VIRGIN MONEY UK

Annual Report and Accounts 2019

2019 HIGHLIGHTS

Our Purpose

Making you happier about money

We know there are hundreds of things to worry about with money. Our bank won't be one of them.

We don't want to be simply better than the rest, we want to make banking better. That's the heart and soul of what Virgin Money does.

Statutory loss after tax	Statutory RoTE	Underlying profit before tax	Underlying RoTE
£(194)m	(6.8)%	£539m	10.8%
2018 – £(145)m	2018 – (6.9)%	2018 – £581m	2018 – 11.0%

Net Interest Margin	Underlying Cost:Income Ratio	Cost of Risk	CET1 ratio
1.66%	57%	21bps	13.3%
2018 – 1.78%	2018 – 59%	2018 – 15bps	2018 – 15.1%

Asset growth	Relationship deposit growth	Group Net Promoter Score	Colleague Engagement
+2.9%	+7.1%	+37	76%

Our strategic priorities:

Pioneering growth

Read more on page 16

Delighted customers and colleagues

Read more on page 17

Super straightforward efficiency

Read more on page 18

Discipline and sustainability

Read more on page 19

BASIS OF PRESENTATION
Virgin Money UK PLC ('Virgin Money' 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 2019. 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 pages 50 to 52 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 also provide additional information which is more readily comparable with the historic results of the combined businesses. Therefore we have also prepared pro forma 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 by showing a full year performance for the combined group for both the current year and prior year. A reconciliation between the results on a pro forma basis and a statutory basis is included on page 51. The pro forma results are also presented on an underlying basis as there have been a number of factors which have had a significant effect on the comparability of the Group's financial position and results.

Underlying basis: The pro forma results are adjusted to remove certain items that do not promote an understanding of historical or future trends of earnings or cash flows, which therefore allows a more meaningful comparison of the Group's underlying performance. A reconciliation from the underlying pro forma results to the pro forma basis is shown on page 52 and management's rationale for the adjustments is shown on page 280.

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 278 to 279. 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.

001 INSIDE THIS YEAR'S REPORT

CHAIRMAN'S STATEMENT

"2019 has been a year of significant progress. The launch of our new Purpose and values, allied to our refreshed strategy, sets us up for an exciting future where we will deliver for all of our stakeholders and disrupt the status quo."

Dear stakeholder

It was a year of significant progress for the newly renamed Virgin Money UK PLC as the integration of Virgin Money and CYBG gives us the platform and capabilities to disrupt the status quo. This has been a year of putting some of the major building blocks in place to enable us to deliver on our strategic ambition.

The Group's integration programme has made good progress and this culminated in the completion of the FSMA Part VII banking business transfer process in October 2019, which enables the Group to commence the integration of our customer propositions. Following this, the renaming of the Group from CYBG PLC to Virgin Money UK PLC signifies the scale of change underway.

Underpinning these headline achievements has been a significant programme of work across multiple teams, and I thank the Board, Executive Leadership Team and all of our colleagues for their hard work and focus on delivery. Bringing two organisations together is always a major challenge, but the cultural alignment we identified at the outset has been reflected in our cohesive teamwork to date.

Our Purpose, values and strategy

The launch of our new Purpose, 'Making you happier about money', engaged over 2,000 colleagues to give us a clear guiding principle that will drive our activities in future. Purpose-led companies have been proven to deliver improved outcomes for stakeholders, and I am confident this sets the Group up well for the years ahead.

Our new Purpose has been underpinned by our adoption of the Virgin values, which were well aligned with CYBG's existing values, and are being used to drive optimal behaviours across the Group. This will ensure we live up to the promise of the iconic Virgin brand to deliver great outcomes for customers, embedding an ambitious, customer-focused culture in the new Virgin Money.

The adoption of the Virgin brand and its customer-focused values is at the heart of our new strategy for the Group. The Board and I worked closely with the Executive Leadership Team to develop what we believe is a differentiated strategy and ambitious set of targets, culminating in their successful launch at our Capital Markets Day (CMD) in June. As we deliver on our strategy in the years ahead, we are confident that it will deliver sustainable returns for shareholders, and value to all of our wider stakeholders.

Delivering for our stakeholders

We are of course already delivering for stakeholders. Pages 30 and 31 say more about this, showing how we are working with and delivering for customers, colleagues, society, investors, partners and suppliers, and government and regulators.

For investors, we recognise it has been a difficult year from a share price perspective, reflecting a challenging operating environment and the unexpected surge in PPI complaint volumes. However, our new strategy was well received by the market, and we are confident that its delivery will support shareholder value creation.

I particularly wanted to note our improving Group Net Promoter Score (NPS) of +37 (2018: +34) as a measure of how we are already delivering for our customers, as well as the strategic focus we have developed on making a positive impact for society and the environment, outlined in our new Sustainability report on page 34.

I was also pleased to see our colleague engagement score holding up well, despite the significant amount of change that is underway, and I thank our colleagues for their enthusiasm and resilience at what can be a time of uncertainty for some.

I have also been heartened by the contribution our not-for-profit business Virgin Money Giving Limited continues to make. As the official fundraising partner of many UK events such as the Virgin

Our Purpose
Making you happier about money

Our strategic ambition
To disrupt the status quo

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

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

Money London Marathon and Sleep in the Park, it helped raise £107m for UK charities in 2019 alone. More details are on page 36.

Our focus on governance

In addition to the considerable engagement required in creating our new strategy, the Board has also been active in its usual governance activities as well as taking deep dives into understanding the acquired Virgin Money business (see the Corporate governance report on pages 71 to 79 for further detail).

The Board and I have also been closely engaged in the Group's response to the unprecedented volume of PPI information requests and complaints received during August. It was regrettable that we were required to take £385m of additional PPI provisions and this partly led to the Group reporting a statutory loss of £194m. However, we will be pleased to finally draw a line under this legacy matter once we complete the final remediation activities required.

The Board has also considered the impact of the additional PPI provisions and subsequent capital reduction upon our strategy. Given our prudent decision to maintain a strong capital position earlier in the year, we have been able to absorb the PPI provision without needing to change our strategy. It does however mean some short-term adjustments to conserve capital, including the difficult decision for us to suspend the dividend for 2019. The Board, incorporating feedback from our major shareholders, believe this is the right short-term decision to enable us to continue delivering our long-term strategy and to provide capacity for any shocks, given the uncertain outlook. We remain committed to our ambition of progressive and sustainable dividends over time and the Board will reconsider dividends in line with normal practice in FY2020.

Outlook

The political and economic outlook remains uncertain. At the time of writing we are facing into an impending General Election, and the range of potential outcomes is wide, with the out-turn likely to influence the shape of any Brexit arrangements that may follow. We deliberately designed our strategy to mitigate a muted economic outlook and the industry pressures, with a focus on the significant self-help opportunities available to us. However, we are not complacent and the work we have undertaken to prepare for a range of scenarios should help to mitigate any short-term volatility.

I would like to take the opportunity to personally thank Clive Adamson, who is stepping down from the Board to take up an external appointment, for his significant contribution over the past three and a half years. I am however delighted that Geeta Gopalan, one of our existing Non-Executive Directors, will replace Clive as the Chair of the Risk Committee, subject to regulatory approval.

Finally, I would like to close by thanking our colleagues and Board members in advance for their continuing efforts into 2020 as we execute on an exciting agenda of further change. Our customers will really start to see the benefits of the combination next year as we begin to integrate our customer platforms, rebrand the Group as Virgin Money and launch our new and exciting propositions.

I am therefore very much looking forward to seeing the progress we make in delivering on our ambition to disrupt the status quo.

Jim Pettigrew
Chairman

27 November 2019

CHIEF EXECUTIVE OFFICER'S REVIEW

"In 2019 we refreshed our strategy, launched our three new divisions and delivered significant integration milestones. We are now one Bank with the culture and capabilities to deliver on our strategy of disrupting the status quo."

Dear stakeholder

2019 has seen us build our platform for the future. Designing our refreshed strategy was crucial and developing it with our new Purpose and Values at its core gives us a clear direction in support of our ambition to disrupt the status quo.

The combination of Virgin Money and CYBG has created a unique digitally-enabled competitor that combines the strengths of both the major banks and the neo banks, enabling us to offer a differentiated customer proposition (see diagram overleaf).

Working closely with the Board, we formulated our strategy and targets, which we announced to a positive reception at our Capital Markets Day (CMD) in June. This strategy will support what we believe is a compelling investment case and positions us to compete effectively with current and alternative providers of customer propositions in the banking models of the future.

A year of progress and achievements

Our integration programme has been a key focus throughout the year. The critical achievement of this work was the FSMA Part VII banking business transfer approval in October 2019, which we delivered faster than expected. This means we can now begin the integration of our customer propositions and offer the full range of products and services from across the combined business. We can also now launch the Group rebrand activity and proceed with the platform integration activities that support our cost savings targets.

Our Group strategy will be brought to life for our customers through our three new customer-facing divisions: Business, Personal and Mortgages, each with their own customer-focused ambitions, strategies and KPIs. Our divisional reviews are on pages 20 to 25.

We have also made good progress in realising some of our initial integration cost savings, including addressing senior management duplication, starting the rationalisation of our office and branch footprints, and commencing deduplication of suppliers. This has enabled us to deliver £53m of run-rate net cost savings in 2019, a strong start towards our targeted c.£200m of net cost savings.

Resilient operating performance

In line with the balance sheet optimisation strategy we outlined at our CMD, we grew above market in Business (+4.5%) and Personal (+16%), but tempered our growth in Mortgages. We also delivered 7% growth in relationship deposits, as we optimise our funding mix.

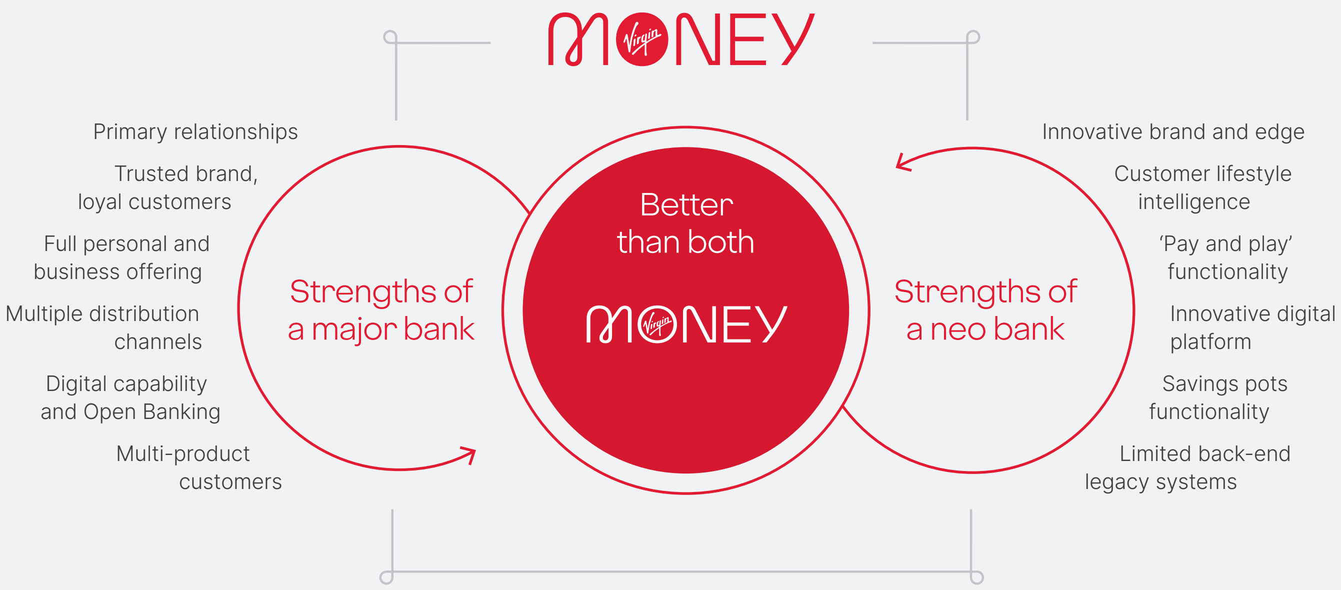
This strategy contributed to the delivery of a resilient operating performance in a competitive environment. Although we increased operating profit by 1% through our initial cost savings, underlying profit before tax reduced by 7%, due to higher impairments from IFRS 9 and normalisation.

Statutory loss driven by legacy conduct and acquisition costs

We, like the rest of the industry, were surprised by the scale of the PPI information requests and complaints during August. We have moved swiftly to address the issue and are leveraging innovative technology solutions to enable us to deal with genuine customer complaints as quickly, and as cost effectively, as we can. It is nonetheless frustrating to incur a further £385m in provisions in Q4 as we look to close out this legacy issue.

The scale of PPI provisions and acquisition costs incurred during the year led to a statutory loss of £194m for FY2019. However, as outlined at our CMD, we have a clear path to statutory profitability and a statutory return on tangible equity of >12% by FY2022.

The combination of Virgin Money and CYBG gives us a platform to disrupt the status quo



Robust capital position supports our strategy

Although the sizeable PPI provision did impact our capital position, the Board and I are confident that our CET1 ratio of 13.3% retains both a significant buffer to our regulatory requirement of 11% and provides the capacity to deliver our strategy. We have however taken the difficult decision to suspend the dividend in 2019. The Board, incorporating feedback from our major shareholders, believes this is the right short-term action to enable us to deliver on our longer-term strategy and targets.

Customer experience improvements

We have almost completed the transfer of all CYBG customers and products onto our FinTech-friendly banking platform, and we can now commence the integration of the Virgin Money customer platforms too. We have launched EZBob as an SME solution, Salary Finance for unsecured lending and a money-saving utility app with GoCompare. We want to accelerate the pace of these and other initiatives and we have therefore announced the creation of a new digital disruption hub in Newcastle. This scaled capability will allow our three business divisions to deliver disruptive propositions to enhance the customer experience in a rapid and agile manner, with our innovations benchmarked to all markets and industries globally.

Outlook

Our ambition is to deliver the product and service diversity and benefits of a large-scale bank with the customer experience and innovation of the neo banks, and we will also expand our partnership platform to facilitate the delivery of further value-based propositions like GoCompare. We are working on new propositions with a number of the 25+ other Virgin Group companies and plan to launch reward and loyalty offerings.

Ultimately, we hope to demonstrate the unique advantages of being linked to the broader Virgin Group. We will be the only bank that offers a full range of banking and lifestyle services through a linked rewards programme that offers value back to our customers. We will begin bringing these capabilities to market during 2020.

We recognise the continuously changing landscape in financial services and will evaluate partnerships where we believe there is an opportunity to provide our customers with a unique proposition, a class-leading service and a value for money outcome. We need to remain vigilant around the competitive landscape while at the same time delivering a significant amount of change in our organisation. Finally, we are reinforcing our governance to ensure compliance with the regulatory requirements as a new Tier 1 bank.

We are a Purpose-driven organisation with a refreshed strategy and priorities. We have a clear path to statutory profitability and a statutory return on tangible equity of >12% by FY2022. We are also focused on an ambitious sustainability strategy (page 34) centred on inclusion, community engagement and protecting and nurturing the environment. Our Virgin Money Giving platform and charitable foundation will help us to achieve our goals in these areas.

2019 has been a year of immense work to build the foundations for our future success across the Board, my Leadership Team and all of our colleagues, and I would like to thank everybody for their efforts. I am excited about what we will achieve together in 2020 as we start to deliver on our ambition to disrupt the status quo.

David Duffy
Chief Executive Officer
27 November 2019

Our Purpose drives us

Brought to life in our manifesto

Money. It's a pretty big deal.

It flows and twists through our entire lives.

From first payments to final pensions.

From saving for a holiday to running a business.

Money can be the beginning of things and it can put an end to things.

It brings us joy as easily as it steals our sleep.

It takes up precious time we don't always have.

Managing our money can be hard work.

Taxing.

Over-complicated.

So much jargon.

It shouldn't have to be this way.

We're here to change how people feel about money.

The only way we can do this is by seeing the world as our customers do.

By understanding what they really need.

By learning what frustrates them, what keeps them awake at night, and what makes them get up in the morning.

By sharing in their hopes, dreams and worries.

We will stand out by applying head and heart, by living our values and using our expertise.

It's what makes us so much more than a set of products and services.

It's what makes us experts in making people happier about money.

We have the power to change the lives of people and communities.

And we will do this with every single one of us working together.

We are dedicated to making you happier about money.

Our Virgin values

How we deliver our Purpose

Heartfelt service

— we are warm, honest and authentic

— we care and aspire to deliver the best for our customers

Insatiable curiosity

— we are open minded, ask questions and keep on learning

— we keep searching for the best ideas, approaches and solutions

Smart disruption

— we are innovative, focused and shake up the things that matter, together

— we explore new boundaries, and balance this with the risks

Red hot relevance

— we are inclusive, bold and progressive

— we lead the way today and anticipate for tomorrow

Straight up

— we are straightforward, build trust and act with positive intent

— we work together to make money simple and easier

Delightfully surprising

— we look for the little things that make a big difference

— we have fun and deliver experiences that make people feel happier

Our highly trusted brand

How we face the world

Our Purpose reflects our brand and drives our culture, bringing our brand to life through our values and behaviours

100%
Virgin brand awareness

87%
Virgin brand consideration

— Consumer champion brand
— Part of a wider family
— 26 million UK customers with an existing Virgin relationship
— Scales fast
— Commands a premium
— Resonates with customers and prospects

Our customer divisions

Supporting our 6.6 million customers

BUSINESS

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, helping them to reach their potential.

PERSONAL

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.

MORTGAGES

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 property, in a simple way that makes our customers' lives better.

With national physical reach

and an innovative digital platform

008 THE EXTERNAL ENVIRONMENT

An uncertain economic and political environment

Market dynamics

Although UK economic performance has been relatively stable throughout 2019, the outlook remains uncertain. Recent GDP figures have been mixed, with relatively low growth in 2019 to date, while 2020's outcome will depend on how the economy reacts to evolving Brexit arrangements.

The UK unemployment rate remains very low by historical standards, at 3.8%. CPI inflation has been slowing, reaching 1.5% in October, the lowest reading since 2016. Business investment has also remained muted, with heightened uncertainty from slowing global growth and Brexit weighing on capital expenditure decisions.

Our response

A degree of economic pessimism is likely to persist while the political outlook remains uncertain. Our refreshed strategy reflects this and isn't predicated on material interest rate rises.

Our customer growth objectives focus on expanding our reach nationally through the Virgin Money brand and using our enhanced proposition to reshape our balance sheet. We will continue to focus on high-quality asset growth within our existing prudent appetite. We also have significant self-help opportunities within our control in terms of reducing costs through deduplication and transforming the Group with digitisation.

Evolving customer behaviour

Customers are demanding far more from their bank, principally an improved, digitally-enabled experience, better value and to be rewarded for loyalty. We are well placed to capitalise on this.

Market dynamics

Customer expectations continue to evolve driven by new technology, competition and experiences in other sectors, and this is having a profound impact on banking. Customer usage of traditional branches is falling and the use of online is increasing.

We have also seen customers demand more integrated propositions to address more of their needs in one place, while seeking rewards for loyalty. While some consumers have been prepared to open accounts with newer, digitally-focused banking entrants, the trend continues to be for most people to trust larger, more established brands with their primary current accounts and savings.

While Open Banking presents a significant opportunity, low customer adoption to date has been influenced by a lack of effective propositions in the marketplace to address its potential.

Our response

Our strategy is designed to address customer preferences and the increasing adoption of digital. However, we will still serve our customers through the full range of channels at their convenience.

We have already invested heavily in our innovative digital propositions and are now set to build our scale through leveraging the Virgin Money brand. Continuing investment in our digital platform will ensure we are at the forefront of new customer technologies, with major roll-outs planned in the coming years to upgrade our digital propositions and improve the customer experience. We are also partnering with FinTechs and others where opportunities exist to improve the customer experience.

We have been building innovative product propositions – offering rewards such as Flying Club Miles in place of traditional interest. We continue to develop our relationship-driven propositions, from linked savings accounts offering customers better value than that on offer from the major incumbents, to developing a loyalty and rewards programme with the wider Virgin Group companies.

A competitive banking market

UK banking remains extremely competitive, but our strategy and new brand give us opportunities to attract and retain loyal customers through offering a genuinely differentiated proposition.

Market dynamics

Retail banking in the UK remains highly competitive. Incumbent banks are increasingly focusing on UK markets as a consequence of ring-fencing and new digital-only entrants are also seeking to capture market share.

Competition in the mortgage market remains intense but low growth, with the excess liquidity being deployed into mortgages driving pricing lower and impacting margins. These dynamics have led some smaller players to exit the market.

In business banking, competition has been driven by new entrants targeting the smaller, micro segment of SME, while incumbents have seen limited growth and typically focus on larger corporates. Market growth has also been muted due to Brexit uncertainty.

The credit card market has become less competitive with interest-free incentive periods shortening and a number of players unable to offer competitive rewards-based propositions. Market growth has also slowed as consumer confidence has softened.

The deposit and current account markets have shown solid growth, with customers and businesses looking to save rather than spend given economic uncertainty. Competitive intensity has been high due to targeted activity by new entrants and some participants looking to refinance Term Funding Scheme (TFS) borrowings, and is seen in the proliferation of cash incentives for current accounts.

Our response

Our strategy reflects our desire to serve our customers with the products and services they need within a competitive marketplace. We are targeting lower mortgage volumes at better margins and procured more efficiently. We seek to grow in our Business and Personal divisions by enhancing the customer experience and increasing our addressable market through the Virgin Money brand, focusing on segments where competition is less intense and/or we have a competitive advantage.

The Brexit effect

Brexit continues to heavily influence the economic outlook, and with an impending General Election, a wide range of outcomes remain possible, making uncertainty the predominant market force.

As such, our Board and management are focused on ensuring our business is prepared for all eventualities and can mitigate any short-term volatility. Our strategy focuses on actions within our control, growing in underweight segments within our prudent risk appetite and becoming more efficient.

In our Mortgage division, we are strategically choosing to prioritise margin over volume, helping to partly mitigate any market-dampening impact from the Brexit uncertainty.

In our Personal division we are seeking to capture more business from our newly expanded customer base and to focus on higher quality, more affluent customers in the wider market.

Brexit is particularly relevant for our Business customers, and our dedicated relationship managers have been helping businesses plan for the future. Our strategy is predicated on leveraging the Virgin Money brand to expand nationally but within our existing sector specialisms and risk appetite.

Resolution of the current, Brexit-induced uncertainty could lead to increased demand for lending and a positive rate outlook. Alternatively, a disruptive outcome could result in lower growth and further pressure on margins as banks compete for volume.

More efficient, technologically-enabled banking

Banking is being disrupted by technology. We will capitalise on this, building on our innovative digital platform to deliver enhanced customer experiences and greater cost efficiency.

Market dynamics

With retail banking earnings being squeezed by competition, persistent low interest rates and higher capital requirements, banks are looking to cut costs to improve profitability. This has coincided with customer demands for greater digitisation and simpler technology offerings. Incumbent banks have been busy, through significant additional investment, trying to reduce their operating costs, but in most cases have yet to address outdated platforms.

At the same time, new FinTech entrants are looking to disrupt the market, offering low-cost, easy-to-use digital banking solutions. These range from new start-up banks to firms focusing on distinct customer groups or individual segments of the value chain. We are also seeing the technology giants looking to exploit Open Banking and taking steps towards the industry, particularly in payments.

This trend of technological development, driven in part by the ability and desire to reduce operating costs, leaves the industry at a major inflection point.

Our response

In this environment, winners will adapt flexibly and lead on technology to deliver superior customer outcomes and cost efficiency, while also leveraging the benefits of scale and trust.

We have already invested significantly in our technology platform, which is Open Banking and FinTech partner ready, and hosted in the Cloud. We will extend this to offer our customers a full digital experience and improving on what we already have in place. We will operate with a 'digital by default' ethos, driving up digital adoption across the bank and allowing us to reduce costs. We will also partner with FinTechs to gain access to leading-edge technology and innovation.

These opportunities will allow us to offer our customers innovative digital offerings and service them more efficiently, and will support our target for a cost:income ratio amongst the best in our industry.

An evolving regulatory outlook

Regulation in UK banking is focused on making banks stronger and supporting positive outcomes for customers. We will continue to support and align to these developments.

Market dynamics

The regulatory environment continues to develop at pace, with numerous market reviews and the need to respond to the evolution of new and existing regulations.

The FCA time-bar on PPI complaints in August 2019 led to a surge in complaints and information requests across the industry, particularly from Claims Management Companies.

Implementation of the Basel III framework continues, seeking to improve the comparability of capital ratios, with changes to the standardised approach to credit risk, operational risk and the introduction of an RWA output floor. MREL implementation also continues, with financial institutions busy issuing qualifying debt to meet their requirements.

FCA final rules on high-cost credit and overdrafts have come into effect leading to changes in the overdraft market to address pricing for unarranged overdrafts, low consumer awareness of complex pricing structures and the repeat use of overdrafts.

Our response

The Group will continue to invest in our business to ensure compliance with the evolving regulatory landscape.

We moved swiftly to deal with the surge in PPI complaints and are well prepared to deal with genuine customer complaints as efficiently as we can.

The Group remains focused on ensuring that current and future customer products and services meet conduct standards and regulatory expectations, including changes to our overdraft pricing in line with the FCA final rules.

We continue to progress towards meeting our MREL requirements, with further issuance in 2019, while preparations are also underway for the Group's inaugural participation in the Bank of England's Annual Cyclical Scenario (ACS) exercise in 2020.

HOW WE CREATE VALUE

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

Our business model draws on our Purpose, ambition, values and culture, and is aligned to the environment we operate in. It uses our unique combination of resources to deliver our core activities as a bank which are aligned to our strategic priorities. This aims to deliver positive outcomes for all of our stakeholders.

Using our inputs → We draw on our resources → To deliver our core activities →

Internal

Purpose
Making you happier about money

Strategic ambition
Disrupt the status quo

Values and behaviours
The values of Virgin

Culture
Ambitious, inclusive and customer-focused

+

External

Operating environment
What we do reflects our environment and industry

(SEE PAGES 8–9)

Stakeholders
We engage with all of our stakeholders to understand their views

(SEE PAGES 30–31)

National coverage and scale
We are the sixth-largest bank in the UK with a national physical network and scale, a trusted track record and 6.6m customers.

Our people with Purpose
Our people, powered by our Purpose, will help us deliver great customer experiences and disrupt the status quo.

Our highly-trusted brand
The Virgin Money brand is nationally recognised and highly trusted, known for its customer focus and disruptive DNA. Our consumer champion reputation attracts 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.

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

Personal Banking
Brilliantly meeting everyday banking needs for current accounts, linked savings and other deposit accounts such as ISAs, along with credit cards and personal loans.

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

Supporting society
Through our sustainability agenda and our Virgin Money Giving platform that helps charities raise money, we make a positive impact on society.

Managing risk
This is a core capability for us as a bank. We manage our business within our prudent risk appetite through our experienced teams.

Delivering great customer service
We support customers through our comprehensive physical and digital channels, and seek to offer a great customer experience in every interaction.

Through clear strategic priorities

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

To deliver value for all of our stakeholders

Customers

Our customers are at the heart of our business and we aspire to delight them. To achieve that, we listen closely to what they tell us.

Investors

We aim to create long-term shareholder value for our investors through the delivery of sustainable returns.

Colleagues

Our colleagues are our biggest asset – well engaged and supported colleagues help us deliver our Purpose.

Partners and suppliers

We rely on our partners and suppliers to help our business run smoothly, from day-to-day operations to digital transformation.

Society

We have a responsibility and desire to make a positive contribution to civic society.

Government and regulators

Successful relationships with Government and regulators are vital to our long-term success.

PLEASE SEE PAGES 30 TO 31 FOR MORE ON EACH OF OUR STAKEHOLDERS.

In 2019 we opened B Works in Manchester – a revolutionary space that has turned the traditional banking branch on its head

Spread over three floors, B Works was designed to give the people and businesses of Manchester a space to learn, work and bank.

With space to co-work, an exciting events programme, free media production facilities and other innovative services, B Works offered a unique experience for customers delivered by expert B Hosts.

B Works has disrupted the status quo of high street banking and resulted in an increase in brand awareness, a +88 NPS score and encouraged hundreds of new customers to join the bank.

Our events programme was curated to benefit the many start-ups and SMEs in Manchester. It has seen over 3,500 guests attend, and nearly 300 businesses starting a banking relationship as a result, in addition to the hundreds of entrepreneurs that have utilised the co-working space or media facilities to kickstart or grow their business.

Platinum
Customer Experience award by Manchester Business Improvement District

1,000+
accounts opened (Business and Personal Current Accounts combined)

NPS +88
for B Works

£50m+
deposits in year 1

New Virgin Money Stores

The design of the new Virgin Money stores draws heavily on the aesthetic and experience of B Works, coupled with the energy, service and hospitality that the Virgin brand is famous for.

This is reflected not only in the physical design of the stores, but also in the clothes the staff wear and the service they provide. The first stores will open in December 2019 in Birmingham, London and Manchester, with a wider refurbishment programme planned for 2020.

OVERVIEW OF OUR STRATEGY

"We have a clear ambition to disrupt the status quo with the new Virgin Money. The new Group combines the ethos of Virgin, with its distinctive and brilliant customer experience, with CYBG's technology, product expertise and know-how. We believe we have the winning formula that will create a new force in personal and business banking."

David Duffy, Chief Executive Officer

Our refreshed strategy

We launched a refreshed strategy at our Capital Markets Day in June 2019 that builds on our core capabilities and those added by the acquisition of Virgin Money. Our strategic and financial plan will see us deliver the full integration of Virgin Money while building a simple, highly efficient, digitally-enabled business, with a significantly improved customer experience. In a challenging operating environment, our strategy is to deliver on the cost efficiency actions within our control and optimise our balance sheet mix to mitigate the industry pressures. This strategy is built around four strategic pillars that provide focus and consistency to our execution as we strive to create value for all our stakeholders.

Pages 14 and 15 set out the Key Performance Indicators that we will use to measure our progress against our strategic priorities in the years ahead. On the pages after that, we discuss what each strategic priority means in more detail, how we have started to deliver against it, and what more we will do on each priority in 2020.

Our Purpose and ambition drive our strategic priorities

Our strategic priorities:

Pioneering growth

Reshape balance sheet mix:

— grow margin accretive assets

— grow low-cost relationship deposits

(SEE PAGE 16)

Delighted customers and colleagues

— Enhance the customer experience

— Encourage digital adoption

— Colleagues delivering our Purpose

(SEE PAGE 17)

Super straightforward efficiency

— Realise integration synergies

— Digitise and simplify the business

— Streamline our operating model

(SEE PAGE 18)

Discipline and sustainability

— Maintain a disciplined risk approach

— Optimise the Group's RWAs

— Deliver sustainable returns

(SEE PAGE 19)

KEY PERFORMANCE INDICATORS

Pioneering growth

Asset mix: 75% mortgages, 15% business, 10% personal

2019 status

82% Mortgages

11% Business

7% Personal

Definition: Divisional mix of our loans and advances to customers, with the target to be achieved in the medium term.

Why it matters: Improving the mix will return balance to our portfolio as well as enhance and diversify our earnings. Currently we are weighted towards mortgages and underweight in business and personal.

Above system asset growth

2019 status

2.9% Growth in 2019 vs. 3.0% Market growth in 2019

Definition: Annual growth in aggregate net customer lending at a rate above the UK market across mortgages, business and personal lending.

Why it matters: Growing our customer lending in a safe, margin-enhancing way supports our income and risk profile.

High single-digit CAGR in relationship deposits

2019 status

7.1% Growth in relationship deposits

Definition: Relationship deposits are primary customer balances held in personal or business current accounts plus balances held in linked savings accounts.

Why it matters: Achieving a high single-digit CAGR in relationship deposits will accelerate loyal customer growth, and these low-cost deposits will reduce our cost of funds and enhance our NIM.

Loan to deposit ratio <115% by FY2022

2019 status

114% Loan to deposit ratio

Definition: The ratio of total customer lending to total customer deposits.

Why it matters: This indicates we have an appropriate balance between stable customer deposits and diversification into wholesale funding.

Delighted customers and colleagues

Top 3 position in CMA service quality rankings by FY2022

2019 status

9th Yorkshire personal

5th Yorkshire business

12th Clydesdale personal

9th Clydesdale business

Definition: The CMA compiles bi-annual service quality rankings of current account customer satisfaction across all major UK banks.

Why it matters: A top 3 position will demonstrate a strong customer experience and proposition, with deeper advocacy and relationships. Over time, we will take part under the Virgin Money brand.

Increase digital adoption to >60% by FY2022

2019 status

51% Digital adoption

Definition: The proportion of active personal current account customers who have used a digital channel in the last three months.

Why it matters: Customer behaviour has moved towards a preference for digital banking; this will meet a key customer need and improve our cost efficiency.

Maintain and improve colleague engagement

2019 status

76% Colleague engagement

Definition: A measure indicating colleague engagement and job satisfaction, drawn from our annual independent colleague survey.

Why it matters: Strong colleague engagement has been shown to be positively correlated with improved company outcomes and will demonstrate that our colleagues are motivated to deliver for our customers.

Senior gender diversity of c.40-45% by FY2022

2019 status

36% Senior gender diversity

Definition: The proportion of female colleagues in senior management positions in the top two layers of the Company.

Why it matters: Companies with greater management gender diversity have proven to be more successful and resilient; this metric also supports our Women in Finance charter commitments.

Executing against our strategic priorities and KPIs will support shareholder value creation through the delivery of our sustainable returns targets by FY2022.

>12% Statutory RoTE

by FY2022

2019 status

10.8% Underlying RoTE

(6.8)% Statutory RoTE

Definition: The return on tangible equity (RoTE) metric demonstrates the return the bank is making on its tangible equity (defined as equity less intangibles).

Why it matters: A >12% RoTE indicates we are making statutory returns above our cost of capital at a level that is likely to compare well to our sector, thus making us an attractive investment.

Metrics key

- ● Remuneration driver (2019 LTIP)
- ● Financial target
- ● Non-financial target

Super straightforward efficiency

Deliver c.£200m of net cost savings by FY2022 ●

2019 status

£53m

Run-rate net cost savings

Definition: Net cost savings are absolute cost reductions by FY2022 net of inflation and re-investment, and relative to our FY2018 costs.

Why it matters: This will help us to achieve greater cost efficiency, provide capacity for re-investment into the customer experience and support our sustainable returns targets.

Operating costs of <£780m by FY2022 ●●

2019 status

£942m

Underlying operating costs

Definition: Total operating and administrative expenses for the Group.

Why it matters: Our significantly reduced cost base will support a cost efficient bank of sufficient scale to achieve our ambitions and support the delivery of sustainable returns.

Cost:income ratio in mid-40s% by FY2022 ●●

2019 status

57%

Underlying cost:income ratio

Definition: The cost:income ratio is the ratio of operating income to operating and administrative expenses.

Why it matters: The general trend of pressure on income in banking means improving cost efficiency is a key source of competitive advantage and supports sustainable returns.

Restructuring costs of c.£360m ●●

2019 status

£156m

Restructuring costs

Definition: Our estimate of the total amount of restructuring costs required to deliver the Group's transformation programme.

Why it matters: Delivery of the integration and transformation programmes within budget is key to supporting the delivery of sustainable returns.

Discipline and sustainability

<30bps cost of risk to FY2022 ●

2019 status

21bps

Cost of risk

Definition: This measures the value of impairments relative to our average gross customer loans.

Why it matters: This is a key indicator of asset quality that helps demonstrate the effectiveness of the Group's underwriting capabilities and is a standard metric that can be compared across the sector.

Risk scorecard ●●

2019 status

On track

Risk scorecard status

Definition: As a bank we monitor against a wide range of risks and our risk scorecard captures some of the most critical of these including bad debts, complaints and operational losses.

Why it matters: The scorecard acts as an early warning measure for management to enable appropriate action to address emerging risks.

c.13% CET1 ratio ●

2019 status

13.3%

CET1 ratio

Definition: The Core Equity Tier 1 (CET1) ratio is a key regulatory indicator of the level of capital the Group holds relative to the amount and risk characteristics of our lending as defined by RWAs.

Why it matters: The Board seeks to maintain a CET1 ratio that provides a sufficient buffer above our minimum regulatory capital requirements, and allows us to prudently achieve our strategic objectives.

Sustainable returns ●

Definition: As our measure of shareholder value creation we have identified three KPIs: statutory return on tangible equity, CET1 capital generation and ordinary dividend distributions.

Why it matters: Delivering these three KPIs will ensure the Group is an attractive investment proposition for shareholders into which they can deploy their capital in exchange for competitive and sustainable returns.

>100bps CET1 generation ●

p.a. by FY2022

2019 status

77bps

of underlying CET1 generation

Definition: Common Equity Tier 1 (CET1) generation is CET1 capital that has been generated during the year after growth, investment and AT1 coupons, but prior to any shareholder distributions.

Why it matters: >100bps of CET1 capital generation is a level that will provide capacity for distributions to shareholders and investment capacity for the sustainable growth of the Group.

Progressive and sustainable ●

Ordinary dividend with c.50% payout ratio over time

2019 status

No dividend in 2019

Definition: Our progressive and sustainable dividend ambition will see us grow our ordinary dividend distributions sustainably, with an ambition for a c.50% payout ratio over time.

Why it matters: The Board believes this level of dividend payout over time would provide shareholders with an attractive return on investment and underpin our investment case.

PIONEERING GROWTH

Reshape balance sheet mix:
— grow margin accretive assets
— grow low-cost relationship deposits

What do we mean by Pioneering Growth?

At the heart of this strategic priority is the ambition to offer outstanding propositions to our customers, new and existing, to enable us to grow in a profitable and sustainable way.

The external macro-environment, competition and changing customer behaviour (see pages 8 and 9) offer a challenging landscape for UK banks. However, our existing position and refreshed strategy offer us unique growth opportunities.

Our customer lending portfolio is currently weighted towards mortgages, where competition and pressure on margins are most pronounced, and we are underweight in lending segments with better margin dynamics, such as business and unsecured lending. We have a great opportunity to deliver above market growth in these segments using the combined Group's full-service capabilities, innovative digital platform and the national recognition of the Virgin Money brand.

Similarly, our customer deposits are weighted towards more expensive term deposits and secondary, rate-driven savings balances. Our strategy is therefore to drive growth in lower-cost primary current accounts and linked savings relationship deposits to help reduce our funding costs. We will do this by offering a differentiated customer proposition that leverages the Virgin Money brand, our innovative digital current account platform, a Virgin Group loyalty programme, and by offering a fairer deal to customers.

Our KPIs	Our 2019 performance
Asset mix in medium term:	
75% mortgages	82% mortgages
15% business	11% business
10% personal	7% personal
Above system asset growth	2.9% growth
High single-digit CAGR in relationship deposits	7.1% growth
<115% Loan to deposit ratio	114%

How have we delivered Pioneering Growth in 2019?

In 2019, we made good progress on our strategy, despite the restriction of operating as two separate banks ahead of FSMA Part VII approval.

In our lending businesses, we delivered strong initial progress against our strategy, with loan growth of 2.9%, in line with market growth of c.3.0%. The mix of lending in 2019 also saw progress towards our medium-term ambition for our target mix, with mortgages moving from 83% to 82% over the year, and personal lending moving from 6% to 7%, with business lending of 11%.

In mortgages, disciplined balance growth of 1.7% across 2019 enabled us to improve margins, particularly in the second half. In business lending, growth of 4.5% was above market growth of 2.9% as our relationship proposition continues to resonate. This was supported by initial volumes from the RBS Incentivised Switching Scheme. Personal lending growth of 16.1% was particularly strong, albeit from a low base, while all new lending remained within our disciplined risk parameters. Personal loan growth has been supported by digitisation of the customer application process and our new partnership with Salary Finance, while credit card growth has been supported by the Virgin Atlantic partnership and its Flying Club rewards offering.

In deposits, we are building good momentum with our relationship deposit growth, with balances increasing by 7.1% during the year. We achieved strong growth in business current account and linked savings balances, and growth in personal linked savings. Personal current account balances did reduce slightly year on year due to our decision not to participate in the cash incentive promotion market, but the launch of the new Virgin Money current account in late 2019 is an opportunity to start driving growth in these balances. We continued to optimise our 'non-relationship' deposit balances, including a reduction of 6.7% in term deposits, with growth of 17.6% in non-linked savings such as ISAs.

Strong overall deposit growth during 2019 enabled us to reduce our loan to deposit ratio to 114%, in line with our medium-term target of <115%.

Our divisional reviews (pages 20 to 25) provide more detail about movements in customer balances during 2019.

How will we achieve Pioneering Growth in 2020?

The completion of the FSMA Part VII banking business transfer process in October 2019 was an important step that enables us to deliver the core activities of our Pioneering Growth initiatives.

We will begin with rebranding the B digital banking service to Virgin Money by the end of 2019, enabling us to offer customers a digitally-enabled, Virgin Money branded current account and linked savings product for the first time. In 2020, an enhanced personal current account relationship proposition will be introduced, we will launch Virgin Money for business customers with an improved customer proposition, and the rebranding of Yorkshire Bank and Clydesdale Bank to Virgin Money will also commence. These initiatives will allow us to continue to reshape our balance sheet mix.

More details can be found in the divisional reviews on pages 20 to 25.

DELIGHTED CUSTOMERS AND COLLEAGUES

— Enhance the customer experience

— Encourage digital adoption

— Colleagues delivering our Purpose

What do we mean by Delighted Customers and Colleagues?

Simply what it says – we want to delight both our customers and our colleagues. This means enhancing our customer experience to attract and retain loyal customers, while leveraging our innovative digital platform to deliver a seamless proposition that encourages customers to use digital as their primary channel. We believe that a superior customer experience will only be delivered by colleagues who are motivated by a clear unifying Purpose, who enjoy their working environment and where all colleagues feel they have a supportive environment in which to progress.

How have we Delighted Customers and Colleagues in 2019?

We are in no doubt that we are on a journey towards creating an outstanding customer experience and we have made initial progress towards that aim in 2019 for our growing 6.6m customer base.

Our NPS scores have continued to improve this year, across each of our existing brands. As a combined Group, our NPS score increased from a pro forma +34 in 2018 to +37 in 2019. Key drivers have included improved service experiences across the Group and continuing improvement in our digital propositions. Of note is the NPS score for B which reached a record +52 thanks to improved customer satisfaction with our leading mobile app. This is a strong baseline from which to commence the rebrand to Virgin Money.

Our focus on customer experience was recognised through being awarded the 'Customers at the Heart of Everything – Initiative' Silver Award for our internal customer experience programme at the 2019 UK Customer Experience Awards.

Our KPIs	Our 2019 performance
Top 3 In CMA business and personal banking service quality rankings by FY2022	Yorkshire Bank: 5th position – Business 9th position – Personal Clydesdale Bank: 9th position – Business 12th position – Personal
>60% Increase digital adoption by FY2022	51%
Maintain and improve colleague engagement	76%
c.40-45% Senior gender diversity by FY2022	36%

A key target is to achieve a top three ranking in the CMA's business and personal banking service rankings by the end of FY2022. In the latest survey results released in August, Yorkshire Bank performed well at fifth place in the Business survey, with Personal in ninth position, while our Clydesdale brand did not perform as well as we would have liked. Over time we will participate in these rankings under the Virgin Money brand. Key to improving our position will be the launch of enhanced digital current accounts for customers, alongside new propositions and the efforts of colleagues to deliver an outstanding customer experience.

A further key indicator of customer satisfaction is our rate of digital adoption, which we are looking to improve to over 60% by FY2022. During FY2019, our rate of digital adoption improved to 51% from 47% at FY2018 as colleagues have encouraged customers to migrate to our enhanced online facilities and as our self-service capability has been rolled out.

For colleagues, this has clearly been a year of significant change as we have embarked on bringing the combined Group together. Over 2,000 colleagues engaged in developing our new Purpose, while we have adopted the Virgin values as our own and rolled out our leading online performance management process across the Group.

There has been some impact on colleagues due to the scale of integration activity which has led to uncertainty for many colleagues but we have offered support throughout. We have been delighted with the resilience, teamwork and commitment shown by colleagues as demonstrated in our strong engagement score of 76% for 2019. This compares well to the benchmark of engagement scores for companies going through significant change programmes, and we will focus on maintaining and improving this as our significant organisational change continues.

We aim to create an inclusive culture for colleagues, driven through meaningful actions across the business. We have five colleague inclusion networks, each sponsored by a Leadership Team member. It was positive to note that the recent survey told us that 82% of colleagues believe their people leader creates an inclusive and positive team atmosphere.

Another key indicator of our progress towards creating our combined, inclusive culture for colleagues is management diversity, which has been proven to correlate with beneficial outcomes for stakeholders. 36% of our senior leaders are female, and we are committed to improving this to c.40-45% by FY2022. Further details on our colleague activities are provided on page 32.

How will we Delight our Customers and Colleagues in 2020?

The completion of FSMA Part VII in October was a key enabler for us to deliver changes for customers in 2020. Coming together as one entity means we can now truly leverage the Virgin brand, rebrand the business and talk to customers with one unified voice. We have a significant programme of customer experience enhancements in 2020 across all three of our divisions and these are outlined in more detail on pages 20 to 25.

For our colleagues, we will continue to embed our Purpose, values and behaviours in 2020 and beyond, creating a culture that values trust, individual growth, work-life balance, diversity and the free exchange of ideas. We will continue to harmonise our reward framework, terms and conditions and employment policies across the Group and enable an enhanced working environment for colleagues through the deployment of new digital capabilities.

SUPER STRAIGHTFORWARD EFFICIENCY

— Realise integration synergies
— Digitise and simplify the business
— Streamline our operating model

What do we mean by Super Straightforward Efficiency?

Super Straightforward Efficiency means making our business as simple and as cost efficient as possible for the benefit of our customers, colleagues and shareholders.

This will be delivered as part of our wider business transformation programme and includes:

— the integration work to bring the businesses together and deliver significant deduplication synergies; and

— a multi-year programme to drive digitisation and deliver change in a more agile way.

The transformation programme will support the delivery of c.£200m of net cost savings by FY2022.

How have we delivered Super Straightforward Efficiency in 2019?

We have made strong progress in 2019 on our integration initiatives, with the critical achievement being the delivery of the FSMA Part VII banking business transfer process. This became effective on 21 October 2019 and means our customers are now served from a single authorised and regulated banking entity. While it sounds simple, this was a significant piece of work, involving over 350 colleagues and 3.1m initial customer notifications. Importantly, it was also delivered ahead of our initial expectations.

The FSMA Part VII approval is a key enabler for bringing the two businesses together. It means that we can now begin the integration of our customer propositions which will enable us to offer customers the full range of products and services from across the combined Group. It also enables us to proceed with the platform integration activities that support the delivery of our targeted cost savings as well as commencing the full rebrand of the Group under the relaunched Virgin Money brand.

Our KPIs	Our 2019 performance
c.£200m of net cost savings by FY2022	£53m Run-rate net cost savings
<£780m Operating costs by FY2022	£942m Underlying operating costs
Mid 40s% Cost:income ratio by FY2022	57% Underlying cost:income ratio
c.£360m of restructuring costs across FY2019-21	£156m Restructuring costs

Given the need to complete Part VII before commencing this work, customer-facing integration has been limited in 2019. However, the operational integration activity has been significant. We have launched our new unifying Purpose, values and behaviours for colleagues. Senior management duplication in the top layers of management was addressed as quickly as possible and our new divisional structures were implemented. Deduplication of other functional roles across the Group has also commenced and will continue into 2020.

We have also designed and communicated our corporate office location strategy, with the former Virgin Money London Head Office already exited and with plans to close the Leeds and Edinburgh offices, as well as our Norwich office over time. This will rationalise our office footprint and optimise our property costs.

This programme of work has delivered £53m of annual run-rate net cost savings in FY2019, with the bulk of these savings achieved through organisational design changes and the elimination of duplicated central costs.

This activity has supported a reduction in the Group's underlying operating expenses to £942m, in line with our FY2019 target of <£950m, and has underpinned a reduction in our underlying cost:income ratio to 57% (2018: 59%).

We have also spent 2019 identifying digitisation and change transformation opportunities across the Group. A clear strategy and governance programme to achieve these is now in place. Cost savings will be delivered from three core areas including digitisation, strategic sourcing, and agile, effective change delivery.

At our Capital Markets Day we estimated we would incur c.£360m of restructuring costs over three years to deliver the total cost savings. In FY2019 we incurred £156m of restructuring costs, higher than our guidance for c.£120m, primarily due to the acceleration of a redundancy programme into September 2019. In 2020 we expect to spend a further c.£140m as we accelerate initiatives to mitigate the timing of investments and inflation, but continue to estimate a total spend of £360m over the three-year period to end of FY2021.

How will we achieve Super Straightforward Efficiency in 2020?

The Group's transformation activities will support the continued optimisation of the Group's cost base and operating model, and contribute to the delivery of our FY2020 cost guidance of <£900m. This will underpin our progress towards our FY2022 financial objectives and our strategic aim of creating a bank that is cost efficient, fully digitised and ready for the next phase of its strategic development.

FY2020 will be a year of significant integration activity. We will rebrand our digital B current account to Virgin Money by the end of 2019, before rebranding all personal loans and credit cards to Virgin Money next year. We will commence the rebrand of Yorkshire Bank and Clydesdale Bank to Virgin Money and roll out our new brand identity across the existing Virgin Money network. We will also commence the platform integration activities now Part VII is complete.

The digitisation and change transformation work will also commence in earnest in 2020, although material cost saving benefits from these activities are unlikely to be realised until 2022 due to the longer-term nature of the initiatives.

DISCIPLINE AND SUSTAINABILITY

STRATEGIC REPORT
FINANCIAL RESULTS
GOVERNANCE
RISK REPORT
FINANCIAL STATEMENTS
ADDITIONAL INFORMATION

— Maintain a disciplined risk approach
— Optimise the Group's RWAs
— Deliver sustainable returns

What do we mean by Discipline and Sustainability?

To us, Discipline and Sustainability means building and operating a bank for the long term.

We will achieve this by maintaining a disciplined risk approach in all that we do. We will operate with a buffer above our minimum regulatory capital requirements to absorb the peaks and troughs of economic cycles. Ultimately, through delivering sustainable returns we will ensure we are an attractive proposition in which to invest.

How have we delivered Discipline and Sustainability in 2019?

In 2019, we have continued to operate within our prudent risk appetite, attracting high-quality customers as we start to reshape our balance sheet. Cost of risk is a key indicator of this and we delivered a good performance in FY2019, with a cost of risk of 21bps. This was stable across the year, but higher than FY2018 (15bps) due to the implementation of IFRS 9 and normalisation, but with no significant deterioration in asset quality.

We recognise that the economic environment is currently benign. While we are not complacent, we believe that achieving the growth and rebalancing of our balance sheet through attracting high-quality, loyal customers will ensure our cost of risk remains below our upper bound target of <30bps by FY2022.

Our risk scorecard is another key indicator, which monitors against a range of KPIs such as bad debts, complaints and operational losses. We reported performance in line with expectations in 2019 with an 'on track' status. We discuss risk management in more detail in the Risk overview (page 26) and Risk report (page 93).

Our KPIs	Our 2019 performance
<30bps Cost of risk to FY2022	21bps
Risk scorecard	On track
CET1 ratio c.13%	13.3%
Sustainable returns: >12% Statutory RoTE by FY2022	10.8% / (6.8)% underlying RoTE statutory RoTE
>100bps CET1 generation p.a. by FY2022	77bps Underlying CET1 generation
Progressive and sustainable ordinary dividend	No dividend paid for 2019

Our CET1 capital position remains robust at 13.3%. While the unprecedented surge of PPI information requests and complaints ahead of the time-bar in August meant additional provisions of £385m in Q4, we have been able to absorb this charge and remain above our medium-term operating level due to the significant capital buffer we were prudently holding. We remain focused on seeking to ensure that current and future customer products and services meet conduct standards and regulatory expectations.

With sustainability in mind, we have taken the decision, incorporating feedback from our major shareholders, to suspend the dividend for 2019. This is the right short-term decision to enable us to continue delivering our long-term strategy and to provide capacity for any shocks given the uncertain economic outlook. The Board will reconsider dividends in FY2020 in line with normal practice.

From a funding perspective we have taken the opportunity to repay £1.3bn of TFS funding to date, prudently ahead of contractual maturity as we have continued to generate healthy growth in customer deposits. This has enabled us to move our loan:deposit ratio below 115%. We have also broadened our access to wholesale funding markets, including Virgin Money's inaugural covered bond issuance during 2019.

We are of course at the very start of our refreshed strategy which will culminate in the delivery of strong and sustainable returns for our investors. As expected, the statutory returns metrics have been impacted by significant integration costs and conduct charges this year. However, on an underlying basis the business is demonstrating strong foundations on which we can build, with an Underlying Return on Tangible Equity of 10.8% and Underlying Capital Generation of 77bps.

Our focus on sustainability is more than just financial. As part of the wider Virgin family we want to make sure we are a force for good to create a better future for society. During 2019, we engaged with our stakeholders, including the Board, to set our overall strategic sustainability ambition – we talk more about this in our sustainability report on pages 34 to 39.

How will we achieve Discipline and Sustainability in 2020?

We will continue to deliver our strategy within our prudent risk appetite. Our Pioneering Growth ambitions will be delivered by increasing our addressable market through the roll-out of the Virgin Money brand, improving our propositions and offering a broader range of products to our existing customers who we know well – meaning there is no need to change our risk appetite.

We will continue to closely manage our capital position and improve our returns profile, while balancing the capital utilisation in 2020 required by the integration, rebranding and growth initiatives that will support the delivery of our ambitious strategy.

We will also develop our broader Environmental, Social and Governance (ESG) and sustainability agenda, embedding our strategy and developing clear roadmaps, milestones and targets to measure our delivery. As well as ensuring a positive impact on communities, climate change will be a major focus area as we align to the United Nations Principles for Responsible Banking and work towards the Task Force on Climate-related Financial Disclosure (TCFD) recommendations.

BUSINESS

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

Divisional strategy

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

Expand our relationship proposition nationally

INITIAL PROGRESS	NEXT STEPS
Expanded our national deposits team. Enhanced team structures to create a national platform for expanding our business. Attracted customers outside our heartlands, with c.40% of our switching scheme customers coming from the rest of the UK.	— Continue to expand our successful proposition into new addressable markets. — Hire specialist relationship managers, to capitalise on and extend our reach, further leveraging our strengths.

Launch Virgin Money for business customers

INITIAL PROGRESS	NEXT STEPS
Preparation for the launch of our new state-of-the-art Business Current Account and market-leading proposition. Progressed migration of our products and systems while preparing for our future digital transformation.	— Finalise product and propositional changes along with our marketing and creative campaign. — Deliver Virgin Money for business customers in FY2020.

Enhance the customer experience

INITIAL PROGRESS	NEXT STEPS
Launched a new, enhanced digital platform and migrated over 8,000 customers to it. Implemented numerous journey and digital enhancements.	— Migrate our remaining customers to the platform during FY2020. — Roll out further digital enhancements and optimised journeys. — Make our experience business-led, not bank-led.

Q&A with
Gavin Opperman
Group Business
Banking Director

Q: What differentiates your division from your competitors?
A: Like our customers, we are ambitious and ideally positioned to support and understand businesses as they grow. We stand out through our customer focus, relationship management proposition and dedicated sector and specialist teams. Being nimble and niche, allied with our focus and credibility makes us strongly positioned in the market and we are well-equipped to proudly provide solutions to our customers' needs.

Q: What will the Virgin brand bring to the Business division?
A: Launching Virgin Money for business customers will introduce an exciting and fresh business bank to disrupt the national market. The Virgin brand, with its entrepreneurial roots and broad reach, resonates strongly with the aspirations of businesses and positions us well in our ambition to disrupt. This will be the first time we've had a national identity to appeal to a larger addressable market. Blending our customer understanding, our relationship specialists and products with enhanced capabilities and a fantastic brand will create a compelling proposition.

Q: How will your division bring our Purpose to life for customers?
A: Purpose is in our DNA, we get immense pride from seeing our customers succeed – from farmers to manufacturers, care home providers to hotel developers and beyond. We strongly believe that supporting British businesses helps to create jobs and prosperity across the communities that Virgin Money serves.

Q: What are your key priorities for 2020?
A: Put simply, launching Virgin Money for business customers. We will take our new brand and disrupt the market as we extend our addressable market by taking our proposition nationwide, expanding it out of our former heartlands in Yorkshire and Scotland. We'll support this with new products and digital enhancements, as we create a leading digital hub backed by experienced relationship managers, outstanding customer service and a nationally resonating brand.

Business lending growth
+4.5%

Business lending balances (£bn)

2019	7.9
2018	7.5

Relationship deposit balances (£bn)

2019	9.1
2018	8.3

Relationship deposit growth
+9.3%

Our Business KPIs

GROUP STRATEGIC PRIORITY	WHAT IS OUR KPI?	2019	TARGET	COMMENTARY
Pioneering growth	Growth in Business relationship deposits	9.3%	High single-digit growth	— Business relationship deposits grew to £9.1bn in FY2019, from £8.3bn, with a total business deposit book of over £11bn — BCA balances grew 8% during the year with 14% growth in linked savings
	Business Current Account (BCA) market share	3.8%	c.5% medium term	— We have won over 20% of all customers who have switched through the RBS Incentivised Switching Scheme, with an increasing share of flow in recent months
	Business share of balance sheet	11%	15% medium term	— 4.5% asset growth in 2019 to £7.9bn, supported by strong originations of £2.2bn — Balance sheet share up from 10% at FY2018
Delighted customers and colleagues	CMA business banking service quality rankings	Yorkshire Bank ranked 5th Clydesdale Bank ranked 9th	Top 3 by FY2022	— Yorkshire Bank was ranked 5th in both overall service quality and SME overdraft and loan services, while Clydesdale Bank ranked 9th — Yorkshire Bank was ranked 4th by customers asked whether they would recommend their banking provider's relationship/account management to other SMEs
Super straightforward efficiency	Businesses using digital as primary channel	52%	70% by FY2022	— Launched new Business Internet Banking in FY2019, migrating over 8,000 customers
	Volume of Business Current Accounts opened digitally	51%	75% by FY2022	— BCAs opened digitally increased from 43% at FY2018 to 51% following customer journey enhancements
Discipline and sustainability	Business cost of risk	45bps gross cost of risk	Support Group net cost of risk <30bps	— Higher cost of risk (FY2018: 36bps) reflects a return to more normal impairment levels — We maintain a diverse portfolio, using our specialist underwriting and strict client limits

Market context

Uncertainty creates market volatility but the business lending market remains competitive, with new investment and digital entrants typically focusing on the micro-end of SMEs.

Our SME Health Check (Q2, published Sept 2019) painted a complex economic picture, but with positive signs. The labour market remained resilient, with SMEs continuing to hire and wages continuing to grow, although business confidence and investment remain subdued. Brexit readiness is well-established at Virgin Money, with our consistent commitment to supporting customers while managing any increased risks.

Business banking continues to operate in an increasingly focused regulatory environment, including the Business Banking Resolution Service, LIBOR replacement and reviews of fees and tariffs.

2019 performance

We believe our results represent strong performance against the current market. We attribute this to understanding the market and delivering a strong, relevant and differentiated business model which continues to attract customers.

Despite competitive pressures, front book lending pricing remains resilient. In addition, business deposit pricing continues to offer funding at rates that are beneficial to our overall Group funding.

We attracted one in five of all customers switching from RBS as part of the Incentivised Switching Scheme, with our share of total switching customers increasing in recent months. The scheme has supported c.25% of our business lending growth in 2019.

We have seen continued growth in lending and deposits across the Business division, supporting the delivery of our £6bn three-year lending commitment to SMEs. The lending pipeline is 8% higher than this time last year and we expect further growth in 2020.

The stable credit environment, along with our prudent underwriting standards and controlled risk appetite all contributed to a portfolio with strong asset quality and low and stable levels of default.

Business relationship NPS performance improved in Q4. We were proud to be recognised by numerous awards during 2019, including Bank or Lender of the Year 2019 at the Health Investor Awards and Commercial Bank of the Year 2019 at the Yorkshire Financial Awards.

Outlook

We are investing in our business and are well-positioned to continue our momentum after three years of consecutive growth, ensuring responsible lending and managing risk through the cycle.

Many of our customers, for example farmers and care home businesses, operate in needs-based sectors where demand for products and services is less driven by exposure to the general business cycle.

Our new brand, customer experience and expanded relationship model will see us disrupt the traditional banks as we become a true national competitor and realise our ambitions in the years ahead.

