 30 September 2020 remained at 368, with the associated gross carrying value increasing by £30m (6%). Customers within the forbearance portfolio have received £23m of COVID-19 related support loans: £17m CBIL and £6m BBL. In addition, business customers have been supported with 63 Capital Repayment Holidays (CRH) accounting for £147m of the exposure, with two customers (£29m exposure) being granted a second CRH. There are only seven newly forborne connections (£1.7m exposure) where the impact of COVID-19 is the primary driver of trading deterioration.

The table incudes a portfolio of financial assets at fair value. The gross value of fair value loans subject to forbearance as at 30 September 2020 is £7m (30 September 2019: £8m), representing 0.08% of the total business portfolio (30 September 2019: 0.11%). The credit risk adjustment on these amounts totalled £0.7m (30 September 2019: £0.6m), a coverage of 9.77% (30 September 2019: 6.94%).

The contractual amount outstanding on loans and advances that were written off during the reporting period or still subject to enforcement activity was £4.1m.

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 can vary, but may include:

- specific charges over defined assets of the counterparty;
- a floating charge over all assets and undertakings of an entity;
- specific or interlocking guarantees; and
- loan agreements which include affirmative and negative covenants and, in some instances, guarantees of counterparty obligations.

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.

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.

Mortgage lending by average LTV (audited)

The LTV ratio of mortgage lending, coupled with the relationship of the debt to customers' income, is integral to the credit quality of these loans. The table below sets out the indexed LTV analysis of the Group's mortgage stock:

September 2020	Stage 1			Stage 2			Stage 3 (2)			Total		
LTV (1)	Loans £m	%	ECL £m	Loans £m	%	ECL £m	Loans £m	%	ECL £m	Loans £m	%	ECL £m
Less than 50%	18,495	37%	2	2,705	33%	6	214	41%	4	21,414	37%	12
50% to 75%	23,215	46%	5	3,754	46%	40	192	37%	6	27,161	46%	51
76% to 80%	2,896	6%	1	641	8%	12	33	7%	2	3,570	6%	15
81% to 85%	2,336	5%	2	437	6%	12	21	4%	2	2,794	5%	16
86% to 90%	2,131	4%	2	428	5%	15	19	4%	2	2,578	4%	19
91% to 95%	798	2%	1	170	2%	8	9	2%	1	977	2%	10
96% to 100%	56	0%	–	21	0%	1	6	1%	1	83	0%	2
Greater than 100%	43	0%	1	10	0%	1	22	4%	4	75	0%	6
	49,970	100%	14	8,166	100%	95	516	100%	22	58,652	100%	131

(1) LTV of the mortgage portfolio is defined as mortgage portfolio weighted by balance. Currently the Clydesdale Bank PLC portfolio is indexed using the MIAC Acadametrics indices at a given date, while the Virgin Money Holdings (UK) PLC portfolio is indexed using the Markit indices. The Group view is a combined summary of the two portfolios.

(2) Stage 3 includes £86m of purchased or originated credit impaired (POCI) gross loans and advances.

September 2019	Stage 1			Stage 2			Stage 3 (1)			Total		
LTV (1)	Loans £m	%	ECL £m	Loans £m	%	ECL £m	Loans £m	%	ECL £m	Loans £m	%	ECL £m
Less than 50%	21,644	37%	1	682	38%	1	195	42%	3	22,521	37%	5
50% to 75%	26,778	46%	2	816	45%	4	177	38%	8	27,771	46%	14
76% to 80%	3,518	6%	1	117	7%	1	23	5%	2	3,658	6%	4
81% to 85%	2,635	5%	1	75	4%	1	22	5%	3	2,732	5%	5
86% to 90%	2,382	4%	1	73	4%	1	12	3%	2	2,467	4%	4
91% to 95%	1,016	2%	–	29	2%	1	9	2%	2	1,054	2%	3
96% to 100%	79	0%	–	5	0%	–	7	1%	1	91	0%	1
Greater than 100%	68	0%	–	8	0%	–	21	4%	4	97	0%	4
	58,120	100%	6	1,805	100%	9	466	100%	25	60,391	100%	40

(1) Stage 3 includes £101m of POCI gross loans and advances.

Credit risk

The Group also operates a policy of obtaining security against the underlying loan via the use of guarantees, which can be either limited or unlimited, making the guarantor liable for only a portion or all of the debt.

The following table shows the total non-property collateral held by sector at 30 September 2020 in terms of cash, guarantees (these guarantors are predominantly other financial institutions who are considered to be of a high credit quality) and netting. The exposure amount shown below is the total gross exposure (before any credit risk mitigation and after credit conversion factors have been applied where applicable) for arrangements which have some form of associated collateral held against it and is not the total exposure for each asset class, as this is disclosed elsewhere in this section.

2020 (audited)	Cash £m	Guarantee £m	Netting £m	Debt securities £m	Other physical collateral	Receivables	Total £m	Exposure £m
Exposure classes								
Corporates	**8**	**926**	**76**	**–**	**487**	**648**	**2,145**	**2,359**
Total IRB approach	**8**	**926**	**76**	**–**	**487**	**648**	**2,145**	**2,359**
Central governments or central banks	**5,410**	**–**	**–**	**–**	**–**	**–**	**5,410**	**7,420**
Regional governments or local authorities	**–**	**–**	**155**	**–**	**–**	**–**	**155**	**155**
Public sector entities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Financial institutions	**–**	**–**	**–**	**295**	**–**	**–**	**295**	**360**
Corporates	**–**	**170**	**–**	**–**	**–**	**–**	**170**	**170**
Secured by mortgages on residential real estate	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Secured by mortgages on commercial real estate	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exposures in default	**–**	**1**	**–**	**–**	**–**	**–**	**1**	**1**
Total standardised approach	**5,410**	**171**	**155**	**295**	**–**	**–**	**6,031**	**8,106**
Total	**5,418**	**1,097**	**231**	**295**	**487**	**648**	**8,176**	**10,465**
2019 (audited)								
Corporates	12	–	69	–	–	–	81	203
Total IRB approach	12	–	69	–	–	–	81	203
Central governments or central banks	3,809	–	–	–	–	–	3,809	5,695
Regional governments or local authorities	–	–	110	–	–	–	110	110
Institutions	–	–	–	304	–	–	304	360
Corporates	4	6	–	–	–	–	10	10
Secured by mortgages on residential real estate	–	–	–	–	–	–	–	2
Secured by mortgages on commercial real estate	–	–	–	–	–	–	–	1
Exposures in default	–	–	–	–	–	–	–	–
Total standardised approach	3,813	6	110	304	–	–	4,233	6,178
Total	3,825	6	179	304	–	–	4,314	6,381

The increase in cash collateral held and corresponding exposure is due to movements within the liquid asset portfolio and similar transactions outstanding at 30 September 2020 (including TFS drawings), reflected within central governments or central banks. The debt securities collateral held continues to be in relation to a repo where UK Gilts were placed as security.

Lending backed by government guarantees in response to COVID-19 can be seen within the Guarantee column.

Following PRA approval during the year, the Group moved to recognise Asset Finance and Invoice Finance collateral, being other physical collateral and receivables respectively, as being eligible collateral from a credit risk mitigation perspective in relation to the 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.

Credit quality of loans and advances as at 30 September 2020 (audited)

The following tables highlight the distribution of the Group's gross loans and advances, ECL and coverage by IFRS 9 stage allocation.

Gross loans and advances[1] ECL and coverage

			Personal									
As at September 2020	Mortgages		Cards		Loans & Overdrafts		Combined		Business[2]		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1	49,970	85.2%	3,893	87.2%	767	70.6%	4,660	84.0%	4,589	52.6%	59,219	81.2%
Stage 2 < 30 DPD	7,976	13.6%	512	11.4%	298	27.4%	810	14.6%	3,845	44.1%	12,631	17.3%
Stage 2 > 30 DPD	190	0.3%	7	0.2%	6	0.6%	13	0.2%	10	0.1%	213	0.3%
Stage 2 – total	8,166	13.9%	519	11.6%	304	28.0%	823	14.8%	3,855	44.2%	12,844	17.6%
Stage 3[3]	516	0.9%	52	1.2%	15	1.4%	67	1.2%	279	3.2%	862	1.2%
	58,652	**100.0%**	**4,464**	**100.0%**	**1,086**	**100.0%**	**5,550**	**100.0%**	**8,723**	**100.0%**	**72,925**	**100.0%**
ECLs												
Stage 1	14	10.7%	48	21.6%	22	27.8%	70	23.3%	52	17.1%	136	18.5%
Stage 2 < 30 DPD	84	64.1%	141	63.5%	44	55.7%	185	61.4%	176	58.1%	445	60.6%
Stage 2 > 30 DPD	11	8.4%	6	2.7%	3	3.8%	9	3.0%	–	0.0%	20	2.7%
Stage 2 – total	95	72.5%	147	66.2%	47	59.5%	194	64.4%	176	58.1%	465	63.3%
Stage 3[3]	22	16.8%	27	12.2%	10	12.7%	37	12.3%	75	24.8%	134	18.2%
	131	**100.0%**	**222**	**100.0%**	**79**	**100.0%**	**301**	**100.0%**	**303**	**100.0%**	**735**	**100.0%**
Coverage												
Stage 1	0.03%		1.34%		3.22%		1.64%		1.42%		0.24%	
Stage 2 < 30 DPD	1.06%		29.73%		16.67%		25.03%		4.60%		3.56%	
Stage 2 > 30 DPD	5.98%		76.86%		74.28%		75.83%		5.12%		9.73%	
Stage 2 – total	1.17%		30.40%		17.64%		25.81%		4.61%		3.66%	
Stage 3[3]	4.31%		57.48%		79.43%		62.05%		26.77%		15.74%	
	0.23%		**5.37%**		**8.24%**		**5.91%**		**3.91%**		**1.03%**	

(1) Excludes loans designated at fair value through profit and loss, balances due from customers on acceptances, accrued interest and deferred and unamortised fee income.

(2) Business coverage has been adjusted to exclude government-backed loans.

(3) Stage 3 includes POCI for gross loans and advances of £86m for Mortgages and £4m Personal; and ECL of £Nil for Mortgages and (£2m) for Personal.

Credit risk

Gross loans and advances[1] ECLs and coverage

	Mortgages		Personal						Business		Total	
			Cards		Loans & Overdrafts		Combined					
As at September 2019	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1	58,120	96.2%	3,806	89.8%	981	94.2%	4,787	90.7%	5,018	66.2%	67,925	92.7%
Stage 2 < 30 DPD	1,637	2.7%	353	8.3%	39	3.7%	392	7.4%	2,280	30.1%	4,309	5.9%
Stage 2 > 30 DPD	168	0.3%	25	0.6%	7	0.7%	32	0.6%	5	0.1%	205	0.3%
Stage 2 – total	1,805	3.0%	378	8.9%	46	4.4%	424	8.0%	2,285	30.2%	4,514	6.2%
Stage 3[2]	466	0.8%	54	1.3%	15	1.4%	69	1.3%	272	3.6%	807	1.1%
	60,391	100.0%	4,238	100.0%	1,042	100.0%	5,280	100.0%	7,575	100.0%	73,246	100.0%
ECLs												
Stage 1	6	15.0%	42	29.0%	11	36.7%	53	30.3%	20	13.6%	79	21.8%
Stage 2 < 30 DPD	5	12.5%	65	44.8%	6	20.0%	71	40.6%	72	49.0%	148	40.9%
Stage 2 > 30 DPD	4	10.0%	12	8.3%	4	13.3%	16	9.1%	–	0.0%	20	5.5%
Stage 2 – total	9	22.5%	77	53.1%	10	33.3%	87	49.7%	72	49.0%	168	46.4%
Stage 3[2]	25	62.5%	26	17.9%	9	30.0%	35	20.0%	55	37.4%	115	31.8%
	40	100.0%	145	100.0%	30	100.0%	175	100.0%	147	100.0%	362	100.0%
Coverage												
Stage 1	0.01%		1.11%		1.30%		1.11%		0.40%		0.12%	
Stage 2 < 30 DPD	0.29%		18.49%		15.55%		18.22%		3.13%		3.41%	
Stage 2 > 30 DPD	2.26%		46.91%		67.99%		51.18%		2.27%		9.68%	
Stage 2 – total	0.47%		20.35%		23.16%		20.64%		31.30%		3.69%	
Stage 3[2]	5.36%		48.15%		67.90%		50.72%		19.99%		14.25%	
	0.07%		3.42%		3.22%		3.39%		1.93%		0.50%	

(1) Excludes loans designated at fair value through profit and loss, balances due from customers on acceptances, accrued interest and deferred and unamortised fee income.
(2) Stage 3 includes POCI for gross loans and advances of £103m for Mortgages and £8m Personal; and ECL of (£1m) for Mortgages and (£2m) for Personal.

Strategic report | Financial results | Governance | Risk report | Financial statements | Additional information

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 that is not >30 DPD being in Stage 2:

			Personal									
At 30 September 2020	Mortgages		Cards		Loans & Overdrafts		Combined		Business		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD deterioration	7,085	87%	342	66%	293	96%	635	77%	2,883	75%	10,603	82%
Forbearance	174	2%	14	3%	3	1%	17	2%	353	9%	544	4%
AFD or Watch List(1)	13	0%	–	–	–	–	–	–	586	15%	599	5%
> 30 DPD	190	2%	7	1%	6	2%	13	2%	10	0%	213	2%
Other(2)	704	9%	156	30%	2	1%	158	19%	23	1%	885	7%
	8,166	**100%**	**519**	**100%**	**304**	**100%**	**823**	**100%**	**3,855**	**100%**	**12,844**	**100%**
ECLs												
PD deterioration	65	68%	86	59%	42	89%	128	66%	103	58%	296	64%
Forbearance	3	3%	5	3%	2	5%	7	4%	31	18%	41	9%
AFD or Watch List(1)	–	–	–	–	–	–	–	–	37	21%	37	8%
> 30 DPD	11	12%	6	4%	3	6%	9	5%	–	–	20	4%
Other(2)	16	17%	50	34%	–	–	50	25%	5	3%	71	15%
	95	**100%**	**147**	**100%**	**47**	**100%**	**194**	**100%**	**176**	**100%**	**465**	**100%**

			Personal									
At 30 September 2019	Mortgages		Cards		Loans & Overdrafts		Combined		Business		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD deterioration	809	45%	137	36%	35	76%	172	41%	1,512	66	2,493	55%
Forbearance	214	12%	6	2%	3	7%	9	2%	292	13%	515	11%
AFD or Watch List(1)	13	1%	–	–	–	–	–	–	446	20%	459	10%
> 30 DPD	168	9%	25	7%	7	15%	32	8%	5	0%	205	5%
Other(2)	601	33%	210	55%	1	2%	211	49%	30	1%	842	19%
	1,805	100%	378	100%	46	100%	424	100%	2,285	100%	4,514	100%
ECLs												
PD deterioration	3	33%	25	32%	5	50%	30	35%	33	46%	66	39%
Forbearance	1	11%	1	1%	1	10%	2	2%	17	24%	20	12%
AFD or Watch List(1)	–	–	–	–	–	–	–	–	19	26%	19	11%
> 30 DPD	4	45%	12	16%	4	40%	16	18%	–	–	20	12%
Other(2)	1	11%	39	51%	–	–	39	45%	3	4%	43	26%
	9	100%	77	100%	10	100%	87	100%	72	100%	168	100%

(1) Approaching Financial Difficulty (AFD) and Watch markers are early warning indicators of 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 eCRS (internal rating scale) changes as well as a number of smaller value drivers.

Credit risk

Credit risk exposure, by internal PD rating, by IFRS 9 stage allocation (audited)

The distribution of the Group's credit exposures by internal PD rating is analysed below.

		Gross carrying amount			
		Stage 1 £m	Stage 2 £m	Stage 3(1) £m	Total £m
As at 30 September 2020					
Mortgages	**PD range**				
Strong	0 – 0.74	**44,038**	**3,785**	**–**	**47,823**
Good	0.75 – 2.49	**5,246**	**2,879**	**–**	**8,125**
Satisfactory	2.50 – 99.99	**686**	**1,502**	**–**	**2,188**
Default	100	**–**	**–**	**516**	**516**
Total		**49,970**	**8,166**	**516**	**58,652**
Personal					
Strong	0 – 2.49	**4,144**	**183**	**–**	**4,327**
Good	2.50 – 9.99	**500**	**478**	**–**	**978**
Satisfactory	10.00 – 99.99	**16**	**162**	**–**	**178**
Default	100	**–**	**–**	**67**	**67**
Total		**4,660**	**823**	**67**	**5,550**
Business					
Strong	0 – 0.74	**791**	**152**	**–**	**943**
Good	0.75 – 9.99	**3,674**	**2,733**	**–**	**6,407**
Satisfactory	10.00 – 99.99	**124**	**970**	**–**	**1,094**
Default	100	**–**	**–**	**279**	**279**
Total		**4,589**	**3,855**	**279**	**8,723**
As at 30 September 2019					
Mortgages	**PD range**				
Strong	0 – 0.74	55,057	833	–	55,890
Good	0.75 – 2.49	2,648	455	–	3,103
Satisfactory	2.50 – 99.99	415	517	–	932
Default	100	–	–	466	466
Total		58,120	1,805	466	60,391
Personal					
Strong	0 – 2.49	4,197	50	–	4,247
Good	2.50 – 9.99	553	231	–	784
Satisfactory	10.00 – 99.99	37	143	–	180
Default	100	–	–	69	69
Total		4,787	424	69	5,280
Business					
Strong	0 – 0.74	2,225	175	–	2,400
Good	0.75 – 9.99	2,791	1,938	–	4,729
Satisfactory	10.00 – 99.99	2	172	–	174
Default	100	–	–	272	272
Total		5,018	2,285	272	7,575

(1) Stage 3 includes POCI of £86m (2019: 103m) for Mortgages and £4m (2019: £8m) for Personal.

Strategic report | Financial results | Governance | Risk report | Financial statements | Additional information

Reconciliation of movement in gross balances and impairment loss allowance (audited)

The following tables explain the changes in the loss allowance and gross carrying value of the portfolios between 30 September 2019 and 30 September 2020. 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.

September 2020	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[(1)] Gross loans £m	Stage 3[(1)] ECL £m	Total gross loans £m	Total provisions £m
Virgin Money UK PLC								
Opening balance at 1 October 2019	67,925	79	4,514	168	807	115	73,246	362
Transfers from Stage 1 to Stage 2	(14,972)	(81)	9,513	436	–	–	(5,459)	355
Transfers from Stage 2 to Stage 1	5,032	37	(2,813)	(190)	–	–	2,219	(153)
Transfers to Stage 3	(102)	(1)	(328)	(84)	384	129	(46)	44
Transfers from Stage 3	44	–	76	9	(93)	(18)	27	(9)
Changes to model methodology	24	(8)	(24)	(6)	–	–	–	(14)
New assets originated or purchased	18,380	96	1,349	90	150	15	19,879	201
Repayments and other movements	(3,454)	67	2,304	150	40	(49)	(1,110)	168
Repaid or derecognised	(13,658)	(53)	(1,747)	(108)	(267)	(63)	(15,672)	(224)
Write-offs	–	–	–	–	(159)	(159)	(159)	(159)
Cash recoveries	–	–	–	–	–	25	–	25
Individually assessed impairment charge	–	–	–	–	–	139	–	139
Closing balance at 30 September 2020	**59,219**	**136**	**12,844**	**465**	**862**	**134**	**72,925**	**735**
Mortgages								
Opening balance at 1 October 2019	58,120	6	1,805	9	466	25	60,391	40
Transfers from Stage 1 to Stage 2	(10,390)	(10)	4,976	75	–	–	(5,414)	65
Transfers from Stage 2 to Stage 1	3,525	3	(1,260)	(17)	–	–	2,265	(14)
Transfers to Stage 3	(63)	–	(69)	(6)	86	13	(46)	7
Transfers from Stage 3	38	–	24	3	(34)	(6)	28	(3)
Changes to model methodology	–	–	–	–	–	–	–	–
New assets originated or purchased	6,981	1	16	–	3	–	7,000	1
Repayments and other movements	(2,018)	15	2,784	32	32	(6)	798	41
Repaid or derecognised	(6,223)	(1)	(110)	(1)	(34)	(4)	(6,367)	(6)
Write-offs	–	–	–	–	(3)	(3)	(3)	(3)
Cash recoveries	–	–	–	–	–	–	–	–
Individually assessed impairment charge	–	–	–	–	–	3	–	3
Closing balance at 30 September 2020	**49,970**	**14**	**8,166**	**95**	**516**	**22**	**58,652**	**131**

(1) Stage 3 includes POCI for gross loans and advances of £86m for Mortgages and £4m Personal; and ECL of £nil for Mortgages and (£2m) for Personal.

Credit risk

September 2020	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 £m
Personal								
Opening balance at 1 October 2019	4,787	53	424	87	69	35	5,280	175
Transfers from Stage 1 to Stage 2	(1,326)	(47)	1,356	270	–	–	30	223
Transfers from Stage 2 to Stage 1	723	29	(768)	(151)	–	–	(45)	(122)
Transfers to Stage 3	(23)	(1)	(110)	(65)	135	96	2	30
Transfers from Stage 3	2	–	3	2	(6)	(5)	(1)	(3)
Changes to model methodology	24	(8)	(24)	(6)	–	–	–	(14)
New assets originated or purchased	1,621	26	5	1	1	–	1,627	27
Repayments and other movements	(925)	23	(45)	62	36	(52)	(934)	33
Repaid or derecognised	(223)	(5)	(18)	(6)	(40)	(36)	(281)	(47)
Write-offs	–	–	–	–	(128)	(128)	(128)	(128)
Cash recoveries	–	–	–	–	–	23	–	23
Individually assessed impairment charge	–	–	–	–	–	104	–	104
Closing balance at 30 September 2020	**4,660**	**70**	**823**	**194**	**67**	**37**	**5,550**	**301**
Business								
Opening balance at 1 October 2019	5,018	20	2,285	72	272	55	7,575	147
Transfers from Stage 1 to Stage 2	(3,256)	(24)	3,181	91	–	–	(75)	67
Transfers from Stage 2 to Stage 1	784	5	(785)	(22)	–	–	(1)	(17)
Transfers to Stage 3	(16)	–	(149)	(13)	163	20	(2)	7
Transfers from Stage 3	4	–	49	4	(53)	(7)	–	(3)
Changes to model methodology	–	–	–	–	–	–	–	–
New assets originated or purchased	9,778	69	1,328	89	146	15	11,252	173
Repayments and other movements	(511)	29	(435)	56	(28)	9	(974)	94
Repaid or derecognised	(7,212)	(47)	(1,619)	(101)	(193)	(23)	(9,024)	(171)
Write-offs	–	–	–	–	(28)	(28)	(28)	(28)
Cash recoveries	–	–	–	–	–	2	–	2
Individually assessed impairment charge	–	–	–	–	–	32	–	32
Closing balance at 30 September 2020	**4,589**	**52**	**3,855**	**176**	**279**	**75**	**8,723**	**303**

September 2019	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[(1)] Gross loans £m	Stage 3[(1)] ECL £m	Total gross loans £m	Total provisions £m
Virgin Money UK PLC								
Opening balance at 1 October 2018	29,456	53	2,897	86	564	85	32,917	224
Transfers from Stage 1 to Stage 2	(6,552)	(60)	6,570	257	–	–	18	197
Transfers from Stage 2 to Stage 1	3,619	17	(3,650)	(98)	–	–	(31)	(81)
Transfers to Stage 3	(153)	(2)	(496)	(82)	650	125	1	41
Transfers from Stage 3	41	–	128	6	(175)	(18)	(6)	(12)
Changes to model methodology	(1,752)	(5)	(32)	(6)	–	–	(1,784)	(11)
New assets originated or purchased	57,236	152	1,004	65	46	7	58,286	224
Repayments and other movements	(984)	(23)	(268)	17	92	(12)	(1,160)	(18)
Repaid or derecognised	(12,986)	(53)	(1,639)	(77)	(233)	(15)	(14,858)	(145)
Write-offs	–	–	–	–	(137)	(199)	(137)	(199)
Cash recoveries	–	–	–	–	–	28	–	28
Individually assessed impairment charge	–	–	–	–	–	114	–	114
Closing balance at 30 September 2019	67,925	79	4,514	168	807	115	73,246	362
Mortgages								
Opening balance at 1 October 2018	23,572	3	689	3	279	23	24,540	29
Transfers from Stage 1 to Stage 2	(3,851)	(4)	3,835	22	–	–	(16)	18
Transfers from Stage 2 to Stage 1	2,393	1	(2,401)	(9)	–	–	(8)	(8)
Transfers to Stage 3	(92)	(1)	(185)	(4)	276	11	(1)	6
Transfers from Stage 3	29	–	72	1	(105)	(4)	(4)	(3)
Changes to model methodology	–	–	–	–	–	–	–	–
New assets originated or purchased	44,730	8	3	–	138	–	44,871	8
Repayments and other movements	(2,412)	–	(48)	(3)	(31)	(1)	(2,491)	(4)
Repaid or derecognised	(6,249)	(1)	(160)	(1)	(83)	(2)	(6,492)	(4)
Write-offs	–	–	–	–	(8)	(3)	(8)	(3)
Cash recoveries	–	–	–	–	–	–	–	–
Individually assessed impairment charge	–	–	–	–	–	1	–	1
Closing balance at 30 September 2019	58,120	6	1,805	9	466	25	60,391	40

(1) Stage 3 includes POCI for gross loans and advances of £103m for Mortgages and £8m Personal; and ECL of (£1m) for Mortgages and (£2m) for Personal.

Credit risk

September 2019	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 £m
Personal								
Opening balance at 1 October 2018	1,143	15	38	12	22	18	1,203	45
Transfers from Stage 1 to Stage 2	(931)	(48)	970	194	–	–	39	146
Transfers from Stage 2 to Stage 1	403	12	(422)	(70)	–	–	(19)	(58)
Transfers to Stage 3	(28)	(1)	(95)	(56)	125	91	2	34
Transfers from Stage 3	3	–	2	1	(7)	(6)	(2)	(5)
Changes to model methodology	32	(1)	(32)	(6)	–	–	–	(7)
New assets originated or purchased	4,429	85	2	–	1	1	4,432	86
Repayments and other movements	(20)	(5)	(24)	17	36	(4)	(8)	8
Repaid or derecognised	(244)	(4)	(15)	(5)	(8)	(6)	(267)	(15)
Write-offs	–	–	–	–	(100)	(165)	(100)	(165)
Cash recoveries	–	–	–	–	–	27	–	27
Individually assessed impairment charge	–	–	–	–	–	79	–	79
Closing balance at 30 September 2019	4,787	53	424	87	69	35	5,280	175
Business								
Opening balance at 1 October 2018	4,741	35	2,170	71	263	44	7,174	150
Transfers from Stage 1 to Stage 2	(1,770)	(8)	1,765	41	–	–	(5)	33
Transfers from Stage 2 to Stage 1	823	4	(827)	(19)	–	–	(4)	(15)
Transfers to Stage 3	(33)	–	(216)	(22)	249	23	–	1
Transfers from Stage 3	9	–	54	4	(63)	(8)	–	(4)
Changes to model methodology	(1,784)	(4)	–	–	–	–	(1,784)	(4)
New assets originated or purchased	8,077	59	999	65	44	6	9,120	130
Repayments and other movements	1,448	(18)	(196)	3	(50)	(7)	1,202	(22)
Repaid or derecognised	(6,493)	(48)	(1,464)	(71)	(142)	(7)	(8,099)	(126)
Write-offs	–	–	–	–	(29)	(31)	(29)	(31)
Cash recoveries	–	–	–	–	–	1	–	1
Individually assessed impairment charge	–	–	–	–	–	34	–	34
Closing balance at 30 September 2019	5,018	20	2,285	72	272	55	7,575	147

Transfer from Stage 1 to Stage 2 (non-credit impaired)
A lifetime ECL calculation is required where an asset has been assessed as experiencing a significant increase in credit risk (SICR), as determined by the Group's staging criteria. The non-credit impaired movements are classed as Stage 2.

Transfer from Stage 2 to Stage 1
A 12-month ECL calculation is required where an asset, that had previously been classed as Stage 2, reverts back to the conditions observed at the initial credit assessment.

Transfer to Stage 3
A lifetime ECL calculation is required where an asset has been assessed as experiencing a SICR, as determined by the Group's staging criteria. The credit impaired movements are classed as Stage 3.

Transfer from Stage 3
Where an asset, that had previously been classed at Stage 3, has either (i) reverted back to the conditions observed at the initial credit assessment where a 12-month ECL should be calculated or (ii) no longer meets the criteria for Stage 3 but does meet the criteria for Stage 2, it is transferred to that category.

Changes in model methodology
ECL value changes resulting from a change to an underlying model methodology.

New assets originated or purchased
The balance and ECL calculated on newly opened or originated assets. Assets where the term has ended, and a new facility has been provided are reported as new assets.

Repayments and other movements
Movements due to customer repayment and other minor movements not captured under any other category.

Repaid or derecognised (excluding write-offs)
ECL impact from customer repayment or derecognition of all or part of an asset, other than that resulting from a write-off.

Write-offs
ECL impact due to the reduction of all, or part, of an asset balance due to a write-off approved by the Group. ECL release may appear higher than the asset balance on some occasions as a result of the initial ECL lifetime being released, in addition to the individually assessed provision applied for the asset balance write-off.

Cash recoveries
ECL impact of payments received on assets that had previously been written off.

Individually assessed impairment charge
The income statement charge where an individually assessed provision has been recognised or a direct write-off has been applied to an asset balance and reported separately from the Stage 3 provision.

Scenarios, weightings and macroeconomic assumptions

The Group's ECL allowance as at 30 September 2020 was £735m (30 September 2019: £362m).

Macroeconomic assumptions

A range of future macroeconomic conditions is used in the scenarios over the five-year forecast period, reflecting the best estimate of future conditions under each scenario. The Group has identified the following key macroeconomic conditions as the most significant inputs for IFRS 9 modelling purposes: UK GDP growth, inflation, house prices, base rates, and unemployment rates. These are assessed and reviewed on a quarterly basis to ensure appropriateness and relevance to the ECL calculation. The output of the models is then supplemented by PMAs when it is considered that not all the risks identified in a product segment have been accurately reflected within the models.

The shock to the economy as a result of COVID-19 has been faster and more severe than any in history. This has put increased emphasis on the IFRS 9 models and the impact of the forward-looking multiple macroeconomic scenarios on ECLs. As a result, the Group has re-assessed the possible IFRS 9 scenarios to select appropriate scenarios and weightings. The scenario weightings are considered and debated by an internal review panel and then recommended and approved for use in the IFRS 9 models by ALCO. The three scenarios selected, together with the weightings applied, have been updated to reflect the current economic environment:

Scenario	2020 (%)	2019 (%)
Upside	**5**	20
Base	**50**	60
Downside	**45**	20

The 'Upside' scenario has been reduced to a 5% weighting as it is considered to be overly optimistic in the current economic environment and the medium-term outlook. The decrease in the level of weighting applied to the 'Base' scenario is reflective of the severity of the impact of COVID-19 on the UK economy and the subsequent view that a larger share of the weightings should be focused on the downside scenario.

Upside (5%)

This reflects the unprecedented collapse of GDP (20% year-on-year, based on Q2 of the calendar year). The resultant effect is a predicted annual reduction of 10.8% in GDP in 2020. Public sector borrowing is expected to exceed 14% of GDP in the fiscal year 2020/21, lifting public debt to c. 110% of GDP in the near term before falling back to stabilise at c. 97% (the pre-crisis long run forecast was c. 80%).

Base (50%)

Growth in GDP is limited to an average of just 0.5% per annum for the next five years, which translates into around 4% lower than in the upside scenario by the end of the forecast period. Unemployment peaks at 8.8% and recovers slowly while property prices, and in particular commercial property prices, suffer sharp falls and only recover to pre-crisis levels towards the end of the scenario.

Downside (45%)

Demand shock from lockdown is compounded by financial crisis, with the slow pace of lifting lockdown restrictions weighing on sentiment, as investment decisions are delayed. The size of the deficit leads to the re-introduction of austerity measures, with output declining by c. 24% peak to trough and unemployment surging to 12%.

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

Mortgages: Unemployment, House Price Index (HPI) and Base Rate.

Personal: Unemployment and Inflation.

Business: GDP, Unemployment and Base Rate.

Credit risk

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

	Unemployment %	GDP %	HPI %
at 30 September 2020			
Upside	**4.4**	**1.3**	**1.7**
Base	**6.5**	**0.5**	**(1.6)**
Downside	**7.4**	**(0.4)**	**(6.2)**
at 30 September 2019			
Upside	3.4	2.7	5.8
Base	3.8	1.8	2.9
Downside	5.8	0.2	(4.6)

The full range of the key macroeconomic assumptions is included in the table on page 146.

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:

	Probability Weighted(1) £m	Upside £m	Base £m	Downside £m
30 September 2020				
Mortgages	**46**	**7**	**28**	**76**
Personal of which:	**190**	**162**	**183**	**204**
Cards	**165**	**139**	**158**	**179**
Personal loans and overdrafts	**25**	**23**	**25**	**25**
Business	**260**	**156**	**214**	**324**
Total	**496**	**325**	**425**	**604**

	Probability Weighted £m	Upside £m	Base £m	Downside £m
30 September 2019				
Mortgages	16	14	14	25
Personal of which	156	150	153	172
Cards	131	125	128	146
Personal loans and overdrafts	25	25	25	26
Business	94	75	88	134
Total	266	239	255	331

(1) In addition to the modelled provison shown in the table, the Group holds £186m relative to PMAs (2019: £49m) and £53m of individually assessed provision (2019: £47m).

One of the criteria for moving an exposure between stages is the 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 post model adjustments, further detail of which can be found on page 145 .

The use of judgement

SICR

Considerable judgement is required in determining the point at which a SICR has occurred, as this 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 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 which 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. Customers who requested COVID-19 related support, including payment holidays, and who were not the subject of any wider SICR triggers or who were otherwise assessed as having the ability in the medium term to be viable and meet our risk appetite criteria, were not considered to have been granted forbearance or to have a SICR.

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 established an approach with the required SICR threshold trigger varying on a portfolio basis according to the origination PD.