DIVISIONAL REVIEW

PERSONAL

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

Divisional strategy

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

Transform our relationship proposition

INITIAL PROGRESS	NEXT STEPS
We have been developing a compelling, rewards-led PCA and linked savings proposition, that will equitably share value with our customers.	— Launch our new Virgin Money PCA (with linked savings), offering life-led experiences and rewards combined with innovative digital features. — Full Virgin Money credit card roll-out to all of our customers, with enhanced credit card app functionality and cashback rewards. — Launch Virgin Money branded personal loans.

Enhance the customer experience

INITIAL PROGRESS	NEXT STEPS
We continued to invest in increasing digital adoption and a leading self-service capability, while developing our colleagues to provide expert advice.	— Implementing our mobile-first digital strategy and deliver a best-in-class app, complementing our Virgin Money PCA launch. — Transform and invest in our branch network and contact centres, re-branding and re-purposing, and promoting self-service to improve digital adoption.

Deepen our customer relationships

INITIAL PROGRESS	NEXT STEPS
Through 2019 we have enhanced our existing lending propositions across credit cards (new app), personal loans (new online application process) and partnerships (Salary Finance).	— Target growth in relationship deposits, deepening relationships and lowering our cost of funding. — Offer the full range of products and services to our new enlarged customer base. — Leverage partnerships, to maximise distribution capabilities and access a larger market of customers.

Q&A with
Fergus Murphy
Group Personal
Banking Director

Q: What will the Virgin brand bring to the Personal division?
A: The Virgin brand presents us with a unique opportunity to extend our customer reach. With our digitally-enhanced and transformed customer propositions we will deepen our relationships and equitably share value with our customers.

The Virgin brand's affinity with affluent customers and our scale and footprint gives us a strong starting position to build from.

Q: How will you attract customers in what is a very competitive marketplace?
A: We aim to transform the customer relationship by offering a value-led, rewards-based proposition that will leverage the unique rewards and benefits offered by the Virgin Group.

We will attract and retain customers through offering an enhanced customer experience coupled with an equitable sharing of value. We believe this will enable us to grow our customers' product holdings and increase customer advocacy.

Q: How will your division bring our Purpose to life for customers?
A: We will make our customers happier about money by taking the opportunity to differentiate in a changing market. We will do this by offering best-in-class propositions to help meet their money needs and life goals.

We will deliver a richer PCA experience with smart, relevant features, that will help customers manage their daily life as well as key life events and reward them for loyalty.

Q: What are your key priorities for 2020?
A: Our focus will be on three key areas as we look to help customers live and bank in a more rewarding way. We will create a disruptive proposition that is scalable, optimises funding and builds long-term customer relationships and value. We will do this by constantly improving our app, transactional and servicing capability. We will also reduce costs and transform our service proposition to gain a competitive advantage by delivering an operating model that amplifies our digital capabilities.

Personal lending growth
+16.1%

Personal lending balances (£bn)

2019	5.0
2018	4.3

Relationship deposit balances (£bn)

2019	12.3
2018	11.6

Relationship deposit growth
+5.5%

Our Personal KPIs

GROUP STRATEGIC PRIORITY	WHAT IS OUR KPI?	2019	TARGET	COMMENTARY
Pioneering growth	Growth in Personal relationship deposits	5.5%	High single-digit CAGR	— PCA and linked savings grew by 5.5%. — Total personal deposit balance growth of 3.5% during FY2019
	Personal Current Account (PCA) market share	2.4%	c.3.5% medium term	— Stable market share from 2.4% at H1 2019 — Growth is expected to accelerate with the Virgin Money PCA launch in late 2019
	Personal share of balance sheet	7%	10% medium term	— Personal lending up from a 6% share a year ago, driven by balance growth of 16.1% in FY2019, in line with our strategy
Delighted customers and colleagues	CMA personal service quality rankings	Yorkshire Bank – 9th Clydesdale Bank – 12th	Top 3 by FY2022	— Latest August 2019 survey results set a benchmark for future improvement and our strategy is designed to help us achieve a Top 3 customer experience — Over time, we will participate under the Virgin Money brand
Super straightforward efficiency	Increase in digital adoption	51%	>60% by FY2022	— Increase in digital adoption from 47% at FY2018, through our improved digital proposition
	Mobile app transactional NPS	+52	Improve from +49	— Improvement reflects improved user experience, and positive customer reaction to live chat and secure messaging facilities
Discipline and sustainability	Personal cost of risk	333bps gross cost of risk	Support Group net cost of risk <30bps	— 30-day cards arrears of 1.1% are well below industry average of 2.3%. 30-day arrears for balances on book >18 months are 1.3% — Enhanced scorecards and improved online application supported Personal Loan growth

Market context

The personal deposits market remains competitive, including targeted activity by new entrants and continuing cash incentive offers to attract current account customers. Market growth of 4.3% during the year was higher than 3.8% during the prior year, and we believe that we will continue to be able to attract personal deposits in line with our strategy.

Within the credit card market there was a reduction in competitive intensity, with zero balance transfer incentive periods shortening during 2019. We anticipate these conditions will continue in the short term with fewer price movements and available products in the market. Overall, the credit card market has remained broadly flat compared to last year. The personal loan market remains strong, with the market seeing competitive pricing, rapid digitisation and the increasing influence of aggregators.

The high cost of credit review will have a marked impact on the overdraft market as it repositions following the ban on fixed fee charging, and the move to interest rate charging from April 2020.

Our performance

The Personal division has reported a positive operating performance and initial momentum against our strategic priorities.

The execution of our deposits strategy delivered growth in lower cost relationship deposits. We have also proactively managed pricing to optimise our term deposit funding mix. Retention has been strong with 84% of maturing savings balances retained.

In personal lending we have delivered strong growth within risk appetite. Our personal loan proposition has been significantly enhanced with a >50% reduction in cost per sale. Our growth in balances of c.£200m to c.£1bn was supported by c.£50m of new balances from our joint venture with Salary Finance. Overall growth has been focused on high credit quality customers in a sector in which we remain underweight.

On credit cards, balances have grown by c.£500m to c.£4bn, as we have attracted affluent customers with strong affordability. Our digital customer engagement has been supported by the launch of the Virgin Money credit card app and Apple Pay functionality. We have also extended credit card pricing for risk capability to all of our sales channels, further enhancing the resilience of our returns.

This year's strong growth has been achieved without any expansion of risk appetite. Portfolio credit performance remains strong with no signs of deterioration or early warning signs.

Outlook

We look forward to embracing the opportunities that the Virgin Money brand provides and using it to build on our strong existing platform.

The launch of our new Virgin Money branded PCA aspires to provide a 'best-in-class' experience for customers and will support our high single-digit relationship deposit growth target. We are also aiming to improve our standing in future CMA surveys with further customer journey and experience improvements in 2020.

We will continue our digital transformation and expect growth in personal lending to be supported by offering Virgin Money credit cards and personal loans to our enlarged customer base.

MORTGAGES

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

Divisional strategy

Our strategy is focused on digitising the customer experience, maximising relationships and optimising the division:

Digitise the customer experience

INITIAL PROGRESS	NEXT STEPS
Throughout 2019 we have laid the foundations to transform the Mortgages division. We have also developed our new direct to consumer online remortgage proposition.	— In 2020 we will start to roll out our digital API connectivity to sourcing systems. This will transform originations for our intermediary partners, who remain at the forefront of our strategy.

Maximise relationships to create brand advocates

INITIAL PROGRESS	NEXT STEPS
Good progress is being made on our transformation programme. Underwriter access and enhanced fulfilment processes were implemented, improving application processing speed. Our compelling 'receive your offer in 10 days or get £100' service promise was also rolled out across the broker network.	— We will focus on maximising consumer relationships in 2020 and deliver the initial version of our new and innovative mortgage coach.

Optimise the division for value

INITIAL PROGRESS	NEXT STEPS
We implemented over 20 proposition enhancements during the year. This included launching 15-year fixed rate products to assist new and existing customers, further enhancing our Shared Ownership and Help to Buy offering, as well as enhancing our policy for self-employed contractors. For landlords, we launched 10-year fixed rate products, a first for the market.	— Optimisation of the operating model and underlying cost base is well underway with consolidation of mortgage advisors from branches into three centres of excellence to deliver significant operational efficiencies. — In 2020 we will refine our service delivery for our two distinct and differentiated service propositions, Expert and Everyday, ready for launch in 2021.

Q&A with
Hugh Chater
Group Mortgages
Director

Q: How will you develop the Virgin Money mortgage brand?
A: Guided by our Purpose to make people happier about money, we will transform the mortgage business so that it remains relevant for customers and our broker partners. This is something everyone expects from the Virgin brand.

The digital transformation of the division will be an integral part of our journey. Parallel to this we will also reward customers for their loyalty, and through our two distinct and differentiated service propositions, Expert and Everyday, offer a pioneering broker proposition that combines and enhances the core competencies of our heritages.

Q: What differentiates your division from your competitors?
A: In short, expertise and efficiency. Virgin Money Expert will enable us to extend our reach to intermediaries who historically haven't accessed our complex case expertise. Everyday will reiterate our commitment to mainstream straight-through fast processing capability. We will deliver the best of both. I see it as combining our existing core competencies and extending that reputation across new brokers under our new brand.

The synergies that result from operational integration mean we have identified specific actions to optimise the financial contribution from the Mortgages division.

Q: How will your division bring our Purpose to life for customers?
A: Our transformation strategy is underpinned by our ambition to simplify mortgages to make consumers' lives better. We want to deliver a personal service experience that puts the customer in the driving seat, so that they feel confident and empowered to manage their finances.

Q: What are your key priorities for 2020?
A: Firstly, to transform originations by rolling out our API connectivity to broker partners, who will remain at the forefront of our strategy. For customers who choose to come to us directly we will deliver the initial phases of our new and innovative customer mortgage coach.

We will also continue our programme of ongoing improvements to drive further efficiencies and service enhancements for customers and broker partners.

Mortgage lending growth
+1.7%

Mortgage lending balances
(£bn)

Our Mortgages KPIs

GROUP STRATEGIC PRIORITY	WHAT IS OUR KPI?	2019	TARGET	COMMENTARY
Pioneering growth	Mortgage stock market share	4.2%	c.4%	— 2019 new lending of £10.5bn — 74% retention of balances maturing from a fixed or tracker rate product — 1.7% growth in mortgage balances to £60.1bn
Delighted customers and colleagues	Customer transactional NPS	+68 Direct lending	+75 Over time	— Direct lending NPS increased across all of our existing mortgage brands — The roll-out of the new 'Expert' proposition to c.4,000 new intermediaries by FY2022 will be underpinned by integration activity
Super straightforward efficiency	Reduction in cost of processing a mortgage application	N/a	20% reduction by FY2022	— Work has commenced to restructure the mortgage division. We are on course to deliver benefits from 2020 onwards
	Direct applications	16% of total	25% of total	— Direct share of applications is unchanged from 2018; the new online consumer remortgage proposition will support growth
Discipline and sustainability	Mortgage cost of risk	1bp gross cost of risk	Support Group net cost of risk <30bps	— High-quality book, reflecting our prudent risk appetite and balanced portfolio — Average LTV for new lending of 70% and 57% for stock

Market context

The mortgage market remains resilient despite Brexit uncertainty, underpinned by low unemployment and rising wages. Modest growth in UK house prices continues, although there are notable regional variations, with London and the South-East experiencing reductions.

Market gross lending for the 12 months to September 2019 was £266bn. The market continues to be supported by growth in the remortgage and first-time buyer segments. Gross buy-to-let lending remains stable.

The shift from two to five-year fixed rate products continues as price differentials narrow and consumers look to lock into historically low interest rates.

Product transfers (where customers take a new product with the same lender) remain key with the product transfer market growing by 12% on the previous year, and now at a run-rate of over £160bn p.a., more than double the levels seen four years ago.

Large incumbents are still aiming to grow market share, putting pressure on margins, particularly in the remortgage segment. This is partially contributing to a small number of providers pulling out of the market. In time, this is likely to benefit institutions with a core mortgage business, who are willing to invest in efficiency and customer experience.

Our performance

In line with our plan to optimise for value, we ended 2019 with completions of £10.5bn. Mortgage balances grew by £1.0bn to £60.1bn giving Virgin Money a stock market share of 4.2%. A key part of our performance has been the successful retention of £10.6bn of balances on to a new product with 74% of balances maturing from a fixed or tracker rate product being retained.

The intermediary channel remains central to our strategy, representing 84% of applications. We have also grown the volume of retention through our broker partners to 35% of all product transfers by number, up from 28% in FY2018.

By optimising the volume and mix of business this allowed us to protect the Group from the scale of compression seen in the wider market. The Group is well placed to withstand further margin compression with a substantial segment of the portfolio on product pricing that is comparable to current front book pricing.

The book remains high quality; our percentage number of loans in 3 month plus arrears is 0.4%, against the industry average of 0.7%.

Outlook

We expect a slightly lower new lending market in 2020 as remortgage activity falls due to lower product maturity volumes. This reflects the increased popularity of longer-term fixed rates.

While the market has remained competitive in 2019, there has been a slight reduction in competition of late. However, if gross lending falls then competition could intensify.

We will look to maintain, rather than grow, our market share of c.4% and this should help limit further reductions to our weighted average mortgage rates. The expected gap between front and back book pricing during 2020 is expected to be significantly lower than the c.30bps experienced during FY2019.

We also recognise the imperative of providing an exceptional digital experience that satisfies the expectations of consumers and our broker partners. Our digital transformation will enable us to achieve this objective and facilitate growth in our direct business, so increasing its overall importance within our portfolio.

RISK OVERVIEW

Q&A with
Mark Thundercliffe
Group Chief Risk Officer

What does effective risk management mean to you?

As part of the journey to becoming one entity, we revised our Three Lines of Defence model, our risk policies, risk appetite, risk frameworks and structures to deliver a consistent approach to risk across the Group. Risk's focus, capabilities and skills will continue to transform as fast as, if not faster than, the Group's evolution. We expect to continually refresh and enhance our approaches, orientating our mandate to ensure delivery of the best customer outcomes, quality control standards, and effective and efficient risk oversight.

How will you maintain a Purpose-led Risk function?

We will continue to maintain a disciplined risk approach to enable the bank's strategy of disrupting the status quo. Our role means we ensure regulatory obligations are met, we keep our customers and the Group safe and we make processes better able to support simple and effective customer interactions, all the while challenging our approach and considering new ways of doing things.

What were your key achievements in 2019?

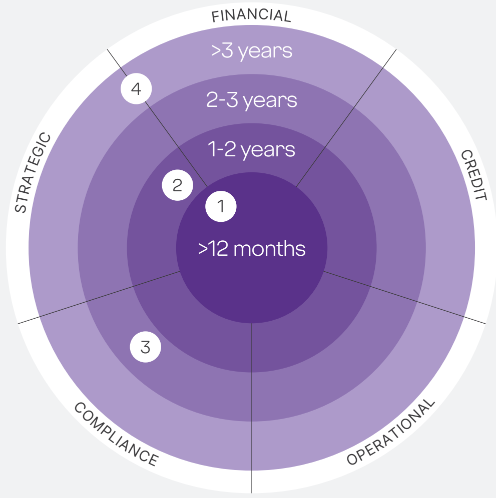
We successfully guided and oversaw the FSMA Part VII transfer process which concluded in October 2019. We also supported significant areas of integration, transformation planning and execution. Early in FY2019, we received accreditation to move onto the IRB methodology for calculating credit risk weighted assets (RWAs) on mortgages and business exposures, and we have used this capability to better support prudent and sustainable growth. We also supported the Group's assessment and onboarding of customers transferring via the RBS Incentivised Switching Scheme.

What are your top priorities for 2020?

We will continue to oversee and support preparation for the Group's inaugural participation in the Bank of England's concurrent stress testing (ACS) exercise in 2020, alongside initiatives to optimise our capital and risk weights. Following the successful completion of the FSMA Part VII transfer, we will intensify our focus on the oversight and support of integration activity as we continue to grow as a combined Virgin Money. The UK's transition to a lower carbon economy presents challenges and opportunities which we will tackle from a customer and Group perspective, embedding sustainability into our activities. Finally, the ongoing digital revolution brings changing customer expectations and creates new risks which we will help address in a safe, sustainable way.

Emerging risks

The Group's 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 consider and capture those risks which are current but have not yet fully crystallised, as well as those which are expected to crystallise in future periods. These risks are allocated a status based on their expected impact and time to fully crystallise, in line with the definitions outlined in Risk Management Framework (RMF).



REF	EMERGING RISK
1	**Geo-political and Macroeconomic environment**

DESCRIPTION

As a UK-focused bank, the Group is exposed to a variety of risks resulting from a downturn in the UK's economic environment, namely macro-economic growth outlook, credit performance and margin pressure.

Economic risks remain heightened as a result of the uncertainty surrounding the UK vote to leave the European Union (Brexit), and the upcoming General Election.

MITIGATING ACTIONS

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.

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.

REF EMERGING RISK

2 Competition

DESCRIPTION

Competition within the financial services sector has increased as a result of newly ring-fenced banks re-establishing their focus on the UK retail sector. In addition, regulatory initiatives, such as Open Banking, may lead to material changes in the future provision of financial products and services and the way in which our customers access them.

MITIGATING ACTIONS

The Group recognises both the risks and opportunities resulting from the changes and continues to develop strategies, products and technologies to ensure it can take strategic advantage where possible and mitigate any corresponding risks.

REF EMERGING RISK

3 Regulatory change

DESCRIPTION

The Group continues to face a significant and evolving agenda of regulatory and legislative change.

MITIGATING ACTIONS

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

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

REF EMERGING RISK

4 Climate change

DESCRIPTION

The Group is exposed to physical, transition and reputation risks arising from climate change.

MITIGATING ACTIONS

The Group has developed a plan to fully consider the impacts of climate change in line with the PRA's Supervisory Statement SS3/19, the Group's Strategy for Sustainability and its broader responsibilities to society.

The plan aims to deepen the Group's understanding of the financial risks from climate change, agree a Board level Group-wide strategic response, and consider how decisions today affect future financial risks.

A governance framework has been put in place to ensure appropriate visibility of risks arising from climate change.

Principal risks and uncertainties

The Group's principal risk categories include those risks that could result in events or circumstances that might threaten the Group's business model, future performance, solvency, liquidity and reputation. In the 2019 refresh of the Group's Risk Management Framework, technology risk was classified as a standalone principal risk, separate from operational risk, to align with the Group's strategy for digitisation and current industry focus on business resilience and cyber risk.

Exposure to operational risk, people risk, technology risk and strategic and enterprise risk has increased during the year as the Group continues to undertake a significant volume of change and integration activity. In relation to technology risk, this is alongside heightened scrutiny by the regulators, given their focus on cybersecurity incidents across the industry. Appropriate plans, Executive and Board governance are in place to monitor our progress in mitigating these risks and to ensure key delivery milestones are met.

An overview of the Group's principal risks and our mitigating actions on each are set out on the following two pages, while further information on all of the Group's principal risks can be found on pages 143 to 191 of the Risk Report.

Operational resilience

Operational resilience underpins all nine principal risks and 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. The Group assesses its operational resilience in relation to people, technology, third parties and premises, ensuring it aims to provide a superior level of support and services to customers and stakeholders on a consistent and uninterrupted basis.

RISK OVERVIEW

Our Strategic Priorities

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

PRINCIPAL RISK AND DESCRIPTION	ALIGNMENT TO STRATEGIC PRIORITIES	MITIGATING ACTIONS
Operational risk Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events.		— 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.
People risk People risk is the risk of not having sufficiently skilled and motivated colleagues, who are clear on their responsibilities and accountabilities and behaving in an ethical way.		— Roles, responsibilities and performance expectations are defined in role profiles and expanded through objective setting and ongoing performance management.
Financial risk Financial risk includes capital risk, funding risk, liquidity risk, market risk, model risk, pension risk and financial risks arising from climate change, all of which have the ability to impact the financial performance of the Group, if improperly managed.		— Funding and liquidity risk is managed in accordance with Board approved standards, including the annual ILAAP, strategic, funding and contingency funding plans. — The Group completes an annual ICAAP which formally assesses the impact of severe, yet plausible, stress events to ensure that appropriate level and type of capital underpins the strength of the balance sheet in both normal and stressed conditions. Furthermore, the Group will be participating in the BoE's ACS from 2020.
Credit risk Credit risk is 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.		— Ongoing monitoring and approval of individual transactions, regular asset quality reviews and independent oversight of credit decisions and portfolios. — The Group applies detailed lending policies and standards which outline the approach to lending, underwriting, concentration limits and product terms.
Technology risk Technology risk is the risk of loss resulting from inadequate or failed information technology processes. It includes cybersecurity, business resilience, information security, physical security, data privacy and payment risk.		— The Group continues to invest in the protection and resilience of its systems, processes, information and data across all three lines of defence, recognising the changing cyber landscape, and increased focus on digital capabilities, as well as the changing risk profile of the business. — The Group has a Data Management Framework governing the creation, storage, distribution, usage and retirement of data. — The Group continues to enhance its Privacy Framework to ensure data subject rights are managed in line with GDPR.
Regulatory and compliance risk Regulatory and compliance risk is the risk of failing to comply with relevant laws and regulatory requirements, not keeping regulators informed of relevant issues, not responding effectively to information requests, not meeting regulatory deadlines or obstructing the regulator.		— 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.
Conduct risk Conduct risk is the risk of undertaking business in a way which is contrary to the interests of customers, resulting in inappropriate customer outcomes or detriment, regulatory censure, redress costs and/or reputational damage.		— 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.
Financial crime risk 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.		— The Group has an established Financial Crime Framework to support the management, monitoring and mitigation of financial crime risk. — The Group continues to monitor industry, fraudster and customer dynamics within an evolving and volatile risk environment.
Strategic and enterprise risk 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, including potential execution risk as a result of integration and transformation activity.		— Strategic and enterprise risk is addressed through the Board approved 5-year Strategic and Financial Plan. — 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.

	FUTURE FOCUS
— 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.	— The final Basel III framework replaces current approaches with a new standardised approach for operational risk. While some uncertainty remains on the final EU and UK implementation, preparations continue for the phased introduction from 2022. — The combination of integration and other strategic change initiatives will present some level of increased operational risk that will require to be assessed, monitored and managed.
— 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.	— We remain committed to embedding the new unifying Purpose for the Group, to ensure better customer service, greater colleague engagement, higher standards of conduct, and enhanced business performance.
— The Group has a range of pension reforms available to reduce exposure to pension risk if required. — The Group has policies and standards for managing the risks that arise during the change, development, validation, implementation and usage of its models.	— Our focus will be on managing the balance sheet in an environment of uncertainty created by the UK's possible exit from the EU, while ensuring that efficient use of capital and optimisation of the Group's risk weighted assets continue to support strategic growth objectives. — We will continue to support and oversee preparations for the Group's first participation in the BoE's ACS exercise in 2020.
— Portfolio monitoring techniques cover such areas as product, industry, geographical concentrations and delinquency trends. — Stress test scenarios are regularly prepared with the outcomes reviewed and relevant actions taken. Outputs will typically include impairment charges, RWAs and write-offs.	— Credit controls are considered to be operating effectively and as intended, with no notable gaps. However, a potential economic downturn would test and stretch these controls. We remain focused on the monitoring and development of credit risk policies, processes and controls in response to this.
— 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.	— Improved Board reporting continues to be embedded, providing detailed insight on people, technology, third parties and premises risk and actions being taken to address any issues. — Ongoing investment in the maintenance of existing platforms and migration to target platforms during integration will ensure that resilience, scalability and stability are at the core of any customer or franchise migrations.
— Formal monitoring of compliance is managed through oversight by the Regulatory Management team, regular reporting to the Risk Committee, and ongoing dialogue with regulators.	— 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.
— Continual assessment of evolving conduct regulations, customer expectations, and product and proposition development. — A risk-based assurance framework has been designed to monitor compliance with regulation and assess customer outcomes.	— There will be new and incremental conduct considerations required as the Group grows, and transitions to a new operating model, with the integration of business processes, technologies and systems and the continued evolution of conduct regulation.
— The Group implements 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 fraud. — The Group performs regular reviews of fraud mitigation strategies to ensure they remain effective and in line with Board approved risk appetite.	— Macro level pressures are evident around the growth in 1st and 3rd party fraud, with continually evolving regulation including the potential for increased levels of early stage customer loss remediation and more costly controls. In addition, the fast pace of evolution of Open Banking and digital channels are changing how banks and customers interact.
— The Group has a defined sustainability strategy that takes account of both the risks and opportunities in relation to environmental factors, including analysis and management of risks associated with climate change. — 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.	— Low interest rates and competitive threats are likely to persist over the financial plan period. The economic environment will be closely monitored with portfolio analysis carried out to ascertain any impacts. — We will increase our focus on integration and transformation activity following successful completion of the FSMA Part VII transfer.

STAKEHOLDER ENGAGEMENT

Customers

Our customers are at the heart of our business and we aspire to delight them; to achieve that, we listen closely to what they tell us

How we have engaged

Our CX (customer experience) Success programme continuously invites customers to tell us about their experiences with us, both at a relationship and operational level. The programme impact over the last 12 months has been remarkable with over 200,000 pieces of customer feedback and around 600 colleagues accessing our real-time CX measurement platform.

What they told us

Customer comments have led to improvements, with examples below:

"There were bank staff taking other customers out of the queue who could be helped away from the counter to limit waiting time as much as possible."

"The ease of applying, the fast response for the document delivery. Timescale was also much improved to our last bank loan application."

"Although your internet banking has improved recently, it still lags other banks in its accessibility and usefulness."

"Help Desk has greatly improved... friendly voices... and promises to return calls are always fulfilled."

Our response

In line with our strategy to drive up digital adoption and delight our customers, we are continuing to work on improvements to our digital apps.

In addition, from a customer experience perspective:

— insight-driven action has reduced monthly complaint volumes by 26%.

— we have developed a new Smile Score metric based on effectiveness, ease and emotion bringing CX measurement closer to our Purpose.

Colleagues

Our colleagues are our biggest asset – well engaged and supported colleagues help us deliver our Purpose

How we have engaged

We ask our colleagues for their views, thoughts and opinions on a regular basis, including pulse checks and feedback surveys, interactive digital content, Let's Talk sessions with the Leadership Team and quarterly wellbeing and annual aspirational discussions. Our insights go well beyond our annual colleague survey.

What they told us

Our people are integral to our ongoing success. That's why we're determined to create exceptional experiences that truly help our people thrive – from our benefits and rewards package to our culture, our style of working and our approach to well-being.

Over 7,500 of our colleagues (79%) completed our first Group-wide opinion survey, myVoice, and our overall engagement score was 76%, which compares well with companies going through similar levels of change.

As expected, the most common concerns coming through our internal communications channels are focused on job security and the timeline of changes.

Our response

We fully appreciate the impact of change on colleagues and the uncertainty it creates. Any organisational changes are made in consultation with our union Unite and our newly formed Virgin Money Colleague Integration Forum. We aim to be open and transparent and provide support to those impacted.

To ensure colleagues are supported through the integration of two businesses, we've equipped our People Leaders to manage cultural and sensitive change through our 'leading through change' workshops.

Society

We have a responsibility and desire to make a positive contribution to civic society

How we have engaged

We spend significant time engaging with our communities, through our front-line colleagues, volunteering, community projects, the grassroots work that the Virgin Money Foundation does and the good causes that Virgin Money Giving (VMG) supports. We also take our environmental responsibilities seriously and were pleased to see climate change rise up the agenda. This year, we asked stakeholders where they need us to focus most as we refreshed our sustainability strategy.

What they told us

Our communities rely on us to provide employment and responsible financial products and services and to help people have a happier relationship with money.

We can make a positive impact by helping communities grow and prosper through the people and businesses we support, giving our time and expertise, continuing the good work of VMG, and working with customers and colleagues to reduce our collective environmental impact.

Our response

Our refreshed sustainability strategy has three main goals: to improve financial well-being and inclusion, remove barriers to business and community success, and protect and nurture our environment.

Colleagues spent almost 8,000 hours helping communities, over 30,000 young people got a taste for being entrepreneurs through our Make £5 Grow programme and VMG enabled £107m of fundraising for good causes. We also met all environmental targets CYBG had set prior to the acquisition of Virgin Money.

More on how we support society is in our sustainability report (pages 34 to 39).

Investors

We aim to create long-term shareholder value for our investors through the delivery of sustainable returns

How we have engaged

Our AGM in Melbourne in January facilitated interaction with Australian retail investors and was followed up with a Board roadshow for institutional investors. As well as meetings in the UK, we held institutional roadshows in the US and a second trip to Australia after the Capital Markets Day (CMD). Investors and analysts from the UK and Australia also attended our CMD in June, where we set out our refreshed strategy and facilitated management engagement. We also visited our major shareholders in Australia after the PPI announcement.

To inform communications, we undertook a large independent investor perception study with influential investors and analysts on topics including strategy, the acquisition, our investment proposition and our investor communications.

What they told us

The perception study gave us useful insights which shaped the CMD, which was then well-received by the market. Separately, investors told us they were disappointed with the continuing burden of legacy conduct and are concerned about the macro environment and competition impacting our ability to deliver our strategy. Investors also registered concern at the decline in the share price and wanted to understand the actions we were taking in response.

Our response

Alongside ongoing investor engagement around the above, following the CMD, we finalised our Long-Term Incentive Plan targets. The Chair of the Remuneration Committee explained the approach in letters and phone calls with our top investors and changes were made in response to this consultation.

Partners and suppliers

We rely on our partners and suppliers to help our business run smoothly, from day-to-day operations to creating digital transformation

How we have engaged

We have strong engagement with our third-party partners and suppliers. We tier our suppliers based on their importance to the Group and tailor our engagement with them accordingly. There are approximately 20 providers who are classified as Tier 1 – the most important third-party providers, who have a strategic relationship with us.

We also work with strategic partners to provide customer propositions.

What they told us

Our suppliers said they were looking for more opportunity to engage with us and we launched our Supplier Spotlight sessions in response. Partners and suppliers are invited to showcase their services and share opportunities where they can work in closer collaboration with us. We held 12 of these sessions over the last year.

Our response

We launched our inaugural Annual Supplier Awards in November 2018 and had over 80 suppliers represented. We shared with them the things that matter most to the Group, including mitigating risk, protecting data and encouraging innovation. The feedback was that this type of event is unique to our industry and was hugely beneficial. We have made it an annual event.

We currently have c.1,800 third-party partners and suppliers and a key focus is to reduce this number, creating deeper relationships that add more value.

Our partnerships with Salary Finance and Virgin Atlantic have helped us serve more customers. We have also signed a joint venture with Aberdeen Standard Investments to provide new customer propositions in future.

Government and regulators

Successful relationships with Government and regulators are vital to our long-term success

How we have engaged

We have engaged extensively with government stakeholders at all levels over the past year. This includes UK Government, Scottish Government and regional/local government. We have held one-to-one meetings, and attended round tables and party conferences.

We have continued to engage extensively with regulators, through the regular schedule of engagement and proactive communication and consultations as matters have progressed throughout the year.

What they told us

Interest has focused on our acquisition of Virgin Money and the integration of the two businesses. Government officials have sought to understand the benefits for customers, as well as the impact on our physical footprint. Regulators have focused on FSMA Part VII, and continue to engage on the Group's strategic plan and transformation agenda, and the implementation of the ACS stress test.

Brexit has also been a key issue, with government and regulators seeking to understand how we are preparing and the support being provided to customers.

Our response

On Brexit, the Group is a member of the UK Government's Business Finance Council and a signatory to the Business Finance Charter. We have contributed to key policy debates through our quarterly SME Health Check Index and 'Bank to the Future' report.

We continue to have an open and proactive approach to engaging regulators, and continue to invest in our operations to ensure we are well-placed to respond to the evolving regulatory landscape.

PEOPLE WITH PURPOSE

"Our People are critical to delivering our Purpose, 'Making you happier about money'. That's why we're determined to create exceptional experiences that truly help our people thrive – from our benefits and rewards package to our culture, our style of working and our approach to well-being."

Kate Guthrie
Group Human Resources Director

As we embed the Virgin Money brand, our customers will see and feel the difference through our products, our delightfully surprising service and through the little things we do that set Virgin Money ahead of the pack.

So, we want to foster a culture which entices, engages and encourages our people to deliver ambitious, customer-focused outcomes, regardless of their role. After all, it's our People with Purpose who will make our customer experience extra special.

While our focus is on delighting our customers and colleagues, every now and again we are delighted ourselves by delivering on big milestones. Here are some of our 2019 achievements:

Celebrating culture:

Launching our Purpose has been a huge success. Almost 25% of our colleagues contributed to shaping our Purpose both in person through focus groups and online.

Adopting the Virgin values and behaviours this year has kept us focused on how we deliver our Purpose. To us, it's not a slogan, gimmick or mouse-mat. It's our core reason for being, our new DNA. Things like our dress for your day guidelines and our team-focused performance management and reward approach demonstrate that we're listening and working to create more flexible, future-focused ways of working.

We have equipped our People Leaders to manage cultural and sensitive change. Our Great Leadership framework and 360 feedback culture continues to raise the bar of leadership across the Group. We are delighted that 82% of colleagues told us their People Leader creates an inclusive and positive team atmosphere.

We have taken a holistic approach to health and well-being initiatives that focus on four pillars: mind, body, finances and family. Doing great work can be hard work. That's why we've signed up to the Mental Health at Work Commitment, adopting a framework to promote the long-term positive mental health of our colleagues.

Evolving engagement:

We ask colleagues for their views, thoughts and opinions on a regular basis during the year. Our Leadership Team participate in regular 'Let's Talk' sessions, where colleagues have the opportunity to ask questions, give their views and get a real view from the bridge. We also undertake regular pulse check surveys, where we ask colleagues their views on key milestones.

Colleague sentiment is a key measure of how well we're doing, so we keep our Board up to date on a quarterly basis as part of a people update and culture dashboard.

We were really pleased that over 7,500 of our colleagues (79%) completed our first Group-wide opinion survey, myVoice. Our overall engagement score was a pleasing 76%, which compares well with companies going through similar changes.

Impactful inclusion:

Our colleagues deliver for our customers when they can be themselves at work. So, it goes without saying that inclusion is at the heart of our culture. It is embedded in our values and is being driven through meaningful actions across the business.

We have five colleague inclusion networks each with sponsors from the Leadership Team: Aspire, Balance, Embrace, Enable and Vibrant.

Some of our highlights this year include:

- participating in the Women's Ahead event in London, streamed live across our different locations;
- attending the Employers Network for Equality and Inclusion Annual Diversity event at the House of Lords after participating in a six-month programme developing leadership awareness;
- promoting Pride 'OUT the box' and winning the Corporate Ally award at the Proud Scotland Awards; and
- being awarded an Employer Recognition Scheme Gold Award for outstanding support for the Armed Forces community.

Rightsizing and reshaping:

We've made good progress with our integration plans so far – introducing the concept of our new customer divisions, finalising our Extended Leadership Team structure and announcing our location strategy.

We know this activity creates real uncertainty for colleagues. We are working hard to support colleagues and raise the quality of leadership of change.

Future focus

While it's important to pause and reflect on our journey so far, we have more to do in the years ahead to realise our ambitions and deliver on our promises. Here are some of the things we're focusing on in 2020:

- we will continue to embed our Purpose, Values and Behaviours in 2020 and beyond;
- we will continue to build an agile organisational structure, one which enables faster and more dynamic ways of working;
- we will look at opportunities to harmonise our reward framework, terms and conditions and employment policies across the Group; and
- we will enhance our digital capabilities, which will allow us to improve our working environment for colleagues.

GENDER PAY

At Virgin Money we are passionate about fairness, equality and inclusion. We fully support the UK Government initiative to improve equality through collecting and reporting gender pay data.

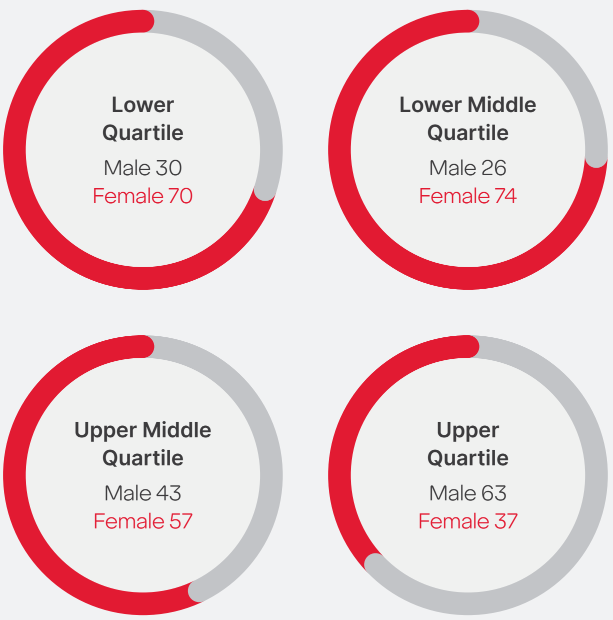
Our overall mean and median gender pay and bonus gap, based on a snapshot date of 5 April 2019 (pay) and bonus paid in the 12 months to 5 April 2019, are:

MEASURE	VIRGIN MONEY UK PLC*
Mean pay gap	31.8%
Median pay gap	34.0%
Mean Bonus pay gap	55.4%
Median Bonus pay gap	38.6%
% Males paid a bonus	89%
% Females paid a bonus	91%

*Our full gender pay report can be found on our website.

At Virgin Money men and women are paid equally for doing the same or similar jobs. The key driver behind our pay gap is that overall we still have more men than women in senior roles and more women than men in our customer-facing roles, which are often more junior.

Proportion of males and females in each pay quartile (shown lowest to highest)



We're proud to have signed up to the Women in Finance Charter which reflects our commitment to build strong female representation at all levels within our organisation. We've set measurable objectives for achieving gender diversity (with a target of 40% women in senior management by 2020 and a long-term aspiration for gender balance), and our progress towards achieving these objectives is reported to the Board.

Progress is demonstrated by:

	FEMALE	MALE
Board Members	**4 (31%)**	9 (69%)
Leadership Team	**4 (33%)**	8 (67%)
Extended Leadership Team	**32 (38%)**	53 (62%)
All Colleagues	**5,701 (59%)**	3,966 (41%)

(Employee headcount at 30 September 2019.)

We have a large customer service organisation, where many of our colleagues are employed. In our customer service areas we employ over 70% women. Our upper quartiles are more gender balanced. A large proportion of our customer service roles are part-time and we have found that throughout the organisation the majority of part-time roles are occupied by females, whereas full-time roles are more gender balanced.

We are working hard to narrow our gender imbalance in our customer service areas and create more opportunities for people to progress their career while working part-time.

There are a number of other steps we are taking to improve our gender balance that we expect to positively impact our gender pay gap, including:

Our leaders

— Building awareness of our inclusion practices through hiring workshops.

— Creating advice and guidance for people leaders to support a flexible working culture.

— Promoting and role modelling a flexible working culture.

Our people

— Mandating diverse shortlists for applicant submission, reviewing the make-up of our interview panels and our approach to anonymised selection.

— Enabling our colleagues through technology which encourages flexible working, remote learning and virtual networking.

— Continuing our 'Return to Work' programme, to support women returners.

Our insight

— Understanding the make-up of our workforce from recruitment to retirement to pinpoint leaks in the talent life cycle, allowing us to track progress and shape direction.

We are encouraged that the changes we are making are having an impact; we are proud that 88% of colleagues told us they can be themselves at work in the recent myVoice survey.

However, we recognise that there is still a lot more to be done and we will continue to shape a more diverse and inclusive culture across the Group.

SUSTAINABILITY: STRATEGY

"At Virgin Money, 'sustainability' describes our impact on society and the environment and both the opportunities and risks associated with that. It's all about embedding sustainability priorities into our core business and strategic decisions (not a side-of-desk CSR project!). Virgin Money Giving is a great example of using our financial expertise to make the world a brighter place."

Emma Tottenham
Group Corporate Communications and Sustainability Director

Virgin Money's refreshed sustainability strategy

In bringing the two heritage banks together and uniting under a shared purpose and brand, the Group took the opportunity to develop a new sustainability strategy.

Our ambition is to embed sustainability into all our business practices so that we can realise the long-term opportunities from being a sustainable business and mitigate risks from climate change and social inequality.

We conducted an exercise with stakeholders, including the Board, to identify the areas where Virgin Money, as the new disruptive force in banking, can make the most material difference to society through its impact and influence on communities and the environment. This generated three goals that form the bedrock of our sustainability strategy, shown below. We have mapped these at a high level against the United Nation's Sustainable Development Goals (SDGs).

Underpinning these three themes is an ambition to set a high bar on all Environmental, Social and Governance (ESG) areas. We have also developed a partly-devolved model where our colleagues can help us innovate as well as using their two volunteering days each year to contribute to the causes that are most important to them and their local communities.

The Board has been highly engaged in the development of the Group's sustainability strategy and receives quarterly updates on the execution of this new strategy. The Board will remain closely involved going forward as we develop stretching medium-term targets and align our reporting and disclosure to the Task Force on climate-related Financial Disclosure recommendations over time.

Virgin Money is a signatory to the United Nations Principles for Responsible Banking and is using these to guide the evolution of its sustainability strategy across all areas covered by the Principles. Future reports will include self-assessment against these Principles.

PRINCIPLE 1 Alignment	PRINCIPLE 4 Stakeholders
PRINCIPLE 2 Impact and target setting	PRINCIPLE 5 Governance and culture
PRINCIPLE 3 Clients and customers	PRINCIPLE 6 Transparency and accountability

3 BIG GOALS	Increase financial inclusion and well-being (page 35)	Remove barriers to business and community success (page 35)	Protect and nurture the environment (page 38)
ALIGNMENT TO UNITED NATIONS SDGS	3 Good health and well-being; 4 Quality education; 10 Reduced inequalities	1 No poverty; 8 Decent work and economic growth	7 Affordable and clean energy; 12 Responsible consumption and production; 13 Climate action
SETTING A HIGH BAR ON ESG	We hold ourselves to a high standard on all matters relating to environmental impact, social impact and governance and are constantly improving our reporting and disclosure in these areas to meet evolving best practice (see page 39 for more).		
MAKING A DIFFERENCE DAY-TO-DAY	We put in place devolved accountability and empowerment, enabling colleagues to engage in the issues they care about most at a local and macro level. This incorporates our charity partnerships, volunteering days, match funding and colleague network and innovation loops to deliver small changes. This year over 800 colleagues volunteered almost 8,000 hours in our communities and raised a record-breaking £330k for our charity of the year, Dementia Revolution.		

Goal 1: Financial inclusion and well-being

Our approach

This theme speaks to the core activities of our Personal division.

We use our expertise in money to support customers and communities to be happier about money. We develop products and services, on our own and with partners such as Salary Finance, that support vulnerable customers and increase financial inclusion. Our colleagues offer their time and financial know-how through volunteering programmes to improve financial well-being across the UK and we work with organisations that are experts in helping people in financial difficulty to guide our focus so we deliver the greatest possible impact. In Scotland, we are committed members of Carnegie Trust's Affordable Credit Action Group seeking to bring new solutions to the problem of high cost credit.

We are in the process of setting ambitious medium-term targets.

Our impact this year

- 30,362 young people improved their financial well-being and entrepreneurial skills through Make £5 Grow.
- 423 Make £5 Grow Ambassadors (see case study opposite).
- 238 financial well-being sessions delivered to both customer and non-customer groups, reaching 4,000 people since launch.
- £53m lent through Salary Finance, helping people to avoid expensive debt, like payday loans through salary-deducted loans.
- Supported customers in financial difficulty through partnerships with StepChange, Citizens Advice Bureau, and Money Advice Trust.
- Provided 325,000 people with basic bank accounts.
- Helpful budgeting and savings tools at the heart of our core mobile banking service.

CASE STUDY:

Make £5 Grow

Make £5 Grow provides 9 to 11 year-olds with the experience of starting a mini business using a £5 loan from Virgin Money. Over 1,700 primary schools and over 113,000 pupils have developed valuable skills and insight into the world of work and money with our financial education programme since 2011.

Mossnuek Primary set up stalls in the Virgin Money Lounge in Glasgow to sell their products to customers, turning their £5 into £2,000 profit which they donated to local charities.

Goal 2: Removing barriers to business and community success

Our approach

This theme speaks to the core activities of our Business and Mortgages divisions in supporting SMEs and helping people get on the property ladder. We also make a difference in a way that no other bank can, through our not-for-profit digital fundraising platform, Virgin Money Giving (VMG) (see page 36). In addition, through our annual donation of £1m to, and covering the running costs of, the Virgin Money Foundation (VMF), Virgin Money supports grant making at a grass-roots level in some of the most deprived areas of the UK.

Virgin Money has a further important role to play as a major employer in its communities, particularly in its two key hub locations in Glasgow and Newcastle. We also supported Virgin Start Up, a not-for-profit company in the Virgin Group which distributed over £6.5m to over 500 entrepreneurs this year, through the hosting of events for entrepreneurs in our Lounges.

We are in the process of setting ambitious medium-term targets.

Our impact this year

- £107m donated to charities through VMG and 12,500 charities supported through VMG's service.
- VMF awarded grants of £2m in 2019 to organisations working in areas including housing, employability, youth social action and regeneration.
- We remain proud supporters of HM Treasury's Women in Finance Charter.
- On track to provide a minimum of £6bn of lending to SMEs over three years to December 2019.
- Opening of B Works in Manchester offering co-working and studio space and hosting events for local businesses.
- We have 105 apprentices across the business.
- Commitment to supporting and employing ex-Armed Forces recognised with an Employer Recognition Scheme Gold Award.
- Continued to arm businesses with important market context and trends through the quarterly SME Health Check report.

Modern Slavery Act Statement

Virgin Money has a zero tolerance approach to slavery, servitude, forced labour and human trafficking (Modern Slavery) and is 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 the supply chain.

The statements detailing the actions we have taken to achieve this can be found on our website at: virginmoneyukplc.com/corporate-responsibility/modern-slavery-act/

SUSTAINABILITY: VIRGIN MONEY GIVING

2019 has been a year of strong growth in donations for Virgin Money Giving (VMG), with significant progress made against key strategic objectives.

2019 highlights

Delivering strong donation growth

£107m
raised for UK charities this year

£792m
raised through Virgin Money Giving since launch

Market-leading customer experience

+55
VMG fundraiser Net Promoter Score

+81
London Marathon fundraiser Net Promoter Score

Extending our reach and support

3,581
registered charities, a 352% increase year-on-year

VMG was launched with the aim of helping fundraisers and charities raise as much as possible for good causes. As a not-for-profit business within Virgin Money, VMG is an embodiment of our Purpose, 'Making you happier about money' and a clear demonstration of business acting as a force for good.

In October 2019, VMG turned ten and, since launch, has helped over 12,500 UK charities and 1 million fundraisers raise nearly £800m to support their work in the UK and overseas. £107m has been raised for charities this year alone.

VMG is the official fundraising partner of many leading UK events including the Virgin Money London Marathon, Prudential Ride London, the Royal Parks Half Marathon and Sleep in the Park. The 2019 Virgin Money London Marathon raised a record-breaking £66.4m for charities, setting a new world record for an annual single-day charity fundraising event. It brings the overall sum raised for charities since the event was founded in 1981 to more than £1bn, of which over £198m has been raised through VMG since 2010. In 2019 VMG launched an innovative fundraiser hub offering advice and support from experts and past runners and introduced a donation option to the Virgin Money London Marathon app, a great new way for VMG fundraisers to drive donations on the day. As a result, over £28m was raised on VMG by Virgin Money London Marathon runners, an increase of 16% on 2018.

In its quest to help charities expand their income, VMG has invested in the development of its donor and fundraiser experiences in recent years, resulting in a strong fundraiser NPS of +55 and an increase in the average amount raised per fundraiser. In 2019 the business focused on both expanding its charity partners and developing its offering to charities by providing enhanced reporting and customer information.

As a result, over the last 12 months VMG has increased its total live charity partners by 25%, with its low fees and customer service attracting a high number of small to medium-sized charities that had previously fundraised through other providers. Investment in VMG's reporting tools and charity hub, in addition to new Donor Covers Fee enhancements and continued free collection of Gift Aid, are all key to supporting an increasing number of UK charities to take full advantage of digital fundraising as an important and cost-effective income stream.

CASE STUDY:

100% of what you give goes to your cause

Donor Covers Fee was launched in November 2018, giving donors the opportunity to cover the 2% VMG platform fee. Due to the popularity of Donor Covers Fee this was extended to cover all transaction fees in September 2019, meaning that the VMG service is now free on over 80% of donations. Jane Emmerson, Chief Executive of Get Kids Going! said, "We believe, at Get Kids Going!, that our long-standing online giving partner, Virgin Money Giving, has revolutionised both charity fundraising and donor giving over the last few years – their dedication to ensuring the customer's experience of giving is so enjoyable and easy has proved invaluable to the charity. Their free Gift Aid collection, not-for-profit ethos and the launch of their 'Donor covers the Fee' feature is fantastic! It means that we can now raise even more to support the many wonderful disabled children and young people who desperately need our help so they can participate in sport".

Given the importance of online donation portals to the UK charity sector, VMG fully supports the need for digital providers to be well-governed, safe and transparent. A programme of work is undertaken on a continuous basis to ensure that VMG complies with the Payment Services Directive (PSD2), General Data Protection Regulation (GDPR) and the Fundraising Regulator best practice requirements. The company has also continued to invest in the security of the service, and the website was once again awarded the government-backed Cyber Essentials Plus standard in 2019.

CASE STUDY:

Raising more for good causes

Cardiac Risk in the Young (CRY) give their views on using VMG for their online fundraising:

"We've definitely seen a boost in fundraising since using Virgin Money Giving. Last year was our best year for fundraising since CRY launched in 1995 and while that's really down to the hard work of our supporters, platforms such as Virgin Money Giving make it easier for them to raise the necessary funds.

"Virgin Money Giving's 'In Memory' pages are an important tool for our supporters and have helped us boost our donations. The new BETA reporting system has also really helped us, by enabling us to produce reports much quicker and thank supporters more efficiently.

"It's really important to us that Virgin Money Giving is a not-for-profit website. We're often asked about how much of the money people donate reaches the charity – it's something our supporters really take into consideration and it's great we can tell them that VMG is not-for-profit. Virgin Money Giving also makes collecting Gift Aid really easy as they sort all that out for us. All in all, we've always found VMG a user-friendly and efficient way for supporters to raise funds. It offers lots of useful tools for charities to utilise, the not-for-profit stance is great."

SUSTAINABILITY: ENVIRONMENT AND ESG

Goal 3: Protect and nurture the environment

Our approach

We are committed to combating climate change and doing our bit to limit the global temperature rise to 1.5 degrees Celsius this century, in line with the Paris Agreement. We are targeting 'net zero' carbon emissions by 2030.

Although our direct environmental impacts are comparatively low, we have a major role to play in 'greening finance': helping our customers, partners and colleagues transition to a low-carbon economy. This generates both risks (such as transition risk) and opportunities (such as supporting 'green' businesses) for us as a bank, on top of the physical risks from the effects of climate change on our operations and lending.

During the year we will develop a demanding benchmark for appraising businesses that are actively engaged in activities that advance the cause of environmental sustainability, recognising the long-term commercial attractiveness of this sector. We will target our activities such that, over a period of time, 5% of our business loan book will be directed towards businesses meeting this benchmark.

Our strategy supports the Group's response to evolving regulatory expectations regarding climate change risk.

Our impact this year

This is the first year of reporting as Virgin Money UK PLC. The Group had historic targets that ran from 2016-2019, which are reported below. The Group environmental data reported here forms the baseline for delivering against future targets, which are in the process of being developed. We will align reporting and disclosure to the voluntary Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Other highlights include:

— lent £31m to the renewables sector;

— zero waste to landfill;

— removed single-use plastic cups from our offices, saving two tonnes of carbon a year; and

— all 2016-19 environmental targets met (see table below).

Reporting on Greenhouse Gas (GHG) emissions

The Group reports GHG emissions in accordance with the GHG Protocol, which sets a global standard for how to measure, manage and report emissions. The reporting period for GHG emissions in the Group ran from 1 July 2018 to 30 June 2019. A copy of the Reporting Criteria document is available on the Virgin Money website.

The figures below use location-based emissions. Using market-based emissions for energy would reduce total Scope 2 emissions for the Group from 11,285 to 384*.

The only estimated emissions in the GHG emission data relate to 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 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 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)	2019	2019 CYB	2018 CYB
GHG emissions per average FTE	**1.95**	2.01	2.25

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 ISAE3000 and ISAE3410. KPMG has issued an unqualified opinion over the selected information. KPMG's full assurance statement is available on the Virgin Money website.

Historic environmental targets

We have four environmental targets to measure the Group's performance over a three-year period in comparison to a baseline in June 2016. At 2019 all the targets have been met.

GHG emissions performance in 2019

SCOPE	2019 GROUP	2019 CYB	2018 CYB
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.	**4,055***	2,482	3,100
Scope 2 emissions Generated from the use of electricity in all buildings from which the Group operates.	**11,285***	10,467	11,398
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.	**6,277**	5,076	5,938
Total	**21,617**	18,025	20,436

Environmental performance in 2019

AREA	2016 RESTATED BASELINE	2019 ACTUAL	2016-19 % CHANGE	2019 % TARGET	2019 PERFORMANCE
GHG – measured by CO_2	22,602	**18,025**	20%	9%	**Target met**
Energy (gas and electric) – measured by gigajoules (GJ)	165,541	**141,538**	14%	9%	**Target met**
Water consumption – measured by m^3 volume	77,286	**73,560**	5%	5%	**Target met**
Recycling first-line waste – measured by % volume	74%	**80%**	6%	6%	**Target met**

Setting a high bar on ESG

While we are focused strategically on our three big goals to create a positive contribution to society, as a responsible business we maintain high standards for all aspects of sustainability.

We are constituent members of FTSE4Good and the Dow Jones Sustainability Index (DJSI). Our DJSI score increased by 15 points, moving us in line with the sector average and we outperform the industry average in FTSE4Good, scoring 3.5/5, compared to the average of 2.9.

We recognise there are significant opportunities for further improvement and will use these results to inform and drive our efforts.

Managing ESG risks

We are committed to managing ESG across our business. This year we created an ESG screening policy to improve the sustainability of our investment decision-making. This includes identification of restricted and high-risk industries and sectors – for example, we do not lend to 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	Sustainability report, pages 38 to 39; Stakeholder engagement, page 30	Risk Overview, pages 26 to 29 Financial risk, page 182 Strategic risk, page 190
Colleagues	Employee Conduct Policy; Fit and Proper Policy; Health and Safety Policy; Whistleblower Policy; Physical and Personal Security Policy; Inclusion Policy	Strategic review, page 17 Stakeholder engagement, page 30 People with Purpose, page 32 Gender Pay Gap, page 33	Risk Overview, pages 26 to 29 Corporate governance report, pages 74 to 77 Whistleblowing, page 92 Directors report, page 134
Human rights	Modern Slavery Statement; Privacy and Data Protection Policy; Information Security Policy	Modern Slavery Act, page 35 Corporate governance report, pages 74 and 77	Risk Committee report, page 99 Technology risk, page 187
Social matters	Sustainability Policy; Political Contact, Communications and Donations Policy; Responsible Lending Policy; Sanctions and Embargo Policy	Sustainability report, pages 34 to 39 Strategic review, page 19	Stakeholder engagement, pages 30 to 31 Corporate governance report, page 77
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	Risk Committee report, page 98	Technology risk, page 187 Financial crime risk, page 189
Policy embedding, due diligence and outcomes		Risk overview, pages 26 to 29	Risk report pages 143 to 191
Description of principal risks and impact of business activity		Risk overview, pages 26 to 29 Sustainability report, pages 34 to 39	How we create value, pages 10 to 11
Description of the business model		How we create value, pages 10 to 11	Who we are, pages 6 to 7
Non-financial key performance indicators		Our KPIs, pages 14 to 15 Strategic review, pages 16 to 19; Divisional reviews, pages 20 to 25	Stakeholder engagement, pages 30 to 31 Sustainability report, pages 34 to 39

CHIEF FINANCIAL OFFICER'S REVIEW

"In 2019 we delivered a resilient operating performance and made good progress against our financial targets. We have a strong balance sheet and are well placed to deliver our strategy."

Ian Smith, Group Chief Financial Officer

CFO review contents

Analysis of:

Review of the year

2019 has seen the combined Group make a strong start. We delivered a resilient operating performance in a challenging environment, while executing on key integration milestones that now enable us to commence the customer and platform integration programme. We have also made good initial progress in the delivery of our refreshed strategy and targets that we set out at our Capital Markets Day (CMD) in June. The Group experienced an unwelcome and unexpected surge in PPI claims ahead of August's complaint deadline, but we have been able to absorb the additional cost impact and remain focused on implementing our CMD strategy.

Balance sheet progress

Our strategy to reshape the balance sheet is off to a good start with asset growth of 2.9%. This was achieved through above market growth in Business and Personal lending, with more muted growth in Mortgages as we optimised for value in line with our strategy. We also delivered strong growth of 7.1% in relationship deposits as we look to rebalance our funding away from less sticky and more expensive non-linked savings and term deposits.

Resilient operating performance

The Group delivered a resilient operating performance with pro forma underlying profit before tax of £539m (2018: £581m) and underlying return on tangible equity of 10.8% (2018: 11.0%).

The Group delivered slightly lower income of £1,639m (down 3% year-on-year) in a challenging environment, but more than offset this with reduced costs of £942m (down 6%) to deliver an increased operating profit of £692m (up 1%). Impairments rose to £153m (up 44%) following the adoption of IFRS 9 and

Statutory loss after tax	Underlying profit before tax	Underlying Return on Tangible Equity
£(194)m	£539m	10.8%
2018: £(145)m	2018: £581m	2018: 11.0%
Net Interest Margin (NIM)	**Underlying Cost:Income Ratio**	**Cost of risk**
1.66%	57%	21bps
2018: 1.78%	2018: 59%	2018: 15bps
CET1 ratio	**Asset growth**	**Relationship deposit growth**
13.3%	+2.9%	+7.1%
2018: 15.1%	2018: N/A	2018: N/A

normalisation, but underlying asset quality remains strong. As a result, underlying profit before tax was 7% lower than 2018.

Statutory loss driven by legacy conduct

In line with the rest of the industry, we received an unprecedented surge in PPI information requests and complaints during August, which required us to take additional PPI provisions of £385m in the second half of the year (£415m for the full year).

The scale of the PPI provision, coupled with the restructuring and acquisition costs incurred this year (£345m), meant that the Group has reported a statutory loss after tax of £194m (2018: £145m loss after tax).

Robust capital position supports strategy

While the PPI provision clearly had a significant impact on the Group's capital position, thanks to the significant buffer the Group was prudently holding, we have been able to absorb the impact and remain robustly capitalised. However we have, incorporating feedback from our major shareholders, taken the prudent decision to suspend the dividend in 2019.

Our CET1 ratio of 13.3% as at 30 September 2019 retains a significant buffer to our CRD IV regulatory requirement of 11.0% and provides sufficient capacity to deliver our CMD strategy.

Conclusion

2019 has been a year of building our foundations for the future, while seeking to close out legacy issues. Our refreshed strategy is predicated on actions within our own control and leverages the key strategic advantages available to us. We look forward to another year of strong delivery and progress in 2020.

Basis of preparation note

The information and commentary in this section presents the Group results on a pro forma basis as if CYBG PLC and Virgin Money Holdings (UK) PLC had always been a combined group. This assists in explaining trends in financial performance by showing a full 12-month performance for the combined group for both the current and prior year.

The acquisition has had a significant impact on the Group's statutory results and financial position and we believe that it is most helpful to provide historical information which is more readily comparable with the results of the combined businesses.

The statutory results, which include the results of Virgin Money Holdings (UK) PLC from the date of acquisition on 15 October 2018 are set out at the end of this section on pages 50 to 51.

A reconciliation between the results on a pro forma basis and a statutory basis is also included on page 51.

Income

Summary for the year ended 30 September	2019 £M	2018 £M	CHANGE
Underlying net interest income	**1,433**	1,457	(2)%
Non-interest income	**206**	228	(10)%
Total underlying operating income	**1,639**	1,685	(3)%
Net interest margin (NIM)	**1.66%**	1.78%	(12)bps
Average interest-earning assets	**86,362**	81,934	5%

Overview

Total income of £1,639m was 3% lower year-on-year, reflecting competitive market conditions impacting net interest income, a lower contribution from our investments business, and adverse fair value movements within non-interest income.

Net interest income and NIM
Net interest income declined 2% year-on-year reflecting the continued competitive pressures in the marketplace.

In Mortgages, sustained competition in recent years has driven front book mortgage pricing well below average back book rates. This has impacted our book more than others over the past few years as we have a less seasoned, shorter duration book. The average yield on the mortgage book declined 12bps due to a negative c.30bps average front book vs. back book variance during 2019. However, growth in average mortgage balances helped mitigate these pressures to deliver broadly stable mortgage interest income. In Business, expanding yields due to higher rates and growth in average balances has driven increased interest income. In Personal, better yields due to the seasoning of the credit card book and growth in average balances also increased interest income.