The table below illustrates this with reference to the Group's business and credit Card portfolios:

		Origination PD	SICR Trigger
Business	Low origination PD	0.04%	0.23%
	High origination PD	10.09%	13.20%
Credit cards	Low origination PD	1.00%	23.86%
	High origination PD	11.00%	28.11%

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

	2020 (£m)	2019 (£m)
A 10% movement in the mortgage portfolio from Stage 1 to Stage 2	**+18**	+ 7
A 10% movement in the credit card portfolio from Stage 1 to Stage 2	**+56**	+ 52
A 10% movement in the business portfolio from Stage 1 to Stage 2	**+11**	+13
A PD stress which increases PDs upwards by 20% for all portfolios	**+151**	+ 54

Definition of default

The PD of a credit exposure is a key input to the measurement of the ECL allowance. Default 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

The ECL provision is further impacted by judgements in the form of PMAs, which are judgements that increase the collectively assessed modelled output where the Group considers that not all of the known or potential future risks identified in a particular product segment have been accurately reflected within the models.

At 30 September 2020, £186m of PMAs (2019: £49m) are included within the balance sheet ECL provision of £735m (2019: £362m) and categorised as:

	2020 Total £m	2019 Total £m
Mortgages	**75**	14
Personal	**111**	19
Business	**–**	16
Total	**186**	**49**

PMAs account for 57% of the mortgage ECL provision of £131m (2019: 35% of £40m) and 37% of the personal ECL provision of £301m (2019: 7% of £175m). The Group does not hold PMAs in relation to the Business portfolio. PMAs are assigned between Stages 1 and 2. PMAs are discussed in more detail in the divisional commentary on pages 125–128.

Credit risk

The key macroeconomic factors used in the scenarios and their weighted averages are(1):

Scenario	VMUK weighting	Economic measure(2)	2020	2021	2022	2023	2024
Upside	5%	Base rate	0.2%	0.1%	0.1%	0.2%	0.4%
		Unemployment	5.5%	5.1%	3.9%	3.7%	3.6%
		GDP	(10.8%)	10.2%	3.5%	1.9%	1.8%
		Inflation	0.7%	1.2%	1.7%	1.8%	1.7%
		HPI	(4.2%)	(1.8%)	6.7%	4.0%	3.8%
Base	50%	Base rate	0.2%	0.1%	0.1%	0.2%	0.3%
		Unemployment	6.1%	7.8%	6.3%	6.3%	6.0%
		GDP	(14.0%)	7.9%	4.6%	2.1%	1.8%
		Inflation	(0.6%)	(0.2%)	2.0%	2.3%	1.2%
		HPI	(7.3%)	(8.5%)	1.5%	1.9%	4.1%
Downside	45%	Base rate	0.2%	(0.5%)	(0.5%)	(0.3%)	(0.3%)
		Unemployment	6.7%	10.0%	7.2%	6.8%	6.5%
		GDP	(16.9%)	5.0%	5.7%	2.0%	1.9%
		Inflation	(0.2%)	(1.4%)	1.0%	2.4%	0.8%
		HPI	(11.2%)	(15.6%)	(6.7%)	(2.2%)	4.8%
Weighted average		Base rate	0.2%	(0.2%)	(0.2%)	(0.1%)	0.0%
		Unemployment	6.3%	8.6%	6.6%	6.4%	6.1%
		GDP	(15.1%)	6.7%	5.1%	2.1%	1.9%
		Inflation	(0.4%)	(0.7%)	1.5%	2.3%	1.1%
		HPI	(8.9%)	(11.4%)	(1.9%)	0.2%	4.4%

(1) Economic assumptions are on a calendar year basis unless otherwise stated.

(2) The percentages shown for base rate, unemployment and inflation are averages. Those for GDP and HPI are year on year.

Other credit risks

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 currently 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 only subject to collateral arrangements (e.g. loans and advances).

The Group enters into derivatives with various counterparties which are governed by industry-standard master netting agreements. The Group holds and provides collateral in respect of derivatives 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		
	Gross amounts £m	Gross amounts offset on balance sheet £m	Net amounts presented on balance sheet[1] £m	Subject to master netting agreements £m	Cash collateral pledged/ received £m	Net amount £m
2020 (audited)						
Assets						
Derivative financial instruments[2]	**423**	**(105)**	**318**	**(127)**	**(12)**	**179**
Liabilities						
Derivative financial instruments[2]	**1,063**	**(813)**	**250**	**(127)**	**(83)**	**40**
Securities sold under repurchase agreement	**–**	**–**	**–**	**–**	**–**	**–**
2019 (audited)						
Assets						
Derivative financial instruments[2]	478	(112)	366	(70)	(8)	288
Liabilities						
Derivative financial instruments[2]	739	(466)	273	(70)	(190)	13
Securities sold under repurchase agreement	1,554	–	1,554	(1,554)	–	–

(1) 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 holds securities collateral in respect of derivative transactions subject to master netting agreements of £522m (2019: £57m), which is not recognised on the balance sheet.

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

Financial risk
Strong foundations supporting resilience and growth

The financial risk framework underpins the Group's robust balance sheet, ensuring strategy is resilient and responsive to external pressures, including the impact of COVID-19 and changing regulatory obligations.

Financial risk covers several categories of risk which impact the manner 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. During the year, model risk was removed as a sub-category of financial risk and promoted to principal risk status. Further information can be found on page 169.

Risk appetite
The primary objective for the management of financial risks is to control the risk profile within approved risk limits, to maintain the confidence of the Group's customers and other stakeholders. Financial risks are also managed to protect current and future earnings from the impact of market volatility. The Group applies a prudent approach to financial risks in order to safeguard the ongoing strength and resilience of the balance sheet. These activities are all 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 minimum holdings of capital. Measures for funding and liquidity risks consider the structure of the balance sheet, the Group's overall funding profile and compliance with the Overall Liquidity Adequacy Rule (OLAR). 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's participation in wholesale markets, along with its use of financial instruments, is to fund its banking activities and manage the liquidity and interest rate 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.

Capital risk
Capital is held by the Group to protect its depositors, to cover inherent risks in a normal and stressed operating environment and to support the Group's strategy of pioneering growth. Capital risk is the risk that the Group has insufficient quantity or quality of capital to support its operations.

Exposures
Capital risk exposures arise when the Group has insufficient capital resources to support its business activities or to meet regulatory capital requirements under normal operating conditions or stressed scenarios.

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 for the year ended 30 September 2020 are calculated in respect of credit risk, operational risk, market risk, counterparty credit risk and credit valuation adjustments. The capital requirements for retail mortgages are calculated using an advanced internal ratings based (AIRB) approach while the business portfolios use a foundation internal ratings based (FIRB) approach. In March 2020, the Group received approval to move the specialised lending portfolio from the standardised approach to an IRB slotting basis. All other requirements are calculated using the standardised approach.

The Group obtained IRB accreditation for certain portfolios in October 2018. The PRA has since released a final policy statement outlining its approach to implementing definition of default per EBA guidelines. Further to this, there are recommended changes to both PD and LGD model components relating directly to the calculation of risk-weighted capital requirements. In July 2020, the PRA announced their timeline to evaluate the approach of UK banks to the change in the definition of default calculation. Implementation for residential mortgage portfolios is expected to be in 2021 and by 1 January 2022 for all other exposure classes, subject to PRA approval.

A rigorous approach is taken to assessing risks that are not adequately covered by Pillar 1, including interest rate risk and pension risk. 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 thoroughly documented in the Group's ICAAP which is subject to review, challenge and approval by the Board.

The Group IRB framework looks at the customer and business PD along with loss severity (EAD and LGD). The outputs are used in the calculation of RWA, EL 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 IRB outputs are used to inform cut-off models that drive the lending decisions;
- Pricing – IRB outputs and estimates are used in the assessment of new products and portfolio pricing reviews;
- Risk appetite – IRB parameters are included in the assessment of models and are analysed to inform the Group's risk capacity and appetite; and
- Asset quality – IRB 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 which leads to uncertainty on eventual outcomes.

Reconciling capital requirements and macroprudential buffers
On 6 July 2020, the PRA published Policy Statement 15/20, which updates the Pillar 2A capital framework for the additional resilience associated with higher macroprudential buffer requirements in a standard risk environment. The PRA will make changes to Pillar 2A, where applicable, on or before 16 December 2020.

Capital Requirements Directive V (CRD V) and Capital Requirements Regulation II (CRR II)
On 16 July 2020, Her Majesty's Treasury (HMT) issued a consultation on aspects of CRD V that must be implemented before the end of the transition period for the UK leaving the EU. Items being consulted on include macro-prudential tools (O-SII buffer, Systemic Risk Buffer), holding companies and equal pay framework and enforcement. On 15 October 2020, HMT published a summary of responses to the consultation and laid draft legislation in Parliament.

On 31 July 2020, the PRA issued CP12/20 'CRD V' which set out proposed changes to the PRA's rules, supervisory statements and statements of policy to meet the objectives of CRD V. This consultation was focused on Pillar 2, remuneration, intermediate parent undertakings, governance, and third-country branch reporting.

On 20 October 2020, the PRA issued CP17/20 'CRD V: Further implementation'. This consultation is focused on: the approval and supervision of holding companies; measures to enhance supervisory requirements for interest rate risk in the banking book (IRRBB); revisions to the capital buffers framework; amendments to the definition of the maximum distributable amount that constrains a firm's distributions when it uses its capital buffers; and clarifying the quality of capital required to meet Pillar 2. It also covers CRR measures in respect of the process through which variable capital requirements may be applied to firms' real estate exposures, and the methods that may be used for prudential consolidation.

Based on the CRD V and CRR II requirements published in the EU Official Journal and the subsequent HMT/PRA releases, the Group does not anticipate a material impact on capital ratios.

Basel III revisions
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. The reforms are subject to a transition period from 2023 to 2028.

IRB approach to UK mortgage risk weights
In September 2020, the PRA issued Consultation Paper 14/20 'Internal Ratings Based UK mortgage risk weights: Managing deficiencies in model risk capture'. The proposals help address the PRA's view of prudential risks from "inappropriately low" IRB UK mortgage risk weights with the aim of:

- reducing the difference in standardised approach and IRB mortgage risk weights for current UK mortgages;
- placing a limit on future divergence; and
- reducing the variability of mortgage risk weights between those firms on the IRB approach for given levels of mortgage LTVs.

Key proposals from this are the introduction of the following floors:

- an individual mortgage risk weight of at least 7%; and
- an exposure-weighted average risk weight of at least 10% for an IRB UK mortgage portfolio as a whole.

Following consultation, the PRA's final policy is expected to take effect from 1 January 2022.

COVID-19 regulatory capital developments
There have been a number of regulatory capital developments in the UK and Europe in response to COVID-19. Key items relevant to the Group are set out below.

Government backed loan schemes
During the year, the Group participated in the various government backed loan schemes for businesses, in addition to offering payment holidays to both business and retail customers. Impacts to the Group's financial risk profile are discussed in this section and further details on loan schemes are provided in the credit risk section.

Revised timelines
In order to provide operational capacity for banks to respond to the immediate financial stability priorities resulting from the impact of COVID-19, both the PRA and Basel communicated revised timelines across key regulatory initiatives. The implementation of the Basel III revisions has been delayed by one year to 1 January 2023, and includes revisions to: the standardised approach to credit risk; IRB approach; operational risk framework, market risk framework; Pillar 3 disclosures and the introduction of output floors.

In addition, the PRA advised that the proposals in Consultation Paper 21/19 'Credit risk: PD and LGD estimation' will be delayed by one year to 1 January 2022 and the hybrid IRB models will also be delayed until the same date.

On 26 March 2020, the PRA wrote to CEOs of UK banks setting out guidance in respect of:

- consistent and robust IFRS 9 accounting and the regulatory definition of default;
- the treatment of borrowers who breach covenants due to COVID-19; and
- the regulatory capital treatment of IFRS 9.

The PRA has subsequently provided a number of updates to banks in this regard as the COVID-19 situation evolves.

CRR 'Quick Fix' package
On 24 June 2020, the European Parliament adopted regulation to facilitate lending to households and businesses in the EU in light of COVID-19. This package, known as the 'CRR Quick Fix', came into force on 27 June 2020 and made a number of beneficial amendments to the CRR that apply to the Group, including changes to IFRS 9 transitional arrangements and SME supporting factors.

On 14 October 2020, the EBA published its final draft Regulatory Technical Standards (RTS) specifying the prudential treatment of software assets. The RTS replaces the current upfront full deduction with a simple approach based on a prudential amortisation of software assets calibrated over a maximum period of three years. The RTS will become effective on the day following its publication in the Official Journal of the European Union.

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 robust capital adequacy, meeting regulatory requirements, managing the rating agencies' assessment of the Group, and ensuring that excessive leverage is not taken.

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 via, for example, 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 lending strategy.

Capital optimisation remains a key strategic priority of the Group. Work is progressing to ensure that the approach to models and IRB portfolios supports the overall strategy and delivers robust outcomes for the management of risks.

Monitoring
The capital plan is approved by the Board annually, and ALCO monitors the actual and forecast position monthly. This ensures that performance trends are reviewed and that there is transparency of the impact on capital ratios, risk appetite and the future outlook.

Financial risk

Capital position

The Group's capital position as at 30 September 2020 is summarised below:

Regulatory capital (unaudited)[1]	2020 £m	2019 £m
Statutory total equity	**4,932**	5,021
CET1 capital: regulatory adjustments[2]		
AT1 capital instruments	**(915)**	(915)
Defined benefit pension fund assets	**(470)**	(257)
Prudent valuation adjustment	**(6)**	(5)
Intangible assets	**(477)**	(501)
Goodwill	**(11)**	(11)
Deferred tax asset relying on future profitability	**(151)**	(146)
Cash flow hedge reserve	**80**	26
Excess expected losses	**–**	(88)
AT1 coupon accrual	**(21)**	(20)
IFRS 9 transitional adjustments	**310**	100
Total regulatory adjustments to CET1	**(1,661)**	(1,817)
Total CET1 capital	**3,271**	3,204
AT1 capital		
AT1 capital instruments	**915**	915
Total AT1 capital	**915**	915
Total Tier 1 capital	**4,186**	4,119
Tier 2 capital		
Subordinated debt	**749**	721
Total Tier 2 capital	**749**	721
Total regulatory capital	**4,935**	4,840

(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 (unaudited)[1]	CRD IV 2020 £m	CRD IV 2019 £m
CET1 capital[2]		
CET1 capital at 1 October	**3,204**	2,113
Share capital and share premium	**1**	3
Retained earnings and other reserves (including special purpose entities)	**(91)**	(210)
Acquisition of Virgin Money Holdings (UK) PLC	**–**	1,567
Prudent valuation adjustment	**(1)**	(2)
Intangible assets	**24**	(89)
Goodwill	**–**	(11)
Deferred tax asset relying on future profitability	**(5)**	(47)
Defined benefit pension fund assets	**(213)**	(119)
Cash flow hedge reserve	**54**	(13)
Excess expected losses	**88**	(88)
IFRS 9 transitional adjustments	**210**	100
Total CET1 capital at 30 September	**3,271**	3,204
AT1 capital		
AT1 capital at 1 October	**915**	450
AT1 capital issued and transferred from Virgin Money Holdings (UK) PLC	**–**	465
Total AT1 capital at 30 September	**915**	915
Total Tier 1 capital at 30 September	**4,186**	4,119
Tier 2 capital		
Tier 2 capital at 1 October	**721**	626
Credit risk adjustments[3]	**–**	(152)
Capital instruments issued: subordinated debt	**472**	247
Capital instruments purchased: subordinated debt	**(444)**	–
Tier 2 capital at 30 September	**749**	721
Total capital at 30 September	**4,935**	4,840

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

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

(3) The transition to IFRS 9 reporting has removed the requirement for Tier 2 credit risk adjustments.

The Group's CET1 capital increased by £67m in the year, primarily driven by regulatory adjustments for expected losses (ELs) and transitional relief of £298m, offset by the loss for the year of £141m and AT1 distributions of £79m.

During the year, there were also increases in Tier 2 capital. The Group issued an additional £475m of Tier 2 capital in September 2020 in the form of Fixed Rate Reset Callable Tier 2 Notes due 2030. In addition, during the year the Group purchased £445m of Fixed Reset Callable Subordinated Tier 2 Notes due 2026. The balances do not agree directly to the regulatory capital flow of funds statement above due to differences between the accounting and regulatory carrying values.

Minimum Pillar 1 capital requirements (unaudited)	2020 £m	2019 £m
Credit risk	**1,720**	1,685
Operational risk	**205**	209
Counterparty credit risk	**14**	15
Credit valuation adjustment	**14**	15
Total Pillar 1 regulatory capital requirements	**1,953**	1,924

Financial risk

RWA movements (unaudited)

RWA flow statement	12 months to 30 September 2020 IRB RWA £m	STD RWA £m	Other RWA £m	Total £m	Capital required £m	12 months to 30 September 2019[1] IRB RWA £m	STD RWA £m	Other RWA £m	Total £m	Capital required £m
RWA at 1 October	**15,104**	**5,953**	**2,989**	**24,046**	**1,924**	–	18,104	1,998	20,102	1,608
Asset size	**(48)**	**187**	**–**	**139**	**11**	183	531	10	724	58
Asset quality	**464**	**(65)**	**–**	**399**	**33**	484	(61)	–	423	34
Model updates[2]	**149**	**–**	**–**	**149**	**12**	(396)	–	–	(396)	(32)
Methodology and policy	**(287)**	**(48)**	**–**	**(335)**	**(27)**	250	–	–	250	20
Acquisitions and disposals	**–**	**–**	**–**	**–**	**–**	4,330	2,870	962	8,162	654
IRB accreditation	**457**	**(473)**	**–**	**(16)**	**(1)**	10,247	(15,592)	–	(5,345)	(428)
Other[3]	**7**	**88**	**(78)**	**17**	**1**	6	101	19	126	10
RWA at 30 September	**15,846**	**5,642**	**2,911**	**24,399**	**1,953**	15,104	5,953	2,989	24,046	1,924

(1) The comparative has been restated in line with current year presentation following a change in flow logic.

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

(3) 'Other' includes operational risk, CVA and counterparty credit risk.

Methodology and policy movements have been driven primarily by SME Supporting Factor changes, which were implemented by the CRR Quick Fix package and took effect from 27 June 2020, resulting in a £695m reduction in RWA. The other material change is the inclusion of a new mortgage LGD model, approved by the regulator and deployed into the heritage Virgin Money rating system in March 2020. This resulted in an uplift of £511m in RWA due to increased risk sensitivity and improved downturn estimation.

Of the remaining reduction of £151m, £94m relates to the recognition of eligible collateral in relation to the asset finance and invoice finance portfolios, following approval by the PRA. In addition, there was a £68m reduction due to a change in the credit conversion factor applied to personal current accounts and business credit cards.

IRB accreditation movements were driven by PRA approval received in March 2020 to move the specialised lending portfolio from the standardised approach to IRB slotting. This was first reported in June 2020.

Pillar 1 RWA and capital requirements by business line (unaudited)

Capital requirements for calculating RWA	At 30 September 2020 Capital required £m	RWA £m	Exposure £m	At 30 September 2019 Capital required £m	RWA £m	Exposure £m
Corporates	**509**	**6,362**	**9,468**	501	6,258	8,587
Retail	**759**	**9,484**	**62,683**	708	8,846	64,067
Total IRB approach	**1,268**	**15,846**	**72,151**	1,209	15,104	72,654
Central governments or central banks	**–**	**–**	**12,264**	1	9	11,663
Regional governments or local authorities	**1**	**13**	**219**	1	13	175
Public sector entities	**–**	**5**	**409**	–	5	335
Multilateral development banks	**–**	**–**	**1,268**	–	–	1,034
Financial institutions	**15**	**186**	**898**	16	195	948
Corporates	**17**	**210**	**233**	28	347	376
Retail	**327**	**4,090**	**5,453**	319	3,993	5,324
Secured by mortgages on immovable property	**12**	**144**	**433**	40	498	875
Exposures in default	**5**	**62**	**58**	5	59	55
Collective investments undertakings	**–**	**–**	**–**	–	1	1
Equity exposures	**1**	**14**	**13**	1	11	9
Items associated with particularly high risk	**–**	**–**	**–**	1	11	7
Covered bonds	**12**	**144**	**1,442**	11	141	1,415
Other items	**62**	**774**	**746**	53	670	754
Total standardised approach	**452**	**5,642**	**23,436**	476	5,953	22,971
Total credit risk	**1,720**	**21,488**	**95,587**	1,685	21,057	95,625
Operational risk	**205**	**2,557**	**–**	209	2,606	
Counterparty credit risk	**14**	**179**	**–**	15	191	
Credit valuation adjustment	**14**	**175**	**–**	15	192	
Total Pillar 1 regulatory capital requirements	**1,953**	**24,399**	**–**	1,924	24,046	

The exposure amounts disclosed in the Pillar 1 RWA and capital requirements by business line table are post-credit conversion factors and pre-credit mitigation.

Additional breakdown analysis of the IRB portfolios can be seen within the 'EU CR6 – IRB Approach – Credit risk by exposure class and PD range' table in the Group's Pillar 3 disclosures.

Capital position and CET1 (unaudited)	2020 £m	2019 £m
RWA[(1)]		
Retail mortgages	**9,484**	8,846
Business lending	**6,716**	7,124
Other retail lending	**4,151**	4,042
Other lending	**343**	481
Other[(2)]	**794**	564
Total credit risk	**21,488**	21,057
Operational risk	**2,557**	2,606
Counterparty credit risk	**179**	191
Credit valuation adjustment	**175**	192
Total RWA	**24,399**	24,046

(1) RWA are calculated under the AIRB approach for the mortgage portfolio and the FIRB approach for the business portfolio. In March 2020, the Group received approval to move the specialised lending portfolio from a standardised approach to IRB slotting, with this change first being reported in June 2020. All other portfolios are calculated under the standardised approach, via either sequential IRB implementation or Permanent Partial Use.

(2) The items included in the Other exposure class that attract a capital charge include items in the course of collection, fixed assets, prepayments, other debtors and deferred tax assets that are not deducted.

IFRS 9 transitional arrangements (unaudited)

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

	30 September 2020 (£m)	
Available capital (amounts)[(1)]	IFRS 9 Transitional basis	IFRS 9 Fully loaded basis
CET1 capital	**3,271**	**2,961**
Tier 1 capital	**4,186**	**3,876**
Total capital	**4,935**	**4,720**
RWA (amounts)		
Total RWA	**24,399**	**24,246**
Capital ratios		
CET1 (as a percentage of RWA)	**13.4%**	**12.2%**
Tier 1 (as a percentage of RWA)	**17.2%**	**16.0%**
Total capital (as a percentage of RWA)	**20.2%**	**19.5%**
Leverage ratio		
Leverage ratio total exposure measure	**86,490**	**86,181**
Leverage ratio	**4.8%**	**4.5%**

(1) The table shows the capital position on a CRD IV 'fully loaded' basis.

The adoption of IFRS 9 by the Group on 1 October 2018 resulted in an increase in credit impairment losses, due to the move from an incurred loss to an ECL methodology. The CRR includes transitional arrangements, which allow for the regulatory capital impact of these higher losses to be phased in over a five year period from adoption. The table above presents the Group's key capital metrics, as reported (i.e. including transitional relief), and on a fully loaded basis (with no transitional relief).

The CRR Quick Fix amendments package, which applies from 27 June 2020, introduced changes to provide additional relief from the economic impacts of COVID-19. Under this package, relevant provisions raised from 1 January 2020 through to 2021 have a CET1 add-back percentage of 100%, reducing to 75% in 2022, 50% in 2023 and 25% in 2024.

Financial risk

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 and supplemented through additional regulation under the PRA Rulebook. The table below summarises the amount of capital in relation to RWA the Group is currently required to hold, excluding any PRA buffer.

	As at 30 September 2020	
Minimum requirements (unaudited)	CET1	Total capital
Pillar 1[(1)]	**4.5%**	**8.0%**
Pillar 2A[(2)]	**2.5%**	**4.4%**
Total capital requirement	**7.0%**	**12.4%**
Capital conservation buffer	**2.5%**	**2.5%**
UK countercyclical capital buffer	**0.0%**	**0.0%**
Total (excluding PRA buffer)[(3)]	**9.5%**	**14.9%**

(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) On 7 May 2020, the PRA announced that Pillar 2A capital requirements for banks would be converted from an RWA percentage to a fixed amount. This change was made on the basis that the PRA does not believe that RWA are a good approximation for the evolution of the risks captured in Pillar 2A in a stress.

(3) 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. A PRA buffer can consist of two components:
– a risk management and governance buffer that is set as a scalar of the Pillar 1 and Pillar 2A requirements; and
– a buffer relating to the results of the BoE stress tests.

The Group continues to maintain a significant buffer of 3.9% (equivalent to £950m) over its CRD IV minimum CET1 requirement of 9.5%.

The Group's total capital Pillar 2A requirement has reduced from 5.3% at September 2019 to 4.4% at September 2020 following revisions made by the PRA during the year.

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. The UK has implemented the provisions on capital buffers outlined in the CRD to create combined capital buffers including a Capital Conservation Buffer (CCB), a Countercyclical Capital Buffer (CCyB), a Global Systemically Important Institution (G-SII) Buffer, and a Systemic Risk Buffer (SRB) for ring-fenced banks. The Group's capital planning process considers the impact of all relevant capital buffers.

The UK CCyB is dependent upon the BoE's view of credit conditions in the economy and may be set between 0% and 2.5%. On 11 March 2020, as part of a package of measures to support the economy from the impact of COVID-19, the Financial Policy Committee (FPC) announced a reduction in the UK CCyB to 0% with immediate effect. The FPC expects to maintain the 0% rate for at least 12 months, so that any subsequent increase would not take effect until March 2022 at the earliest.

Currently, the Group does not meet the criteria for designation as a systemically important institution, or the threshold for systemic risk. Therefore, the Group is not subject to either a G-SII buffer or SRB.

MREL

An analysis of the Group's current MREL position is provided below:

	As at	
	30 Sep 2020	30 Sep 2019
Total capital resources[(1)]	**4,935**	4,840
Eligible senior unsecured securities issued by Virgin Money UK PLC[(2)]	**2,002**	1,550
Total MREL resources	**6,937**	6,390
Risk-weighted assets	**24,399**	24,046
MREL Ratio	**28.4%**	26.6%

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

(2) Excludes instruments with less than one year to maturity.

In June 2018, the BoE published its updated approach to setting a MREL. MREL is subject to phased implementation and will be fully implemented from 1 January 2022, at which time the Group's indicative MREL is expected to be two times the sum of its Pillar 1 and Pillar 2A capital requirements, subject to final regulatory guidance. During the transitional period from 1 January 2020 until 31 December 2021, the Group is subject to an interim MREL of 18% of RWAs.

During 2020, the Group issued £0.9bn of debt that contributes to its MREL (£450m senior unsecured term funding and £475m subordinated debt). Combined with previous issuances made over the last few years, the Group's MREL ratio of 28.4% comfortably exceeds its interim MREL and is in line with its expected end-state MREL.

This means future MREL issuance is focused on building a prudent management buffer over the expected end-state MREL.

Dividend

As disclosed on page 12 of the Strategic report, the Board has recommended not to pay a final dividend for the financial year ended 30 September 2020.

Leverage

Leverage ratio (unaudited)	2020 £m	2019 £m
Total Tier 1 capital for the leverage ratio		
Total CET1 capital	**3,271**	3,204
AT1 capital	**915**	915
Total Tier 1	**4,186**	4,119
Exposures for the leverage ratio		
Total assets	**90,259**	90,999
Adjustment for off-balance sheet items	**2,892**	2,728
Adjustment for derivative financial instruments	**81**	(35)
Adjustment for securities financing transactions	**2,072**	1,934
Adjustment for qualifying central bank claims	**(8,088)**	–
Other adjustments	**(726)**	(882)
Leverage ratio exposure	**86,490**	94,744
CRD IV leverage ratio(1)	**4.8%**	4.3%
UK leverage ratio(2)	**4.9%**	4.9%
Average UK leverage ratio exposure	**85,713**	n/a
Average UK leverage ratio(3)	**4.6%**	n/a

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

(2) The Group's leverage ratio on a modified basis, excluding qualifying central bank claims and loans under the UK BBLS from the exposure measure.

(3) The fully loaded average leverage exposure measure is based on the daily average of on-balance sheet items and three month-end average of off-balance sheet items. The average leverage ratio is based on the average of the month-end Tier 1 capital position. Under the UK leverage ratio framework, the Group was only required to start reporting average balances from December 2019.

The UK leverage ratio framework, which came into force on 1 January 2016, is relevant to PRA regulated banks and building societies with consolidated retail deposits equal to or greater than £50bn. The reporting date from which the Group met this threshold was 31 December 2019 and as a result, the average UK leverage ratio exposure and average UK leverage ratio are disclosed in the Annual Report and Accounts for the first time.

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

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

- capital: Tier 1 capital defined on a CRD IV fully loaded and 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 CRD IV 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.

On 4 May 2020, the PRA published a modification by consent for banks subject to the UK Leverage Ratio Part of the PRA Rulebook to exclude loans under the BBLS from the leverage ratio total exposure measure. Bounce back loans have therefore been excluded from the UK leverage exposure value used in the leverage ratio calculation.

The Group's CRD IV leverage ratio of 4.8% (30 September 2019: 4.3%) exceeds the Basel Committee's proposed minimum of 3% and the Group's UK leverage ratio of 4.9% (30 September 2019: 4.9%) exceeds the UK minimum ratio of 3.25%.

Following the FPC announcement on 11 March 2020 to reduce the Group's CCyB rate to 0%, the leverage ratio buffer also reduced to 0%.

On 14 November 2018, the PRA published a policy statement – 'UK leverage ratio: Applying the framework to systemic ring-fenced bodies and reflecting the systemic risk buffer,' confirming that from 1 January 2019 the UK leverage ratio framework will apply on a sub-consolidated basis to ring-fenced bodies in scope.

Financial risk

Funding and liquidity risk

Funding risk occurs where 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 controls future balance sheet growth.

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 augmented by the Group's ongoing wholesale funding programmes, medium-term secured funding issuance (e.g. the Group's securitisation programme), regulated covered bonds and unsecured medium-term notes. The Group also has access to the BoE TFS.

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, requiring funding to be originated rapidly at excessive cost, or require a reduction in lending growth, which are outcomes that may adversely affect customers or shareholders.

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 ability 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 and 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 readiness 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 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. Liquidity within the Group is managed in accordance with the ILAAP, which is approved by the Board.

The Treasury function is responsible for the development and execution of strategy subject to oversight from the Risk function. In relation to funding and liquidity risk, the primary management committee is the 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 actively monitored 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 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 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 has access to funding via the TFS. Following its launch in April 2020, the Group has also been able to access additional funding from TFSME, which was established to provide cost-effective funds to banks to support additional lending to the real economy and incentivise lending to SMEs during a period of economic disruption caused by COVID-19.

The funding plan includes an assessment of the Group's capacity for raising funds from its primary sources, thereby mitigating funding risk. Refinancing risks are carefully managed and are subject to controls overseen by ALCO. The Group's funding plan includes embedded TFS and TFSME repayment profiles designed to manage refinancing risk.

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 timeframe and defines a management committee to manage the action plan.

The Group operates a Funds Transfer Pricing system. A key purpose of Funds Transfer Pricing 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 2020.

	2020 (audited) £m	2019 (audited) £m
Total assets	**90,259**	90,999
Less: other liabilities[(1)]	**(3,390)**	(3,471)
Funding requirement	**86,869**	87,528
Funded by:		
Customer deposits	**67,710**	64,000
Debt securities in issue	**8,758**	9,591
Due to other banks	**5,469**	8,916
of which:		
Secured loans	**5,397**	7,308
Securities sold under agreements to repurchase	**–**	1,554
Transaction balances with other banks	**15**	12
Deposits with other banks	**57**	42
Equity	**4,932**	5,021
Total funding	**86,869**	87,528

(1) Other liabilities includes customer deposits at fair value through profit or loss, 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 customer growth. At 30 September 2020, the Group had a funding requirement of £86,869m (2019: £87,528m) with the majority being used to support loans and advances to customers. The Group's funding mix did not materially change throughout the year and continues to be predominantly retail funded. During the year, the Group has been active in the securitisation and senior debt markets.

Customer deposits

The majority of the Group's funding requirement was met by customer deposits of £67,710m (2019: £64,000m). Customer deposits comprise interest bearing deposits, term deposits and non-interest bearing demand deposits from a range of sources including personal and business customers. The increase of £3,710m during the year demonstrates the impact of COVID-19, as societal restrictions coupled with a fall in UK consumer confidence linked to the recessionary environment have driven increases in customer deposits within current accounts and easy access saving products.

Equity

Equity of £4,932m (2019: £5,021m) 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.

Financial risk

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 moved from 152% to 140% during the year and remains comfortably above regulatory and internal risk appetite. The management of liquidity resources throughout the year recognises the reduced risk exposure from transformation activities and increased availability of contingent funding through the BoE TFSME.

Liquidity coverage ratio	2020 (audited) £m	2019 (audited) £m
Eligible liquidity buffer	**10,675**	11,243
Net stress outflows	**7,609**	7,409
Surplus	**3,066**	3,834
Liquidity coverage ratio	**140%**	152%

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 considered through a series of internal stress tests across a range of time horizons and stress conditions, including most recently the Group's view of liquidity risk due to impacts of COVID-19 and the UK's withdrawal from the EU. The Group ensures a liquidity surplus is held, during normal market conditions, above the most severe of these scenarios. Stress cash outflow assumptions have been established for individual liquidity risk drivers and are approved annually by the Board as part of the ILAAP.

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 division 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 2020, the Group held eligible liquid assets well in excess of 100% of net stress outflows, as defined through internal risk appetite.

Liquid asset portfolio(1)	2020 (audited) £m	2019 (audited) £m	Change (audited) %	Average 2020 (audited) £m	Average 2019 (audited) £m
Level 1					
Cash and balances with central banks	**6,255**	7,469	(16%)	**6,430**	7,266
UK government treasury bills and gilts	**1,232**	1,076	14%	**1,301**	870
Other debt securities	**3,262**	2,867	14%	**3,186**	2,604
Total level 1	**10,749**	11,412	(6%)	**10,917**	10,740
Level 2(2)	**29**	29	–	**33**	103
Total LCR eligible assets	**10,778**	11,441	(6%)	**10,950**	10,843

(1) Excludes encumbered assets.

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

Before investing in any security, an assessment is completed for both the credit quality and the treatment for liquidity purposes. ALCO oversees the composition of the liquid asset portfolio.

Further information can be found in notes 3.4 (cash and balances with central banks) and 3.7 (FVOCI) to the consolidated financial statements.

Cash and balances with central banks of £9,107m, as per note 3.4, includes: £2,572m of assets that are encumbered to support the issuance of Scottish bank notes (excluding notes not in circulation) and to support payments systems; £220m of mandatory central bank deposits; and £61m excluded from LCR to cover operating expenses.

Financial assets at FVOCI of £5,080m, as per note 3.7, include: £826m of encumbered UK government treasury bills and gilts, £312m of which is encumbered to support Operational Continuity in Resolution and £513m of which is encumbered to support structured funding programmes.

The CRR II amendments to the CRR will introduce a binding net stable funding ratio (NSFR) requirement from 28 June 2021. Based on current interpretations of European regulatory requirements and guidance, the ratio as at 30 September 2020 is 131% (2019: 128%).

Encumbered assets by asset category
The Group manages the level of asset encumbrance to ensure appropriate assets are maintained to support potential future planned and stressed funding requirements. Encumbrance limits are set in the Group RAS and calibrated to ensure that after a stress scenario is applied that increases asset encumbrance, the balance sheet can recover over an acceptable period of time. Examples of 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 TFS, 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 (audited)

						Other assets				
	Assets encumbered with non-central bank counterparties					Assets not positioned at the central bank				
September 2020	Covered bonds £m	Securi-tisations £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	2,551	7,253	–	9,804	15,604	26,736	17,406	3,070	62,816	72,620
Cash and balances with central banks	–	–	–	–	2,994	6,113	–	–	9,107	9,107
Due from other banks	337	424	93	854	–	–	73	–	73	927
Derivative financial instruments	–	–	–	–	–	–	–	318	318	318
Financial instruments at fair value through other comprehensive income	–	–	826	826	–	4,254	–	–	4,254	5,080
Other assets	–	–	910	910	–	–	301	996	1,297	2,207
Total assets	2,888	7,677	1,829	12,394	18,598	37,103	17,780	4,384	77,865	90,259

						Other assets				
	Assets encumbered with non-central bank counterparties					Assets not positioned at the central bank				
September 2019	Covered bonds £m	Securi-tisations £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	2,896	8,571	–	11,467	19,929	19,933	18,589	3,430	61,881	73,348
Cash and balances with central banks	–	–	–	–	3,219	7,077	–	–	10,296	10,296
Due from other banks	156	550	171	877	–	–	131	10	141	1,018
Derivatives financial instruments	–	–	–	–	–	–	–	366	366	366
Financial instruments at fair value through other comprehensive income	41	34	555	630	–	3,697	–	1	3,698	4,328
Other financial assets	–	–	409	409	–	–	173	1,061	1,234	1,643
Total assets	3,093	9,155	1,135	13,383	23,148	30,707	18,893	4,868	77,616	90,999

The Group's total non-central bank asset encumbrance decreased by £989m to £12,394m as at 30 September 2020. This was primarily due to a reduction in RMBS funding partially offset by an increase in derivatives margin requirements. Current levels of encumbrance include the impact of use of Term Funding Schemes which are subject to a repayment profile to manage refinancing risk, and the TFSME scheme launched this year.

Financial risk

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. 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.

2020 (audited)	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	785	2,058	1,820	10,880	52,460	4,427	72,430
Cash and balances with central banks	7,547	–	–	–	–	1,560	9,107
Due from other banks	814	113	–	–	–	–	927
Financial assets at fair value through profit or loss							
Loans and advances to customers	–	7	17	61	105	–	190
Derivative financial instruments	1	9	114	80	114	–	318
Other financial assets	–	–	–	–	–	13	13
Financial assets at fair value through other comprehensive income	–	732	251	2,318	1,779	–	5,080
Other assets	–	32	327	2	1	1,832	2,194
Total assets	9,147	2,951	2,529	13,341	54,459	7,832	90,259
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	44,676	4,677	11,080	7,277	–	–	67,710
Debt securities in issue	–	385	1,261	5,407	1,705	–	8,758
Due to other banks	68	–	1,493	3,908	–	–	5,469
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	–
Derivative financial instruments	1	4	33	76	136	–	250
Other liabilities	2,319	81	89	76	79	496	3,140
Total liabilities	47,064	5,147	13,956	16,744	1,920	496	85,327
Off-balance sheet items							
Financial guarantees	–	18	15	16	46	–	95
Other credit commitments	16,775	–	–	–	–	–	16,775
Total off-balance sheet items	16,775	18	15	16	46	–	16,870

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

2019 (audited)	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	1,097	1,804	1,738	9,777	54,462	4,217	73,095
Cash and balances with central banks	8,722	–	–	–	–	1,574	10,296
Due from other banks	225	793	–	–	–	–	1,018
Financial assets at fair value through profit or loss							
Loans and advances to customers	–	6	26	96	125	–	253
Derivative financial instruments	–	8	34	226	98	–	366
Other financial assets	–	–	–	–	–	14	14
Financial assets at fair value through other comprehensive income	–	125	784	1,735	1,684	–	4,328
Other assets	–	66	176	–	–	1,387	1,629
Total assets	10,044	2,802	2,758	11,834	56,369	7,192	90,999
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	40,512	5,558	10,168	7,762	–	–	64,000
Debt securities in issue	–	574	1,258	5,168	2,591	–	9,591
Due to other banks	45	1,361	181	7,329	–	–	8,916
Financial liabilities at fair value through profit or loss							
Customer deposits	–	2	2	–	–	–	4
Derivative financial instruments	–	7	14	64	188	–	273
Other liabilities	2,277	78	99	–	–	740	3,194
Total liabilities	42,834	7,580	11,722	20,323	2,779	740	85,978
Off-balance sheet items							
Financial guarantees	–	23	24	18	48	–	113
Other credit commitments	15,158	–	–	–	–	–	15,158
Total off-balance sheet items	15,158	23	24	18	48	–	15,271

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

Financial risk

Cash flows payable under financial liabilities by contractual maturity

2020 (audited)	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	**44,676**	**4,720**	**11,211**	**7,423**	**–**	**–**	**68,030**
Debt securities in issue	**–**	**423**	**1,380**	**5,919**	**1,693**	**–**	**9,415**
Due to other banks	**68**	**1**	**1,507**	**3,907**	**–**	**–**	**5,483**
Financial liabilities at fair value through profit or loss							
Trading derivative financial instruments	**–**	**32**	**39**	**27**	**24**	**–**	**122**
Hedging derivative liabilities							
Contractual amounts payable	**–**	**5**	**25**	**159**	**48**	**–**	**237**
Contractual amounts receivable	**–**	**–**	**–**	**(79)**	**–**	**–**	**(79)**
Other liabilities	**2,319**	**81**	**89**	**76**	**79**	**496**	**3,140**
Total liabilities	**47,063**	**5,262**	**14,251**	**17,432**	**1,844**	**496**	**86,348**

2019 (audited)	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	40,512	5,590	10,321	8,014	–	–	64,437
Debt securities in issue	–	602	1,402	5,704	2,611	–	10,319
Due to other banks	45	1,375	240	7,380	–	–	9,040
Financial liabilities at fair value through profit or loss							
Customer deposits	–	2	2	–	–	–	4
Trading derivative financial instruments	–	15	14	36	28	–	93
Hedging derivative liabilities							
Contractual amounts payable	–	7	36	197	619	–	859
Contractual amounts receivable	–	–	(1)	(81)	(532)	–	(614)
All other liabilities	2,277	78	99	–	–	740	3,194
Total liabilities	42,834	7,669	12,113	21,250	2,726	740	87,332

The balances in the cash flow tables above will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and future coupon payments.

The table below shows the residual maturity of the Group's debt securities in issue.

Analysis of debt securities in issue by residual maturity (unaudited)

	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total 2020	Total 2019
Covered bonds	**–**	**10**	**623**	**1,295**	**1,928**	1,912
Securitisation	**372**	**1,214**	**2,419**	**–**	**4,005**	5,051
Medium term notes	**6**	**7**	**1,645**	**410**	**2,068**	1,897
Subordinated debt	**7**	**30**	**720**	**–**	**757**	731
Total debt securities in issue	**385**	**1,261**	**5,407**	**1,705**	**8,758**	9,591
Of which issued by Virgin Money UK PLC	**13**	**37**	**2,365**	**410**	**2,825**	2,257

External credit ratings

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

	Outlook as at	As at	
Material risk for the Group	30 Sep 2020[1]	30 Sep 2020	30 Sep 2019
Virgin Money UK PLC			
Moody's	Stable	Baa3	Baa3
Fitch	Negative	BBB+	BBB+
Standard & Poor's	Negative	BBB-	BBB-
Clydesdale Bank PLC			
Moody's[2]	Stable	Baa1	Baa1
Fitch	Negative	A-	A-
Standard & Poor's	Negative	BBB+	BBB+

(1) For detailed background on the latest credit opinion by Standard & Poor and Fitch, please refer to the respective rating agency websites.

(2) Long-term deposit rating.

On 21 October 2019, Fitch and Moody's withdrew the long- and short-term ratings of Virgin Money Holdings (UK) PLC and Virgin Money PLC following completion of the FSMA Part VII transfer.

On 12 November 2019, Moody's changed the outlook on the long-term ratings of Virgin Money UK PLC and Clydesdale Bank PLC to 'stable' from 'positive'. This followed a revision in Moody's outlook for the UK Sovereign from 'stable' to 'negative', reflecting their view that UK institutions have weakened and the UK's economic and fiscal strength is likely to be weaker going forward. Moody's adjusted the ratings outlook for 15 banks and building societies, including the Group.

On 1 April 2020, Fitch placed the long-term ratings of Virgin Money UK PLC and Clydesdale Bank PLC on 'rating watch negative', reflecting the downside risks resulting from the economic and financial market implications resulting from COVID-19. On 10 July 2020, Fitch affirmed the ratings of Virgin Money UK PLC and Clydesdale Bank PLC, removed the 'rating watch negative' and changed the outlook to 'negative'. The negative outlook reflects Fitch's view that risks remain clearly tilted to the downside in the medium term but that the Group's ratings are not immediately at risk from the impact of the economic downturn, due mainly to the bank's sufficient capital buffers and sound asset quality metrics at the entry point of the crisis, and relatively large and stable deposit funding.

On 23 April 2020, Standard & Poor's changed the outlook on the long-term ratings of Virgin Money UK PLC and Clydesdale Bank PLC to 'negative' (from 'stable' and 'positive', respectively), as part of a broader action on the European banking sector. The outlook revisions reflects Standard & Poor's view that the economic stress triggered by COVID-19 is likely to put pressure on the Group's asset quality and earnings and may delay MREL issuance.

As at 24 November 2020, 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, e.g. the right to repay borrowing in advance of contractual maturity dates.

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

Outlook

The BoE continues to assess the appropriateness of a negative official Bank Rate, alongside other monetary policy tools that are available to support the economy and may consider using negative rates, if it is deemed to be more effective in terms of policy objectives over other tools. To be an effective policy tool, the BoE recognises the need for the financial sector to be operationally ready to implement such a policy step in a way that doesn't adversely affect the safety and soundness of firms and is engaging with firms on this matter, including the Group.

Financial risk

This engagement is not indicative that a zero or negative policy rate will be employed, nor is the engagement asking firms to begin taking steps to ensure operational readiness. The BoE has requested information on the impact of a range of outcomes each of which would have different operational considerations and potentially different outcomes in terms of risk, margins and earnings for firms.

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 two year history set with a one day holding period;
- economic value of equity is measured in line with EBA guidance with all eight of the proposed EBA rate shocks assessed on a quarterly basis, including customer optionality stresses. Reporting is performed both 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 10-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. Basis risk may be managed through a combination of wholesale market basis risk management products, pricing strategies and product innovation.

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 and foreign currency risk. The interest and foreign currency risks arise from variable interest rate assets and liabilities which are hedged using cross currency and interest rate swaps, and material non-GBP denominated assets which are hedged using foreign exchange forward contracts. 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 (audited)

	Duration risk		Credit spread[2]	
12 months to 30 September	2020 £m	2019[1] £m	2020 £m	2019 £m
As at 30 September	**2**	2	**49**	19
Average value during the year	**2**	2	**36**	23
Minimum value during the year	**1**	–	**23**	19
Maximum value during the year	**2**	2	**49**	26

(1) 2019 duration risk VaR restated from a three-month to a one-day holding period to align to 2020 internal risk methodology.

(2) The history set for credit spread VAR was increased from two years to 10 years from 1 March 2020 under internal methodology driving the year on year increase. The average figures for 2020 include 5 months over a two year history and seven months over a 10 year history.

Market risk linkage to the balance sheet (audited)

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

	2020 £m	2019 £m	Interest rate duration	Optionality	Basis	Credit spread	Foreign exchange
Assets							
Financial assets at amortised cost							
Loans and advances to customers	**72,430**	73,095	•	•	•		•
Cash and balances with central banks	**9,107**	10,296	•		•		
Due from other banks	**927**	1,018	•		•		•
Financial assets at fair value through profit or loss							
Loans and advances to customers	**190**	253	•	•	•		•
Derivative financial instruments	**318**	366	•		•		•
Other financial assets	**13**	14	•				•
Financial instruments at fair value through other comprehensive income	**5,080**	4,328	•		•	•	•
Other assets	**2,194**	1,629	•				•
Total assets	**90,259**	90,999					
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	**67,710**	64,000	•	•	•		•
Debt securities in issue	**8,758**	9,591	•		•		•
Due to other banks	**5,469**	8,916	•		•		•
Financial liabilities at fair value through profit or loss							
Customer deposits	**–**	4	•	•	•		•
Derivative financial instruments	**250**	273	•		•		•
Other liabilities	**3,140**	3,194	•				•
Total liabilities	**85,327**	85,978					

Financial risk

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. During Q3 2020 the Group shortened the tenor applied to equity and to deposits that are subject to behavioural assumptions. Further information can be found on page 36.

2020 (unaudited)	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	3,130	14,310	15,101	38,802	1,087	–	72,430
Cash and balances with central banks	7,697	–	–	–	–	1,410	9,107
Due from other banks	167	760	–	–	–	–	927
Financial assets at fair value through profit or loss							
Loans and advances to customers	–	119	10	29	32	–	190
Other financial assets	–	–	–	–	–	318	318
Financial assets at fair value through other comprehensive income	1,017	1,506	150	1,131	1,276	–	5,080
Other assets	–	–	–	–	–	2,207	2,207
Total assets	12,011	16,695	15,261	39,962	2,395	3,935	90,259
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	27,503	22,837	10,201	7,167	2	–	67,710
Debt securities in issue	2,245	2,126	30	2,237	2,120	–	8,758
Due to other banks	5,469	–	–	–	–	–	5,469
Financial liabilities at fair value through profit or loss							
Derivative financial instruments	–	–	–	–	–	250	250
Other liabilities	–	950	–	–	–	2,190	3,140
Equity	4,932	–	–	–	–	–	4,932
Total liabilities and equity	40,149	25,913	10,231	9,404	2,122	2,440	90,259
Notional value of derivatives managing interest rate sensitivity	32,965	6,185	(8,416)	(30,392)	(342)	–	–
Total interest rate gap	4,827	(3,033)	(3,386)	166	(69)	1,495	–
Cumulative interest rate gap	4,827	1,794	(1,592)	(1,426)	(1,495)	–	–

2019 (unaudited)	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	7,475	10,245	13,884	40,122	1,241	128	73,095
Cash and balances with central banks	8,254	572	12	62	–	1,396	10,296
Due from other banks	333	685	–	–	–	–	1,018
Financial assets at fair value through profit or loss							
Loans and advances to customers	–	21	87	145	–	–	253
Derivative financial assets	–	–	–	–	–	366	366
Financial assets at fair value through other comprehensive income	684	1,099	410	836	1,299	–	4,328
Other assets	–	107	80	426	–	1,030	1,643
Total assets	16,746	12,729	14,473	41,591	2,540	2,920	90,999
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	10,353	17,720	12,524	23,401	2	–	64,000
Debt securities in issue	301	5,599	300	1,228	2,163	–	9,591
Due to other banks	2,844	5,922	150	–	–	–	8,916
Financial liabilities at fair value through profit or loss							
Customer deposits	4	–	–	–	–	–	4
Derivative financial instruments	–	–	–	–	–	273	273
Other liabilities	–	48	143	760	–	2,243	3,194
Equity	230	240	719	3,832	–	–	5,021
Total liabilities and equity	13,732	29,529	13,836	29,221	2,165	2,516	90,999
Notional value of derivatives managing interest rate sensitivity	(2,253)	16,185	(800)	(13,149)	17	–	–
Total interest rate gap	761	(615)	(163)	(779)	392	404	–
Cumulative interest rate gap	761	146	(17)	(796)	(404)	–	–

LIBOR replacement

The Group has a LIBOR transition programme to manage the impact of the BoE's plan to discontinue the use of LIBOR as a reference rate after 2021. The work to decommission LIBOR is focused on ceasing the issuance of new LIBOR lending in advance of the end of March 2021 industry deadline, developing and delivering alternative reference rate products, and implementing a back-book migration strategy based on consensual customer agreement and transition before the end of 2021. A similar approach is being taken with new and existing derivatives. All market-facing derivative flows are now executed against SONIA and the strategy to proactively manage the back-book of LIBOR derivatives is underway.

The Group has maintained engagement with the BoE's Working Group on Sterling Risk Free Reference Rates and other industry forums. The programme will ensure that the risks of being unable to offer products with suitable reference rates will be mitigated and that full consideration is given to the potential for any conduct issues that may arise through the transition.

Pension risk

The Group operates a defined benefit pension scheme, the Yorkshire and Clydesdale Bank Pension Scheme (the Scheme). Clydesdale Bank PLC (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 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.

Financial risk

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 3.10 to the Group's consolidated financial statements. The fair value of the assets was £4.7bn as at 30 September 2020 (2019: £4.7bn).

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 (RPI/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.

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 equity options which reduce the downside risk of a fall in equity values, increasing the levels of inflation, interest rate hedging and several member benefit reforms, culminating in closure to future accrual for most members.

In addition, the Group has signed a contingent security arrangement to give the Trustee a degree of protection against the risk of the Group defaulting on its obligations under the Recovery Plan and to provide an additional amount to partially mitigate adverse changes impacting the Scheme's assets or liabilities. Further information is shown within note 3.10 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.

Monitoring
Information on the Scheme's current valuations, asset holdings and discount and inflation rate assumptions are presented monthly 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 Executive and Board Risk Committees.

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 (ISC), which includes Group representation, and Trustee Board on a quarterly basis.

Model risk
Providing a disciplined and sustainable approach to managing and mitigating model risk across the Group

Strong performing and robust model environment well-positioned to deliver sustainable returns and optimise Group RWA.

The Group definition of a model is a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. This model definition also considers broader aspects within the model environment, which may represent distinct and separable entities or be intrinsically linked to model structures.

The use of models invariably presents model risk, which is defined as the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. The model risk policy standard seeks to manage and mitigate model risk which encompasses the end-to-end model life cycle covering data (quality and lineage), model development, independent model validation, model governance, model implementation, model usage, model monitoring, model maintenance and model decommissioning.

Model risk increases with greater model complexity, higher uncertainty around inputs and assumptions, broader use, and larger potential impact. If left unmitigated, model risk can lead to poor decision making, misreporting or a failure to identify risks, which in turn could result in financial and reputational losses, as well as having a detrimental impact on customers.

Risk appetite
In delivering its strategic objectives, the Group accepts that a level of loss may arise from model error. The Board establishes the extent of its willingness, or otherwise, to accept results from using models and key controls are in place to ensure model errors remain within acceptable limits.

The Group's appetite for model risk is defined and articulated in the Group RAS. Metrics focus on model effectiveness and whether the model validation process is managed within the timelines required by the model risk policy, and on the outcomes of validations on the Group's most material models. Model risk appetite is reported regularly to both the Board Risk Committee and the Model Governance Committee (MGC).

Exposures
To enable senior management to gauge and manage model risk, each model is classified according to materiality.

The Group assesses model materiality using criteria of coverage, impact and complexity to define the level of risks associated with the model's use, purpose and strategic importance. A model's assessed materiality level determines its approval path through governance and the degree, frequency and depth of review and validation expected.

Changes in both customer behaviour and model performance have been driven by restrictions introduced to help curb the spread of COVID-19 and by government measures introduced to help support the economy. This has increased model risk with model inputs and outputs changing as a result.

To mitigate these risks, COVID-19 tactical calculators, or model adjustments, have been mobilised at pace, however this heightens the risk that particular implementations could contain errors or unexpected outcomes, which ultimately increases the risk of errors in model usage and in model outputs.

While the model risk impacts from government support measures and restrictions introduced to help combat the impacts of COVID-19 are being actively monitored and managed, there remains inherent uncertainty over the timing of relief run-off and the shape of the economic recovery.

The Group model inventory contains a comprehensive set of information on all models which are implemented for use, to be implemented, under development, recently retired or decommissioned, as well as listing challenger models. Any model which has a separate use or requires separate validation and approval is classified as a separate model. The Group model inventory covers a wide range of types of models from all parts of the bank and, as a consequence, there is interaction between model risk and a number of the Group's principal risk categories.

Measurement
The Board delegates to MGC to ensure that model risk is being managed through the model risk management policy standard.

Model risk is measured through regular model monitoring to the Board and MGC and the level of risk is assessed through RAS.

Mitigation
The Group has a model risk policy framework in place to manage and mitigate model risk, which encompasses the end-to-end model life cycle. The model risk policy standard defines roles and responsibilities in terms of model risk management. Specifically, it sets out that the model owner has the responsibility of attesting to the compliance of the model risk policy standard requirements on an annual basis, including that the model is implemented correctly in an appropriate system, or advising exemptions.

A suitably qualified Independent Model Validation function conducts model validations prior to model implementation, both when a model is changed and on a periodic basis. The function assists with identifying model deficiency and raises mitigating actions and additional risk control. When significant model deficiencies and/or errors are identified during the validation process, the relevant model approval authority will consider whether the use of models should either be prohibited or permitted possibly under strict controls and mitigants. This may include measures such as the use of expert panels to adjust model outputs or identify appropriate PMAs or overlays.

Internal Audit assesses the overall effectiveness of the model RMF.

Monitoring
Model monitoring functions perform periodic monitoring of model performance to ensure parameter estimates and model constructs remain fit for purpose and use when sufficient new observations are available and to ensure model assumptions remain valid. The frequency of model monitoring is commensurate with the nature and materiality of the models and risks, with due consideration given to model complexity.

MGC is the primary model approval authority and body responsible for overseeing model risk of the Group's most material models. The frequency and level of model monitoring required is detailed within Group procedural frameworks.

Regulatory and compliance risk
Implementing regulatory change and ensuring compliance

The Group has reacted quickly to implement government lending schemes, regulatory guidance and other policy and process changes to support customers during COVID-19.

Regulatory and compliance risk is the risk of failing to understand and comply with relevant laws and regulatory requirements; not keeping regulators informed of relevant issues; not responding effectively to information requests nor meeting regulatory deadlines; or obstructing the regulator.

Privacy and data protection risks, which may result from non-compliance with data privacy, legal and regulatory obligations, have been transferred to regulatory and compliance risk, from technology risk, as part of this years RMF refresh.

Risk appetite
The Group has no appetite for actions which result in breaches of regulation or for inaction to address systemic process and control failures leading to material non-compliance. Notwithstanding the complexity and volume of the regulatory agenda, the Group ensures that all mandatory requirements are prioritised with sufficient resources to implement within required timescales in a customer-focused manner. The Group has an open dialogue with colleagues and regulators, escalating all issues they would reasonably expect to be made aware of.

Exposures
The Group remains exposed to regulatory and compliance risk as a result of significant ongoing and new regulatory change. COVID-19 has resulted in much of this change needing to be implemented at pace, increasing the potential risk for non-compliance with regulation.

Measurement
Regulatory and compliance risks are measured against a defined set of Board-approved risk appetite metrics relating to regulatory breaches, and past due regulatory implementations and actions. Thresholds are set and form part of the Board-approved RAS.

Mitigation
The following controls and procedures help to mitigate regulatory and compliance risk:

- a clearly defined regulatory and compliance policy statement (with supporting policy standards) and RAS signed off by the Board;
- ongoing development, maintenance and reporting of risk appetite measures for regulatory and compliance risk to the Executive Risk Committee and the Board;
- maintenance of proactive and coordinated engagement with the Group's key regulators;
- continual assessment of evolving regulatory requirements, including regulatory business plans and thematic reviews;
- consideration of regulatory requirements in the context of product and proposition development and associated appropriate governance;
- oversight of key regulatory implementations including LIBOR transition and PSD2;
- oversight of regulatory and compliance risks and issues in relevant governance bodies;
- ongoing review and tracking of known regulatory and compliance issues and remediation actions being taken; and
- a risk-based assurance framework, designed to monitor compliance with regulation and assess customer outcomes.

Monitoring
Regulatory and compliance risk is considered by all three lines of defence as part of their oversight and assurance activities. A risk assurance plan, approved by the Board Risk Committee on an annual basis, independently assesses areas of the control framework underpinning compliance with laws and regulations. In response to COVID-19 and the actions taken by the Group to support its customers during this time, a revised risk assurance plan was created and approved by the Board in April 2020.

Conduct risk
Embedding good customer outcomes in our products and services

The Group has reacted quickly and effectively to protect and support customers, with a clear focus on customer outcomes, especially during COVID-19.

Conduct risk is the risk of undertaking business in a way which is contrary to the interests of customers, resulting in the delivery of inappropriate customer outcomes, customer detriment, regulatory censure, redress costs and/or reputational damage.

Risk appetite
The Group is committed to acting in the interests of its customers and has no appetite for conduct risk.

Exposures
The Group remains exposed to conduct risk in the course of its provision of services and products to customers. In addition, the Group's response to COVID-19 has required processes to be introduced and decisions to be made at pace, increasing the potential risk for poor customer outcomes. Any issues identified are promptly addressed and remediation plans are initiated where required.

The Group continues to remediate a small number of legacy conduct issues, including PPI.

Measurement
Conduct risks are measured against a defined set of Board-approved risk appetite metrics, including measures on the quality of advised and non-advised sales, the volume of complaints and the quality of complaint handling. Thresholds are set and form part of the Board-approved RAS.

Mitigation
The following controls and procedures help to mitigate conduct risk:

- clearly defined Conduct Risk Policy Statement (with supporting policy standards) and RAS signed off by the Board;
- ongoing development, maintenance and reporting of risk appetite measures for conduct risk to the Executive Risk Committee and the Board;
- consideration of conduct risk in the context of product and proposition development and associated appropriate governance;
- regular management review of end-to-end conduct reporting, centred on core product areas and aligned to relevant businesses;
- oversight of conduct risks and issues in relevant governance bodies;
- analysis of customer experience oriented data, complaint handling quality and volumes and root causes of complaints discussed in the relevant governance bodies, with actions agreed and tracked by senior stakeholders;
- continuing development and nurture of a customer-centric culture aligned to the Group's Purpose;
- ongoing review and tracking of known conduct issues and remediation actions being taken; and
- a risk-based assurance framework, designed to monitor compliance with regulation and assess customer outcomes.

Monitoring
All three lines of defence consider conduct risk as part of their oversight and assurance activities. A risk assurance plan, approved by the Board Risk Committee on an annual basis, independently assesses the control framework underpinning the Group's conduct risk management to ensure customers are treated fairly and products are designed and sold to meet their needs. The Group also works to ensure that customer expectations are met and complaints are dealt with effectively and fairly. In response to COVID-19, and the actions taken by the Group to support its customers during this time, a revised risk assurance plan was created and approved by the Board in April 2020.

Operational risk
Proactive operational risk management with enhanced risk frameworks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is a core component of the RMF and is embedded in day-to-day business activities focused on enabling operational efficiencies. Requirements and responsibilities are set out in the operational risk policy statement and supporting operational risk policy standard that seeks to identify, assess, mitigate, monitor, and report the operational risks, events and issues that could impact the achievement of business objectives or impact core business processes.

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

Risk appetite
The Group is prepared to tolerate a level of operational risk exposure within agreed thresholds and limits. A level of resilience risk from internal and external events is tolerated, however, immediate steps are taken to minimise customer disruption through recovery within defined timelines.

Exposures
Operational risks arise from day-to-day business activities, which may result in direct or indirect losses and could adversely impact the Group's financial performance, levels of customer care or reputation. The Group strives to deliver operational efficiency in the implementation of its objectives and accepts that a level of loss may arise from operational failure. Implementing key controls and monitoring ensures that operational risks are managed, and losses remain within acceptable limits.

The Group's exposure to operational risk is impacted through the need to engage with innovative, dynamic third parties; deliver new products and services; and make effective use of reliable data in a changing external environment to deliver on the Group's strategic objectives. Alongside ongoing risk and control monitoring, operational risk oversight is focused on the following key areas:

Risk category	
Change risk	The risks associated with a failure to execute and deliver change that could result in an inability to meet our strategic objectives, including failing to meet our customer, regulator, colleague, or shareholder expectations, at a Group and local management level. *How this risk is managed* – The Group maintains a centralised view of change to ensure that the risks of individual changes are managed effectively and that change is prioritised to minimise the overall risks to the organisation in line with risk appetite.
Third-party risk	The risks associated with ensuring the Group's outsourced and offshoring arrangements are controlled effectively, including the risk of failure to service existing and new customers; the potential cessation of specific activities; the risk of personally identifiable information or Group sensitive data being exposed or exploited; and the risk of financial, reputational and regulatory censure if the third party enters into any illegal or unethical activities. *How is this risk managed* – The Group continues to strengthen its third-party management framework and oversight and ensures that the procurement of service providers adheres to these requirements. Ongoing performance management and assurance is undertaken to ensure that supplier relationships are controlled effectively.

Measurement
Material operational risk events are identified, reviewed and escalated in line with criteria set out in the RMF. Root cause analysis is undertaken and action plans are implemented.

Losses may result from both internal and external events, and are categorised using risk categories aligned to Basel II. The Basel II categories are used to ensure that data can be reported externally and compared with other industry data. Due to the nature of risk events, losses and recoveries can take time to crystallise and therefore may be restated for prior or subsequent financial years.

Operational risk losses
The majority of losses are recorded under two Basel categories: 'External fraud' and 'Execution, delivery and process management'. The volume of external fraud losses accounted for over 87% of the total. This category's higher volume of low-value events is in line with the industry and relates mainly to card and online fraud. 'Execution, delivery and process management' volumes are as expected and reflect the daily volume of transactions and customer interactions. The highest net losses for the year relate to the 'Damage to physical assets' category, which is the Basel II category used for natural disasters and is the best fit for operational risk losses directly attributable to COVID-19, which were aggregated under one event.

	% of total volume		% of total losses	
Operational risk losses by Basel category(1)	2020	2019	2020	2019
Business disruption and system failures	**0.6%**	0.7%	**1.8%**	1.9%
Clients, products and business practices	**5.5%**	4.3%	**2.8%**	5.7%
Damage to physical assets	**0.3%**	0.2%	**45.9%**	0.8%
Employee practices and workplace safety	**–**	–	**–**	–
Execution, delivery and process management	**6.1%**	11.7%	**5.3%**	12.3%
External fraud	**87.5%**	82.9%	**44.2%**	71.5%
Internal fraud	**–**	0.2%	**–**	7.8%

(1) Losses greater than or equal to £5,000, excluding PPI.

Mitigation
In delivering to its strategic objectives, the Group strives to deliver operational efficiency and accepts that a level of loss may arise from operational failure. Implementing key controls and monitoring ensures that operational risks are managed, and losses remain within acceptable limits.

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

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

Technology risk

Enabling integrated and timely responses for the continual protection of business critical technologies

The Group continues to enhance and invest in its control environment, recognising the changing cyber landscape, increased focus on digital capabilities and the reliance on remote working as a result of COVID-19.

Technology risk is defined as the risk of loss resulting from inadequate or failed information technology processes through strategy, design, build or run components and internally or externally provided services.

Risk appetite

Technology risks are measured against a set of defined RAS metrics and reported to Executive and Board Committees.

Exposures

The Group's exposures to technology risk is materially impacted by the need to enhance digital capabilities, integrate two technology estates and rely on remote working. Technology risk is comprised of the following risk categories:

Risk category	
Cyber and information security risk	The risks arising from inadequate internal and external information and cyber security, where failures impact the confidentiality, integrity and availability of electronic data within our systems and processes. Continued focus is being placed on risks and controls associated with cyber security where the Group has recognised significant escalation of external cyber threats, regulatory penalty and resilience need, heavily influenced by COVID-19 and changing operating environment. *How this risk is managed* – Our Chief Information Security & Resilience Officer (CISRO) is responsible for ensuring robust cyber and information security policies and controls are in place and operating effectively. The Group continues to enhance and invest in the control environment, recognising the changing cyber landscape and the increased focus on digital capabilities and reliance on homeworking, as well as the changing risk profile of the business. All three lines of defence possess skilled resource in this discipline to protect the Group.
Physical security risk	The risk to the safety and protection of colleagues, customers and physical assets arising from unauthorised access to buildings, theft, robbery, intimidation, blackmail, sabotage, terrorism and other physical security risks. *How this risk is managed* – Physical and personal security standards are managed by the Group's CISRO. Controls are in place to protect the Group's physical assets, as well as the security of colleagues and customers. Appropriate protection and security protocols are in place across the Group and partners with specialised expertise are leveraged as required.
IT resilience risk	IT resilience is the Group's ability to adapt to disruptions while maintaining continuous operations on critical processes, safeguarding technology and all associated assets in the face of adverse events, short-term shocks, chronic disruptions or incremental changes. The Group recognises the significant regulatory focus on resilience as the market becomes more reliant on digital banking, increased remote working, and the use of third-party and cloud solutions. *How this risk is managed* – IT resilience sits within the resilience framework with underlying risk metrics reported to Executive Committees and Board. The Group is well placed to respond to new regulations and standards and develops technology with resilience inbuilt as a principle. A programme of continuous monitoring of the currency of the technology estates, alongside disaster recovery testing, helps to minimise the likelihood of system failure. In preparation for an outage, the Group maintains and tests critical end-to-end business recovery and contingency plans. All three lines of defence possess skilled resource in this discipline.
Payment risk	The payments industry is planning for significant changes to infrastructure and processing protocols over the next 12-24 months, due to the implementation of ISO20022, Real-Time Gross Settlement Renewal and New Payments Architecture, with the Group challenged to maintain service resilience during these implementations. There is a risk transactions are not conducted per the instructions and parameters of a customer's payment, trading, clearing, settlement scheme or business requirements. This could lead to delays, inaccuracies, duplicates, failures or rejections as well as system-based restrictions and errors. *How this risk is managed* – The payment risk framework outlines key scheme rules, regulations and compliance requirements alongside the risk-based approach to assurance oversight, control testing and change management to ensure payment risk is managed within appetite, and impact to customers is minimised. All three lines of defence are actively involved in changes being made in this developing environment.
Data risk(1)	Data underpins decision making at all levels of the organisation. Poor-quality data can lead to loss, customer disruption, non-compliance with GDPR and unnecessary rework. Data therefore needs to be controlled to the appropriate standards throughout its life cycle and be made available for re-use where appropriate. *How this risk is managed* – The Group has a data management framework governing the creation, storage, distribution, usage and retirement of data, aligned with GDPR requirements. Quality is attested to by each business area against completeness, accuracy and appropriateness. Oversight is well established within all three lines of defence.