Our customer deposit costs increased by 10bps in 2019 to 98bps, 4bps of which relates to the full year impact of the base rate increase in August 2018. The remainder of the increase is due to increased deposit pricing pressure on non-linked savings and term deposits. Wholesale funding costs increased primarily due to rate increases and additional MREL issuance.

As a result, and as expected and guided, the Group's Net Interest Margin (NIM) declined by 12bps to 1.66%. Mortgage pricing pressures reduced NIM by 8bps and deposit pricing, including the base rate increase impact, led to a further 10bps of NIM reduction. This was offset by 7bps of benefit from growth in Business and Personal lending, with a further 1bps of net reduction from other items, including wholesale funding and liquidity impacts.

The Group manages the risk to its earnings from movements in interest rates centrally, by hedging assets, liabilities and equity which are less sensitive to movements in rates. The weighted average life of this structural hedge was unchanged at 2.5 years (2018: 2.5 years), in line with the expected life of liabilities of 5 years. The average hedge balance increased to £24.0bn (2018: £21.5bn) due to the alignment of the treatment of some administered rate deposits acquired from Virgin Money with the Group's policy. Total structural hedge balances generated gross incremental net interest income of £228m (2018: £198m), representing a yield of 0.9% (2018: 0.9%).

Average balance sheet	2019 AVERAGE BALANCE £M	2019 INTEREST INCOME/ (EXPENSE) £M	2019 AVERAGE YIELD/(RATE) %	2018 AVERAGE BALANCE £M	2018 INTEREST INCOME/ (EXPENSE) £M	2018 AVERAGE YIELD/(RATE) %
INTEREST-EARNING ASSETS						
Mortgages	**60,288**	**1,551**	**2.57**	57,960	1,557	2.69
Business lending[(1)]	**7,542**	**314**	**4.17**	7,311	288	3.94
Personal lending	**4,670**	**359**	**7.69**	4,360	298	6.84
Liquid assets	**12,298**	**98**	**0.79**	11,007	62	0.56
Due from other banks	**1,564**	**13**	**0.86**	1,296	6	0.42
Swap income/other	**–**	**(11)**	**n/a**	–	(38)	n/a
Total average interest-earning assets	**86,362**	**2,324**	**2.69**	81,934	2,173	2.65
Total average non-interest-earning assets	**3,545**			3,167		
Total average assets	**89,907**			85,101		
INTEREST-BEARING LIABILITIES						
Current accounts	**11,570**	**(19)**	**(0.16)**	11,555	(12)	(0.11)
Savings accounts	**24,366**	**(214)**	**(0.88)**	22,265	(143)	(0.64)
Term deposits	**22,877**	**(370)**	**(1.62)**	22,847	(364)	(1.60)
Wholesale funding	**19,427**	**(288)**	**(1.48)**	16,783	(197)	(1.17)
Total average interest-bearing liabilities	**78,240**	**(891)**	**(1.14)**	73,450	(716)	(0.98)
Total average non-interest-bearing liabilities	**6,590**			6,379		
Total average liabilities	**84,830**			79,829		
Total average equity	**5,077**			5,272		
Total average liabilities and average equity	**89,907**			85,101		
Net interest income		**1,433**	**1.66**		1,457	1.78

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

Non-interest income
Non-interest income reduced £22m year-on-year (down 10%). Fee income across Personal and Business was broadly stable. The major drivers of the reduction were the contribution from our Investments business, which was £12m lower in 2019 as a result of our post-acquisition decision to reduce asset management fees (c.£9m), and the initial impact of the transfer of the business into the JV with Aberdeen Standard Investments (c.£3m). In addition, there were adverse fair value movements relating to hedge accounting ineffectiveness, which should equalise over time, but reduced non-interest income by £9m year-on-year.

Costs

For the year ended 30 September	2019 £M	2018 £M	CHANGE
Personnel expenses	**365**	423	(14)%
Depreciation and amortisation expenses	**111**	121	(8)%
Other operating and administrative expenses	**466**	454	3%
Total underlying operating and administrative expenses	**942**	998	(6)%
Underlying cost to income ratio (CIR)	**57%**	59%	(2)%pts

Overview

Underlying operating and administrative expenses reduced by 6% year-on-year to £942m, in line with our guidance for <£950m for the year, as our integration programme gathers pace.

Personnel expenses reduced 14% reflecting early action to address senior management deduplication as well as initial benefits from our other integration workstreams. Other operating expenses increased by 3% as we continued to invest in our customer propositions and also reflected the cost of running two separate banks ahead of the FSMA Part VII approval in October 2019.

Net cost savings target on track
We have made good initial progress in delivering against our target of c.£200m of net cost savings by the end of FY2022, with £53m of annual run-rate net cost savings achieved already. This has been delivered primarily through deduplication of senior management (c.£20m of run-rate savings), as well as the realisation of initial central costs synergies such as harmonisation of suppliers (c.£27m of run-rate savings) and operational efficiency initiatives including deduplication of head office functions (c.£12m of run-rate savings). This was partly offset by a £7m increase in the Virgin Money brand trademark licence fee.

Improving efficiency
The 6% reduction in costs more than offset the 3% reduction in income delivering positive jaws of 3%. This enabled the Group to reduce its cost:income ratio by 2%pts to 57%, as we progress on the path towards our target for a mid-40s% ratio by FY2022.

Impairments(1)

	2019				2018				
	MORTGAGES BPS	BUSINESS BPS	PERSONAL BPS	TOTAL BPS	MORTGAGES BPS	BUSINESS BPS	PERSONAL BPS	TOTAL BPS	TOTAL CHANGE (BPS)
Gross cost of risk	**1**	**45**	**333**	**27**	1	36	250	20	7
Specific provision releases and recoveries				**(6)**				(5)	(1)
Net cost of risk				**21**				15	6

(1) IFRS 9 transitional disclosures are available in note 5.4 within the notes to the consolidated financial statements.

Overview

The impairment charge increased by 44% or £47m, in line with expectations. This reflected the full adoption of IFRS 9 across the Group, portfolio seasoning and a return to more normal levels of impairment in Business. The cost of risk of 21bps was therefore 6bps higher than FY2018, but was stable across the year as asset quality has remained resilient.

Divisional performance
Mortgage impairment levels remain very low with no signs of asset quality stress in the portfolio.

Business gross cost of risk increased to 45bps, which reflected a more normalised level following an abnormally low level of impairments in FY2018 with no significant one-off charges. We remain focused on managing our Business risk profile through maintaining a diversified portfolio, leveraging our sector specialist underwriting experience and applying strict client exposure limits. The underlying credit quality of the book remains strong, with the probability of default improved on origination in 2019 and unchanged across the portfolio relative to 2018.

Gross cost of risk in Personal increased by 83bps, reflecting the adoption of IFRS 9 and the seasoning of the credit card portfolio. Our focus in Personal is to grow our underweight position through better accessing our existing customer base and leveraging the Virgin Money brand to target more affluent segments of the external market.

Asset quality in the credit card portfolio remains strong, with 30-day arrears of 1.1% well below the industry average of 2.3% and customer affordability remaining robust. Customer indebtedness is also lower than the industry with a debt to income of c.23% vs. c.30% for the industry.

Performance in the personal loan portfolio has benefited from enhanced scorecards and credit tightening strategies, with growth in high-quality customers reducing 90 days past due rates on the book to 0.6% from 0.7% a year ago.

CHIEF FINANCIAL OFFICER'S REVIEW

Exceptional items and statutory loss

	2019 £M	2018 £M
Underlying profit on ordinary activities before tax	**539**	581
Exceptional items		
– Restructuring costs	**(156)**	–
– Acquisition costs	**(189)**	(39)
– Legacy conduct	**(433)**	(396)
– Other items	**(26)**	(62)
Pro forma (loss)/profit on ordinary activities before tax	**(265)**	84
Add/(deduct) Virgin Money Holdings (UK) PLC pre-acquisition loss/(profit)[1]	**33**	(248)
Statutory loss on ordinary activities before tax	**(232)**	(164)
Tax credit	**38**	19
Statutory loss for the year	**(194)**	(145)

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

Overview

The Group's pro forma loss before tax was £265m, reflecting £804m of exceptional costs incurred during the year, which have been excluded from the underlying performance of the business. These included significant legacy conduct costs, one-off acquisition costs, as well as the first full year of restructuring costs to achieve integration.

Restructuring costs

As outlined at the CMD in June the Group expects to incur c.£360m of restructuring costs across FY2019-21. The Group had anticipated incurring this evenly over the period with c.£120m expected in 2019, however, due to the acceleration of redundancy initiatives and property closures into September 2019, we have incurred £156m of restructuring costs during the year. We will see the synergy benefits of these initiatives in FY2020. The Group expects to incur a further c.£140m in 2020 as we accelerate initiatives to mitigate the timing of investments and inflation, and the remainder in 2021. We continue to expect total restructuring costs to be c.£360m over the three-year period.

Acquisition costs

The Group incurred acquisition costs of £189m during the year.

This included a one-off charge of £127m for intangible asset write-offs following a review of the Group's software estate. This identified a number of assets (including £70m in relation to the Virgin Money Digital Bank asset) that are no longer of value to the Group's future strategy and were therefore required to be written down. However, this charge is capital neutral.

Other one-off impacts include £55m of transaction-related costs incurred by Virgin Money Holdings (UK) PLC and an effective interest rate (EIR) adjustment credit of £80m relating to the mortgage portfolio following the harmonisation of accounting policies.

The Group recognised fair value acquisition accounting adjustments of £270m net that will be unwound through the income statement over the lives of the related assets and liabilities (c.5 years) and £87m was charged in 2019.

Legacy conduct

Legacy conduct costs of £433m include £415m of PPI provisions, with an additional £385m taken in Q4 following the unprecedented industry-wide surge in information requests and complaints in August ahead of the PPI time bar deadline. This provision reflects the costs of additional complaints (including those from the Official Receiver), processing costs in relation to the large volume of information requests, and the costs to process and remediate valid complaints arising from the information requests. While we still have a residual volume of requests to process, detailed sampling has informed the provision we have taken and this is our best estimate. The Group also incurred £18m of provision costs in relation to a number of other smaller legacy items.

Other items

The Group incurred several other one-off exceptional costs during the year, including £30m of costs in preparation for participating in the RBS Incentivised Switching Scheme, an £11m charge for GMP pensions equalisation, and an £18m charge for consent solicitation fees incurred in relation to changing the obligor on Virgin Money Holdings (UK) PLC's outstanding debt instruments to the Group's holding company. These were partially offset by a £35m gain on sale of c.50% of Virgin Money Unit Trust Managers to Aberdeen Standard Investments.

Returns and TNAV

	2019	2018	CHANGE
Underlying Return on Tangible Equity (RoTE)	**10.8%**	11.0%	(0.2)%pts
Tangible Net Asset Value (TNAV) per share	**249.2p**	260.0p	(10.8)p

Underlying RoTE of 10.8% was slightly lower than the prior year, reflecting lower underlying profit, but with a minimal impact on average tangible equity from the conduct charges as the bulk of those costs were incurred on the last day of the financial year. Statutory RoTE was negative reflecting the significant legacy conduct, restructuring and acquisition costs during the year.

TNAV per share reduced c.11p in 2019 to 249.2p, with TNAV build of 31p from underlying profit after tax being more than offset by 28p of legacy conduct charges and a net 14p negative impact from other movements including restructuring and acquisition related adjustments.

Balance sheet

As at 30 September	2019	2018	CHANGE
Mortgages	**60,079**	59,074	1.7%
Business	**7,876**	7,538	4.5%
Personal	**5,024**	4,327	16.1%
Total customer lending	**72,979**	70,939	2.9%
Relationship deposits[1]	**21,347**	19,938	7.1%
Non-linked savings	**20,197**	17,175	17.6%
Term deposits	**22,243**	23,851	(6.7)%
Total customer deposits	**63,787**	60,963	4.6%
Risk Weighted Assets (RWAs)	**24,046**	22,943	4.8%
of which Mortgages	**8,846**	8,794	0.6%
of which Business	**7,124**	6,604	7.9%
of which Personal	**4,042**	3,463	16.7%
Wholesale funding	**18,506**	18,675	(0.9)%
of which Term Funding Scheme (TFS)	**7,342**	8,637	(15.0)%
Loan to Deposit Ratio (LDR)	**114%**	116%	(2)%pts
Liquidity Coverage Ratio (LCR)	**152%**	161%	(9)%pts

(1) Current account and linked savings balances.

Overview

The Group began the execution of its balance sheet optimisation strategy in 2019 in which we seek to rebalance our asset mix towards higher-margin lending and to grow our lower cost relationship deposits to enable us to replace more expensive non-linked savings and term deposits.

Continued customer balance growth
Customer lending balances increased by 2.9% during 2019 with above market growth in Personal and Business lending (as detailed in the divisional reviews on page 20 and 22), and more muted growth in Mortgages (covered on page 24). Our lending continues to be underwritten within our prudent risk appetite and approach.

Customer deposits increased by 4.6%, including a strong 7.1% growth in our lower cost relationship deposits. We also continued to grow our non-linked savings balances (+17.6%) to enable us to replace our more expensive term deposits and to help fund the balance sheet.

The stronger relative growth in our customer deposits meant that our Loan to Deposit ratio reduced to 114%.

Further progress on our wholesale funding strategy
Wholesale funding balances were broadly flat during the year, although there were significant movements within the component parts. Supported by strong deposit and wholesale funding generation we repaid £1.3bn of TFS, as we follow a prudent repayment schedule ahead of contractual maturity.

We were also active in other wholesale funding markets, with a number of successful and over-subscribed transactions during the year, including Virgin Money PLC's inaugural Covered Bond issuance. This new Covered Bond programme raised over £1bn in funding across Euro and Sterling markets across two separate trades. We also issued two further successful transactions from our Lanark mortgage-backed securities platform, raising c.£1.1bn.

These were supported by £250m of AT1 issuance in March 2019 and £250m of Tier 2 subordinated debt issuance in December 2018 which strengthened our capital stack, as well as £400m of senior unsecured debt issuance in August 2019 as we build towards meeting our final MREL requirements in 2022.

Our balance sheet strength was also underpinned by the consent solicitation activity undertaken to change the obligor on Virgin Money Holdings (UK) PLC's outstanding MREL and AT1 instruments to the Group's parent company. All of the Group's regulatory capital and MREL instruments are now issued out of Virgin Money UK PLC, consistent with the single point of entry resolution model.

Further issuance in secured and unsecured formats is expected in 2020, and we continue to expect that we will issue between £1.5bn and £2.0bn of MREL eligible senior unsecured funding by December 2021.

Liquidity and LCR
LCR remained strong at 152%. While the current position reflects some excess liquidity to mitigate the risks from the FSMA Part VII process and Brexit uncertainty, the 9%pts reduction in LCR highlights the ability of the combined Group to operate more efficiently while continuing to meet regulatory and internal risk appetite metrics.

Risk weighted assets
RWAs have grown by 4.8% during the year, with overall risk weight density increasing slightly, largely reflecting the shift in the mix of the Group's lending towards higher RWA density lending in Business and Personal.

Mortgage RWAs remained stable due to lower lending in the year, along with model improvements that have reduced the portfolio risk weight density. RWAs in our Personal portfolios have grown broadly in line with assets, while Business RWAs have increased slightly above asset growth largely reflecting model updates undertaken as part of the final implementation of IRB. Non-credit risk RWAs of £2,989m were broadly stable year-on-year.

Capital

As at 30 September	2019	2018	CHANGE
CET1 ratio	**13.3%**	15.1%	(1.8)%pts
Total capital ratio	**20.1%**	20.6%	(0.5)%pts
MREL ratio	**26.6%**	24.1%	2.5%pts
UK leverage ratio	**4.9%**	5.1%	(0.2)%pts

Overview

Despite heavy capital utilisation during the year from legacy conduct and restructuring and acquisition costs, the Group maintained a robust capital position with a CET1 ratio of 13.3% and a total capital ratio of 20.1% as at 30 September 2019.

Capital requirements

Following completion of the Group's ICAAP the PRA has updated the capital requirements for the Group. The Pillar 2A CET1 requirement was reduced from 3.6% to 3.0% and the Group's fully-loaded CRD IV minimum CET1 capital requirement is now 60bps lower at 11.0%.

CET1 capital movements

Underlying capital generation in the period was 77bps, largely driven by strong underlying profits of 234bps, offset by growth in lending, AT1 distributions and ongoing investment as we continue to invest in developing the business to achieve our strategic ambitions.

Restructuring and acquisition costs, which are elevated this year due to the one-off elements, absorbed 84bps of capital demonstrating that the Group's underlying capital generation of 77bps was sufficient to fund its ongoing strategy. However, the scale of the legacy conduct charge consumed 172bps of capital, leaving the Group's CET1 ratio at 13.3%.

Robust capital position supports strategy

While the PPI provision did have a significant impact on the Group's capital position, thanks to the significant buffer the Group was prudently holding, we have been able to absorb the impact and remain robustly capitalised.

However, after incorporating feedback from our major shareholders, the Board has concluded that it is prudent to conserve capital through the suspension of an ordinary dividend for 2019.

Our closing CET1 ratio of 13.3% remains above our medium-term operating level of c.13% and retains a significant management buffer to our CRD IV regulatory requirement of 11.0%. The Group has assessed its revised capital plan and determined that it has sufficient capacity to deliver the strategy and targets as outlined at the CMD in June.

MREL

The Group's MREL ratio increased to 26.6%, reflecting £400m of senior unsecured debt issuance in August 2019 and £250m of Tier 2 subordinated debt issuance in December 2018. We are comfortably ahead of our interim 2020 MREL requirement of 21.5%, and while the final MREL requirements are not yet confirmed, we expect to issue between £1.5bn and £2.0bn of further MREL eligible senior unsecured between now and 2022 to meet our estimated final MREL requirements.

	2019
Opening CET1 ratio	**10.5%**
IRB accreditation impact	**3.5%**
IRB pro forma CET1 ratio	**14.0%**
Virgin Money acquisition impact	**1.1%**
Opening Combined Group pro forma CET1 ratio (pre-IFRS 9 impact)	**15.1%**
IFRS 9 transitional impact (bps)	**(2)**
Opening Combined Group pro forma CET1 ratio as of 1 October 2018 (post-IFRS 9 impact)	**15.1%**
Generated (bps)	**234**
RWA growth (bps)	**(65)**
Investment spend (bps)	**(65)**
AT1 distributions (bps)	**(27)**
Underlying capital generated (bps)	**77**
Restructuring and acquisition costs (bps)	**(84)**
Legacy conduct (bps)	**(172)**
FY2018 ordinary dividends paid (bps)	**(19)**
Other (bps)	**18**
Net capital absorbed (bps)	**(180)**
Closing CET1 ratio	**13.3%**

On track to deliver targets

FY2020 guidance

Net Interest Margin (NIM)
c.1.60-1.65%

Underlying costs
<£900m

CET1 ratio operating level
c.13%

Dividend
Reconsider in FY2020

All CMD targets reaffirmed, including:

>12%
Statutory RoTE by FY22

>100bps
CET1 generation p.a. by FY22

Progressive and sustainable
ordinary dividend c.50% payout ratio over time

Outlook and guidance

The political and economic outlook remains highly uncertain. With the inevitable volatility arising from an impending General Election and lack of clarity as to the final shape of any Brexit arrangements, the UK's near-term economic prospects remain hard to forecast. Although sentiment has improved as the threat of a no-deal Brexit has receded, GDP growth may remain muted and we are prepared for an outcome in which other key economic indicators decline.

Our strategy was designed to mitigate a muted economic outlook and the evident industry pressures, with a focus on leveraging the significant self-help opportunities available to us from reshaping our balance sheet and becoming more cost-efficient through deduplication, platform integration and digital transformation.

Despite the short-term external challenges, we remain confident in the prospects for the Group and we are reaffirming all of the targets we set at our CMD. We continue to believe that the delivery of our strategy and targets will deliver increased shareholder value as measured by the achievement of a statutory RoTE of >12% by FY2022, CET1 capital generation of >100bps per annum by FY2022 and an ordinary dividend ambition that is progressive and sustainable, moving towards a c.50% payout ratio over time.

In the near term, we foresee continuing industry pressures and economic uncertainty, but our self-help strategy is well placed to mitigate these. While 2020 will be a year of continued integration activity and associated costs, it will also see some exciting developments launched for our customers, now that the FSMA Part VII banking business transfer process is complete.

Our Net Interest Margin (NIM) for FY2020 is expected to be in a range of between 1.60% and 1.65%. Pressure from back book repricing in our mortgage portfolio will ease in FY2020 as our front book versus back book variance narrows. We will also start to see benefits from further growth in margin accretive lending and lower-cost relationship deposits, although pressures from wholesale funding costs and TFS repayment will continue.

On costs, we will continue working towards our net cost savings target of c.£200m by FY2022 and expect the Group's underlying operating expenses to be less than £900m in FY2020. This will be underpinned by the delivery of further integration and digitisation initiatives, but will be partly offset by continued cost inflation and ongoing investment.

On capital, we intend to operate in line with our CET1 ratio operating level of c.13%. Underlying capital generation will be used to fund the capital consumption from restructuring and acquisition costs, but we will also look to take further opportunities to optimise our RWAs as we reshape the balance sheet.

While it was necessary to suspend our dividends in 2019 due to the unexpected legacy conduct charge, we remain committed to our dividend ambition and the Board will reconsider dividends in line with normal practice in FY2020.

Lending and deposit growth will continue as set out at the CMD, with above system growth in Business and Personal, while Mortgages will grow in line with the market. On deposits, we expect a high single-digit CAGR in our relationship deposits, underpinned by the launch and development of the digitally-enabled Virgin Money Personal Current Account at the end of 2019.

Finally, we will participate in the Bank of England's annual cyclical scenario (ACS) stress tests for the first time in 2020. We have begun preparatory work which will be completed next year, with the published results expected in late 2020.

In summary, the year ahead promises to be another busy but exciting period as we execute our strategy in support of delivering on our ambition to disrupt the status quo.

Ian Smith
Group Chief Financial Officer

27 November 2019

OVERVIEW OF GROUP RESULTS – PRO FORMA BASIS

Summary income statement – underlying and pro forma basis[1]

	2019 £M	2018 £M	CHANGE %
Underlying net interest income	**1,433**	1,457	(2)
Non-interest income	**206**	228	(10)
Total underlying operating income	**1,639**	1,685	(3)
Underlying operating and administrative expenses	**(942)**	(998)	(6)
UK Bank levy	**(5)**	–	
Underlying operating profit before impairment losses	**692**	687	1
Underlying impairment losses on credit exposures	**(153)**	(106)	44
Underlying profit on ordinary activities before tax	**539**	581	(7)
– Restructuring costs	**(156)**	–	
– Acquisition costs	**(189)**	(39)	385
– Legacy conduct	**(433)**	(396)	9
– Other items[2]	**(26)**	(62)	(58)
Pro forma (loss)/profit on ordinary activities before tax	**(265)**	84	n/a

(1) The summary income statement is presented on an underlying and pro forma basis as explained in the Basis of Presentation.

(2) Other includes a £30m charge in relation to SME transformation, including preparations to participate in the RBS Incentivised Switching Scheme, £18m of consent solicitation costs relating to the change in obligor of senior debt from Virgin Money Holdings (UK) PLC to CYBG PLC, a charge of £11m for Guaranteed Minimum Pension (GMP) equalisation in the Group's defined benefit scheme, £5m of legacy restructuring and separation costs, and £1m of expenses relating to the transition of Virgin Money Unit Trust Managers (VMUTM) into the joint venture. Offsetting this is a £35m gain on the partial disposal of VMUTM and a £4m gain recognised on the disposal of the Group's VocaLink share.

Summary balance sheet - pro forma basis

As at 30 September	2019 £M	2018 £M	CHANGE %
Customer loans	**72,979**	70,939	2.9
Other financial assets	**16,391**	16,202	1.2
Other non-financial assets	**1,629**	1,407	15.8
Total assets	**90,999**	88,548	2.8
Customer deposits	**63,787**	60,963	4.6
Wholesale funding	**18,506**	18,675	(0.9)
Other liabilities	**3,685**	3,726	(1.1)
Total liabilities	**85,978**	83,364	3.1
Ordinary shareholders' equity	**4,106**	4,312	(4.8)
AT1 equity	**915**	450	103.3
Non-controlling interests	**–**	422	
Equity	**5,021**	5,184	(3.1)
Total liabilities and equity	**90,999**	88,548	2.8

Key Performance Indicators[1]

	12 MONTHS TO 30 SEP 2019	12 MONTHS TO 30 SEP 2018	CHANGE
PROFITABILITY			
Net interest margin	**1.66%**	1.78%	(12)bps
Underlying RoTE	**10.8%**	11.0%	(0.2)%pts
Underlying CIR	**57%**	59%	(2)%pts
Underlying return on assets	**0.54%**	0.56%	(2)bps
Underlying EPS[2]	**28.1p**	29.8p	(1.7)p

As at	30 SEP 2019	30 SEP 2018	CHANGE
ASSET QUALITY			
Impairment charge to average customer loans (cost of risk)	**0.21%**	0.15%	6bps
Total provision to customer loans	**0.53%**	0.51%	2bps
Indexed LTV of mortgage portfolio[3]	**57.2%**	57.3%	(0.1)%pts
REGULATORY CAPITAL			
CET1 ratio[4]	**13.3%**	15.1%	(1.8)%pts
Tier 1 ratio	**17.1%**	18.3%	(1.2)%pts
Total capital ratio	**20.1%**	20.6%	(0.5)%pts
MREL ratio	**26.6%**	24.1%	2.5%pts
CRD IV leverage ratio	**4.3%**	4.6%	(0.3)%pts
UK leverage ratio	**4.9%**	5.1%	(0.2)%pts
TNAV per share[5]	**249.2p**	260.0p	(10.8)p
FUNDING AND LIQUIDITY			
Loan to deposit ratio (LDR)	**114%**	116%	(2)%pts
Liquidity coverage ratio (LCR)	**152%**	161%	(9)%pts
Net stable funding ratio (NSFR)	**128%**	126%	2%pts

(1) For a definition of each of the KPIs, refer to 'Measuring financial performance – glossary' on pages 278 to 279. The KPIs include statutory, regulatory and alternative performance measures.
(2) For pro forma purposes, the weighted average number of ordinary shares in issue assumes that the 540,856,644 share issuance arising on the acquisition of Virgin Money was completed on 1 October 2017, and excludes own shares held.
(3) LTV of the mortgage portfolio is defined as mortgage portfolio weighted by balance. The Clydesdale Bank PLC portfolio is indexed using the MIAC Acadametrics indices at a given date, while the Virgin Money portfolio is indexed using the Markit indices.
(4) The pro forma CET 1 ratio at 30 September 2018 reflects the impact of the acquisition of Virgin Money and IRB accreditation.
(5) The pro forma total number of ordinary shares in issue used in the TNAV per share calculation for the comparative periods is the number of ordinary shares in issue on 15 October 2018 following the acquisition of Virgin Money (excluding own shares held). This has been applied across all periods for comparability purposes.

OVERVIEW OF GROUP RESULTS – STATUTORY BASIS

The following tables present the Group on a statutory basis. That is, they include the results of Virgin Money from the date of acquisition on 15 October 2018. The acquisition has had a significant impact on the Group's statutory results and financial position as shown below. Therefore, we believe that it is more helpful to consider the more readily comparable pro forma information set out on the previous pages.

Summary income statement

For the year ended 30 September	2019 £M	2018 £M	CHANGE %
Net interest income	**1,514**	851	78
Non-interest income	**235**	156	51
Total operating income	**1,749**	1,007	74
Operating and administrative expenses	**(1,724)**	(1,130)	53
UK bank levy	**(5)**	–	
Operating profit/(loss) before impairment losses	**20**	(123)	(116)
Impairment losses on credit exposures(1)	**(252)**	(41)	515
Statutory loss on ordinary activities before tax	**(232)**	(164)	41
Tax credit	**38**	19	100
Statutory loss after tax	**(194)**	(145)	34

(1) Impairment losses on credit exposures for the current period are calculated on an expected credit loss (ECL) basis under IFRS 9, which the Group adopted on 1 October 2018, and includes the IFRS 9 impairment impact on acquired assets (£103m charge). For all other periods, impairment losses are calculated under the incurred loss basis as required by IAS 39.

The Group has recognised a statutory loss after tax of £194m (30 September 2018: loss of £145m). The increased loss reflects additional costs relating to the acquisition of Virgin Money Holdings (UK) PLC in addition to further significant conduct charges. As outlined at the CMD, the Group has a clear path to narrowing the difference between underlying and statutory profit over the next three years as we put legacy conduct behind us and restructuring and acquisition costs reduce over time.

Summary balance sheet

As at 30 September	2019 £M	2018 £M	CHANGE %
Customer loans	**72,979**	33,281	119
Other financial assets	**16,391**	9,234	78
Other non-financial assets	**1,629**	941	73
Total assets	**90,999**	43,456	109
Customer deposits	**63,787**	28,854	121
Wholesale funding	**18,506**	8,095	129
Other liabilities	**3,685**	3,321	11
Total liabilities	**85,978**	40,270	114
Ordinary shareholders' equity	**4,106**	2,736	50
Additional Tier 1 (AT1) equity	**915**	450	103
Equity	**5,021**	3,186	58
Total liabilities and equity	**90,999**	43,456	109

Key Performance Indicators[1]

	12 MONTHS TO 30 SEP 2019	12 MONTHS TO 30 SEP 2018	CHANGE
Profitability			
Statutory return on tangible equity (RoTE)	**(6.8)%**	(6.9)%	0.1%pts
Statutory cost to income ratio (CIR)	**99%**	112%	(13)%pts
Statutory return on assets	**(0.23)%**	(0.34)%	0.11%pts
Statutory basic loss per share	**(17.9)p**	(19.7)p	1.8p

As at	30 SEP 2019	30 SEP 2018	CHANGE
Regulatory capital			
CET1 ratio	**13.3%**	10.5%	2.8%pts
Tier 1 ratio	**17.1%**	12.7%	4.4%pts
Total capital ratio	**20.1%**	15.9%	4.2%pts
MREL ratio	**26.6%**	19.8%	6.8%pts
CRD IV leverage ratio	**4.3%**	5.6%	(1.3)%pts
UK leverage ratio	**4.9%**	6.5%	(1.6)%pts
Tangible net asset value (TNAV) per share	**249.2p**	262.3p	(13.1)p
Funding and liquidity			
Loan to deposit ratio (LDR)	**114%**	115%	(1)%pts
Liquidity coverage ratio (LCR)	**152%**	137%	15%pts
Net stable funding ratio (NSFR)	**128%**	119%	9%pts

(1) For a definition of each of the KPIs, refer to 'Measuring financial performance – glossary' on pages 278 to 279. The KPIs include statutory, regulatory and alternative performance measures.

Reconciliation of statutory to pro forma 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 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 pro forma results, and full details on the adjusted items to the underlying results are included on page 280.

	STATUTORY BASIS		INCLUDE VIRGIN MONEY PRE-ACQUISITION RESULTS		PRO FORMA BASIS	
	2019 £M	2018 £M	1 OCT TO 15 OCT 2018 £M	2018 £M	2019 £M	2018 £M
Net interest income	**1,514**	851	**22**	606	**1,536**	1,457
Non-interest income[1]	**235**	156	**9**	75	**244**	231
Total operating income	**1,749**	1,007	**31**	681	**1,780**	1,688
Operating and administrative expenses	**(1,724)**	(1,130)	**(60)**	(368)	**(1,784)**	(1,498)
UK bank levy	**(5)**	–	**–**	–	**(5)**	–
Operating profit/(loss) before impairment losses	**20**	(123)	**(29)**	313	**(9)**	190
Impairment losses on credit exposures	**(252)**	(41)	**(4)**	(65)	**(256)**	(106)
(Loss)/profit on ordinary activities before tax	**(232)**	(164)	**(33)**	248	**(265)**	84
Restructuring costs					**156**	–
Acquisition costs					**189**	39
Legacy conduct					**433**	396
Other items					**26**	62
Underlying profit on ordinary activities before tax					**539**	581

(1) 'Fair value gains and losses on financial instruments' were previously treated as an adjustment to underlying profit within the Virgin Money accounts but have been reclassified to underlying non-interest income in line with the Group's presentation.

STRATEGIC REPORT FINANCIAL RESULTS GOVERNANCE RISK REPORT FINANCIAL STATEMENTS ADDITIONAL INFORMATION

OVERVIEW OF GROUP RESULTS – STATUTORY BASIS

Reconciliation of pro forma to underlying results

The underlying results presented within this section 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 pro forma results, as management believes that these items are not reflective of the underlying business and do not aid meaningful period on period comparison. The tables below reconcile the pro forma results to the underlying basis, and full details on the adjusted items are included on page 280:

2019 income statement	STATUTORY RESULTS £M	INCLUDE VIRGIN MONEY PRE-ACQUISITION RESULTS £M	PRO FORMA RESULTS £M	RESTRUCTURING COSTS £M	ACQUISITION COSTS £M	LEGACY CONDUCT £M	OTHER £M	UNDERLYING BASIS £M
Net interest income	**1,514**	**22**	**1,536**	**–**	**(103)**	**–**	**–**	**1,433**
Non-interest income	**235**	**9**	**244**	**–**	**–**	**–**	**(38)**	**206**
Total operating income	**1,749**	**31**	**1,780**	**–**	**(103)**	**–**	**(38)**	**1,639**
Total operating and administrative expenses before impairment losses	**(1,724)**	**(60)**	**(1,784)**	**156**	**189**	**433**	**64**	**(942)**
UK bank levy	**(5)**	**–**	**(5)**	**–**	**–**	**–**	**–**	**(5)**
Operating profit/(loss) before impairment losses	**20**	**(29)**	**(9)**	**156**	**86**	**433**	**26**	**692**
Impairment losses on credit exposures	**(252)**	**(4)**	**(256)**	**–**	**103**	**–**	**–**	**(153)**
(Loss)/profit on ordinary activities before tax	**(232)**	**(33)**	**(265)**	**156**	**189**	**433**	**26**	**539**
Financial performance measures								
RoTE	**(6.8)%**	**(0.7)%**	**(7.5)%**	**3.5%**	**4.3%**	**9.9%**	**0.6%**	**10.8%**
CIR	**99%**	**1%**	**100%**	**(10)%**	**(5)%**	**(26)%**	**(2)%**	**57%**
Return on assets	**(0.23)%**	**(0.03)%**	**(0.26)%**	**0.15%**	**0.19%**	**0.43%**	**0.03%**	**0.54%**
Basic EPS	**(17.9)p**	**(1.7)p**	**(19.6)p**	**9.3p**	**11.2p**	**25.7p**	**1.5p**	**28.1p**

2018 income statement	STATUTORY RESULTS £M	INCLUDE VIRGIN MONEY PRE-ACQUISITION RESULTS £M	PRO FORMA RESULTS £M		ACQUISITION COSTS £M	LEGACY CONDUCT £M	OTHER £M	UNDERLYING BASIS £M
Net interest income	851	606	1,457		–	–	–	1,457
Non-interest income	156	75	231		–	–	(3)	228
Total operating income	1,007	681	1,688		–	–	(3)	1,685
Total operating and administrative expenses before impairment losses	(1,130)	(368)	(1,498)		39	396	65	(998)
Operating (loss)/profit before impairment losses	(123)	313	190		39	396	62	687
Impairment losses on credit exposures	(41)	(65)	(106)		–	–	–	(106)
(Loss)/profit on ordinary activities before tax	(164)	248	84		39	396	62	581
Financial performance measures								
RoTE	(6.9)%	6.4%	(0.5)%		0.9%	9.1%	1.5%	11.0%
CIR	112%	(23)%	89%		(2)%	(24)%	(4)%	59%
Return on assets	(0.34)%	0.38%	0.04%		0.04%	0.41%	0.07%	0.56%
Basic EPS	(19.7)p	18.4p	(1.3)p		2.4p	24.8p	3.9p	29.8p

GOVERNANCE

A LETTER FROM OUR CHAIRMAN

"The Board is committed to ensuring delivery of our refreshed strategy and believe strong corporate governance is a key enabler."

Jim Pettigrew, Chairman

Dear shareholder,

I am pleased to present our corporate governance report for 2019 setting out our corporate governance practices, the work of the Board during the year and including reports from the Chair of each principal Board Committee.

Following the completion of the acquisition of Virgin Money Holdings (UK) PLC in 2018, the Board has focused this year on overseeing the programme to bring together the Clydesdale Bank PLC and Virgin Money PLC businesses. Strong corporate governance has been key in preparing for the FSMA Part VII process which was completed in October 2019. The Board remains focused on ensuring the highest standards of corporate governance underpin the delivery of our refreshed strategy and the commitments we made to shareholders at our Capital Markets Day in June 2019.

Clive Adamson will step down from the Board on 29 November 2019. I am grateful for Clive's contribution during his time on the Board and as Risk Committee Chair. Geeta Gopalan, a Non-Executive Director on the Board will replace Clive as Risk Committee Chair, subject to regulatory approval, and I wish Geeta well in her new role.

Strategy

A key focus for the Board this year has been working closely with the executive management team to shape our refreshed strategy that builds on our core capabilities and those added by the Virgin Money Holdings (UK) PLC acquisition. The Board is fully committed to our ambition to disrupt the status quo in UK banking and to deliver increased shareholder value. During the year, the Board spent considerable time engaging on the strategic planning process and provided challenge and input across a series of strategy workshops. You can read more about the Board's involvement on page 76.

Coming together as one business

The Board has been kept informed throughout the year on progress in delivering the strategic and financial plan that will see us deliver the full integration of Virgin Money Holdings (UK) PLC including progress across the four strategic pillars explained on page 13 of the strategic report. The Board has been, and will continue to be, focused at all times on ensuring the strategy delivers long-term increased shareholder value. The Board has spent time in the run up to the FSMA Part VII scheme effective date monitoring the progress of the strategic integration programme to bring together our two legacy businesses and will continue to do so over the coming year. The Board has established an advisory group to support the Executive Leadership Team in delivering the integration and transformation programme, leveraging the skills and experience of Board members. A new dashboard has been introduced to regularly report to the Board on progress against our Capital Markets Day commitments.

Understanding what's important for our stakeholders

Engaging and responding to all our stakeholders is a core part of the Board's agenda and ensures that we are focusing on the things that matter. This year the Board continued to develop strong relationships with all stakeholders and considered their feedback when making key decisions throughout the year – you can read more on pages 76 to 77. For example, this year the Board enhanced its awareness of customer feedback through new reports from each business division and monitoring Net Promoter Score. The Culture Dashboard which was introduced in 2018 was further developed to give insights on the thoughts and opinions of our colleagues particularly as our new Purpose, Values and Behaviours were developed and launched. The Board kept closer to the issues that matter to stakeholders in our communities and supported the refreshed Sustainability Strategy. Going forward, the Board will receive more regular updates on our performance against that strategy and how we are supporting society.

Directors were very pleased to have the opportunity to meet with shareholders at our Annual General Meeting in January in Melbourne and to discuss with shareholders a range of topics including the future and opportunities for the Group following the acquisition of Virgin Money Holdings (UK) PLC. The Board was, however, disappointed that 20% or more of votes were cast against the Board recommendation to approve the Directors' Annual Report on Remuneration for the year ended 30 September 2018 and also the Board recommendations to authorise the Directors to allot equity securities in connection with AT1 securities, issue further AT1 securities and to dis-apply statutory pre-emption rights in relation to those securities.

We have listened carefully to our shareholders and wider stakeholders and have taken action in response to that feedback and we issued an Update Statement in July 2019.

As disclosed in our Update Statement, our intention throughout the year was to proactively engage with our shareholders and other stakeholders to create better understanding of remuneration matters concerning the Group.

Since the AGM, the Non-Executive members of the Board have been preparing for the review of our Executive Directors' Remuneration Policy, which will be subject to shareholder approval at the upcoming AGM and have engaged in open dialogue with our largest shareholders, between them representing approximately 60% of Virgin Money UK PLC voting rights. In addition to listening to our shareholders we extended this dialogue to include several voting guidance services both in the UK and Australia.

It is clear from these discussions that there is majority support for our approach but that shareholders expect us to act upon the areas we previously identified for improvement. We have listened carefully to our shareholders and more information on how we intend to address their feedback, improve disclosures and ensure our approach to remuneration supports our strategy can be found in the Chair of Remuneration Committee's statement on pages 101 to 103 of this report.

We confirmed in our Update Statement that to maintain compliance with regulatory capital requirements and achieve balance sheet efficiency, Directors believe it is in the best interests of the Company and shareholders to have continued flexibility to issue AT1 securities and that AT1 securities would only be converted into equity in the unlikely event that the Group's CET1 ratio falls below 7%. As at 30 September 2019, the Group has a CET1 ratio of 13.3%. Following feedback from shareholders, it is the Company's intention to seek to renew the Directors' authorities relating to AT1 Securities on an annual rolling basis rather than for a period of five years, and the resolutions to be put to shareholders at the 2020 Annual General Meeting will be on this basis.

Board effectiveness

A key part of my role as Chairman is to ensure the Board and its individual members operate effectively. A highly effective Board is key to supporting the delivery of our refreshed strategic priorities. Our Board effectiveness needs to keep pace with the rapidly changing environment our business operates in and the expectations of consumers and other stakeholders. For these reasons, the Board agreed to bring forward the timing of our next externally facilitated review to commence in 2019 so that we could get insights on Board effectiveness at the outset of delivery of our refreshed strategy and in the early stages of the Group's transformation programme. The review is well progressed and the Board is expected to discuss the findings and recommendations by the end of this calendar year and will report on the key points and action taken in our 2020 corporate governance report.

Looking ahead

In the year ahead, the Board will continue to monitor the progress of the integration and business transformation programmes and will continue to engage with all stakeholders, ensuring their feedback is fully considered in the Board's decision making.

Finally, I would like to thank fellow Board members and all colleagues for their support and hard work throughout 2019.

Jim Pettigrew
Chairman

27 November 2019

BOARD OF DIRECTORS










TOP ROW

Jim Pettigrew
Chairman

David Bennett
Deputy Chairman and Senior Independent Non-Executive Director

Clive Adamson
Independent Non-Executive Director (will step down from the Board on 29 November 2019)

Paul Coby
Independent Non-Executive Director

Geeta Gopalan
Independent Non-Executive Director

MIDDLE ROW

Adrian Grace
Independent Non-Executive Director

Fiona MacLeod
Independent Non-Executive Director

Darren Pope
Independent Non-Executive Director

Dr Teresa Robson-Capps
Independent Non-Executive Director


BOTTOM ROW

Amy Stirling
Non-Executive Director

Tim Wade
Independent Non-Executive Director

David Duffy
Executive Director and Chief Executive Officer

Ian Smith
Executive Director and Group Chief Financial Officer

Lorna McMillan
Group Company Secretary

BOARD OF DIRECTORS

Jim Pettigrew
Chairman

GOV REM

Joined the Group
September 2012 and became Chairman in 2014

Key strengths and experience
— Extensive financial services experience
— Has been Chairman of several public listed companies

Jim was formerly Chief Executive Officer at CMC Markets PLC, Chief Operating Officer at Ashmore Group PLC, Group Finance Director at ICAP PLC and Deputy Group Finance Director and Group Treasurer at Sedgwick Group PLC. He is a chartered accountant and has extensive Non-Executive Director experience in a listed environment. He was previously Chairman of The Edinburgh Investment Trust PLC and Miton Group PLC, Senior Independent Non-Executive Director of Crest Nicholson PLC, Non-Executive Director at Aberdeen Asset Management PLC, Non-Executive Director at AON UK Limited and Non-Executive Director at Hermes Fund Managers Limited. He is a past President of the Institute of Chartered Accountants of Scotland, a former Chairman of Scottish Financial Enterprise, and a former Co Chair of Scotland's Financial Services Advisory Board. His breadth of experience, credibility with key stakeholders and strong leadership qualities make him an effective Chairman.

Key external appointments
Senior Independent Non-Executive Director of Rathbone Brothers Plc and Director of a subsidiary company within the Rathbone Brothers Plc group; and Chairman of RBC Europe Limited and Director of subsidiary companies within the RBC group.

David Bennett
Deputy Chairman and Senior Independent Non-Executive Director

AUDIT GOV REM RISK

Joined the Group
October 2015

Key strengths and experience
— Strong retail banking knowledge and experience
— Has led major organisational, operational and structural change

David was 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 appointed Executive Director on the Board of Abbey National plc. His in-depth experience of retail banking and involvement in organisational, operational and structural change is invaluable as the Group executes its strategy. He was formerly Chairman of Homeserve Membership Limited and Together Financial Services Limited and has significant Non-Executive Director experience in a listed environment which has included being a Non-Executive Director of Bank of Ireland (UK) PLC, easyJet plc, and CMC Markets PLC.

Key external appointments
Chairman of Ashmore Group plc and Non-Executive Director of PayPal (Europe) S.a.r.l et Cie, S.C.A.

Clive Adamson
Independent Non-Executive Director

(will step down from the Board on 29 November 2019)

RISK AUDIT

Joined the Group
July 2016

Key strengths and experience
— Significant experience of the UK financial services regulatory regime
— Strong understanding of the UK and global banking industry and related risks

Clive has considerable experience of UK and global economic, banking and regulatory matters gained from an extensive career in banking and financial services regulation. He held senior executive and advisory positions with the Financial Conduct Authority (FCA), the former Financial Services Authority and the Bank of England. He was previously Head of Supervision and an Executive Director of the Board of the FCA until May 2015 and Chairman of J.P. Morgan International Bank until January 2019.

Key external appointments
Senior Independent Non-Executive Director at Ashmore Group plc; Non-Executive Director of M&G plc and Director of a subsidiary company within the M&G plc group; Non-Executive Director at J.P. Morgan Securities PLC; and senior adviser at McKinsey & Company.

Key

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

Paul Coby
Independent Non-Executive Director

RISK

Joined the Group
June 2016

Key strengths and experience
— Significant e-commerce, international and technology experience
— Experience of leading strategy-led IT activity in public listed companies

Paul's understanding of how technology has changed consumer behaviour, how advances in digital technology can impact customer outcomes and his appreciation of the end-to-end customer journey in a strategic omni-channel context is invaluable to the Group as we develop new products and digital capability. In April 2018, Paul was appointed Chief Information Officer (CIO) of Johnson Matthey PLC. Prior to this, Paul was the John Lewis Partnership's CIO, responsible for leading and coordinating IT across the John Lewis, Waitrose and JLP Group. Previously, Paul was IT Director at John Lewis and CIO at British Airways for 10 years. Paul's other previous roles include Chairman of the Société Internationale de Télécommunications Aéronautiques (SITA), the global provider of systems, solutions and telecommunications to the air transport industry, Non-Executive Director at Pets at Home Group Plc and at P&O Ferries Limited, Chairman of the eSkills UK CIO Board and Chairman of the oneworld CIO Group which coordinated IT links across the 10 airline oneworld Alliance partners.

Key external appointment
Chief Information Officer of Johnson Matthey plc.

Geeta Gopalan
Independent Non-Executive Director

RISK

Joined the Group
October 2018

Key strengths and experience
— Over 25 years of experience of financial services and retail banking
— Particularly experienced in payments and digital innovation

Geeta was Director of Payment Services with HBOS plc and previously Managing Director, UK Retail Bank and Business Development Head EME at Citigroup. Geeta was also formerly the Chair of Monitise Europe and was previously a Non-Executive member and vice-chair of the England Committee of the Big Lottery Fund. Geeta joined the Board as part of the Group's acquisition of Virgin Money Holdings (UK) PLC and has been a Director of Virgin Money PLC since June 2015. She is a chartered accountant.

Key external appointments
Non-Executive Director of Funding Circle Holdings Plc, Ultra Electronic Holdings Plc and Wizink Bank S.A.

Adrian Grace
Independent Non-Executive Director

REM

Joined the Group
December 2014

Key strengths and experience
— Career has spanned a range of consumer and commercial financial services sectors
— Extensive experience of designing and implementing substantial change programmes

Adrian has extensive financial, business leadership and general management experience which has involved a variety of senior roles. Adrian's experience of delivering transformational growth through simple customer-focused visions and plans is aligned to the Group's strategy. Having started his career with the Leeds Permanent Building Society and then Mercantile Credit, Adrian joined GE Capital where he spent time in the UK, Asia, and the Americas. He became Managing Director of the Small Business Division at Sage Group plc. He was Chief Executive at Barclays Insurance and Managing Director of Commercial Banking within the Corporate Division of HBOS. Since 2011 Adrian has been Chief Executive Officer at Aegon UK having joined Aegon in 2009 as Group Business Development Director. He was previously on the boards of the Association of British Insurers and Scottish Financial Enterprise.

Key external appointments
Director of various companies within the Aegon group.

Fiona MacLeod
Independent Non-Executive Director

GOV REM RISK

Joined the Group
September 2016

Key strengths and experience
— Significant experience of mergers and acquisitions
— Extensive knowledge and experience of culture change programmes and large scale change programmes

Fiona has 30 years of international business experience in leading complex, large scale business transformation and in managing the commercial, human resources and cultural aspects of change programmes. She has demonstrated this both as an executive and as an advisory consultant to both listed and governmental organisations. A substantial part of her career was at BP Group plc where she held various executive positions encompassing Mergers and Acquisitions, Branding and Marketing and latterly the role of President Retail, USA & Latin America. Fiona was formerly Senior Independent Non-Executive Director of SThree plc.

Key external appointment
Non-Executive Director of Denholm Oilfield Services Limited.

BOARD OF DIRECTORS

Darren Pope

Independent Non-Executive Director

AUDIT

Joined the Group

October 2018

Key strengths and experience

- Significant recent and relevant financial experience
- Extensive UK banking and financial services knowledge

Darren has over 30 years of experience in retail banking and financial services. Darren held the post of Chief Financial Officer of TSB Bank plc, having taken a lead role in the design and divestment of the TSB business from Lloyds Bank plc and its subsequent IPO and takeover. He previously held a number of executive and senior roles at Lloyds Banking Group plc including Retail Bank Commercial Director. Darren joined the Board as part of the Group's acquisition of Virgin Money Holdings (UK) PLC and has been a Director of Virgin Money PLC since March 2017. He is a Fellow of the Chartered Institute of Certified Accountants.

Key external appointment

Senior Independent Non-Executive Director of Equiniti Group plc and Network International Holdings plc.

Dr Teresa Robson-Capps

Independent Non-Executive Director

AUDIT

Joined the Group

October 2014

Key strengths and experience

- Career has included significant financial services and retail experience
- A chartered management accountant with a Doctorate in Accounting and Management Control

Teresa has a breadth of experience gained from executive leadership roles with BT Mobile, Sears plc, Eagle Star/Zurich Financial Services, Cable & Wireless, Reality and Accenture. She joined HSBC Group in 2006 and from 2010 was Deputy Head, Direct Bank & First Direct. Teresa also has strong board experience gained from her previous roles as Chairman of ACS Clothing Group Limited and Non-Executive Director of Broker Network Holdings Limited, Paymentshield Group Holdings Limited, PowerPlace Insurance Services Limited, Towergate Insurance Limited and Yorkshire Water Services Limited.

Key external appointments

Non-Executive Director of Hastings Group Holdings PLC, FIL Investment Services (UK) Limited and FIL Holdings (UK) Limited.

Amy Stirling

Non-Executive Director

Joined the Group

October 2018

Key strengths and experience

- Has held board roles across a range of sectors including financial services
- Strong financial expertise

Amy has extensive board, financial and management experience from senior and board roles in a range of sectors including telecommunications, financial services and commerce. She was previously Non-Executive Director of Pets at Home Group Plc and the UK Cabinet Office. Amy is a Fellow of the Chartered Institute of Accountants of England and Wales. Amy's appointment to the Board is pursuant to Virgin Enterprises Limited's right under a Brand Licence Agreement.

Key external appointments

Chief Financial Officer of the Virgin Group and Non-Executive Director of RIT Capital Partners plc.

Tim Wade

Independent Non-Executive Director

AUDIT GOV RISK

Joined the Group

September 2016

Key strengths and experience

- Significant recent and relevant financial experience
- Over 20 years of senior experience in retail financial services, in both the UK and internationally

An Australian national, Tim is an experienced Chief Financial Officer, a chartered accountant and a Fellow of the Institute of Chartered Accountants of Australia. Tim was Managing Director at AMP International, responsible for AMP Bank and the Virgin Direct (now Virgin Money) joint venture. He began his career at Arthur Andersen working in Melbourne and Singapore, and in 1994 he joined Colonial Limited, the mutual financial services group, as Chief Taxation Counsel. He became Group Chief Financial Officer in 1997 and Executive Director of State Bank of New South Wales. Tim subsequently oversaw the IPO of Colonial and was involved in Colonial's subsequent acquisition by Commonwealth Bank – at the time the largest acquisition in Australian corporate history. His previous Non-Executive Director board experience includes Macquarie Bank International Limited, Friends Life Group Limited, Monitise plc and The Access Bank UK Limited.

Key external appointments

Non-Executive Director of RBC Europe Limited, Chubb Underwriting Agencies Limited and The Coeliac UK Trading Company Limited.

Key

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

David Duffy
Executive Director and Chief Executive Officer

Joined the Group
June 2015

Key strengths and experience
— Significant international finance and banking experience
— Proven ability to build and transform businesses and lead strong management teams

Prior to joining the Group, David was Chief Executive Officer at Allied Irish Banks plc, one of the largest retail and commercial banks in Ireland. He is a former Chief Executive Officer 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 Officer 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. David's broad-based skills, leadership, energy and strategic vision are invaluable to the Group as it continues its strategic journey and cultural transformation.

Key external appointments
Senior Independent Non-Executive 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.

Ian Smith
Executive Director and Group Chief Financial Officer

Joined the Group
November 2014

Key strengths and experience
— Considerable financial and audit background
— Extensive retail banking experience

Ian has considerable experience in finance, audit and advising on bank strategy and corporate transactions from a career spanning more than 25 years. He has held senior finance roles in HBOS plc and Lloyds Banking Group plc. He joined the Group in November 2014 from Deloitte LLP where he was a partner specialising in financial services.

Key external appointment
Non-Executive Director of 67 Pall Mall Limited.

Lorna McMillan
Group Company Secretary

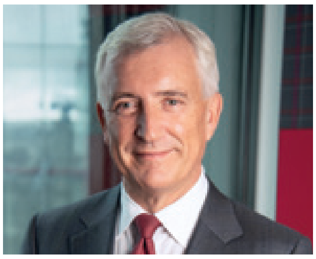
Joined the Group
September 1994

Key strengths and experience
— Strong background in risk and governance
— Extensive knowledge of the Group

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

EXECUTIVE LEADERSHIP TEAM

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



David Duffy
Executive Director and Chief Executive Officer

David joined the Group in June 2015.

Read his full biography on page 61

Ian Smith
Executive Director and Group Chief Financial Officer

Ian joined the Group in November 2014.

Read his full biography on page 61

Hugh Chater
Group Mortgages Director

Joined the Group
October 2018

Key strengths and experience
Hugh has more than 25 years of experience in financial services. He was an executive founder at MBNA Europe, joining in 1993 from KPMG Management Consulting.

At MBNA Hugh held executive roles in HR, Credit Management, Customer Satisfaction and Marketing before becoming Chief Operating Officer and then UK Managing Director. In 2007 Hugh joined RBS Retail to run the consumer credit card business. He subsequently ran the current account, savings, investments and insurance products. Hugh joined Virgin Money Holdings (UK) PLC in June 2016 with responsibility for commercial performance, customer outcomes and optimising distribution and servicing channels.

Lucy Dimes
Group Business Transformation Director

Joined the Group
July 2019

Key strengths and experience
Lucy has more than 30 years of international leadership experience across the Technology, Media & Telecommunications and Financial & Investment Services sectors. She has deep functional experience in technology/digital product development and platform management, operations, sales and marketing, strategy, M&A, integration, transformation and regulatory compliance.

Lucy is responsible for improving the effectiveness and efficiency of the entire Group and providing assurance and end-to-end oversight on all costs, investments and benefits. As such, her role spans day-to-day operating activities as well as integration, transformation and strategic initiatives.

Lucy previously served as Chief Executive Officer EMEA for UBM plc; Chief Executive Officer UK and Ireland for Fujitsu Services; Chief Operating Officer for Equiniti Group plc; and CEO UK & Ireland for Nokia. This followed a 19-year career in BT Group plc, latterly as Managing Director, Group and Openreach Service Operations.

Fraser Ingram
Group Chief Operating Officer

Joined the Group
February 2016

Key strengths and experience
Fraser's career in financial services spans over 35 years and he brings a wealth of experience in banking, innovation and Fintech. Fraser's main role is leading the technology and operational functions of the Group, exploring new technologies and opportunities, while shaping its future strategy.

Since joining the Group in 2016, as Chief Information Officer (CIO), Fraser has led the digitisation and transformation of the Group, both for customers and colleagues. Before joining the Group, Fraser was Chief Operating Officer of Kleinwort Benson, and prior to this he held a wide range of senior business and technology roles, mainly in the Royal Bank of Scotland group, including CIO of Citizens Bank in the USA.

A Fellow of the Chartered Institute of Bankers, Fraser holds an MBA from Aston Business School. In addition, he is a founding trustee of CUDECA, the first independent hospice in Spain, which he has supported since 1992.

Kate Guthrie
Group Human Resources Director

Joined the Group
January 2016

Key strengths and experience
Bringing more than 30 years of domestic and international HR experience, Kate is responsible for the development and implementation of the Group's innovative People Strategy, including the Group's Purpose and Values.

Kate joined from Lloyds Banking Group, following 11 years of service in a number of senior HR Director positions, most recently HR Director for Culture, Capability and Engagement. During her career, she has worked in six different blue-chip organisations across four industrial sectors, including fast-moving consumer goods and retail. She has extensive experience managing mergers, acquisitions, organisational restructures, culture change, leadership and talent development, in addition to employee relations.

Kate is a trustee on the board of Action for Children, one of the UK's leading children's charities, and a trustee of the Virgin Money Foundation.

Enda Johnson
Group Corporate Development Director

Joined the Group
September 2015

Key strengths and experience
Enda is responsible for Strategy and Corporate Finance activity, leading the strategic planning process across the Group.

Before joining the Group, Enda worked at Allied Irish Bank plc in Dublin, where he was Head of Corporate Affairs and Strategy. Prior to this, Enda was a member of the Banking Unit at the Irish National Treasury Management Agency (NTMA), where he worked on the recapitalisation and restructure of Irish banks following the global financial crisis.

Before joining the NTMA, Enda worked with Merrill Lynch in New York, London and California in the firm's investment banking and capital markets divisions, focusing on client advisory and equity transactions for global clients on a cross-industry basis.

EXECUTIVE LEADERSHIP TEAM

Fergus Murphy
Group Personal Banking Director

Joined the Group
January 2016

Key strengths and experience
Fergus has more than 25 years of experience in financial services and is responsible for the delivery of the Group's Personal Banking activities: customer base, customer experience and strategy across products, propositions channels, conduct, performance and portfolio management.

Prior to joining the Group, Fergus held key roles at Allied Irish Bank from 2011 until 2015, including Director of Products and Capital Markets and, most recently, Director of Corporate Wholesale and Institutional Banking. From 2008 until 2011 he served as CEO and Managing Director of EBS Building Society and EBS Limited.

Fergus also held a number of senior positions at Rabobank International between 1994 and 2007. He served as CEO Asia region from 2003 and was previously a member of the firm's Global Financial Markets management team, holding roles as Head of Global Treasury and Head of Global Investment Banks.

Gavin Opperman
Group Business Banking Director

Joined the Group
November 2015

Key strengths and experience
Gavin brings more than 30 years of leadership experience in risk, operations and front-line digital, retail, commercial, corporate and investment banking services, across a wide range of geographies. Gavin is responsible for developing and leading the Group's business banking strategy, helping to reinforce its position as a full-service business bank.

Gavin was previously Regional Head of Consumer Banking (Hong Kong, Taiwan and China), Standard Chartered based in China. Prior to that he spent almost 20 years with Barclays/Absa Group, where he progressed through various senior roles before being appointed as Managing Director of Absa (Asia) Ltd and later Chief Executive of Absa's retail bank.

Helen Page
Group Brand and Marketing Director

Joined the Group
December 2012

Key strengths and experience
Helen has more than 25 years of experience in marketing, consultancy and product development, including over 15 years in financial services.

Following the acquisition of Virgin Money Holdings (UK) PLC in 2018, Helen assumed brand, marketing and customer experience responsibilities for all brands and she is responsible for creating and implementing the Group's marketing strategy and developing initiatives to support growth in line with the commercial plan.

Prior to joining the Group, Helen spent eight years at RBS in a number of roles, including Managing Director for Marketing and Innovation, where she held responsibility for all UK brands across the Retail, Commercial and Corporate divisions.

Helen was also Head of Brand Marketing at Argos, where she relaunched the catalogue company as a retailer. She also held several product and marketing roles at Abbey National (now Santander), including Head of Marketing.

James Peirson
Group General Counsel

Joined the Group
November 2014

Key strengths and experience
James joined the Group's former parent company in May 2005 and was appointed as General Counsel for the Group in 2014. James is responsible for managing legal risk for the Group and for providing high-quality legal, compliance and company secretariat services to the Board of Directors, CEO and the Leadership Team. This enables the business to meet strategic objectives and deliver for its customers.

James's previous roles include leading NAB's London branch legal team and roles supporting NAB and Clydesdale Bank Treasury activities as part of NAB's Capital and Funding legal team in Melbourne and London. Prior to joining NAB, James worked in private legal practice for Hogan Lovells in London, Paris and Frankfurt.

Mark Thundercliffe
Group Chief Risk Officer

Joined the Group
September 2016

Key strengths and experience
Mark has more than 30 years of financial services experience and is responsible for managing and monitoring effective governance of significant risks. He joined the Group from HSBC where he was Chief Risk Officer responsible for management and oversight of risk for HSBC's Retail Banking and Wealth Management business in 18 countries across the UK, Europe, the Middle East and Africa.

Mark has also held several senior international positions, including President and CEO (Asia) with Home Credit in Hong Kong. He was also an Executive Director and Business Head (Russia) with Renaissance Capital in Moscow. With Citigroup he progressed from Chief Risk Officer (UK and Ireland) to become CEO of Citi Consumer (Russia). Prior to Citi, he worked with Associates Capital Corporation, latterly as Executive and Business Head, based in India.

Mark is a Fellow of the Chartered Institute of Credit Management.

Emma Tottenham
Group Corporate Communications and Sustainability Director

Joined the Group
January 2017

Key strengths and experience:
Emma was appointed as Group Corporate Communications and Sustainability Director in 2019 and previously held the role of Chief of Staff to the CEO. She is responsible for defining and sharing the Group's story with internal and external stakeholders through media relations, public affairs and internal communications. She is also responsible for developing and implementing the Group's ambitious sustainability strategy, which includes its not-for-profit digital fundraising platform, Virgin Money Giving, and the Virgin Money Foundation. Emma's background is in financial services strategy and she has held senior strategy roles in the Group, and previously in Royal Bank of Scotland plc. She is also a chartered accountant.

CORPORATE GOVERNANCE REPORT

Our Board in 2019

Board and Committee composition and attendance[1]

● Chair

BOARD MEMBER	BOARD MEETINGS	GOVERNANCE AND NOMINATION COMMITTEE	AUDIT COMMITTEE	RISK COMMITTEE	REMUNERATION COMMITTEE	INDEPENDENT
Jim Pettigrew (Chairman)	11/11	5/5 ●	–	–	5/5	✓ (on appointment)
Executive Directors						
David Duffy	11/11	–	–	–	–	X
Ian Smith	11/11	–	–	–	–	X
Debbie Crosbie[3]	2/2	–	–	–	–	X
Non-Executive Directors						
Clive Adamson	11/11	–	7/7	6/6 ●	–	✓
David Bennett	11/11	5/5	7/7	6/6	5/5	✓
Paul Coby	10/11[2]	–	–	6/6	–	✓
Geeta Gopalan	10/11[2]	–	–	5/6[2]	–	✓
Adrian Grace	10/11[2]	–	–	–	4/5[2] ●	✓
Fiona MacLeod	10/11[2]	4/5[2]	–	6/6	4/4[4]	✓
Darren Pope	11/11	–	7/7	–	–	✓
Teresa Robson-Capps	11/11	–	7/7	–	–	✓
Amy Stirling	10/11[2]	–	–	–	–	X
Tim Wade	11/11	1/1[5]	7/7 ●	6/6	–	✓

1 Data is based on scheduled meetings only. Additional ad hoc meetings of the Board and Board Committees also took place during the year as required.
2 Unable to attend the meeting due to a prior unavoidable commitment.
3 Debbie Crosbie stepped down from the Board on 19 November 2018.
4 Fiona MacLeod was appointed a member of the Remuneration Committee from 5 November 2018.
5 Tim Wade was appointed a member of the Governance and Nomination Committee from 20 September 2019.

Board diversity as at 30 September 2019

Gender diversity

Female	4 (31%)
Male	9 (69%)

Age

45–55 years	5 (38%)
56–65 years	8 (62%)

Role split

Executive	3
Non-Executive	9
Non-Executive Chairman independent on appointment	1

Our compliance with the UK Corporate Governance Code 2016

The Annual Report and Accounts for the year ended 30 September 2019 has been prepared in accordance with the UK Corporate Governance Code 2016 ('Code') which is available at www.frc.org.uk. We have also sought to incorporate some of the changes introduced by the revised Code published in 2018 in advance of the requirement to detail our compliance with it in our 2020 Annual Report and Accounts. The Board confirms that the Company applied the principles and complied with all of the relevant provisions of the Code throughout the year, except with regard to membership of the Remuneration Committee from 1 July 2018 following the retirement of David Browne, a former independent Non-Executive Director and member of the Remuneration Committee. Fiona MacLeod was appointed as a member of the Remuneration Committee with effect from 5 November 2018 and the Board confirms that from 5 November 2018 to the date of this report, the Company fully complied with all relevant provisions of the Code. Further information on the Company's compliance with the Code can be found on the following pages.

A. Leadership

A1. The Board's role 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. Many of these matters are overseen by Committees of the Board.

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

	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.
Deputy Chairman	— Supports the Chairman. — Acts as the Chairman's delegate. — Ensures continuity of Chairmanship in the absence of the Chairman. — Available to the Board for consultation and advice. — Represents the Group's interests with review bodies and at official enquiries.
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.

A. Leadership (Continued)

	RESPONSIBILITY
Chief Executive Officer	— 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, co-ordinating 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.
Chief Financial Officer	— Supports the Chief Executive Officer in the design and implementation of the Board-agreed Group strategy. — Responsible for managing the Group's finances, including financial planning and the management of financial risks. — Ensures accurate and effective financial reporting. — Develops the annual budget with the Chief Executive Officer for recommendation to the Board.
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.

A2. Division of responsibilities There is a clear division of responsibilities between the Chairman and Chief Executive Officer. The Chairman's priority is to lead the Board while the Chief Executive Officer manages the day-to-day running of the business.

A3. Role of the Chairman The Chairman leads the Board in organising its business and agenda to ensure it is effective. The responsibilities of the Chairman are set out above.

A4. Role of the Non-Executive Directors The responsibilities of the Deputy Chairman and Senior Independent Non-Executive Director and the Non-Executive Directors are set out above. David Bennett holds the roles of the Deputy Chairman and Senior Independent Non-Executive Director and provides a sounding board for the Chairman and Chief Executive Officer and can be contacted by shareholders and other Directors as required.

B. Effectiveness

B1. Board composition At the date of this report, the Board comprises the Chairman, two Executive Directors, nine independent Non-Executive Directors and one Non-Executive Director appointed by Virgin Enterprises Limited. The names of the Directors together with their full biographical details, including the skills and experience they each bring to the Board, are on pages 56 to 61.

The balance of skills, experience, independence, and knowledge on the Board is the responsibility of the Governance and Nomination Committee and is reviewed annually or whenever appointments are considered. Having the right balance across Board and Board Committee membership helps to ensure they discharge their duties and responsibilities effectively.

B2. Board appointments The Governance and Nomination Committee leads the process for Board appointments, making recommendations to the Board. Information about the work of the Governance and Nomination Committee can be found on pages 80 to 85.

B3. 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 Non-Executive Directors 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 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 66.

B4. 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 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.

B5. Information and support The Chairman, through the Company Secretary, is responsible for ensuring communication flows between the Board and its Committees with the support of the Executive Directors and management, and ensures that this information is of high quality in terms of its currency, clarity, accuracy, appropriateness and comprehensiveness. In-depth and background materials are regularly provided via a designated area on the secure 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 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.

B6. Board and Committee evaluation On the recommendation of the Governance and Nomination Committee, the Board agreed to accelerate the timing of the externally facilitated Board evaluation which was due to be undertaken during 2020 and this commenced in September 2019. More information can be found on page 82.

During the year, a review of Board Committee performance was carried out to assess whether each Committee had met its required responsibilities as set out in its Charter. A summary is provided within each Board Committee report.

B7. Director re-election At the 2020 AGM all Directors, other than Clive Adamson, will seek re-election. The Board is of the view that all Directors continue to be effective and committed to their roles.

C. Accountability

C1. Fair, balanced and understandable The Code requirement that the Annual Report and Accounts is fair, balanced and understandable forms part of the overall drafting and reviewing process. The Board has concluded that the 2019 Annual Report and Accounts is fair, balanced and understandable. The Directors' and Auditor Statements of Responsibility can be found on pages 136 and 202 respectively.

C2. Risk management and internal controls The Board is responsible for the Group's systems of risk management and internal control. 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.

C3. Audit Committee and auditors The Audit Committee carries out several duties delegated to it by the Board including oversight of financial reporting processes, reviewing the effectiveness of internal controls, considering whistle-blowing arrangements and oversight of the work of the external and internal auditors. Information on the external auditor can be found on pages 91 to 92.

D. Remuneration

D1. Directors' remuneration The Directors' annual report on remuneration, which is set out on pages 100 to 131, provides full details regarding the remuneration of Directors. The Directors' remuneration policy, which is subject to shareholder approval at the 2020 AGM, can be found in the Directors' remuneration report on page 105. Details of Executive service contracts and letters of appointment of the Board are set out on pages 113 and 117 respectively of the Directors' remuneration report.

D2. Director remuneration policy and process The key activities and focus of the Remuneration Committee during the year can be found within the Directors' remuneration report on pages 117 to 118.

E. Relations with Shareholders

E1. Dialogue with shareholders The Board actively engages with all stakeholders (including shareholders). Detail on the ways in which it did so during the year can be found on pages 76 to 77.

E2. General meetings The Board considers the Annual General Meeting (AGM) to be a key date for shareholder engagement. Members of the Board will be present at the 2020 AGM to answer shareholders' questions.

All resolutions proposed at the 2019 AGM were taken by way of a poll to include all shareholder votes cast. To allow maximum shareholder participation, electronic proxy voting is available.

What the Board did this year

Setting the Board agenda and running the meeting

The Board held 11 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.

All Directors are expected to attend each Board meeting and the meetings of Board Committees of which they are a member. In the rare event that a Director is unable to attend a meeting, they nonetheless receive the agenda and papers and have the opportunity to discuss with, or notify, the Chairman, relevant Committee Chair or the 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 Chairman subsequently represents those views at the meeting.

Each Board meeting follows a tailored agenda agreed in advance by the Chairman, Chief Executive Officer and Company Secretary. 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.

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. The process of agenda setting, Board reporting and escalation is reviewed as part of the Board performance evaluation.

The Board agenda setting and meeting process is illustrated on page 72.

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 including industry developments and regulatory or corporate governance change. 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. During the year, much of the deep dive time was allocated to Board Strategy Sessions which are described in more detail on page 76, and to giving Directors briefings on aspects of the Virgin Money business as part of their wider training and development, and where relevant, induction.

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.

During the year, the Chairman held a number of meetings with Non-Executive Directors without the Executive Directors present.

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

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, namely the Governance and Nomination Committee; the Audit Committee; the Risk Committee; and the Remuneration Committee.

Board Committee membership and attendance at meetings is set out on page 66. Each Committee is chaired by an experienced Chair and membership is spread across Non-Executive Directors based on skills and experience.

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

The Charter for each principal Board Committee is available on our website (www.virginmoneyukplc.com).

The process for setting a Committee agenda and running a Committee meeting mirrors that of the Board.

Start of the Board year	— The Company Secretary works with members of the Executive Leadership Team to set a calendar of items requiring Board discussion or decision over the year. The Company Secretary keeps the Chairman informed of agenda items requested by Non-Executive Directors. — The schedule of deep dives and Board briefings is agreed.
Setting the agenda for each Board	— The Company Secretary drafts the Board agenda based initially on the calendar and then with input from the Executive Leadership Team. — The Company Secretary reviews a draft of the agenda with the Chairman and Chief Executive Officer and agrees the allocation of time for the most material matters and regular standing updates.
The Board pack is prepared and issued	— The majority of Board papers route first through the Executive Leadership Team or Executive Risk Committee and are then sent to the Company Secretary. A standard template is used to ensure Board reports are succinct and kept focused on the most relevant information. — The Board pack is published on an online 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	— Time is allowed before a scheduled Board meeting for the Senior Independent Director to meet with Non-Executive Directors, first without the Chairman and then with the Chairman present. This session is useful in agreeing the matters of concern or focus that Non-Executive Directors would specifically like to discuss during the Board meeting. — The Chairman and the Senior Independent Non-Executive Director report on the main areas of focus for Non-Executive Directors at the start of the Board meeting and the Chairman makes sure these are addressed as the meeting progresses. — A typical Board meeting will include standing updates on business, customer service and experience, financial, risk, and operational performance, including reports from each of the Personal, Mortgage and Business divisions. — The Chief Executive Officer reports at each meeting on progress against the Strategic Plan and key strategic initiatives, general business performance, and various internal and external stakeholder matters. — At the end of the Board meeting Non-Executive Directors usually hold a private session without management present.
After the meeting	— Often Directors use the time after the Board meeting to meet with members of the management team, undertake site visits or meet with colleagues. — The Company Secretary produces the minutes and circulates actions from the meeting and routinely meets with the Chairman to review the meeting and to agree the immediate points of follow up.

Board activities

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

Strategy

— Provided oversight of and approved the steps to acquire Virgin Money Holdings (UK) plc and monitored progress in integrating the Group and the FSMA Part VII process, including governance arrangements.

— Approved the refreshed FY20-FY22 Strategic Plan and updated medium-term strategic and financial targets announced at the Company's Capital Markets Day in June 2019.

— Approved the refreshed FY19 Financial Plans on a standalone basis and the FY20 Financial Plan for the Group.

— Approved the proposals for rebranding as the new Virgin Money.

— Approved matters in relation to the investments and pensions joint venture with Aberdeen Standard Investments.

— Approved the annual Group tax strategy.

— Approved major capital and investment expenditure.

Financial and business performance

— Received updates from the Chief Executive Officer on key external, stakeholder and business matters and from each business division.

— Received reports from the Group Chief Financial Officer providing oversight of financial performance and forecasts, including the adequacy of capital, funding and liquidity, and monitored KPIs.

— Kept updated on progress on processing and remediating Payment Protection Insurance (PPI) complaints, monitored performance against provision assumptions and approved the provision increases.

— Received reports from the Group Chief Operating Officer on customer service performance, information security, resilience and conduct matters.

— Reviewed and monitored customer feedback and levels of satisfaction including the actions to improve service quality rankings.

— Kept informed of the scope, priorities and progress of the Group's change and transformation programme including projects to improve the customer experience and digitally enable our business.

Structure and capital

— Approved the refreshed Capital Plan and the Funding Plan for the Group.

— Approved the refreshed Internal Capital Adequacy Assessment Process outcomes.

— Approved the refreshed Internal Liquidity Adequacy Assessment Process outcomes.

— Received briefings on the impacts of the Bank of England stress testing requirements for the Group.

Financial reporting and controls

— Approved the Company's Annual Report and Accounts and determined they were fair, balanced and understandable.

— Approved the annual Pillar 3 Disclosures.

— Recommended the final dividend for financial year ended 30 September 2018.

— Approved the 2019 Interim Financial Report and reviewed quarterly trading updates.

Risk and control

- Reviewed and approved the Group's Risk Management Framework.
- Approved the Group's Risk Appetite Framework and Statement including changes throughout the year and monitored performance against risk appetite.
- Received and reviewed reports from the Group Chief Risk Officer on the Group's risk profile covering all principal and emerging risks.
- Reviewed and approved the annual compliance and risk reports including the assessment of the system of internal control.
- Undertook the annual review of underwriting delegated commitment authorities including those of the Chief Executive Officer.
- Approved the Group's Cybersecurity Strategy.
- Reviewed and approved the annual Money Laundering Reporting Officer's report.
- Approved the renewal of the Group's corporate insurance arrangements.
- Reviewed and decided upon actions to ensure the Group's compliance with key matters of regulation and legislation including for ring-fenced banks, and approved the Recovery Plan in the event of a significant deterioration in financial stability.

Stakeholders and customers

- Approved participation in the Royal Bank of Scotland Incentivised Switching Scheme.
- Reviewed feedback from investor roadshows following the 2018 Full Year Results and from other meetings with institutional investors throughout the year, including before and after the Capital Markets Day.
- Approved the annual statement on Modern Slavery and Human Trafficking.
- Received reports on political and regulatory issues and developments and monitored the impacts on the Group.
- Received a new quarterly report on the Group's performance against sustainability KPIs.
- Received reports from both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) following routine annual reviews.
- Reviewed the corporate communications strategy.
- Approved the recommended appointment of a new corporate broker for the Company.

People and culture

- Provided feedback on the new organisational Purpose and Values for the Group as they were developed and approved the final Purpose including the launch plans; received a report on colleague reaction to the new Purpose and Values.
- Discussed talent, diversity and succession planning for the Executive Leadership Team and the layer below.
- Discussed management capacity, skills and experience.
- Reviewed and discussed the results from the annual colleague engagement survey.
- Received regular updates on colleague sentiment at key points during the year as the integration of CYBG PLC and Virgin Money Holdings (UK) plc progressed, and reviewed the KPIs in the Culture Dashboard.
- Reviewed updates on health, safety and well-being in the Group.

Corporate governance

- Approved the appointment of Fiona MacLeod to the Remuneration Committee and of Tim Wade to the Governance and Nomination Committee.
- Undertook a review of fees paid to Non-Executive Directors.
- Reviewed and approved the Board Charter, including the Matters Reserved for the Board, the Charter for each principal Board Committee and Governance policies.
- Reviewed and approved the Notice of AGM, resolutions to be put to shareholders and related documentation; approved the update statement relating to AGM results.
- Discussed the findings from the internally-facilitated Board evaluation and agreed the follow up action to be taken; agreed the recommendations of the Governance and Nomination Committee as to the next externally-facilitated review.
- Considered the key provisions of the UK Corporate Governance Code 2018.
- Reviewed the structure, size and composition of the Board; considered the independence of Non-Executive Directors; reviewed the register of conflicts of interest.
- Approved the Group's Diversity and Inclusion Policy together with the targets.

STRATEGIC REPORT
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ADDITIONAL INFORMATION

Deep dive sessions and Board briefings

The Board regularly holds deep dive sessions and briefing sessions with management on key areas of strategic focus. Deep dives provide Directors with deeper insight and understanding of a subject matter to help drive better quality of debate and enhance knowledge. During the year, much of the deep dive time was allocated to the series of Board strategy sessions described on page 76. In addition, deep dive sessions and briefings were held on the following topics:

- market update and areas of investor focus led by the Company's broker;
- the Virgin Money Foundation;
- commercial and operational overview of Virgin Money;
- cybersecurity landscape;
- operational resilience framework;
- the Virgin Money credit card business;
- organisational purpose, values and behaviours;
- Bank of England concurrent stress testing requirements and Group impacts; and
- Virgin Money mortgage models.

The work of the Board outside Board meetings

Non-Executive Directors spend time outside of Board meetings increasing their understanding of the business and finding out about the things that matter to our customers, colleagues and other stakeholders. Directors regularly meet with management, attend deep dives and briefings, undertake site visits and attend colleague, customer and other events throughout the year.

Considering and engaging with our stakeholders

How we do it

Engaging and responding to all our stakeholders is fundamental to delivering on our Company purpose and ambition and the following pages provide insight into the ways in which we do this. The relationships we have with our stakeholders are especially important during this significant period of change for our business. Maintaining good communications and developing strong relationships with all our stakeholders is fundamental to building a sustainable business and the long-term success of the Group and this is a key focus for the Executive Leadership Team and the Board.

In the sections which follow you will also find examples of how the Board has considered our stakeholders when making key decisions during the year. To ensure stakeholder considerations are central to decision making, papers relating to different stakeholder groups are presented throughout the year to the Board. Sometimes, like any business, certain decisions may adversely impact one or more stakeholder groups. We always aim 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.

More information on how the Directors have discharged their duties under s.172 of the Companies Act 2006 is available in the strategic report on pages 30 to 31.

Customers

— The Board receives regular Customer Experience Updates with verbatim feedback received from customers collected through a variety of methods, including online and telephone surveys.

— Transactional Net Promoter Score (NPS) awareness and understanding was embedded across the business to promote a customer-focused culture.

Colleagues

— An initiative of '1000 voices' was launched for the Group, gathering opinions from colleagues to feed into and shape the new organisation.

— The Board approved a new Purpose, Values and Behaviours for the new combined Group to bring the two heritages together under one ambition.

— Capital Markets Day briefings took place across the country to provide colleagues with an opportunity to hear about the new strategy for the Group.

Governance in action

Shaping our refreshed strategy

A refreshed strategy that builds on our core capabilities and those added by the Virgin Money Holdings (UK) PLC acquisition

This year, the Board held a series of Strategy Sessions leading to the announcement of our refreshed strategy at our Capital Markets Day in June 2019.

The Chief Executive Officer and Group Corporate Development Director led the process engaging both Board members and the Executive Leadership Team.

The Board came together for seven strategy sessions beginning in February 2019. These sessions typically ran for half a day and, in addition to Board members, relevant members of the Executive Leadership Team also joined depending on the topic. The March 2019 session focused on developing the Board's understanding of the wider Virgin Group. The approach allowed the Board to engage directly with management to shape each element of the refreshed strategy providing input and guidance. Management was then able to reflect on Directors' feedback after each session, address specific areas of challenge and continue to refine and reiterate the strategic and financial plans before the final versions were presented for Board approval.

The seven Strategy Sessions were each designed to cover a specific topic in detail. Board members were provided with briefing materials in advance of each session allowing Directors time to prepare ensuring each session was interactive and discussion focused:

1. **Scene setting** – the internal and external context against which the Strategic and Financial Plans would be developed; an overview of industry, economic and market factors
2. **Virgin Group** – overview of the Virgin Group, life as a Virgin customer and a specific focus on the Virgin brand
3. **Integration and rebranding** – discussion on the plans for bringing together the Clydesdale Bank PLC and Virgin Money PLC businesses as one Bank; the proposals to apply a single Virgin Money brand across the Group and to rename the Group
4. **Division plans** – the ambitions and plans for each of our Personal, Mortgages and Business divisions
5. **Initial draft financial plan** – outline of the drivers of the financial plan, its sensitivity to external and internal factors and draft financial targets

Society

- The Board receives quarterly sustainability updates, encompassing activities across Corporate Sustainability, Virgin Money Giving and The Virgin Money Foundation.
- The Board was engaged in developing the new Sustainability Strategy for the Group which involved discussions being held with external stakeholders to reach a balanced view taking all stakeholder viewpoints into account.
- The 2019 Virgin Money London Marathon raised a record-breaking £66.4 million for charity and since launching The Virgin Money Foundation in 2015, it has awarded over £8m to charities and social enterprises across the UK.

Investors

- Roadshows involving Board members were held in the UK and Australia following the 2018 year end, for Capital Markets Day, and in relation to the PPI deadline to engage with investors.
- The Board was available to investors as part of the Capital Markets Day, which introduced the new strategic priorities of the Group.
- Board members have been engaged with investors on elements of Remuneration including LTIP arrangements and are regularly kept up to date on feedback from the market and the sentiment of investors more generally.

Partners and suppliers

- The Group has an enhanced level of due diligence when it comes to dealing with key suppliers to ensure risks are managed and codes of conduct are in place which set out our expectations from suppliers, particularly in respect of Modern Slavery.
- Collaborative days were held with companies in the larger Virgin Group to share ways of working, recent initiatives, ethos and ambitions.
- A joint venture with Aberdeen Standard Investment was completed in July to widen the choice of products on offer to customers of the Group.

Government and regulators

- The Board was provided with a presentation of the FCA's annual strategy for awareness of key messages for the year.
- Extensive engagement with the PRA and FCA was carried out as part of the transfer of assets from Virgin Money PLC to Clydesdale Bank PLC as part of the move to one banking licence for the Group.
- Ongoing updates in response to Brexit developments were received by the Board, in order to monitor the developing issues that could potentially impact the Group and its customers.

6 **Updated draft financial plan** – including draft financial plans for each division through to FY22 and updated draft financial targets; a discussion on the plans to digitally enable our business and improve the customer experience; a review of the Risk team's assessment of the risks inherent in each Division's plan

7 **Final Strategic Plan, Financial Plan and KPIs** – the final Strategic and Financial Plan for Board approval considering prior Board feedback and input

You can read more about our refreshed strategy in the Strategic Report on page 13.

The Board's visits to Gosforth and Chester

The Board held its February meetings at Virgin Money's Gosforth headquarters.

The Board met with senior managers leading the Virgin Money teams responsible for deposits, mortgages and credit cards and received presentations covering the customer strategies in each of these areas and the things that matter most to our customers. Directors heard about the projects underway to make our business more efficient and to improve the customer experience. The Board also met with the Chief Executive Officer of the Virgin Money Foundation to hear first hand how the Foundation is supporting the communities in which we work.

These briefings were then followed by visits to the teams managing our cybersecurity programme, mortgage operations area and the customer contact centre. In addition to helping the Board gain a deeper understanding of the operations of these parts of our business, the visits gave the Board a chance to interact with colleagues and to understand how they felt about the integration.

In July, the Board held its meetings at Virgin Money's Chester site where the credit card operation is based. The Board received a presentation from members of the credit card's leadership team about the growth of the business over the past five years and future plans. Board members then toured the operational areas and met with teams responsible for different parts of the credit card process including business development, customer service and underwriting. This visit also gave Board members the opportunity to hear from colleagues about how they felt connected to our organisational purpose – 'Making you happier about money' – which was launched in March. To end the visit, Directors joined colleagues for a celebratory event hosted by the Chairman, Jim Pettigrew to recognise the five-year anniversary of the credit card business.

Purpose, Values and Behaviours

Following the acquisition of Virgin Money Holdings (UK) PLC in October 2018, work immediately commenced to agree and roll out a new Purpose for the Group to help bring the two heritage businesses together. The Board was fully engaged in the new Purpose design and planning process to ensure that the Purpose, Values and Behaviours, strategy and culture of the Group were aligned. New values and behaviours, based on existing Virgin Group values, have been adopted and these behaviours are the ultimate driver of our culture that will be demonstrated to our customers. Leadership and delivery of our Purpose is carried out by our Purpose Council, led by James Peirson, Group General Counsel, on behalf of the Executive Leadership Team. The Purpose Council is made up of Leadership Team members from every business unit who discuss and develop the best ways to embed our Purpose, Values and Behaviours across the organisation as well as measuring our success using existing and new customer and colleague insights.

Continually monitoring and improving our performance

Effectiveness

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 Governance and Nomination 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 Governance and Nomination 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.

Information on the Board Diversity and Inclusion Policy Statement can be found on the Company's website (www.virginmoneyukplc.com).

Board changes

Geeta Gopalan and Darren Pope, independent Non-Executive Directors, and Amy Stirling, Non-Executive Director were appointed to the Board on 15 October 2018. Clive Adamson will step down as an independent Non-Executive Director on 29 November 2019.

The Governance and Nomination Committee is responsible for the process for Board appointments and makes a recommendation to the Board. More details about succession planning can be found on page 83.

Details about the responsibilities and activities of the Governance and Nomination Committee are set out on page 83.

Conflicts of interest

The Directors have a statutory duty under the Companies Act 2006 to avoid situations in which they have or can have a direct or indirect interest in the Company unless that interest is first authorised by the other Directors. This duty is in addition to the existing duty that a Director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company. Prior to appointment, 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 Company Secretary and the Chairman before taking up any external appointment or responsibilities. Any changes to the commitments of Directors are reported to the Governance and Nomination Committee and the Board. Directors are reminded, at each Board meeting, of their duty to report any actual or potential conflict as soon as they become aware of any such events. If any actual or potential conflict arises, the relevant Director will excuse himself/herself from any meeting or discussions where the potential conflicts are considered and all relevant material will be restricted including Board papers and minutes. A Director with a potential or actual conflict will not be permitted to form part of the quorum or vote upon the matter giving rise to the conflict. Directors do not participate in decisions concerning their own remuneration or interest. All potential conflicts authorised by the Board are recorded in a Register of Directors' Conflicts of Interests which is reviewed by the Board annually.

Training, development and induction

The programme of training and development includes both formal and informal opportunities for learning and includes components covering deep dives and Board briefing sessions; stakeholder engagement; site visits; time spent with operational areas; one-to-one meetings with members of the Executive Leadership Team and subject matter experts within business units; seminars, courses and round tables to provide external insights; and briefings from external advisers.

The Company Secretary designs and facilitates the induction programme having consulted with the Chairman and progress is reviewed regularly by the Chairman with each Director. The aim of the induction programme is to provide a new Director with an understanding of how the Group works and to bring to life the key opportunities and challenges to ensure each Director is able to make an informed contribution.

During the year, Geeta Gopalan, Darren Pope and Amy Stirling completed an induction programme which focused on the strategic, commercial, risk, customer, people and cultural issues affecting the Group and built on their skills and experience as Virgin Money Directors. The induction programme was delivered through a combination of one-to-one briefings with the Chairman, Company Secretary, serving Directors and members of the Executive Leadership Team; site visits to some of the Group's customer-facing and operational areas; and reading materials including archive Board and Board Committee papers and other key corporate governance documents. Meetings were also arranged with other selected senior managers including the Group Director Internal Audit and with external stakeholders including the external auditor. Likewise, existing Directors on the Board received briefings, met with members of the management team and undertook site visits to develop their knowledge and understanding of the Virgin Money business.

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 2019 and up to the date of approval of this Annual Report and Accounts, there have been rigorous processes in place to identify, evaluate and manage the principal 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 Financial Reporting Council (FRC).

In order to assist in the identification and management of the principal risks, the Board has established a Risk Management Framework (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 Risk Appetite Statement (RAS), RMF and risk culture. Further details can be found in the Risk report on pages 137 to 192.

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. This provides assurance to the Risk Committee that no new material control issues have been identified and that robust management actions are in place to address specific known gaps.

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 2019 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, and was recommended to and approved by the Board.

GOVERNANCE AND NOMINATION COMMITTEE REPORT

"The Committee's focus has been on Board composition, diversity, Board effectiveness and succession planning."

Chair
Jim Pettigrew
Chairman of the Board

Members
David Bennett
Fiona MacLeod
Tim Wade

The Governance and Nomination Committee ('Committee') is composed solely of independent Non-Executive Directors. In addition to Committee members, the Group Human Resources Director and Group Company Secretary regularly attend Committee meetings, with other individuals and external advisers invited to all or part of a meeting as appropriate.

The Committee had five scheduled meetings and one additional meeting during the year. Details of meeting attendance are set out on page 66.

Key objective

The Committee keeps the Board's composition, skills, experience, knowledge, independence and succession arrangements under review and reviews the succession plans for the Executive Leadership Team. The Committee makes recommendations to the Board to ensure that the Company's arrangements are consistent with good corporate governance standards.

Responsibilities

During the year, the Committee reviewed its Charter which sets out its responsibilities. The Charter can be accessed on the Company's website (www.virginmoneyukplc.com).

Committee performance evaluation

During the year, the Committee met its key objectives and carried out its responsibilities effectively, as confirmed by the annual Committee performance evaluation, the results of which were discussed by the Committee and reported to the Board.

Dear shareholder,

I am pleased to present the Governance and Nomination Committee ('Committee') report for the year ended 30 September 2019.

This year the Committee's focus has been on Board composition, Board effectiveness, succession planning and preparing for the adoption of the July 2018 version of the UK Corporate Governance Code which will apply to the Company from 1 October 2019.

Set out on page 83 is an overview of the main topics of Committee discussion and decision making during the year.

During the year, the Committee was strengthened with the appointment of Tim Wade as a member from 20 September 2019.

Board composition

As I mentioned in my Chairman's letter on page 54 we announced our refreshed strategy at our Capital Markets Day in June 2019. The Committee has spent time evaluating the Board skill set and attributes relevant to the future of our business and to ensure the Board's effectiveness in driving our refreshed strategy and integration programme forward. This builds on the work of the Committee last year when areas to strengthen Board skills and experience were identified, culminating in the appointment of Geeta Gopalan, Darren Pope and Amy Stirling. The Board is committed to the regular refreshing of Board membership.

Board evaluation

On the Committee's recommendation, the Board agreed to accelerate the timing of the externally-facilitated Board evaluation which was due to be undertaken during 2020. The Committee was of the view that it was important to obtain insights on Board effectiveness at the outset of the delivery of our refreshed strategy to allow any improvements to be made as early as possible, and recognised the need for Board effectiveness to keep pace with change across our business and in banking generally. The evaluation will also consider the Committee's performance.

Succession planning

During the year, the Committee also kept the leadership and succession needs of our business under review including ensuring the depth and diversity of the succession pipeline at both the Executive Leadership Team level and the level immediately below. The Committee was assured about the action being taken to strengthen executive succession cover and broader succession plans, in addition to the quality of the leadership cadre in place to lead our business at a time of an unprecedented rate of change and against the backdrop of a challenging operating environment.

Diversity and inclusion

The Committee is committed to promoting diversity and inclusion across the Group and at Board level. As a Board we are proud that diversity and inclusion is at the heart of our culture. This is because we are striving to build a workforce that reflects the diversity of our customers and the communities we serve. As set out in the Board Diversity and Inclusion Policy Statement, which was reviewed during the year, our ambition is to achieve a target of 33% female Directors on the Board by 2020 and to improve diversity on the Board in other forms. We are committed to following the recommendations of the Parker Review to improve the ethnic and cultural diversity of the Board. The Committee takes these considerations into account, as well as knowledge, skills and experience, when recommending new Board appointments. The Committee reviews the Group's Diversity and Inclusion Policy each year and monitors progress made at Board and management level.

Lastly, following the publication of the New Code, which the Company will be reporting against in next year's Annual Report and Accounts, the Committee and the Board reviewed the impact of the new requirements on the Company, including a detailed review of our approach to workforce engagement, and action was taken to change certain of our corporate governance practices to bring them in line with the New Code. More details of our approach to workforce engagement are set out on page 85.

Jim Pettigrew
Chairman, Governance and Nomination Committee

Board performance evaluation

In accordance with the Code, the Company conducts an annual evaluation of Board and Board Committee performance and that of individual Directors, which is externally facilitated by an independent third party at least once every three years.

The Committee led the process to select an external provider for the evaluation, which commenced in September 2019, and selected Oliver Ziehn from Lintstock Ltd. Lintstock has no other connection with the Company.

The objective of the evaluation is to provide an independent assessment of areas where the Board, its Committees and individual Directors, including the Chairman, could improve their effectiveness including insights and practical suggestions to drive continuous improvement.

The Committee is overseeing the evaluation process. Highlights from the evaluation will be reported in the Company's 2020 Annual Report and Accounts.

Progress following the 2018 review

As we reported last year, the 2018 performance evaluation was an internal review led by the Chairman with the support of the Group Human Resources Director and Group Company Secretary. The review identified that for 2019 the focus would be on further developing the Board agenda and the quality of information provided to the Board. This means the Board is able to balance its time on business performance, the integration of the businesses and future thinking, in particular continuing to involve customer experience insights more fully in Board discussions.

During the year, actions were taken to improve the Board's effectiveness following the findings from the 2018 evaluation:

— the Board agenda was restructured to allow time for a discussion led by the Chief Executive Officer on strategic progress and business priorities including external influences and stakeholder feedback;

— a programme of Board engagement to support the development of the refreshed strategy was put in place and the Board held a series of Strategy Sessions; these sessions took place outside of the main Board meeting allowing Board time to be used effectively;

— a new Board paper format was introduced and guidance issued to all Board paper authors to ensure Board reporting is suitably tailored and focuses on the key issues for Directors' attention;

— new reports were introduced and presented to the Board by the head of each business division giving an overview of key customer and commercial issues and business performance; and

— agenda time was allocated to a new report on progress in integrating the businesses and the Group Integration Director attended Board meetings to respond to questions from the Board; an escalation framework was introduced to ensure the Board was notified of the most critical integration matters including those impacting customers.

In addition, each Board Committee assessed whether it had carried out its duties and met its responsibilities as set out in each Committee's Charter, the results of which were discussed by each Committee and reported to the Board. Each Committee met its key objectives.

Activities during the year

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

KEY ISSUES / AREA OF FOCUS	COMMITTEE REVIEW AND CONCLUSION
Board and Board Committee composition	The Committee: — undertook the annual review of the structure, size and composition of the Board and Board Committees and made recommendations to the Board; — recommended to the Board the appointment of Tim Wade, Non-Executive Director, as an additional Committee member; and — agreed the methodology for, and oversaw an evaluation of, the skills and experience of the Board; reviewed the resulting Skills Matrix and considered how this would shape the Board succession plan.
Board and executive succession planning	The Committee: — received reports on the depth and quality of the succession pipeline at both the Executive Leadership Team level and the level immediately below; and — kept engaged on changes to the Executive Leadership Team including the appointment of a permanent incumbent to the Group Chief Operating Officer role, and the appointments of the Group Director Corporate Communications and Sustainability and the Group Business Transformation Director.
Annual Board and Committee evaluation	The Committee: — considered the merits of bringing forward the 2020 Board evaluation and recommended an accelerated timetable to the Board; — led the process to select and appoint a third-party facilitator for the 2020 Board evaluation including agreeing the scope, methodology and timing; — undertook an assessment of whether the Committee had carried out its duties and met its responsibilities; — reviewed the Committee's Charter; and — commenced the external Board effectiveness process.
Governance	The Committee: — held a round table discussion to agree the Committee's priorities and work plan for the year, agreed the areas of focus for each Committee meeting throughout the year and monitored progress; — reviewed the Company's corporate governance framework relative to the Code including the gaps and action to be taken; — had a detailed discussion about the Company's approach to workforce engagement and recommended to the Board how workforce engagement should be strengthened; and — reviewed the Board Composition and Renewal Policy.
Diversity	The Committee: — reviewed and recommended to the Board the Board Inclusion and Diversity Statement including the target for female Directors on the Board; and — monitored progress against the Group Inclusion and Diversity Policy.

GOVERNANCE AND NOMINATION COMMITTEE REPORT

KEY ISSUES / AREA OF FOCUS	COMMITTEE REVIEW AND CONCLUSION
Independence and time commitments	The Committee: — reviewed the time commitment of serving Directors including external appointments, considering amongst other matters the impact of limits placed by CRD IV on the number of directorships that can be held by the Directors, and found them to be appropriate; — reviewed the independence of serving Directors relative to the Code in assessing independence, the Committee did not rely solely on the Code criteria but considered whether the Non-Executive Director was demonstrably independent and free of relationships and other circumstances that could affect their judgement. Based on the assessment for 2019, the Committee is satisfied that throughout the year all Non-Executive Directors, other than Amy Stirling, remained independent in character and judgement. Jim Pettigrew was considered independent on appointment as Board Chairman. Amy Stirling is not considered to be independent as she was appointed to the Board as the representative Director of Virgin Enterprises Limited pursuant to its right under the Group's Trade Mark Licence Agreement; and — is recommending the re-election of all Directors who served during 2019, and who wish to continue to serve, to shareholders at the 2020 AGM.
Management of conflicts of interest	The Committee undertook the annual review of the Conflicts of Interest Register.
Training, development and induction	The Committee: — kept informed of the Group's talent management and leadership development programme; and — oversaw the arrangements for the training and induction plan for Directors.

Diversity and inclusion

The Board is committed to delivering the Group's diversity and inclusion strategy and although new appointments are always based on merit, careful consideration is given to the benefits of improving and complementing the diversity, skills, experience and knowledge of the Board. In making recommendations to the Board, the Committee makes sure that the Board is made up of competent colleagues with the necessary balance of diversity, skills and experience required to ensure that the Board can function effectively.

The Board remains committed to building strong female representation at all levels within the Group including at Board, executive and senior management levels. The Committee and the Board remain committed to their target to achieve 33% female representation on the Board by 2020, achieved through the natural cycle of Board renewal. It remains the Board's intention to broaden diversity on the Board beyond gender diversity alone, to reflect the communities in which the Group operates and the diversity of our customers. As at 30 September 2019 there were four female Directors (31%) on the Board.

The Group supports the Women in Finance Charter and has a target of 40% women in senior management roles by 2020. We are on track to meet this target with female colleagues holding 38% of senior management positions in the top two layers of the Company as at 30 September 2019. During the year, the Board tracked progress in both gender diversity and broader inclusion metrics and commitments through the Culture Dashboard.

Workforce engagement

During the year, the Committee reviewed in detail the Group's existing programme of workforce engagement and considered how this should be developed to ensure the Board complies with New Code requirements about understanding colleague views in Board discussion and decision making.

The Committee made a recommendation to the Board and the Board has discussed and agreed the approach to engagement with the wider workforce through 2020, including how workforce views will be presented to and considered by the Board on a regular basis.

Board members already take part in a range of colleague engagement activity and the Board receives reports on colleague viewpoints. This includes a report following the periodic colleague engagement survey, a quarterly Culture Dashboard, opportunities to speak directly to colleagues during site visits, Q&A sessions and one-to-one meetings. These provide the opportunity to gain insights firsthand into the culture, areas of focus and issues that matter to colleagues. As an example, in 2019 the Board took into account colleague feedback on the proposed purpose, values and behaviours when providing its own input.

For 2020, it has been agreed to enhance current engagement activities to allow feedback from the wider workforce to be brought to the attention of the Board for discussion in the context of the Board's decision making and to further develop meaningful dialogue between Directors and the workforce. Insights will be shared with the Board through a quarterly people update – based on the current Culture Dashboard report to the Board supplemented by qualitative and quantitative insight available for the period, for example from surveys, Let's Talk sessions and other activity. The Group Human Resources Director will lead Board discussions on key workforce related metrics, and themes of feedback. There will be a refreshed programme of opportunities for the Board to attend colleague engagement sessions and an ability to arrange in-depth discussions with a representative group of colleagues about a particular issue.

The Group's existing whistleblower framework allows colleagues and the wider workforce to raise concerns in confidence.

AUDIT COMMITTEE REPORT

"The Committee provided robust challenge and oversight of financial reporting and internal control matters during a year of significant activity for the Group."

Chair
Tim Wade

Members
Clive Adamson
David Bennett
Darren Pope
Teresa Robson-Capps

The Audit Committee ('Committee') is composed solely of independent Non-Executive Directors who have current or recent experience in the financial services and banking industries and their biographies can be found on pages 58 to 60. Tim Wade, Chair, has recent and relevant financial experience for the purposes of the Code, having held several senior finance roles. In addition to Committee members, the Board Chairman, Chief Executive Officer, Group Chief Financial Officer, Group Chief Risk Officer, Group General Counsel, Group Director Internal Audit and the external auditor are invited to attend Committee meetings.

Regular private sessions were held with the external auditor and Internal Audit during the year to provide additional opportunity for open dialogue and feedback without management being present.

The Committee recognises the common interest in issues relevant to both the Risk Committee and Audit Committee and in particular the responsibilities of both in relation to the effectiveness of internal control. Joint meetings of the Committees took place during the year where business control self-assessments and oversight and assurance plans from the three lines of defence and IFRS 9 reporting were reviewed and challenged. To support the coordination of information between the committees, the Chairs of each of the Audit and Risk Committees are members of both committees.

The Committee had seven scheduled meetings and one additional meeting during the year. Details of meeting attendance are set out on page 66.

Key objective

The Committee provides effective oversight in relation to the Group's financial reporting, the Group's systems of risk management and internal control and the performance of the Internal Audit function and External Audit.

Responsibilities

During the year, the Committee reviewed its Charter which sets out its responsibilities. The Charter can be accessed on the Company's website (www.virginmoneyukplc.com).

Committee performance evaluation

During the year, the Committee met its key objectives and carried out its responsibilities effectively, as confirmed by the annual Committee performance evaluation, the results of which were discussed by the Committee and reported to the Board.

Dear shareholder,

As Chair of the Audit Committee ('Committee') during a year of great significance for the Group, I am pleased to present this report on behalf of the Committee. The year ended 30 September 2019 was significant due to the Virgin Money Holdings (UK) plc acquisition in October 2018, and as a result, it was an extremely busy and important year for the Committee.

Virgin Money Holdings (UK) PLC acquisition and integration

In addition to fulfilling its primary functions, the Committee focused on the complex 'fair value' accounting issues associated with the acquisition of Virgin Money Holdings (UK) PLC. Considerable time was also spent monitoring activities and updates in relation to the integration of Virgin Money Holdings (UK) PLC into the Group. For example, the Committee reviewed reports on the governance, structure and mobilisation of the integration programme from PricewaterhouseCoopers and Internal Audit, and the implementation of related actions. The expected impacts of the FSMA Part VII transfer, which combines the banking operations of Clydesdale Bank PLC and Virgin Money plc, on the financial statements of the Group entities was also considered with a focus on the proposed IFRS reporting treatment and key accounting principles to be applied. The Committee will continue to provide oversight of key internal control and financial accounting aspects of the integration programme as it matures.

PPI and conduct issues

During the year, the regulatory deadline for claims relating to Payment Protection Insurance (PPI) matters passed and the Committee kept existing liabilities for conduct related issues under close review, regularly challenging the assumptions underpinning this complex provisioning process. The volume of PPI claims received in the days leading up to the regulatory deadline was far greater across the industry than was foreseen and as a result, a £415m provision increase has been recorded. The Committee will continue to give significant attention to conduct issues.

Annual assurance and audit plans

In conjunction with the Risk Committee, the Committee considered several matters including the FY20 Risk Management Assurance Plan and the FY20 Internal Audit Plan which are crucial to the identification, management and mitigation of risks. Oversight of the Group's financial controls continued to be carried out and, together with the Risk Committee, it was concluded that sound systems of risk management and internal control are in place.

Whistleblowing

The Committee continues to receive regular updates on the Group's Whistleblowing Programme and as Group Whistleblowing Champion I am responsible for ensuring and overseeing the integrity, independence, and effectiveness of the programme. Day-to-day operation of the programme is managed by the whistleblowing team in the Group's Regulatory, Conduct and Compliance Risk team. The Committee was content that management's response and handling of reported cases remained appropriate.

Internal and external audit

Regular updates were received throughout the year from the Group Director Internal Audit and his team. These included a review of the status of Integration Programme controls, which raised various actions around the governance of the programme. A 'deep dive' pilot exercise into the culture within the Customer Assist team was also conducted during the year which the Committee recognised as being extremely thorough and insightful and it requested sight of the resulting action plan. Finally, the Committee oversaw the successful integration of the heritage internal audit departments. Regular updates were also received from the external auditor with a particular focus on material areas of management judgement. The Committee continues to consider and assess the independence and effectiveness of the internal and external audit activities.

Looking ahead

The Committee's accountabilities are clear and the members will seek to continue to provide effective governance in respect of the Group's financial reporting and disclosure requirements. This will be achieved by challenging management on key judgements and the material assumptions on which they are based.

Tim Wade
Chair, Audit Committee

AUDIT COMMITTEE REPORT

Activities during the year

Significant financial reporting judgements

The areas of judgement considered, and key conclusions and actions taken by the Committee during the year, which ensure that appropriate rigour has been applied to the 2019 Annual Report and Accounts, are detailed below. The Committee also considered management's review of the disclosed critical accounting estimates and judgements and concluded that the judgements had been applied appropriately and that the disclosures were sufficient. This includes the decision to remove the fair value of financial instruments as a separately disclosed estimate and judgement in this financial year. This is as a result of the reduction in the Group's fair value loan portfolio, meaning that the judgement applied in arriving at the Credit Risk Adjustment (CRA) has diminished and is now regarded as immaterial.

KEY ISSUES/AREA OF FOCUS		COMMITTEE REVIEW AND CONCLUSION
Accounting, tax and financial reporting	To review and challenge the appropriateness of the Company's financial statements, including the content of the Interim Financial Report, Annual Report and Accounts, and 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	To review and challenge the critical accounting policies, disclosure obligations and changes in accounting requirements including those relating to the Group's implementation of IFRS 9 and IFRS 15 with effect from 1 October 2018. Further detail on the adoption of these Standards can be found in notes 1.9 and 5.4. Further information on and disclosures relating to the acquisition of Virgin Money Holdings (UK) plc and the FSMA Part VII transfer are set out in notes 3.19 and 5.6 respectively. Further detail on alternative performance measures can be found in the 'measuring financial performance – glossary' section of the Annual Report and Accounts commencing on page 278.	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 management on the progress made on the integration workstreams, including key accounting treatments and policies following the acquisition of Virgin Money Holdings (UK) plc in October 2018; — received regular updates and progress reports from management on the Group's plans and progress in working towards the successful completion of the FSMA Part VII transfer; — 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 both IFRS 9 and IFRS 15, including the transitional disclosures required by IFRS 7; — required a review of the policy underpinning Alternative Performance Measure (APM) adjustments, and received regular updates on how management has sought to provide greater detail and transparency in their determination and presentation of APMs. These demonstrated how the Group's financial performance on a statutory basis reconciled to the underlying view presented by management. The Committee agreed with management's conclusions on the items to be adjusted in presenting an underlying position including legacy conduct costs, integration costs, acquisition-related impacts and the results of the software rationalisation programme; and — received regular updates and monitored the Group's readiness for the adoption of IFRS 16 ('Leases') with effect from 1 October 2019 which included updates from management on the progress being made on the relevant judgements made in relation to the modelling of outputs throughout parallel run, and detailed analysis of the adoption accounting and capital impacts and related disclosure requirements.

KEY ISSUES/AREA OF FOCUS		COMMITTEE REVIEW AND CONCLUSION
Payment Protection Insurance (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. These judgements are inherently complex as they involve making estimates based on multiple factors that incorporate expectations of future customer behaviour, the impact of regulatory rule making and the application of precedent from the Financial Ombudsman Service. Further information on and disclosures relating to provisions for conduct matters are set out in note 3.16.	The Committee: — reviewed and challenged the assumptions made by management when determining the level of provisions required for PPI and other conduct related matters, in particular the judgements and assumptions made in relation to the impact of the increased activity by claims management companies experienced as a result of the August 2019 industry deadline; and — reviewed in detail proposals in relation to PPI and other conduct scenarios (including potential redress and administrative costs) presented by management which reflected a series of alternative potential outcomes before concluding on the £30m provision increase recorded in March 2019 and the £385m increase recorded in September 2019. Based upon the most recent information, the Committee concluded that management assumptions were supportable and that the conduct provisions recorded at 30 September 2019 were appropriate.
Impairment losses on loans and advances	The Group's loans and advances are subject to impairment losses which, as from the adoption of IFRS 9 on 1 October 2018, are measured on an expected credit loss (ECL) basis as opposed to the previous incurred loss basis as required by IAS 39. 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 post-model adjustments (PMAs). 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 144 and in note 3.1.	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; — reviewed and challenged the inputs and resulting output of the base models, with a particular focus on probabilities of default and the estimate of future recoveries; — 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 2019.
Effective Interest Rate (EIR)	The Group offers a range of mortgage and credit card products, interest income on which is recognised using the EIR method. This provides a level yield over the anticipated behavioural life of the product. In addition, and in accordance with IFRS 9, certain costs with 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.	The Committee: — received regular updates from management on the operation of new EIR models and the impact these made to 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 — are satisfied that the inputs, methodologies and assumptions used by management in operating EIR accounting for the Group are appropriate and supportable.

AUDIT COMMITTEE REPORT

KEY ISSUES/AREA OF FOCUS		COMMITTEE REVIEW AND CONCLUSION
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 2019 are set out in note 3.11.	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 £322m at 30 September 2019 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 2019 are set out in note 3.12.	The Committee reviewed the discount and inflation rate assumptions proposed by management at 30 September 2019 against a benchmark range provided by the external adviser and concurred with these key assumptions.

Other significant issues

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 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 2019 Annual Report and 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. The Committee recommended the draft Viability Statement (as set out on pages 134 to 135) 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 whether the 2019 Annual Report and Accounts was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy. The process which enabled the Committee to reach this conclusion included:

— the production of the 2019 Annual Report and Accounts which was managed by the 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;

— cross-functional support to drafting the 2019 Annual Report and Accounts, which included input from Finance, Risk, Legal and Governance, Investor Relations, HR and the wider business;

— a robust review process of inputs into the 2019 Annual Report and Accounts by all contributors to ensure disclosures were balanced, accurate and verified, and further comprehensive reviews were conducted by senior management;

— a review by the Group Company Secretary of all Board and Committee minutes to ensure all significant matters discussed at meetings were appropriately disclosed in the 2019 Annual Report and Accounts as required;

— a formal review by the Committee of the draft 2019 Annual Report and Accounts in advance of final sign-off; and

— a final review by the Board of Directors.

After careful review and consideration of all relevant information, including principal risks, the Committee was satisfied that, taken as a whole, the 2019 Annual Report and Accounts is fair, balanced and understandable and has affirmed that view to the Board.

This process was also undertaken in respect of all the Group's financial reporting during the year to ensure that, taken as a whole, based on the information supplied to it and challenged by the Committee, the financial reports were fair, balanced and understandable, and advised the Board to that effect.

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 Group Director Internal Audit):

— 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 Group Director Internal Audit, including private sessions with the Committee and Committee Chair and specific audit planning workshops;

— an annual assessment of the independence and performance of the Group Director Internal Audit who continued to report directly to the Chair of the Committee, with a secondary reporting line to the Chief Executive Officer for administrative purposes;

— 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, reviewed the external auditor engagement letter and agreed the auditor's remuneration (the Committee was authorised by shareholders at the 2019 AGM to agree the remuneration of the external auditor). Steven Robb fulfils the role of Senior Statutory Auditor for the third year and EY will continue to practice the rotation of the Senior Statutory Auditor responsible for the Group audit at least every five years; all other audit partners and audit senior management will be required to rotate at least every seven years. During the year, the Committee:

— reviewed the findings of the external audit including key judgements and the level of challenge provided by the external auditor;

— reviewed the external auditor's representation letter;

— reviewed management's responses to control findings, non-compliance and any other findings identified by external audit; and

— considered the wider external audit market generally, noting relevant industry specific information and events.

AUDIT COMMITTEE REPORT

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 re-appointment 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 2019. 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 2019 was £3,801k (2018: £2,518k). 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 £725k (2018: £820k) 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 2019 and 2018 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 period 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. EY was appointed as the Company's external auditor on 14 January 2016 following an audit tender, shortly before the Company became the holding company of the Group. The Committee undertook a competitive tender of the audit of the Group in early 2015 and the Group has no current retendering plans. In applying the CMA's requirements, the next mandatory tender would be in respect of the 2026 financial year. Notwithstanding this, 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.

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 138 to 192. 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 Group's Financial Reporting Control Effectiveness Statement for Finance and Treasury together with an overview of key financial reporting controls; 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 Prudential Regulation Authority, Financial Conduct Authority, Bank of England and European Banking Authority).

Whistleblowing

The Chair of the Committee is the Whistleblower Champion in accordance with the Senior Managers and Certification Regime with responsibility for the integrity, independence and effectiveness of the Group's policies and procedures on whistleblowing and the Committee has oversight of the whistleblower policy standard and framework. The Committee considered periodic whistleblower framework reports covering the Group's whistleblowing arrangements, including monitoring the trends in reported and substantiated whistleblowing cases, and obtained assurance on the completion of training by colleagues to promote and raise awareness across the organisation of the Group's whistleblowing arrangements. The Committee also obtained oversight of updates to the Whistleblowing Policy Standard.

RISK COMMITTEE REPORT

"The Committee continued to assist the Board in ensuring that the Group maintains an effective risk management framework and it provided oversight of the assessment of key current and emerging risks."

Chair
Clive Adamson

Members
David Bennett
Paul Coby
Geeta Gopalan
Fiona MacLeod
Tim Wade

The Committee comprises six independent Non-Executive Directors who have a variety of industry backgrounds, including banking and financial services. Membership of the Committee has been designed so that there is a deep understanding of risk management, banking, and financial sector expertise it needs to fulfil its responsibilities.
In addition to the Committee members, 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 Head of Regulatory and Compliance Risk are invited to attend Committee meetings.

Private sessions were held with the Group Chief Risk Officer during the year to provide additional opportunity for open dialogue and feedback without the Executive Directors being present.

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 FY2020 Risk Management Assurance Plan and the FY2020 Internal Audit Plan were discussed. To support the coordination of information between the committees, the Chairs of the Committee and the Audit Committee are members of both committees.

The Committee had six scheduled meetings and four additional meetings during the year. Details of meeting attendance are set out on page 66.

Key objective

The Committee assists the Board to set the Group's risk appetite and to ensure that the Group maintains an effective risk management framework. 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.

Responsibilities

During the year, the Committee reviewed its Charter which sets out its responsibilities. The Charter can be accessed on the Company's website (www.virginmoneyukplc.com).

Committee performance evaluation

During the year, the Committee met its key objectives and carried out its responsibilities effectively, as confirmed by the annual Committee performance evaluation, the results of which were discussed by the Committee and reported to the Board.

RISK COMMITTEE REPORT

Dear shareholder,

I am pleased to report on how the Committee has discharged its responsibilities throughout the financial year ended 30 September 2019.

The Committee has continued to support the Board to maintain a robust and effective risk management framework, and to promote the appropriate risk culture across the Group.

Geeta Gopalan will become Chair of the Risk Committee with effect from 30 November 2019, subject to regulatory approval, and I would like to wish her every success for the future.

Risk policies and frameworks

The Committee oversaw the development of a combined Risk Appetite Statement after the acquisition of Virgin Money Holdings (UK) plc to support the Group's strategic plans, and played a key role in the development of a refreshed Risk Management Framework (RMF) for implementation across the enlarged Group following the FSMA Part VII transfer. The Committee also oversaw the establishment of a revised three lines of defence model, and continued to review stress and scenario analysis to give assurance on the Group's ability to mitigate potential risks.

The Committee has overseen developments in cyber resilience and operational resilience, and an enhanced approach to managing technology risk which was reflected in the revised RMF.

Virgin Money Holdings (UK) plc integration

The integration of Virgin Money Holdings (UK) plc was a key area of focus, and the Committee reviewed and challenged specific programme updates and opinions on the progress of the programme, and key risks, from all three lines of defence. The Committee played a key role in ensuring that the requisite level of separate entity governance was maintained across the Group ahead of the FSMA Part VII transfer by ensuring that the Committee focused on Group-wide risk matters continuing to fall within the remit of the Virgin Money PLC Board Risk Committee. The Committee also reviewed and supported transitional risk assessments in respect of the key organisational changes undertaken during integration.

Principal and top and emerging risks

The following report sets out the principal risks, and areas of top and emerging risks the Committee evaluated over the year. More details on the wider risk profile and the RMF that the Committee oversees can be found in the Risk Overview within the Strategic Report on pages 26 to 27 and in the Risk Report on pages 138 to 192.

Looking ahead

Many of the areas that the Committee focused on in 2019 will continue to be areas of focus in 2020, most notably the integration of Virgin Money Holdings (UK) plc and the associated rebranding and resultant customer value proposition changes for our customers across the combined Group. The Committee will also play a key oversight role to support the Board as the Group prepares to participate in the Bank of England's concurrent stress testing.

The environment in which the Group operates is likely to continue to be subject to considerable change, with uncertainties likely to include the macroeconomic growth outlook and the impact of the UK's withdrawal from the EU. The Committee will continue to closely monitor developments and the associated impacts on the Group's risk profile.

Clive Adamson
Chair, Risk Committee

Activities during the year

The significant matters addressed by the Committee during the financial year ended 30 September 2019 and in evaluating the 2019 Annual Report and Accounts are described in the following pages.

KEY ISSUES/AREA OF FOCUS		COMMITTEE REVIEW AND CONCLUSION
Enhancing the RAS and stress testing	Reviewing and approving the Group's risk appetite	The Committee: — reviewed and approved a Group RAS to ensure that the Group has the appropriate risk tolerances in place; — regularly reviewed the RAS and recommended any updates to the Board for approval taking into consideration the strategic objectives and target business model of the Group as well as the environment in which it operates; — reviewed regular reports of performance against each RAS measure, and assessed and confirmed the adequacy of management actions in relation to actual or potential breaches of red and amber RAS thresholds; and — reviewed deep dive analysis on a variety of risk matters including: Conduct Risk, Regulatory and Compliance Risk, Financial Crime Risk and Funding.
	Reviewing the ICAAP and ILAAP and recommending approval to the Board	The Committee reviewed and monitored the capital, funding, and liquidity profile through the ICAAP and ILAAP processes.
Embedding the risk framework and governance	Providing oversight and reviewing the application of the Group's risk management, compliance and control systems	The Committee: — reviewed and approved proposals to refresh and update the RMF in relation to the evolving nature of the Group's activities, which included recommending that the Board approve an RMF for implementation across the enlarged Group following the FSMA Part VII transfer; — oversaw the establishment of a revised three lines of defence model; — reviewed and approved a suite of updated Policy Statements and Policy Standards for implementation following the FSMA Part VII transfer; — approved the Group's range of updated Principal Risk Policy Statements which were supported by deep dive reviews into the application and effectiveness of the policy led by the Policy Statement owners; and — discussed and noted an annual review of the Group's anti-money laundering systems and controls.
Supporting an effective 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 — made recommendations to the Remuneration Committee regarding the development of remuneration incentives, and considered any risk adjustments to be taken into account by the Remuneration Committee when making remuneration decisions.