(1) The privacy and data protection risk category was transferred to regulatory and compliance risk as part of this year's RMF refresh.

Measurement

The Group has a number of key risk indicators that cover the risk areas outlined above. In addition, there is a suite of Board-approved RAS metrics which is monitored and reported monthly, with breaches escalated to the Board. All technology risks are assessed using the operational risk framework and are monitored and challenged by the Risk function in line with functional and corporate governance.

Mitigation

Through organisational design and management focus, considerable investment has been put into the above areas by the Group.

Technology risk policies, frameworks, thematic assurance reviews and oversight routines ensure that technology risk is identified, measured, monitored and reported on by the first line of defence and overseen and assured by the second and third lines of defence.

Monitoring

Business units are responsible for the day-to-day management of technology risk, with oversight from the risk management function, and independent assurance activities undertaken by Internal Audit. The Group conducts a series of planned independent assurances, deep dives, change assurance activities and continuous monitoring activities.

Financial crime risk
A strengthened and robust financial crime framework

The Group continues to invest in its systems and controls to prevent, detect, screen and report financial crime.

Financial crime risk is the risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties.

Risk appetite
Financial crime risk is measured and reported against a defined suite of metrics within the Group RAS. In particular:

Anti-money laundering and counter terrorist financing
The Group applies a risk-based approach model which sets out the types of customer it has no risk appetite to onboard, as well as customers with whom the Group is prohibited from entering into or maintaining a relationship with.

Sanctions and embargoes
The Group has no appetite for non-compliance with the legal and regulatory obligations relating to sanctions and embargoes.

Bribery and corruption
The Group does not tolerate the direct or indirect offer, payment, solicitation or acceptance of bribes in any form.

External fraud
The Group accepts that an element of fraud loss is a cost of doing business. Fraud risk appetite is set annually by the Board, practically applied using the fraud policy standard and expressed in financial terms via the annual fraud loss plan. The application of the fraud RMF balances genuine customer impacts alongside the operational overhead of applying fraud controls to achieve fraud loss within budget and risk appetite.

Internal fraud
The Group has no appetite for internal fraud.

Exposures
Financial crime risk is inherent in doing business in the financial services industry and may arise from failure to:

- meet legal and regulatory requirements; and
- maintain effective systems and controls to prevent the risk that the Group might be used for further financial crime.

The Group continues to review the external environment for any change in regulatory or legislative direction, taking action as appropriate.

Measurement
All financial crime standards are reflected in the Group policy standards and financial crime prevention manual, the content of which is provided by financial crime risk and updated as appropriate. Financial crime related risk appetite metrics are monitored and reported to the Board on a monthly basis.

Mitigation
The Group adopts a risk-based approach to financial crime and the following controls and procedures support mitigation:

- a clearly defined financial crime risk policy statement (with supporting policy standards) and RAS signed off by the Board;
- ongoing development, maintenance and reporting of risk appetite measures for financial crime and fraud risk to the Executive Risk Committee and the Board;
- key performance metrics relative to critical financial crime systems are kept under review and presented through governance to ensure ongoing effectiveness;
- consideration of financial crime and fraud risk in the context of product and proposition development and associated appropriate governance;
- continuing to progress with key implementations such as push payment fraud and confirmation of payee;
- ongoing assessment of evolving regulatory policy requirements and ensuring the Group responds accordingly, including the 5th Anti-Money Laundering Directive; and
- regular oversight and review of systems, controls and higher risk activities and customers takes place as part of a formal oversight plan.

Monitoring
The financial crime risk team is responsible for the control framework, strategy, governance, standard setting, oversight, training and reporting to the competent authorities, governance committees and Board.

Screening for politically exposed persons and customer transaction monitoring is carried out by Financial Crime Operations. Sanctions screening for payments is carried out by the payments team in the first line. Critical financial crime systems oversight is independently tested by Internal Audit.

Strategic and enterprise risk
Robust strategy development and monitoring

Strategy is delivered within a well-defined risk appetite and RMF with continual monitoring in place.

Strategic and enterprise risk is the risk of significant loss of earnings or damage arising from decisions or actions that impact the long-term interests of the Group's stakeholders or from an inability to adapt to external developments. Strategic risk can arise if the Group: designs or implements an inappropriate strategic plan; designs an appropriate plan but fails to implement it; or implements the strategic plan as intended, failing to take account of a change in external circumstances.

Strategic risk also includes an inability to respond effectively to cultural, structural and regulatory change; failure to establish and execute a compelling digital strategy or increase organisational capability in support of this; being an inefficient, high-cost, uninspiring or uncompetitive provider of products and services; or failing to respond to climate change risks in direct and indirect operations.

Enterprise risk includes managing and implementing effective governance and reporting, and maintaining external relations to promote the brand and support the Group's ability to successfully achieve strategic goals.

Risk appetite

The risk position for strategic and enterprise risk, referenced in the Group's RAS, takes account of the fact the Group will need to take an acceptable level of risk to successfully grow the business and will need to implement transformational changes to the operating model and supporting frameworks to achieve this. There is, however, a requirement to pursue these goals in a controlled and prudent manner given the potential downside in financial, reputational, conduct and broader risk implications.

The risks and constraints to growth opportunities are fully evaluated through the Strategic and Financial Plan and RAS setting processes to ensure there is no detrimental impact to the broader strategy.

Reflective of the generally negative outlook, the RAS settings have either been held at existing levels or tightened to reflect the expectations of a tougher competitive and economic environment.

Exposures

COVID-19, and the global response, continue to materially impact the Group through economic, credit and operational risks and with respect to customer needs. This uncertainty has been exacerbated by continued Brexit risk, with negative implications for customers and the portfolio amplified by the increasing possibility of a No Deal.

In addition, the Group operates in an increasingly competitive environment, with the pace of change and complexity posing risks to strategic initiatives. Shareholder expectations, particularly in relation to climate change, continue to evolve, increasing the importance of being able to respond appropriately.

The Group is also exposed to execution risk as a result of ongoing transformation activity.

Measurement

The Group's RAS represents a 'risk envelope' against which chosen strategies and financial plans are assessed and within which chosen strategies must operate. The RAS, and associated RAF, is a key means of controlling strategic risk. The RAF comprises an extensive system of measures, thresholds and other controls, which together ensure that the Group operates within the Board's approved appetite for strategic risk.

Mitigation

The Group undertakes thorough and regular monitoring of emerging and crystallised strategic risks, including developments in the external geo-political environment, to ensure it is best placed to proactively respond to changes as and when required. Robust contingency plans are in place to ensure the impact of any changes on strategic initiatives is captured.

The Group continues to develop and embed its sustainability agenda in response to shareholder and societal sentiment. This includes increased due diligence activity in relation to the lending decisions being undertaken, and social interaction to promote inclusion and diversity in the communities in which the Group operates.

The Risk function undertakes regular risk oversight activity, placing customers' interests at the centre of all aspects of change. This includes workstreams focused solely on the execution risk of transformation. The strategic planning process for the FY21 investment slate was overseen by the Risk function to ensure a balanced portfolio within the funding available.

Monitoring

A range of financial and non-financial metrics, including RoTE, lending growth, customer acquisition, NIM, and others, are key performance indicators used to monitor performance relative to strategic objectives. They are continually monitored against the Financial Plan by the Group's Board and Executive Leadership Team, who react to deviations from targets and modify strategy accordingly. While the Group is unable to influence these metrics explicitly, they are included in order to provide sight of possible portfolio deterioration ahead of specific internal focused metrics.

During the year, additional Strategic and Enterprise Risk RAS metrics, specifically relating to our ability to meet the strategic plan, and the importance of the brand in delivering strategic initiatives are under consideration.

Following the outbreak of COVID-19, the Group recognises there is a risk that other novel infectious diseases could materialise in the future. The potential impact of future infectious disease outbreaks on the Group's principal and emerging risk framework will continue to be monitored and managed going forward.

People risk
Supporting our colleagues to build a successful, customer-centric business

Continued embedding of the people framework ensures overall people risk is maintained within risk appetite during this period of significant change.

People risk is defined as the risk of not having sufficiently skilled and motivated colleagues who are clear on their responsibilities and accountabilities and who behave in an ethical way. This could lead to inappropriate decision making that is detrimental to customers, colleagues or shareholders and could ultimately lead to regulatory sanction.

The Group's drive to foster a culture which engages and encourages colleagues to deliver customer-focused outcomes with a clear set of supporting Values and Behaviours is an important step in mitigating people risk.

Risk appetite
COVID-19 has presented a range of people risks and a changing external environment which impacts health, safety and well-being. These include safety in the workplace, resource gaps, employee relations and working from home for extended periods. The Group's priority in dealing with these exceptional challenges is to ensure the safety of and provision of support for colleagues, including adherence with the government's physical and health measures.

The Group does not accept a material increase in risk as a result of colleagues not conducting themselves in the manner expected, nor does the Group act in a manner that may affect the health and wellbeing of colleagues. The Group does not take intentional action that may impact on its ambition to build an inclusive culture and continues to embed activities that support the required cultural change.

Exposures
People risk is inherent in the day-to-day operation of the business and is controlled through Purpose, Values, Behaviours and policies, and embedded through our people practices.

Measurement
The Group has a range of Tier 1 and Tier 2 RAS metrics in place which help to measure and report people risk.

The Group's operational controls are designed to mitigate the risks associated throughout each element of the colleague life cycle. Group-wide systems provide tools and online guidance to all colleagues to support them in discharging their accountabilities.

Mitigation
People risk is mitigated in three core ways:

- Managing people risk across the Group: The changing internal and external environment raises challenges relative to the Group's ability to manage people risk, as part of the overall business strategy. The transformation of the banking industry is changing the demand for skills, particularly in relation to technology, information security, serving customers digitally and responding to market developments. The Group's operating controls are effective in managing these risks and there is a focus on the Group's ability to plan and predict resource needs during this period of cost challenges and increased use of technology. The Group's strategy will have implications for colleagues and will create an increased level of people risk during periods of uncertainty. Therefore, material structural changes will follow organisational design principles, the Senior Manager and Certification Framework and have appropriate governance.
- Managing the people management framework: Controls are deployed effectively by people leaders and senior management in the day-to-day management of people risk. People risk indicators are constantly reviewed to determine if any systemic issues exist and to agree appropriate remediation. These include health and wellbeing, succession and conduct.
- The role of the HR function: HR partners support the Executive Leadership Team and provide broader support to colleagues regarding all matters impacting the colleague life cycle, which runs from recruitment to leaving the Group. The Group has a three-tier model incorporating: ourPeople (web-based); HR Services, supported by specialist teams like reward, organisational development, payroll, case management; and full business partnering for the Executive Leadership Team.

Monitoring
People risks are monitored and reported through Executive and Board Committees. Internal Audit will carry out independent deep dives in specific areas of the business, to complement existing reporting and measure alignment between actual and intended culture.

Stress testing
The people risks associated with a stressed scenario are automatically captured and analysed through the Group's suite of operational risk scenarios. These scenarios consider both the colleagues needed to maintain BAU services to customers as well as the key subject matter experts needed to keep critical functions operating while under duress.

Climate risk
Identifying and managing risks arising from climate change

Climate risk is classified as a cross-cutting risk type that manifests through other principal risks, primarily strategic and enterprise risk, credit risk and operational risk.

The Group is exposed to physical, transition and reputation risks arising from climate change:

- Physical risks arising from climate and weather-related events, such as heatwaves, droughts, floods, storms, sea level rise, coastal erosion and subsidence. These risks potentially result in large financial losses, impairing asset values and the creditworthiness of borrowers.
- Transition risks arising from the process of adjustment towards a low-carbon economy could lead to changes in policy, technology and sentiment, prompting a reassessment of the value of a large range of assets and creating credit exposures for banks and other lenders as costs and opportunities become apparent.
- Reputation risk arising from a failure to meet changing societal, investor or regulatory demands.

The relevant principal risk frameworks include detail on how the Group identifies, assesses and manages climate risk.

Governance
A plan to embed consideration of the impacts of climate change in line with the PRA's Supervisory Statement SS3/19 was presented to the Board Risk Committee in October 2019, with progress being reported throughout the year. Updates have been aligned with the ESG strategy to ensure all planning supports the Group's broader ESG aspirations. A Board workshop was held on emerging climate risk management practices across the financial services industry to support the Board's oversight of climate-related risks and opportunities.

Climate risk was considered by the Board in its review and challenge of the Group's Sustainability Strategy, RAS and RMF.

The Group Chief Risk Officer has Senior Manager responsibility for the Group's approach to managing financial risks from climate change, which includes:

- embedding the consideration of financial risks from climate change in governance arrangements;
- incorporating the financial risks from climate change into risk management practices;
- using long-term scenario analysis to inform strategy setting, risk identification and assessment; and
- developing approaches to disclosure of the financial risks from climate change in line with the Taskforce for Climate-related Financial Disclosures (TCFD).

The Group's Credit Risk Committee has specific responsibility for oversight of climate-related aspects of credit risk including recommending strategies to adjust the credit risk portfolio to react to change in the prevailing market or physical environmental conditions. During the year, the Committee received regular updates on the credit risk aspects of climate change, including climate risk specific analysis relating to lending portfolios. Climate change was also considered within the Committee's review of the Group's Sensitive Sectors policy summary as part of the ESG framework.

The Group's Executive Risk Committee has responsibility for overseeing the Group's exposures and approach to managing the financial risks from climate change. During the year, the Committee received regular updates on the progress against plan through the Group Chief Risk Officer's Report and special papers as appropriate.

Strategy
The time horizons over which the Group evaluates its climate-related risks are: short term: 0-5 years; medium term: 5-10 years; long term: >10 years. This is longer than the Group's financial planning cycle of five years and reflects the longer period over which risks are likely to crystallise. Risk assessment to date has focused on the most material risks which may impact the Group's business. These risks are described in more detail below.

The Group has launched a new Sustainability Strategy (see pages 16–20) which includes climate-related risks and opportunities. The Group will expand the dialogue with customers on climate risks in 2021, with initial focus on larger transactions and higher-risk sectors and will support relationship managers and credit underwriters through additional training. During 2021, the Group will also develop scenario analysis capability which will further inform future refreshes of strategy.

Mortgages
As at 30 September 2020, the mortgage portfolio represented 81% of the Group's customer lending (2019: 82%). Changes in extreme variability in weather patterns may lead to increased incidence and severity of physical risks which, in addition to the disruption felt by customers, can lead to a decrease in the valuations of property taken as collateral to mitigate credit risk. In addition, tightening minimum energy efficiency standards for domestic buildings could impact on the value of mortgaged properties or the ability of borrowers to service debt.

Business lending
The Group has low levels of lending to carbon related assets at 0.1% (2019: 0.1%) of the Group's customer lending assets.

However the Group may be exposed to future transition risks through the business portfolio. Lending to selected sectors is shown below.

	2020		2019	
Sector	£m	% lending	£m	% lending
Energy – coal mining	**–**	**0.0%**	–	0.0%
Oil and gas	**83**	**0.1%**	68	0.1%
Of which: Oil and gas field services	**79**	**0.1%**	66	0.1%
Utilities – electric and gas	**162**	**0.2%**	144	0.2%
Of which: Renewables	**150**	**0.2%**	126	0.2%
Agriculture, Forestry and Fishing	**1,567**	**2.2%**	1,575	2.1%
Construction and Commercial Real Estate	**874**	**1.2%**	692	0.9%
Transportation (Automotive, aviation, shipping, rail, motor vehicle retailing and servicing)	**763**	**1.1%**	667	0.9%
Concrete, Chemicals and Steel Manufacture	**109**	**0.1%**	114	0.2%

Scenario analysis

Analysis of current river and sea flood risk to properties within the mortgage portfolio has been undertaken as an initial step in assessing the physical risk to the Group's lending and understanding data limitations. Similar analysis was completed for business lending property collateral. Current flood risk does not reflect the increased risk due to climate change and scenario analysis work is being undertaken to consider the longer-term impacts and the high degree of uncertainty. Transition risk within the mortgage portfolio has also been considered with an assessment of the energy efficiency of properties. The portfolio is in line with market averages and the Group increasingly intends to use this information to support our customers to 'green' their homes.

Work has been completed to analyse transition risks within the business lending book. A top-down assessment of sectors (and sub-sectors) which may have a higher likelihood of being impacted by transition risks from moving to a lower carbon environment has been performed, to increase understanding of the possible risks facing our customers, and support prioritisation of areas where further analysis is required. Building scenario analysis capability is a key component of work planned for 2021.

Where a heightened environmental or climate-related risk is identified during customer due diligence or credit processes, additional scrutiny under the Group's ESG policy is triggered. This may require additional environmental reports to be obtained.

A large proportion of our business lending customers are privately owned and/or are small or medium enterprises. Very few lending customers therefore report against voluntary disclosure initiatives such as CDP, TCFD or Sustainability Accounting Standards Board (SASB). Such businesses are key to the UK economy and may be vulnerable to the impacts of climate change therefore the Group's focus will be on how it can support customers with adaptation and mitigation.

A summary of the Group's ESG policy is available at: www.virginmoneyukplc.com/corporate-sustainability.

Operational resilience

Maintaining our ability to operate critical banking services, despite the presence of threats and adverse events

Operational resilience risk underpins all the principal risks associated with the resilience of the Group. Operational resilience is defined as the ability of the Group to protect and sustain its most critical functions and underlying assets, while adapting to expected or unexpected occurrences of operational stress or disruption, and having the capacity to recover from issues as and when they arise.

The Group assesses its operational resilience risk for the people, technology, third parties and premises that underpin the principal risks, ensuring that the Group aims to provide a superior level of support and services to customers and stakeholders on a consistent and uninterrupted basis.

It is accepted that, on occasion, this will not be possible and at such times, the Group aims to recover critical services within tight timelines to minimise customer disruption. This may have an inadvertent impact on the Group's overall risk profile including an increase in other principal risk profiles.

Risk appetite

The Group tolerates a low level of operational resilience risk for the failure of any critical end-to-end process and will take immediate steps to ensure the Group remains resilient. The Group acknowledges that it is impossible to eliminate all interruptions to critical end-to-end processes and has identified risk appetite measures designed to indicate where there may be an underlying problem that requires resolution to maintain the Group's resilience.

Operational resilience risk is included in the Group's RAS and is managed in accordance with the minimum control requirements, as set out in the relevant underlying policy standards: business resilience and recovery; crisis and incident management; operational risk; and third party and critical outsourcing.

Exposures

The need for strong operational resilience is inherent in the provision of services to customers. As customer expectations and use of services evolves, the Group will need to maintain focus on the resilience of services. The need to manage two heritage technology estates will present additional resilience risk until such time duplication is removed and critical processes are relying on a single infrastructure.

COVID-19 highlights the ongoing exposure to external risks and threats that can be unpredictable in nature and widespread in impact. The Group's response to COVID-19 ensured that critical services could continue in the safest manner possible for both customers and colleagues. The ongoing nature of this event will continue to present risks to the Group's resilience and these are continually monitored.

Measurement

An operational resilience framework is in place, owned by the Group Chief Operating Office which identifies Tier 1 and Tier 2 critical end-to-end business processes across the four policy standard areas outlined earlier.

Mitigation

Operational resilience is demonstrated in the mitigation of risks that impact our people, technology, third parties and premises and covered in the principal risk sections above. By identifying critical end-to-end Tier 1 and Tier 2 process across the Group, focus can be given to those processes and the controls in place, including the management of the technology on which they rely, to minimise disruption.

Monitoring

Operational resilience is monitored and reported regularly through Executive and Board Committees. Its underlying components are also monitored through the relevant principal risk monitoring, including operational, technology and people risks.

Financial Statements

Contents

Independent auditor's report to the members of Virgin Money UK PLC

Opinion

In our opinion:

- Virgin Money UK PLC's group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Virgin Money UK PLC which comprise:

Group	Parent company
Consolidated income statement for the year ended 30 September 2020	
Consolidated statement of comprehensive income for the year ended 30 September 2020	
Consolidated balance sheet as at 30 September 2020	Company balance sheet as at 30 September 2020
Consolidated statement of changes in equity for the year ended 30 September 2020	Company statement of changes in equity for the year ended 30 September 2020
Consolidated Statement of cash flows for the year ended 30 September 2020	Company statement of cash flows for the year ended 30 September 2020
Related notes 1.1 to 5.6 to the financial statements	Related notes 6.1 to 6.6 to the financial statements

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts, rather than in the notes to the financial statements. These have been cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report to the members of Virgin Money UK PLC

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 24 to 27 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 107 in the annual report that they have carried out a robust assessment of the emerging and principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 197 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 107 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Impairment of loans. • Revenue recognition – Effective interest method accounting.
Audit scope	• We performed an audit of the complete financial information of the Group and Company. • All audit work performed for the purposes of the Group audit was undertaken by the primary team.
Materiality	• Overall Group materiality was £26m which represents 0.5% of equity.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Board's Audit Committee
Impairment of loans **Consolidated balance sheet – £735m (2019: £362m)** **Consolidated income statement charge – £507m (2019: £252m)** Please refer to page 74 (Audit Committee report), page 124 (credit risk report) and pages 208 to 209 (Impairment provisions on credit exposures note). At 30 September 2020 the Group reported total gross loans of £72,925m and £735m of ECLs. There has been an increased risk of material misstatement of ECLs in the year to 30 September 2020 due to the degree of judgement and inherent uncertainty in the assumptions underlying the COVID-19 related additional provisions. Key matters in respect of the measurement of ECLs include the: • Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard; • Accounting interpretations and modelling assumptions used to build the models that calculate the ECLs; • Completeness and accuracy of data used to calculate the ECLs; • Inputs and, assumptions and weightings used to estimate the impact of multiple economic scenarios, particularly those influenced by the COVID-19 pandemic; • Completeness and valuation of post model adjustments; as well as any COVID-19 specific adjustments; • Measurements of individually assessed provisions including the assessment of multiple scenarios; and the impact of COVID-19 on collateral valuations and estimated workout strategies; and • Accuracy and adequacy of the financial statement disclosures.	We developed a detailed understanding of the Group's overall approach and accounting policies to ensure compliance with the requirements of IFRS 9. We tested the design and operating effectiveness of certain controls relevant to the ECL processes. This included credit monitoring, individual provisions and production of journal entries. We assessed the appropriateness of the Group's staging criteria including the application of qualitative watch list backstops and their logical application through the modelled environment. We reperformed staging assessments for all high risk portfolios through risk-based sampling of ECL models. This was performed by independently replicating the staging models and re-running the results in our own environment. We tested the assumptions, inputs and formulae used in a risk-based sample of ECL models with involvement of our internal credit modelling specialists. This included assessing the appropriateness of model design and the calculations used, and recalculating Probability of Default, Loss Given Default and Exposure at Default for portfolios determined through our risk-based sampling. To assess data quality, we tested data used in the ECL calculation by reconciling and performing sample tests for accuracy of key data fields to source systems. To test credit monitoring, we independently recalculated risk ratings for a sample of performing and non-performing non-retail loans and compared to the Group's determinations. We assessed the economic scenario base case and alternative economic scenarios adopted by the Directors with our Economics specialists. We challenged the probability weightings ascribed to the scenarios and compared them to other scenarios from a variety of external sources, as well as EY internally developed forecasts. With the assistance of our Economics specialists, we assessed whether forecast macroeconomic variables, such as GDP, unemployment, interest rates and HPI, CPI and average earnings were appropriate loan loss provision drivers, and that the forecast variables were reasonable.	We communicated that we were satisfied that ECL provisions were reasonable and in compliance with the requirements of IFRS 9. We communicated to the Audit Committee that our independent testing of models and underlying modelling assumptions noted some minor differences that were considered to be immaterial in aggregate. We also communicated that our challenge in respect of the forecast economic inputs and scenarios adopted by the Directors concluded that the resulting position was considered to be within a reasonable range of outcomes. We also noted immaterial differences from our testing of PMAs and that the Group had recorded a significant increase in post model adjustments relating to COVID-19 overlays, consistent with other UK banks.

Independent auditor's report to the members of Virgin Money UK PLC

Risk	Our response to the risk	Key observations communicated to the Board's Audit Committee
Impairment of loans continued	We assessed the completeness and appropriateness of the Group's PMAs, taking the current economic and market conditions into account. We assessed the appropriateness and the calculation of the overlays adopted in response to COVID-19 related economic uncertainty. With the support of our internal valuation specialists, we recalculated ECL provisions for a sample of individually assessed loans including comparing to alternative scenarios and challenging probability weightings assigned. We also assessed a sample of individual loans classified as performing loans within higher risk sectors, such as construction, retail, automotive, commercial real estate, shipping and oil and gas where no specific provision was held. We increased our sample of performing loans in comparison to prior year in response to the risk that the COVID-19 pandemic and support schemes could mask underlying customer deteriorations. We reviewed the adequacy of credit related disclosures in respect of COVID-19.	

Risk	Our response to the risk	Key observations communicated to the Board's Audit Committee
Revenue recognition – effective interest method The Group records income on financial instruments under the EIR method. Please refer to note 2.2 on pages 201 and 202. As set out on page 202, the most material adjustments to interest income under EIR accounting are made in respect of the Group's mortgage and credit card portfolios. Following the Group's acquisition of Virgin Money Holdings (UK) PLC on 15 October 2018, fair value adjustments are also recorded on acquired portfolios and amortised through interest income over the projected behavioural lives of the financial instruments. As a result, the unwind of the fair value adjustment recorded on acquisition is naturally connected to the EIR calculation and its key assumptions. This adds additional complexity to the calculation of amounts recognised in the income statement under EIR accounting. The EIR method spreads the income statement recognition of income and expense cash flows that are, in substance, integral to the overall yield of the financial instrument over its modelled life. For both secured and unsecured lending the Group utilises models to predict future cashflows, and recognise interest income under the EIR accounting method. EIR models are sensitive to judgements about the expected behavioural lives and future yields of the product portfolios to which they relate. The complexity of the calculations, the degree of judgement exercised by the Directors in respect of forecast future cash flows (particularly given the uncertainty surrounding anticipated future economic and customer impacts of COVID-19), the different products for which fees are recognised, and the sensitivity of the amounts recognised in the financial statements to key assumptions are highly subjective and material to the financial statements, and we considered this to be a key audit matter.	We assessed the Group's EIR accounting policy and the estimation methodology adopted by the Group during the year for compliance with the accounting standards. We gained an understanding of the key processes, controls, assumptions and judgements used within the Group's EIR models. We also assessed the inclusion or exclusion of key streams of income and expenditure within the Group's EIR models. We compared the Directors' forecasts of customer behaviours and balance attrition rates to recent experience and historical trends within the associated lending portfolios. With respect to the amortisation of the fair value adjustments relating to the acquired portfolios, we assessed the key assumptions adopted by the Directors for consistency and appropriateness against the assumptions used in the Group's EIR models. We developed an independent assessment of the reasonable range of forecast future cashflows outcomes using the Group's historical experience our understanding of the industry and the anticipated potential impact of COVID-19 on future portfolio performance. We assessed the Directors' modelled EIR outcomes against this range. We performed data integrity testing on the key sources of information used within the EIR calculations. We assessed the accuracy of the financial statement disclosures made regarding key estimates within the EIR models, and their sensitivity to reasonable alternative assumptions.	We communicated that we were satisfied that EIR adjustments made to income were in compliance with the requirements of IFRS 9. We communicated to the Audit Committee that the models, assumptions and calculations informing the EIR calculations, and the EIR adjustments recorded as at 30 September 2020 were reasonable. We communicated our observations on the Directors' key assumptions. We noted the potential future risks to the EIR adjustments related to potential changes in customer behaviour as a result of COVID-19 and wider economic, market and regulatory pressures. We considered the modelling adjustments recorded by the Directors in respect of these risks to be within a reasonable range of outcomes. We also noted that the unwind of the fair value adjustments recorded by the Directors were reasonable in comparison to the customer behaviour assumptions used within the Group's EIR models.

Independent auditor's report to the members of Virgin Money UK PLC

In the prior year our auditor's report included key audit matters in respect of provisions for PPI and Accounting for the acquisition of Virgin Money Holdings (UK) PLC.

In the current period the level of uncertainty in respect of the ultimate costs of the PPI remediation programme in respect of PPI has reduced. Together, the 29 August 2019 FCA time-bar on new PPI complaints and the volume of complaints processed by the Group during the year have reduced the estimation risk within PPI provisions calculations as at 30 September 2020. The acquisition of Virgin Money Holdings (UK) PLC was a non-recurring, non-routine transaction occurring in FY19 and so it was not considered a key audit matter for the current period.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group and Parent company to be £26m (2019: £25m), which is 0.5% of equity (2019: 4.4% of underlying profit on ordinary activities before tax). We believe that equity provides us with an appropriate measure given the Group's continuing loss making position and unusual circumstances in FY20 in respect of the COVID-19 pandemic.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely £19.5m (2019: £18.8m). We set performance materiality at this percentage due to our previous experience as auditors of the Group, from which we concluded that there is a lower expectation of material financial statement inaccuracies due to the effective control environment and only minor audit differences resulting from our prior and current year work. Our approach is consistent with the prior year.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.3m (2019: £1.3m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the Annual Report set out on pages 1 to 180, including the Strategic report set out on pages 1 to 33, the Financial results set out on pages 34 to 44, Governance set out on pages 45 to 110, the Risk report set out on pages 111 to 180, and Additional information set out on pages 255 to 267. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 75** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on page 71** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee is materially inconsistent with our knowledge obtained in the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 49** – the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors
As explained more fully in the Directors' responsibilities statement set out on page 108, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report to the members of Virgin Money UK PLC

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant were the regulations, licence conditions and supervisory requirements of the PRA and the FCA.
- We understood how the Group complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also: reviewed correspondence between the Group and UK regulatory bodies; reviewed minutes of the Board and Executive Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's RMF and internal control processes.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved inquiries of legal counsel, executive management, internal audit, and focused testing, as referred to in the Key Audit Matters section above.
- The Group operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address
- We were appointed as Virgin Money UK PLC's external auditor and signed an engagement letter on 14 January 2016, prior to Virgin Money UK PLC becoming the holding company of the Group on its demerger and IPO in February 2016. The period of total uninterrupted engagement as auditors of Virgin Money UK PLC including previous renewals and reappointments, is five years covering the years ending 30 September 2016 to 30 September 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the group and the parent company in conducting the audit.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Steven Robb (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
Leeds
24 November 2020

Consolidated income statement

For the year ended 30 September	Note	2020 £m	2019[1] £m
Interest income		**2,129**	2,420
Other similar interest		**8**	13
Interest expense and similar charges		**(854)**	(919)
Net interest income	2.2	**1,283**	1,514
Gains less losses on financial instruments at fair value		**(11)**	(17)
Other operating income		**171**	252
Non-interest income	2.3	**160**	235
Total operating income		**1,443**	1,749
Operating and administrative expenses before impairment losses	2.4	**(1,104)**	(1,729)
Operating profit before impairment losses		**339**	20
Impairment losses on credit exposures	3.2	**(507)**	(252)
Loss on ordinary activities before tax		**(168)**	(232)
Tax credit	2.5	**27**	53
Loss for the year		**(141)**	(179)
Attributable to:			
Ordinary shareholders		**(220)**	(253)
Other equity holders		**79**	41
Non-controlling interests		**–**	33
Loss for the year		**(141)**	(179)
Basic loss per share (pence)	2.6	**(15.3)**	(17.9)
Diluted loss per share (pence)	2.6	**(15.3)**	(17.9)

(1) The comparative has been restated in line with the current year presentation. Refer to note 1.10.

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

The notes on pages 197 to 245 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 30 September	Note	2020 £m	2019[1] £m
Loss for the year		**(141)**	(179)
Items that may be reclassified to the income statement			
Change in cash flow hedge reserve			
(Losses)/gains during the year		**(133)**	73
Transfers to the income statement		**60**	(57)
Taxation thereon – deferred tax credit/(charge)		**20**	(9)
Taxation thereon – current tax (charge)/credit		**(1)**	6
		(54)	13
Change in fair value through other comprehensive income reserve			
Gains during the year		**15**	13
Transfers to the income statement		**(16)**	(4)
Taxation thereon – deferred tax credit/(charge)		**1**	(2)
		–	7
Total items that may be reclassified to the income statement		**(54)**	20
Items that will not be reclassified to the income statement			
Change in asset revaluation reserve		**–**	–
Taxation thereon – deferred tax charge		**–**	(1)
Change in defined benefit pension plan	3.10	**292**	110
Taxation thereon – deferred tax charge		**(117)**	(56)
Taxation thereon – current tax credit		**9**	7
		184	61
Total items that will not be reclassified to the income statement		**184**	60
Other comprehensive income, net of tax		**130**	80
Total comprehensive losses for the year, net of tax		**(11)**	(99)
Attributable to:			
Ordinary shareholders		**(90)**	(173)
Other equity holders		**79**	41
Non-controlling interests		**–**	33
Total comprehensive losses for the year, net of tax		**(11)**	(99)

(1) The comparative has been restated in line with the current year presentation. Refer to note 1.10.

The notes on pages 197 to 245 form an integral part of these financial statements.