RISK COMMITTEE REPORT

KEY ISSUES/AREA OF FOCUS		COMMITTEE REVIEW AND CONCLUSION
Risk management	Overseeing the risk profile and risk management of the Group within the Board approved RAS	The Committee: — reviewed and challenged regular reports from the Group Chief Risk Officer that considered matters of concern on the material sources of top and emerging risk to the Group; — reviewed and supported transitional risk assessments in respect of key organisational changes, including a transitional risk assessment in respect of the Group risk structure; — approved the annual Risk Management Assurance Plan and received regular updates on the adequacy and effectiveness of the application of the risk and control framework; — reviewed and challenged programme updates and opinions on the progress of the integration programme, and key risks, from the three lines of defence; — reviewed and approved the Group's control environment; and — carried out an assessment of the Viability Statement in the 2019 Annual Report and Accounts and advised the Board and Audit Committee to that effect.

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

RISK CATEGORIES		KEY MATTERS CONSIDERED
Credit risk	The risk of loss of principal or interest stemming from a borrower's failure to meet its contracted obligations to the Group in accordance with the terms agreed. Credit risk is evident at both a portfolio and transactional level.	The Committee regularly reviewed the performance of the loan portfolio including concentrations, alongside changes in the economic environment, to ensure that concentration risks were minimised.
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 funding risk, liquidity risk, market risk, pension risk, capital risk, non-traded equity risk and model risk.	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; — considered the Group's recovery plan in the event of a significant deterioration in financial stability; and — monitored the Group's implementation of the requirements of Structural Reform, and supported the Board Chairman's attestation of compliance with the Group's ring-fencing obligations.

RISK CATEGORIES		KEY MATTERS CONSIDERED
Regulatory and compliance risk	This is the risk of failing to understand and comply with relevant laws and regulatory requirements; failing to identify, monitor and respond to changes in the regulatory environment; non-compliance or not keeping regulators informed of relevant issues; not responding effectively to information requests, regulatory review findings or not meeting regulatory deadlines or obstructing the regulator. It is also the risk of failure to comply with the wider set of rules, regulations, codes of practice and laws relevant to the Group.	The Committee: — obtained regular briefings from management on regulatory developments and upstream risk, including in relation to PSD2, the General Data Protection Regulation and Authorised Push Payments. The Committee considered and monitored the implications of these developments on the Group's strategic objectives and operations, systems and controls; and — reviewed deep dive analysis on the Regulatory and Compliance Risk Policy Statement, and approved the statement. **Emerging risk – Regulatory change** – The requirement to respond to and deliver mandatory change remains integral to the achievement of the Group's strategic objectives. The Committee are alert to the fact that the Group continues to face a significant regulatory change agenda including a number of changes relating to PSD2 and High Cost of Credit.
Conduct risk	The risk of undertaking business in a way that is contrary to the interests of our customers, resulting in the delivery of inappropriate customer outcomes or experiences, customer detriment, regulatory censure, redress costs and/or reputational damage.	The Committee: — regularly reviewed an enhanced conduct risk dashboard which provided greater insight into the risks throughout the customer journey across all major product areas; — reviewed deep dive analysis on the Conduct Risk Policy Statement, and approved the statement; — regularly reviewed and challenged conduct risk updates. Regulatory change, particularly in relation to payments, remained a key area of focus; and — monitored progress to remediate key legacy conduct issues throughout the year, including PPI and other remediation programmes.
Operational risk	The risk of loss resulting from inadequate or failed internal processes or from external events. Impacts from operational risks arise from the day-to-day activities of the Group, which may result in direct or indirect losses and could adversely impact the Group's financial performance and position.	The Committee: — regularly reviewed and challenged operational risk updates, with operational resilience and continuity a key focus area; and — reviewed and approved the operational risk scenarios to be included in the annual programme, the outputs of which are used to support the operational risk capital calculation for inclusion in the ICAAP.

RISK COMMITTEE REPORT

RISK CATEGORIES		KEY MATTERS CONSIDERED
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. It encompasses the risk of failing to understand and meet relevant laws, regulations and supervisory requirements relating to money laundering, terrorism financing, bribery and corruption, and sanctions and embargoes risk. It also includes risks associated with external or internal acts intended to defraud, misappropriate, and circumvent policy, funds, information, regulations and property.	The Committee: — maintained oversight of the effectiveness of the Financial Crime Framework for monitoring, management and mitigation of financial crime; and — reviewed deep dive analysis on the Financial Crime Risk Policy Statement, and approved the Statement, Anti-Money Laundering and Counter Terrorist Financing Policy Standard and Anti-Bribery and Corruption Policy.
Technology risk	This is the risk of loss resulting from inadequate or failed information technology processes through governance, strategy, design, build or run components internally or externally provisioned. It includes IT resilience, information security, data privacy and payment risk.	The Committee: — reviewed and challenged regular status updates from the Group Chief Operating Officer regarding Change and IT Risk Management; — alongside the other members of the Board, visited the teams managing the Group's cybersecurity programme to gain a deeper understanding of the operations and challenges in this area; — reviewed and challenged an update from the Risk function regarding cyber risk; and — monitored the Risk function's capabilities in cyber risk with a view to ensuring that the function remains an appropriate second line of defence.

RISK CATEGORIES		KEY MATTERS CONSIDERED
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.	The Committee: — received regular updates on strategic and business risks from the Group Chief Risk Officer; — regularly reviewed and challenged programme updates and opinions on the progress of the Integration Programme, and key risks, from the three lines of defence; and — oversaw the Group's response to the evolving regulatory expectations regarding climate change risk. **Emerging risk – Geo-political and macroeconomic environment** – The Group is exposed to a variety of downstream risks resulting from the geo-political environment, which have significant business relevance. These are chiefly macroeconomic growth outlook, credit appetite and performance, competitive pressures and margin. **Emerging risk – Competition** – The financial services industry is a highly competitive environment. The emergence of new entrants and regulatory initiatives, such as Open Banking, and in particular, Strong Customer Authentication may lead to material changes in the future provision of financial services. New entrants to the banking market, including bespoke challenger banks but particularly non-bank payments institutions, challenge the competitiveness of the Group. **Emerging risk – Climate change** – Physical risks arising from climate change can 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 create credit exposures for banks and other lenders as costs and opportunities become apparent.
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. This could lead to inappropriate decision making that is detrimental to customers, other colleagues or our shareholders and could ultimately lead to regulatory sanction.	The Committee provided oversight of key people risks, which included reviewing and supporting transitional risk assessments in respect of key organisational changes.

Further details on the Group's approach to risk appetite, risk culture, the RMF, and significant and emerging risks can be found in the Risk report beginning on page 138.

DIRECTORS' REMUNERATION REPORT

"The Committee is focused on implementing a robust framework that promotes the sustainable long-term performance of the Group and clearly demonstrating that shareholder experience and business performance are considered when determining Executive Director remuneration."

Chair
Adrian Grace

Members
David Bennett
Fiona MacLeod
Jim Pettigrew

Directors' remuneration report contents

The Committee comprises four independent Non-Executive Directors. Fiona MacLeod was appointed as a member of the Committee with effect from 5 November 2018. The Committee held five scheduled meetings and five additional meetings during the financial year. Details of meeting attendance are set out on page 66.

Other attendees at Committee meetings during the year included (by invitation from time to time): the Chief Executive Officer; the Chief Financial Officer; the Group Human Resources Director; and the Head of Reward and Pensions, except when issues relating to their own remuneration were being discussed. PricewaterhouseCoopers LLP (PwC), the Committee's independent remuneration adviser, also attended meetings where invited. The Company Secretary attended meetings to record minutes and advise on governance matters.

The Group manages the link between risk and remuneration carefully with the Remuneration Committee and the Board Risk Committee working closely together. The Remuneration Committee receives appropriate risk reports during the year covering corporate and individual conduct performance and, in advance of any variable pay award or release, considers appropriate adjustments in relation to ex-post and ex-ante risks.

Key objectives

To implement a remuneration framework that supports the delivery of the Group's strategic goals and its Purpose to make people happier about money by motivating colleagues to contribute towards the sustainable long-term success of the business.

Responsibilities

During the year, the Committee updated its Charter which sets out the role and responsibilities of the Committee and which can be found on the Company's website: www.virginmoneyukplc.com/about-us/corporate-governance/

Committee performance evaluation

During the year, the Committee met its key objectives and carried out its responsibilities effectively as confirmed by the annual Committee performance evaluation the results of which were discussed by the Committee and reported to the Board.

STATEMENT BY THE CHAIR OF THE REMUNERATION COMMITTEE

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 2019 which, in accordance with reporting regulations, is split into two parts:

— the Annual report on remuneration which summarises how the remuneration policy was implemented in 2019 and how it will apply in 2020, and which will be subject to an advisory vote; and

— the forward-looking Directors' remuneration policy which, subject to a binding vote at the AGM, will apply for the three years commencing 1 October 2019.

The Group continues to be subject to difficult macroeconomic conditions together with the ongoing resolution of a number of legacy issues. However, the Board remains confident in the longer-term strategy as outlined at the Capital Markets Day. As such, the Committee needs to maintain the balance and motivational impact of remuneration arrangements that reflect the climate in which the Group is operating, that continue to incentivise management appropriately and that are cognisant of the returns for investors and the delivery of long-term benefits for customers.

Listening to our shareholders

Although last year's Directors' remuneration report received support from a majority of shareholders, with 65.79% of votes cast in favour, the Committee acknowledges the c34% of votes that opposed how the remuneration policy was implemented in 2018. The Committee recognises that shareholders have an essential role to play in guiding responsible remuneration practices and, during the year, has engaged with the Group's largest shareholders in the UK and in Australia (between them representing around 60% of the Group's voting rights) to better understand the underlying concerns that may have contributed to the voting outcome.

The feedback received through this consultation has provided assurance that our largest shareholders support our approach to remuneration. However, while we have majority support for our approach, some shareholders would like to see greater transparency in setting out the processes for determining award outcomes for Executive Directors and explaining where the Committee has applied judgement and discretion. The feedback has been central to the design of this report and the new policy.

This year, the Committee has sought to ensure Executive Director outcomes are aligned with shareholder experience and with expectations of the regulator. It is also key to remain effective in the retention of the leadership team tasked with managing legacy challenges and delivering integration and the long-term Group strategy. The Committee is satisfied that it has exercised an appropriate level of restraint and delivered fair outcomes through the decisions to reduce variable pay outcomes and not award salary increases to Executive Directors.

2019 review

Fixed pay: The Committee continued to monitor the levels of executive fixed pay during the year, including Executive Director pension contribution levels, against the normal market comparators and from an overall fairness perspective. Executive Director pay in the sector has remained largely static and, while the Group has grown in size and complexity since the takeover of Virgin Money Holdings (UK) PLC, the Remuneration Committee is satisfied that the prior year increases in variable pay opportunity together with the existing level of total fixed pay provide the right balance of reward and incentivisation. Therefore, no salary increases are proposed for 2020.

Annual bonus: During 2019, the Group has continued to deliver against its strategic goals despite the backdrop of a challenging operating environment and ongoing uncertainty on the short-term UK economic outlook. The efficiency of the Group's performance is underlined by the improvement in its underlying cost:income ratio to 57.5%. Notable progress has been achieved in net promoter scores over the period and, despite the organisational change currently being undertaken, colleague engagement scores have remained strong at 76%.

While noting the improvements registered in these areas, the financial targets for underlying PBT and underlying costs were not met. In addition, the RoTE outcome for bonus purposes was reduced from 10.8% to 10.03% to account for the impact of PPI. Therefore, overall business performance delivered a scorecard outcome of 37% (out of 80% maximum opportunity).
The Committee recognises the significant contribution the Executive Directors have made during 2019, including the completion of FSMA Part VII and the development of the revised strategy. However, taking into account recent feedback from shareholders, particularly in relation to share price performance, the personal elements of bonus have been reduced to zero (out of 20% maximum opportunity). As a result, the final bonus award outcomes are £445,000 for the Chief Executive Officer and £220,000 for the Chief Financial Officer, respectively representing a 28% and 29% year-on-year reduction.

Impact of adjustments summary (outcome as percentage of maximum award)

David Duffy

CONSIDERATION	UNADJUSTED OUTCOME	ADJUSTMENT MADE	FINAL ADJUSTED OUTCOME
Business scorecard	**37%**	**–**	**37%**
Personal scorecard	**14%**	**(14%)**	**0%**
Risk adjustment	**–**	**–**	**–**
Total	**51%**	**(14%)**	**37%**

Ian Smith

CONSIDERATION	UNADJUSTED OUTCOME	ADJUSTMENT MADE	FINAL ADJUSTED OUTCOME
Business scorecard	**37%**	**–**	**37%**
Personal scorecard	**19%**	**(19%)**	**0%**
Risk adjustment	**–**	**–**	**–**
Total	**56%**	**(19%)**	**37%**

2019 long-term awards: The Remuneration Committee intends to grant 2019 Long Term Incentive Plan (LTIP) awards to Executive Directors in December. The metrics, targets and weightings for this award have been formulated to align with the Group's strategy as outlined at the Capital Markets Day. The achievement of on-target performance against stretching objectives over the three-year business cycle will continue to deliver a 60% performance outcome.

Taking account of investor feedback, the number of performance metrics has been reduced and performance measures reflect a movement towards statutory measurements. Some of our larger shareholders have expressed a desire to move to a Total Shareholder Return metric that is commonly used in Australia.

This metric is not commonly used in the UK financial services sector as it is not a risk-adjusted metric, as required by UK regulators.

The Committee has determined not to adjust the quantum of the LTIP awards granted to Executive Directors for 2019 given the importance of retaining and incentivising the incumbents who are key to delivering the Group's long-term strategy. The LTIP grants for 2019 represent a significant incentive for Executive Directors to achieve the outcomes noted at the Capital Markets Day. The Committee will continue to monitor the macroeconomic conditions and business performance in line with shareholder expectation and will review any outcomes of these grants at the time of vesting so as to ensure alignment.

The Executive Director remuneration framework ensures that the balance of total remuneration is biased towards delivery in shares rather than cash. More than 80% of variable remuneration awarded for 2019 in the form of bonus and LTIP awards for the year will be delivered in shares, with over 60% subject to performance conditions and deferral over a seven-year period and a further 12-month post-vest hold period.

Performance outcome for 2015 and 2016 long-term awards

During the year, the Committee determined the performance outcomes for the 2015 demerger award and the 2016 LTIP award against targets set at grant. The 2015 demerger award was subject to a single performance condition linked to the Group's profit expectation following the demerger from NAB and was therefore solely based on cumulative underlying profit before tax over a three-year period. The terms of the awards were such that 100% of the award vested if the sole target was met and 0% vested if the target was not attained. Following the end of the performance period the cumulative underlying profit before tax target had been met. The Remuneration Committee determined that the award should therefore vest in full.

The 2016 LTIP award was subject to financial and non-financial performance conditions set at the time of grant. The Committee determined the final performance outcome of the FY2016 LTIP as 62% of the maximum opportunity. As part of its assessment of the performance conditions, the Committee ensured that the outcomes did not benefit from any uplift from the acquisition of Virgin Money Holdings (UK) PLC in October 2018, two-thirds of the way through the performance period. The Committee also adjusted the RoTE outcome for LTIP purposes from 10.8% to 9.13% to account for the impact of PPI.

Impact of Virgin Money Holdings (UK) PLC acquisition on unvested LTIP awards

LTIP awards for 2018 were granted to Executive Directors shortly after the acquisition of Virgin Money Holdings (UK) PLC was completed and before the Remuneration Committee was in a position to fully determine an appropriate set of quantitative metrics to apply to this award. The Committee determined the performance metrics following the Capital Markets Day and after consulting with investors. The final outcomes are set out on page 125 of this report with measures aligned to the strategy. The performance measures applicable to LTIP awards for 2017 have been reassessed during the year to take account of the acquisition. Where appropriate, recalibration has been applied to financial measures. The revised measures, and an explanation of the rationale behind any changes, are set out on page 125.

Looking ahead

The current remuneration policy will have operated for three years at the time of the 2020 AGM, and the Committee is therefore seeking approval for a new remuneration policy.

The Committee has undertaken an extensive review and considered the merits of alternative approaches to executive remuneration. Given the continued restrictions imposed by the banking regulations, the support for our current remuneration policy reflected both through the overwhelmingly positive vote at the 2017 AGM (99%) and the more recent feedback received from our engagement with shareholders, the prospective remuneration policy will remain closely aligned with the existing one. A number of minor amendments have been made either to refine the operation and delivery of variable pay or to align with new and emerging requirements under the Corporate Governance Code and regulatory remuneration reporting. A summary of each change, and the supporting rationale, is provided on page 105.

Recognising regulatory obstacles to setting specific measures against total shareholder return, the Committee will need to remain cognisant of the overall shareholder experience and macroeconomic environment when implementing the Group's remuneration framework and will continue to review and adjust outcomes to align with shareholder feedback and overall business performance as demonstrated in the approach taken to the 2019 financial year.

Remuneration considerations across the Group

The remuneration of colleagues across the Group is an important consideration for the Remuneration Committee. In addition to determining the all-colleague bonus plan outcome against target, the Committee approved an all-colleague annual pay review spend of 2%, from which Executive Directors are excluded. Recognising the important role that employee share ownership has in engagement towards a shared Purpose, all colleagues across the Group received a £500 free share award in March 2019. The Group Share Incentive Plan was extended to Virgin Money Holdings (UK) PLC colleagues in April.

Corporate governance changes

In preparing this year's Directors' Remuneration Report, the Committee has considered the requirements for firms with accounting periods commencing after 1 January 2019 to disclose the ratio of CEO pay to the average colleague, to report the year-on-year change in remuneration for all Executive Directors (rather than just the CEO) and to explain how the Committee develops its remuneration policy including requirements to hold shares after employment ends. While the majority of these reporting requirements will only apply to the Group from 1 October 2019, the Committee felt it would be important to embrace these changes as early as possible in order to meet the spirit of the new approach and increase transparency into the implementation of the Group's remuneration framework.

The Committee considered the Financial Reporting Council (FRC) guidance to develop a formal post-employment shareholding policy as part of the review of the existing remuneration policy. In line with banking requirements, at least 60% of Executive Directors' annual variable remuneration is deferred in shares over seven years and subject to a further 12-month post-vest hold period. In practice, this means that Executive Directors will typically have conditional share awards to a value in excess of their shareholding requirement that are subject to deferral over this time frame. Taking this into account, and having discussed this with industry bodies, it is felt that the Group's existing remuneration structure, together with the regulatory regime applicable to UK retail banks, ensures that Executive Directors are already subject to adequate post-employment shareholding requirements.

The disclosure of the CEO pay ratio and the year-on-year changes in Executive Director remuneration is included on page 128. The pay ratio of 97:1 is affected this year by the inclusion of the demerger award and 2016 LTIP award, both of which are disclosed in this year's single figure total. The Remuneration Committee is satisfied that the normalised annual ratio of 60:1 that includes only one long-term award within the year is well within industry norms and reflects the full responsibility of the Chief Executive Officer role.

The Committee, and the Board as a whole, are conscious of the growing need to take account of the consideration of the wider workforce. The Board's approach to fostering this dialogue is set out in the Governance and Nomination Committee Report.

I would like to take this opportunity to thank investors for their significant engagement during the course of the year which gives me assurance that the policy being proposed is in the interests of the Group and its shareholders. I am pleased to recommend it to you, along with the 2019 Annual report on remuneration and this statement, ahead of the 2020 AGM

Adrian Grace
Chair, Remuneration Committee

This report has been prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the UK Corporate Governance Code (2016) and the Listing Rules.

On behalf of the Board

Adrian Grace
Chair, Remuneration Committee

27 November 2019

DIRECTORS' REMUNERATION REPORT

At a glance

Total remuneration for Executive Directors

The charts below summarise Executive Directors' single figure total remuneration for 2018 and 2019. Full details are provided on page 121. To highlight, total remuneration for 2019 includes a demerger award and the first post-IPO LTIP award. Payments from these awards did not feature in the comparable number for 2018 and, going forward, the implementation of the policy will see only one LTIP award included in the single figure total. To provide a better year-on-year comparison, normalised 2019 outcomes are also illustrated.

Alignment of Executive Director remuneration with long-term shareholder interests

A fundamental principle in the design of the Group's remuneration framework is that Executive Directors' interests are aligned with shareholders. Delivering remuneration in a balance of cash and shares, deferring variable pay over an extended time frame and implementing shareholding requirements serves to ensure that Executive Directors are incentivised to grow the business over the long term.

The charts below demonstrate how Executive Director remuneration aligns with shareholder interests through the balance of:

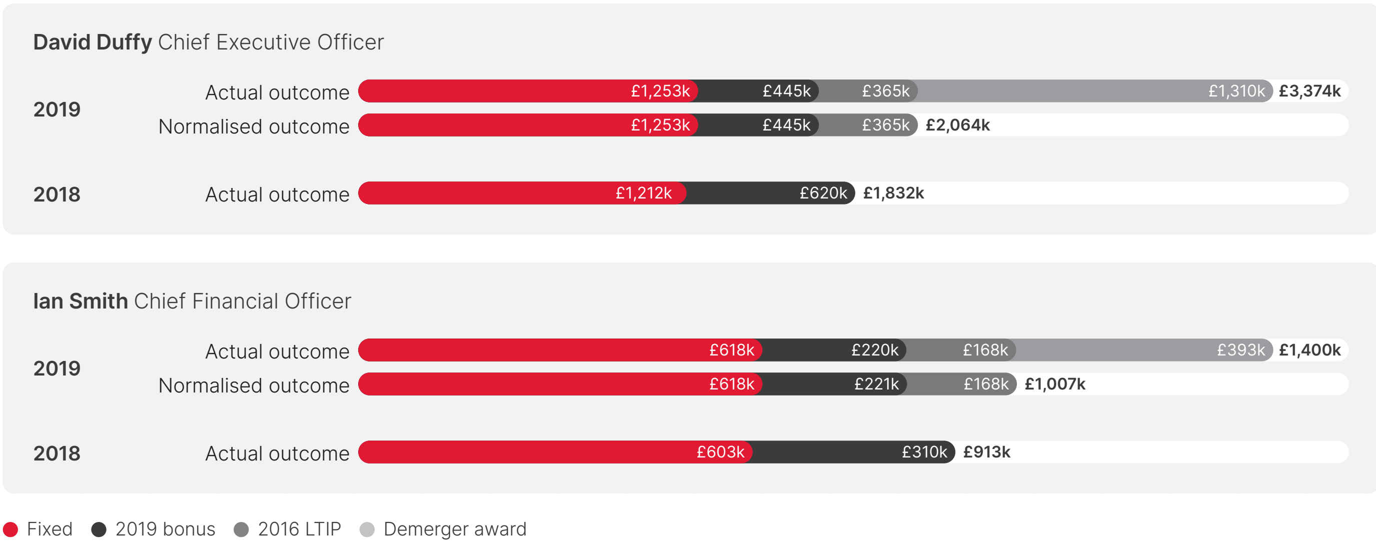
— fixed and variable remuneration;

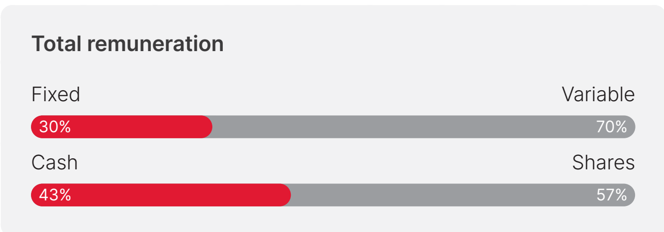
— remuneration delivered in cash versus shares;

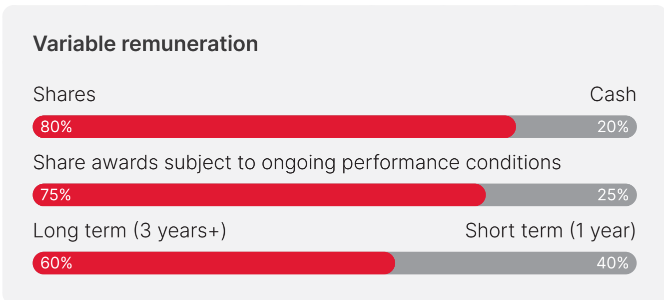
— variable pay deferred versus delivered immediately; and

— share awards that are subject to ongoing performance conditions.

Single figure total remuneration







The total remuneration and variable remuneration illustrations are based on the application of the policy in 2020.

Summary of the proposed new Directors' remuneration policy

ELEMENT	POLICY	DETAILS
Salary	Competitive salaries paid based on role responsibilities and individual experience.	Unchanged from previous policy.
Pension	20% of salary for existing Executive Directors. Contributions for new appointments to be aligned with the prevailing all-colleague rate at the time of appointment.	Amendment made to align newly-appointed Directors with the pension contribution rate for the majority of colleagues.
Benefits	Standard benefits are provided to Executive Directors. Current Chief Executive Officer's standard benefits and pension capped at £250,000.	Unchanged from previous policy.
Bonus	Total variable remuneration in respect of a financial year is limited by the 2:1 ratio of variable pay to fixed pay. A discount may be applied to deferred awards for the purposes of calculating the 2:1 regulatory maximum.	Unchanged from previous policy.
LTIP		Unchanged from previous policy.
Shareholding requirement	Chief Executive Officer: 200% of salary. Chief Financial Officer: 150% of salary.	Unchanged from previous policy.
Post-employment shareholding	Under the Directors' remuneration policy, at least 60% of variable pay is delivered in shares over a seven-year time frame with no acceleration on departure. Shares are also subjected to post-vest holding periods in line with regulatory requirements.	Clarification made to recognise Corporate Governance Code requirement to develop policy on post-employment shareholding.
Leaver provisions	Unvested share awards to lapse on cessation of employment except in the case of good leavers.	Amendment made to leaver provisions to apply ongoing service conditions up to the vest date for share awards.
Change of Control	Unvested share awards would vest on Change of Control, although ongoing regulatory deferral will apply.	Clarification of treatment of unvested share awards on Change of Control including ongoing regulatory deferral.

Directors' remuneration policy

This section sets out the forward-looking Directors' remuneration policy which will be put forward to shareholders at the January 2020 AGM. Subject to shareholder approval, the policy is intended to apply for three years from 1 October 2019. The Committee will consider the remuneration policy annually to ensure that it remains aligned with business needs and is appropriately positioned relative to the market. However, there is no intention to revise the policy more frequently than every three years.

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 comparator peer group is defined as other UK-based banks and wider financial services firms of a comparable size, divisional heads in larger UK banks and other FTSE companies reflecting our market capitalisation.

The remuneration policy is intended to:

— provide competitive, transparent and fair rewards and benefits;

— reward achievement of short and long-term individual performance and business strategy;

— align the interests of Executive Directors and shareholders;

— deliver outcomes over short and long-term horizons with appropriate performance and risk adjustments;

— support the 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.

Developing the remuneration policy

In formulating the new remuneration policy, the Remuneration Committee undertook an extensive review of the existing policy including alternative approaches to executive remuneration. The existing remuneration policy, as approved by 99% of shareholders at the 2017 AGM, remains aligned with the Group's remuneration principles.

The small number of minor amendments to the policy are primarily driven by emerging requirements under the Corporate Governance Code and regulatory remuneration reporting, which the Committee continues to monitor.

The process for determining the proposed remuneration policy has involved engagement with the Group's largest shareholders.

Details on how the policy will be applied in 2020 are included on pages 119 to 120 of the report.

The policy in relation to each element of Executive Directors' remuneration is set out in the following tables.

Elements of policy – fixed remuneration

Base salary

Purpose and link to strategy	Recruit, reward, retain and recognise role responsibilities.
Operation	Base salaries are paid in 12 equal monthly instalments during the year and are reviewed annually with any changes normally effective from 1 October following the end of the financial year. When determining and reviewing base salaries, the Committee considers: — Group and individual performance; — the skills, experience and responsibilities of the Executive Director and their market value; — the scope and size of the role; — base salary increases for colleagues throughout the Group; and — position relative to the external market.
Maximum potential	Salary increases will normally be aligned in percentage terms with increases awarded to other colleagues but may be higher in certain circumstances such as: — where there has been an increase in role responsibilities; and — where an Executive Director is relatively new in the role and the Committee determines to provide increases that are greater than those applied across the Group to bring the individual's salary into line with the market and reflect experience gained.

Pension

Purpose and link to strategy	Recruit, reward, retain and contribute towards Executive Directors' funding for retirement.
Operation	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.
Maximum potential	The maximum pension contribution for Executive Directors is set at 20% of an Executive Director's base salary. Newly-appointed Executive Directors' contributions will be aligned with the pension benefits available to the majority of colleagues.(1)

(1) Currently, the Group contributes up to a maximum of 13% of salary to colleagues' pensions, dependent on the level of personal contribution made.

Benefits

Purpose and link to strategy	To provide competitive benefits consistent with the role performed.
Operation	The Group provides a range of benefits which can include private medical insurance, health assessments, life assurance and car allowance/car. The Committee retains the discretion to provide additional benefits as may be reasonably required. These may include relocation benefits such as (but not limited to) accommodation, family relocation support and taxable travel. The Executive Directors are entitled to 30 days' holiday in addition to applicable bank/public holidays.
Maximum potential	A cap of £250,000 applies to the current Chief Executive Officer's standard benefits, which includes pension contributions/any cash allowance in lieu of pension contributions, private medical insurance, health assessments, life assurance and car allowance/car.

Directors' remuneration policy continued

Elements of policy – variable remuneration

Bonus

Purpose and link to strategy	The annual bonus is designed to reward Group and personal performance in line with strategic objectives.
Operation	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 which, in combination with the LTIP award and any relevant awards under the all-employee Share Incentive Plan (SIP), will be structured in line with the regulatory requirements on the deferral of variable pay under the PRA Remuneration Code. 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. Dividends or dividend equivalents may accrue on deferred annual bonus awards and are paid on vesting, subject to the extent permitted under the relevant financial services remuneration regulations. If dividend equivalents are not permissible, the number of shares awarded may be determined using a share price discounted by reference to the anticipated yield over the deferral period. In determining the outcome, the Remuneration Committee will seek the advice of the Risk Committee to ensure all relevant risk factors are identified. The Committee may exercise discretion to ensure that the bonus outcomes are a fair and accurate reflection of the business and individual performance (but any award may not exceed the maximum opportunity). The Committee can, at its discretion, apply malus and/or clawback to all or part of any bonus award.
Maximum potential	Taken together with the LTIP and any relevant awards under the all-employee 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 (excluding recruitment awards, see page 111), subject to the LTIP opportunity being at least half of the total variable pay opportunity. To the extent permitted by remuneration regulations, a discount may be applied to deferred bonus awards for the purposes of calculating the 2:1 regulatory maximum.
Performance conditions	Performance measures consist of financial and non-financial measures, including personal objectives. Specific measures, targets and weightings will be set by the Remuneration Committee annually with targets disclosed on a retrospective basis. Typically: — 80% of the annual bonus opportunity is based on performance of the Group against key financial and non-financial measures; and — 20% is based on personal performance.

Long Term Incentive Plan (LTIP)

Purpose and link to strategy	Delivery of the Group's strategy and growth in shareholder value.
Operation	Awards are normally granted under the LTIP following the end of the financial year. The Committee, in its absolute discretion, will determine the level of the awards made under LTIP after taking into account business and individual performance. 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. Dividends or dividend equivalents may accrue on LTIP awards and, to the extent that the award vests, are paid on vesting, subject to the extent permitted under the relevant financial services remuneration regulations. If dividend equivalents are not permissible, the number of shares awarded may be determined using a share price discounted by reference to the anticipated yield over the deferral period. In determining the outcome, the Remuneration Committee will seek the advice of the Risk Committee to ensure all relevant risk factors are identified and may exercise discretion to ensure that LTIP outcomes are a fair and accurate reflection of overall business performance of the Group during the performance period (but any award may not exceed the maximum opportunity). The Committee can, at its discretion, apply malus and/or clawback to all or part of any LTIP award.
Maximum potential	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, see page 111), subject to the LTIP opportunity being at least half of the total variable pay opportunity. To the extent permitted by remuneration regulations, a discount may be applied to LTIP awards for the purposes of calculating the 2:1 regulatory maximum.
Performance conditions	Performance conditions are set by the Remuneration Committee each year and are normally tested over a period of three financial years. Measures will normally consist of an appropriate balance of financial and non-financial targets aligned with the long-term strategy of the Group: — pioneering growth; — super straightforward efficiency; — disciplined and sustainable; and — delighting our customer and colleagues. The weighting of metrics will be determined before each award 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.

Directors' remuneration policy continued

Other Group share plans

Share Incentive Plan (SIP)

Purpose and link to strategy	Executive Directors are invited to participate in the Group SIP. The SIP encourages share ownership, aligns participants' interests with those of shareholders and allows them to benefit from the long-term success of the Group.
Operation	The SIP provides for the purchase of shares from gross pay on a monthly basis. The SIP is also the plan under which awards of free or matching shares may be made.
Maximum potential	Participation levels are within HMRC limits as amended from time to time.

If operated in the future, Executive Directors will also be eligible to participate in other all-employee share plans operated by the Group.

Shareholding requirement

Purpose and link to strategy	To align Executive Directors' interests with those of shareholders.
Operation	Executive Directors are expected to build up a specified holding of Group shares equivalent to a percentage of salary. EXECUTIVE DIRECTOR — SHAREHOLDING REQUIREMENT (% OF SALARY) Chief Executive Officer — 200% Chief Financial Officer — 150% When assessing an Executive Director's shareholding against the requirement, unvested awards that are not subject to ongoing performance conditions will be included based on the anticipated net number of shares that would be released to the Executive Director at the end of the deferral period. Executive Directors are required to retain 60% of the net shares received from share awards after the payment of income tax and National Insurance until the shareholding requirement is met. Post-employment: Under the Group's Executive Director remuneration policy, a significant proportion of variable pay is delivered in shares over a seven-year time frame 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.

Bonus and LTIP flexibility

The Committee operates within its policy at all times. Bonus and LTIP awards are administered according to the rules of each respective plan and in line with the Listing Rules while retaining flexibility in a number of areas. This includes how to deal with a change of control, restructuring or any other corporate event of the Group; how and whether an award or its performance conditions may be adjusted in certain circumstances (e.g. change of accounting policy); and the choice of (and adjustment of) performance measures, weightings and targets for each incentive plan from year-to-year in accordance with the remuneration policy. Any use of the above discretions would, where relevant, be explained in the Annual report on remuneration.

Performance measures

The Committee will set targets annually based on the Group's strategy. Performance measures are selected to ensure an appropriate balance between short and long-term strategic goals and to align Executive Director and shareholder interests. In determining the appropriate set of measures and targets for annual bonus and LTIP awards, the Committee has discretion to vary the weighting attributed to performance measures, or to substitute the metrics, over the life of this Directors' remuneration policy taking into account the strategic plan and consensus forecasts.

The Committee may apply discretion, in exceptional circumstances (for example, if there is a major corporate event), to amend targets and measures for in-flight awards if these are no longer appropriate to ensure alignment with strategy and any risks within the business.

The Committee retains discretion to adjust outcomes to ensure these are consistent with corporate performance.

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.

Legacy arrangements

The Remuneration Committee reserves the right to honour any remuneration payments or awards and any payments or awards for loss of office, notwithstanding that they are not in line with this policy where the terms of the payments or award were agreed before the policy came into effect. Such payments or awards will be set out in the Annual remuneration report for the relevant year.

Approach to recruitment remuneration

When considering Executive Director appointments, the Committee will consider the skills and experience of the candidates in relation to external data and remuneration required to attract the individual. The Committee will seek advice from its independent advisers when considering the level of remuneration to be offered.

The Remuneration Committee will align the remuneration for any new appointment with the Directors' remuneration policy. The maximum variable pay opportunity for each performance period would be within the regulatory requirements.

Where it is necessary to compensate an individual for awards forfeited or forgone from an existing employer including long-term awards, deferred awards, in year and prior year annual bonuses and other contractual entitlements, the Committee will seek to match up to the expected value of the awards. Awards granted will vest over a similar time frame with similar conditions. In accordance with regulatory requirements, the Committee will also take into consideration relevant factors including, but not limited to:

— the form of the award;

— any performance conditions attached to those awards;

— the relative stretch of any performance conditions compared to those awards being forfeited;

— the vesting profile of the awards and the likelihood of vesting; and

— relevant regulatory guidance in place in relation to buy-out awards.

Where a new Executive Director has to relocate to take up the appointment, either locally in the UK or from overseas, practical and/or financial support may be given in relation to relocation and mobility. This may include reimbursement of legal and accounting advice and tax equalisation payments. Where an Executive Director is appointed from within the Group or following corporate activity or reorganisation (e.g. merger with another company), the normal policy would be to honour any legacy arrangements in line with the original terms and conditions.

Directors' remuneration policy continued

Illustration of the proposed remuneration policy

The chart below illustrates the potential remuneration of the Executive Directors under the new policy in the following four scenarios based on Executive Directors' remuneration for the 2020 financial year:

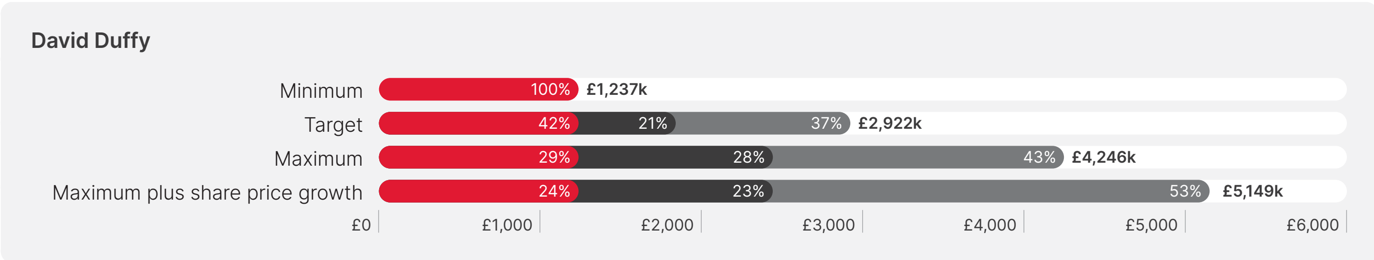
— minimum remuneration based on fixed elements of package only including salary, pension and cash benefits (i.e. fixed pay);

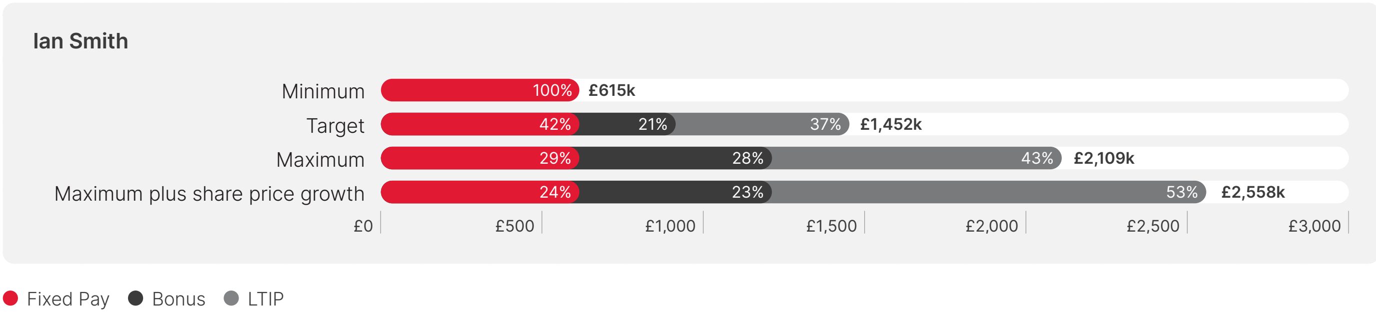
— target outcome assumes the actual bonus award is 50% of the maximum opportunity with the LTIP vesting at 60%;

— maximum outcome which assumes the actual bonus award is 100% of the maximum opportunity and the LTIP vesting at 100%; and

— maximum outcome (as above) with a 50% share price increase applied to the LTIP.

Potential remuneration of the Executive Directors





The potential outcomes illustrated in the chart include, where relevant, the implementation of the European Banking Authority's (EBA) discount factor for variable pay deferred over more than five years. Salary figures are as at 1 October 2019. Full details on the 2020 bonus and LTIP opportunities for the Chief Executive Officer and Chief Financial Officer can be found on page 119.

The maximum plus share price growth outcome has been calculated by increasing the cash value of the maximum LTIP award by 50%.

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 with Executive Directors retaining any fees received.	The Chair 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	12 months	3 December 2015
Debbie Crosbie*	12 months	24 November 2015

* Debbie Crosbie stood down from the Board on 19 November 2018.

Directors' remuneration policy continued

Policy on payments for loss of office

	PROVISION	DETAILS
Compensation for loss of office	Payment in lieu of notice of no more than 12-months' salary.	Payable monthly and subject to an obligation on the Executive Director to mitigate their loss such that payments will either reduce or cease completely if the Executive Director obtains alternative employment. In the event of redundancy, the Executive Director shall be entitled to receive statutory redundancy pay, together with outplacement and legal support.
Treatment of annual bonus on termination	With the exception of good leavers, where participants leave before 1 December following the end of the performance year they will not be eligible for an award.	The Committee has discretion to reduce the entitlement of a good leaver in line with performance and the reason for leaving.
Treatment of unvested deferred bonus on termination	With the exception of good leavers, unvested awards lapse where participants leave before the relevant vest date.	Awards to good leavers will be retained. Vesting or release dates will remain in line with those set at the time of award.
Treatment of unvested LTIP awards on termination	With the exception of good leavers, unvested awards lapse where participants leave before the relevant vest date.	Awards to good leavers will be prorated, unless the Committee decides otherwise. The award will vest, unless the Committee decides otherwise, on the normal vesting date to the extent that any performance condition has been met.

At the Committee's discretion, an Executive Director will be treated as a good leaver in cases where their employment ends due to death, injury, ill-health, disability, redundancy, retirement, or the Company being transferred out of the Group and any other reason (except for dishonesty, fraud, misconduct or dismissal). The Committee reserves the right to make additional payments where such payments are made in good faith and are required to discharge legal obligations or are due to the breach of such obligations.

Change of control

In the event of a takeover or other major corporate event (but not an internal reorganisation of the Group) all outstanding DEP and LTIP awards granted under the Group's share plans would vest, to the extent that the Committee determines that any performance conditions have been met, with proration applied unless determined otherwise by the Committee. Awards would, however, remain subject to any regulatory deferral requirements.

Colleague engagement

The Remuneration Committee is provided with regular updates on overall pay and conditions for colleagues across the Group as a whole, including negotiated pay increases for the broader colleague population. Each year, the Committee reviews and approves the colleague bonus pool and in doing so takes account of the potential outcomes for Executive Directors, as well as year-on-year relative movement and other emerging metrics such as the CEO pay ratio which is reported for the first time on page 128.

Approach to all colleague remuneration

The approach to all-colleague remuneration is intended to:

— provide competitive, transparent and fair rewards, benefits and conditions;

— reward delivery of the business strategy;

— support the Group's Purpose, values and behaviours and encourage collaboration;

— deliver outcomes with appropriate risk adjustments; and

— attract, retain and motivate colleagues to deliver ambitious, customer-focused outcomes.

The Group's performance philosophy that success will be achieved through alignment with strategic goals and working together is underpinned by a team-based incentives plan. To support this approach to performance management, variable pay awards are based on the principle that colleagues are aligned with the performance of the business. When the Group performs well, all colleagues will share in this success and therefore everyone is rewarded for the contribution they make to the Group's success.

Elements of all-colleague remuneration

ELEMENT	OPERATION
Base salary	The approach ensures a fair level of base salary taking into account the scope of the role, affordability, economic factors, external market data and business performance.
Pension	All new colleagues are automatically enrolled in a Group defined contribution pension scheme. In line with pensions legislation, the minimum colleague contribution is 2% of pensionable salary. The Group operates a contribution matching scheme whereby the Group matches colleague contributions up to agreed levels. The Group will also pay a cash allowance in lieu of pension contributions to individuals who would otherwise exceed annual and/or lifetime allowance thresholds.
Benefits	The Group provides a range of benefits based on colleagues' roles, which include flexible benefits allowances, private medical insurance, health assessments, life assurance and car allowance/car. Colleagues receive between 25 and 30 days' holiday annually depending on their role with an option to purchase additional leave.
Bonus	All colleagues within the Group are eligible for an annual bonus award with target opportunities depending on role. Awards will be funded from a bonus pool normally reflecting the same financial and non-financial measures that apply to Executive Directors. When determining the outcome of the performance measures, the Remuneration Committee will seek the advice of the Risk Committee to ensure all relevant risk factors are identified and the bonus pool and/or individual awards are adjusted accordingly.
LTIP	Members of the Executive Leadership Team and other senior managers are eligible to participate in the LTIP with awards made solely at the discretion of the Committee.
Share Incentive Plan	All colleagues are invited to participate in the Group's tax-approved share plan. The plan encourages share ownership, aligns colleagues' interests with those of shareholders and allows them to benefit from the long-term success of the Group. The SIP provides for the purchase of shares, within HMRC participation limits, on a monthly basis from gross pay and is also the vehicle used to allow for awards of free or matching shares.

Chairman and Non-Executive Directors' remuneration policy

The table below sets out the Non-Executive Directors' remuneration policy which applies to the Chairman and Non-Executive Directors.

Non-Executive Directors are engaged through letters of appointment which are for an initial period of three years, subject to three-months' notice by the Non-Executive Directors or the Group. The Chairman has a six-month notice period. All Non-Executive Directors are subject to annual re-election by shareholders at each AGM and are subject to early termination without compensation if they are not reappointed at a meeting of shareholders.

Non-Executive Directors' packages

Purpose and link to strategy	To ensure the Group is able to engage and retain highly-skilled and experienced individuals.
Operation	Fees paid to the Chairman are determined by the Remuneration Committee, while the fees paid to the Non-Executive Directors are set by the Board annually. The fees reflect a base fee with additional fees payable for being members of, or chairing, Board committees and a separate fee is payable to the Senior Independent Director and Deputy Chairman. The fees are 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. In exceptional circumstances, incremental fees may be paid for additional duties and time commitment, to reflect increased workload. From time to time, new Board committees may be established and/or responsibilities distributed between committees, at which point fees for committee membership and chair may be reviewed. The Chairman and Non-Executive Directors are reimbursed for expenses incurred in performing their duties and any tax arising on such reimbursed expenses is borne by the Group. For individuals based outside of the UK this will include travel to and from the UK. Non-Executive Directors and the Chairman do not participate in any variable remuneration or benefits arrangements.
Maximum potential	The maximum aggregate value of fees payable to the Chairman and the Non-Executive Directors is capped at £2.5m under the Company's Articles of Association.
Performance conditions	There are no performance conditions attached to the fees payable to the Chairman or Non-Executive Directors.

The dates of current Non-Executive Directors' letters of appointment are shown below:

Non-Executive Directors

Clive Adamson	19 May 2016
David Bennett	23 November 2015
Paul Coby	19 May 2016
Geeta Gopalan	24 July 2018
Adrian Grace	11 November 2015
Fiona MacLeod	8 September 2016
Jim Pettigrew	11 November 2015
Darren Pope	26 July 2018
Teresa Robson-Capps	11 November 2015
Amy Stirling	30 July 2018
Tim Wade	8 September 2016

Considerations of shareholder views

The Committee will always seek to engage with investors and understand their views whenever significant changes are proposed or specific feedback has been provided. In addition, the Committee will ensure its disclosure meets standards of best practice.

Annual report on remuneration

Remuneration Committee membership

Adrian Grace, Chair
David Bennett
Fiona MacLeod (appointed 5 November 2018)
Jim Pettigrew

Activity during the year

Matters considered and actions taken by the Committee

The significant matters addressed by the Committee during the financial year ended 30 September 2019 are described below:

ROLE OF THE COMMITTEE	KEY ISSUE/AREA OF FOCUS	COMMITTEE REVIEW AND CONCLUSION
Fixed and variable pay issues	2018 Executive Director and senior management remuneration outcomes	Approved variable remuneration awards for Executive Directors, other senior management, material risk takers (MRT) and all-colleague awards under the Group Team Bonus for the 2018 financial year.
	Executive Director and all-colleague pay review	Considered and approved fixed pay increases for individual Executive Directors and senior management. Approved the budget and principles for the all-colleague pay review.
	2018 long-term and 2019 short-term incentive arrangements	Considered and approved the long-term and short-term performance measures, taking into consideration investor views. Considered and noted Executive Director and senior management personal objectives for 2019.
	Non-Executive Directors' fees	Considered external market insight.
	2015 demerger award	Approved the outcome of the 2015 demerger award.
	Free share award	Approval of £500 free share award to all colleagues.
	MRT termination and commencement awards	Approved remuneration arrangements.
	Performance measures	Considered the impact of the acquisition of Virgin Money Holdings (UK) PLC and refreshed strategy on performance measures for variable pay awards.
Remuneration policy	Implementation of the remuneration policy in 2019	Considered and approved the final implementation of the policy for 2019.
	2020 policy review	Considered and approved the new Directors' remuneration policy to be submitted for a binding vote at the 2020 AGM having fully taken account of investor and investor body feedback, following proactive engagement and appropriate market updates from remuneration advisers.

Annual report on remuneration continued

ROLE OF THE COMMITTEE	KEY ISSUE/AREA OF FOCUS	COMMITTEE REVIEW AND CONCLUSION
Governance, risk and other matters	Annual remuneration disclosures	Approved the 2018 Directors' remuneration report.
	MRTs	Reviewed and approved changes and confirmed MRT population throughout the year.
	Regulatory developments	Considered all regulatory requirements, including changes to the Companies Act and the UK Corporate Governance Code, which have been implemented within 2019.
	Risk assessment	Considered appropriate risk reporting, including corporate risks and conduct risks and approved any corporate or individual risk adjustments to variable pay.
	Scheme rules and terms of the DEP and LTIP	Approved minor amendments to the existing scheme rules.
	Remuneration Committee planned activities and Charter	Considered and reviewed the 2019 planned activities and ways of working to be observed in the year. Made minor additions to the Committee Charter to increase Committee effectiveness.
	Gender pay	Considered the Company's disclosure and positive activities that support the improvement of gender pay.
	Harmonisation	Implemented the Group team bonus across Virgin Money Holdings (UK) PLC employees.
	Pension amendments	Approval of changes to the delivery of pension benefit for colleagues impacted by tax limits to increase flexibility.

Following the end of the 2019 financial year, Committee meetings have taken place during which variable remuneration awards, including 2019 annual bonus and LTIP 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 were approved following the consideration of a risk assessment report prepared by the Board Risk Committee. The Committee also determined the performance outcome for the 2016 LTIP award following completion of the three-year performance period on 30 September 2019.

Advisers to the Committee

Following a selection process carried out by the Remuneration Committee prior to the IPO of the Group, the Committee engaged the services of PriceWaterhouseCoopers LLP (PwC) as independent remuneration adviser. During the financial year, PwC advised the Committee on all aspects of the Directors' remuneration policy for members of the Executive Leadership Team. PwC also provide professional services in the ordinary course of business including assurance, advisory, tax and legal advice. The Committee is notified of other remuneration work that is undertaken by PwC. In addition, 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 £164,000 excluding VAT (2018: £198,000) were paid based on the time spent on advice provided to the Remuneration Committee in respect of Directors' remuneration for the financial year.

Statement of voting at general meeting

The Group's remuneration policy, which was effective during 2019, was detailed within the Directors' remuneration report for 2016 and was approved at the AGM on 31 January 2017.

The implementation of the remuneration policy and the remuneration awarded to Executive Directors in respect of 2018 were detailed in last year's Directors' remuneration report and voted on at the AGM on 30 January 2019. The shareholder votes submitted at the meeting, either directly, by mail or by proxy, were as follows:

	VOTES FOR		VOTES AGAINST		VOTES WITHHELD
	NUMBER OF SHARES	% OF VOTES	NUMBER OF SHARES	% OF VOTES	NUMBER OF SHARES
Directors' remuneration policy (2017 AGM)	594,488,715	99.23	4,592,820	0.77	1,524,064
Directors' remuneration report (2019 AGM)	707,216,605	65.79	367,726,021	34.21	7,441,115

Implementation of the policy in 2020

The following sets out how the Directors' remuneration policy will be applied in 2020.

Fixed pay

Base salary	David Duffy (Chief Executive Officer): £1,020,000. Ian Smith (Chief Financial Officer): £510,000.
Pension	Up to 20% of salary.
Other benefits	In line with policy.

Annual bonus

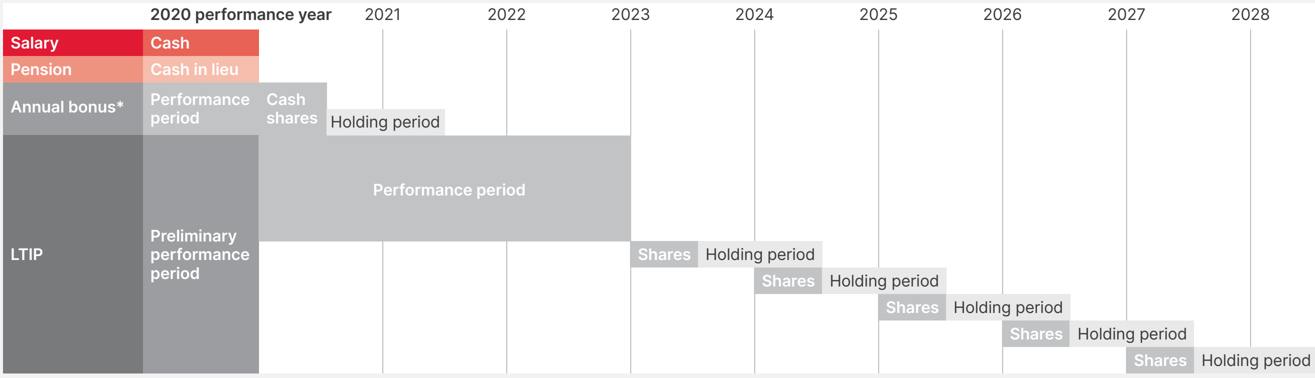
Opportunity	Bonus opportunity is 118% of salary for the Chief Executive Officer and 117% of salary for the Chief Financial Officer. No dividend equivalent will be payable although, for any deferred award, the number of shares granted may be determined using a share price discounted by reference to the anticipated yield.
Deferral terms	For the 2020 performance year, annual bonus opportunity will be awarded in a combination of cash and shares. Deferral, as required, will be consistent with regulatory requirements taking into account total variable pay awarded for 2020 including LTIP with at least 50% of any bonus award delivered in shares. Any share releases are subject to a post-vest holding period in line with regulatory requirements and market practice.
Performance measures and targets	In line with policy, the Remuneration Committee has determined that for 2020: — 80% of the annual bonus opportunity is based on performance of the Group against key financial and non-financial measures; and — 20% is based on personal performance. The Board considers that the targets that apply to these measures are commercially sensitive at this time but will provide information on the targets alongside the level of payout relative to the performance achieved in next year's implementation report. The Remuneration Committee has determined that 50% maximum opportunity is justified for target performance and 25% is justified for threshold performance. All awards are subject to malus and clawback.

Long Term Incentive Plan

Opportunity	LTIP awards in respect of 2020 will be granted over shares to the value of up to 177% of salary for the Chief Executive Officer and 176% of salary for the Chief Financial Officer. No dividend equivalents will be payable, however, the number of shares granted may be based on a share price discounted by reference to the expected dividend yield over the vesting period.
Vesting terms	The performance period will be the three years commencing 1 October 2020. An assessment of individual and business performance in the financial year preceding the date of the grant will be taken into account before awards are made. The expectation is that awards will be granted in December 2020. To the extent that the performance conditions are met, awards will vest in equal tranches from the third anniversary of the date of grant to the seventh such anniversary. Any share releases are subject to a post-vest holding period in line with regulatory requirements and market practice.
Performance measures and targets	The Remuneration Committee will determine performance measures aligned with the delivery of the Group's strategic objectives and the continued creation of shareholder value. These measures will be published in the 2020 Directors' remuneration report ahead of any awards being made.

Annual report on remuneration continued

Illustration of delivery timeframe for 2020 remuneration



* Annual bonus awards are 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.

Non-Executive Directors' annual fees

The following fees are payable to Non-Executive Directors for the year ending 30 September 2020 in line with the rates that were approved by the Board in October 2018 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.

	2020	2019
Chairman(1)	£375,000	**£375,000**
Non-Executive Director	£75,000	**£75,000**
Deputy Chairman	£60,000	**£60,000**
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.

Fees for Virgin Money PLC committee roles included in last year's report will not apply from 1 October 2019 and are therefore not included in this year's report.

Outcomes for 2019

Year-on-year change in single figure total remuneration

The variable remuneration reported in the single figure table has significantly increased year-on-year for both the Chief Executive Officer and the Chief Financial Officer. This increase is primarily driven by two key factors:

— 30 September 2019 marked the end of the performance period of the first post-IPO LTIP award, granted in 2016. The performance outcome for this award was 62%, and the income arising for each Executive Director has been disclosed in line with reporting requirements; and

— the final outcome for the exceptional 2015 demerger award has been included. This award was granted following the demerger from NAB and provided a link to the IPO (in February 2016). The award was subject to a performance condition set over a three-year period and vested in February 2019.

A normalised approach for variable remuneration reporting in future years will include:

— annual bonus awarded for the relevant year; and

— one LTIP award where the performance period has ended in the relevant financial year.

By way of comparison:

— total 2019 remuneration excluding the LTIP and demerger award is £1,699k for the Chief Executive Officer (2018: £1,833k) and £839k for the Chief Financial Officer (2018: £914k)

— total 2019 remuneration excluding the exceptional demerger award is £2,064k for the Chief Executive Officer and £1,007k for the Chief Financial Officer.

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 2019.

	DAVID DUFFY		IAN SMITH		DEBBIE CROSBIE	
£000S	2019	2018	2019	2018	2019	2018
Salary	**1,020**	1,000	**510**	500	**158**	450
Benefits and allowances[1]	**50**	32	**10**	9	**124**	8
Pension and pension allowance	**183**	180	**98**	94	**29**	81
Total fixed remuneration	**1,253**	1,212	**618**	603	**311**	539
Annual bonus	**445**	620	**220**	310	**–**	–
2016 LTIP[2]	**365**	–	**168**	–	**–**	–
Other awards[3]	**1**	1	**1**	1	**–**	1
2015 demerger award[4]	**1,310**		**393**		**–**	
Total variable remuneration	**2,121**	621	**782**	311		1
Total remuneration excluding one-off demerger award	**2,064**	1,833	**1,007**	914	**311**	540
Total remuneration	**3,374**	1,833	**1,400**	914	**311**	540

(1) Executive Directors receive private medical cover, health assessment and life assurance. During 2019, the Chief Executive Officer received an annual car allowance of £30,000 and other taxable benefits including home to work travel totalling £19,784. The Chief Financial Officer received an annual car allowance of £6,840 and other taxable benefits to the value of £2,817. The former Chief Operating Officer received a car allowance of £2,280, a payment in lieu of notice of £118,750 and other taxable benefits to the value of £2,737.

(2) The average share price between 1 July 2019 and 30 September 2019 of 156.68p has been used to indicate the value. The shares were awarded in 2016 based on a share price of 266.03p. Share price movement has reduced the valuation of the awards by £254,847 for the Chief Executive Officer and £117,229 for the Chief Financial Officer compared with the corresponding values at the time of grant.

(3) The Chief Executive Officer and the Chief Financial Officer both received an award of £500 of free shares in March 2019.

(4) The award vested in two tranches on 15 February 2019 and 12 August 2019. The share price on each respective vest date was 186.80p and 147.72p. The shares were awarded based on a share price of 195.17p. Share price movement has reduced the valuation of the awards by £190,129 for the Chief Executive Officer and £57,040 for the Chief Financial Officer compared with the corresponding values at the time of grant.

Annual report on remuneration continued

Payments to past Directors (audited)

Debbie Crosbie left Group service on 31 January 2019, having stood down from the Board on 19 November 2018. No payments were made to any other former Executive Directors during the year.

Executive Director's payments for loss of office (audited)

No payments were made during this or the previous year.

Total pension entitlements (audited)

David Duffy, Ian Smith and Debbie Crosbie each opted out of the Group's defined contribution pension plans and received cash allowances in lieu of pension contributions.

Debbie Crosbie participated in the Group's defined benefit scheme until 31 July 2017, when the plan was closed to future accrual.

Details of the pension accrued in the Group's defined benefit pension scheme by Debbie Crosbie in respect of qualifying services are shown below. The value of the pension is calculated using the HMRC method.

Values relating to Defined Benefit Scheme	Accrued pension at year end £000	Normal retirement date	Additional value of pension on early retirement £000	Pension value in the year from the DB scheme £000	Pension value in the year from cash allowance £000	Total £000
Debbie Crosbie	42	30 March 2035	–	–	29	29

Annual bonus

For 2019, the maximum annual bonus opportunities were 118% of salary for the Chief Executive Officer and 117% of salary for the Chief Financial Officer. The annual bonus awards to be made in respect of the 2019 financial year were agreed by the Committee following an assessment of the Group (80% of total opportunity) and individual performance (20% of total opportunity) against the objectives set at the beginning of the year. Details of the targets used to determine annual bonus in respect of the 2019 financial year and the extent to which they were satisfied are shown in the table below.

			Performance achievement versus targets			
Category	Measure	Weighting	Threshold	Target	Maximum	Outcome as % maximum opportunity
Sustainable returns	Underlying PBT	16%	£512m	£569m	£625m	6%
			Actual: £539m			
	NPS retail	8%	29.0%	32.0%	35.0%	8%
					Actual: 37%	
Efficiency	Total underlying costs	20%	£950m	£940m	£930m	7%
			Actual: £948m			
	Underlying CIR	8%	58.50%	57.50%	55.50%	4%
				Actual: 57.5%		
Capital optimisation	Underlying RoTE(1)	16%	10.0%	10.4%	10.8%	6%
			Actual: 10.03%			
Customer focused culture	Colleague engagement	12%	68.0%	76.0%	78.0%	6%
				Actual: 76.0%		
Business scorecard outcome for 2019		80%				**37%**

(1) The actual underlying RoTE of 10.8% was reduced for the purposes of calculating the business scorecard outcome to take account of the impact of PPI.

Personal awards (20% weighting) David Duffy

2019 final outcome: 14% out of a maximum 20%.

Chief Executive Officer performance highlights:

— leadership of the two bank franchises in parallel for 12 months, followed by the early completion of the FSMA Part VII in October 2019;
— delivery of the revised strategy and medium-term targets through Capital Markets Day, articulated to the market and shareholders in June 2019;
— strong FY2019 colleague engagement scores against the backdrop of substantial change;
— customer satisfaction has continued to strengthen, reflecting improved customer journeys, with Net Promoter Scores exceeding stretch targets with a pro forma increase for the combined Group; and
— integration synergies reconfirmed with initial cost synergies increased.

Personal awards (20% weighting) Ian Smith

2019 final outcome: 19% out of a maximum 20%.

Chief Financial Officer highlights:

— achievement of IRB accreditation from the PRA for both Mortgage and SME/Corporate portfolios;
— strong support provided in the development of the refreshed strategy and its successful delivery on Capital Markets Day;
— combined Group Internal Capital Adequacy Assessment Process (ICAAP), Pillar 2A and 2B assessment and Internal Liquidity Assessment Process (ILAAP) completed; and
— leading the financial efficiency agenda and the Group's focus on reducing underlying operating expenses which have reduced in line with FY2019 targets and have underpinned a reduction in underlying cost:income ratio.

The performance against business and personal objectives for the year delivered a scorecard outcome of 51% of maximum opportunity for the Chief Executive Officer and 56% of maximum opportunity for the Chief Financial Officer. In determining final 2019 outcomes, the Committee decided, despite the strong performance of the Executive Directors this year, to reduce the personal elements to zero to further align the Executive Directors with recent shareholder experience. The final outcome for both Executive Directors is 37% of maximum, which equates to £445,000 for the Chief Executive Officer and £220,000 for the Chief Financial Officer.

Impact of adjustments summary (outcome as percentage of maximum award)

David Duffy

CONSIDERATION	UNADJUSTED OUTCOME	ADJUSTMENT MADE	FINAL ADJUSTED OUTCOME
Business scorecard	**37%**	**–**	**37%**
Personal scorecard	**14%**	**(14%)**	**0%**
Risk adjustment	**–**	**–**	**–**
Total	**51%**	**(14%)**	**37%**

Ian Smith

CONSIDERATION	UNADJUSTED OUTCOME	ADJUSTMENT MADE	FINAL ADJUSTED OUTCOME
Business scorecard	**37%**	**–**	**37%**
Personal scorecard	**19%**	**(19%)**	**0%**
Risk adjustment	**–**	**–**	**–**
Total	**56%**	**(19%)**	**37%**

2019 deferral of variable pay

In line with remuneration regulation, deferral is met through the LTIP in the first instance with annual bonus only deferred to the extent required to meet the regulatory minimum. As a result, annual bonus awards for 2019 are not subject to deferral although 50% is delivered in shares and subject to a 12-month post-vest holding period. The Chief Executive Officer and the Chief Financial Officer will receive 2019 LTIP awards in December 2019 as set out on page 126.

Annual report on remuneration continued

Long-term awards

(i) Long-term awards included in 2019 single figure table

Demerger award (audited)
The 2015 demerger award was subject to one performance condition based on cumulative underlying profit before tax over a three-year period. This target was agreed by the Board in August 2015 based on the approved three-year strategic plan including underlying profit before tax for 2016, 2017 and 2018. The three-year cumulative plan target for the demerger award was £770m. The terms of the award were such that 100% of the award vested if the sole target was met and 0% vested if the target was not attained. At the end of the performance period the cumulative underlying profit before tax over the three-year period was £843m meaning the target had been met. The Remuneration Committee determined that the award should therefore vest in full.

2016 LTIP award (audited)
Awards were granted over shares to the value of 100% of salary in March 2017 with performance conditions tested over the three financial years to 30 September 2019. As detailed in the table below, performance against the targets results in a 62% outcome. Share awards granted under this award will be released in March and September 2020.

The Committee reviewed the appropriateness of the performance conditions taking account of the acquisition of Virgin Money Holdings (UK) PLC in October 2018, part way through the relevant performance period. The Committee determined not to amend the performance measures or targets. However, in determining the performance outcome, the Committee reviewed the impact of the transaction on the performance targets to ensure a fair final outcome without uplifts driven solely by the acquisition.

2016 award

			PERFORMANCE ACHIEVEMENT VERSUS TARGETS			
CATEGORY	MEASURE	WEIGHTING	THRESHOLD	TARGET	MAXIMUM	OUTCOME AS % MAXIMUM
Sustainable customer growth	Clydesdale and Yorkshire Bank NPS	10%	22.5%	25%	27.5%	0.0%
			Threshold not met			
	Digital adoption	10%	45.0%	50.0%	55.0%	6.0%
			Actual: 50%			
Efficiency	CIR	25%	60.0%	57.5%	55%	13.3%
			Actual: 58%			
	CET1 ratio	10%		>12%		10.0%
			Actual: 13%			
Capital optimisation	Underlying RoTE(1)	30%	8.0%	9.0%	10.0%	19.6%
			Actual: 9.13%			
	IRB accreditation of mortgage book	5%		Achieved		5.0%
			Actual: Achieved			
Prudent risk management and governance	Bad and doubtful debts/average loans	5%		<25bps		5.0%
			Actual: 20bps			
	Cumulative operational risk losses	5%	<£25m	<£20m	<£15m	3.0%
			Actual: £20m			
2016 LTIP performance outcome		100%				**61.9%**

(1) The actual underlying RoTE of 10.8% was reduced for the purposes of calculating the performance outcome to take account of the impact of PPI.

(ii) Prior year LTIP awards subject to ongoing performance conditions

2017 LTIP award (granted November 2017)
Following the acquisition of Virgin Money Holdings (UK) PLC in October 2018, the 2017 LTIP measures have been reviewed. At the Capital Markets Day in June 2019, performance targets were presented based on a detailed strategic plan and with clear outcomes for each year. This provided the benchmark for Group performance that has been used for the reassessment of the FY2020 targets that underpin the 2017 LTIP awards. The strategy presented at the Capital Markets Day prioritised deposit growth ahead of customer lending growth. The customer lending growth measure has therefore been removed from the 2017 LTIP with the weighting distributed across the remaining measures (excluding digital adoption) in proportion to their original weightings.

Underlying performance measures		WEIGHTING	THRESHOLD	TARGET	MAXIMUM
Sustainable customer growth	Retail NPS	10.0%	21	24	27
	Digital adoption	7.5%	50%	52.5%	55.0%
Efficiency	Cost:income ratio[1]	22.5%	58.0%	55.0%	52.0%
	Return on tangible equity[1][2][3]	22.5%	10.0%	11.0%	12.0%
	IRB accreditation[4]	10.0%		Achieved	
Risk and compliance	Bad and doubtful debt/average loans[4]	7.5%		<30%	
	Cumulative operational risk losses[5]	7.5%	<£30m	<£25m	<£20m
	Complaints per 1,000	7.5%	3.7	3.5	3.3
Customer-focused culture	Colleague engagement	2.5%	72%	77%	82%
	Senior leadership diversity	2.5%	38%	40%	42%

(1) CIR and RoTE are targeted on an underlying basis.
(2) RoTE is subject to an underpin that CET1 is greater than 12%.
(3) Three-year average.
(4) IRB accreditation (based on the full roll-out) and bad and doubtful debt/average loans are all or nothing measures with 100% vesting if achieved for these elements.
(5) Cumulative figure for 2018, 2019 and 2020.

The award was granted on 24 November 2017 and will vest based on the performance over the 2018 to 2020 financial years. 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.

2018 LTIP award (granted December 2018)
Performance measures for the 2018 LTIP had not been determined at the time the 2018 Directors' remuneration report was published as the Committee continued to assess the implications of the Virgin Money Holdings (UK) PLC acquisition on the Group's long-term strategic targets. Performance measures for the 2018 LTIP are therefore included for the first time in this year's report.

Underlying performance measures		WEIGHTING	THRESHOLD	TARGET	MAXIMUM
Pioneering growth	Relationship deposit growth	8.33%	5%		10%
Super straightforward efficiency	Cost:income ratio	10.0%	52%	50%	49.5%
	Operating cost outcome	10.0%	£840m	£825m	£815m
Disciplined and sustainable	Return on tangible equity	30.0%	9.5%	10.5%	10.75%
	Risk scorecard[1]	20.0%			
Delighting our 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%

(1) 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 20 December 2018 and will vest based on the performance over the 2019 to 2021 financial years. 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.

Annual report on remuneration continued

(iii) 2019 LTIP award (to be granted December 2019)

2019 LTIP
The following awards will be made to Executive Directors in December 2019.

2019 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 Virgin Money UK PLC shares	30 Sep 2022	25%	60%
Ian Smith	176%	£897,600				

(1) The awards are based on a percentage of salary as at 30 September 2019. For the purposes of determining the 2:1 cap, a discount is applied in line with regulatory requirements.

Subject to performance outcomes over the period 1 October 2019 to 30 September 2022 (2020 to 2022 financial years), the awards will vest from December 2022 to December 2026. At each vest date, the net number of shares received (post-taxation) will be subject to a retention period in line with regulatory requirements.

In formulating the measures in the table below, the Committee has engaged with the Group's largest shareholders (representing around 60% of the Group's voting rights) and has ensured the measures support the delivery of the strategy as outlined at the Capital Markets Day and the Key Performance Indicators set out on pages 14 and 15.

Performance measures		WEIGHTING	THRESHOLD	TARGET	MAXIMUM
Pioneering growth	Relationship deposit growth	10.0%	5%		10%
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
Disciplined and sustainable	Return on tangible equity(2)	25.0%	11.0%	12.0%	12.25%
	Risk scorecard(3)	20.0%			
Delighting our 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

(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.

(iv) Legacy awards

NAB LTIP awards
Detailed below are the rights under the NAB LTIP held by the Chief Operating Officer at the beginning of the financial year. Neither the Chief Executive Officer, nor the Chief Financial Officer received any NAB LTIP awards.

Debbie Crosbie's NAB LTIP awards	VESTING DATE	RELEASE DATE	PERFORMANCE PERIOD (IF APPLICABLE)	NAB PERFORMANCE RIGHTS
FY2013 LTIP	20 Dec 17	20 Jun 18	11 Nov 13 to 11 Nov 17	10,161
FY2014 LTIP	21 Dec 18	21 Jun 19	10 Nov 14 to 10 Nov 18	13,380

Awards made under the 2013 and 2014 NAB LTIP were subject to performance conditions based on NAB's relative total shareholder return (TSR) performance with half measured against the S&P/ASX Top 50 Index peer group and half against a selection of financial companies in the ASX Top 200 peer group.

The performance conditions were not met and the 2013 and 2014 awards therefore lapsed in full.

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 ending 30 September 2019. The fees reported in the table in respect of 2019 include amounts paid in respect of Virgin Money plc Board Committee roles. Taken together, these payments give rise to a year-on-year increase in the total fees. The Virgin Money plc Board Committee fees will not apply in 2020.

	FEES		BENEFITS		TOTAL	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Clive Adamson	**155**	110	**–**	–	**155**	110
David Bennett	**255**	195	**–**	–	**255**	195
David Browne(1)	**–**	75	**–**	–	**–**	75
Paul Coby	**110**	80	**–**	–	**110**	80
Geeta Gopolan	**135**	–	**–**	–	**135**	–
Adrian Grace	**120**	100	**–**	–	**120**	100
Fiona MacLeod	**140**	85	**–**	–	**140**	85
Darren Pope	**135**	–	**–**	–	**135**	–
Jim Pettigrew	**410**	365	**–**	–	**410**	365
Teresa Robson-Capps	**110**	80	**–**	–	**110**	80
Amy Stirling(2)	**–**	–	**–**	–	**–**	–
Tim Wade	**155**	110	**–**	–	**155**	110
Total	**1,725**	1,200	**–**	–	**1,725**	1,200

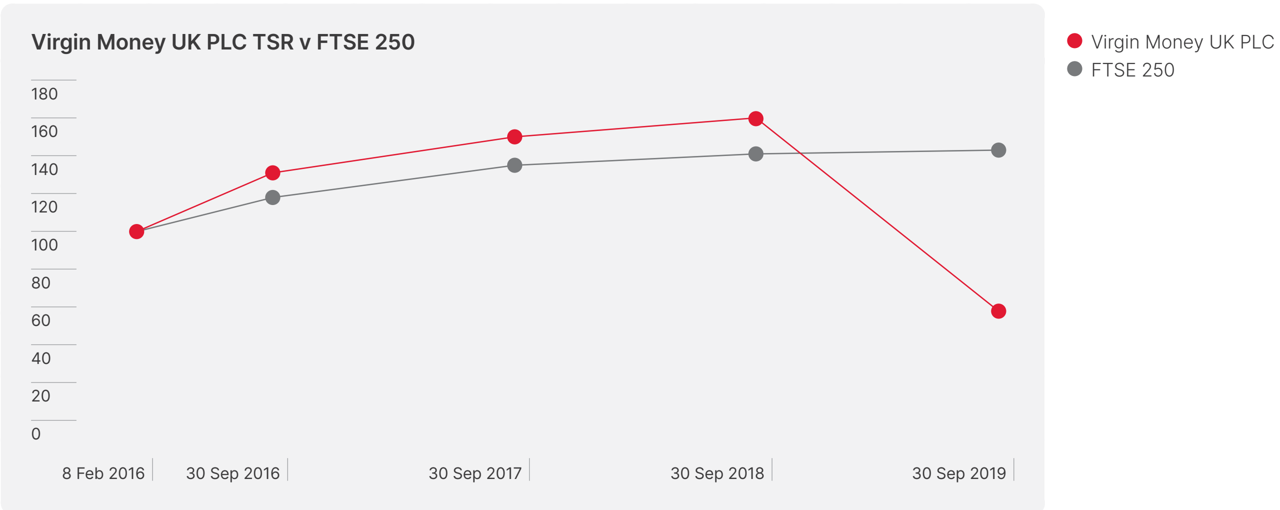
(1) David Browne retired from the Board on 30 June 2018.
(2) Amy Stirling does not receive any fees.

Non-Executive Directors' payments for loss of office (audited)

No payments were made during the current or previous year.

Total shareholder return (TSR) performance

The graph below 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.



Annual report on remuneration continued

Chief Executive Officer historic remuneration

The table below sets out the total remuneration delivered to the Chief Executive Officer since IPO:

Chief Executive Officer	2016	2017	2018	2019	2019 EXCLUDING DEMERGER AWARD	2019 EXCLUDING LTIP AND DEMERGER AWARDS
Total single figure (£000)	2,048	2,056	1,833	**£3,374**	**£2,064**	**£1,699**
Annual short-term incentive payment level achieved (% of maximum opportunity)	80%	82%	62%	**37%**		
Demerger award				**100%**		
Long-term incentive vesting level achieved (% of maximum opportunity)[(1)]	–	–	–	**62%**		

(1) No LTIP awards vested during 2016, 2017 or 2018.

Pay ratio

	MEDIAN	2019 EXCLUDING DEMERGER AWARD	2019 EXCLUDING LTIP AND DEMERGER AWARDS
Pay ratio	**97:1**	**60:1**	**49:1**

The ratio of 97:1 is affected this year by the inclusion of the demerger award and 2016 LTIP award, both of which are disclosed in this year's single figure total. The Remuneration Committee is satisfied that the normalised annual ratio that would only include one long-term award within the year is well within industry norms and reflects the full responsibility of the Chief Executive Officer role.

Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in the 2019 financial year:

Overall spend	DISBURSEMENTS FROM PROFIT IN 2019 FINANCIAL YEAR £M	DISBURSEMENTS FROM PROFIT IN 2018 FINANCIAL YEAR £M
Dividend[(1)]	**0**	44
Overall spend on pay including Executive Directors[(2)]	**421**	223

(1) No dividend was declared in respect of the year ended 30 September 2019 (2018: 3.1p).

(2) 2018 and 2019 figures as per note 2.4 of the consolidated financial statements. The year-on-year increase is driven by the increased size of the business, and number of colleagues employed in 2019.

Change in Executive Director remuneration compared with colleagues

The table below shows the percentage change in remuneration for the Chief Executive Officer and Chief Financial Officer between 2018 and 2019 compared with the percentage change in the average remuneration of colleagues.

Remuneration compared with colleagues	SALARY 2018 TO 2019	BENEFITS[(3)] 2018 TO 2019	BONUS 2018 TO 2019
CEO	2%	56%	(28%)
CFO	2%	11%	(29%)
Colleagues[(1)(2)]	4%	31%	10%

(1) Reflects the change in average annual FTE salary of colleagues employed by the Group at both 30 September 2018 and 30 September 2019.

(2) Reflects the change in average bonus awards for colleagues employed by the Group at both 30 September 2018 and 30 September 2019.

(3) Taxable benefits and other allowances excluding employer pension contributions.

Statement of Directors' shareholding and share interests (audited)

		NUMBER OF SHARES		
	OWNED OUTRIGHT	UNVESTED (NOT SUBJECT TO PERFORMANCE CONDITIONS)	UNVESTED (SUBJECT TO PERFORMANCE CONDITIONS)	TOTAL
David Duffy				
Ordinary shares	713,784			
Breakdown of unvested shares:				
Deferred Equity Plan Awards		80.459		
Long Term Incentive Plan Awards		233,056	1,461,705	
				2,489,004
Ian Smith				
Ordinary shares	303,447			
Breakdown of unvested shares:				
Deferred Equity Plan Awards		36,973		
Long Term Incentive Plan Awards		107,205	714,854	
				1,162,479

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 current Executive Directors and no other Directors have rights to shares.

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
2018 DEP		163,415	163,415			20 Dec 18	189.7	310	
2015 demerger award	768,560	–	768,560	–		11 Feb 16	195.17	1,500	
2016 LTIP	375,897	–	–	142,841	233,056	09 Mar 17	266.03	1,000	Vests March and September 2020
2017 LTIP	319,284	–	–	–	319,284	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
Ian Smith									
2017 DEP	36,973		–		36,973	24 Nov 17	313.2	246	Vests from December 2020 to June 2022
2018 DEP	–	81,707	81,707	–		20 Dec 18	189.7	155	
2015 demerger award	230,568	–	230,568		–	11 Feb 16	195.17	450	
2016 LTIP	172,912	–		65,707	107,205	09 Mar 17	266.03	460	Vests March and September 2020
2017 LTIP	146,871		–	–	146,871	24 Nov 17	313.2	460	Vests from December 2020 to June 2025
2018 LTIP	–	567,983	–	–	567,983	20 Dec 18	189.7	1,077	Vests from December 2021 to December 2026
Debbie Crosbie									
2017 DEP	36,206			36,206		24 Nov 17	313.2	241	Award lapsed
2015 demerger award	230,568	–	–	230,568	–	11 Feb 16	195.17	450	Award lapsed
2016 LTIP	169,153	–	–	169,153	–	09 Mar 17	266.03	450	Award lapsed
2017 LTIP	143,678		–	143,678	–	24 Nov 17	313.2	450	Award lapsed

Annual report on remuneration continued

DEP

Conditional share awards were granted under the DEP in December 2018 in respect of FY2018. The face value of the portion of the Chief Executive and Chief Financial Officer's annual bonus awards that were delivered via DEP awards was £310,000, and £155,000 respectively. These values were converted into the number of shares shown in the table on page 129 using the middle market share price on the day immediately preceding grant, being 189.7p. The awards vested immediately, with resultant shares (post-taxation) subject to a 12-month holding period. Awards remain subject to clawback provisions. Details of this award 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 2018 in respect of FY2018. Awards were granted based on 177% of salary for the Chief Executive Officer (£1,770,000) and 176% of salary for the Chief Financial Officer (£880,000). These values were converted into the number of shares shown in the table on page 129 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 125) with no more than 25% of the maximum vesting for threshold performance. Awards are subject to malus and clawback provisions. Resultant shares (post-taxation) are subject to a regulatory hold period. Details of these awards are included in the table alongside the LTIP awards made in respect of 2016 and 2017.

SIP

An award of 246 shares was made on March 2019 to each of the Executive Directors through the SIP. The Chief Financial Officer currently participates in the monthly purchase of shares through the SIP.

SAYE

No offers under the SAYE plan have been made (2018: none).

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 CEO and 150% of base salary for the CFO. Detailed below are the beneficial holdings of ordinary shares as at 30 September 2019 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%	713,784	166,163	£1,011,059	No
Ian Smith	£510,000	150%	303,447	74,972	£434,803	No

(1) Ordinary shares beneficially-owned and holdings of connected persons. This includes shares held via the Group SIP – David Duffy (661), Ian Smith (2,476 including 924 shares purchased through the partnership scheme during the year ending 30 September 2019).

(2) Includes CHESS Depositary Interests (CDIs) which represent interests in ordinary shares beneficially-owned by David Duffy (4,080). Ian Smith transmuted 4,502 Chess Depositary Interests into Group ordinary shares on 25 March 2019.

(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 2019 closing price of 114.9p.

Directors' shareholding

The beneficial interests of the Executive and Non-Executive Directors and their connected persons who held office at 30 September 2019 in the shares of the Group and as at 30 September 2018 are shown below:

Directors	ORDINARY SHARES BENEFICIALLY-OWNED AT 30 SEPTEMBER 2018 (OR DATE OF APPOINTMENT IF LATER)	TRANSACTIONS DURING YEAR	NUMBER OF SHARES	NOTES	ORDINARY SHARES BENEFICIALLY-OWNED AT 30 SEPTEMBER 2019 (OR DATE OF CESSATION IF EARLIER)
David Duffy	213,438	20 December 2018	86,340	Net number of shares from vesting of upfront DEP award	
		18 February 2019	206,880	Net number of shares from vesting of tranche 1 of 2015 demerger award	
		8 March 2019	246	All-colleague free share award	
		12 August 2019	206,880	Net number of shares from vesting of tranche 2 of 2015 demerger award	**713,784**
Ian Smith	138,158	20 December 2018	42,349	Net number of shares from vesting of upfront DEP award	
		18 February 2019	60,885	Net number of shares from vesting of tranche 1 of 2015 demerger award	
		8 March 2019	246	All-colleague free share award	
		12 August 2019	60,885	Net number of shares from vesting of tranche 2 of 2015 demerger award	
		Various	924	Acquisition of shares through SIP	**303,447**
Debbie Crosbie(1)	140,771				**140,771**
Clive Adamson	–				**–**
David Bennett	16,386				**16,386**
Paul Coby	–				**–**
Geeta Gopalan	–				**–**
Adrian Grace	16,220				**16,220**
Fiona MacLeod	7,000				**7,000**
Jim Pettigrew	50,000	22 November 2018	50,000	Acquisition of shares	**100,000**
Darren Pope	–				**–**
Teresa Robson-Capps	–				**–**
Amy Stirling	–				**–**
Tim Wade	20,000	10 December 2018	30,000	Acquisition of shares	**50,000**

(1) Debbie Crosbie stepped down from the Board on 19 November 2018.

Since the year ended 30 September 2019, the Group Chief Financial Officer purchased 129 partnership shares on 1 October 2019 and 112 partnership shares on 1 November 2019. At the date of the report, he held a total of 303,688 shares in the Group. None of the Non-Executive Directors holds any awards under the Group share plans (2018: none). There have been no other changes to the above interests between 30 September 2019 and the date of this report.

Corporate governance report

The Corporate governance report, found on pages 66 to 79, together with this report of which it forms part, fulfils the requirements of the Corporate Governance Statement for the purpose of the FCA's Disclosure and Transparency Rules (DTR).

Directors

The names and biographical details of the current Directors of the Company are shown on pages 56 to 61.

Particulars of Directors' emoluments and interests in shares in the Company are given on pages 104 to 131 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.

Annual general meeting (AGM)

The Company's 2020 AGM will be held at 9.00am (GMT) on Wednesday 29 January 2020 at the offices of Clifford Chance LLP, 10 Upper Bank Street, London, E14 5JJ, United Kingdom. Details of the meeting venue and the resolutions to be proposed, together with explanatory notes, are set out in a separate Notice of AGM which is 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 (Act). The Articles may be amended only by a special resolution of the shareholders in a general meeting.

In the interests of good governance, all Directors will retire and those wishing to serve again will submit themselves for re-election at the 2020 AGM.

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 of Yorkshire and Clydesdale Bank Pension Trustee Limited and YCB DC Trustee Limited (each a 'Trustee Company'), the trustees and administrators of the two 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.

Board composition changes

Changes to the composition of the Board since 1 October 2018 up to the date of this report, are shown in the table below. Clive Adamson will step down as an Independent Non-Executive Director on 29 November 2019.

NAME	ROLE	DATE OF APPOINTMENT	DATE OF RESIGNATION
Geeta Gopalan	Independent Non-Executive Director	15 October 2018	
Darren Pope	Independent Non-Executive Director	15 October 2018	
Amy Stirling	Non-Executive Director	15 October 2018	
Debbie Crosbie	Executive Director and Group Chief Operating Officer		19 November 2018

Profits and appropriations (to be updated when info available)

The Group loss before tax for the financial year ended 30 September 2019 amounted to £232m (2018: loss of £164m). The loss attributable to the ordinary shareholders for the year ended 30 September 2019 amounted to £268m (2018: loss of £181m). As at 30 September 2019, the distributable reserves of the Company were £1,015m (2018: £1,005m). The Directors do not recommend the payment of a dividend in respect of the financial year ended 30 September 2019 (2018: £0.031).

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 CHESS Depositary Interests (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 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.

Where participants in an employee share incentive plan operated by the Company are the beneficial owners of shares but not the registered owners, the voting rights are normally exercised at the discretion of participants.

With the exception of restrictions on the transfer of ordinary shares under the Company's Share Incentive Plan (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 30 January 2019 a resolution was passed that the Directors were authorised to purchase up to a maximum of 142,734,419 ordinary shares representing approximately 10% of the issued ordinary share capital. A renewal of authority will be sought at the 2020 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 2019, shareholders gave authority under Part 14 of the Companies Act 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, 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 92 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 138 to 192.

Post-balance sheet events

FSMA Part VII transfer of trade and assets from Virgin Money PLC to Clydesdale Bank PLC

On 26 September 2019, at a hearing in the Court of Session in Edinburgh, the Court approved a banking business transfer scheme under FSMA Part VII. The scheme effective date was, 21 October 2019, and in accordance with the court approval, on this date the business of Virgin Money PLC was transferred to Clydesdale Bank PLC for a cash consideration of £10m. The transfer of the trade and assets is a business transfer under common control and has no impact on the consolidated Group financial results. The total assets and total liabilities transferred were £49bn and £47bn respectively.

Change in company name

CYBG PLC changed it's name to Virgin Money UK PLC on 30 October 2019. The registered office address of the Company has changed from 20 Merrion Way, Leeds, LS2 8NZ to Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

For further details of events after the balance sheet, refer to note 5.6 of the financial statements.

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	13
Colleague engagement	17
Emissions reporting	38

Equality of employment opportunities

It is the policy of the Group to promote equality of employment opportunities by giving full and fair consideration to applications from people with disabilities. If existing colleagues become disabled, every effort is made to retain them within the workforce wherever reasonable and practicable. The Group also endeavours to provide equal opportunities in the training, promotion and general career development of disabled persons.

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 30 September 2019 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. No further notifications were received in the period from 30 September 2019 to the date of this report.

	TOTAL NUMBER OF SHARES	% OF VOTING RIGHTS	DIRECT/ INDIRECT INTEREST
Virgin Group Holdings Limited	188,083,550	13.11	Direct
Perpetual Limited and Subsidiaries	60,787,499	4.24	Direct
Investors Mutual Limited	53,659,761	3.74	Direct
Schroders PLC	44,572,459	3.11	Indirect
AMP Life Limited, AMP Capital Investors Limited, Ipac Asset Management Limited, AMP Capital Investors (NZ) Limited	43,220,044	3.01	Direct / 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

As described in the Risk report on page 138, 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 2016 UK Corporate Governance Code (the Code)[(1)] 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 26 to 27 of the Strategic Report.

Risk management and internal controls

As described in the Corporate Governance report on page 79 and the Risk report on page 138, the Board actively monitors the Group's risk management and internal control systems. A review of the effectiveness of those systems has been performed incorporating all material controls, including financial, operational and compliance controls.

Viability

Provision C2.2 of the Code requires the Directors to explain in the Annual Report and Accounts how they have assessed the prospects of the company, over what period they have done so and why consider that period to be appropriate.

The Directors have determined that a three year period to 30 September 2022 is an appropriate period over which to perform the assessment. This is the period over which the forecast 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.

The Directors have considered 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. The strategic and financial plan makes certain assumptions about the performance of the Group and the economic, market and regulatory environments in which it operates. To support the planning process, downside scenario analysis has been performed to consider how the Group's performance would be affected by changing economic and market conditions throughout the planning period. A number of different stress scenarios were also conducted over the strategic and financial plan to assess the sensitivity of the base plan financials. These indicated that the stresses did not materially impact the financial outcomes.

(1) The Group will apply the revised 2018 version of the Code with effect from 1 October 2019, with Provision C2.2 of the 2016 Code incorporated into Provision 31 of the 2018 Code.

In making this assessment the Directors have considered a wide range of information (including the Directors' robust view and challenge of the outcomes of the latest ICAAP and the ILAAP) which assess the Group's future projections of capital adequacy, liquidity and funding. The Board has also considered the results of of stress testing which is performed as an integral part of both the ICAAP and ILAAP.

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 46;

— the Group's capital position is included in the Balance sheet and prudential regulation risks section of the Risk report pages 163 to 170;

— the Group's liquidity position is described in the Balance sheet and prudential regulation risks section of the Risk report pages 171 to 182;

— the Group's principal risks and policies and processes for managing those risks are described in the Risk report and summarised on pages 26 to 27;

— the Group's business model and strategy are described in the Strategic report pages 10 to 13; and

— the Group's approach to stress testing and reverse stress testing is described in the Risk report on pages 141 to 142.

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 2022.

Disclosure of information under Listing Rule (LR) 9.8.4R

Additional information required to be disclosed by LR9.8.4R, 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 138 to 192) are unaudited unless otherwise stated.
Allotment of equity securities	255
Significant contracts	275

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. Further details can be found in note 3.10 of the Group's consolidated financial statements.

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 which has entered into a joint venture with Aberdeen Asset Management plc. Where either shareholder (Virgin Money Holdings (UK) plc or Aberdeen Asset Management plc) in the joint venture has a change of control event, the joint venture 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.

There is a very small number of senior colleagues who are entitled to an enhanced redundancy payment if redundancy arises within the initial period of employment and is a result of a change of control.

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 have 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.

Responsibility statement of the Directors in respect of the Annual Report and Accounts

The Directors confirm that to the best of their knowledge:

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

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

Independent auditor and audit 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.

The Directors who were members of the Board at the time of approving the Report of the Directors are listed on page 57. 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

On behalf of the Board

Lorna McMillan
Group Company Secretary
27 November 2019

Virgin Money UK PLC. Registered No. 09595911

137 RISK REPORT

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

Personal accountability is at the heart of the Group's risk culture. This is enabled through the risk management accountability model and a formal delegation framework through which colleagues are able to make risk-based decisions. 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 build constructive regulatory relationships. All colleagues are recruited with the core skills, abilities and attitude required to competently carry out their role. They are provided with sufficient training and development to ensure they maintain the required levels of competence underpinned by the Group's Purpose, Values and Behaviours.

Management promote 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 taking leadership of risk culture through their actions and words, and proactively overseeing and addressing any identified areas of weakness or concern. Internal Audit (IA) 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. Following the launch of Our Purpose in 2019, IA is piloting independent deep dives in specific areas of the business, to complement existing reporting, and measure alignment between actual and intended culture.

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.

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 Risk Appetite Statement (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.

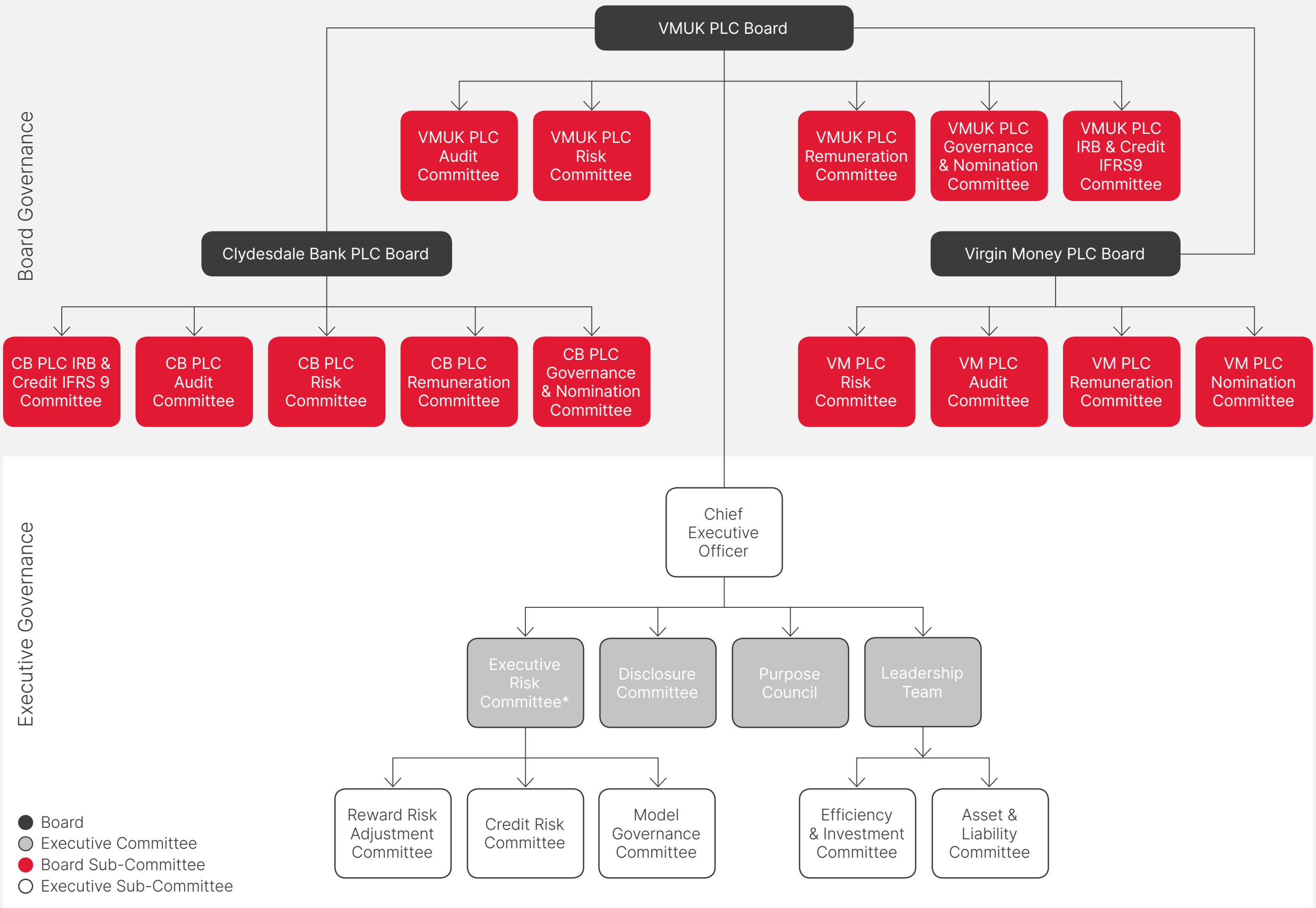
The RAS conveys the balance required between risk taking and the commercial and reputational implications of doing so, promoting good customer outcomes and protecting the Group from excessive exposure. The RAS includes qualitative and quantitative limits which inform strategies, targets, policies, procedures 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. Reporting to Executive Committees and the Board includes details of performance against relevant RAS settings, breaches and trends.

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 Risk Management Framework (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.

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 to lead 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.

The Executive Risk Committee is supported by the following committees:

Credit Risk Committee	The Credit Risk Committee (CRC) 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 (MGC) supports the ERC 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:

Purpose Council(1)	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.
Efficiency and Investment Committee	The Efficiency and Investment 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 (ALCO) is responsible for monitoring the performance of the Group against the Board approved capital and funding plans. The Committee focuses on the Group's financial risks including capital, funding, liquidity and interest rate risk to ensure that the Group's activity complies with regulatory and corporate governance requirements and also delivers Group policy objectives. The impact of pension risk on capital is also assessed by ALCO.

(1) The Customer Committee was dissolved on 12 June 2019 and the first meeting of the Purpose Council was held on 28 February 2019.

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.

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 identify, measure, evaluate, control, mitigate, monitor and report 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.

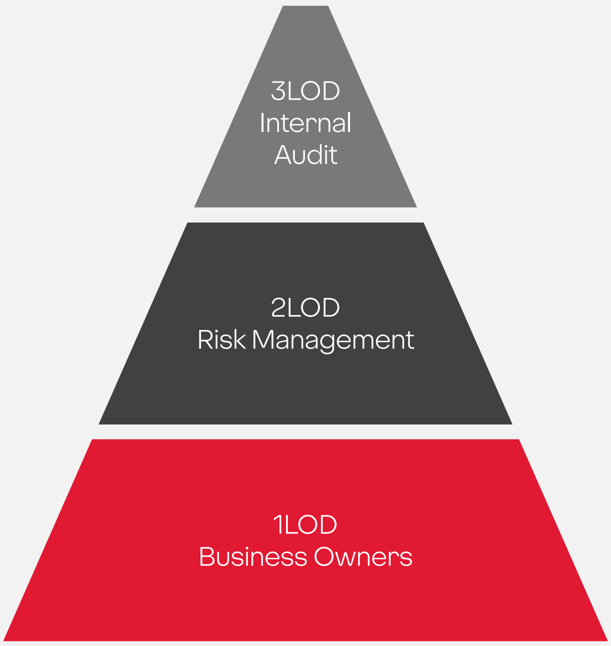
Risk management and internal controls

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 controls, including financial, operational and compliance controls.

3rd Line of Defence – Internal Audit
Provides independent assurance to the Board and senior management on the operation of the organisation's risk management, governance and internal control frameworks.

2nd Line of Defence – Risk Management
Risk stewards monitor and facilitate the implementation of effective risk management practices across the Group, challenging risk owners and reporting findings independently to the Board. Risk stewards design, set and deploy risk appetite frameworks, statements and policies, challenge operational processes and procedures and advise on compliance with policy.

1st Line of Defence – Business Owners
Risk owners have ownership, responsibility and accountability for directly assessing, controlling and mitigating risks. They are responsible for identifying, measuring, monitoring, controlling and reporting risks. They must act within Board-approved risk appetite and policy. They design and implement processes and controls to enable them to do that, and all risks and issues should be escalated to the Leadership Team.



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 following the Basel Committee principles which utilise, where appropriate, scenarios provided by the Bank of England (BoE).

The Board and senior management are actively involved in the stress testing process, reviewing, challenging and approving all aspects of stress testing, from the consideration of scenarios to be tested, to the outcomes and mitigating actions. The involvement of the Board and senior management is considered essential for the effective operation of stress testing and the manner in which the results inform strategic planning and risk appetite. Reverse stress testing is also undertaken to assess the types of risks that would pose fundamental threats to the viability of the Group's business model.

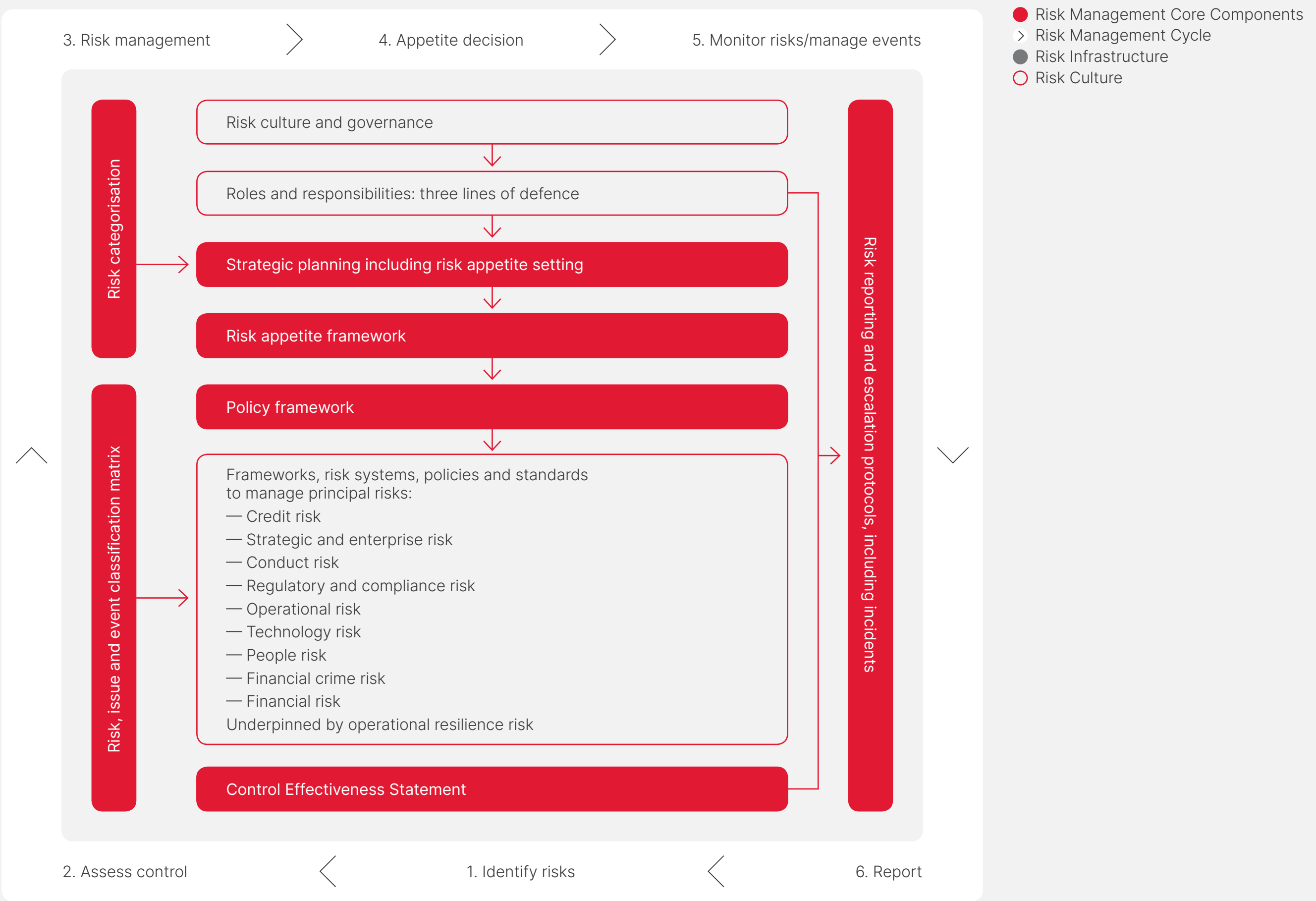
Recognising its enlarged size following the integration of Virgin Money Holdings (UK) plc, the Group will take part in the BoE's concurrent stress test from 2020.

Principal and emerging risk categories

In line with the UK Corporate Governance Code (the 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.

The Group's principal and emerging risks are disclosed on pages 26 to 29 of the Strategic report.

Risk Management Framework



RISK CLASSES

CREDIT RISK

Strongly performing credit portfolios, well positioned for growth

Close monitoring, robust policies and a well-controlled framework support the credit operations of the Group.

Credit risk is the risk that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk manifests itself in the financial instruments and/or products that the Group offers, and those in which the Group invests (including, among others, loans, guarantees, credit-related commitments, letters of credit, acceptances, inter-bank transactions, foreign exchange transactions, swaps and bonds). Credit risk can be found both on-balance sheet and off-balance sheet.

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.

Credit strategies and policies

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. Credit risk is managed and monitored using the credit models that underpin the IRB approval for the mortgage and business portfolios and the standardised approach for the personal portfolios. The Group maintains a dynamic approach to credit management and will take necessary steps if individual issues are identified or if credit performance deteriorates, or is expected to deteriorate, due to borrower, economic or sector-specific weaknesses.

Roles and responsibilities for the management, monitoring and mitigation of credit risk within the Group are clearly defined in line with the Group's RMF.

Significant credit risk strategies and policies are approved, and reviewed annually, by the Credit Risk Committee. For complex credit products and services, the Head of Business Risk, Head of Retail Risk and Credit Risk Committee provide a policy framework which identifies and quantifies risks and establishes the means of mitigating such risks. These policies and frameworks are delegated to, and disseminated under the guidance and control of the Board and senior management, with appropriate oversight through governance committees.

Exposures

Credit risk exposures are categorised as mortgages, personal and business. 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 credit portfolio exposures are monitored and periodically 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 Capital Requirements Regulation (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.

Measurement

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.

Portfolios are assessed using segmentation for measurement, reporting and monitoring purposes.

For the year ended 30 September 2019, the Group applied the IRB methodology to mortgage and business exposures for regulatory capital. All other exposures are measured under the standardised approach.

Note 3.2 of the consolidated financial statements provides details of the Group's approach to the impairment of financial assets and the calculation of the Group impairment charge.

In the year to 30 September 2019, the following changes have had a material impact on the Group's credit risk methodology and calculation, and how this is presented within this report:

1. The adoption of IFRS 9 'Financial Instruments' with effect from 1 October 2018; and
2. The acquisition of Virgin Money Holdings (UK) PLC on 15 October 2018.

The Group has elected not to restate comparative figures on an IFRS 9 basis as permitted by the standard. Where a comparative has been presented in the credit risk section of the Risk report, the basis of preparation is either:

- as at 30 September 2018: representing the audited position under IAS 39 as originally disclosed in the 2018 Annual Report and Accounts; or
- as at 1 October 2018: representing the position as at 30 September 2018 (excluding Virgin Money Holdings (UK) PLC) as amended for the adoption of IFRS 9.

While the overall policies and methodologies developed by the Group in preparing for its adoption of IFRS 9 on 1 October 2018 have many similarities to those used by Virgin Money Holdings (UK) PLC, there are differences in the detail relating to the inputs and processes supporting the ECL calculations. The complexity of the underlying data, model-related methodology and inputs means that a single methodology in providing a combined Group ECL view, while under development, is not possible at this time, with each subsidiary retaining its own distinct set of IFRS 9 compliant models.

The Group's statutory impairment charge for the year is £252m, which includes the effect of the acquired assets that are required to be assessed under the staging criteria introduced by IFRS 9, irrespective of the fact that the fair value of the acquired assets incorporated an adjustment for credit risk. The underlying impairment charge of £148m excludes the acquisition accounting impairment impact to aid meaningful period on period comparison.

Key credit metrics

	AS AT		
	30 SEP 2019 (AUDITED) £M	1 OCT 2018[1] (UNAUDITED) £M	30 SEP 2018[1] (AUDITED) £M
IMPAIRMENT PROVISIONS HELD ON CREDIT EXPOSURES			
Business lending	**147**	150	136
Mortgage and Personal lending	**215**	74	59
	362	224	195

	FOR THE YEAR ENDED		
	30 SEP 2019 (AUDITED) £M	1 OCT 2018[1] (UNAUDITED) £M	30 SEP 2018[1] (AUDITED) £M
UNDERLYING IMPAIRMENT CHARGE ON CREDIT EXPOSURES			
Business lending	**25**	N/a	15
Mortgage and Personal lending	**123**	N/a	26
	148	N/a	41
ASSET QUALITY MEASURES:			
Underlying impairment charge[2] to average customer loans (cost of risk)	**0.21%**	N/a[3]	0.12%
90+ days past due (DPD) plus impaired assets to customer loans	**N/a**	N/a	0.91%
Stage 3 assets to customer loans	**1.09%**	1.77%	N/a
Total provision to customer loans	**0.50%**	0.68%	0.61%
Specific provision to impaired assets	**N/a**	N/a	35.50%
Stage 3 provision to Stage 3 loans	**14.32%**	14.55%	N/a

(1) These exclude the impact of the acquisition of Virgin Money Holdings (UK) PLC with September 2018 figures presented on an IAS 39 basis.

(2) 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 280.

(3) An underlying impairment charge was not calculated as at 1 October 2018 and therefore this metric cannot be calculated for that date.

A number of the Group's key credit metrics are no longer applicable as a result of the change to an IFRS 9 basis of calculating expected credit losses (ECLs) and have been replaced with metrics appropriate to the revised basis as shown in the table above.

The increase in underlying impairment charge from £41m to £148m primarily reflects a higher charge on our personal exposures which includes the charge relative to the acquired credit cards portfolio. The charge relative to business and mortgage exposures has also increased. The cost of risk, at 21bps, is reflective of a return to normalisation, however it remains below our expectation of a long-term loss rate of 30bps.

Asset quality measures remain resilient, reflective of the focus on responsible credit decisions and controlled risk appetite. The level of Stage 3 assets remains modest against a growing book. This reflects the credit quality of the portfolios, supported by the low interest rate environment. The ratio of total provisions to customer loans at 0.50% is reflective of a well-collateralised portfolio, supported by the increase in the size of the mortgage portfolio which proportionately requires a lower provision coverage and is a key driver of the overall reduction.

Reconciliation of the impairment loss provision from IAS 39 to IFRS 9

The movement in the Group's opening impairment provision as a result of adopting an ECL impairment methodology as required by IFRS 9 from 1 October 2018 is illustrated below:

	£M
Closing IAS 39 impairment provision as at 30 September 2018	195
Less: removal of IAS 39 collective provision	(152)
Add: introduction of a 12-month ECL calculation (Stage 1)	53
Add: introduction of a lifetime ECL calculation (Stage 2 and 3)	121
Add: undrawn balances	5
Add: multiple economic scenarios	2
Opening IFRS 9 impairment loss provision as at 1 October 2018	224

Removal of IAS 39 collective provision
The IAS 39 concept of a collective impairment provision to cover losses that have been incurred but not yet identified on loans subject to an individual assessment is no longer an acceptable basis for impairment provisioning under IFRS 9.

Introduction of a 12-month ECL calculation
IFRS 9 requires a 12-month ECL calculation on all assets which have not undergone a significant increase in credit risk since origination. These are classed as Stage 1 under IFRS 9, with the calculation on loans and advances allocating the ECL at an individual account level. The 12-month ECL calculation is based on the possibility of default occurring within 12 months of the reporting date.

Introduction of a lifetime ECL calculation
IFRS 9 requires a lifetime ECL calculation where a financial asset has been assessed as experiencing a significant increase in credit risk based on the Group's staging criteria. These can be classed as either Stage 2 or Stage 3 under IFRS 9, with the calculation on loans and advances allocating the ECL at an individual account level. Not all of these accounts would have been included in the IAS 39 collective provision, with the quantum of the ECL calculation also higher due to the requirement for lifetime losses to be included. The lifetime ECL calculation is based on the possibility of credit losses occurring over the lifetime of the asset.

Undrawn balances
IFRS 9 requires that impairment allowances be held on an expected loss basis rather than the incurred loss basis under IAS 39. This change has brought into scope pipeline exposures where an irrevocable commitment has been made to a customer, but no drawdown had occurred at the IFRS 9 adoption date, and for which no impairment allowance was held previously.

Multiple economic scenarios
This represents the difference, at adoption of IFRS 9, between calculated provisions under the Group's base scenario and the final aggregate position over the three scenarios (base, mild upside and severe downside).

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.

	2019 £M	2018[1] £M
Cash and balances with central banks (note 3.4)	**10,296**	6,573
Financial instruments at fair value through other comprehensive income (note 3.7)	**4,328**	–
Due from other banks	**1,018**	693
Financial assets available for sale	**–**	1,562
Other financial assets at fair value (note 3.5)	**267**	362
Derivative financial assets (note 3.6)	**366**	262
Loans and advances to customers (note 3.1)	**73,095**	32,748
	89,370	42,200
Contingent liabilities (note 5.1)	**113**	119
Other credit commitments (note 5.1)	**15,158**	7,016
Maximum credit risk exposure	**104,641**	49,335

(1) The comparative year has been restated in line with the current year presentation. £34m of derivative collateral in relation to clearing houses has been reclassified between other liabilities and due to other banks and £143m has been reclassified between other assets and due from other banks.

All Treasury-related financial assets are classed as Stage 1 financial assets under IFRS 9.

£8.4bn of cash is held with the BoE (2018: £4.8bn, excluding Virgin Money Holdings (UK) PLC). Due from other banks is all with senior investment grade counterparties. Financial instruments at fair value through other comprehensive income and the credit rating of counterparties are discussed in note 3.7.

Mitigation

The management and mitigation of credit risk within the Group is achieved through both approval and monitoring of individual transactions and asset quality, analysis of the performance of the various credit risk portfolios, and the 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.

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 policy and adherence to policy standards

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 also regularly undertaken by Internal Audit.

Portfolio oversight

Portfolios of credit and related risk exposures and the key benchmarks, behaviours and characteristics by which those portfolios are managed in terms of credit risk exposures, 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 an Independent Model Validation Unit 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 exercise of its ratings systems to ensure ongoing CRR compliance supported by all three lines of defence.

Stress testing

Stress test scenarios are regularly prepared with the outcomes reviewed and relevant actions taken. Outputs will typically include impairment charges, RWA, and write-offs. 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.

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 (CSA), 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.

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 an 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, personal guarantees from borrowers.

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 (CRC): The CRC 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, to ensure that the measures accurately reflect the Group's risk appetite, strategy and concerns relative to the wider macro environment. All measures are subject to extensive engagement with the Executive Leadership Team and the Board, and are subject to endorsement from executive governance committees prior to Board approval. Regulatory engagement is also scheduled as appropriate.

— Risk concentration: Concentration of risk is managed by counterparty, product, geographical region and industry sector. In addition, single name exposure limits exist to control exposures to a single counterparty. Concentrations are also considered through the RAS process focusing particularly on comparing the portfolio against market benchmarks.

— Single large exposure excesses: All excesses are reported to the Transactional Credit Committee (TCC) and the Head of Business Risk. Any exposure which continues or is expected to continue beyond 30 days will also be submitted to the TCC with proposals to correct the exposure within an agreed period, not to exceed 12 months.

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 2019 (AUDITED) £M	PRO FORMA[2] 30 SEP 2018 (UNAUDITED) £M	REPORTED[3] 30 SEP 2018 (AUDITED) £M
Property – mortgage	**60,391**	59,302	24,540
Instalment loans to individuals and other personal lending (including credit cards)	**5,280**	4,471	1,239
Agriculture, forestry, fishing and mining	**1,494**	1,569	1,676
Manufacturing	**793**	836	853
Wholesale and retail	**766**	766	779
Property – construction	**167**	243	246
Financial, investment and insurance	**104**	113	116
Government and public authorities	**30**	25	41
Other commercial and industrial	**4,221**	3,543	3,791
	73,246	70,868	33,281
Impairment provisions on credit exposures	**(362)**	(315)	
Fair value hedge adjustment	**211**	75	
	73,095	70,628	

(1) The Group has a portfolio of fair valued business loans of £253m (2018: £362m) which are classified separately as financial assets at fair value through profit or loss on the balance sheet. At 30 September 2019 the most significant concentrations of exposure were in agriculture, forestry, fishing and mining (29%), real estate (25%), health and social work (15%), and government and public authorities (7%).

(2) Represents position for the Group as if Virgin Money Holdings (UK) PLC had always been part of the Group.

(3) The comparative year has not been restated to align with the current year presentation.

Contingent liabilities and credit-related commitments	30 SEP 2019 (AUDITED) £M	PRO FORMA 30 SEP 2018 (UNAUDITED) £M	REPORTED 30 SEP 2018 (AUDITED) £M
Property – mortgage	**2,642**	3,687	1,937
Instalment loans to individuals and other personal lending (including credit cards)	**9,069**	7,424	1,800
Agriculture, forestry, fishing and mining	**302**	294	294
Manufacturing	**582**	587	587
Wholesale and retail	**472**	477	477
Property – construction	**119**	–	–
Financial, investment and insurance	**103**	84	84
Government and public authorities	**350**	276	276
Other commercial and industrial	**1,632**	1,680	1,680
	15,271	14,509	7,135

Gross loans and advances by IFRS 9 stage allocation (audited)

The distribution of the Group's gross loans and advances by IFRS 9 stage allocation is analysed below.

Gross loans and advances to customers as at 30 September 2019	STAGE 1 £M	STAGE 2 <30 DPD £M	STAGE 2 >30 DPD £M	STAGE 2 TOTAL £M	STAGE 3 £M	STAGE 3 POCI £M	TOTAL £M
Mortgages	**58,120**	**1,637**	**168**	**1,805**	**363**	**103**	**60,391**
Personal of which:	**4,787**	**392**	**32**	**424**	**61**	**8**	**5,280**
– credit cards	**3,806**	**353**	**25**	**378**	**46**	**8**	**4,238**
– personal overdrafts	**53**	**–**	**1**	**1**	**4**	**–**	**58**
– other personal lending	**928**	**39**	**6**	**45**	**11**	**–**	**984**
Business	**5,018**	**2,280**	**5**	**2,285**	**272**	**–**	**7,575**
Closing balance	**67,925**	**4,309**	**205**	**4,514**	**696**	**111**	**73,246**

Gross loans and advances to customers[(1)] as at 1 October 2018 (excluding Virgin Money)	STAGE 1 £M	STAGE 2 <30 DPD £M	STAGE 2 >30 DPD £M	STAGE 2 TOTAL £M	STAGE 3 £M	STAGE 3 POCI £M	TOTAL £M
Mortgages	23,572	605	84	689	279	–	24,540
Personal of which:	1,143	28	10	38	22	–	1,203
– credit cards	370	1	3	4	7	–	381
– personal overdrafts	50	–	1	1	4	–	55
– other personal lending	723	27	6	33	11	–	767
Business	4,741	2,161	9	2,170	263	–	7,174
Closing balance	29,456	2,794	103	2,897	564	–	32,917

(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.

Overall, the lending portfolio increased by £40.3bn between 1 October 2018 and 30 September 2019. In addition to underlying growth, the increase reflects the acquisition of Virgin Money Holdings (UK) PLC on 15 October 2018, with the acquired portfolio totalling £39.5bn as at 30 September 2019. Of this, £111m is Stage 3 purchased or originated credit impaired (POCI), representing the acquired assets that were classed as credit impaired at date of acquisition.