Consolidated balance sheet

As at 30 September	Note	2020 £m	2019 £m
Assets			
Financial assets at amortised cost			
Loans and advances to customers	3.1	**72,430**	73,095
Cash and balances with central banks	3.4	**9,107**	10,296
Due from other banks		**927**	1,018
Financial assets at fair value through profit or loss			
Loans and advances to customers	3.5	**190**	253
Derivative financial instruments	3.6	**318**	366
Other financial assets	3.5	**13**	14
Financial assets at fair value through other comprehensive income	3.7	**5,080**	4,328
Property, plant and equipment		**288**	145
Intangible assets and goodwill	3.8	**491**	516
Current tax assets		**27**	13
Deferred tax assets	3.9	**326**	322
Defined benefit pension assets	3.10	**723**	396
Other assets		**339**	237
Total assets		**90,259**	90,999
Liabilities			
Financial liabilities at amortised cost			
Customer deposits	3.11	**67,710**	64,000
Debt securities in issue	3.12	**8,758**	9,591
Due to other banks	3.13	**5,469**	8,916
Financial liabilities at fair value through profit or loss			
Customer deposits		**–**	4
Derivative financial instruments	3.6	**250**	273
Deferred tax liabilities	3.9	**274**	201
Provisions for liabilities and charges	3.14	**172**	459
Other liabilities	3.15	**2,694**	2,534
Total liabilities		**85,327**	85,978
Equity			
Share capital and share premium	4.1	**147**	146
Other equity instruments	4.1	**915**	915
Capital reorganisation reserve	4.1	**(839)**	(839)
Merger reserve	4.1	**2,128**	2,128
Other reserves	4.1	**(43)**	10
Retained earnings		**2,624**	2,661
Total equity		**4,932**	5,021
Total liabilities and equity		**90,259**	90,999

The notes on pages 197 to 245 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 24 November 2020 and were signed on its behalf by:

David Bennett
Chairman

David Duffy
Chief Executive Officer

Virgin Money UK PLC, Registered number: 09595911

Consolidated statement of changes in equity

					Other reserves								
Note	Share capital and share premium £m 4.1.1	Capital reorg' reserve £m 4.1.3	Merger reserve £m 4.1.4	Other equity instru-ments £m 4.1.2	Own shares held £m 4.1.5	Deferred shares reserve £m 4.1.5	Equity based comp' reserve £m 4.1.5	Asset reval' reserve £m	FVOCI reserve £m 4.1.5	Cash flow hedge reserve £m 4.1.5	Retained earnings £m	Non control-ling interest £m 4.1.6	Total equity £m
As at 1 October 2018	89	(839)	633	450	–	–	10	2	4	(39)	2,855	–	3,165
Loss for the year[(1)]	–	–	–	–	–	–	–	–	–	–	(179)	–	(179)
Other comprehensive (losses)/ income, net of tax	–	–	–	–	–	–	–	(1)	7	13	61	–	80
Total comprehensive (losses)/ income for the year	–	–	–	–	–	–	–	(1)	7	13	(118)	–	(99)
Acquisition of Virgin Money Holdings (UK) PLC	54	–	1,495	–	(5)	23	–	–	–	–	–	422	1,989
Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	–	–	–	(45)	–	(45)
AT1 distribution paid[(1)]	–	–	–	–	–	–	–	–	–	–	(41)	–	(41)
Distributions to non-controlling interests[(1)]	–	–	–	–	–	–	–	–	–	–	(33)	–	(33)
Transfer from equity based compensation reserve	–	–	–	–	–	–	(8)	–	–	–	8	–	–
Equity based compensation expensed	–	–	–	–	–	–	4	–	–	–	–	–	4
Settlement of Virgin Money Holdings (UK) PLC share awards	3	–	–	–	4	(4)	–	–	–	–	1	–	4
AT1 issuance	–	–	–	465	–	–	–	–	–	–	–	–	465
Capital note redemption	–	–	–	–	–	–	–	–	–	–	34	(422)	(388)
As at 30 September 2019	146	(839)	2,128	915	(1)	19	6	1	11	(26)	2,661	–	5,021
Adjustment on adoption of IFRS 16 (net of tax) – note 5.4	–	–	–	–	–	–	–	–	–	–	1	–	1
As at 1 October 2019	146	(839)	2,128	915	(1)	19	6	1	11	(26)	2,662	–	5,022
Loss for the year	–	–	–	–	–	–	–	–	–	–	(141)	–	(141)
Other comprehensive (losses)/ income net of tax	–	–	–	–	–	–	–	–	–	(54)	184	–	130
Total comprehensive(losses)/ income for the year	–	–	–	–	–	–	–	–	–	(54)	43	–	(11)
AT1 distribution paid	–	–	–	–	–	–	–	–	–	–	(79)	–	(79)
Ordinary shares issued	1	–	–	–	–	–	–	–	–	–	–	–	1
Transfer from equity based compensation reserve	–	–	–	–	–	–	(6)	–	–	–	6	–	–
Equity based compensation expensed	–	–	–	–	–	–	10	–	–	–	–	–	10
Release of asset revaluation reserve	–	–	–	–	–	–	–	(1)	–	–	–	–	(1)
Settlement of Virgin Money Holdings (UK) PLC share awards	–	–	–	–	1	(3)	–	–	–	–	1	–	(1)
FSMA Part VII transfer	–	–	–	–	–	–	–	–	–	–	(9)	–	(9)
As at 30 September 2020	**147**	**(839)**	**2,128**	**915**	**–**	**16**	**10**	**–**	**11**	**(80)**	**2,624**	**–**	**4,932**

(1) The comparative has been restated in line with the current year presentation. Refer to note 1.10.

The notes on pages 197 to 245 form an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 September	Note	2020 £m	2019[2] £m
Operating activities			
Loss on ordinary activities before tax		**(168)**	(232)
Adjustments for:			
Non-cash or non-operating items included in loss before tax	5.2	**(606)**	(1,035)
Changes in operating assets	5.2	**(75)**	(2,543)
Changes in operating liabilities	5.2	**1,877**	2,630
Payments for short-term and low value leases		**(2)**	–
Interest received		**2,152**	2,320
Interest paid		**(684)**	(745)
Tax paid		**(12)**	(8)
Net cash provided by operating activities		**2,482**	387
Cash flows from investing activities			
Interest received		**35**	27
Cash acquired on acquisition of Virgin Money Holdings (UK) PLC		**–**	4,663
Proceeds from maturity of financial assets at fair value through other comprehensive income		**1,568**	659
Proceeds from sale of financial assets at fair value through other comprehensive income		**587**	352
Purchase of financial assets at fair value through other comprehensive income		**(2,838)**	(1,647)
Proceeds from sale of 50% (less one share) consideration in Virgin Money Unit Trust Managers Limited		**–**	45
Purchase of shares issued by Virgin Money Unit Trust Managers Limited		**(2)**	–
Proceeds from sale of property, plant and equipment		**5**	3
Purchase of property, plant and equipment		**(14)**	(20)
Purchase and development of intangible assets		**(78)**	(130)
Net cash (used in)/provided by investing activities		**(737)**	3,952
Cash flows from financing activities			
Interest paid		**(195)**	(81)
Repayment of principal portions of lease liabilities[1]	3.17	**(30)**	–
Proceeds from issuance of other equity instruments		**–**	247
Repayment of AT1 classified as non-controlling interest		**–**	(160)
Redemption and principal repayment on RMBS and covered bonds	3.12	**(1,492)**	(2,003)
Redemption and principal repayment on medium-term notes/subordinated debt	3.12	**(745)**	–
Issuance of RMBS and covered bonds	3.12	**491**	2,227
Issuance of medium-term notes/subordinated debt	3.12	**922**	642
Amounts drawn down under the TFSME		**1,300**	–
Amounts repaid under the TFS		**(3,234)**	(1,295)
Ordinary dividends paid		**–**	(45)
AT1 distributions	4.1.2	**(79)**	(41)
Distributions to non-controlling interests		**–**	(33)
Net cash used in financing activities		**(3,062)**	(542)
Net (decrease)/increase in cash and cash equivalents		**(1,317)**	3,797
Cash and cash equivalents at the beginning of the year		**11,131**	7,334
Cash and cash equivalents at the end of the year	5.2	**9,814**	11,131

(1) The Group adopted IFRS 16 'Leases' on 1 October 2019. The payment of principal amounts of lease liabilities is now included as a deduction within financing activities whereas previously under IAS 17 'Leases' operating lease charges were included as a deduction within cash flow from operating activities. Interest on lease liabilities is included within interest paid and depreciation on right-of-use assets is included within depreciation.

(2) Cash and cash equivalents has been restated in the comparative year in line with the current year presentation, as detailed in note 1.11.

Consolidated statement of cash flows

Movements in liabilities arising from financing activities

	Term funding schemes £m	Debt securities in issue £m	Lease liabilities[1] £m	Total £m
At 30 September 2019	7,308	9,591	–	16,899
Adjustment on transition to IFRS 16	–	–	205	205
Revised 1 October 2019	7,308	9,591	205	17,104
Cash flows:				
Issuances	–	1,413	–	1,413
Drawdowns	1,300	–	–	1,300
Redemptions	–	(2,237)	–	(2,237)
Repayment	(3,234)	–	(30)	(3,264)
Non-cash flows:				
Fair value adjustments and associated unwind on acquired TFS and debt securities in issue	36	27	–	63
Additions to right-of-use asset in exchange for increased lease liabilities	–	–	2	2
Remeasurement	–	–	(6)	(6)
Movement in accrued interest	(13)	(7)	4	(16)
Unrealised foreign exchange movements	–	(23)	–	(23)
Unamortised costs	–	(6)	–	(6)
At 30 September 2020	**5,397**	**8,758**	**175**	**14,330**

(1) The Group adopted IFRS 16 'Leases' on 1 October 2019. The payment of principal amounts of lease liabilities is now included as a deduction within financing activities whereas previously under IAS 17 'Leases' operating lease charges were included as a deduction within cash flow from operating activities. Interest on lease liabilities is included within interest paid.

The notes on pages 197 to 245 form an integral part of these 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 shows new accounting standards, amendments and interpretations which are relevant to the Group, and whether they are effective in 2020 or later years. 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 2020 Annual Report and Accounts in compliance with the Code.

1.1 General information

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

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

1.2 Basis of accounting

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and in accordance with the provisions of the Companies Act 2006.

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

1.3 Presentation of risk, offsetting and maturity disclosures

Certain disclosures required under IFRS 7 'Financial instruments: disclosures' and IAS 1 'Presentation of financial statements' have been included within the audited sections of the Risk report. Where information is marked as audited, it is incorporated into these financial statements by this cross reference and it is covered by the Independent auditor's report.

1.4 Going concern

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

In assessing the Group's going concern position as at 30 September 2020, the Directors have considered a number of factors, including the current balance sheet position, 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, for the foreseeable future, the Group has sufficient capital and liquidity for 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. The Group's MREL ratio at 30 September 2020 comfortably exceeds its interim MREL requirements and is in line with its expected end-state MREL requirements. This means future MREL issuance is focused on building a prudent management buffer over the expected end-state MREL minimum requirement.

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 therefore believe 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.

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 assets and liabilities

Recognition and derecognition

A financial asset or a financial liability is recognised on the balance sheet 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.

The accounting policies for financial assets at FVTPL and FVOCI are detailed 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 derivatives (other than derivatives that are financial guarantee contracts or are designated and effective hedging instruments) and liabilities designated at FVTPL on initial recognition.

Offsetting

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

1.8 Property, plant and equipment

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

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

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

Residual values and useful lives of assets are reviewed at each reporting date. Depreciation is recognised within operating expenses in the income statement.

The Group previously held freehold and long-term leasehold land and buildings at fair value as highlighted in note 1.11.

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. Estimates which are based on future economic conditions, and sensitive to changes in those conditions, have been impacted by COVID-19. This estimation impact has primarily been in the measurement of ECL, EIR and assessing the recoverability of deferred tax balances. Actual results may differ materially from these estimates.

The Group considers the most significant use of accounting estimates and judgements relate to the following areas:

- impairment provisions on credit exposures (note 3.2);
- EIR (note 2.2);
- deferred tax (note 3.9);
- PPI redress provision and other conduct related matters (note 3.14); and
- retirement benefit obligations (note 3.10).

1.10 New accounting standards and interpretations

The Group has adopted a number of International Accounting Standards Board (IASB) pronouncements in the current financial year.

IFRS 16 'Leases'

IFRS 16 'Leases' is effective for financial periods beginning on or after 1 January 2019 and replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease,' SIC-15 'Operating Leases - Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease.'

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Group's accounting as a lessor is substantially unchanged from the previous approach under IAS 17; however, IFRS 16 resulted in most leases where the Group is a lessee being brought on to the balance sheet under a single lease model, removing the distinction between finance and operating leases. IFRS 16 requires a lessee to recognise a 'right-of-use' asset and a corresponding lease liability at the date on which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. The accounting policy for leases (note 3.17) has been revised.

As permitted by the new standard, the Group has implemented IFRS 16 using the 'modified retrospective' approach and recognised the cumulative impact of transition as an adjustment through retained earnings. Therefore, the comparative information has not been restated and is presented, as previously reported, under IAS 17 and related interpretations. Adoption of the new standard has had a material impact on the Group's financial statements, with right-of-use assets of £194m recognised on transition together with lease liabilities of £205m. As at 30 September 2020 the right-of-use assets and lease liabilities were £162m and £175m respectively. The right-of-use assets are presented in property, plant and equipment and the liabilities are presented in other liabilities. Further detail on the transitional impact of IFRS 16 can be found in note 5.4.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Amendments to IFRS 9, IAS 39 and IFRS 7 were issued in September 2019. The amendments are effective for financial years beginning on or after 1 January 2020 (with early adoption permitted) and were endorsed for use in the EU in January 2020. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms.

The Group exercised the accounting policy choice to continue hedge accounting under IAS 39 on adoption of IFRS 9 in October 2018. The Group has also early adopted the amendments and related disclosure requirements relating to IAS 39 and IFRS 7 with effect from 1 October 2019. Adopting these amendments allows the Group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms. Further detail is provided in note 3.6.

Section 1: Basis of preparation

1.10 New accounting standards and interpretations continued

Other accounting standards and interpretations

Except where otherwise stated, the following IASB pronouncements did not have a material impact on the Group's consolidated financial statements:

- IFRIC interpretation 23: 'Uncertainty over Income Tax Treatments' issued in June 2017 and effective for financial years beginning on or after 1 January 2019. The new interpretation applies to any situation in which there is uncertainty as to whether an income tax treatment is acceptable under tax law and is not limited to actual ongoing disputes;
- 'Annual Improvements to IFRS Standards 2015-2017 Cycle', issued December 2017 and effective for financial years beginning on or after 1 January 2019. The IASB has made amendments to the following standards: IFRS 3 'Business Combinations'; IFRS 11 'Joint Arrangements'; IAS 12 'Income Taxes'; and IAS 32 'Borrowing Costs'. The amendment to IAS 12 clarifies that the income tax consequences of distributions on financial instruments classified as equity should be recognised alongside the past transactions or events that generated the distributable profits. This means that the taxation impacts of distributions relating to AT1 securities and non-controlling interests are now recognised within tax expense in the income statement as opposed to being recognised directly in retained earnings within equity. The amendment impacts only the presentation of the related taxation and not the calculation, with no change to the Group's net assets but an increase in profit attributable to equity owners. Comparatives have been restated. The adoption of this amendment has resulted in a reduction in tax expense and an increase in profit for the year of £15m (12 months to 30 September 2019: £15m) for the Group and a reduction in tax expense and an increase in profit for the year of £15m (12 months to 30 September 2019: £8m) for the Company;
- amendment to IAS 19: 'Plan amendment, curtailment or settlement' issued in February 2018 and effective prospectively for financial years beginning on or after 1 January 2019. The amendments clarify that after a plan event companies should use these updated assumptions to measure current service cost and net interest for the remainder of the reporting period; and
- amendment to IAS 28: 'Long-term Interests in Associates and Joint Ventures' issued in October 2017 and effective for financial years beginning on or after 1 January 2019. The amendment clarifies that an entity applies IFRS 9 to long-term interests in an associate or JV to which the equity method is not applied but that, in substance, form part of the net investment in the associate or JV (long-term interests).

New accounting standards and interpretations not yet adopted

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Following completion of the second part of the IASB's two-phased project, amendments were issued in August 2020 and are effective for financial years beginning on or after 1 January 2021. The amendments have not yet been endorsed for use by the EU and therefore have not been adopted by the Group.

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting.

On application of the amendments, the Group does not expect any impact on amounts reported for 2020 or prior years.

The IASB has issued a number of other minor amendments to IFRSs that are not mandatory for 30 September 2020 reporting years 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

Freehold and long-term leasehold land and buildings – change in accounting policy

The Group changed its accounting policy with respect to freehold and long-term leasehold land and buildings. The Group now applies the cost model, where these assets are carried at cost less accumulated depreciation and any accumulated impairment. Prior to this change in policy, freehold and long-term leasehold land and buildings were recorded at their fair values. The Group concluded that the cost model provides a more reliable and more meaningful presentation following the adoption of IFRS 16 which introduced a significant property related right-of-use asset, held at cost, on the balance sheet in the year, and also removed the previous distinction between finance and operating leases. The application of the cost model is also standard market practice across the UK banking sector. For these reasons the Group determined it should harmonise the measurement basis for all property related assets to be at cost. This change in accounting policy has not had a material impact on the Group's balance sheet as there has been no difference of significance between the fair value and cost value on freehold and long-term leasehold land and buildings for a number of years. The £1m asset revaluation reserve that existed at 30 September 2019 has been released. Due to the immaterial effect of this change, comparatives have not been restated.

Cash and cash equivalents – change in definition

During the year, the Group has reassessed the individual elements that comprise 'cash and cash equivalents'. This has resulted in a revision to the definition that more closely aligns the Group's internal use of the cash and cash equivalents definition and cash management practices, with the changes resulting in an increase to the cash and cash equivalents balance primarily as a result of the inclusion of amounts due from other banks. The revised definition can be found in the Glossary. Comparative years have been restated to reflect this change in definition, with the balance for the 12 months to 30 September 2019 increasing by £1,012m from £10,119m to £11,131m.

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.

With effect from 1 October 2019, the business has been aligned operationally into three divisions: Mortgages, Personal and Business. However, 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 until segment reporting has been fully embedded within the Group.

Summary income statement

	2020 £m	2019 £m
Net interest income	**1,283**	1,514
Non-interest income	**160**	235
Total operating income	**1,443**	1,749
Operating and administrative expenses	**(1,104)**	(1,729)
Impairment losses on credit exposures	**(507)**	(252)
Segment loss before tax	**(168)**	(232)
Average interest earning assets	**86,826**	86,362

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 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 unwind of the discount from the initial recognition of the ECL 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 the ECL allowance) 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.

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.

Section 2: Results for the year

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. In the event these estimates are revised at a later date, a present value adjustment to the carrying value of the EIR asset may be recognised in profit or loss. Such adjustments can introduce income statement volatility and consequently the EIR method introduces a source of estimation uncertainty. The Group considers that material risk of adjustments exists in relation to the application of EIR to the Group's mortgage and credit card portfolios.

Mortgages

The main accounting judgement when assessing the cash flows within the Group's secured lending EIR model is the product life (including assumptions based on observed historic customer behaviour when in a standard variable rate (SVR) period) and the early repayment charge income receivable. The Group currently assumes that 84% of customers will have fully repaid or remortgaged within two months of reverting to SVR. If this were to increase to 89%, the loans and advances to customers balance would reduce by £9m with the adjustment recognised in NII.

Credit cards

The Group measures credit card EIR by modelling expected cash flows based on assumptions of future customer behaviour, which is supported by observed experience. Key behavioural assumptions include an estimation of utilisation of available credit, future retail and cash transactions, repayment activity and the retention of the customer balance after the end of a promotional period.

The EIR of new business written in the current year is 5.60% (2019: 5.26%).

The Group specifically considered the impact of COVID-19 on the expected cash flows, and adjustments were made to assumptions of future customer behaviour, in particular utilisation of available credit, future retail transactions and repayment activity. In the weeks that followed the initial UK lockdown retail spend fell by almost 60% before beginning to recover as lockdown restrictions began to ease. Retail and cash transactions remain below the level of pre-COVID-19 volumes, at around 75% of pre-COVID-19 volumes. The Group currently assumes that retail and cash transaction activity will recover during 2021, however if current customer behaviour was to continue and retail transaction activity remained at 75% of pre-COVID-19 volumes for the next 12 months to 30 September 2021, with an associated adjustment to expected repayment activity of 0.6% to account for the lower retail and cash transactions, the Group estimates this would result in a negative present value adjustment of approximately £20m as at 30 September 2020.

The Group holds an appropriate level of model risk reserve across both asset classes to mitigate the risk of estimation uncertainty.

The Group will continue to monitor the impact of COVID-19 and update key assumptions and judgements as required.

	2020 £m	2019 £m
Interest income		
Loans and advances to customers	**2,062**	2,320
Loans and advances to other banks	**35**	72
Financial assets at fair value through other comprehensive income	**32**	27
Other interest income	**–**	1
Total interest income	**2,129**	2,420
Other similar interest		
Financial assets at fair value through profit or loss	**15**	21
Derivatives economically hedging interest bearing assets	**(7)**	(8)
Total other similar interest	**8**	13
Less: interest expense and similar charges		
Customer deposits	**(588)**	(580)
Debt securities in issue	**(193)**	(185)
Due to other banks	**(68)**	(144)
Other interest expense	**(5)**	(10)
Total interest expense and similar charges	**(854)**	(919)
Net interest income	**1,283**	1,514

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 and liabilities designated at FVTPL – these relate principally to the Group's fixed interest rate loan portfolio and related term deposits (note 3.5), which were designated at inception as fair value through profit or loss. 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; and
- 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 fees monthly; the fees are 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.

Income from insurance, protection and investments

This includes management fees in the previous year generated from the sale of and management of funds, Stocks and Shares ISAs and pensions to retail investors.

	2020 £m	2019 £m
Gains less losses on financial instruments at fair value		
Held for trading derivatives	**15**	16
Financial assets and liabilities at fair value(1)	**2**	3
Ineffectiveness arising from fair value hedges (note 3.6)	**(17)**	(22)
Amounts recycled to profit and loss from cash flow hedges(2) (note 3.6)	**(5)**	–
Ineffectiveness arising from cash flow hedges (note 3.6)	**(6)**	(14)
	(11)	(17)
Other operating income		
Net fee and commission income	**142**	195
Margin on foreign exchange derivative brokerage	**17**	19
Gain on sale of financial assets at fair value through other comprehensive income	**16**	3
Gain on sale of Virgin Money Unit Trust Managers Limited	**–**	35
Share of joint venture loss after tax(3)	**(7)**	(1)
Other income	**3**	1
	171	252
Total non-interest income	**160**	235

(1) A credit risk gain on loans and advances at fair value of £1m and a fair value loss of £5m have been recognised in the current year (2019: £2m gain and £2m fair value loss).

(2) In respect of terminated hedges.

(3) The share of joint venture loss after tax is included within continuing activities.

Section 2: Results for the year

2.3 Non-interest income continued

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

	2020 £m	2019 £m
Current account and debit card fees	**94**	117
Credit cards	**41**	42
Insurance, protection and investments	**16**	37
Other fees[1]	**31**	31
Total fee and commission income	**182**	227
Total fee and commission expense	**(40)**	(32)
Net fee and commission income	**142**	195

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

2.4 Operating and administrative expenses before impairment losses

Accounting policy

Personnel expenses 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 3.10 and 4.2 respectively.

	2020 £m	2019 £m
Personnel expenses	**396**	421
Depreciation and amortisation expense[1]	**149**	108
Other operating and administrative expenses	**559**	1,200
Total operating and administrative expenses	**1,104**	1,729

(1) Following the adoption of IFRS 16 from 1 October 2019, the depreciation charge arising on the right-of-use assets is reported within depreciation and amortisation expense. Prior to adoption of IFRS 16, the equivalent operating lease charges were reported within other operating and administrative expenses.

Personnel expenses comprise the following items:

	2020 £m	2019 £m
Salaries, wages and non-cash benefits and social security costs	**252**	256
Defined contribution pension expense	**49**	47
Defined benefit pension expense (note 3.10)	**–**	9
Equity based compensation (note 4.2)	**10**	4
Other personnel expenses	**85**	105
Personnel expenses	**396**	421

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

	2020 Number	2019 Number
Managers	**2,911**	2,989
Clerical staff	**5,345**	5,714
	8,256	8,703

The average monthly number of employees was 9,275 (2019: 9,787).

All staff are contracted employees of the Group and its subsidiary undertakings. The average figures above do not include contractors.

2.4 Operating and administrative expenses before impairment losses continued

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

	2020 £'000	2019 £'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	**20**	21
Fees payable to the Company's auditor for the audit of the Company's subsidiaries(1)	**3,218**	2,967
Total audit fees	**3,238**	2,988
Audit related assurance services	**322**	436
Other assurance services	**329**	289
Total non-audit fees	**651**	725
Fees payable to the Company's auditor in respect of associated pension schemes	**91**	88
Total fees payable to the Company's auditor	**3,980**	3,801

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

Non-audit services of £0.7m (2019: £0.7m) performed by the auditor during the year included the review of the Interim Financial Report, comfort letters for the global medium-term note programme and AT1 issuance, and client money reviews. In addition to the above, out of pocket expenses of £0.1m (2019: £0.2m) were borne by the Group, principally related to reimbursement of travel expenses incurred by staff when performing the above services.

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.

	2020 £m	2019 £m
Current tax		
Current year	**10**	5
Adjustment in respect of prior years	**(6)**	(5)
	4	–
Deferred tax (note 3.9)		
Current year	**(38)**	(56)
Adjustment in respect of prior years	**7**	3
	(31)	(53)
Tax credit for the year	**(27)**	(53)

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 credit implied by the standard rate to the actual tax credit is as follows:

	2020 £m	2019 £m
Loss on ordinary activities before tax	**(168)**	(232)
Tax credit based on the standard rate of corporation tax in the UK of 19% (2019: 19%)	**(32)**	(44)
Effects of:		
Disallowable expenses	**5**	50
Conduct indemnity adjustment	**(39)**	10
Deferred tax assets derecognised/(recognised)	**90**	(49)
Non-taxable gain on partial disposal of Virgin Money Unit Trust Managers Limited (note 2.3)	**–**	(7)
Bank levy	**–**	1
Impact of rate changes	**(37)**	3
AT1 distribution	**(15)**	(15)
Adjustments in respect of prior years	**1**	(2)
Tax credit for the year	**(27)**	(53)

Section 2: Results for the year

2.5 Taxation continued

The conduct indemnity adjustment represents a reduction in the amount payable to the Group's former parent, NAB, under the term of the Deed of Indemnity entered into at demerger in 2016. The reduction reflects the forecast decrease in utilisation of tax losses that are the subject of the indemnity, with a consequent reduction in the amount to be returned to NAB. The current anticipated cumulative liability, measured in accordance with the Group's established methodology, is £64m (2019: £104m), shown within 'Due to other banks' on the Company balance sheet. The liability will crystallise when certain tax losses are used within the Virgin Money UK PLC group to reduce the Group's corporation tax liability.

Deferred tax assets derecognised represent historic losses that have been derecognised in accordance with the Group's established deferred tax recognition methodology, reflecting their expected utilisation against future taxable profits. More information on deferred tax is given in note 3.9.

The rate change credit arises on the revaluation of the Group's net deferred tax assets. The valuation at 30 September 2019 reflected the enacted reduction to a 17% rate, but this reduction was cancelled in the Budget of 11 March 2020 with reversion to 19%.

As outlined in note 1.10, and in accordance with IASB improvements for periods commencing on or after 1 January 2019, the tax credit associated with the distribution on AT1 instruments has been presented in the income statement, rather than in equity. This change is presentational only; it has no effect on total shareholder assets. Prior year comparatives have been restated.

2.6 Earnings per share (EPS)

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.

	2020 £m	2019 £m
Loss attributable to ordinary equity holders for the purposes of basic and diluted EPS	**(220)**	(253)

	2020	2019
Weighted-average number of ordinary shares in issue (millions)		
– Basic	**1,440**	1,414
– Diluted	**1,440**	1,414
Basic loss per share (pence)	**(15.3)**	(17.9)
Diluted loss per share (pence)	**(15.3)**	(17.9)

Basic loss per share has been calculated after deducting 0.3m (2019: 1m) ordinary shares representing the weighted-average of the Group's holdings of its own shares. The calculation of the diluted earnings per share in the current and prior year excluded conditional awards of 1m ordinary shares made under equity based compensation schemes. These have been considered anti-dilutive due to the Group making a loss in the current and prior year.

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.

	2020 £m	2019 £m
Gross loans and advances to customers	**72,925**	73,246
Impairment provisions on credit exposures (note 3.2)	**(735)**	(362)
Fair value hedge adjustment	**240**	211
	72,430	73,095

The Group has a portfolio of fair valued business loans of £190m (2019: £253m) 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 £72,620m (2019: £73,348m).

The fair value hedge adjustment represents an offset to the fair value movement on derivatives designated in hedge relationships 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 £61m (2019: £38m) and £346m (2019: £408m) 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

	2020 £m	2019 £m
Less than 1 year	**265**	276
1-2 years	**186**	180
2-3 years	**125**	112
3-4 years	**65**	63
4-5 years	**32**	31
More than 5 years	**33**	23
	706	685
Unearned finance income	**(36)**	(36)
Net investment in finance lease and hire purchase receivables	**670**	649

Finance income recognised on the net investment in the lease was £22m (2019: £22m) and is included in 'Interest income' in the income statement (note 2.2).

Section 3: Assets and liabilities

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.

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

Collectively assessed: 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.

Individually assessed: 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.

Regardless of the calculation basis, the Group generates an allowance at the individual financial instrument level.

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 and also utilises the 30 days past due and 90 days past due backstops for recognising Stage 2 and Stage 3 provisions respectively.

In addition to the above stages, 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. 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.

Financial assets can move between stages when the relevant staging criteria are no longer satisfied. 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.

The Group has not made use of the low credit risk option under IFRS 9 for loans and advances at amortised cost.

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 is immaterial.

Critical accounting estimates and judgements
The use of an ECL methodology under IFRS 9 requires the Group to apply estimates and exercise judgement when calculating an impairment allowance for credit exposures.

Further detail on the scenarios, macroeconomic assumptions and weightings used in the ECL calculation together with sensitivity analysis is detailed in the Risk report on pages 143 to 146.

3.2 Impairment provisions on credit exposures continued

Movement in impairment provisions on credit exposures	2020 £m	2019 £m
Opening balance	**362**	224
Charge for the year	**507**	252
Amounts written off	**(159)**	(142)
Recoveries of amounts written off in previous years	**25**	28
Closing balance	**735**	362
Individually assessed	**53**	47
Collectively modelled	**682**	315
	735	362

The Group impairment provision is classified by stage allocation as follows:

	2020 £m	2019 £m
Stage 1	**136**	79
Stage 2	**465**	168
Stage 3[(1)]	**134**	115
	735	362

(1) Stage 3 includes £2m (2019: £3m) of POCI gross loans and advances.

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 3.12). 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 bankruptcy remote limited liability partnerships, Clydesdale Covered Bond No 2 LLP and Eagle Place LLP, to provide a guarantee for the obligations payable on the covered bonds issued by the Group.

The covered bond partnerships are consolidated with the mortgage loans retained on the consolidated balance sheet and the covered bonds issued included within debt securities in issue (note 3.12). The covered bond holders have dual recourse: firstly, to the bond issuer on an unsecured basis; and secondly, to the appropriate 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 balance sheet 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. In the mortgage originator a deemed loan liability is recognised for the proceeds of the funding transaction.

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

Section 3: Assets and liabilities

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:

	2020		2019	
	Loans and advances securitised £m	Notes in issue £m	Loans and advances securitised £m	Notes in issue £m
Securitisation programmes				
Lanark Master Issuer	**5,686**	**4,757**	5,009	4,597
Lannraig Master Issuer	**860**	**765**	1,032	838
Gosforth 2014-1	**–**	**–**	372	385
Gosforth 2015-1	**–**	**–**	707	630
Gosforth 2016-1	**1,141**	**947**	1,142	1,048
Gosforth 2016-2	**–**	**–**	701	579
Gosforth 2017-1	**910**	**709**	934	852
Gosforth 2018-1	**1,227**	**1,060**	1,353	1,267
	9,824	**8,238**	11,250	10,196
Less held by the Group		**(4,236)**		(5,154)
		4,002		5,042
Covered bond programmes				
Clydesdale Bank PLC	**905**	**781**	1,253	776
Clydesdale Bank PLC (formerly Virgin Money PLC)	**3,446**	**1,137**	2,622	1,126
	4,351	**1,918**	3,875	1,902

The fair values of financial assets and associated liabilities relating to the securitisation programmes where the counterparty to the liabilities has recourse only to the financial assets were £9,807m and £3,988m respectively (2019: £11,329m and £5,085m).

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:

	2020 £m	2019 £m
Beneficial interest held	**1,795**	1,467
Subordinated loans	**46**	100
Junior notes held	**1,299**	1,722
	3,140	3,289

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 £520m (2019: £699m) in the Clydesdale Bank PLC programme and £2,314m (2019: £1,490m) in the Clydesdale Bank PLC (formerly Virgin Money PLC) programme. From time to time the obligations of the Group to provide over-collateralisation may increase due to the formal requirements of the programme.

Under all programmes, the Group has an obligation to repurchase mortgage exposures if certain mortgage loans no longer meet the programme criteria.

3.4 Cash and balances with central banks

Accounting policy

Cash and balances with central banks are measured at amortised cost, using the effective interest method, adjusted for ECLs, 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 are generally of a short-term nature and repayable on demand or within a short timescale, generally three months.

	2020 £m	2019 £m
Cash assets	**1,560**	1,574
Balances with central banks (including EU payment systems)	**7,547**	8,722
	9,107	10,296
Less mandatory deposits with central banks[1]	**(220)**	(183)
Included in cash and cash equivalents (note 5.2)	**8,887**	10,113

(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 and liabilities 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.

Financial liabilities are measured at FVTPL where they are trading liabilities or where they are designated at FVTPL (e.g. an accounting mismatch) or where the performance is evaluated on a fair value basis in accordance with risk management and investment strategies.

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).

	2020 £m	2019 £m
Financial assets at fair value through profit or loss		
Loans and advances	**190**	253
Other financial assets	**13**	14
	203	267

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 £190m (2019: £253m) including accrued interest receivable of £1m (2019: £1m). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £3m (2019: £4m) and the change for the current year is a decrease of £1m (2019: decrease of £4m), of which £1m (2019: £2m) has been recognised in the income statement.

Other financial assets

Included in other financial assets are £12m (2019: £8m) of unlisted securities and £1m (2019: £6m) of debt instruments.

Refer to note 3.16 for further information on the valuation methodology applied to financial assets held at FVTPL and their classification within the fair value hierarchy. Details of the credit quality of financial assets is provided in the Risk report.

Section 3: Assets and liabilities

3.6 Derivative financial instruments

Accounting policy

The Group uses derivative financial instruments to manage exposure to interest rate and foreign currency risk. Interest rate risk arises when there is a mismatch between fixed interest rate and floating interest rates, and different repricing characteristics between assets and liabilities. 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 'due to and from other banks' 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).

As highlighted in note 1.10, the Group has early adopted the 'Amendments to IAS 39 and IFRS 7 Interest Rate Benchmark Reform' issued in September 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively in respect of hedging relationships that existed at the start of the reporting year or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve at that date.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR (Interbank Offered Rates) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

In summary, the reliefs provided by the amendments that apply to the Group are:

- When considering the 'highly probable' requirement, the Group has assumed that the IBOR interest rates upon which the hedged items are based do not change as a result of IBOR reform;
- In assessing whether the hedge is expected to be highly effective on a prospective basis the Group has assumed that the IBOR interest rates upon which the cash flows of the hedged items and the hedging instruments that hedge them are based are not altered by IBOR reform;
- The Group will not discontinue hedge accounting should the retrospective assessment of hedge effectiveness fall outside the 80-125 per cent range and the hedging relationship be subject to interest rate benchmark reforms. For those hedging relationships that are not subject to the interest rate benchmark reforms the Group will continue to cease hedge accounting if retrospective effectiveness is outside the 80-125 per cent range;
- The Group has retained the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss; and
- The Group has assessed whether the hedged IBOR risk component is a separately identifiable risk only when it first designates a hedged item in a fair value hedge and not on an ongoing basis.