Mortgages

With total gross loans and advances of £60.4bn as at 30 September 2019, there has been underlying growth in the portfolio year-on-year, although the increase in lending balance results mainly from the impact of the acquired portfolio. Over 95% are classed as Stage 1. Stage 3 POCI for Mortgages reduced from £137m on acquisition to £103m as at 30 September 2019 as a result of customer redemptions and balance paydowns.

Personal

Of the £5.3bn total personal portfolio, the majority is credit cards, at £4.2bn. The year-on-year growth results mainly from the acquired credit cards portfolio, however, underlying growth is evident on both the credit card and other personal lending portfolios. The personal portfolio evidences stable performance with 91% of balances classed as Stage 1. Stage 3 POCI has reduced from £34m on acquisition to £8m as at 30 September 2019, due to write-offs and customer balance paydowns.

Business

At £7.6bn, business lending continues to evidence core underlying growth. The proportion of lending in Stage 2 has remained stable at 30% year-on-year, reflective of the Group's controlled and cautious approach to identifying customers experiencing financial difficulty and, where appropriate, providing early intervention assistance such as forbearance, to support customers in meeting their financial commitments to the Group.

Credit quality of loans and advances

The following tables highlight the significant exposure to credit risk in respect of which ECL model is applied for the Group's mortgage, personal and business loans and advances, including loan commitments and financial guarantee contracts, based on the following risk gradings:

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				
As at 30 September 2019	STAGE 1 12-MONTH ECLS £M	STAGE 2 (NOT CREDIT IMPAIRED) LIFETIME ECLS £M	STAGE 3 (CREDIT IMPAIRED) LIFETIME ECLS £M	STAGE 3 (POCI) LIFETIME ECLS £M	TOTAL £M
MORTGAGES					
<0.15	38,816	389	–	–	39,205
0.15 to <0.25	5,836	103	–	–	5,939
0.25 to <0.50	7,983	245	–	–	8,228
0.50 to <0.75	2,422	96	–	–	2,518
0.75 to <2.50	2,648	455	–	–	3,103
2.50 to <10.00	376	274	–	–	650
10.00 to <100.00	39	243	–	–	282
100.00 (Default)	–	–	363	103	466
Total	58,120	1,805	363	103	60,391
PERSONAL					
<0.15	93	–	–	–	93
0.15 to <0.25	68	–	–	–	68
0.25 to <0.50	1,326	6	–	–	1,332
0.50 to <0.75	967	8	–	–	975
0.75 to <2.50	1,743	36	–	–	1,779
2.50 to <10.00	553	231	–	–	784
10.00 to <100.00	37	143	–	–	180
100.00 (Default)	–	–	61	8	69
Total	4,787	424	61	8	5,280
BUSINESS					
<0.15	530	5	–	–	535
0.15 to <0.25	440	17	–	–	457
0.25 to <0.50	718	52	–	–	770
0.50 to <0.75	537	101	–	–	638
0.75 to <2.50	2,199	1,019	–	–	3,218
2.50 to <10.00	592	919	–	–	1,511
10.00 to <100.00	2	172	–	–	174
100.00 (Default)	–	–	272	–	272
Total	5,018	2,285	272	–	7,575

As at 1 October 2018 (excluding Virgin Money)	GROSS CARRYING AMOUNT STAGE 1 12-MONTH ECLS £M	STAGE 2 (NOT CREDIT IMPAIRED) LIFETIME ECLS £M	STAGE 3 (CREDIT IMPAIRED) LIFETIME ECLS £M	STAGE 3 (POCI) LIFETIME ECLS £M	TOTAL £M
MORTGAGES					
<0.15	8,085	13	–	–	8,098
0.15 to <0.25	4,292	27	–	–	4,319
0.25 to <0.50	6,199	77	–	–	6,276
0.50 to <0.75	1,791	49	–	–	1,840
0.75 to <2.50	2,813	205	–	–	3,018
2.50 to <10.00	370	194	–	–	564
10.00 to <100.00	22	124	–	–	146
100.00 (Default)	–	–	279	–	279
Total	23,572	689	279	–	24,540
PERSONAL					
<0.15	113	–	–	–	113
0.15 to <0.25	97	–	–	–	97
0.25 to <0.50	249	–	–	–	249
0.50 to <0.75	153	–	–	–	153
0.75 to <2.50	354	2	–	–	356
2.50 to <10.00	166	15	–	–	181
10.00 to <100.00	11	21	–	–	32
100.00 (Default)	–	–	22	–	22
Total	1,143	38	22	–	1,203
BUSINESS					
<0.15	571	8	–	–	579
0.15 to <0.25	371	13	–	–	384
0.25 to <0.50	549	34	–	–	583
0.50 to <0.75	700	157	–	–	857
0.75 to <2.50	1,930	917	–	–	2,847
2.50 to <10.00	594	943	–	–	1,537
10.00 to <100.00	26	98	–	–	124
100.00 (Default)	–	–	263	–	263
Total	4,741	2,170	263	–	7,174

ECL impairment allowance by IFRS 9 stage allocation (audited)

The following tables disclose the impairment allowance by portfolio:

As at 30 September 2019	STAGE 1 £M	STAGE 2 <30 DPD £M	STAGE 2 >30 DPD £M	STAGE 2 TOTAL £M	STAGE 3 £M	STAGE 3 POCI £M	TOTAL £M
Mortgages	**6**	**5**	**4**	**9**	**26**	**(1)**	**40**
Personal of which:	**53**	**71**	**16**	**87**	**37**	**(2)**	**175**
– credit cards	**42**	**65**	**12**	**77**	**28**	**(2)**	**145**
– personal overdrafts	**2**	**–**	**1**	**1**	**3**	**–**	**6**
– other personal lending	**9**	**6**	**3**	**9**	**6**	**–**	**24**
Business	**20**	**72**	**–**	**72**	**55**	**–**	**147**
Closing balance	**79**	**148**	**20**	**168**	**118**	**(3)**	**362**

As at 1 October 2018 (excluding Virgin Money)	STAGE 1 £M	STAGE 2 <30 DPD £M	STAGE 2 >30 DPD £M	STAGE 2 TOTAL £M	STAGE 3 £M	STAGE 3 POCI £M	TOTAL £M
Mortgages	3	2	1	3	23	–	29
Personal of which:	15	5	7	12	18	–	45
– credit cards	6	–	1	1	7	–	14
– personal overdrafts	2	–	1	1	3	–	6
– other personal lending	7	5	5	10	8	–	25
Business	35	71	–	71	44	–	150
Closing balance	53	78	8	86	85	–	224

The Group’s impairment allowance has increased by £138m in the period from 1 October 2018 to 30 September 2019, which is primarily due to the impact of the acquisition of Virgin Money Holdings (UK) PLC. Acquisition accounting requires that the acquired loans and advances balance is fair valued on acquisition, resulting in a nil ECL allowance on acquisition. The loans and advances balance is then subject to the IFRS 9 ECL methodology with a full ECL allowance calculated, which resulted in a charge of £67m being recognised in the Group income statement immediately following the acquisition date. The ECL allowance for the acquired portfolio subsequently increased to £136m as at 30 September 2019.

Mortgages

The Mortgage impairment allowance of £40m is reflective of the level of collateral held and the low expected credit loss for this portfolio. The increase of £11m from 2018 is due to the impact of the acquired mortgage portfolio.

Personal

The total impairment allowance for the personal portfolio of £175m has increased by £130m in the period. This is primarily due to the level of impairment allowance relative to the acquired credit cards portfolio, where the ECL at point of acquisition was £60m and subsequently increased to £125m as at 30 September 2019. The underlying impairment allowance for the personal exposures increased over the period as a result of the combined effect of portfolio growth, higher default rates due to seasoning and maturation of the portfolio and routine recalibration of underlying provisioning models.

Business

Total impairment allowance for the business portfolio decreased by £3m to £147m. This is the result of a £15m reduction in Stage 1 ECL, primarily due to IFRS 9 modelling adjustments, partially offset by an £11m increase in Stage 3 due to a higher level of single name, individually assessed provisions.

ECL impairment allowance coverage ratios (audited)

As at 30 September 2019	STAGE 1 %	STAGE 2 <30 DPD %	STAGE 2 >30 DPD %	STAGE 2 TOTAL %	STAGE 3 %	STAGE 3 POCI %	TOTAL %
Mortgages	**0.01**	**0.29**	**2.26**	**0.47**	**7.13**	**(0.80)**	**0.07**
Personal of which:	**1.15**	**18.22**	**51.18**	**20.64**	**62.14**	**(22.61)**	**3.39**
– credit cards	**1.11**	**18.49**	**46.91**	**20.35**	**60.39**	**(22.61)**	**3.42**
– personal overdrafts	**5.00**	**14.17**	**66.02**	**56.00**	**91.21**	**–**	**11.41**
– other personal lending	**1.09**	**15.56**	**68.29**	**22.35**	**60.64**	**–**	**2.75**
Business	**0.40**	**3.13**	**2.27**	**3.13**	**19.99**	**–**	**1.93**
Closing balance	**0.12**	**3.41**	**9.68**	**3.69**	**16.89**	**(2.30)**	**0.50**

As at 1 October 2018 (excluding Virgin Money)	STAGE 1 %	STAGE 2 <30 DPD %	STAGE 2 >30 DPD %	STAGE 2 TOTAL %	STAGE 3 %	STAGE 3 POCI %	TOTAL %
Mortgages	0.01	0.32	1.61	0.48	8.19	–	0.12
Personal of which:	1.38	18.17	65.20	30.04	80.36	–	3.78
– credit cards	1.78	9.52	53.16	39.89	94.32	–	3.94
– personal overdrafts	3.66	10.02	59.21	51.07	78.12	–	10.06
– other personal lending	1.03	18.61	71.71	28.05	72.56	–	3.24
Business	0.73	3.25	5.13	3.26	16.79	–	2.08
Closing balance	0.18	2.77	7.86	2.95	15.05	–	0.68

The impact of the Virgin Money Holdings (UK) PLC acquisition results in a proportionately higher volume of the total portfolio being mortgage lending which requires a lower proportionate impairment allowance, consequently the total portfolio coverage has reduced by 18bps in line with the revised portfolio profile.

Mortgages

The coverage ratio reduced by 5bps in the period as a result of the composition, quality and value of the acquired mortgage portfolio.

Personal

The total coverage ratio reduced by 39bps, primarily in the credit card portfolio where the quality of the acquired portfolio, in particular the growing Virgin Atlantic credit card portfolio, is stronger than the pre-existing portfolios.

Business

Coverage for the business portfolio decreased by 15bps, reflective of portfolio growth in Stage 1 where proportionately less provision coverage is required, and a small number of significant write-offs from Stage 3.

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 2018 and 30 September 2019. 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.

	NON-CREDIT IMPAIRED				CREDIT IMPAIRED						
	STAGE 1		STAGE 2		STAGE 3		STAGE 3 POCI				
	GROSS LOANS £M	ECL £M	GROSS LOANS £M	ECL £M	GROSS LOANS £M	ECL £M	GROSS LOANS £M	ECL £M	TOTAL PROVISION (IAS 39) £M	TOTAL GROSS LOANS £M	TOTAL PROVISIONS £M
MORTGAGES											
Opening balance at 30 September 2018	–	–	–	–	–	–	–	–	32	–	32
IFRS 9 restatements	–	–	–	–	–	–	–	–	(32)	–	(32)
Opening balance at 1 October 2018	23,572	3	689	3	279	23	–	–	–	24,540	29
Acquisition of Virgin Money	34,641	7	–	–	–	–	137	–	–	34,778	7
New assets originated or purchased	10,089	1	3	–	1	–	–	–	–	10,093	1
Movements:											
Transfer to lifetime ECL (non-credit impaired)	(3,851)	(4)	3,835	22	–	–	–	–	–	(16)	18
Transfer to credit impaired	(92)	(1)	(185)	(4)	276	11	–	–	–	(1)	6
Transfer to 12-month ECL	2,393	1	(2,401)	(9)	–	–	–	–	–	(8)	(8)
Transfer from credit impaired	29	–	72	1	(105)	(4)	–	–	–	(4)	(3)
Repayments and other movements	(2,412)	–	(48)	(3)	(17)	–	(14)	(1)	–	(2,491)	(4)
Changes to model methodology	–	–	–	–	–	–	–	–	–	–	–
Repaid or derecognised (exc write-offs)	(6,249)	(1)	(160)	(1)	(63)	(2)	(20)	–	–	(6,492)	(4)
Decrease due to write-offs	–	–	–	–	(8)	(3)	–	–	–	(8)	(3)
Cash recoveries	–	–	–	–	–	–	–	–	–	–	–
Individually assessed impairment P&L charge	–	–	–	–	–	1	–	–	–	–	1
Closing balance at 30 September 2019	**58,120**	**6**	**1,805**	**9**	**363**	**26**	**103**	**(1)**	**–**	**60,391**	**40**

	NON-CREDIT IMPAIRED				CREDIT IMPAIRED						
	STAGE 1		STAGE 2		STAGE 3		STAGE 3 POCI				
	GROSS LOANS £M	ECL £M	GROSS LOANS £M	ECL £M	GROSS LOANS £M	ECL £M	GROSS LOANS £M	ECL £M	TOTAL PROVISION (IAS 39) £M	TOTAL GROSS LOANS £M	TOTAL PROVISIONS £M
PERSONAL											
Opening balance at 30 September 2018	–	–	–	–	–	–	–	–	27	–	27
IFRS 9 restatements	–	–	–	–	–	–	–	–	(27)	–	(27)
Opening balance at 1 October 2018	1,143	15	38	12	22	18	–	–	–	1,203	45
Acquisition of Virgin Money	3,042	60	–	–	–	–	34	–	–	3,076	60
New assets originated or purchased	1,387	25	2	–	1	1	–	–	–	1,390	26
Movements:											
Transfer to lifetime ECL (non-credit impaired)	(931)	(48)	970	194	–	–	–	–	–	39	146
Transfer to credit impaired	(28)	(1)	(95)	(56)	125	91	–	–	–	2	34
Transfer to 12-month ECL	403	12	(422)	(70)	–	–	–	–	–	(19)	(58)
Transfer from credit impaired	3	–	2	1	(7)	(6)	–	–	–	(2)	(5)
Repayments and other movements	(20)	(5)	(24)	17	5	(2)	(3)	(2)	–	(42)	8
Changes to model methodology	32	(1)	(32)	(6)	–	–	–	–	–	–	(7)
Repaid or derecognised (exc write-offs)	(244)	(4)	(15)	(5)	(7)	(6)	(1)	–	–	(267)	(15)
Decrease due to write-offs	–	–	–	–	(78)	(165)	(22)	–	–	(100)	(165)
Cash recoveries	–	–	–	–	–	27	–	–	–	–	27
Individually assessed impairment P&L charge	–	–	–	–	–	79	–	–	–	–	79
Closing balance at 30 September 2019	**4,787**	**53**	**424**	**87**	**61**	**37**	**8**	**(2)**	**–**	**5,280**	**175**

	NON-CREDIT IMPAIRED				CREDIT IMPAIRED						
	STAGE 1		STAGE 2		STAGE 3		STAGE 3 POCI				
	GROSS LOANS £M	ECL £M	GROSS LOANS £M	ECL £M	GROSS LOANS £M	ECL £M	GROSS LOANS £M	ECL £M	TOTAL PROVISION (IAS 39) £M	TOTAL GROSS LOANS £M	TOTAL PROVISIONS £M
BUSINESS											
Opening balance at 30 September 2018	–	–	–	–	–	–	–	–	136	–	136
IFRS 9 restatements	–	–	–	–	–	–	–	–	(136)	–	(136)
Opening balance at 1 October 2018	4,741	35	2,170	71	263	44	–	–	–	7,174	150
Acquisition of Virgin Money	–	–	–	–	–	–	–	–	–	–	–
New assets originated or purchased	8,077	59	999	65	44	6	–	–	–	9,120	130
Movements:											
Transfer to lifetime ECL (non-credit impaired)	(1,770)	(8)	1,765	41	–	–	–	–	–	(5)	33
Transfer to credit impaired	(33)	–	(216)	(22)	249	23	–	–	–	–	1
Transfer to 12-month ECL	823	4	(827)	(19)	–	–	–	–	–	(4)	(15)
Transfer from credit impaired	9	–	54	4	(63)	(8)	–	–	–	–	(4)
Repayments and other movements	1,448	(18)	(196)	3	(50)	(7)	–	–	–	1,202	(22)
Changes to model methodology	(1,784)	(4)	–	–	–	–	–	–	–	(1,784)	(4)
Repaid or derecognised (exc write-offs)	(6,493)	(48)	(1,464)	(71)	(142)	(7)	–	–	–	(8,099)	(126)
Decrease due to write-offs	–	–	–	–	(29)	(31)	–	–	–	(29)	(31)
Cash recoveries	–	–	–	–	–	1	–	–	–	–	1
Individually assessed impairment P&L charge	–	–	–	–	–	34	–	–	–	–	34
Closing balance at 30 September 2019	**5,018**	**20**	**2,285**	**72**	**272**	**55**	**–**	**–**	**–**	**7,575**	**147**

The contractual amount outstanding on loans and advances that were written off during the reporting period or still subject to enforcement activity was £3.7m.

IFRS 9 restatements

At adoption of IFRS 9, the provision balances previously calculated under IAS 39 methodology are reversed out.

Opening balance at 1 October 2018

The day 1 balance sheet positions calculated under the IFRS 9 methodology applies a 12-month ECL for assets in Stage 1 and a lifetime ECL for assets in Stage 2 and Stage 3.

Acquisition of Virgin Money

The opening value of the acquired assets; purchased at fair value. All assets classed as Stage 1 at point of acquisition, with the exception of those assets assessed as credit impaired which are classed as Stage 3 POCI.

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.

Transfer to lifetime ECL (non-credit impaired)

IFRS 9 requires a lifetime ECL calculation where an asset has been assessed as experiencing a significant increase in credit risk, as determined by the Group's staging criteria. The non-credit impaired movements are classed as Stage 2.

Transfer to credit impaired

IFRS 9 requires a lifetime ECL calculation where an asset has been assessed as experiencing a significant increase in credit risk, as determined by the Group's staging criteria. The credit impaired movements are classed as Stage 3.

Transfer to 12-month ECL

IFRS 9 requires a 12-month ECL calculation where an asset, that had previously been classed as Stage 2, has reverted back to the conditions observed at the initial credit assessment.

Transfer from credit impaired

IFRS 9 requires that where an asset, that had previously been classed as Stage 3, has reverted back to the conditions observed at the initial credit assessment, a 12-month ECL should be calculated.

Repayments and other movements

Movements due to customer repayment and other minor movements not captured under any other category.

Changes in model methodology

ECL value changes resulting from a change to an underlying model methodology.

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.

Decrease due to 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 profit and loss charge

The charge taken to profit or loss where an individually assessed provision has been recognised or a direct write-off has been applied to an asset balance and reported separately from IFRS 9 Stage 3 provision.

Collateral

Collateral held as security and other credit enhancements

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. In general, 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:

	2019 %	2018[1] %
LTV[2]		
Less than 50%	**35**	31
50% to 75%	**48**	51
76% to 80%	**6**	6
81% to 85%	**5**	5
86% to 90%	**4**	4
91% to 95%	**2**	2
96% to 100%	**–**	–
Greater than 100%	**–**	–
Unknown	**–**	1
	100	100

(1) 30 September 2018 shown as reported, excluding Virgin Money.

(2) 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. 'Unknown' in the prior period represented loans where data was not available due to front book data matching and a de minimis amount due to weaknesses in historic data capture processes.

Residential mortgages

Residential property is the Group's main source of collateral and means of mitigating loss in the event of the default credit 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 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 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 disclosed elsewhere in this section.

2019 (audited)

Exposure classes	CASH £M	GUARANTEE £M	NETTING £M	DEBT SECURITIES £M	TOTAL £M	EXPOSURE £M
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

2018 (audited)(1)	CASH £M	GUARANTEE £M	NETTING £M	TOTAL £M	EXPOSURE £M
Central government or central banks	3,057	–	–	3,057	4,525
Corporates	28	15	75	118	180
Financial institutions	–	–	–	–	–
Exposures in default	–	–	–	–	1
Regional government or local authorities	–	–	83	83	83
Secured by mortgages on commercial real estate	–	–	–	–	38
Secured by mortgages on residential property	–	–	–	–	4
	3,085	15	158	3,258	4,831

(1) All exposures were measured under the standardised approach as at 30 September 2018.

The increase in cash collateral held and corresponding exposure is due to increased repurchase (repo) and similar transactions outstanding at 30 September 2019 (including TFS drawings), reflected within central governments or central banks. The new debt securities collateral held and corresponding exposure in financial institutions is due to a new repo where UK Gilts were placed as security.

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

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 European Banking Authority 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. 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.

Exposures classified as forborne and performing at the date forbearance measures are 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 and 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 activity is 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.

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 table below 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.

	TOTAL LOANS AND ADVANCES SUBJECT TO FORBEARANCE MEASURES			IMPAIRMENT ALLOWANCE ON LOANS AND ADVANCES SUBJECT TO FORBEARANCE MEASURES	
As at 30 September 2019 (audited)	NUMBER OF LOANS	GROSS CARRYING AMOUNT £M	% OF TOTAL PORTFOLIO	IMPAIRMENT ALLOWANCE £M	COVERAGE %
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)	**1,118**	**113**	**0.19**	**1.6**	**1.41**
Payment holiday(1)	**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 forbearance – credit cards	**5,522**	**24**	**0.53**	**9.5**	**41.30**
Total	**10,583**	**613**	**0.95**	**20.0**	**3.31**

(1) Payment arrangement and payment holiday have been introduced as additional concession types within the Group's mortgage forbearance policy.

	TOTAL LOANS AND ADVANCES SUBJECT TO FORBEARANCE MEASURES			IMPAIRMENT ALLOWANCE ON LOANS AND ADVANCES SUBJECT TO FORBEARANCE MEASURES	
As at 30 September 2018 (excluding Virgin Money) (audited)	NUMBER OF LOANS	GROSS CARRYING AMOUNT £M	% OF TOTAL PORTFOLIO	IMPAIRMENT ALLOWANCE £M	COVERAGE %
MORTGAGES					
Formal arrangements	1,497	168	0.68	3.3	2.00
Temporary arrangements	1,275	161	0.66	2.3	1.45
Interest only conversion	231	32	0.13	0.1	0.18
Term extension	150	12	0.05	0.1	0.48
Other	41	4	0.02	–	0.36
Legal	148	15	0.06	0.5	3.34
Total mortgage forbearance	3,342	392	1.60	6.3	1.61
Personal forbearance – credit cards	787	2	0.18	0.9	40.68
Total	4,129	394	1.58	7.2	1.83

The increase in mortgage and credit card forbearance is attributable to the acquisition of the Virgin Money Holdings (UK) PLC portfolios.

When all other avenues of resolution including forbearance have been explored, the Group will take steps to repossess and sell underlying collateral. In the 12-month period to 30 September 2019, there were 66 repossessions of which 14 were voluntary (12 months to 30 September 2018 (excluding Virgin Money): 38 including 16 voluntary).

Forbearance – other personal lending

Excluding credit cards, the Group currently exercises limited forbearance strategies in relation to other types of personal lending; namely current accounts and personal loans. The Group has assessed the total loan balances subject to forbearance on other types of personal lending to be £11.5m as at 30 September 2019 (30 September 2018 (excluding Virgin Money): £10.1m), representing 1.10% of the personal lending portfolio (30 September 2018: 1.22%).

Impairment provisions on forborne balances totalled £3.6m as at 30 September 2019 (30 September 2018 (excluding Virgin Money): £2.8m) providing overall coverage of 31.58% (30 September 2018: 28.30%).

Business forbearance

Forbearance is considered to exist for business customers where one or more concessions are 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	
As at 30 September 2019 (audited)	NUMBER OF CUSTOMERS	GROSS CARRYING AMOUNT £M	% OF TOTAL PORTFOLIO	IMPAIRMENT ALLOWANCE £M	COVERAGE %
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**

	TOTAL LOANS AND ADVANCES SUBJECT TO FORBEARANCE MEASURES			IMPAIRMENT ALLOWANCE ON LOANS AND ADVANCES SUBJECT TO FORBEARANCE MEASURES	
As at 30 September 2018 (audited)	NUMBER OF CUSTOMERS	GROSS CARRYING AMOUNT £M	% OF TOTAL PORTFOLIO	IMPAIRMENT ALLOWANCE £M	COVERAGE %
Term extension	179	162	2.15	10.5	6.48
Deferral of contracted capital repayments	103	129	1.73	15.6	12.02
Reduction in contracted interest rate	2	1	0.01	–	4.05
Alternative forms of payment	4	25	0.33	7.5	30.46
Debt forgiveness	4	11	0.14	0.6	5.64
Refinancing	17	10	0.13	1.0	9.87
Covenant breach/reset/waiver	61	207	2.75	9.2	4.43
Total business forbearance	370	545	7.24	44.4	8.14

Included in other financial assets at fair value is a portfolio of loans that is included in the above table. The gross value of fair value loans subject to forbearance as at 30 September 2019 is £8m (30 September 2018: £15m), representing 0.11% of the total business portfolio (30 September 2018: 0.19%). The credit risk adjustment on these amounts totalled £0.6m (30 September 2018: £2m), a coverage of 6.94% (30 September 2018: 11.66%).

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 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		
2019 (audited)	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
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)**	**–**	**–**

				NET AMOUNTS NOT OFFSET ON BALANCE SHEET		
2018 (audited)	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
Assets						
Derivative financial instruments[2]	262	–	262	(99)	(26)	137
Liabilities						
Derivative financial instruments[2]	361	–	361	(99)	(234)	28
Securities sold under repurchase agreement	802	–	802	(802)	–	–

(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 £57m (2018: £Nil), 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

A robust balance sheet position underpinned by strategy-aligned risk appetite and proactive incorporation of the impact of 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, model risk, pension risk and financial risks arising from climate change.

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.

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 and 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.

In delivering its strategic objectives, the Group accepts a level of loss may arise from model error. Implementing key controls ensures that model error remains within acceptable limits. The explicit consideration of appetite for model risk is defined and articulated in the Group RAS. Specifically, in the case of model risk, the Board establishes the extent of its willingness, or otherwise, to accept results from using models. Model risk appetite is reported regularly to both the Board and the MGC.

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 and 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 2019 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. All other requirements are calculated using the standardised approach.

Although 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 in line with 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. These changes are required to be implemented by 31 December 2020 for residential mortgage portfolios 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 portfolio and framework looks at the customer and business propensity to default (PD) along with loss severity (EAD and LGD). The outputs are used in the calculation of RWA, EL and IFRS 9. However, 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 and models are analysed to inform the risk capacity and appetite; and
- Asset Quality – IRB parameters are monitored to understand the product and segment performance of the Group's portfolios.

Capital buffers

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 Buffer, and a Systemic Risk Buffer (SRB) for ring-fenced banks. In the UK, the transitional period for the CCB has ended and it is set at 2.50%, effective from 1 January 2019.

CET1	LDR	LCR
13.3%	114%	152%
REPORTED 2018: 10.5%	REPORTED 2018: 115%	REPORTED 2018: 137%
PRO FORMA 2018: 15.1%	PRO FORMA 2018: 116%	PRO FORMA 2018: 161%

The CCyB has been effective from 1 May 2014 and is dependent upon the BoE's view of credit conditions in the economy. The CCyB at 30 September 2019 was 1.00% of RWAs, increasing from 0.5% at 30 September 2018.

The PRA's final rules on the approach to identifying other systemically important institutions (O-SII) were published in February 2016. In line with expectations, the Group was not designated an O-SII. Similarly, the Financial Policy Committee (FPC) issued its final framework for setting the SRB in May 2016. This confirmed that banks with total assets of less than £175bn (which includes the Group) will be subject to a 0% SRB.

The Group's capital planning process considers the impact of all relevant capital buffers.

Minimum requirement for own funds and eligible liabilities (MREL)

In November 2016, the BoE provided additional information on how MREL will be applied to firms that are subject to the use of resolution tools that the BoE would employ in the event of a firm entering resolution. From 1 January 2022, those firms (which include the Group) will be required to hold both their going concern requirements together with additional MREL of an amount equal to those going concern requirements. The timetable for meeting MREL has been extended to 2022 and the BoE will review calibration and transition by the end of 2020, before setting end-state MREL. Interim MREL has been established for the transitional period.

During 2019, the Group issued £650m of debt that contributes to its MREL requirements (£400m senior unsecured term funding and £250m subordinated debt). The Group continues to meet interim requirements which, from 1 January 2020 until 31 December 2021, are expected to be 18% of RWA. From 1 January 2022, the Group will be subject to an end-state MREL of two times the sum of Pillar 1 and Pillar 2A capital subject to final regulatory guidance.

Mitigation

The Group's capital risk policy standard provides the framework for the manner in which capital is managed 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 the retention of profit over time, by cutting costs, by raising new equity via, for example, a rights issue or debt exchange, by reducing or cancelling distributions on capital instruments, and by 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 and approval for the use of IRB models for the retail mortgage and business portfolios was obtained in October 2018. Work is ongoing to consider transition to the IRB approach for other portfolios.

Monitoring

The capital plan is approved by the Board on an annual basis. The Group's ALCO monitors the capital plan and forecast positions on a monthly basis. This ensures that performance trends are appropriately reviewed and that there is transparency of the impact on capital ratios, risk appetite and the future outlook.

Capital position
The Group's capital position as at 30 September 2019 is summarised below:

Regulatory capital (unaudited)[1]

	2019 £M	2018 £M
Statutory total equity	**5,021**	3,186
CET1 CAPITAL: REGULATORY ADJUSTMENTS[2]		
Additional Tier 1 (AT1) capital instruments	**(915)**	(450)
Defined benefit pension fund assets	**(257)**	(138)
Prudent valuation adjustment	**(5)**	(3)
Intangible assets	**(501)**	(412)
Goodwill	**(11)**	–
Deferred tax asset relying on future profitability	**(146)**	(99)
Cash flow hedge reserve	**26**	39
Excess expected losses	**(88)**	–
AT1 coupon accrual	**(20)**	(10)
IFRS 9 transitional adjustments	**100**	–
Total CET1 capital	**3,204**	2,113
AT1 CAPITAL		
AT1 capital instruments	**915**	450
Total AT1 capital	**915**	450
Total Tier 1 capital	**4,119**	2,563
TIER 2 CAPITAL		
Subordinated debt	**721**	474
Credit risk adjustments[3]	**–**	152
Total Tier 2 capital	**721**	626
Total regulatory capital	**4,840**	3,189

(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.
(3) The current period does not include Tier 2 credit risk adjustments due to the transition to IFRS 9 reporting.

Regulatory capital flow of funds (unaudited)[1]	CRD IV 2019 £M	CRD IV 2018 £M
CET1 CAPITAL[2]		
CET1 capital at 1 October	**2,113**	2,437
Share capital and share premium	**3**	1
Retained earnings and other reserves (including special purpose entities)	**(210)**	(217)
Acquisition of Virgin Money Holdings (UK) plc	**1,567**	–
Prudent valuation adjustment	**(2)**	1
Intangible assets	**(89)**	(73)
Goodwill arising on acquisition of Virgin Money Holdings (UK) plc	**(11)**	–
Deferred tax asset relying on future profitability	**(47)**	(71)
Defined benefit pension fund assets	**(119)**	(3)
Cash flow hedge reserve	**(13)**	38
IRB shortfall of credit risk adjustments to expected losses	**(88)**	–
IFRS 9 transitional relief	**100**	–
Total CET1 capital at 30 September	**3,204**	2,113
AT1 CAPITAL		
AT1 capital at 1 October	**450**	450
AT1 capital issued and transferred from Virgin Money Holdings (UK) plc	**465**	–
Total AT1 capital at 30 September	**915**	450
Total Tier 1 capital at 30 September	**4,119**	2,563
TIER 2 CAPITAL		
Tier 2 capital at 1 October	**626**	627
Credit risk adjustments[3]	**(152)**	(2)
Other movements	**–**	1
Capital instruments issued: subordinated debt	**247**	–
Tier 2 capital at 30 September	**721**	626
Total capital at 30 September	**4,840**	3,189

(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 £1,091m in the year primarily driven by the positive impact of the acquisition of Virgin Money Holdings (UK) plc, offset by exceptional items in the year.

During the year, there were also increases in AT1 and Tier 2 capital. The Group issued an additional £250m of Tier 2 capital in December 2018 in the form of Fixed Rate Reset 10 non-call 5-year Subordinated Contingent Convertible Notes. In addition, in August 2019, Virgin Money Holdings (UK) plc successfully received investor consent to transfer obligations on its outstanding AT1 (£230m) to Virgin Money UK PLC.

Minimum Pillar 1 capital requirements (unaudited)	2019 £M	2018 £M
Credit risk	**1,685**	1,449
Operational risk	**209**	132
Counterparty credit risk	**15**	10
Credit valuation adjustment	**15**	17
Total Pillar 1 regulatory capital requirements	**1,924**	1,608

IFRS 9 transitional arrangements (unaudited)[1]

Available capital (amounts)	30 SEPTEMBER 2019 (£M) IFRS 9 TRANSITIONAL BASIS	IFRS 9 FULLY LOADED BASIS
CET1 capital	3,204	3,104
Tier 1 capital	4,119	4,019
Total capital	4,840	4,740
RWA (amounts)		
Total RWA	24,046	23,983
CAPITAL RATIOS		
CET1 (as a percentage of RWA)	13.3%	12.9%
Tier 1 (as a percentage of RWA)	17.1%	16.8%
Total capital (as a percentage of RWA)	20.1%	19.8%
LEVERAGE RATIO		
Leverage ratio total exposure measure	94,744	94,644
Leverage ratio	4.3%	4.2%

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

RWA movements (unaudited)

	12 MONTHS TO 30 SEPTEMBER 2019					12 MONTHS TO 30 SEPTEMBER 2018				
RWA flow statement	IRB RWA £M	STD RWA £M	OTHER RWA £M	TOTAL £M	CAPITAL REQUIRED £M	IRB RWA £M	STD RWA £M	OTHER RWA[2] £M	TOTAL £M	CAPITAL REQUIRED £M
RWA at 1 October	–	18,104	1,998	20,102	1,608	–	17,753	1,925	19,678	1,574
Asset size	958	478	10	1,446	116	–	347	73	420	34
Asset quality	(291)	(8)	–	(299)	(24)	–	4	–	4	–
Model updates	(396)	–	–	(396)	(32)	–	–	–	–	–
Methodology and policy	250	–	–	250	20	–	–	–	–	–
Acquisitions and disposals	4,330	2,870	962	8,162	654	–	–	–	–	–
IRB accreditation	10,247	(15,592)	–	(5,345)	(428)	–	–	–	–	–
Other	6	101	19	126	10	–	–	–	–	–
RWA at 30 September	15,104	5,953	2,989	24,046	1,924	–	18,104	1,998	20,102	1,608

In October 2018, the Group received IRB accreditation from the PRA for both the mortgage and business portfolios. The impact of this can be seen in the IRB accreditation line above. Also in October 2018, the Group acquired Virgin Money Holdings (UK) plc, which calculates RWA on mortgages under IRB methodology and on all other portfolios under standardised methodology. This impact can be seen in the Acquisitions and disposals line above.

Formal FIRB accreditation for the business portfolios was received in October 2018 for a suite of recalibrated models which were implemented during November 2018, resulting in a £170m model impact, included within the Model updates line above. The differential is predominantly in relation to the retail mortgage quarterly PD model calibrations. Since this implementation, no additional model changes have occurred.

Methodology and processing enhancements implemented prior to formal IRB reporting are captured within the Methodology and policy line. Other includes operational risk, CVA and counterparty credit risk.

Pillar 1 RWAs and capital requirements by business line (unaudited)

Capital requirements for calculating RWA	At 30 September 2019			At 30 September 2018		
	Capital required £m	RWA £m	Exposure £m	Capital required £m	RWA £m	Exposure £m
Corporates	**501**	**6,258**	**8,587**	–	–	–
Retail	**708**	**8,846**	**64,067**	–	–	–
Total IRB approach	**1,209**	**15,104**	**72,654**	–	–	–
Central governments or central banks	**1**	**9**	**11,663**	–	1	11,361
Regional governments or local authorities	**1**	**13**	**175**	1	12	143
Public sector entities	**–**	**5**	**335**	–	2	155
Multilateral development banks	**–**	**–**	**1,034**	–	–	155
Financial institutions	**16**	**195**	**948**	11	136	630
Corporates	**28**	**347**	**376**	316	3,956	4,311
Retail	**319**	**3,993**	**5,324**	90	1,124	1,499
Secured by mortgages on immovable property	**40**	**498**	**875**	938	11,708	28,423
Exposures in default	**5**	**59**	**55**	45	562	465
Collective investments undertakings	**–**	**1**	**1**	–	1	1
Equity exposures	**1**	**11**	**9**	–	5	4
Items associated with particularly high risk	**1**	**11**	**7**	4	49	33
Covered bonds	**11**	**141**	**1,415**	5	61	615
Other items	**53**	**670**	**754**	39	487	715
Total standardised approach	**476**	**5,953**	**22,971**	1,449	18,104	48,510
Total credit risk	**1,685**	**21,057**	**95,625**	1,449	18,104	48,510
Operational risk	**209**	**2,606**		132	1,655	
Counterparty credit risk	**15**	**191**		10	125	
Credit valuation adjustment	**15**	**192**		17	218	
Total Pillar 1 regulatory capital requirements	**1,924**	**24,046**		1,608	20,102	

The exposure amounts disclosed above 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.

Prior period comparatives are reported under the standardised approach to credit risk as accreditation for IRB was received in October 2018.

Capital position and CET1 (unaudited)	2019 £M	PRO FORMA 2018 £M	REPORTED 2018 £M
RWA[1]			
Retail mortgages	**8,846**	8,794	9,002
Business lending	**7,124**	6,604	7,407
Other retail lending	**4,042**	3,463	981
Other lending	**481**	109	109
Other[2]	**564**	1,013	605
Credit risk	**21,057**	19,983	18,104
Credit valuation adjustment	**192**	243	218
Operational risk	**2,606**	2,523	1,655
Counterparty credit risk	**191**	194	125
Total RWA	**24,046**	22,943	20,102
CAPITAL RATIOS			
CET1 ratio	**13.3%**	15.1%	10.5%
Tier 1 ratio	**17.1%**	18.3%	12.7%
Total capital ratio	**20.1%**	20.6%	15.9%

(1) RWA are calculated under the AIRB approach for the mortgage portfolio and the FIRB approach for the business portfolio, with all other portfolios being calculated under the standardised approach, via either sequential IRB implementation or Permanent Partial Use (PPU).

(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.

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 RWAs the Group is currently required to hold, excluding any PRA buffer.

	AS AT 30 SEP 2019	
Minimum requirements (unaudited)	CET1	TOTAL CAPITAL
Pillar 1[1]	**4.5%**	**8.0%**
Pillar 2A	**3.0%**	**5.3%**
Total capital requirement	**7.5%**	**13.3%**
Capital conservation buffer	**2.5%**	**2.5%**
UK countercyclical capital buffer[2]	**1.0%**	**1.0%**
Total (excluding PRA buffer)[3]	**11.0%**	**16.8%**

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

(2) The UK countercyclical capital buffer (CCyB) may be set between 0% and 2.5%. On 28 November 2018 the UK CCyB increased from 0.5% to 1.0%. At its October 2019 meeting, the FPC maintained the UK CCyB rate at 1%, noting the underlying vulnerabilities (excluding Brexit) that can amplify economic shocks have not changed materially since the November 2018 Financial Stability Report and remain at a standard level overall in the UK.

(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.

Underlying capital generation by the core divisions post additional AT1 distribution was 77bps, largely driven by strong underlying profits more than offsetting asset growth and investment spending. After absorbing the net impact of costs associated with restructuring, the acquisition of Virgin Money Holdings (UK) plc and legacy conduct issues, the Group's CET1 ratio was 13.3%.

In August 2019, Virgin Money Holdings (UK) plc successfully received investor consent to transfer obligations on its outstanding AT1 (£230m) and Senior Notes (£350m) to Virgin Money UK PLC (formerly named CYBG PLC). All of the Group's regulatory capital and MREL instruments are now issued out of Virgin Money UK PLC, consistent with the single point of entry resolution model. This also removed the previous need to adjust for non-controlling interests in the Group's capital calculations.

Dividend

As disclosed on page 3 of the Strategic report, the Board has recommended not to pay a final dividend for the financial year ending 30 September 2019.

Leverage

Leverage ratio (unaudited)	2019 £M	REPORTED 2018 £M
TOTAL TIER 1 CAPITAL FOR THE LEVERAGE RATIO		
Total CET1 capital	**3,204**	2,113
AT1 capital	**915**	450
Total Tier 1	**4,119**	2,563
EXPOSURES FOR THE LEVERAGE RATIO		
Total assets as per published financial statements	**90,999**	43,456
Adjustment for off-balance sheet items	**2,728**	1,763
Adjustment for derivative financial instruments	**(35)**	(134)
Adjustment for securities financing transactions (SFTs)	**1,934**	1,468
Other regulatory adjustments	**(882)**	(613)
Leverage ratio exposure	**94,744**	45,940

	2019 £M	PRO FORMA 2018 £M	REPORTED 2018 £M
CRD IV leverage ratio(1)	**4.3%**	4.6%	5.6%
UK leverage ratio(2)	**4.9%**	5.1%	6.5%

(1) IFRS 9 transitional capital arrangements have been applied to the leverage ratio calculation as at 30 September 2019.

(2) The Group's leverage ratio on a modified basis as at 30 September 2019, excluding qualifying central bank claims from the exposure measure in accordance with the policy statement issued by the PRA in October 2017.

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 Group is currently excluded from the full reporting requirements of the UK leverage ratio framework but will be required to comply in the first reporting period following the date at which this threshold is breached, which is 31 December 2019.

The leverage ratio is monitored against a Board approved RAS, with responsibility for managing the ratio delegated to the Group's 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.

The Group's leverage ratio is 4.3% (30 September 2018 pro forma: 4.6%) which exceeds the Basel Committee's proposed minimum of 3%, applicable from 2018, and the UK minimum ratio of 3.60% (3.25% plus 0.35% countercyclical leverage buffer.)

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 supported by the Group's ongoing wholesale funding programmes, medium-term secured funding issuance (e.g. the Group's Lanark securitisation programme), the Regulated Covered Bond platform and unsecured medium-term notes. 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. Reporting is conducted through ALCO and the Executive Risk Committee. In a stress situation, the level of monitoring and reporting would be increased commensurate with the nature of the stress event.

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

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 sources of funding. These funding programmes are a source of strength for the Group and leverage the Group's high quality mortgage book as a source of collateral for secured funding. The funding plan includes an assessment of the Group's capacity for raising funds from its primary sources, mitigating funding risk. Refinancing risks are carefully managed and are subject to controls overseen by ALCO. The Group's funding plan includes an embedded Term Funding Scheme repayment profile designed to manage refinancing risk.

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

A Liquidity Contingency 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, details the action required, allocates the key tasks to individuals, provides a time frame and defines a management committee to manage the action plan.

Sources of funding

The table below provides an overview of the Group's sources of funding as at 30 September 2019.

	2019 (AUDITED) £M	PRO FORMA 2018 (UNAUDITED) £M[1]	REPORTED 2018 (AUDITED) £M[1]
Total assets	**90,999**	88,548	43,456
Less: other liabilities[2]	**(3,471)**	(3,700)	(3,305)
Funding requirement	**87,528**	84,848	40,151
FUNDED BY:			
Customer deposits	**64,000**	61,015	28,904
Debt securities in issue	**9,591**	8,505	4,973
Due to other banks	**8,916**	10,144	3,088
of which:			
Secured loans	**7,308**	8,529	2,254
Securities sold under agreements to repurchase	**1,554**	1,575	802
Transaction balances with other banks	**12**	29	29
Deposits with other banks	**42**	11	3
Equity	**5,021**	5,184	3,186
Total funding	**87,528**	84,848	40,151

(1) The comparative year has been restated in line with the current year presentation. Derivative collateral in relation to clearing houses has been reclassified between other assets/liabilities and due from/to other banks.

(2) 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 2019, the Group had a funding requirement of £87,528m (2018 pro forma: £84,848m) with the majority being used to support loans and advances to customers.

The Group's funding mix has not materially changed as a result of the acquisition of Virgin Money Holdings (UK) plc. The Group continues to provide competitive retail funding products and has been active in the covered bond, securitisation and senior debt markets during the year.

Customer deposits

The majority of the Group's funding requirement was met by customer deposits of £64,000m (2018 pro forma: £61,015m). Customer deposits are comprised of interest bearing deposits, term deposits and non-interest bearing demand deposits from a range of sources including personal and business customers. The increase of £2,985m in 2019 is primarily due to increased fixed rate term deposits and variable rate savings accounts.

Equity

Equity of £5,021m (2018 pro forma: £5,184m) was also used to meet the Group's funding requirement. Equity is comprised of ordinary share capital, retained earnings, other equity investments and a number of other reserves. For full details on equity refer to note 4.1 within the consolidated financial statements.

Liquid assets

The quantity and quality of the Group's liquid assets are calibrated to the Board's view of liquidity risk appetite and remain at a prudent level above regulatory requirements. The Group was compliant with all internal and regulatory liquidity metrics at 30 September 2019 (30 September 2018: compliant). The LCR moved from 137% to 152% during the year.

The liquid asset portfolio provides a buffer against sudden and potentially sharp outflows of funds. Liquid assets must therefore be of a high quality so they can be realised for cash and cannot be encumbered for any other purpose (e.g. to provide collateral for payments systems). The liquid asset portfolio is primarily comprised of cash at BoE, UK government securities (gilts) and listed securities (e.g. bonds issued by supra-nationals and AAA-rated covered bonds).

Liquid asset portfolio[1]	2019 (AUDITED) £M	PRO FORMA 2018 (UNAUDITED) £M	REPORTED 2018 (AUDITED) £M	CHANGE (AUDITED) %	AVERAGE 2019 (AUDITED) £M	AVERAGE 2018 (AUDITED) £M
LEVEL 1						
Cash and balances with central banks	**7,469**	7,979	3,942	89.5%	**7,266**	3,405
UK government treasury bills and gilts	**1,076**	908	513	109.7%	**870**	568
Other debt securities	**2,867**	2,180	943	204.0%	**2,604**	913
Total level 1	**11,412**	11,067	5,398	111.4%	**10,740**	4,886
LEVEL 2[2]	**29**	175	–	–	**103**	–
Total LCR eligible assets	**11,441**	11,242	5,398	111.9%	**10,843**	4,886

(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 £10,296m, as per note 3.4, includes: £2,578m of assets that are encumbered to support the issuance of Scottish bank notes (excluding notes not in circulation) and to support payments systems; £183m of mandatory central bank deposits; and £66m excluded from LCR due to operating expenses.

Financial assets at fair value through other comprehensive income of £4,328m, as per note 3.7, includes: £385m of encumbered UK Government Treasury bills and gilts, £311m of which is encumbered to support Operational Continuity in Resolution (OCIR) and £74m of which is encumbered to support structured funding programmes.

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 Term Funding Scheme, use of assets as collateral for payments systems in order to support customer transactional activity, and providing security for the Group's issuance of Scottish bank notes.

Encumbered assets by asset category (audited)

	ASSETS ENCUMBERED WITH NON-CENTRAL BANK COUNTERPARTIES					OTHER ASSETS				
						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**
Derivative 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 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**

September 2018	Assets encumbered with non-central bank counterparties				Other assets					
					Positioned at the central bank (including encumbered)	Assets not positioned at the central bank				
	Covered bonds £m	Securi-tisations £m	Other £m	Total £m	£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	1,393	5,243	–	6,636	6,940	5,016	11,322	2,830	26,108	32,744
Cash and balances with central banks	–	–	–	–	2,809	3,764	–	–	6,573	6,573
Due from other banks	161	299	163	623	–	–	70	–	70	693
Derivatives	–	–	–	–	–	–	–	262	262	262
Financial assets – available for sale	–	–	36	36	46	1,468	5	7	1,526	1,562
Other financial assets	–	–	–	–	–	–	362	–	362	362
Other assets	–	–	143	143	–	–	95	1,022	1,117	1,260
Total assets	1,554	5,542	342	7,438	9,795	10,248	11,854	4,121	36,018	43,456

The Group's total non-central bank asset encumbrance increased by £5,945m to £13,383m as at 30 September 2019. This was primarily due to the addition of Virgin Money Holdings (UK) plc structured funding programmes in addition to assets encumbered due to Operational Continuity in Resolution (OCIR) requirements. Current levels of encumbrance include the impact of use of the Term Funding Scheme which is subject to a repayment profile.

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.

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
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							
Contingent liabilities	–	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**

2018 (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
ASSETS							
Financial assets at amortised cost							
Loans and advances to customers	1,093	1,200	983	4,623	24,468	381	32,748
Cash and balances with central banks	4,917	–	–	–	–	1,656	6,573
Due from other banks	164	529	–	–	–	–	693
Financial assets at fair value through profit or loss							
Loans and advances to customers	–	8	36	144	174	–	362
Derivative financial instruments	–	13	26	164	59	–	262
Financial assets available for sale	–	5	79	658	810	10	1,562
Other assets	143	128	62	–	–	923	1,256
Total assets	6,317	1,883	1,186	5,589	25,511	2,970	43,456
LIABILITIES							
Financial liabilities at amortised cost							
Customer deposits	23,142	981	1,787	2,994	–	–	28,904
Debt securities in issue	–	359	631	2,464	1,519	–	4,973
Due to other banks	19	519	300	2,250	–	–	3,088
Financial liabilities at fair value through profit or loss							
Customer deposits	–	2	6	7	–	–	15
Derivative financial instruments	–	10	19	133	199	–	361
Other liabilities	2,288	93	109	–	–	439	2,929
Total liabilities	25,449	1,964	2,852	7,848	1,718	439	40,270
OFF-BALANCE SHEET ITEMS							
Contingent liabilities	–	26	36	10	2	45	119
Other credit commitments	7,016	–	–	–	–	–	7,016
Total off-balance sheet items	7,016	26	36	10	2	45	7,135

Cash flows payable under financial liabilities by contractual maturity

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)**
Other liabilities	**2,277**	**78**	**99**	**–**	**–**	**740**	**3,194**
Total liabilities	**42,834**	**7,669**	**12,113**	**21,250**	**2,726**	**740**	**87,332**

2018 (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	23,143	981	1,788	2,995	–	–	28,907
Debt securities in issue	–	364	696	2,746	1,665	–	5,471
Due to other banks	19	519	314	2,282	–	–	3,134
Financial liabilities at fair value through profit or loss							
Customer deposits	–	3	6	8	–	–	17
Trading derivative financial instruments	–	13	31	40	17	–	101
Hedging derivative liabilities							
Contractual amounts payable	–	8	42	253	235	–	538
All other liabilities	2,288	93	109	–	–	439	2,929
Total liabilities	25,450	1,981	2,986	8,324	1,917	439	41,097

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 2019	TOTAL 2018
Covered bonds	**–**	**10**	**599**	**1,303**	**1,912**	742
Securitisation	**574**	**928**	**3,549**	**–**	**5,051**	2,956
Medium term notes	**–**	**311**	**298**	**1,288**	**1,897**	796
Subordinated debt	**–**	**9**	**722**	**–**	**731**	479
Total debt securities in issue	**574**	**1,258**	**5,168**	**2,591**	**9,591**	**4,973**
Of which issued by Virgin Money UK PLC	**–**	**18**	**1,016**	**1,223**	**2,257**	1,276

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 2019[1]	30 SEP 2019	30 SEP 2018
VIRGIN MONEY UK PLC			
Moody's	Positive	Baa3	Not rated
Fitch	Rating Watch Negative	BBB+	BBB+
Standard & Poor's	Stable	BBB-	BBB-
CLYDESDALE BANK PLC			
Moody's[2]	Positive	Baa1	Baa1
Fitch	Rating Watch Negative	A-	BBB+
Standard & Poor's	Stable	BBB+	BBB+
VIRGIN MONEY HOLDINGS (UK) PLC			
Moody's	Stable	Baa3	Baa3
Fitch	Rating Watch Negative	BBB+	BBB+
VIRGIN MONEY PLC			
Moody's	Positive	Baa1	Baa2
Fitch	Rating Watch Negative	A-	BBB+

(1) For detailed background on the latest credit opinion by S&P and Fitch, please refer to the respective rating agency websites.
(2) Long-term deposit rating

On 1 March 2019, due to a reassessment of the probability of a no-deal/disruptive Brexit scenario, Fitch placed all of the Group's long-term Issuer Default Ratings (IDR) on Rating Watch Negative (along with 19 UK banks in total). None of the Group's other ratings or its 'anchor' Viability Rating have been impacted.

On 3 June 2019, Fitch upgraded the long-term ratings of Clydesdale Bank PLC and Virgin Money PLC to A-. The upgrades followed an increase in the junior debt buffer at Clydesdale Bank PLC.

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. None of the Group's other ratings was impacted by the FSMA Part VII transfer.

As at 27 November 2019, there have been no other changes to the Group's long-term credit ratings or outlooks since the report date, with the exception of the outlook on the Virgin Money UK PLC and Clydesdale Bank PLC Moody's ratings, which were moved from 'positive' to 'stable' on 12 November 2019. This followed a revision in Moody's outlook for the UK Sovereign from 'stable' to 'negative'. This was as a result of Moody's view that UK institutions have weakened and the UK's economic and fiscal strength are likely to be weaker going forward. Subsequently, Moody's adjusted the ratings outlook for 15 UK banks, including the Group.

Additional collateral to be provided in the event of a notch downgrade 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.

Market risk

Market risk is the risk associated with adverse changes in the economic value, or net interest income, 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 net interest income and economic value to movements in market interest rates. The major contributors to interest rate risk are:

- the investment of non-interest bearing deposits and equity into interest-bearing assets;
- the mismatch, or duration, between repricing dates of interest-bearing assets and liabilities;
- basis risk, for example, the inability of the pricing 'basis' for customer asset and liability products to be replicated in the financial markets or the risk arising from changing relationships between different interest rate yield curves; 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 price on these products, however, these risks are not a major part of the Group's risk profile. Controls include the hedging of these products as and when they arise.

Measurement

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

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

- the use of basis point sensitivity analysis;
- VaR and EaR are measured on a statistical basis: 99% confidence level with appropriate holding periods depending on varying risk types; triggers for reporting deterioration in EVE in line with EBA guidelines;
- historical simulation approach utilising instantaneous interest rate shocks including parallel rate movements and twists in the yield curve to explore risks around exposures to movements in short- or long-term interest rates;
- 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; and
- assumptions covering the behavioural life of products and customer behaviour for optionality are reviewed and approved by ALCO.

Credit spread risk in the banking book (CSRBB) is assessed through a credit VaR applied to the Group's liquid asset buffer portfolio.

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 use 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 in note 3.6. 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 risk 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 in note 3.6.

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.

Market risk (audited)

	VALUE AT RISK[1]		EARNINGS AT RISK	
12 months to 30 September	2019 £M	2018[2] £M	2019 £M	2018 £M
As at 30 September	**33**	16	**6**	4
Average value during the year	**35**	11	**6**	4
Minimum value during the year	**25**	9	**2**	3
Maximum value during the year	**42**	16	**9**	5

(1) VaR is a combination of interest rate and credit spread VaR.

(2) Seven months to September. VaR calculation parameters were changed effective from 31 March 2018 onwards. The changes improved the modelling and measurement and did not represent a change in the Group's risk appetite for Interest Rate Risk.

Market risk linkage to the balance sheet (audited)

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

	2019 £M	2018 £M	INTEREST RATE DURATION	OPTIONALITY	BASIS	CREDIT SPREAD	FOREIGN EXCHANGE
ASSETS							
Financial assets at amortised cost							
Loans and advances to customers	**73,095**	32,748	•	•	•		•
Cash and balances with central banks	**10,296**	6,573	•		•		
Due from other banks	**1,018**	693	•		•		•
Financial assets at fair value through profit or loss							
Loans and advances to customers	**253**	362	•	•	•		•
Derivative financial instruments	**366**	262	•		•		•
Other financial assets	**14**	–	•				•
Financial instruments at fair value through other comprehensive income	**4,328**	–	•		•	•	•
Financial assets available for sale	**–**	1,562	•		•	•	•
Other assets	**1,629**	1,256	•				•
Total assets	**90,999**	43,456					
LIABILITIES							
Financial liabilities at amortised cost							
Customer deposits	**64,000**	28,904	•	•	•		•
Debt securities in issue	**9,591**	4,973	•		•		•
Due to other banks	**8,916**	3,088	•		•		•
Financial liabilities at fair value through profit or loss							
Customer deposits	**4**	15	•	•	•		•
Derivative financial instruments	**273**	361	•		•		•
Other liabilities	**3,194**	2,929	•				•
Total liabilities	**85,978**	40,270					

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 in order to reduce variability in net interest income.

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	1,968	12	62	–	–	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	14,491	14,473	41,591	2,540	1,158	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	1,176	48	143	760	–	1,067	3,194
Equity	230	240	719	3,832	–	–	5,021
Total liabilities and equity	14,908	29,802	13,836	29,221	2,165	1,067	90,999
Notional value of derivatives managing interest rate sensitivity	(2,253)	16,185	(800)	(13,149)	17	–	–
Total interest rate gap	(415)	874	(163)	(779)	392	91	–
Interest rate gap	(415)	459	296	(483)	(91)	–	–

2018 (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	8,389	4,778	6,299	12,997	433	(152)	32,744
Cash and balances with central banks	6,374	10	30	159	–	–	6,573
Due from other banks	835	1	–	–	–	–	836
Financial assets at fair value through profit or loss							
Loans and advances to customers	362	–	–	–	–	–	362
Financial assets available for sale	189	393	–	300	680	–	1,562
Other assets	–	–	–	–	–	1,379	1,379
Total assets	16,149	5,182	6,329	13,456	1,113	1,227	43,456
LIABILITIES							
Financial liabilities at amortised cost							
Customer deposits	11,495	1,281	3,465	12,662	1	–	28,904
Debt securities in issue	–	3,698	–	475	800	–	4,973
Due to other banks	3,121	–	1	–	–	–	3,122
Financial liabilities at fair value through profit or loss							
Customer deposits	15	–	–	–	–	–	15
Other liabilities	1,003	47	142	760	–	1,304	3,256
Equity	86	155	466	2,479	–	–	3,186
Total liabilities and equity	15,720	5,181	4,074	16,376	801	1,304	43,456
Notional value of derivatives managing interest rate sensitivity	206	(2,203)	(596)	2,572	21	–	–
Total interest rate gap	635	(2,202)	1,659	(348)	333	(77)	–
Interest rate gap	635	(1,567)	92	(256)	77	–	–

Model risk

The Group's definition of a model is a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates.

This extends to calculation methods or systems, calculation mechanisms, and frameworks or systems where qualitative judgement is applied to generate quantitative results (e.g. where adjustments are made to address known model limitations).

A model meeting this definition might be used for analysing business strategies, informing business decisions, identifying and measuring risks, valuing exposures, conducting stress testing, assessing adequacy of capital, measuring compliance with internal limits, maintaining the formal control apparatus of the Group, or meeting financial or regulatory reporting requirements and issuing public disclosures.

The use of models invariably presents model risk, which has the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk increases with greater model complexity, higher uncertainty around inputs and assumptions, broader use, and larger potential impact. If left unmitigated, model risk can lead to poor decision making, misreporting or a failure to identify risks, which in turn could result in financial and reputational losses, as well as having a detrimental impact on customers.

Exposures

To determine the level of model risk exposure, all models are classified according to materiality. Model materiality assessments are required to enable senior management to prioritise and understand model risk.

The Group's model materiality criteria utilise a risk-based approach and set quantitative and qualitative thresholds focusing on coverage and impact, with clear consideration given to the risks associated with the models, i.e. criteria such as purpose or 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.

Within the combined Group model inventory, as at 30 September 2019, there are 339 live and to be implemented models, covering a range of model risk disciplines. As a result of the wide scope and breadth of coverage, there is exposure to model risk across a number of the Group's principal risk categories.

Measurement

Model RAS is reported regularly to both the MGC and the Board.

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 to the Model Risk Policy Standard requirements on an annual basis, including that the model is implemented correctly in an appropriate system, or advise 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.

Furthermore, IA assesses the overall effectiveness of the model risk management framework.

Monitoring

MGC is the primary model approval authority and body responsible for overseeing model risk of the Group's most material models. The model risk policy dictates that model risk must be reported at least annually to the MGC. This extends to model monitoring and analysis on work to mitigate previously identified deficiencies, including regular updates on action management.

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, e.g. 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 to the member rather than the Group.

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

Risk appetite

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

Assets

The Trustee governs investments according to a Statement of Investment Principles (SIP). This is reviewed and agreed by the Trustee Board on a regular basis, with the Bank consulted on any proposed changes. The SIP 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 main market risks within the asset portfolio are interest rates and equities. The split of Scheme assets is shown within note 3.12 to the Group's consolidated financial statements. The fair value of the assets was £3.96bn as at 30 September 2019 (2018: £2.12bn).