Accounting policy continued

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 year in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge 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

The carrying value of the hedged item on initial designation is adjusted for the fair value attributable to the hedged risk. Subsequently, 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:

	2020 £m	2019 £m
Fair value of derivative financial assets		
Designated as hedging instruments	**198**	315
Designated as held for trading	**120**	51
	318	366
Fair value of derivative financial liabilities		
Designated as hedging instruments	**158**	191
Designated as held for trading	**92**	82
	250	273

In respect of derivatives with other banks, cash collateral totalling £53m (2019: £55m) has been pledged and £93m has been received (2019: £149m). These amounts are included within due from and due to other banks respectively. Collateral placed with clearing houses, which did not meet offsetting criteria, totalled £202m (2019: £55m) and is included within other assets.

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.

3.6 Derivative financial instruments continued

Total derivative contracts

	2020			2019		
	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)	**29,645**	**74**	**215**	25,023	105	121
Less: net settled interest rate swaps(1)	**(19,187)**	**(13)**	**(171)**	(14,513)	(47)	(75)
Interest rate swaps (net)(2)	**10,458**	**61**	**44**	10,510	58	46
Cross currency swaps(2)	**420**	**28**	**–**	1,446	162	–
	10,878	**89**	**44**	11,956	220	46
Fair value hedges						
Interest rate swaps (gross)	**37,803**	**182**	**751**	25,492	146	526
Less: net settled interest rate swaps(1)	**(30,603)**	**(92)**	**(642)**	(23,872)	(60)	(389)
Interest rate swaps (net)(2)	**7,200**	**90**	**109**	1,620	86	137
Cross currency swaps(2)	**1,448**	**19**	**5**	808	9	8
	8,648	**109**	**114**	2,428	95	145
Total derivatives designated as hedging instruments	**19,526**	**198**	**158**	14,384	315	191
Derivatives designated as held for trading						
Foreign exchange rate related contracts						
Spot and forward foreign exchange(2)	**1,003**	**15**	**15**	728	16	15
Cross currency swaps(2)	**1,263**	**56**	**7**	1,123	11	9
Options(2)	**1**	**–**	**–**	2	–	–
	2,267	**71**	**22**	1,853	27	24
Interest rate related contracts						
Interest rate swaps (gross)	**704**	**28**	**47**	1,159	24	53
Less: net settled interest rate swaps(1)	**–**	**–**	**–**	(363)	(5)	(2)
Interest rate swaps (net)(2)	**704**	**28**	**47**	796	19	51
Swaptions(2)	**10**	**–**	**2**	11	–	2
Options(2)	**426**	**2**	**3**	465	2	3
	1,140	**30**	**52**	1,272	21	56
Commodity related contracts	**131**	**19**	**18**	55	2	2
Equity related contracts	**–**	**–**	**–**	3	1	–
Total derivatives designated as held for trading	**3,538**	**120**	**92**	3,183	51	82

(1) Presented within other assets.

(2) Presented within derivative financial instruments.

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 and 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; 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.

Portfolio fair value hedges
The Group applies macro fair value hedging to its fixed rate mortgages. During the year fair value hedging of fixed rate deposits was discontinued. The Group determines hedged items by identifying portfolios of homogeneous loans or deposits based on their contractual maturity and other risk characteristics. Loans or deposits 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 and deposits are recognised on the Group's balance sheet as an asset and liability respectively. 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.

Micro fair value hedges
The Group uses this hedging strategy on GBP and foreign currency denominated fixed rate assets held at FVOCI and GBP and foreign currency denominated fixed rate debt issuances by the Group.

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 and impact of short-term payment holidays granted to customers in response to COVID-19).

Interest Rate Benchmark Reform
The Group has cash flow and fair value hedge accounting relationships that are exposed to different IBORs, predominantly GBP LIBOR but also Euro Interbank Offer Rate (EURIBOR), which are subject to IBOR reform.

As at 30 September 2020, the principal of the hedged items designated into cash flow hedge relationships that is directly affected by the interest rate benchmark reform is £611m. The principal of the hedged items designated in fair value hedge relationships that is directly affected by the interest rate benchmark reform is £780m, of which £78m relates to EURIBOR. These fair value hedges principally relate to GBP and foreign currency denominated fixed rate assets, and GBP fixed rate debt.

At 30 September 2020, the principal amount of the hedging instruments in hedge relationships to which these amendments apply was £908m, of which £778m relates to fair value hedges and £130m relates to cash flow hedges.

Page 167 of the Risk report describes how the Group is managing the transition to new benchmark interest rates.

The Group will continue to apply the amendments to IAS 39 until the uncertainty arising from IBOR reform, with respect to the timing and the amount of the underlying cash flows that the Group is exposed to, ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment.

3.6 Derivative financial instruments continued

The table below discloses the impact derivatives held in micro hedging relationships are expected to have on the timing and uncertainty of future cash flows. All notional principal amounts and carrying values are presented gross, prior to any netting permitted for balance sheet presentation as this reflects the derivative position used for risk management and the impact on future cash flows.

	3 months or less	3 to 12 months	1 to 5 years	Total
2020				
Cash flow hedges				
Foreign exchange risk				
Cross currency swap				
Notional principal (£m)	**185**	**235**	**–**	**420**
Average GBP/EUR rate	**1.4149**	**1.4149**	**–**	**n/a**
Average GBP/USD rate	**1.3023**	**1.2984**	**–**	**n/a**
2019				
Cash flow hedges				
Foreign exchange risk				
Cross currency swap				
Notional principal (£m)	107	445	894	1,446
Average GBP/EUR rate	1.3459	1.3423	1.3680	n/a
Average GBP/USD rate	1.3263	1.3228	1.3089	n/a

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.

	2020				2019			
		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] £m
Cash flow hedges								
Interest rate risk								
Interest rate swaps[1]	**29,645**	**74**	**(215)**	**(80)**	25,023	105	(121)	–
Foreign exchange risk								
Cross currency swaps	**420**	**28**	**–**	**(59)**	1,446	162	–	59
Total derivatives designated as cash flow hedges	**30,065**	**102**	**(215)**	**(139)**	26,469	267	(121)	59
Fair value hedges								
Interest rate risk								
Interest rate swaps[1]	**37,803**	**182**	**(751)**	**(40)**	25,492	146	(526)	(264)
Foreign exchange and interest rate risk								
Cross currency swaps	**1,448**	**19**	**(5)**	**–**	808	9	(8)	1
Total derivatives designated as fair value hedges	**39,251**	**201**	**(756)**	**(40)**	26,300	155	(534)	(263)

(1) As shown in the total derivatives contracts table on page 214, 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.

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.

	2020			2019		
	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 (excluding deferred tax) Continuing hedges £m	Cash flow hedge reserve (excluding deferred tax) Discontinued hedges £m
Cash flow hedges						
Interest rate risk						
Gross floating rate assets and gross floating rate liabilities[1]	**74**	**(123)**	**17**	(14)	(15)	(20)
Foreign exchange risk						
Floating rate currency issuances[2]	**59**	**(1)**	**–**	(59)	–	–
Total	**133**	**(124)**	**17**	(73)	(15)	(20)

	2020				2019			
	Carrying amount of hedged items Assets £m	Carrying amount of hedged items Liabilities £m	Accumulated amount of fair value adjustments 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 amount of fair value adjustments on the hedged item £m	Change in fair value of hedged items in the year used for ineffectiveness measurement £m
Fair value hedges								
Interest rate risk								
Fixed rate mortgages[3]	**31,110**	**–**	**240**	**29**	16,436	–	211	209
Fixed rate customer deposits[4]	**–**	**–**	**(11)**	**1**	–	(4,769)	(10)	(9)
Fixed rate FVOCI debt instruments[5]	**3,001**	**–**	**74**	**16**	2,940	–	166	133
Fixed rate issuances[2]	**–**	**(2,576)**	**146**	**(23)**	–	(2,368)	122	(92)
Foreign exchange and interest rate risk								
Fixed rate currency FVOCI debt instruments[5]	**83**	**–**	**5**	**3**	82	–	3	4
Fixed rate currency issuances[2]	**–**	**(1,389)**	**4**	**(3)**	–	(530)	1	(4)
Total	**34,194**	**(3,965)**	**458**	**23**	19,458	(7,667)	493	241

(1) Highly probable future cash flows arising from loans and advances to customers, due to customers and debt securities in issue.

(2) Hedged item is recorded in debt securities in issue.

(3) Hedged item and the cumulative fair value changes, are recorded in loans and advances to customers.

(4) Hedge relationship was discontinued during the year. The fair value adjustment taken will be amortised over the remaining life of the hedged items, and is recorded in due to customers.

(5) Hedged item is recorded in financial assets at FVOCI.

	2020				2019			
	Hedge ineffectiveness recognised in income statement[1] £m	Effective portion recognised in other comprehensive income £m	Reclassified into income statement as Net interest income £m	Reclassified into income statement as Non-interest income £m	Hedge ineffectiveness recognised in income statement[1] £m	Effective portion recognised in other comprehensive income £m	Reclassified into income statement as Net interest income £m	Reclassified into income statement as Non-interest income £m
Cash flow hedges								
Interest rate risk								
Gross floating rate assets and gross floating rate liabilities	**(6)**	**(74)**	**4**	**(5)**	(14)	14	–	–
Foreign exchange risk								
Floating rate currency issuances	**–**	**(59)**	**–**	**(59)**	–	59	–	57
Total losses on cash flow hedges	**(6)**	**(133)**	**4**	**(64)**	(14)	73	–	57

Section 3: Assets and liabilities

3.6 Derivative financial instruments continued

	Hedge ineffectiveness recognised in income	
	2020 £m	2019 £m
Fair value hedges		
Interest rate risk		
Fixed rate mortgages	**(22)**	(24)
Fixed rate customer deposits	**3**	4
Fixed rate FVOCI debt instruments	**–**	(2)
Fixed rate issuances	**2**	(1)
Foreign exchange and interest rate risk		
Fixed rate currency FVOCI debt instruments	**–**	–
Fixed rate currency issuances	**–**	1
Total losses on fair value hedges(1)	**(17)**	(22)

(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.

The Group exercises the low credit risk option for debt instruments classified as FVOCI, recognising the high credit quality of the instruments, accordingly a 12-month ECL is calculated on the assets.

	2020 £m	2019 £m
Listed securities	**5,080**	4,328
Total financial assets at fair value through other comprehensive income	**5,080**	4,328

Refer to note 3.16 for further information on the valuation methodology applied to financial assets at FVOCI at 30 September 2020 and their classification within the fair value hierarchy. Details of the credit quality of financial assets is provided in the Risk report.

3.8 Intangible assets and goodwill

Accounting policy

Capitalised software is stated at cost, less amortisation and any provision for impairment.

Identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred. Capitalised software costs are amortised on a straight line basis over their expected useful lives, usually between three and ten years. Impairment losses are recognised in the income statement as incurred.

Goodwill arises on the acquisition of an entity and represents the excess of the fair value of the purchase consideration and direct costs of making the acquisition over the fair value of the Group's share of the net assets at the date of the acquisition. Goodwill is not subject to amortisation and is tested for impairment on an annual basis.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, which typically arises when the benefits associated with the software were substantially reduced from what had originally been anticipated or the asset has been superseded by a subsequent investment. In such situations, an impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal or its value-in-use.

Intangible assets which are fully amortised are reviewed annually to consider whether the assets remain in use.

	Capitalised software £m	Goodwill £m	Core deposit intangible £m	Total £m
Cost				
At 1 October 2018	733	–	–	733
Acquisition of Virgin Money Holdings (UK) PLC	172	11	6	189
Additions	130	–	–	130
Write-off	(85)	–	–	(85)
At 30 September 2019	950	11	6	967
Additions	78	–	–	78
At 30 September 2020	**1,028**	**11**	**6**	**1,045**
Accumulated amortisation				
At 1 October 2018	321	–	–	321
Charge for the year	82	–	1	83
Impairment	115	–	–	115
Write-off	(68)	–	–	(68)
At 30 September 2019	450	–	1	451
Charge for the year	102	–	1	103
At 30 September 2020	**552**	**–**	**2**	**554**
Net book value				
At 30 September 2020	**476**	**11**	**4**	**491**
At 30 September 2019	500	11	5	516

£4m (2019: £31m) of the £78m (2019: £130m) software additions do not form part of internally generated software projects.

Section 3: Assets and liabilities

3.9 Deferred tax

Accounting policy
Deferred tax assets and liabilities are recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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
The Group has deferred tax assets of £326m (2019: £322m), the principal components of which are tax losses and capital allowances.

The Group has assessed the recoverability of these deferred tax assets at 30 September 2020 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. This assessment is based on the latest strategic plan which has taken account of the volatile and uncertain macroeconomic conditions in the UK due to the COVID-19 pandemic and the uncertainty around Brexit. 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 was five years or seven years the recognised deferred tax asset would be £309m or £345m respectively. All tax assets arising will be used within the UK.

Movement in net deferred tax asset

	2020 £m	2019 £m
At 1 October	**121**	136
Recognised in the income statement (note 2.5)	**31**	53
Recognised directly in equity	**(100)**	(68)
At 30 September	**52**	121

The Group has recognised deferred tax in relation to the following items:

	2020 £m	2019 £m
Deferred tax assets		
Tax losses carried forward	**151**	146
Capital allowances	**113**	91
Cash flow hedge reserve	**23**	3
Acquisition accounting adjustments(1)	**1**	44
Transitional adjustment – IFRS 9	**15**	16
Transitional adjustment – available for sale reserve	**-**	1
Employee equity based compensation	**5**	5
Unamortised issue costs	**4**	4
Pension spreading	**9**	11
Other	**5**	1
	326	322
Deferred tax liabilities		
Defined benefit pension scheme surplus	**(253)**	(139)
Acquisition accounting adjustments(1)	**(11)**	(51)
Gains on financial instruments at fair value through other comprehensive income	**(6)**	(6)
Intangible assets	**(3)**	(4)
Other	**(1)**	(1)
	(274)	(201)
Net deferred tax asset	**52**	121

(1) Following the execution of FSMA part VII, the deferred tax assets and liabilities in respect of acquisition accounting adjustments have been offset to provide a single number that will unwind in the same entity over coming years.

The deferred tax assets and liabilities detailed above arise primarily in Clydesdale Bank PLC.

The value of tax losses carried forward of £151m (2019: £146m) has increased due to the recognition of current year losses and the rate change arising from the increase in the corporation tax rate. The de-recognition of historic losses has largely been offset by a reduction in the conduct indemnity adjustment (note 2.5). At 30 September 2020, the Group had an unrecognised deferred tax asset of £217m (2019: £114m) representing trading losses with a gross value of £1,142m valued at 19% (2019: £668m valued at 17%).

3.10 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 following table summarises the present value of the defined benefit obligation and fair value of plan assets for the Scheme as at 30 September:

	2020 £m	2019 £m
Active members' defined benefit obligation	**(23)**	(30)
Deferred members' defined benefit obligation	**(2,064)**	(2,537)
Pensioner and dependant members' defined benefit obligations	**(1,871)**	(1,744)
Total defined benefit obligation	**(3,958)**	(4,311)
Fair value of Scheme assets	**4,681**	4,707
Net defined benefit pension asset	**723**	396

The Group's pension arrangements

The Group operates both defined benefit and defined contribution arrangements. The Group's principal trading subsidiary, Clydesdale Bank PLC, is the sponsoring employer in one funded defined benefit pension scheme, the Yorkshire and Clydesdale Bank Pension Scheme ('the Scheme'). 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 a number of reforms to the Scheme to manage the obligation. It closed the Scheme to new members in 2004 and since April 2006 has determined 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 affected employees' future pension benefits being provided through the Group's existing defined contribution scheme, 'Total Pension'. 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 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 2020 (2019: £3m) and is included within other liabilities in note 3.15.

3.10 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, taking into account 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 the current year 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, future payments to the Scheme are 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 total £52m and will be paid at the rate of £2m per month over the period January 2021 to April 2023.

Scheme assets are not subject to the same valuation differences as Scheme obligations and are consistently valued at current market value.

IAS 19 position

The Scheme movements in the year are as follows:

	2020				2019			
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Cumulative loss in OCI £m	Present value of obligation £m	Fair value of plan assets £m	Total £m	Cumulative loss in OCI £m
Balance sheet surplus at 1 October	**(4,311)**	**4,707**	**396**		(3,746)	3,958	212	
				(594)				(704)
Total expense								
Current service cost	**–**	**–**	**–**		–	–	–	
Past service cost	**(1)**	**–**	**(1)**		(11)	–	(11)	
Interest (expense)/income	**(75)**	**82**	**7**		(100)	107	7	
Administrative costs	**–**	**(6)**	**(6)**		–	(5)	(5)	
Total (expense)/income recognised in the consolidated income statement	**(76)**	**76**	**–**		(111)	102	(9)	
Remeasurements								
Return on Scheme assets greater than discount rate	**–**	**61**	**61**	**61**	–	772	772	772
Actuarial:								
Gain/(loss) – experience adjustments	**140**	**–**	**140**	**140**	(9)	–	(9)	(9)
Gain – demographic assumptions	**116**	**–**	**116**	**116**	30	–	30	30
Loss – financial assumptions	**(25)**	**–**	**(25)**	**(25)**	(683)	–	(683)	(683)
Remeasurement gains/(losses) recognised in other comprehensive income	**231**	**61**	**292**	**292**	(662)	772	110	110
Contributions and payments								
Employer contributions	**–**	**35**	**35**		–	83	83	
Benefit payments	**105**	**(105)**	**–**		96	(96)	–	
Transfer payments	**93**	**(93)**	**–**		112	(112)	–	
	198	**(163)**	**35**		208	(125)	83	
Balance sheet surplus at 30 September	**(3,958)**	**4,681**	**723**		(4,311)	4,707	396	
				(302)				(594)

In the prior year the Group included an allowance of £11m in the income statement for GMP equalisation following a judgement by the High Court against Lloyds Banking Group which ruled that defined benefit schemes are required to equalise pension benefits for men and women. On 20 November 2020, a further judgement was announced in respect of the Lloyds case, which determined that schemes would also be required to revisit and, where necessary, top up historic cash equivalent transfer values that were calculated on an unequalised basis, in the event that an affected member makes a successful claim. This ruling applies to benefits accrued between 17 May 1990 and 5 April 1997. It is not possible at this stage to quantify the potential financial impact of this ruling for the Scheme, and consequently for the Group.

3.10 Retirement benefit obligations continued

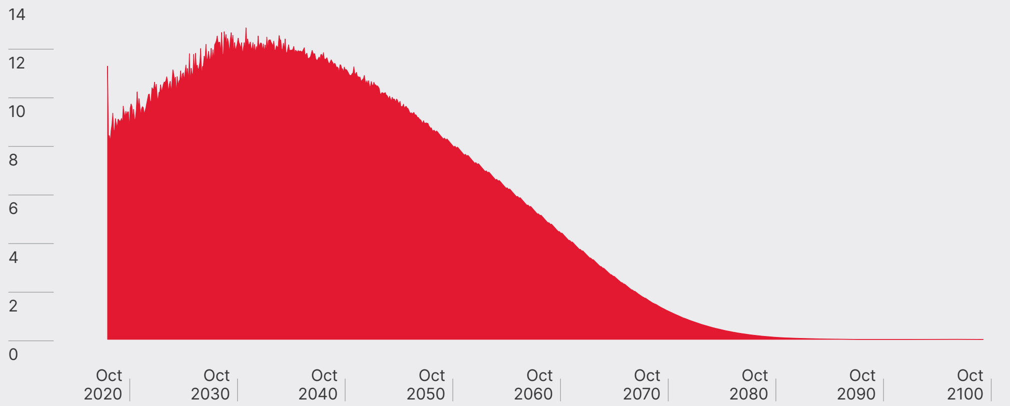
The expected contributions and expected benefit payments for the year ending 30 September 2021 are £39m (2020: £56m) and £108m (2020: £108m) respectively.

The Group and Trustee have entered into a contingent security arrangement (the 'Security Arrangement') (note 5.3).

Maturity of Scheme liabilities

The estimated maturity period of Scheme obligations on an IAS 19 accounting basis is as follows:

Pension Scheme Liability Cashflows – £m



The discounted mean term of the defined benefit obligation at 30 September 2020 is 19 years (2019: 20 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 2020, the interest rate and inflation rate hedge ratios were around 97% and 84% respectively (2019: 85% and 75%) 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; and
- return seeking assets – a range of investments designed to provide specific, planned and consistent returns.

The major categories of plan assets for the Scheme, stated at fair value, are as follows:

	2020				2019			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Bonds								
Fixed government	**930**	**–**	**930**		569	–	569	
Index linked government	**2,001**	**–**	**2,001**		1,757	–	1,757	
Global sovereign	**115**	**1**	**116**		20	1	21	
Corporate and other	**879**	**48**	**927**		531	305	836	
	3,925	**49**	**3,974**	**85%**	2,877	306	3,183	68%
Equities[1]								
Global equities	**–**	**368**	**368**		–	503	503	
Emerging market equities	**–**	**43**	**43**		–	50	50	
UK equities	**–**	**114**	**114**		–	32	32	
	–	**525**	**525**	**11%**	–	585	585	12%
Other								
Secured income alternatives	**–**	**165**	**165**		–	358	358	
Derivatives[2]	**–**	**78**	**78**		–	219	219	
Repurchase agreements	**–**	**(1,025)**	**(1,025)**		–	(534)	(534)	
Property	**–**	**122**	**122**		–	129	129	
Alternative credit	**–**	**563**	**563**		–	409	409	
Infrastructure	**–**	**127**	**127**		–	352	352	
Cash	**–**	**146**	**146**		–	1	1	
Equity options	**6**	**–**	**6**		5	–	5	
	6	**176**	**182**	**4%**	5	934	939	20%
Total Scheme assets	**3,931**	**750**	**4,681**	**100%**	2,882	1,825	4,707	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 2020, the Scheme had employer-related investments within the meaning of Section 40 (2) of the Pensions Act 1995 totalling £2m (2019: £2m).

Actuarial assumptions

The following assumptions were used in arriving at the IAS 19 defined benefit obligation:

	2020 % p.a.	2019 % p.a.
Financial assumptions		
Discount rate	**1.58**	1.77
Inflation (RPI)	**2.93**	3.20
Inflation (CPI)	**2.03**	2.20
Career average revalued earnings (CARE) revaluations:		
Pre 31 March 2012 benefits (RPI)	**2.93**	3.20
Post 31 March 2012 benefits (CPI capped at 5% per annum)	**2.03**	2.20
Pension increases (capped at 2.5% per annum)	**2.01**	2.10
Pension increases (capped at 5% per annum)	**2.85**	3.07
Rate of increase for pensions in deferment	**2.03**	2.20

Section 3: Assets and liabilities

3.10 Retirement benefit obligations continued

Demographic assumptions

	2020 Years	2019 Years
Post-retirement mortality:		
Current pensioners at 60 – male	**27.2**	28.0
Current pensioners at 60 – female	**29.3**	29.6
Future pensioners at 60 – male	**28.2**	29.1
Future pensioners at 60 – female	**30.4**	30.8

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%	(29)	(180)	(5)
	– 0.25%	33	192	4
Inflation	+ 0.25%	(23)	128	2
	– 0.25%	26	(124)	(2)
Life expectancy	+1 year	(161)	161	3
	–1 year	156	(156)	(3)

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.

3.11 Customer deposits

	2020 £m	2019 £m
Interest bearing demand deposits	**41,866**	38,551
Term deposits	**21,107**	22,239
Non-interest bearing demand deposits	**4,549**	3,002
Other wholesale deposits	**–**	1
	67,522	63,793
Accrued interest payable	**188**	207
	67,710	64,000

3.12 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.

The breakdown of debt securities in issue is shown below:

	Medium-term notes £m	Subordinated debt £m	Securitisation £m	Covered bonds £m	Total £m
2020					
Amortised cost	**1,991**	**750**	**3,992**	**1,842**	**8,575**
Fair value hedge adjustments	**64**	**–**	**10**	**76**	**150**
Total debt securities	**2,055**	**750**	**4,002**	**1,918**	**8,725**
Accrued interest payable	**13**	**7**	**3**	**10**	**33**
	2,068	**757**	**4,005**	**1,928**	**8,758**
2019					
Amortised cost	1,838	722	5,040	1,828	9,428
Fair value hedge adjustments	47	–	2	74	123
Total debt securities	1,885	722	5,042	1,902	9,551
Accrued interest payable	12	9	9	10	40
	1,897	731	5,051	1,912	9,591

Key movements in the year are shown in the table below[(1)]. Full details of all notes in issue can be found at https://www.virginmoneyukplc.com/investor-relations/debt-investors/. There were no issuances or redemptions of covered bonds during the year.

	Issuances		Redemptions	
	Denomination	£m	Denomination	£m
Medium-term note	EUR	448	GBP	(300)
Subordinated debt	GBP	474	GBP	(445)
Securitisation	USD, GBP	491	USD, EUR, GBP	(1,492)
		1,413		(2,237)

(1) Other movements relate to foreign exchange, amortisation of issuance costs and the unwinding of acquisition accounting adjustments.

Section 3: Assets and liabilities

3.12 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)

	2020 £m	2019 £m
VM UK 3.125% fixed-to-floating rate callable senior notes due 2025	**298**	298
VM UK 4% fixed rate reset callable senior notes due 2026	**529**	523
VM UK 3.375% fixed rate reset callable senior notes due 2025	**369**	366
VM UK 4% fixed rate reset callable senior notes due 2027	**406**	397
VM UK 2.875% fixed rate reset callable senior notes due 2025	**453**	–
CB PLC 2.25% fixed rate senior notes due 2020	**–**	301
	2,055	1,885

Subordinated debt (excluding accrued interest)

	2020 £m	2019 £m
VM UK 5% fixed rate reset callable subordinated notes due 2026[1]	**31**	476
VM UK 7.875% fixed rate reset callable subordinated notes due 2028	**247**	246
VM UK 5.175% fixed rate reset callable subordinated notes due 2030	**472**	–
	750	722

(1) Following a successful tender process, 93.6% of this note was repurchased at par on 11 September 2020.

Details of securitisation and covered bond issuances are included in note 3.3.

3.13 Due to other banks

Accounting policy

Repurchase agreements

Securities sold subject to sale and repurchase agreements ('repo') are retained in their respective balance sheet categories. The associated liabilities are included in amounts due to other banks based upon the counterparties to the transactions.

The difference between the sale and repurchase price of repos is treated as interest and accrued over the life of the agreements using the effective interest method.

	2020 £m	2019 £m
Secured loans	**5,397**	7,308
Securities sold under agreements to repurchase[1]	**–**	1,554
Transaction balances with other banks	**15**	12
Deposits from other banks	**57**	42
	5,469	8,916

(1) The underlying securities sold under agreements to repurchase have a carrying value of £Nil (2019: £2,324m).

Secured loans comprise amounts drawn under the TFS and TFSME schemes (including accrued interest).

3.14 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.

Critical accounting estimates and judgements
PPI redress provision and other conduct related matters
With the FCA's timebar deadline on PPI complaints having now passed and significant progress having been made into the large stock of complaints and IRs received in the weeks preceding the time bar, the level of uncertainty in determining the quantum of PPI related liability has reduced. The provision, however, continues to be subject to inherent uncertainties as a result of the subjective nature of the assumptions used in quantifying the overall estimated position at 30 September 2020, consequently the provision calculated may be subject to change in the future if outcomes differ to those currently assumed. Sensitivity analysis indicating the impact of reasonably possible changes in key assumptions on the PPI provision is presented within this note.

There are similar uncertainties and judgements for other conduct risk related matters, however the level of liability is materially lower.

	2020 £m	2019 £m
PPI redress provision		
Opening balance	**379**	275
Charge to the income statement	**–**	415
Utilised	**(272)**	(311)
Closing balance	**107**	379
Customer redress and other provisions		
Opening balance	**25**	41
Adoption of IFRS 16 (note 5.4)	**8**	–
Opening balance (restated)	**33**	41
Virgin Money provision on acquisition	**–**	11
Charge to the income statement	**28**	18
Utilised	**(30)**	(45)
Closing balance	**31**	25
Property closure and redundancy provision		
Opening balance	**55**	15
Adoption of IFRS 16 (note 5.4)	**(11)**	–
Opening balance (restated)	**44**	15
Virgin Money provision on acquisition	**–**	2
Charge to the income statement	**19**	64
Utilised	**(29)**	(26)
Closing balance	**34**	55
Total provisions for liabilities and charges	**172**	459

3.14 Provisions for liabilities and charges continued

PPI redress

In common with the wider UK retail banking sector, the Group continues to deal with complaints received in the period up to the time bar in August 2019. The Group has made good progress in reviewing and closing the remaining IRs and related complaints and considers the remaining provision to be enough to meet current and future expectations in relation to the mis-selling of PPI policies and therefore no additional charge was required in the year. The total provision raised to date in respect of PPI is £3,055m (2019: £3,055m), with £107m of this remaining (2019: £379m).

At 30 September 2020 the Group had received 730,000 complaints with c.30,000 of those left to review.

The overall provision continues to be based on several assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement in the key areas identified. Our experience since the time bar has been within expectations, particularly around the validity of complaints requiring redress (uphold rate). The PPI operation is now moving into the final months and the main area of variability is the uphold rate on the remaining complaints. Until this process is fully complete there remains a residual risk that existing provisions for PPI customer redress may not cover all potential costs.

Customer redress and other provisions

Other provisions include amounts in respect of a number of non-PPI customer redress matters, legal proceedings, claims arising in the ordinary course of the Group's business and other matters. The Group has raised £26m of further provisions in relation to non-PPI customer redress matters in the year. The ultimate cost to the Group of these customer redress matters is driven by a number of factors relating to offers of redress, compensation, offers of alternative products, consequential loss claims and administrative costs. The matters are at varying stages of their life cycle and in certain circumstances, usually early in the life of a potential issue, elements of the potential exposure are contingent. These factors could result in the total cost of review and redress varying materially from the Group's estimate. The final amount required to settle the Group's potential liabilities in these matters is therefore uncertain and further provision could be required.

3.15 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.

	2020 £m	2019 £m
Notes in circulation	**2,319**	2,277
Accruals and deferred income	**94**	130
Deferred grant	**35**	–
Other	**246**	127
	2,694	2,534

During the year, the Group applied for and was successful in receiving £35m from the CIF (as part of the RBS alternative remedies package). This will be utilised under the terms of the grant application in future financial years.

3.16 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 ELs 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); and
- 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, 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.

	30 September 2020		30 September 2019	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to customers(1)	**72,430**	**71,788**	73,095	73,119
Financial liabilities				
Due to other banks(2)	**5,469**	**5,469**	8,916	8,874
Customer deposits(2)	**67,710**	**67,809**	64,000	64,166
Debt securities in issue(3)	**8,758**	**8,836**	9,591	9,667

(1) Loans and advances to customers are categorised as Level 3 in the fair value hierarchy with the exception of £1,060m (2019: £1,513m) 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 £2,846m of listed debt (2019: £2,606m) which is categorised as Level 1.

Section 3: Assets and liabilities

3.16 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 using current market rates for instruments of similar terms and maturity to arrive at an estimate of their fair value.

(b) *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.

(c) *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.

(d) *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.

(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 as at 30 September 2020				Fair value measurement as at 30 September 2019			
	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 fair value through other comprehensive income	**5,080**	**–**	**–**	**5,080**	4,328	–	–	4,328
Loans and advances at fair value through profit or loss	**–**	**190**	**–**	**190**	–	253	–	253
Other financial assets at fair value through profit or loss	**–**	**8**	**5**	**13**	–	–	14	14
Derivative financial assets	**–**	**318**	**–**	**318**	–	366	–	366
Total financial assets at fair value	**5,080**	**516**	**5**	**5,601**	4,328	619	14	4,961
Financial liabilities								
Financial liabilities at fair value	**–**	**–**	**–**	**–**	–	4	–	4
Derivative financial liabilities	**–**	**250**	**–**	**250**	–	273	–	273
Total financial liabilities at fair value	**–**	**250**	**–**	**250**	–	277	–	277

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) *Fair value through other comprehensive income* – The fair values of listed investments are based on quoted closing market prices.

(b) *Financial assets and liabilities at fair value through profit or loss:*

Loans and advances to customers and term deposits (Level 2) – The fair values are 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.

Financial assets at fair value through profit or loss (Level 2) – Comprises £8m of Visa Inc. Series A preferred stock which converted from Series B in September 2020. The fair value is derived from the closing bid price of Common A shares and the conversion factor.

Financial assets at fair value through profit or loss (Level 3) – Primarily represents £3m 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.

(c) *Derivative financial assets and liabilities* – The fair values of derivatives, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from discounted cash flow models or option pricing models as appropriate.

Level 3 movement analysis:

	2020 Financial assets at fair value through profit or loss £m	2019 Financial assets at fair value through profit or loss £m
Balance at the beginning of the year	**14**	11
Fair value gains recognised[(1)]		
In profit or loss – unrealised	**1**	1
In profit or loss – realised	**5**	3
Purchases	**–**	3
Sales	**(10)**	–
Settlements	**(5)**	(4)
Balance at the end of the year	**5**	14

(1) Net gains or losses were recorded in non-interest income or FVOCI reserve as appropriate.

Quantitative information about significant unobservable inputs in Level 3 valuations

The table below lists key unobservable inputs to Level 3 financial instruments and provides the range of those inputs as at 30 September 2020.

	Fair value £m	Valuation technique	Unobservable inputs	Low range	High range
Other financial assets at FVTPL					
Equity investments	4	Discounted cash flow	Contingent litigation risk	0%	100%
Debt investments	1	Discounted cash flow	Recoverable amount	0%	100%

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

Where valuation techniques use non-observable inputs that are significant to a fair value measurement in its entirety, changing these inputs will change the resultant fair value measurement. The most significant input into the FVTPL equity investment is the contingent litigation risk.

Were this to crystallise in its entirety, the carrying value of the equity investments would reduce by £3m.

Other than this significant Level 3 measurement, the Group has a limited remaining exposure to Level 3 fair value measurements and changing one or more of the inputs for fair value measurements in Level 3 to reasonable alternative assumptions would not change the fair value significantly with respect to profit or loss, total assets, total liabilities or equity on these remaining Level 3 measurements.

Section 3: Assets and liabilities

3.17 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 a number of 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.

a) Amounts recognised in the income statement

The income statement includes the following amounts related to leases:

	2020 £m
Interest expense and similar charges	
Interest expense	**(3)**
Other operating income	
Amounts receivable under leases where the Group is a lessor	**1**
Operating and administrative expenses	
Depreciation and impairment of right-of-use assets	**(30)**
Expense relating to short-term leases	**(3)**
Expense relating to leases of low-value assets that are not short-term leases	**(2)**
Amounts recognised in the income statement	**(37)**

Total leasing cash outflow in the year was £30m.

b) Amounts recognised on the balance sheet

Right-of-use assets

	2020 £m
As at 30 September 2019	–
Adjustment on transition to IFRS 16	**194**
As at 1 October 2019	**194**
Additions	**3**
Remeasurements	**(6)**
Depreciation and impairment	**(30)**
As at 30 September 2020	**161**

All right-of-use assets relate to leases of land and buildings.

On 31 July 2020 the Group announced plans for the closure of 35 properties leased by the Group. The value of the right-of-use asset associated with these properties at that time was £10m. Following the announcement, the recoverable amount of the right-of-use assets was assessed. Where it is expected the Group can sub-lease the property, the value-in-use was determined 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. The discount rates used in the value-in-use calculations ranged from 0.8%-1.6%. The total value-in-use was £4m resulting in an impairment charge of £6m, which has been recognised in other operating and administration expenses. In addition to the impairment charge relating to the right-of-use assets, a provision has been recognised for other costs associated with the closures (note 3.14).

On 30 September 2020 the Group also reviewed its existing surplus estate population for impairment. It was concluded that 27 properties should be impaired following this assessment. The discount rates used in the value-in-use calculations ranged from 0.7%-1.7%. The total value-in-use was £4m resulting in an impairment charge of £0.5m, which has been recognised in other operating and administrative expenses.

Sub-leases

Future undiscounted minimum payments receivable in respect of sub-leased assets at 30 September were as follows:

	2020 £m
Operating leases	**4**
Finance leases	**5**
	9

Lease liabilities

	2020 £m
Lease liabilities(1)	**175**

(1) Lease liabilities are presented within other liabilities on the balance sheet.

Future undiscounted minimum payments under lease liabilities at 30 September 2020 were as follows:

Amounts falling due	2020 £m
Within 1 year	**27**
Between 1 and 5 years	**84**
Over 5 years	**88**
	199

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	2020 £m	2019(1) £m
Within 1 year	–	35
Between 1 and 5 years	**18**	135
Over 5 years	**112**	244
	130	414

(1) The 2019 disclosure includes all lease commitments and is presented on an IAS 17 basis, prior to the adoption of IFRS 16 on 1 October 2019. As such, the prior year is not directly comparable with the undiscounted lease liability payments in the current year due to differences between the cash flows included in the measurement of the lease liability compared to the basis of calculation for the 2019 commitment disclosure. Refer to note 5.4 for a reconciliation of the prior year commitment to the opening lease liability balance.

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; and

(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.

Proposed final dividends for the year are disclosed as an event after the balance sheet date.

4.1.1 Share capital and share premium

	2020 £m	2019 £m
Share capital	**144**	143
Share premium	**3**	3
Share capital and share premium	**147**	146

	2020 Number of shares	2019 Number of shares	2020 £m	2019 £m
Ordinary shares of £0.10 each – allotted, called up and fully paid				
Opening ordinary share capital	**1,434,485,689**	886,079,959	**143**	89
Share for share exchange	**–**	540,856,644	**–**	54
Issued under employee share schemes	**4,088,998**	7,549,086	**1**	–
Closing ordinary share capital	**1,438,574,687**	1,434,485,689	**144**	143

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 2020 rank equally with regard to the Company's residual assets.

During the year, 4,088,998 (2019: 7,549,086) ordinary shares were issued under employee share schemes with a nominal value of £0.4m (2019: £0.7m).

A final dividend in respect of the year ended 30 September 2018 of 3.1p per ordinary share amounting to £45m was paid in February 2019. This dividend was deducted from retained profits in the prior year. No dividend was declared or paid in respect of the year ended 30 September 2019. In light of the current uncertainty as to the economic impact of the COVID-19 pandemic, the Directors do not recommend payment of a dividend in respect of the year ended 30 September 2020.

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 consist 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 £450m and optional redemption on 8 December 2022;
- Perpetual securities (fixed 8.75% up to the first reset date) issued on 10 November 2016 with a nominal value of £230m and optional redemption on 10 November 2021. This was held by Virgin Money Holdings (UK) PLC on the date of acquisition and was originally recognised as a non-controlling interest (note 4.1.6). Following a change in obligor from Virgin Money Holdings (UK) PLC to CYBG PLC on 20 August 2019, this has been recognised within other equity; and
- 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.

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 £15m (2019: £15m). AT1 distributions of £79m were paid in the year (2019: £41m). Following revisions to the tax rules on hybrid capital which took effect from 1 January 2019, Hybrid Capital Instruments elections covering the Group's AT1s that existed at 1 January 2019 were made to HMRC on 27 September 2019. Accordingly, in line with the revised standard, the tax credits for these payments have been recognised in the income statement.

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) PLC. The merger reserve reflects the difference between the consideration for the issuance of the Company's shares and the nominal value of the shares issued.

4.1.5 Other reserves

Own shares held

Virgin Money Holdings (UK) PLC 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) PLC share. The investment in own shares as at 30 September 2020 is £0.5m (2019: £1m). The market value of the shares held in the EBT at 30 September 2020 was £0.1m (2019: £1m).

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) PLC share awards, which will be settled through the issuance of the Company's shares at a future date in line with the vesting profile of the underlying plans.

Equity based compensation reserve

The Group's equity based compensation reserve records the value of equity settled share based payment benefits provided to the Group's employees as part of their remuneration that has been charged through the income statement and adjusted for deferred tax.

FVOCI reserve

The FVOCI reserve records the unrealised gains and losses arising from changes in the fair value of financial assets at FVOCI. The movements in this reserve are detailed in the consolidated statement of comprehensive income.

Cash flow hedge reserve

The cash flow hedge reserve represents the effective portion of cumulative post-tax gains and losses on derivatives designated as cash flow hedging instruments that will be recycled to the income statement when the hedged items affect profit or loss.

	2020 £m	2019 £m
At 1 October	**(26)**	(39)
Amounts recognised in other comprehensive income:		
Cash flow hedge – interest rate risk		
Effective portion of changes in fair value of interest rate swaps	**(74)**	14
Amounts transferred to the income statement	**1**	–
Taxation	**19**	(3)
Cash flow hedge – foreign exchange risk		
Effective portion of changes in fair value of cross currency swaps	**(59)**	59
Amounts transferred to the income statement	**59**	(57)
At 30 September	**(80)**	(26)

4.1 Equity continued

4.1.6 Non-controlling interests

On 15 October 2018, the date on which it was acquired by the Company, Virgin Money Holdings (UK) PLC (now an intermediate holding company within the Group) had in issue Fixed Rate Resettable AT1 securities issued on the Luxembourg Stock Exchange. In accordance with IAS 32 these were classified as equity instruments. The Group did not acquire the AT1 securities at that time, consequently these represented a non-controlling interest. As the AT1 instruments were actively traded, the fair value on acquisition of £422m was calculated based on the market price on the Luxembourg Stock Exchange at its close of business on 12 October 2018. Subsequently on 20 August 2019, there was a change in obligor from Virgin Money Holdings (UK) PLC to the Company, following which these instruments have been recognised within other equity (note 4.1.2).

There were no distributions to non-controlling interests in the current year (2019: £33m paid, £26m net of tax).

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 £10m (2019: £4m).

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	2016, 2017, 2018 and 2019
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 and 2019
SIP	All employees	Non-conditional share award	Continuing employment	2016, 2017 and 2018

(1) All awards are subject to vesting conditions and therefore may or may not vest.

(2) The year in which grants have been made under the relevant plan.

(3) Grants made under the DEP are made the year following the financial year to which they relate.

Further detail on each plan is provided below:

DEP

Under the plan, employees are awarded conditional rights to Virgin Money UK PLC shares. The shares are subject to forfeiture conditions including forfeiture as a result of resignation, termination by the Group or failure to meet compliance requirements. Awards include:

- the upfront and deferred elements of bonus awards where required to comply with the PRA Remuneration Code or the Group's deferral policy; and
- buyout of equity from previous employment.

LTIP

Under the plan, employees are awarded conditional rights to Virgin Money UK PLC shares. The shares are subject to forfeiture conditions including forfeiture as a result of resignation, termination by the Group or failure to meet compliance requirements. The performance conditions of the plan must be met over a three-year period. The measures reflect a balanced approach between financial and non-financial performance and are aligned to the Group's strategic goals. Measures, relative weightings and the quantum for assessing performance are outlined in the Directors' remuneration report.

SIP

At the date of the awards, eligible employees are awarded Group shares which are held in the SIP Trust. Awards are not subject to performance conditions and participants are the beneficial owners of the shares granted to them, but not the registered owners. Voting rights over the shares are normally exercised by the registered owner at the direction of the participants. For the 2015 and 2017 awards, leavers (with the exception of gross misconduct) retain their awards but they must withdraw their shares from the SIP Trust.

Awards/rights made during the year

Plan	Number outstanding at 1 October 2019	Number awarded	Number forfeited	Number released	Number outstanding at 30 September 2020	Average fair value of awards at grant pence
DEP						
2015 Demerger	28,224	–	–	(28,224)	–	196.96
2016 Bonus	10,703	–	–	(10,703)	–	266.03
2016 Commencement	20,404	–	–	(14,694)	5,710	266.03
2017 Bonus	231,070	–	–	(7,706)	223,364	313.20
2017 Commencement	5,109	–	–	(5,109)	–	313.20
2018 Bonus	171,805	–	–	(1,156)	170,649	192.35
2019 Bonus	–	1,710,334	(7,969)	(1,610,437)	91,928	174.50
2019 Commencement	–	67,528	–	(35,890)	31,638	174.50
LTIP						
2016 LTIP	2,028,468	–	(803,312)	(1,225,156)	–	266.03
2017 LTIP	2,106,953	–	(63,551)	–	2,043,402	313.20
2018 LTIP	5,795,804	–	(149,594)	–	5,646,210	190.47
2019 LTIP	–	8,976,526	(39,509)	–	8,937,017	174.50
SIP						
2015 Demerger	1,026,492	–	(2,560)	(95,903)	928,029	194.67
2017 Free Share	836,976	–	(4,611)	(62,328)	770,037	313.20
2019 Free Share	2,210,802	–	(110,208)	(119,802)	1,980,792	202.53

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.

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.

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 customers 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

	2020 £m	2019 £m
Guarantees and assets pledged as collateral security:		
Due in less than 3 months	**18**	24
Due between 3 months and 1 year	**15**	24
Due between 1 year and 3 years	**14**	6
Due between 3 years and 5 years	**2**	11
Due after 5 years	**46**	48
	95	113
Other credit commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**16,775**	15,158

Of the Group’s total loan commitments and financial guarantee contracts of £16,870m, £15,155m (89.8%) are held under Stage 1 for IFRS 9 purposes, with £1,666m in Stage 2 and £49m in Stage 3. ECLs of £7m (2019: £5m) are held for undrawn exposures, of which £1m was held under Stage 1 and £6m under Stage 2. In terms of credit quality, over 95% of the loan commitments and financial guarantee contracts were classed as either ‘Good’ or ‘Strong’ under the Group’s internal PD rating scale.

Capital commitments

The Group had future capital expenditure which had been contracted for, but not provided for, at 30 September 2020 of £0.4m (2019: £0.2m).

The Group has committed to providing additional funding of up to £10.9m over the next 12 months to support the strategic and customer proposition development of UTM. AAM, the other shareholder in UTM, has also committed to providing additional funding of up to £10.9m over the same timeframe.

Other contingent liabilities

Conduct risk related matters

There continues to be uncertainty and thus judgement is required in determining the quantum of conduct risk related liabilities, with note 3.14 reflecting the Group’s current position in relation to redress provisions including those for PPI. Following the August 2019 time bar for PPI complaints the Group has made good progress in reviewing and closing the IRs and related complaints. Until all matters are closed the final amount required to settle the Group’s potential liabilities for these, and other conduct related matters, remains uncertain. Contingent liabilities include those matters where redress is likely to be paid and costs incurred but the amounts cannot currently be estimated.

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.

5.2 Notes to the statement of cash flows

	2020 £m	2019 £m
Adjustments included in the loss before tax		
Interest receivable	**(2,137)**	(2,432)
Interest payable	**854**	918
Depreciation and amortisation (note 2.4)	**149**	108
Derivative financial instruments fair value movements	**11**	17
Impairment losses on credit exposures (note 3.2)	**507**	252
Software impairments and write-offs	**–**	132
IFRS 16 impairment losses on PPE	**6**	–
Gain on sale of 50% (less one share) consideration in Virgin Money Unit Trust Managers Limited	**–**	(35)
Equity based compensation (note 4.2)	**10**	4
Gain on disposal of fair value through other comprehensive income assets (note 2.3)	**(16)**	–
Other non-cash movements	**10**	1
	(606)	(1,035)
Changes in operating assets		
Net increase in:		
Balances with supervisory central banks	**(38)**	(20)
Due from other banks	**–**	(143)
Derivative financial instruments	**(96)**	64
Financial instruments at fair value through other comprehensive income	**–**	16
Financial assets at fair value through profit or loss	**65**	103
Loans and advances to customers	**134**	(2,663)
Defined benefit pension assets	**(35)**	(74)
Other assets	**(105)**	174
	(75)	(2,543)
Changes in operating liabilities		
Net increase in:		
Due to other banks	**(1,531)**	(12)
Derivative financial instruments	**(23)**	(128)
Financial liabilities at fair value through profit or loss	**(4)**	(11)
Customer deposits	**3,728**	2,837
Provisions for liabilities and charges	**(294)**	128
Other liabilities	**1**	(184)
	1,877	2,630

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).

	2020 £m	2019 £m
Cash and balances with central banks (less mandatory deposits)	**8,887**	10,113
Due from other banks (less than three months)	**927**	1,018
	9,814	11,131

Section 5: Other notes

5.3 Related party transactions

	2020 £m	2019 £m
Investments in joint ventures and associates		
Virgin Money Unit Trust Managers Limited(1)	**3**	8
Salary Finance Loans Limited(2)	**–**	–
Loans and advances		
Salary Finance Loans Limited(2)	**119**	53
Other assets		
Amounts due from Virgin Money Unit Trust Managers Limited(1)	**3**	2
Total assets with related entities	**125**	63
Customer deposits		
The Virgin Money Foundation	**–**	1
Other liabilities		
Group pension deposits(3)	**17**	17
Commissions and charges due to Virgin Atlantic Airways Limited(4)	**1**	6
Trademark licence fees due to Virgin Enterprises Limited(5)	**4**	4
Total liabilities with related entities	**22**	28
Non-interest income		
Net fees and commissions to Virgin Atlantic Airways Limited(4)	**(12)**	(15)
Share of post-tax result of Virgin Money Unit Trust Managers Limited(1)	**(6)**	(1)
Gain on sale of 50% (less one share) consideration in Virgin Money Unit Trust Managers Limited to Aberdeen Asset Management(1)	**–**	35
Operating and administrative expenses		
Trademark licence fees to Virgin Enterprises Limited(5)	**(13)**	(11)
Costs recharged to Virgin Money Unit Trust Managers Limited(1)	**7**	2
Donations to the Virgin Money Foundation(6)	**(1)**	(2)
Total income statement	**(25)**	8

(1) The Group has a JV with AAM, named UTM. During the year, the Group purchased additional shares in the JV totalling £1.6m as part of a commitment to provide £12.5m of additional funding over the 12 month period to April 2021. Amounts due from UTM and costs recharged to UTM relate to the recharge of relevant Group costs such as systems support, staff costs, and marketing.

(2) The Group has a JV with Salary Finance Limited, where both shareholders own a 50% equity share in Salary Finance Loans Limited. The JV connects to the payroll of participating employers to offer salary-deducted loans. The Group provides a revolving credit facility funding line, of which the current gross lending balance is £119m (2019: £53m). The facility is held under Stage 1 for credit risk purposes with a minimal amount of ECLs held. The undrawn facility is £81m (2019: £47m). The share of loss is £0.2m (2019: £0.3m).

(3) The Group and the Trustee to the pension scheme 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. The Group incurred costs in relation to pension scheme administration. These costs, which amounted to £0.1m (2019: £0.1m), were charged to the Group sponsored scheme. Information on the pension schemes operated by the Group is provided in note 3.10. Pension contributions of £35m (2019: £83m) were made to the Scheme (note 3.10).

(4) The Group incurs credit card commissions and air mile charges from Virgin Atlantic Airways Limited (VAA) in respect of an agreement between the two parties. £1m (2019: £4m) of cash costs payable to VAA have been deferred on the balance sheet.

(5) Licence fees of £13m (2019: £11m) were payable to Virgin Enterprises Limited for the use of the Virgin Money brand trademark.

(6) The Group has made donations to the Virgin Money Foundation to enable it to pursue its charitable objectives. The Group has also provided a number of support services to the Virgin Money 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 (2019: £0.6m) and is included in the total value disclosed above.

The Group paid £Nil (2019: £0.2m) ordinary dividends to Virgin Group Holdings Limited during the year.

Compensation of key management personnel (KMP)
KMP comprises Directors of the Company and members of the Executive Leadership Team.

	2020 £m	2019 £m
Salaries and short-term benefits	**10**	14
Termination benefits	**1**	5
Equity based compensation(1)	**4**	2
	15	21

(1) The expense recognised in the year is in accordance with IFRS 2 'Equity based compensations', including associated employers' NIC.

The following information regarding Directors' remuneration is presented in accordance with the Companies Act 2006.

	2020 £m	2019 £m
Aggregate remuneration(1)	**4**	5

(1) Aggregate emoluments include amounts paid for the 2020 year and amounts paid under LTIPs in 2020 relating to 2016 LTIP awards released in 2020 (£0.3m). LTIP figures in the single figure table for Executive Directors' 2020 remuneration in the Remuneration report relate to the 2017 LTIP award in respect of the 2018-2020 LTIP performance period cycle.

None of the Directors were members of the Group's defined contribution pension scheme during 2020 (2019: none).

None of the Directors were members of the Group's defined benefit pension scheme during 2020 (2019: none). None of the Directors hold share options and none were exercised during the year (2019: 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:

	2020 £m	2019 £m
Loans and advances	**4**	4
Deposits	**2**	3

No provisions have been recognised in respect of loans provided to the KMP (2019: £Nil). There were no debts written off or forgiven during the year to 30 September 2020 (2019: £Nil). Included in the above are eight (2019: four) loans totalling £1m (2019: £1m) made to Directors. In addition to the above, there are guarantees of £Nil (2019: £Nil) made to Directors and their related parties.

Section 5: Other notes

5.4 Transition to IFRS 16 'Leases'

The Group has adopted IFRS 16 Leases from 1 October 2019 and elected to apply the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 October 2019 and comparatives are not restated. Under the modified retrospective approach, at transition, lease liabilities have been measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 October 2019. The weighted-average borrowing rate applied to these lease liabilities on transition was 1.7%. For the purposes of applying the modified retrospective approach, the Group has elected to:

- measure the right-of-use asset at an amount equal to the lease liability at the date of initial application adjusted by the amount of any prepaid or accrued lease payments;
- apply the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;
- apply the practical expedient to rely on its assessment as to whether the lease was onerous under IAS 37 and therefore adjust the right-of-use asset at the date of initial application by the onerous lease provision rather than conduct an impairment test; and
- apply the practical expedient to grandfather the assessment of which transactions are leases. It will apply IFRS 16 only to contracts that were previously identified as leases by IAS 17. Contracts that were not identified as leases under IAS 17 and IFRIC 4 will not be reassessed. Therefore, the definition of a lease under IFRS 16 will only be applied to contracts entered into or changed on or after 1 October 2019.

The impact of the adoption of IFRS 16 on the opening balance sheet as at 1 October 2019 is shown in the table below:

	As at 30 September 2019 £m	Impact of IFRS 16 £m	Restated as at 1 October 2019 £m
Property, plant and equipment	145	194	339
Other assets	237	–	237
Provisions	459	(3)	456
Other liabilities	2,534	196	2,730
Equity	5,021	1	5,022

The adoption of IFRS 16 has absorbed 10bps of the Group's CET1 capital, principally through the risk weighting of assets now recognised on balance sheet.

Lease liabilities amounting to £205m in respect of leased properties previously accounted for as operating leases were recognised at 1 October 2019. Offsetting this in the £196m movement in other liabilities on adoption is a £9m transfer of rent-free period accruals out of other liabilities on transition.

The following is a reconciliation of operating lease commitments disclosed at 30 September 2019 to the lease liability recognised at 1 October 2019:

	£m
Undiscounted future minimum lease payments under operating leases at 30 September 2019	414
Leases not yet commenced at 1 October 2019	(129)
Irrecoverable VAT included in future minimum lease payments	(49)
Short-term leases recognised on a straight line basis as an expense	(2)
Lease prepayments	(6)
Discounted at the incremental borrowing rate	(24)
Other	1
Total lease liability recognised as at 1 October 2019	205

IFRS 16 amends the criteria applied to assess whether a sub-lease is an operating lease or a finance lease. Changes to the classification of sub-leases where the Group is lessor under IFRS 16 has resulted in certain sub-leases of surplus estate previously classified as operating leases being reclassified as finance leases. In those cases, any difference between the value of the impaired right-of-use asset on transition and the sub-lease receivable recognised on transition is recognised as a gain or loss directly within equity.

Under IFRS 16, the operating lease expense previously recorded in operating and administrative costs has been replaced by a depreciation charge (also included within operating and administrative costs), which is lower than the operating lease expense recognised under IAS 17, and a separate interest expense, recorded in 'interest expense'. While the decision to transition using the modified retrospective approach impacts comparability with prior years within the Group's consolidated income statement, the line item impact is not material.

There is no net cash flow impact arising from the adoption of the new standard.

The Group's revised accounting policy is disclosed in note 3.17.

5.5 Pillar 3 disclosures

Basel III Capital Requirements Directive IV

Pillar 3 disclosure requirements are set out in Part Eight of the CRR. The consolidated disclosures of the Group, for the 2020 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/financial-results/.

5.6 Post balance sheet events

Appointment of Group Chief Financial Officer

On 17 November 2020, we announced that Clifford Abrahams had been appointed Executive Director and Group Chief Financial Officer and that it was expected that he would join the Group in March 2021, subject to regulatory approval.

Company balance sheet

As at 30 September	Note	2020 £m	2019 £m
Assets			
Investments in controlled entities	6.2	**4,048**	4,325
Due from related entities	6.6	**2,773**	2,287
Financial assets at fair value through profit or loss		**12**	7
Current tax assets		**5**	2
Total assets		**6,838**	6,621
Liabilities			
Debt securities in issue	6.3	**2,743**	2,257
Due to other banks		**64**	104
Due to related entities	6.6	**15**	21
Other liabilities		**7**	7
Total liabilities		**2,829**	2,389
Equity			
Share capital and share premium	4.1	**147**	146
Other equity instruments	6.5	**919**	919
Merger reserve	6.5	**2,128**	2,128
Other reserves	6.5	**26**	24
Retained earnings	6.5	**789**	1,015
Total equity		**4,009**	4,232
Total liabilities and equity		**6,838**	6,621

The Company made a loss of £155m (2019: profit of £83m) during the year.

The notes on pages 249 to 254 form an integral part of these financial statements.

Company statement of changes in equity

	Note	Share capital and share premium £m	Other equity instruments £m	Merger reserve £m	Other reserves: Deferred shares reserve £m	Other reserves: Equity based compensation reserve £m	Other reserves: Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 1 October 2018		89	450	633	–	10	(1)	1,005	2,186
Profit for the year(1)		–	–	–	–	–	–	83	83
Other comprehensive income, net of tax		–	–	–	–	–	–	2	2
Total comprehensive income for the year		–	–	–	–	–	–	85	85
Acquisition of Virgin Money Holdings (UK) PLC		54	–	1,495	23	–	–	–	1,572
Dividends paid to ordinary shareholders		–	–	–	–	–	–	(45)	(45)
AT1 distributions paid(1)		–	–	–	–	–	–	(41)	(41)
Transfer from equity based compensation reserve		–	–	–	–	(8)	–	8	–
Equity based compensation expensed		–	–	–	–	4	–	–	4
Settlement of Virgin Money Holdings (UK) PLC share awards		3	–	–	(4)	–	–	1	–
AT1 issuance		–	469	–	–	–	–	2	471
As at 30 September 2019	6.5	146	919	2,128	19	6	(1)	1,015	4,232
Loss for the year		–	–	–	–	–	–	(155)	(155)
Other comprehensive income, net of tax		–	–	–	–	–	1	–	1
Total comprehensive income/(losses) for the year		–	–	–	–	–	1	(155)	(154)
AT1 distribution paid		–	–	–	–	–	–	(79)	(79)
Ordinary shares issued		1	–	–	–	–	–	–	1
Transfer from equity based compensation reserve		–	–	–	–	(6)	–	6	–
Equity based compensation expensed		–	–	–	–	10	–	–	10
Settlement of Virgin Money Holdings (UK) PLC share awards		–	–	–	(3)	–	–	2	(1)
As at 30 September 2020	6.5	**147**	**919**	**2,128**	**16**	**10**	**–**	**789**	**4,009**

(1) The comparative has been restated in line with the current year presentation. Refer to note 1.10.

The notes on pages 249 to 254 form an integral part of these financial statements.

Company statement of cash flows

For the year ended 30 September	2020 £m	2019 £m
Operating activities		
(Loss)/profit on ordinary activities before tax	**(159)**	82
Adjustments for:		
Changes in operating assets		
Current tax assets	**–**	(1)
Changes in operating liabilities		
Due to other banks	**–**	(17)
Interest receivable	**(107)**	(72)
Interest payable	**112**	75
Costs recharged from subsidiary	**235**	2
Fair value movements on other financial assets designated at fair value through profit and loss	**(5)**	–
Net increase/(decrease) in amounts due to related entities	**8**	(12)
Tax received – Group relief	**3**	1
Net cash provided by operating activities	**87**	58
Cash flows from investing activities		
Investment in controlled entities	**–**	(475)
Net cash used in investing activities	**–**	(475)
Cash flows from financing activities		
Interest received	**102**	64
Interest paid	**(101)**	(63)
Issuance of medium-term notes/subordinated debt	**927**	976
Net (increase)/decrease in amounts due from related entities	**(480)**	467
AT1 issuance	**–**	(988)
Redemption of medium-term notes/subordinated debt	**(447)**	–
Ordinary dividends paid	**–**	(45)
AT1 distributions	**(79)**	(41)
Net cash (used in)/provided by financing activities	**(78)**	370
Net increase/(decrease) in cash and cash equivalents	**9**	(47)
Cash and cash equivalents at the beginning of the year	**(11)**	36
Cash and cash equivalents at the end of the year	**(2)**	(11)

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.

	2020 £m	2019 £m
Due to related parties (note 6.6)	**(2)**	(11)

Movements in liabilities arising from financing activities:	Debt securities in issue £m	Total £m
At 1 October 2019	**2,257**	**2,257**
Cash flows:		
Issuances	**927**	**927**
Drawdowns	**(447)**	**(447)**
Non cash flows:		
Movement in accrued interest	**2**	**2**
Other movements	**4**	**4**
At 30 September 2020	**2,743**	**2,743**

The notes on pages 249 to 254 form an integral part of these financial statements.

Section 6: Notes to the Company financial statements

6.1 Company basis of preparation

The Company is incorporated in the UK and registered in England and Wales.

The Company financial statements of Virgin Money UK PLC, the parent company (the Company), which should be read in conjunction with the Group Directors' report, have been prepared on a going concern basis in accordance with IFRSs as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

No individual income statement or statement of comprehensive income is presented for the Company, as permitted by Section 408 of the Companies Act 2006.

Basis of measurement

The financial information has been prepared under the historical cost convention. The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

The accounting policies of the Company are the same as those of the Group which are set out in the notes to the consolidated financial statements except that the Company has no policy in respect of consolidation. These accounting policies have been applied consistently to all years presented in these financial statements.

Section 6: Notes to the Company financial statements

6.2 Company investments in controlled entities

Accounting policy

The Company's investments in controlled entities are valued at cost or valuation less any provision for impairment. Such investments are reviewed annually for potential evidence of impairment, or more frequently when there are indications that impairment may have occurred. Losses relating to impairment in the value of shares in controlled entities are recognised in the income statement.

	2020 £m	2019 £m
At 30 September	**4,048**	4,325

The table below represents the wholly-owned subsidiary undertakings of the Group and Company as at 30 September 2020:

Wholly-owned subsidiary undertakings	Nature of business	Class of share held	Proportion held	Country of incorporation	Registered office	Financial year end
Direct holdings						
Clydesdale Bank PLC	Banking	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
CYB Investments Limited	Holding company	Ordinary	100%	England	20 Merrion Way, Leeds, Yorkshire, LS2 8NZ	30 September
Virgin Money Retirement Savings Plan Trustee Limited	Dormant	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
YCBPS Property Nominee Company Limited	Dormant	Ordinary	100%	England	20 Merrion Way, Leeds, Yorkshire, LS2 8NZ	30 September
Yorkshire and Clydesdale Bank Pension Trustee Limited	Dormant	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
Indirect holdings						
CGF No 9 Limited	Leasing	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
Clydesdale Bank Asset Finance Limited	Leasing	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
CYB Intermediaries Limited	Insurance intermediary	Ordinary	100%	England	20 Merrion Way, Leeds, Yorkshire, LS2 8NZ	30 September
St Vincent (Equities) Limited	Investment company	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
Virgin Money Giving Limited	Charitable donations	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Virgin Money Holdings (UK) PLC	Banking	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Virgin Money Management Services Limited	Service company	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Virgin Money Personal Financial Service Limited	Insurance intermediary	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Virgin Money PLC	Banking	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Yorkshire Bank Home Loans Limited	Mortgage finance	Ordinary	100%	England	20 Merrion Way, Leeds, Yorkshire, LS2 8NZ	30 September
CB Nominees Limited	Dormant	Limited by guarantee	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
CYB SSP Trustee Limited	Dormant	Ordinary	100%	England	20 Merrion Way, Leeds, Yorkshire, LS2 8NZ	30 September
Northern Rock Limited	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Yorkshire Bank PLC	Dormant	Ordinary	100%	England	20 Merrion Way, Leeds, Yorkshire, LS2 8NZ	30 September

The following transactions of significance occurred during the year which increased the value of the Company's investments in its controlled entities:

- the transfer of the entire shareholding in Yorkshire and Clydesdale Bank Pension Trustee Limited, comprising four ordinary shares of £1.00 each, from Clydesdale Bank PLC to Virgin Money UK PLC;
- the transfer of the entire issued share capital in YCBPS Property Nominee Company Limited, comprising 100 ordinary shares of £1.00 each, from Clydesdale Bank PLC to Virgin Money UK PLC; and
- the transfer of the entire issued share capital of Virgin Money Retirement Savings Plan Trustee Limited, comprising two ordinary shares of £1.00, from Clydesdale Bank PLC to Virgin Money UK PLC.

Impairment of investment in Clydesdale Bank PLC

Due to the negative impact of COVID-19 on wider macroeconomic indicators, an impairment test has been undertaken on the carrying value of the Company's investment in Clydesdale Bank PLC. The recoverable amount of £3,365m as determined by a value-in-use (VIU) calculation was lower than the carrying value of £3,602m, resulting in a capital neutral impairment charge of £237m at 30 September 2020.

Key assumptions used in value-in-use calculation

The VIU calculation uses discounted cash flow projections based on the Board approved five-year Strategic and Financial Plan. Cash flows beyond the forecast period have been extrapolated with a terminal growth rate applied.

The following assumptions are used in the VIU calculation, in accordance with the requirements of IAS 36:

- Discount rate: 12.1%
- Annual growth rate (years 6-10): 2%
- Projected terminal growth rate: 2%

The five-year forecast projections encompass a range of economic indications such as GDP growth, unemployment statistics as well as a range of other business assumptions specific to the Bank such as asset volumes, product volumes and margins which are commercially sensitive.

Discount rate

The discount rate applied reflects the current market assessment of the risk specific to the Bank. The discount rate was calculated by reference to a series of internal indicators combined with certain identifiable and available sector specific information.

Growth rate

The growth rate is based on management's expectation of the long-term average growth prospects for UK GDP after taking into account the broader historic UK economic outlook and trends.

Sensitivity to changes in assumptions

Changes in the discount rate or projected terminal growth rate will impact the Company's assessment of the value-in-use of Clydesdale Bank PLC. If adjusted independently of all other variables, a 10 basis point increase in the discount rate would increase the impairment charge by £33m and a 10 basis point decrease in the projected terminal growth rate would increase the impairment charge by £14m.

Interest in Charitable Foundations

The Group has an interest in The Virgin Money Foundation, a charitable foundation registered in England as a company limited by guarantee. Virgin Money Holdings (UK) PLC acts as a guarantor for £1 and Clydesdale Bank PLC is a donor. The Yorkshire and Clydesdale Bank Foundation, a charitable foundation registered in Scotland as a company limited by guarantee, was wound up during the year. Clydesdale Bank PLC acted as a guarantor for £10 and was the main donor.

Section 6: Notes to the Company financial statements

6.2 Company investments in controlled entities continued

The Company also has an interest in a number of structured entities:

Other controlled entities as at 30 September 2020	Nature of business	Country of Incorporation	Registered office	Financial year end
Clydesdale Covered Bonds No. 2 LLP	Acquisition of mortgage loans	England	20 Merrion Way, Leeds, LS2 8NZ	30 September
Eagle Place Covered Bonds LLP	Acquisition of mortgage loans	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Gosforth Funding 2014-1 PLC (in liquidation)	Issuer of securitised notes	England	8 Princes Parade, Liverpool, L3 1QH	31 December
Gosforth Funding 2015-1 PLC (in liquidation)	Issuer of securitised notes	England	8 Princes Parade, Liverpool, L3 1QH	31 December
Gosforth Funding 2016-1 PLC	Issuer of securitised notes	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	30 September
Gosforth Funding 2016-2 PLC (in liquidation)	Issuer of securitised notes	England	8 Princes Parade, Liverpool, L3 1QH	31 December
Gosforth Funding 2017-1 PLC	Issuer of securitised notes	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	30 September
Gosforth Funding 2018-1 PLC	Issuer of securitised notes	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	30 September
Gosforth Holdings 2014-1 Limited (in liquidation)	Holding company	England	8 Princes Parade, Liverpool, L3 1QH	31 December
Gosforth Holdings 2015-1 Limited (in liquidation)	Holding company	England	8 Princes Parade, Liverpool, L3 1QH	31 December
Gosforth Holdings 2016-1 Limited	Holding company	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	30 September
Gosforth Holdings 2016-2 Limited (in liquidation)	Holding company	England	8 Princes Parade, Liverpool, L3 1QH	31 December
Gosforth Holdings 2017-1 Limited	Holding company	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	30 September
Gosforth Holdings 2018-1 Limited	Holding company	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	30 September
Gosforth Mortgages Trustee 2014-1 Limited (in liquidation)	Trust	England	8 Princes Parade, Liverpool, L3 1QH	31 December
Gosforth Mortgages Trustee 2015-1 Limited (in liquidation)	Trust	England	8 Princes Parade, Liverpool, L3 1QH	31 December
Gosforth Mortgages Trustee 2016-1 Limited	Trust	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	30 September
Gosforth Mortgages Trustee 2016-2 Limited (in liquidation)	Trust	England	8 Princes Parade, Liverpool, L3 1QH	31 December
Gosforth Mortgages Trustee 2017-1 Limited	Trust	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	30 September
Gosforth Mortgages Trustee 2018-1 Limited	Trust	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	30 September
Lanark Funding Limited	Funding company	England	Third Floor, Suite 2, 11-12 St. James's Square, London, SW1Y 4LB	30 September
Lanark Holdings Limited	Holding company	England	Third Floor, Suite 2, 11-12 St. James's Square, London, SW1Y 4LB	30 September
Lanark Master Issuer PLC	Issuer of securitised notes	England	Third Floor, Suite 2, 11-12 St. James's Square, London, SW1Y 4LB	30 September
Lanark Trustees Limited	Mortgages trustee	England	Third Floor, Suite 2, 11-12 St. James's Square, London, SW1Y 4LB	30 September
Lannraig Funding Limited	Funding company	England	1 Bartholomew Lane, London, EC2N 2AX	30 September
Lannraig Holdings Limited	Holding company	England	1 Bartholomew Lane, London, EC2N 2AX	30 September
Lannraig Master Issuer PLC	Issuer of securitised notes	England	1 Bartholomew Lane, London, EC2N 2AX	30 September
Lannraig Trustees Limited	Mortgages trustee	Jersey	44 Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands	30 September
Red Grey Square Funding LLP	Security provider	England	1 Bartholomew Lane, London, EC2N 2AX	30 September

Details of the Group's interests in consolidated structured entities associated with securitisation and covered bond arrangements are set out in note 3.3.

The Group also has a participating interest in the following undertakings as either an associate (A) or a joint venture (JV):

Name of undertaking	Status	% of share class held by immediate parent company (or by the Group where this varies)	Registered office address (UK unless stated otherwise)	Financial year end
Eagle Place Covered Bonds Finance Limited	A	20%	1 Bartholomew Lane, London, EC2N 2AX	31 December
Salary Finance Loans Limited	JV	50%	One Hammersmith Broadway, London, W6 9DL	31 December
Virgin Money Unit Trust Managers Limited[1]	JV	50% (and one share)	Jubilee House, Gosforth, Newcastle Upon Tyne, NE3 4PL	31 December

(1) Virgin Money Unit Trust Managers Limited owns 100% of the share capital of Virgin Money Nominees Limited, a dormant company registered at Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

Investment in Virgin Money Unit Trust Managers Limited
Following receipt of all regulatory approvals and conclusion of contractual negotiations, the investments and pensions JV with AAM was completed on 31 July 2019. In the prior year, the Group recognised a gain on sale of £35m within non-interest income (note 2.3) from the disposal of 50% (less one share) of its interest in UTM. Investments in JVs are recognised in the consolidated financial statements within other assets.

6.3 Company debt securities in issue

	2020 £m	2019 £m
Subordinated debt	**756**	731
Medium-term notes	**1,987**	1,526
	2,743	2,257

Information on subordinated debt and medium-term notes is provided in note 3.12 to the consolidated financial statements.

The fair value hedge adjustment included in note 3.12 is not applicable at Company level.

6.4 Company fair value of financial instruments

Fair value of financial instruments carried at amortised cost
The tables below 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 may not represent the underlying value due to dislocation in the market. Not all of the Company's financial instruments can be exchanged in an active trading market.

	30 September 2020					30 September 2019				
			Fair value measurement using:					Fair value measurement using:		
Company	Carrying value £m	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m	Carrying value £m	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets										
Due from related entities	**2,773**	**2,951**	**–**	**2,951**	**–**	2,287	2,318	–	2,318	–
Financial liabilities										
Debt securities in issue	**2,743**	**2,846**	**2,846**	**–**	**–**	2,257	2,302	2,302	–	–

Notes
The Company's fair values disclosed for financial instruments at amortised cost are based on the following methodologies and assumptions:

Amounts due from related entities – The fair value of subordinated debt and medium-term notes due from related entities is derived from quoted market prices of the debt security in issue after accounting for differences in credit spread. All other amounts due from related entities are redeemable at call and therefore carrying value approximates fair value.

Debt securities in issue – The fair value of subordinated debt is taken directly from quoted market prices.

The Company also holds £1m of debt investments measured at fair value. These investments are categorised as Level 3, as the valuations incorporate significant unobservable inputs. Valuation is based on the transaction price which the Company believes is the best representation of an exit price. The significant unobservable input is the recoverable amount which could range from 0 to 100%.

Section 6: Notes to the Company financial statements

6.5 Company reserves

6.5.1 Cash flow hedge reserve

As at 30 September 2020, the cash flow hedge reserve comprised crystallised fair value losses arising from a matured cash flow hedge of £Nil (2019: £1m). This hedge relationship was entered into to mitigate the interest rate risk exposure prior to the issuance of the subordinated debt and matured at the date of issue. Amounts have since been amortised from the reserve to the income statement over the life of the debt and a £1m loss was recognised in the year in respect of this (2019: £Nil).

6.5.2 Other equity instruments and reserves

Information on other equity instruments and other reserves is provided in note 4.1 to the Group's consolidated financial statements.

Included within retained earnings is the loss for the year ended 30 September 2020 of £155m (2019: profit of £83m).

6.5.3 Available distributable items

Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements. At 30 September 2020, the Company had accumulated distributable reserves of £789m (2019: £1,015m).

6.6 Company related party transactions

During the year there have been transactions between the Company, controlled entities of the Company, and other related parties. The Company receives and provides a range of services from/to its principal subsidiary undertaking, Clydesdale Bank PLC, including loans and deposits.

Amounts due from controlled entities of the Company

	2020 £m	2019 £m
Medium-term notes	**2,007**	1,551
Subordinated debt	**757**	732
Other receivables	**9**	4
Total amounts due from related entities	**2,773**	2,287

Medium-term notes comprise dated, unsecured loans issued by Clydesdale Bank PLC. These securities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer, other than creditors whose claims rank junior to the claims of the holders of the medium-term note liabilities, including those of subordinated debt holders.

Subordinated debt comprises dated, unsecured loan capital issued by Clydesdale Bank PLC. These securities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer, other than creditors whose claims rank junior to the claims of the holders of subordinated liabilities.

The following transactions took place in the year in relation to these holdings:

On 24 June 2020, the Company purchased €500m of 2.875% fixed rate reset callable medium-term notes with a final maturity of 24 June 2024 from Clydesdale Bank PLC.

On 11 September 2020, the Company purchased £475m of 5.125% fixed rate reset callable subordinated debt with a final maturity of 11 December 2030 from Clydesdale Bank PLC and following a consent solicitation process repaid £444m of 5% fixed rate reset callable subordinated debt with a final maturity date of 9 February 2026 to Clydesdale Bank PLC.

Amounts due to controlled entities of the Company

	2020 £m	2019 £m
Bank account held with controlled entity of the Company	**2**	11
Other payables	**13**	10
Total amounts due to related entities	**15**	21

Other transactions with related entities

	2020 £m	2019 £m
Non-interest income received		
Controlled entities of the Company	**15**	14

Other related party transactions

As discussed in note 4.2 to the consolidated financial statements, the Group provides share based compensation to employees through a number of schemes, all in relation to shares in the Company. The cost of providing these benefits is recharged to the employing company, Clydesdale Bank PLC. Recharges are calculated based on the fair value of awards expensed in the year in accordance with IFRS 2: 'Share based payments'. The key management personnel of the Company are the key management personnel of the Group, with relevant disclosures given in note 5.3 to the consolidated financial statements. The Company has no employees (2019: Nil).

Additional information

Contents

Financial performance measures

As highlighted in the Strategic report, the Financial results section and the Risk report, the Group utilises a range of performance measures[1] to assess the Group's performance. These can be grouped under the following headings:

- profitability;
- asset quality; and
- capital optimisation.

The performance measures used are a combination of statutory, regulatory and alternative performance measures; with the type of performance measure used dependent on the component elements and source of what is being measured.

Statutory performance measures (S)
These are used when the basis of the calculation is derived from a measure that is required under generally accepted accounting principles (GAAP). An example of this would be references to earnings per share.

Regulatory performance measures (R)
These are used when the basis of the calculation is required and specified by the Group's regulators. Examples of this would be the leverage ratio and the Tier 1 ratio.

Alternative performance measures (A)
These are used when the basis of the calculation is derived from a non-GAAP measure – also referred to as APMs. Examples of this would be the statutory cost to income ratio and the statutory RoTE.

Where a performance measure refers to an 'underlying' metric, the detail on how this measure is arrived at, along with management's reasoning for excluding the item from the Group's current underlying performance rationale, can be found on page 259, directly following this section. These adjustments to the Group's statutory results made by management are designed to provide a more meaningful underlying basis.

Descriptions of the performance measures used, including the basis of calculation where appropriate, are set out below:

Profitability:

Term	Type	Definition
Net interest margin **(NIM)**	A	Underlying NII as a percentage of average interest earning assets for a given year. Underlying NII of £1,351m (2019: £1,433m) is divided by average interest earning assets for a given year of £86,826m (2019: £86,362m) (which has been adjusted to exclude short-term repos used for liquidity management purposes). As a result of the exclusions noted above, average interest earning assets used as the denominator have been reduced by £16m (2019: £Nil).
Statutory return on tangible equity **(RoTE)**	A	Statutory loss after tax attributable to ordinary equity holders of £220m (2019: loss of £253m) as a percentage of average tangible equity of £3,554m (2019: £3,727m) (average total equity less intangible assets, AT1 and non-controlling interests) for a given year.
Statutory return on assets	A	Statutory loss after tax as a percentage of average total assets for a given year.
Statutory basic earnings per share **(EPS)**	S	Statutory loss after tax attributable to ordinary equity shareholders of £220m (2019: loss of £253m), divided by the weighted average number of ordinary shares in issue for a given year of 1,440m shares (2019: 1,414m) (which includes deferred shares and excludes own shares held or contingently returnable shares).
Underlying RoTE	A	Underlying profit after tax attributable to ordinary equity holders of £20m, (2019: £403m), as a percentage of average tangible equity of £3,554m (2019: £3,727m) (average total equity less intangible assets, AT1 and non-controlling interests) for a given year.
Underlying CIR	A	Underlying operating and administrative expenses as a percentage of underlying total operating income for a given year.
Underlying return on assets	A	Underlying profit after tax as a percentage of average total assets for a given year.
Underlying basic EPS	A	Underlying profit after tax attributable to ordinary equity holders of £20m, (2019: £403m), divided by the weighted average number of ordinary shares in issue for a given year of 1,440m shares (2019: 1,434m) (which includes deferred shares and excludes own shares held or contingently returnable shares).
Underlying profit after tax attributable to ordinary equity holders	A	Underlying profit before tax of £124m (2019: £539m) less underlying tax charge of £25m (2019: £62m), less AT1 distributions of £79m (2019: £41m), less distributions to non-controlling interests of £Nil (2019: £33m) and was equal to £20m (2019: £403m). The underlying tax charge (or credit) is the difference between the statutory tax charge (or credit) and the tax attributable to exceptional items.

(1) The term 'financial performance measure' covers all metrics, ratios and percentage calculations used to assess the Group's performance and is interchangeable with similar terminology used in the Annual Report and Accounts such as highlights, key metrics, KPIs and key credit metrics.

Financial performance measures

Asset quality:

Term	Type	Definition
Impairment charge to average customer loans **(cost of risk)**	**A**	Impairment losses on credit exposures plus credit risk adjustment on fair value loans to average customer loans (defined as loans and advances to customers, other financial assets at fair value and due from customers on acceptances).
Total provision to customer loans	**A**	Total impairment provision on credit exposures as a percentage of total customer loans at a given date.
Indexed loan to value **(LTV)** of the mortgage portfolio	**A**	The mortgage portfolio weighted by balance and indexed using the MIAC Acadametrics indices for the Clydesdale Bank PLC portfolio while the Virgin Money Holdings (UK) PLC portfolio is indexed using the Markit indices.

Capital optimisation:

Term	Type	Definition
Common Equity Tier 1 **(CET1)** ratio	**R**	CET1 capital divided by RWAs at a given date.
Tier 1 ratio	**R**	Tier 1 capital as a percentage of RWAs.
Total capital ratio	**R**	Total capital resources divided by RWAs at a given date.
CRD IV leverage ratio	**R**	This is a regulatory standard ratio proposed by Basel III as a supplementary measure to the risk-based capital requirements. It is intended to constrain the build-up of excess leverage in the banking sector and is calculated by dividing Tier 1 capital resources by a defined measure of on and off-balance sheet items plus derivatives.
UK leverage ratio	**R**	The Group's leverage ratio on a modified basis, excluding qualifying central bank claims from the exposure measure in accordance with the policy statement issued by the PRA in October 2017.
Tangible net asset value **(TNAV)** per share	**A**	Tangible equity (total equity less intangible assets, AT1 and non-controlling interests) as at the year end of £3,526m (2019: £3,590m) divided by the number of ordinary shares in issue at the year end of 1,444m (2019: 1,441m) (which includes deferred shares of 6m (2019: 7m) and excludes own shares held of 0.2m (2019: 0.5m)).
Loan to deposit ratio **(LDR)**	**R**	Customer loans as a percentage of customer deposits at a given date.
Liquidity coverage ratio **(LCR)**	**R**	Measures the surplus (or deficit) of the Group's high-quality liquid assets relative to weighted net stressed cash outflows over a 30-day period. It assesses whether the Group has sufficient liquid assets to withstand a short-term liquidity stress based on cash outflow assumptions provided by regulators.
Minimum requirement for own funds and eligible liabilities **(MREL)** ratio	**R**	Total capital resources less ineligible AT1 and Tier 2 instruments at the year end of £4,935m (2019: £4,840m) plus senior unsecured securities issued by Virgin Money UK PLC with greater than one year to maturity at the year end of £2,002m (2019: £1,550m) divided by RWAs at the period end of £24,399m (2019: £24,046m).
Net stable funding ratio **(NSFR)**	**R**	The total amount of available stable funding divided by the total amount of required stable funding, expressed as a percentage. The Group monitors the NSFR, based on its own interpretations of current guidance available for CRD IV NSFR reporting. Therefore, the reported NSFR may change over time with regulatory developments. Due to possible differences in interpretation of the rules, the Group's ratio may not be directly comparable with those of other financial institutions.

Underlying adjustments to the statutory view of performance

On arriving at an underlying basis, the effects of certain items that do not promote an understanding of historical or future trends of earnings or cash flows are removed, as management consider that this presents more comparable results year-on-year. These items are all significant and are typically one-off in nature. Additional detail is provided below where considered necessary to further explain the rationale for their exclusion from underlying performance, in particular for new items in the current year or recurring non-underlying items:

Item	2020 £m	2019 £m	Reason for exclusion from the Group's current underlying performance
Integration and transformation costs	**(139)**	(156)	These are part of the Group's publicised three-year integration plan following the acquisition of Virgin Money Holdings (UK) PLC and comprise a number of one-off expenses that are required to realise the anticipated cost synergies. Also included are one-off costs to support transformation. This programme will improve our digital capability and consequently enable super straightforward efficiency.
Acquisition accounting unwinds	**(113)**	(87)	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 (£96m charge) and the IFRS 9 impairment impact in 2020 on acquired assets (£6m charge) with other smaller items amounting to £11m. 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	**(26)**	(433)	These costs are historical in nature and are not indicative of the Group's current practices.
Other:			
SME transformation	**(11)**	(30)	These costs are significant and relate to the Group's transformation of its Business banking propositions and encompass process re-engineering and customer journey improvements required to support customers migrating under the RBS incentivised switching proposition, and certain costs in respect of government backed schemes.
UTM transition costs	**(8)**	(1)	These costs relate to UTM's transformation costs principally for the build of a new platform for administration and servicing. The costs are one-off in nature as part of the transition to the new JV proposition.
VISA Shares	**5**	–	A one-off gain on conversion of Visa B Preference shares to Series A preference shares.
Intangible asset write-off	**–**	(127)	The charge for the software write-off in the prior year was significant and arose in respect of software assets which are no longer considered to be of value relative to the Group's strategy following the acquisition of Virgin Money Holdings (UK) PLC.
Mortgage EIR adjustments	**–**	80	The alignment of accounting practices was a one-off exercise arising from the acquisition.
Virgin Money Holdings (UK) PLC transaction costs	**–**	(55)	These costs related directly to the transaction and comprised legal, advisory and other associated costs required to complete the transaction.
Consent solicitation	**–**	(18)	One-off costs relating to the change in obligor of senior debt from Virgin Money Holdings (UK) PLC to CYBG on 20 August 2019.
Gain on sale of UTM	**–**	35	A one-off gain recognised on the disposal of 50% (less one share) of UTM.
GMP equalisation cost	**–**	(11)	A one-off charge for GMP equalisation in the Group's defined benefit scheme.
Legacy restructuring and separation	**–**	(5)	These legacy costs were significant in prior years and related to the Sustain programme, and demerger from NAB, both of which are now complete.
Gain on disposal of VocaLink	**–**	4	
Total other	**(14)**	(128)	

Glossary

Term	Definition
Additional Tier 1 **(AT1)**	Securities that are considered additional Tier 1 capital in the context of CRD IV.
arrears	A customer is in arrears when they fail to adhere to their contractual payment obligations resulting in an outstanding loan that is unpaid or overdue.
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.
B	The Group's digital application suite, offering retail customers money management capabilities across Web, Android and Apple platforms.
Board	Refers to the Virgin Money UK PLC Board or the Clydesdale Bank PLC Board as appropriate.
Bounce back loan scheme **(BBLS)**	A scheme implemented by the UK Government to provide financial support to businesses across the UK that are losing revenue, and seeing their cashflow disrupted as a result of COVID-19, and that can 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.
collective impairment provision	Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.
Combined Group	Virgin Money UK PLC, and its controlled entities following the acquisition of Virgin Money Holdings (UK) PLC.
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 and related non-controlling interests, less goodwill and intangible assets and certain other regulatory adjustments.
Company	Virgin Money UK PLC.
conduct risk	The risk of treating customers unfairly and/or delivering inappropriate outcomes resulting in customer detriment, regulatory fines, compensation, redress costs and reputational damage.
Coronavirus business interruption loan scheme **(CBILS)**	A scheme implemented by the UK Government to provide financial support to smaller businesses across the UK that are losing revenue, and seeing their cashflow disrupted, as a result of COVID-19.
Coronavirus large business interruption loan scheme **(CLBILS)**	A scheme implemented by the UK Government to provide financial support to mid-sized and larger businesses across the UK that are suffering disruption to their cashflow 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 capital requirements directives with a revised package consisting of a new Capital Requirements Directive and a new Capital Requirements Regulation. CRD IV sets out capital and liquidity requirements for European banks and harmonises the European framework for bank supervision. See also 'Basel III'.

Term	Definition
credit conversion factor **(CCF)**	Credit conversion factors are used in determining the exposure at default in relation to a credit risk exposure. The CCF is an estimate of the proportion of undrawn and off-balance sheet commitments expected to be drawn down at the point of default.
Credit 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 **(CRM)**	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set-off or netting.
credit risk adjustment/credit valuation adjustment	An adjustment to the valuation of financial instruments held at fair value to reflect the creditworthiness of the counterparty.
customer deposits	Money deposited by individuals or corporate entities that are not credit institutions, and can be either interest bearing, non-interest bearing or term deposits.
days past due **(DPD)**	The number of days a facility has borrowing in excess of an agreed or expired limit or, where facilities are subject to a regular repayment schedule, contractual payments are not fully up to date.
default	A customer is in default when either they are more than 90 DPD on a credit obligation to the Group, or are considered unlikely to pay their credit obligations in full without recourse to actions such as realisation of security (if held).
delinquency	See 'arrears'.
Demerger	The demerger of the Group from NAB pursuant to which all of the issued share capital of CYBI was transferred to CYBG by NAB in consideration for the issue and transfer of CYBG shares to NAB in part for the benefit of NAB (which NAB subsequently sold pursuant to the IPO) and in part for the benefit of NAB shareholders under a scheme of arrangement under part 5.1 of the Australian Corporations Act.
Demerger date	8 February 2016.
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 carrying value of certain financial instruments which amortises the relevant fees over the expected life of the instrument.
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.
Financial Services Compensation Scheme **(FSCS)**	The UK's compensation fund of last resort for customers of authorised financial services firms and is funded by the financial services industry. The FSCS may pay compensation if a firm is unable, or likely to be unable, to pay claims against it. This is usually because it has stopped trading or has been declared in default.
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.
funding risk	A form of liquidity risk arising when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.
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.
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.

Glossary

Term	Definition
Internal Liquidity Adequacy Assessment Process **(ILAAP)**	The Group's assessment and management of balance sheet risks relating to funding and liquidity.
Internal Ratings-Based approach **(IRB)**	A method of calculating credit risk capital requirements using internal, rather than supervisory, estimates of risk parameters.
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 expected credit loss	The expected credit loss 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 United Kingdom 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.
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).
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)**	MREL is a minimum requirement for institutions to maintain equity and eligible debt liabilities, to help ensure that when an institution fails the resolution authority can use these financial resources to absorb losses and recapitalise the continuing business.
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.
operational risk	The risk of loss resulting from inadequate or failed internal processes, people strategies and systems or from external events.
Overall Liquidity Adequacy Rule **(OLAR)**	An FCA and PRA rule that firms must at all times maintain liquidity resources which are adequate both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. This is included in the Group's risk appetite and subject to approval by the Board as part of the ILAAP.
pension risk	The risk that, at any point in time, the available assets to meet pension liabilities are at a value below current and future scheme obligations.
Personal lending	Lending to individuals rather than institutions and excludes mortgage lending which is reported separately.
PPI redress	Includes PPI customer redress and all associated costs excluding fines.
probability of default **(PD)**	The probability that a customer will default over either the next 12 months or lifetime of the account.
regulatory capital	The capital which the Group holds, determined in accordance with rules established by the PRA.
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 assets **(RWA)**	On and off-balance sheet assets of the Group are allocated a risk weighting based on the amount of capital required to support the asset.
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.

Term	Definition
Scheme	The Group's defined benefit pension scheme, the Yorkshire and Clydesdale Bank Pension Scheme.
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 than 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 significant increase in credit risk since origination. The Group considers 30 DPD as a backstop in determining whether a significant increase in credit risk 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 entities **(SE)**	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)**	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 in issue, subject to deductions.
Tier 2 capital	A component of regulatory capital, including qualifying subordinated debt, eligible collective impairment allowances and other Tier 2 securities as defined by CRD IV.
unaudited	Financial information that has not been subject to validation by the Group's external auditor.
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.
Virgin Money	Virgin Money UK PLC. 'Virgin Money' is also used throughout this report when referring to the acquired business of Virgin Money Holdings (UK) PLC or subsequent integration of the acquired business within the newly combined Group.
Virgin Money Holdings	Virgin Money Holdings (UK) PLC.

Abbreviations

AAM	Aberdeen Asset Managers PLC
ACS	Annual cyclical scenario
AFD	Approaching financial difficulty
AIRB	Advanced internal ratings-based
ALCO	Asset and Liability Committee
API	Application programming interface
ASX	Australian Securities Exchange
AT1	Additional Tier 1
ATM	Automated teller machine
BAME	Black, Asian and ethnic minority
BAU	Business-as-usual
BBL	Bounce back loan
BBLS	Bounce back loan scheme
BCA	Business current account
BCBS	Basel Committee on Banking Supervision
BCR	Banking Competition Remedies
BoE	Bank of England
bps	Basis points
BTL	Buy-to-let
CAGR	Compound Annual Growth Rate
CARE	Career average revalued earnings
CBIL	Coronavirus business interruption loan
CBILS	Coronavirus business interruption loan scheme
CCB	Capital Conservation Buffer
CCF	Credit conversion factor
CCyB	Countercyclical Capital Buffer
CDI	CHESS Depositary Interest
CDP	Carbon Disclosure Project
CET1	Common Equity Tier 1 Capital
CIF	Capability and Innovation Fund
CIR	Cost to income ratio
CISRO	Chief Information Security and Resilience Officer
CLBILS	Coronavirus large business interruption loan scheme
CMA	Competition and Markets Authority
COVID-19	Corona Virus Disease 2019
CPI	Consumer Price Index
CRD IV	Capital Requirements Directive IV
CRE	Commercial real estate
CRH	Capital Repayment Holidays
CRM	Credit risk mitigation
CRR	Capital Requirements Regulation
CSR	Corporate social responsibility
CSRBB	Credit spread risk in the banking book
DEP	Deferred Equity Plan
DPD	Days past due
DTR	Disclosure and Transparency Rules
EAD	Exposure at default
EaR	Earnings at risk
EBA	European Banking Authority
EBT	Employee benefit trust
EEL	Excess expected loss
ECL	Expected credit loss
EIR	Effective interest rate
EL	Expected loss
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
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
FTE	Full time equivalent
FV	Fair value
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GDIA	Group Director Internal Audit
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GHG	Greenhouse Gases
GMP	Guaranteed Minimum Pension
G-SII	Global Systemically Important Institution
HMRC	Her Majesty's Revenue and Customs
HPI	House Price Index
HQLA	High Quality Liquid Assets
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standard

ILAAP	Internal Liquidity Adequacy Assessment Process
IPO	Initial Public Offering
IR	Information request
IRB	Internal ratings-based
IRHP	Interest rate hedging products
IRRBB	Interest rate risk in the banking book
ISA	Individual Savings Account
ISDA	International Swaps and Derivatives Association
JV	Joint venture
KMP	Key management personnel
KPI	Key Performance Indicator
LCR	Liquidity coverage ratio
LDR	Loan to deposit ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LSE	London Stock Exchange
LTI	Loan to income
LTIP	Long-term incentive plan
LTV	Loan to value
MDA	Maximum Distributable Amount
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
NIST	National Institute of Standards and Technology
NPS	Net promoter score
NSFR	Net stable funding ratio
PBT	Profit before tax
PCA	Personal current accounts
PD	Probability of Default
PMA	Post model adjustment
POCI	Purchased or originated credit impaired
PPI	Payment protection insurance
PRA	Prudential Regulation Authority
PSD2	Payment Services Directive 2
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
RMBS	Residential mortgage-backed securities
RMF	Risk Management Framework
RoTE	Return on Tangible Equity
RPI	Retail Price Index
RTS	Regulatory Technical Standards
RWA	Risk-weighted asset
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
SRB	Systemic Risk Buffer
SVR	Standard variable rate
TCC	Transactional Credit Committee
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
TSR	Total Shareholder Return
UN PRB	United Nations' Principles for Responsible Banking
UTM	Virgin Money Unit Trust Managers
VAA	Virgin Atlantic Airways
VaR	Value at risk
VIU	Value in use
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.

	2020 UK
Average FTE employees (number)	**8,256**
Total operating income (£m)	**1,443**
Loss before tax (£m)	**168**
Corporation tax paid (£m)	**12**
Public subsidies received (£m)	**–**

The only other non-UK registered entity of the Group is a Trustee company that is part of the Group's securitisation vehicles (Lanark and Lannraig). Lannraig Trustees Limited is registered in Jersey. This entity plays a part in the overall securitisation process by having the beneficial interest in certain mortgage assets assigned to it. This entity has no assets or liabilities recognised in its financial statements with the securitisation activity taking place in other UK registered entities of the structures. This entity does not undertake any external economic activity and has no employees. The results of this entity as well as those of the entire Lanark and Lannraig securitisation structures are consolidated in the financial statements of the Group.

Shareholder information

Annual general meeting (AGM)

The arrangements for the Company's next AGM and details of the resolutions to be proposed, together with explanatory notes, will be set out in the Notice of AGM to be published on the Company's website (www.virginmoneyukplc.com).

Shareholder enquiries

The Company's share register is maintained by the Company's Registrar, Computershare. Shareholders with queries relating to their shareholding should contact Computershare directly using one of the methods below (shareholders can visit the Investor Centre online by scanning the QR code below with a compatible mobile device):

Registrar

Computershare UK
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
United Kingdom BS99 6ZZ

Tel within UK – 0370 707 1172
Tel outside UK – +44 370 707 1172
Email: www.investorcentre.co.uk/contactus
Web: www.investorcentre.co.uk

Computershare Australia
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Australia

Tel within Australia – 1800764308
Tel outside Australia – 03 9415 4142
Email: www.investorcentre.com/contact
Web: www.investorcentre.com/au

Duplicate shareholder accounts

If you receive more than one copy of Company mailings this may indicate that more than one account is held in your name on the register. This happens when the registration details of separate transactions differ slightly. If you believe more than one account exists in your name you may contact the Company's Registrar, Computershare, to request that the accounts are combined. There is no charge for this service.

Electronic communications

The Company uses its website (www.virginmoneyukplc.com) as its primary means of communication with its shareholders provided that the shareholder has agreed or is deemed to have agreed that communications may be sent or supplied in that manner. Electronic communications allow shareholders to access information instantly as well as helping the Company reduce its costs and its impact on the environment. Shareholders who have consented or are deemed to have consented to electronic communications can revoke their consent at any time by contacting the Company's Registrar, Computershare.

Shareholders can sign up for electronic communications online via the following links:

Holders of shares on the London Stock Exchange:
www.investorcentre.co.uk/ecomms

Holders of CDIs on the Australian Securities Exchange:
www.investorcentre.com/au

Corporate website

Information on the Company is available on its website (www.virginmoneyukplc.com) including:

- financial information – annual and half-yearly reports as well as trading updates;
- share price information – current trading details and historical charts;
- shareholder information – investor presentations and share register profile; and
- news releases – current and historical.

Unsolicited telephone calls and communication

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. These are typically from overseas based 'brokers' who target shareholders, offering to sell them what often turns out to be worthless or high risk shares. These operations are commonly known as 'boiler rooms' and the 'brokers' can be very persistent and extremely persuasive.

Shareholders are advised to deal with only financial services firms that are authorised by the FCA. You can check a firm is properly authorised by the FCA before getting involved by visiting www.fca.org.uk/register. If you do deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme if anything goes wrong. For more detailed information on how you can protect yourself from an investment scam, or to report a scam, go to www.fca.org.uk/scamsmart.

Shareholder interests as at 30 September 2020

By size of holding:

Range	No of shareholders	%	No of shares	%
1–1,000	126,368	78.45	42,212,693	2.93
1,001–5,000	25,720	15.97	54,273,837	3.77
5,001–10,000	4,583	2.85	32,964,093	2.29
10,001–100,000	4,048	2.51	96,616,212	6.72
100,001–999,999,999	355	0.22	1,212,507,852	84.29
	161,074	100	1,438,574,687	100

Indicative financial calendar for 2021

Q1 trading update	2 February 2021
Interim results announcement	5 May 2021
Q3 trading update	27 July 2021
Full year results announcement	24 November 2021

Basis of presentation

Virgin Money UK PLC ('Virgin Money', 'VMUK' or 'the Company'), formerly known as CYBG PLC ('CYBG') (the Company was renamed on 30 October 2019), together with its subsidiary undertakings (which together comprise 'the Group'), operate under the Clydesdale Bank, Yorkshire Bank, B and Virgin Money brands. This Annual Report and Accounts covers the results of the Group for the year ended 30 September 2020. The term 'Virgin Money' is used throughout this report either in reference to the Group, or when referring to the acquired business of Virgin Money Holdings (UK) PLC or subsequent integration of the acquired business, within the newly combined Group.

Statutory basis

Statutory information is set out on page 43 and within the financial statements.

Pro forma results: On 15 October 2018, the Company acquired all the voting rights in Virgin Money Holdings (UK) PLC by means of a scheme of arrangement under Part 26 of the UK Companies Act 2006, with the transaction being accounted for as an acquisition of Virgin Money Holdings (UK) PLC.

We believe that it is helpful to provide additional information which is more readily comparable with the current year results of the combined businesses. Therefore we have prepared pro forma comparative results for the Group as if Virgin Money UK PLC and Virgin Money Holdings (UK) PLC had always been a combined group, in order to assist in explaining trends in financial performance. A reconciliation between the results on a comparative pro forma basis and a statutory basis is included on page 44. The pro forma comparative results are also presented on an underlying basis as there were a number of factors which had a significant effect on the comparability of the Group's financial position and results. Any reference to pro forma results relates to the prior period only as the pro forma basis is not applicable in the current period due to the combined group being in operation for the entire 12 months to 30 September 2020.

Underlying basis

The results are adjusted to remove certain items that do not promote an understanding of historical or future trends of earnings or cash flows, and therefore allows a more meaningful comparison of the Group's underlying performance. A reconciliation from the underlying results to the statutory basis is shown on page 44 and management's rationale for the adjustments is shown on page 259.

Alternative performance measures (APMs)

The financial key performance indicators (KPIs) used by management in monitoring the Group's performance and reflected throughout this report are determined on a combination of bases (including statutory, regulatory and alternative performance measures), as detailed at 'Measuring financial performance – glossary' on pages 257 to 258. 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 (including but not limited to the integration of the business of Virgin Money Holdings (UK) PLC and its subsidiaries into 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, the Financial Conduct Authority and/or other regulatory and governmental bodies, inflation, deflation, interest rates, exchange 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 referendum vote to leave the European Union, the UK's exit from the EU (including any change to the UK's currency), Eurozone instability, and any referendum on Scottish independence.

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. No member of the Group or their respective directors, officers, employees, agents, advisers or affiliates undertakes any obligation to update or revise any such forward-looking statement following the publication of this document nor accepts any responsibility, liability or duty of care whatsoever for (whether in contract, tort or otherwise) or makes any representation or warranty, express or implied, as to the truth, fullness, fairness, merchantability, accuracy, sufficiency or completeness of, the information in this document.

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.

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