Liabilities

The retirement benefit obligations are a series of future cash flows 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 (TCR).

Within the Scheme itself, risk arises because the assets 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 and 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.

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 Financial Risk who subsequently report to the Executive Risk Committee. 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.

Financial risks arising from climate change

The Group has established targets relating to CO_2 emissions that arise from its own operations. Progress will be monitored through the Group's annual CO_2 disclosures (see page 38 of the Strategic report). The Group has also signed up to the United Nations Environment Programme's Principles for Responsible Banking. 2019 has seen an unprecedented focus on climate change, with progress at governmental and regulatory levels, along with a broad range of publications and, importantly, increasing demands from society for governments, firms and individuals to all play their part in addressing the longer-term risks from climate change.

The financial risks from climate change can be categorised as:

- physical risks arising from climate and weather-related events, such as heatwaves, droughts, floods, storms and sea level rise. They can potentially result in large financial losses, impairing asset values and the creditworthiness of borrowers; and
- transition risks that can arise from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt a reassessment of the value of a large range of assets and create credit exposures for banks and other lenders as costs and opportunities become apparent.

The Group has an established process to apply Environmental, Social and Governance (ESG) criteria to lending decisions. This includes sectors that are not within the Group's risk appetite and those where additional scrutiny is required before a credit decision can be made. The policy framework has also been enhanced to reflect the need for more forward thinking relating to transition risks. The Group recognises the need to enhance capability for assessing and modelling the impact of physical risks over the long-term horizon over which increased risks may arise. The Group's governance framework has been amended to ensure specific reference to climate-related risks is provided at the Group's Credit Risk and Executive Risk Committees. This work will be overseen by the Board.

REGULATORY, COMPLIANCE AND CONDUCT RISK

Effectively addressing legacy issues and building a platform for growth

With the significant milestone of the FCA deadline on PPI complaints now reached, the Group remains focused on addressing any remaining legacy conduct issues while seeking to ensure that current and future customer products and services meet conduct standards and regulators' expectations.

Regulatory and compliance risk

Regulatory and compliance risk is the risk of failing to understand and comply with relevant laws and regulatory requirements; failing to identify, monitor and respond to changes in the regulatory environment; not keeping regulators informed of relevant issues; not responding effectively to information requests or regulator review findings; not meeting regulatory deadlines or obstructing the regulator. It is also the risk of failure to comply with the wider set of rules, regulations, codes of practice and laws relevant to the Group.

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 will ensure that all mandatory requirements are prioritised with sufficient resources to implement within required timescales in a customer-focused manner. The Group will have 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.

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 co-ordinated 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 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 has been 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 the control framework underpinning compliance with laws and regulations.

Conduct risk

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

With the FCA's deadline on PPI complaints now passed, there is a significant reduction in the uncertainty around determining the quantum of conduct risk-related liabilities, with note 3.16 reflecting the Group's current position in relation to redress provisions for PPI, interest rate hedging products (IRHPs) tailored business loans (TBLs), and other smaller historic conduct matters. Nonetheless, a degree of uncertainty remains in the final amount required to settle the Group's potential liabilities for these matters. 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.

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 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.

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 framework policy standard that seeks to identify, assess, mitigate, monitor, and report the operational risks, events and issues that could impact the achievement of business objectives or impact core business processes.

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

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. 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.

Exposures

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[(1)]	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 shareholders' expectations, at a Group level 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 this risk is 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.

(1) Execution risk, as a result of integration and transformation activity, is captured within strategic and enterprise risk, further information on which can be found on p190.

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 can take time to crystallise and therefore may be restated for prior or subsequent financial years.

Operational risk losses by Basel category (losses greater than or equal to £5,000) excluding PPI

The majority of net losses are recorded against two Basel categories, 'External Fraud' and 'Execution, Delivery and Process Management'. External fraud accounts for the highest volume of losses at 83.0%. The higher volume of low value events in this category is in line with industry experience and relates mainly to card and online fraud. 'Execution, Delivery and Process Management' volumes are typical and reflect the daily volume of transactions and customer interactions.

	% OF TOTAL VOLUME		% OF TOTAL LOSSES	
	2019	2018	2019	2018
Business disruption and system failures	**0.5%**	1.5%	**2.2%**	0.4%
Clients, products and business practices	**2.8%**	15.6%	**6.4%**	52.1%
Damage to physical assets	**0.3%**	1.9%	**1.0%**	0.8%
Employee practices and workplace safety	**0.0%**	0.8%	**0.0%**	0.2%
Execution, delivery and process management	**13.0%**	26.6%	**14.4%**	12.4%
External fraud	**83.0%**	52.9%	**76.1%**	34.0%
Internal fraud	**0.0%**	0.0%	**0.0%**	0.0%

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. Risk management 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 and the increased focus on digital capabilities.

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 exposure to technology risk is materially impacted by the need to embrace new technology. 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 cybersecurity, where failures impact the confidentiality, integrity and availability of electronic data through our systems and processes. This more broadly considers the risks and controls associated with cybersecurity where the Group has recognised significant escalation of external cyber threats, regulatory penalty and resilience need. **How this risk is managed** – The Group continues to enhance and invest in the control environment, recognising the changing cyber landscape and the increased focus on digital capabilities, 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 Chief Information Security and Resilience Officer (CISRO). Controls are in place to protect the Group's physical assets, as well as the security of colleagues and customers.
IT resilience risk	IT resilience is the ability of the Group to quickly adapt to disruptions while maintaining continuous operations on key and critical processes, safeguarding technology and all associated assets in the face of adverse events, shocks and chronic or incremental changes. IT resilience risk includes the risks associated with technology, suppliers, property and staff. The Group recognises the significant regulatory focus on resilience as the market becomes more reliant on mobile and online banking and developments in cloud solutions, artificial intelligence and machine learning. **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 in resilience and develops technology with resilience inbuilt as a principle. A programme of continuous ongoing monitoring and disaster recovery testing helps to minimise the likelihood of system failure, however, in preparation for an outage, the Group also maintains and tests critical end-to-end business recovery and contingency plans.
Data risk	Data underpins decision making at all levels of the organisation. Poor quality data can lead to loss, customer disruption, non-compliance with GDPR (for example, in relation to data minimisation, data accuracy and the Group's ability to respond adequately when data subject rights are exercised) 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, which is aligned with GDPR requirements. Quality is attested to by each business area against three attributes: completeness, accuracy and appropriateness. Oversight is well established within all three lines of defence.

RISK CATEGORY	
Privacy risk	Privacy risk may result from non-compliance with data privacy, legal and regulatory obligations, either through lack of awareness, incorrect assessment, or inadequate compliance. The risk is crystallised when personal data is put at risk, or individuals' data rights are compromised, due to process or cultural failure in the Group's role as data controller. When crystallised, privacy risk can result in harm to customers, significant financial impacts, operational disruption, litigation, damage to reputation, loss of trust and/or regulatory censure. **How this risk is managed** – The Group continues to enhance its privacy risk framework to ensure privacy by design and by default and ensure data subject rights are managed efficiently and in line with GDPR. The Group has created a Data Protection Office within Risk to independently oversee compliance reporting to the Board Risk Committee and relevant governance forums. A culture of compliance is encouraged through a robust data privacy policy and enhanced staff training to those areas handling and processing data on the Group's behalf.
Payment risk	Significant development has occurred within Open Banking and Payment Services Regulation which will continue over the next 12–18 months. There is the risk that financial transactions are not conducted per the instructions and parameters of our customers' payment,trading, clearing, settlement schemes or business requirements. This includes payment 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 that payment risk is managed within appetite, and impact to customers across the Group is minimised. All three lines of defence are actively involved in changes being made in this dynamically changing environment. As such, the Group continues to invest in its payment services capability and the Payment Risk team is a vital component of the Risk function.

Measurement

The Group has a number of technology risk KRIs which cover the key 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 also 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 made within these areas by the Group. Technology expertise exists in all three lines of defence. Technology risk policies, frameworks, thematic assurance reviews and oversight routines ensure that technology risk is identified, measured, monitored and reported on in 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.

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.

It also includes risks associated with external or internal acts intended to defraud, misappropriate, and circumvent policy, funds, information, regulations and property. The Group adopts a risk-based approach to mitigation and maintains an overarching financial crime policy with four policy standards aligned to each material financial crime risk. These are:

Sanctions – The Group has no appetite for non-compliance with the legal and regulatory obligations relating to sanctions and embargoes. To reflect the Group's risk appetite and to protect the Group from financial and reputational damage, including regulatory censure, fines and enforcement action, the Sanctions and Embargoes Policy articulates a set of minimum standards and requirements which must be complied with.

Anti-money laundering – The Group applies a risk-based approach customer 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 customer relationship. All other customers shall be subject to controls commensurate with their risk.

Anti-bribery and corruption – The Group does not tolerate the direct or indirect offer, payment, solicitation or acceptance of bribes in any form. The Group has in place risk assessments, policies and guidelines on interacting with customers, suppliers and agents, including specific policies for gifts and hospitality. Senior managers across the business are required to complete an evaluation of risk areas as part of the risk assessment process.

Fraud – The Group accepts that, in order to conduct business in a commercially viable manner, it is willing to sustain fraud losses within an agreed set of parameters. The application of fraud risk management considers customer impacts, industry trends and financial impacts of fraud which, on occasion, provide conflicting priorities. Emerging risks are identified and assessed with action taken to mitigate them. An agreed loss plan is set and performance against this is overseen by the policy owner and reported through the appropriate governance committees. With regard to internal fraud, the Group recognises the risk of internal fraud but has no appetite for it. There is a control framework in place to mitigate that risk.

Risk appetite

Financial crime risk is measured against a defined suite of metrics within the Group RAS.

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 and 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. Risk assessments against the four financial crime policy standards take place on an annual basis. Over and above these assessments, regular oversight of higher risk activities takes place as part of the formal oversight plan and embedded activity takes place throughout the year. Key performance metrics relative to critical financial crime systems are kept under review to ensure ongoing effectiveness. Training completion and compliance is subject to annual oversight.

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 customers for sanctions or politically exposed persons and transaction monitoring is carried out by the financial crime risk team. Sanctions screening for payments is carried out by the payments team in the first line. Critical financial crime systems oversight is independently tested by IA.

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, 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 circumstance.

This includes the potential for increased execution risk as a result of integration and transformation activity, alongside the requirement to maintain focus on the core operations of the business. There is the risk that this significant programme of change results in increased costs, delayed benefit realisation and customer harm.

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 product and service; or failing to respond to climate change risks in our direct and indirect operations.

Enterprise risk includes managing and implementing effective governance, reporting and maintaining external relations to promote the brand and support the Group's ability to successfully achieve strategic goals.

Risk appetite

The risk position for strategic and enterprise risk, referenced in the Group's RAS, takes account of the fact that the Group will need to take an acceptable level of risk to successfully grow the business and will also 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 will be fully evaluated via the Strategic and Financial Plan and RAS setting to ensure that there is no detrimental impact to the broader strategy.

Exposures

The Group operates in an increasingly competitive environment, with rapidly evolving technology and uncertain political and regulatory agendas. In addition, the Group is competing with peer and challenger banks, including some with innovative business models and low-cost bases, such as fast-growing peer-to-peer lenders and crowd funders.

This uncertainty has been exacerbated by the recent share price volatility and its resultant impact on the brand, potentially triggering increased reputation risk. The creation of divisions is enabling enhanced and dedicated focus on customer segments, however, 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.

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 risk appetite framework, is therefore a key means of controlling strategic risk. The risk appetite framework 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 will maintain a register of sectors that give rise to heightened levels of environmental/climate, social and governance related risks. The Group will maintain an approach to these risks where sectors can be prohibited or where additional due diligence is required before exposures may be approved. In assessing sectors, the Group will consider the potential impact from transition risks arising from changing legislation and societal views.

Providing a significantly more accurate understanding of the Group's risks through enhanced risk data to track risk levels, concentrations and take better risk-based decisions should also mitigate strategic and enterprise risk. Resultant increased capital availability or generation should raise the Group's ability to invest, widening the Group's strategic options and helping to mitigate strategic and enterprise risk.

The Risk function undertakes regular risk oversight activity, with workstreams focused solely on the execution risk of delivering integration, placing customers' interests at the centre of all aspects of change.

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 monitored against the Financial Plan by the Group's Board and Executive Leadership Team, who react to deviations from targets and modify strategy accordingly. Furthermore, a number of macroeconomic Tier 1 RAS Early Warning Indicators (EWIs) were established during 2019. 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.

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, other colleagues or our shareholders and could ultimately lead to regulatory sanction.

Our drive to foster a culture which engages and encourages our people to deliver customer-focused outcomes with a clear set of supporting Values and Behaviours is an important step in mitigating people risk.

Risk appetite

While the organisational structure changes being implemented to support the integration of Virgin Money Holdings (UK) PLC will drive an inherent increase in people risk, the combined Group will provide a catalyst for cultural transformation, which aims to create a high performing, purpose driven, customer-centric organisation, where colleagues have accountability and responsibility, alongside appropriate reward structures.

The Group will not accept a material increase in risk as a result of colleagues not conducting themselves in the manner expected, nor will the Group act in a manner that may affect the health and well-being of colleagues. The Group will not take intentional action that may impact on its ambition to build an inclusive culture and will continue 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 a set of Values, Behaviours and Policies.

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 integration evolution 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 well-being, succession and conduct.

— The role of the HR function: HR partners support the Executive Leadership Team and provide broader support to all 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 to the Executive Leadership Team.

Monitoring

People risks including culture are monitored and reported through Executive and Board Governance Committees. IA is piloting 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 business-as-usual services to customers as well as the key subject matter experts needed to keep critical functions operating while under duress.

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT
to the members of Virgin Money UK PLC (formerly CYBG PLC)

Our opinion on the financial statements

In our opinion:

— the Virgin Money UK PLC 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 2019 and of the Group's loss for the year then ended;

— the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('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.

What we have audited

The financial statements comprise:

GROUP	PARENT COMPANY
Consolidated income statement for the year ended 30 September 2019	
Consolidated statement of comprehensive income for the year ended 30 September 2019	
Consolidated balance sheet as at 30 September 2019	Company balance sheet as at 30 September 2019
Consolidated statement of changes in equity for the year ended 30 September 2019	Company statement of changes in equity for the year ended 30 September 2019
Consolidated statement of cash flows for the year ended 30 September 2019	Company statement of cash flows for the year ended 30 September 2019
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 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.

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 page 28 to 29 that describe the principal risks and explain how they are being managed or mitigated;

— the Directors' confirmation set out on page 79 in the Annual Report that they have carried out a robust assessment of the 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 209 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 12 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 134 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	— Provisions for Payment Protection Insurance. — Impairment of loans. — Revenue recognition – effective interest method accounting. — Accounting for the acquisition of Virgin Money Holdings (UK) PLC.
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 £25m which represents 4.4% of underlying profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Board's Audit Committee
Payment Protection Insurance (PPI) Provision The Group has recorded £379m in relation to PPI redress. Please refer to page 89 (Audit Committee report), pages 248 and 249 (Provisions for liabilities and charges note), pages 259 and 260 (Contingent liabilities and commitments note). The Group has a material provision relating to its conduct towards its past and present customers linked to its historic practices of PPI sales. The FCA deadline of 29 August 2019 (the 'deadline') for customers to lodge PPI related complaints has now passed. The Group received a significant number of complaints and information requests from claims management companies and direct from consumers in the run up to this deadline. As at 30 September 2019, a large number of these complaints remained unprocessed. Significant judgements and assumptions are required to be made by the Directors in relation to the quality of the complaints and information requests ('IRs') received, the quantum of future redress payments and the associated administration costs that will be required. The most significant assumption is in relation to the proportion of IRs and complaints that will ultimately require PPI redress payments, and costs associated with doing so. Details of these assumptions are reported in further detail on page 249 in note 3.16.	We tested key controls operating within the PPI case handling process which supported the data used in the determination of the key assumptions. We found that we could rely on these controls. We examined the model used by the Directors to determine a best estimate of the provision for mis-sold PPI. We assessed the appropriateness of key PPI provision model assumptions which included IR to complaint conversion, uphold and average redress rates, as well as case processing costs, with reference to the Group's historic experience and comparisons to publicly available information from across the industry. We considered the results of the sampling exercise undertaken by the Directors in relation to the population of IRs and claims received in the two months before the deadline. We tested the clerical accuracy of the Directors' provision calculations and sensitivity analysis. We determined an independent range of reasonable future PPI cost outcomes using the Group's historical experience of PPI claims and the sampling exercise outcomes, and we compared this range to the Directors' estimate. In evaluating the Directors' provision assumptions, we considered the Group's historical forecasting accuracy in this area and we examined correspondence during the year between the Group and the FCA, and other regulatory pronouncements. We compared the Directors' assumptions to our own expectations based on the Group's historical experience, current trends and our industry knowledge.	We communicated to Audit Committee that the provision for PPI related claims as at 30 September 2019 as held by the Group was within our independently determined range of reasonable outcomes and was compliant with the requirements of the applicable accounting standards. We noted that the Group's disclosures describe the uncertainties and risks associated with determination of the provision, and sensitivity of the provision to changes in key assumptions. The Directors' best estimate for the cost required to process the remaining unprocessed PPI cases as at 30 September 2019 was determined via probability weighting a number of likely scenarios. We noted to the Audit Committee that while the risk in relation to estimation uncertainty has reduced as a result of the deadline now having passed, the estimation process remains inherently uncertain and required significant judgements to be made by Directors. We also noted to the Audit Committee the upper end of our independently determined range illustrated the risk that the costs incurred by the Group could materially exceed the Directors' estimate, which is consistent with the disclosures made within note 3.16 to the financial statements.

Risk	Our response to the risk	Key observations communicated to the Board's Audit Committee
Impairment of loans The Group adopted the new accounting standard for financial instruments (IFRS 9) from 1 October 2018, which introduced new requirements for the classification and measurement of financial assets and liabilities and the recognition of impairment of financial assets. Please refer to pages 145 and 146 (Credit risk report), pages 223 to 225 (Impairment provisions on credit exposures). At 30 September 2019, the Group reported total gross loans of £73,303 million and £362 million of loan loss provisions. Key judgements and estimates in respect of the measurement of expected credit losses ('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 used to estimate the impact of multiple economic scenarios; — completeness and valuation of post model adjustments; — measurements of individually assessed provisions including the assessment of multiple scenarios; and — accuracy and adequacy of the financial statement disclosures.	As IFRS 9 was adopted by the Group on 1 October 2018, we performed audit procedures on the opening balances to gain assurance on the impact of transition from IAS 39. This included evaluating accounting interpretations and disclosures, as well as the calculation of the adjustment against the requirements of IFRS 9. We tested the design and operating effectiveness of controls operating within processes relevant to ECL calculations. This included credit monitoring, individual provisions and production of journal entries. We performed independent calculations of the Group's staging, to determine if they were reasonable given the Group's lending portfolio, risk profile, credit risk management practices and the macroeconomic environment. We considered trends in the economy and industries to which the Group is exposed. We challenged the criteria used to allocate assets to Stage 1, 2 or 3 in accordance with IFRS 9. We tested assets in Stage 1, 2 and 3 to verify that they were allocated to the appropriate Stage. We tested the assumptions, inputs and formulae used in a risk-based sample of ECL models. 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 a sample of individual loans within a sample of models. 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 loans and compared to the Group's determinations.	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 economic scenarios adopted by the Directors, concluded that the resulting position was considered to be within a reasonable range of potential outcomes.

INDEPENDENT AUDITOR'S REPORT
to the members of Virgin Money UK PLC (formerly CYBG PLC)

Risk	Our response to the risk	Key observations communicated to the Board's Audit Committee
Loan loss provisioning	We assessed the economic scenario base case and alternative economic scenarios adopted by the Directors with economics specialists. We challenged the probability weighting 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 House Price Index, were appropriate loan loss provision drivers. We assessed the completeness and appropriateness of the Directors' post model adjustments and recalculated a sample. Based on current economic conditions and market circumstances, we considered the need for sector or systemic adjustments. We assessed the appropriateness of the scenarios used and the calculation of the overlay adopted in response to Brexit 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 weights 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 assessed the adequacy and appropriateness of the disclosures made within the financial statements, including those related to the transition from IAS 39 to IFRS 9, for compliance with the accounting standards.	

Risk	Our response to the risk	Key observations communicated to the Board's Audit Committee
Revenue recognition – effective interest method The Group records interest income on its mortgage and credit card portfolio under the effective interest rate ('EIR') method. Please refer to in note 2.2 on pages 215 and 216. Following the acquisition of Virgin Money Holdings (UK) PLC on 15 October 2018, EIR accounting on the Group's credit card portfolio increased in significance. As set out in note 2.2 on page 216, during the year the Group revised its estimation of EIR income, and the associated balance sheet amounts, across its mortgage and credit cards portfolios. The fair value adjustments recorded on acquired portfolios are amortised 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 cash flows, 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. Due to the complexity of calculations, the degree of judgement exercised by the Directors in respect of forecast future cash flows, the different products for which fees are recognised, and the sensitivity of the amounts recognised in the financial statements to key assumptions, this was considered a key audit matter.	We assessed the Directors' EIR accounting policy and the revised estimation methodology adopted by the Group during the year for compliance with the accounting standard. We gained an understanding of the key processes, controls, assumptions and judgements used within the Directors' EIR models. We also assessed the Directors' 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 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 cash flows outcomes using the Group's historical experience and our understanding of the industry, and 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 disclosures made within the financial statements regarding the key estimates made within the EIR models, and their sensitivity to reasonable alternative assumptions.	We communicated to the Audit Committee that the models, assumptions and calculations informing the EIR calculation as at 30 September 2019 were reasonable and that these resulted in EIR adjustments to interest income which were appropriately derived. We also 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 wider current economic, market and regulatory pressures, and that 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.

Risk	Our response to the risk	Key observations communicated to the Board's Audit Committee
Accounting for the acquisition of Virgin Money Holdings (UK) PLC As set out in note 3.19 on pages 253 and 254, on 15 October 2018, the Group acquired Virgin Money Holdings (UK) PLC which comprised £45bn of assets and £43bn of liabilities. The transaction resulted in the recognition of £11m of goodwill. Under IFRS 3, the assets and liabilities acquired in a business combination are recorded at fair value. Significant judgement was required in determining the fair values of assets and liabilities as at the date of acquisition, particularly: — the future cash flow expectations that formed the basis on which the mortgage and credit card portfolio fair values were determined; — the appropriateness of the discount rates used in the discounted cash flow valuation models; — key judgements regarding the replacement funding costs assumed within the Term Funding Scheme valuation; and — the Directors' assessment of other intangible assets.	We gained an understanding of the Directors' fair value modelling process for material asset and liability balances acquired in the business combination. With the involvement of our valuation and business modelling specialists, we assessed the Directors' valuation models and the key assumptions used within them, which were used to determine the acquisition fair values of the assets and liabilities acquired. We challenged the completeness of the Directors' identification of intangible assets, and valuation ascribed to those assets. We assessed the Directors' disclosures of the acquisition of Virgin Money Holdings (UK) PLC for compliance with the disclosure requirements of IFRS 3 and recalculated the resulting goodwill recognised on acquisition.	We communicated to the Audit Committee that the methodology, key judgements and assumptions applied by the Directors in determining the acquisition fair values of Virgin Money Holdings (UK) PLC's assets and liabilities led to valuations that were within acceptable ranges. Our valuation assessments for intangible assets related to the customer relationships for certain business units and other intangible assets noted minor differences that were not material in the context of the financial statements. We noted that the required disclosures related to the business combination had been made appropriately.

In the prior year, our auditor's report included a key audit matter in respect of SME lending impairment provisions assessed under the previously applicable accounting standard IAS 39. In the current period, IAS 39 was superseded by IFRS 9 which has been identified as a key audit matter as outlined in the table above.

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 £25.0m (2018: £15.0m), which represents 4.4% of underlying profit on ordinary activities before tax (consistent with our prior year approach, this is defined as the Group's profit before tax adjusted to exclude one-off items incurred during the year and those related to conduct provisions and restructuring), which equates to 0.5% of Group equity. This measure of underlying profit before tax is consistent with the wider industry, and a results-based measure is the most commonly used approach for listed and regulated entities. We observed that this measure is frequently referred to by users of the Group's financial statements. We selected underlying profit before tax, excluding Virgin Money pre-acquisition losses, as this better reflects the longer term performance of the Group. This is also set out on page 52 in the Financial Results, in the Directors' reconciliation of statutory to proforma results.

Performance materiality

Performance materiality is 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% (2018: 75%) of our planning materiality, namely £18.8m (2018: £11.3m). 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

This is the 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 (2018: £0.8m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 192, including the Strategic report set out on pages 2 to 52, the Financial results set out on pages 40 to 52, Governance set out on pages 53 to 136, the Risk report set out on pages 137 to 192, and Additional information set out on pages 277 to 288 other than the financial statements and our auditor's report thereon. 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 136 – 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 pages 86 to 92 – 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 67 – 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.

INDEPENDENT AUDITOR'S REPORT
to the members of Virgin Money UK PLC (formerly CYBG PLC)

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

— the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

— the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

— adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or

— the Parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of Directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 136, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect of 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 audit approach in respect of irregularities, including fraud, 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 Prudential Regulation Authority (PRA) and the Financial Conduct Authority (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 risk management framework (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; and

— 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 www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address:

— we were appointed as Virgin Money UK PLC's external auditor and signed an engagement letter on 14 January 2016, prior to Virgin Money UK PLC (formerly CYBG PLC) becoming the holding company of the Group on its Demerger and IPO in February 2016. The period of total uninterrupted engagement as auditors of Virgin Money UK PLC including previous renewals and reappointments, is four years, covering the years ending 30 September 2016 to 30 September 2019;

— the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit; and

— the audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Steven Robb (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
Leeds

27 November 2019

Notes

1. The maintenance and integrity of the Virgin Money UK PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER	NOTE	2019 £M	2018 £M
Interest income		**2,420**	1,098
Other similar interest		**13**	15
Interest expense and similar charges		**(919)**	(262)
Net interest income	2.2	**1,514**	851
Gains less losses on financial instruments at fair value		**(17)**	(3)
Other operating income		**252**	159
Non-interest income	2.3	**235**	156
Total operating income		**1,749**	1,007
Operating and administrative expenses before impairment losses	2.4	**(1,729)**	(1,130)
Operating profit/(loss) before impairment losses		**20**	(123)
Impairment losses on credit exposures	3.2	**(252)**	(41)
Loss on ordinary activities before tax		**(232)**	(164)
Tax credit	2.5	**38**	19
Loss for the year		**(194)**	(145)
Attributable to:			
Ordinary shareholders		**(268)**	(181)
Other equity holders		**41**	36
Non-controlling interests		**33**	–
Loss for the year		**(194)**	(145)
Basic loss per share (pence)	2.6	**(17.9)**	(19.7)
Diluted loss per share (pence)	2.6	**(17.9)**	(19.7)

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

The notes on pages 209 to 266 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER	NOTE	2019 £M	2018 £M
Loss for the year		**(194)**	(145)
ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT			
Change in cash flow hedge reserve			
Gains/(losses) during the year		**73**	(58)
Transfers to the income statement		**(57)**	9
Taxation thereon – deferred tax (charge)/credit		**(9)**	11
Taxation thereon – current tax credit		**6**	–
		13	(38)
Change in FVOCI reserve			
Gains during the year		**13**	–
Transfers to the income statement		**(4)**	–
Taxation thereon – deferred tax charge		**(2)**	–
		7	–
Total items that may be reclassified to the income statement		**20**	(38)
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT			
Change in asset revaluation reserve	3.9	**–**	–
Taxation thereon – deferred tax (charge)/credit		**(1)**	1
Remeasurement of defined benefit pension plans	3.12	**110**	(9)
Taxation thereon – deferred tax (charge)/credit		**(56)**	3
Taxation thereon – current tax credit		**7**	–
		61	(6)
Total items that will not be reclassified to the income statement		**60**	(5)
Other comprehensive income/(losses), net of tax		**80**	(43)
Total comprehensive losses for the year, net of tax		**(114)**	(188)
Attributable to:			
Ordinary shareholders		**(188)**	(224)
Other equity holders		**41**	36
Non-controlling interests		**33**	–
Total comprehensive losses for the year, net of tax		**(114)**	(188)

The notes on pages 209 to 266 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER	NOTE	2019 £M	2018[(2)] £M
ASSETS			
Financial assets at amortised cost			
Loans and advances to customers	3.1	**73,095**	32,748
Cash and balances with central banks	3.4	**10,296**	6,573
Due from other banks		**1,018**	693
Financial assets at fair value through profit or loss			
Loans and advances to customers	3.5	**253**	362
Derivative financial instruments	3.6	**366**	262
Other financial assets	3.5	**14**	–
Financial assets at fair value through other comprehensive income[(1)]	3.7	**4,328**	–
Financial assets available for sale[(1)]	3.8	**–**	1,562
Property, plant and equipment	3.9	**145**	88
Intangible assets and goodwill	3.10	**516**	412
Current tax assets		**13**	–
Deferred tax assets	3.11	**322**	206
Defined benefit pension assets	3.12	**396**	212
Other assets		**237**	338
Total assets		**90,999**	43,456
LIABILITIES			
Financial liabilities at amortised cost			
Customer deposits	3.13	**64,000**	28,904
Debt securities in issue	3.14	**9,591**	4,973
Due to other banks	3.15	**8,916**	3,088
Financial liabilities at fair value through profit or loss			
Customer deposits	3.5	**4**	15
Derivative financial instruments	3.6	**273**	361
Deferred tax liabilities	3.11	**201**	77
Provisions for liabilities and charges	3.16	**459**	331
Other liabilities	3.17	**2,534**	2,521
Total liabilities		**85,978**	40,270
EQUITY			
Share capital and share premium	4.1	**146**	89
Other equity instruments	4.1	**915**	450
Capital reorganisation reserve	4.1	**(839)**	(839)
Merger reserve	4.1	**2,128**	633
Other reserves	4.1	**10**	(20)
Retained earnings	4.1	**2,661**	2,873
Total equity		**5,021**	3,186
Total liabilities and equity		**90,999**	43,456

(1) Changes required as a result of the adoption of IFRS 9 from 1 October 2018. Refer to notes 1.9 and 5.4.
(2) The comparative year has been restated in line with the current year presentation. Refer to note 1.10.

The notes on pages 209 to 266 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 27 November 2019 and were signed on its behalf by:

David Duffy
Chief Executive Officer

Ian Smith
Group Chief Financial 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 4.1.5	AVAILABLE FOR SALE RESERVE(1) £M 4.1.5	FVOCI RESERVE(1) £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 2017	88	(839)	633	450	–	–	8	1	7	–	(1)	3,055	–	3,402
Loss for the year	–	–	–	–	–	–	–	–	–	–	–	(145)	–	(145)
Other comprehensive income/(losses), net of tax	–	–	–	–	–	–	–	1	–	–	(38)	(6)	–	(43)
Total comprehensive income/(losses) for the year	–	–	–	–	–	–	–	1	–	–	(38)	(151)	–	(188)
Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	–	–	–	–	(9)	–	(9)
AT1 distribution paid (net of tax)	–	–	–	–	–	–	–	–	–	–	–	(29)	–	(29)
Transfer from equity based compensation reserve	–	–	–	–	–	–	(7)	–	–	–	–	7	–	–
Ordinary shares issued	1	–	–	–	–	–	–	–	–	–	–	–	–	1
Equity based compensation expensed	–	–	–	–	–	–	9	–	–	–	–	–	–	9
As at 30 September 2018	89	(839)	633	450	–	–	10	2	7	–	(39)	2,873	–	3,186
Changes on adoption of IFRS 9 and IFRS 15 (note 5.4)	–	–	–	–	–	–	–	–	(7)	4	–	(18)	–	(21)
As at 1 October 2018	89	(839)	633	450	–	–	10	2	–	4	(39)	2,855	–	3,165
Loss for the year	–	–	–	–	–	–	–	–	–	–	–	(194)	–	(194)
Other comprehensive (losses)/income net of tax	–	–	–	–	–	–	–	(1)	–	7	13	61	–	80
Total comprehensive (losses)/income for the year	–	–	–	–	–	–	–	(1)	–	7	13	(133)	–	(114)
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 (net of tax)	–	–	–	–	–	–	–	–	–	–	–	(33)	–	(33)
Distributions to non-controlling interests (net of tax)	–	–	–	–	–	–	–	–	–	–	–	(26)	–	(26)
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**

(1) Changes required as a result of the adoption of IFRS 9 from 1 October 2018. Refer to notes 1.9 and 5.4.

The notes on pages 209 to 266 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER	NOTE	2019 £M	2018 £M
OPERATING ACTIVITIES			
Loss on ordinary activities before tax		**(232)**	(164)
Adjustments for:			
Non-cash or non-operating items included in loss before tax	5.2	**(1,035)**	(715)
Changes in operating assets	5.2	**(2,211)**	(1,059)
Changes in operating liabilities	5.2	**2,635**	(122)
Interest received		**2,320**	1,108
Interest paid		**(745)**	(173)
Tax paid		**(8)**	–
Net cash provided by/(used in) operating activities		**724**	(1,125)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**27**	12
Cash acquired on acquisition of Virgin Money Holdings (UK) PLC		**4,106**	–
Proceeds from maturity of financial assets at FVOCI		**659**	–
Proceeds from maturity of available for sale investments		**–**	245
Proceeds from sale of financial assets at FVOCI		**352**	–
Proceeds from sale of available for sale investments		**–**	822
Purchase of financial assets at FVOCI		**(1,647)**	–
Purchase of available for sale investments		**–**	(593)
Proceeds from sale of 50% (less one share) consideration in UTM		**45**	–
Proceeds from sale of property, plant and equipment		**3**	9
Purchase of property, plant and equipment		**(20)**	(22)
Purchase and development of intangible assets		**(130)**	(144)
Net cash provided by investing activities		**3,395**	329
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest received		**–**	1
Interest paid		**(81)**	(94)
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		**(2,003)**	(1,372)
Issuance of RMBS and covered bonds		**2,227**	1,049
Issuance of medium-term notes/subordinated debt		**642**	497
Amounts drawn down under the TFS		**–**	1,250
Amounts repaid under the TFS		**(1,295)**	(900)
Ordinary dividends paid		**(45)**	(9)
AT1 distributions		**(41)**	(36)
Distributions to non-controlling interests		**(33)**	–
Net cash (used in)/provided by financing activities		**(542)**	386
Net increase/(decrease) in cash and cash equivalents		**3,577**	(410)
Cash and cash equivalents at the beginning of the year		**6,542**	6,952
Cash and cash equivalents at the end of the year	5.2	**10,119**	6,542

Reconciliation of movements to liabilities from cash flows arising from financing activities	TERM FUNDING SCHEME £M	DEBT SECURITIES IN ISSUE £M	TOTAL £M
At 1 October 2018	2,254	4,973	7,227
CASH FLOWS:			
Issuances	–	2,869	2,869
Redemptions	–	(2,003)	(2,003)
Repayment	(1,295)	–	(1,295)
NON-CASH FLOWS:			
Acquisition of TFS and debt securities in issue	6,389	3,548	9,937
Fair value adjustments and associated unwind on acquired TFS and debt securities in issue	(48)	8	(40)
Movement in accrued interest	8	7	15
Unrealised foreign exchange movements	–	45	45
Unamortised costs	–	6	6
Other movements	–	138	138
At 30 September 2019	**7,308**	**9,591**	**16,899**

The notes on pages 209 to 266 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 2019 or later years. We explain how these changes are expected to impact the financial position and performance of the Group.

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 land and buildings, investment properties, and certain other 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 2019, the Directors have considered a number of factors, including the current balance sheet position, the principal and emerging risks which could impact the performance of the Group, the Group's strategic and financial plan and the impact of the acquisition of Virgin Money Holdings (UK) PLC. The assessment concluded that, for the foreseeable future, the Group has sufficient capital to support its operations; has a funding and liquidity base which is strong, robust and well managed with future capacity; and has expectations that performance will continue to improve as the Group's strategy is executed.

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 risks successfully in line with its business model and strategic aims. 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. Post-acquisition, income received and expenses incurred by the entity or entities acquired are included in the consolidated income statement on a line-by-line basis in accordance with the accounting policies set out herein. 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 joint venture entities are accounted for using the equity method and then assessed for impairment in the relevant companies financial statements.

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

Section 1: Basis of preparation continued

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 fair value through profit or loss or fair value through other comprehensive income 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 fair value through profit or loss, 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

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.

ii. Fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income (FVOCI) when (1) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; 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, unless the financial asset is designated at fair value through profit or loss on initial recognition.

iii. Fair value through profit or loss

A financial asset is measured at fair value through profit or loss (FVTPL) if it (1) does not fall into one of the business models described above; (2) is specifically designated as FVTPL on initial recognition in order to eliminate or significantly reduce a measurement mismatch; or (3) is classified as held for trading.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling in the near term, forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Financial liabilities
All financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities include derivatives (other than derivatives that are financial guarantee contracts or are designated and effective hedging instruments), and liabilities designated at fair value through profit or loss 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 set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.8 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. Assumptions made at each balance sheet date are based on best estimates at that date. Although the Group has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those 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);

— effective interest rate (note 2.2);

— deferred tax (note 3.11);

— PPI redress provision and other conduct related matters (note 3.16); and

— retirement benefit obligations (note 3.12).

The valuation of the Group's portfolio of loans and advances held at fair value through profit or loss is no longer considered a critical accounting estimate. While unobservable inputs such as the future expectation of credit losses will continue to impact the value of the portfolio, the balance has reduced to a level such that these are no longer considered to be critical to the Group's results.

1.9 New accounting standards and interpretations

The Group has adopted a number of International Accounting Standards Board (IASB) pronouncements in the current financial year.

IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' was issued in July 2014 and effective for financial periods beginning on or after 1 January 2018. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' in accounting for financial instruments and introduces changes to the classification and measurement of financial instruments and the impairment of financial assets. IFRS 9 also introduces new requirements for hedge accounting but includes an accounting policy choice for entities to continue to follow the hedge accounting requirements under IAS 39 until the IASB has an agreed strategy for macro hedge accounting. Consequently, the Group has decided to exercise the available accounting policy option and has chosen not to adopt the hedge accounting requirements of IFRS 9 at this time. There is no change to the Group's policy on financial liabilities, which are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss.

Financial assets are classified under IFRS 9 using a two-step process: (i) a business model assessment, and (ii) an assessment of whether the contractual terms of the financial asset give rise to cash flows which are consistent with that of solely payments of principal and interest.

The accounting policies for loans and advances to customers (note 3.1), impairment provisions on credit exposures (note 3.2) and financial assets at fair value through profit or loss (note 3.5), have been revised, and an accounting policy for the new category of financial assets 'financial assets at fair value through other comprehensive income' introduced (note 3.7).

The accounting policy for financial assets available for sale (note 3.8) is no longer relevant as this financial asset category has been removed with the introduction of IFRS 9. All accounting policies for financial assets under IAS 39 that were applicable for the Group up to and including 30 September 2018 have not been replicated in this report but can be found in the Group's 2018 Annual Report and Accounts.

On transition and as permitted by IFRS 9, the Group has not restated comparative figures, with the impact of adopting IFRS 9 adjusted through retained earnings. Further detail on the transitional impact of IFRS 9 can be found in note 5.4.

IFRS 15 'Revenues from Contracts with Customers'
IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014 and effective for financial periods beginning on or after 1 January 2018. IFRS 15 replaces IAS 11 'Construction Contracts' and IAS 18 'Revenue' as the accounting standard on revenue recognition.

IFRS 15 requires revenue to be reflected as a transfer of goods or services to customers in an amount that recognises the consideration to which the Group expects to be entitled. This is satisfied by following a principles based five-step model for revenue recognition.

The majority of the Group's revenue is interest income generated from financial instruments, with the recognition criteria covered in IFRS 9 and not as part of IFRS 15. Interest income generated from lease contracts is also out of scope for IFRS 15. Fees and commissions together with certain elements of non-interest income are in scope of IFRS 15, with the Group's existing accounting policy materially consistent with the expectations under IFRS 15.

On transition and as permitted by IFRS 15, the Group has not restated comparative figures, with the impact of adopting IFRS 15 adjusted through retained earnings. Further detail on the transitional impact of IFRS 15 can be found in note 5.4.

Section 1: Basis of preparation continued

1.9 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:

— amendments to IFRS 2: 'Classification and Measurement of Share-based Payment Transactions' issued in June 2016 and effective for financial years beginning on or after 1 January 2018. The amendments provide guidance on the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; classification of share-based payments with a net settlement feature for withholding tax obligations; and accounting for modifications to a share-based payment that change the classification from cash-settled to equity-settled;

— 'Annual Improvements to IFRS Standards 2014-2016 Cycle', issued December 2016 and effective for financial years beginning on or after 1 January 2018. The amendment relates to IAS 28: 'Investments in Associates and Joint Ventures' and the measurement of an associate or joint venture at fair value;

— IFRIC interpretation 22: 'Foreign Currency Transactions and Advance Consideration', issued December 2016 and effective for financial years beginning on or after 1 January 2018. The new interpretation provides requirements on which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance; and

— amendments to IFRS 9: 'Prepayment Features with Negative Compensation' issued in October 2017 and effective for financial years beginning on or after 1 January 2019. The amendments allow companies to measure particular prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met, instead of these being measured at fair value through profit or loss. The Group early adopted this amendment with effect from 1 October 2018 in line with the adoption of IFRS 9.

New accounting standards and interpretations not yet adopted

IFRS 16 'Leases' was issued in January 2016 and is effective for financial years beginning on or after 1 January 2019. A separate update on the Group's implementation of this new standard can be found at the end of this section.

There are a number of other standards, interpretations and amendments that have not been applied by the Group in preparing these financial statements as they are either not available for adoption in the EU or are not mandatory for the Group as at 30 September 2019. The pronouncements, while relevant to the Group, are not anticipated to have a material impact and include:

— IFRIC interpretation 23: 'Uncertainty over Income Tax Treatments', issued 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'(1), 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 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. The Group has assessed that, on adoption of this amendment, the taxation impacts of distributions relating to Additional Tier 1 (AT1) securities would be recognised within 'Tax expense' in the income statement. Currently these taxation impacts are recognised directly in 'Retained earnings' within equity. As the amendment impacts only the presentation of taxation impacts but not their calculation, adoption will not result in any change to the Group's net assets but will result in an increase in 'Profit for the year attributable to equity owners' compared to existing practice. If the Group had applied the amendment in these financial statements, the Profit for the year attributable to equity owners would have been £15m (2018: £7m) higher than that disclosed in the income statement, with an equivalent reduction in 'Tax expense';

— amendment to IAS 19: 'Plan amendment, curtailment or settlement'(1) 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;

— amendments to references to the 'Conceptual Framework in IFRS Standards'(1), issued in March 2018 and effective for financial years beginning on or after 1 January 2020. The amendments were issued following the IASB's publication of a revised version of its Conceptual Framework for Financial Reporting and updates the references in IFRS standards to previous versions of the Conceptual Framework;

— 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 joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests);

(1) Not yet endorsed by the EU.

— amendments to IAS 1: 'Presentation of Financial Statements' and IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors'[(1)] issued in October 2018 and effective prospectively for financial years beginning on or after 1 January 2020. The amendments provide clarification on the definition of 'material';

— amendments to IFRS 3: 'Business Combinations'[(1)] issued in October 2018 and effective prospectively for financial years beginning on or after 1 January 2020. The amendment assists in the determination of whether an acquired set of activities and assets meets the test of being classed as a business; and

— Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)[(1)] issued in September 2019 and effective for financial years beginning on or after 1 January 2020. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). The Group is working through the implications of the amendment ahead of implementation from 1 October 2020.

Update on IFRS 16: 'Leases'
IFRS 16 'Leases' was issued in January 2016 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 is effective for annual periods beginning on or after 1 January 2019 and was EU endorsed on 31 October 2017. The Group will apply the standard from 1 October 2019.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and will result in most leases for lessees being brought on to the balance sheet under a single lease model, removing the distinction between finance and operating leases. It requires a lessee to recognise a 'right-of-use' asset and a lease liability. Lessor accounting remains largely unchanged.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, 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 right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate is used for the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in amount expected to be payable under a residual value guarantee, or if there is a change in the assessment of whether a purchase, extension or termination option will be exercised.

When a lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-to-use asset or is recorded in the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

Transition approach and use of practical expedients
The Group will elect to 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 Group will also elect to apply the recognition exemptions for short-term leases (with a remaining lease term of less than 12 months) and low value leases. Lease payments associated with these leases will be recognised as an expense on a straight line basis over the term of the lease.

The Group will apply IFRS 16 using 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 approach, at transition, lease liabilities will be measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 October 2019.

For the purposes of applying the modified retrospective approach, the Group will elect 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; and

— apply the practical expedient to rely on its assessment 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.

(1) Not yet endorsed by the EU.

Section 1: Basis of preparation continued

1.9 New accounting standards and interpretations continued

Key accounting judgements

The Group undertook a technical assessment of IFRS 16. The two key accounting judgements in relation to IFRS 16 are the determination of the discount rates and lease term.

When measuring the lease liability, lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate is used for the discount rate. Under the modified retrospective approach, the Group will use its incremental borrowing rate at the date of initial application as the discount rate. Judgement will be required to determine an appropriate incremental borrowing rate.

When determining lease term, an assessment is required of whether an extension or termination option will be exercised. This is reassessed if there is a significant event or significant change in circumstances within the Group's control. Judgement is required when making this assessment.

Impact of transition to IFRS 16

On transition to IFRS 16, the Group estimates it will recognise right-of-use assets of approximately £196m and lease liabilities of approximately £207m, with no material impact to retained earnings. The Group will not restate comparative periods.

The Group continues to refine, monitor and validate certain elements of the IFRS 16 model and related controls ahead of full reporting of IFRS 16 impacts later in 2020.

The standard is not expected to have any significant impact on lessor accounting by the Group.

1.10 Prior period comparatives

The prior period comparatives in the balance sheet have been restated in line with the current year presentation. £34m of derivative collateral in relation to clearing houses has been reclassified between other liabilities and due to other banks and £143m has been reclassified between other assets and due from other banks. In addition, certain line items within assets and liabilities which are not material have been aggregated with other similar line items.

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.

Following the acquisition of Virgin Money Holdings (UK) PLC and up until 30 September 2019, the business has been assessed and reported to the Group's Chief Operating Decision Maker as a single segment, with decisions being made on the performance of the Group on that basis.

With effect from 1 October 2019, the business has been aligned to a three operating segments model: Business, Personal and Mortgages. Reporting on this segmental basis will be included in the 2020 Interim Results.

Summary income statement

	2019 £M	2018 £M
Net interest income	**1,514**	851
Non-interest income	**235**	156
Total operating income	**1,749**	1,007
Operating and administrative expenses	**(1,729)**	(1,130)
Impairment losses on credit exposures	**(252)**	(41)
Segment loss before tax	**(232)**	(164)
Average interest earning assets	**86,362**	39,417

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 reflected 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 reflected in the income statement using the same effective interest method on the amortised cost of the financial liability.

When calculating the effective interest rate, 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 effective interest rate 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 effective interest rate calculation. Non-utilisation of a commitment fee is 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 expected credit loss (ECL) using the original effective rate of interest. 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 effective interest rate. The interest income for purchase or originated credit impaired financial assets is calculated using the credit-adjusted effective interest rate applied to the amortised cost of the financial asset from initial recognition. The Group recognises and presents the reversal of expected credit losses 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 fair value through profit or loss are also recognised as part of net interest income.

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 fair value through profit or loss (either mandatory or by election) are also recognised within net interest income. With effect from 1 October 2018, IAS 1 'Presentation of financial statements' prohibits the inclusion of such interest within 'Interest income'. Therefore interest income or expense on these items is now presented within 'Other similar interest'. Comparatives have been restated.

Section 2: Results for the year continued

2.2 Net interest income continued

Accounting policy (continued)

Critical accounting estimates and judgements
Effective interest rate (EIR)
Following the acquisition of Virgin Money Holdings (UK) PLC, the Group considered the application of EIR in relation to its reported amounts of assets, liabilities, revenues and expenses. The Group has concluded that sufficient judgement is now exercised on EIR for it to be included within its disclosures on critical accounting estimates and judgements.

The EIR is determined at initial recognition based upon management'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. Management 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 83% of customers will have fully repaid or re-mortgaged within two months of reverting to SVR. If this were to increase to 90%, the loans and advances to customers balance would reduce by £20m with the adjustment recognised in net interest income.

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, transaction and 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 5.26% while that on acquired portfolios nearing the end of their promotional periods is 8.22% (this excludes those which were out of their promotional periods at the date of acquisition and therefore do not form part of the EIR modelling). Revisions to the estimates of future cash flows (compared to the original assumptions) that would have resulted in the EIR across all cohorts being reduced by 25bps, would lead to a £16m decrease in the loans and advances to customers balance. This present value adjustment would be recognised in interest income.

The Group holds an appropriate level of model risk reserve across both asset classes to mitigate the risk of estimation uncertainty.

	2019 £M	2018 £M
INTEREST INCOME		
Loans and advances to customers	**2,320**	1,057
Loans and advances to other banks	**72**	26
Financial assets at fair value through other comprehensive income	**27**	–
Financial assets available for sale	**–**	12
Other interest income	**1**	3
Total interest income	**2,420**	1,098
OTHER SIMILAR INTEREST		
Financial assets at fair value through profit or loss	**21**	29
Financial liabilities at fair value through profit or loss	**–**	(1)
Derivatives economically hedging interest bearing assets	**(8)**	(13)
Total other similar interest	**13**	15
LESS: INTEREST EXPENSE AND SIMILAR CHARGES		
Customer deposits	**(580)**	(148)
Debt securities in issue	**(185)**	(94)
Due to other banks	**(144)**	(18)
Other interest expense	**(10)**	(2)
Total interest expense and similar charges	**(919)**	(262)
Net interest income	**1,514**	851

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 fair value through profit or loss – 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 effective interest rate 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 generated from the sale of and management of funds, Stocks and Shares Individual Savings Accounts ('ISAs') and pensions to retail investors. The contractual performance obligations to investors are aligned to the obligations required of UK authorised fund managers.

In return for providing these continuous services, a management charge (expressed on an annualised basis to customers) is levied on investors' funds under management. This charge is accrued by the products via adjustment to the closing unit prices of investors' holdings on a daily basis.

	2019 £M	2018 £M
GAINS LESS LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE		
Held for trading derivatives	**16**	16
Financial assets and liabilities at fair value[1]	**3**	(13)
Ineffectiveness arising from fair value hedges (note 3.6)	**(22)**	–
Ineffectiveness arising from cash flow hedges (note 3.6)	**(14)**	(6)
	(17)	(3)
OTHER OPERATING INCOME		
Net fee and commission income	**195**	141
Margin on foreign exchange derivative brokerage	**19**	18
Gain on sale of financial assets at fair value through other comprehensive income	**3**	–
Gain on sale of Virgin Money Unit Trust Managers Limited[2]	**35**	–
Share of joint venture results	**(1)**	–
Other income	**1**	–
	252	159
Total non-interest income	**235**	156

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

	2019 £M	2018 £M
Current account and debit card fees	**117**	114
Credit cards	**42**	13
Insurance, protection and investments	**37**	13
Non-banking and other fees[3]	**31**	32
Total fee and commission income	**227**	172
Total fee and commission expense	**(32)**	(31)
Net fee and commission income	**195**	141

(1) A credit risk gain on other assets and liabilities at fair value of £2m has been recognised in the current year (2018: £3m gain).
(2) The Group ceased generating management fees directly from the sale and management of funds products from 31 July 2019 when it sold 50% (less one share) of its shareholding in Virgin Money Unit Trust Managers Limited (UTM) to Aberdeen Standard Investments. A gain on sale of £35m was recorded on the partial disposal. Consequently, UTM became a joint venture and is accounted for under the equity method from the date of disposal.
(3) Non-banking and other fees include mortgages, invoice and asset finance and ATM fees.

Section 2: Results for the year continued

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 3.12 and 4.2 respectively.

	2019 £M	2018 £M
Personnel expenses	**421**	223
Depreciation and amortisation expense (notes 3.9, 3.10)	**108**	89
Other operating and administration expenses	**1,200**	818
Total operating and administrative expenses	**1,729**	1,130

Personnel expenses comprise the following items:

	2019 £M	2018 £M
Salaries, wages and non-cash benefits and social security costs	**256**	139
Defined contribution pension expense	**47**	33
Defined benefit pension expense (note 3.12)	**9**	2
Equity based compensation (note 4.2)	**4**	9
Other personnel expenses	**105**	40
Personnel expenses	**421**	223

On 26 October 2018, the High Court delivered a judgement confirming that defined benefit schemes should equalise pension benefits for men and women in relation to GMP and concluded on the methods that were appropriate. The estimated increase in the Scheme liabilities at the date of the judgement was £11m, which was based on a number of assumptions and the actual impact may be different. This has been reflected as a past service cost within the defined benefit pension expense above, and in the closing net accounting surplus of the Scheme (note 3.12).

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

	2019 NUMBER	2018 NUMBER
Managers	**2,989**	2,161
Clerical staff	**5,714**	3,608
	8,703	5,769

The average monthly number of employees was 9,787 (2018: 6,461).

All staff are contracted employees of the Group and its subsidiary undertakings. The average figures above do not include contractors.

Other items of significance to the Group which are included within operating and administrative expenses are:

	2019 £M	2018 £M
Restructuring costs	**154**	–
Consent solicitation	**18**	–
Legacy restructuring and separation	**5**	46
Virgin Money Holdings (UK) PLC transaction costs	**11**	37
SME transformation	**30**	16
Intangible asset write-off	**127**	–
PPI redress expense (note 3.16)	**415**	352
Other conduct expenses (note 3.16)	**18**	44
Operating lease charges	**35**	26

Restructuring costs represents the Group's integration costs as it embarks upon a three year programme to fully integrate both banks. The legacy restructuring and separation costs relate to the Sustain programme and demerger from NAB, both of which completed in the current period.

Incidental to the integration programme, a £127m charge was recognised in the year following a review of the Group's software estate, which identified a number of core assets (including £70m in relation to the Virgin Money Digital Bank asset) that are no longer of value to the Group's future strategy and therefore required to be written down.

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

	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	**21**	21
Fees payable to the Company's auditor for the audit of the Company's subsidiaries(1)	**2,967**	1,593
Total audit fees	**2,988**	1,614
Audit related assurance services	**436**	120
Other assurance services	**289**	700
Total non-audit fees	**725**	820
Fees payable to the Company's auditor in respect of associated pension schemes	**88**	84
Total fees payable to the Company's auditor	**3,801**	2,518

(1) Includes the audit of the Group's structured entities, and the audit of Virgin Money Holdings (UK) PLC subsidiaries for the year ending 31 December 2019.

Non-audit services of £725k (2018: £820k) performed by the auditor during the year included the review of the Interim Financial Report; PRA Written Auditor Reporting; agreed upon procedures under the Conduct Indemnity arrangement with NAB; comfort letters for the global medium-term note programme and AT1 issuance; and client money reviews. The decrease in the year is principally due to reporting accountant procedures in relation to the acquisition of Virgin Money Holdings (UK) PLC.

In addition to the above, out of pocket expenses of £161k (2018: £49k) were borne by the Group, principally related to reimbursement of travel expenses incurred by staff when performing the above services.

Section 2: Results for the year continued

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.

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.

	2019 £M	2018 £M
CURRENT TAX		
Current year	**20**	8
Adjustment in respect of prior years	**(5)**	8
	15	16
DEFERRED TAX (NOTE 3.11)		
Current year	**(56)**	(1)
Adjustment in respect of prior years	**3**	(34)
	(53)	(35)
Tax credit for the year	**(38)**	(19)

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:

	2019 £M	2018 £M
Loss on ordinary activities before tax	**(232)**	(164)
Tax credit based on the standard rate of corporation tax in the UK of 19% (2018: 19%)	**(44)**	(31)
Effects of:		
Disallowable expenses	**50**	42
Conduct indemnity adjustment	**10**	(5)
Deferred tax assets recognised	**(49)**	(8)
Non-taxable gain on partial disposal of UTM (note 2.3)	**(7)**	–
Bank levy	**1**	–
Impact of rate changes	**3**	9
Adjustments in respect of prior years	**(2)**	(26)
Tax credit for the year	**(38)**	(19)

Disallowable expenses represent, in the main, conduct charges that are not deductible in computing taxable profits, and non-deductible transaction costs predominantly in relation to the acquisition of Virgin Money Holdings (UK) PLC.

The increase in the conduct indemnity adjustment reflects a change in anticipated quantum and timing of the use of historic indemnified losses, following the acquisition of Virgin Money Holdings (UK) PLC.

Deferred tax assets recognised represent previously unrecognised historic losses that are now brought onto the balance sheet in accordance with the Group's established methodology.

2.6 Earnings per share (EPS)

Accounting policy

Basic earnings per share
Basic earnings per share is calculated by taking the profit attributable to ordinary shareholders of the parent company, deducting the weighted-average of the Group's holdings of its own shares, and then dividing this by the weighted-average number of ordinary shares outstanding during the period.

Diluted earnings per share
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.

	2019 £M	2018 £M
Loss attributable to ordinary shareholders	**(268)**	(181)
Tax relief on AT1 distribution attributable to ordinary equity holders	**8**	7
Tax relief on non-controlling interest distributions attributable to ordinary equity holders	**7**	–
Loss attributable to ordinary equity holders for the purposes of basic and diluted EPS	**(253)**	(174)

	2019 NUMBER OF SHARES (MILLION)	2018 NUMBER OF SHARES (MILLION)
Weighted-average number of ordinary shares in issue		
– Basic	**1,414**	885
– Diluted	**1,414**	885
Basic loss per share (pence)	**(17.9)**	(19.7)
Diluted loss per share (pence)	**(17.9)**	(19.7)

Basic earnings per share has been calculated after deducting 1m (2018: Nil) ordinary shares representing the weighted-average of the Group's holdings of its own shares. The calculation of the diluted earnings per share excludes conditional awards of over 1m (2018: 1m) ordinary shares made under equity based compensation schemes. These are considered anti-dilutive due to the Group making a loss in both the current and the 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 expected credit losses (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 periods to reflect a constant periodic rate of return.

In certain limited circumstances, the Group has elected to apply the fair value through profit or loss measurement option to some debt instruments that would otherwise be classified at amortised cost (note 3.5).

	2019 £M	2018[1] £M
Gross loans and advances to customers	**73,246**	32,943
Impairment provisions on credit exposures (note 3.2)	**(362)**	(195)
Fair value hedge adjustment	**211**	–
	73,095	32,748

(1) The prior year comparative has been restated in line with the current year presentation (note 1.10).

The Group has a portfolio of fair valued business loans of £253m (2018: £362m) which are classified separately as financial assets at fair value through profit or loss on the balance sheet (note 3.5). Combined with the above, this is equivalent to total loans and advances of £73,348m (2018: £33,110m).

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 £38m (2018: £20m) and £408m (2018: £399m) respectively.

Finance lease and hire purchase receivables

	2019 £M	2018 £M
GROSS INVESTMENT IN FINANCE LEASE AND HIRE PURCHASE RECEIVABLES		
Due within 1 year	**276**	269
Due within 1 to 5 years	**386**	376
Due after more than 5 years	**23**	15
	685	660
Unearned income	**(36)**	(32)
Net investment in finance lease and hire purchase receivables	**649**	628

The total receivables from finance leases and hire purchase contracts were £60m (2018: £32m) and £589m (2018: £596m) respectively.

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 fair value through profit or loss, for impairment. The impairment loss allowance is calculated using an expected credit loss (ECL) methodology. The overarching objective is to calculate an impairment loss allowance that 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

The ECL methodology is based upon the combination of probability of default (PD), loss given default (LGD) and exposure at default (EAD) estimates that consider a range of factors which have a direct bearing on credit risk and consequently the required level of impairment loss provisioning.

The future cash flows used within the ECL calculation are estimated based on the contractual cash flows of the assets, adjusted for the probability of default occurring and taking account of historical loss experience. In addition, the Group uses reasonable and supportable forecasts of future economic conditions to estimate the ECL allowance. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process which does not impact reliability. The methodology and assumptions are reviewed regularly and updated as necessary.

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

Collectively assessed: these assets are assessed and provided for on a group or a pooled basis due to the existence of shared risk characteristics. Financial assets with shared risk characteristics are assessed in the sense that assets with similar characteristics at a given point in time will tend to display a similar PD profile but only for as long as they retain those similar characteristics. In particular, movement between stages will tend to occur when individual assets have deteriorated, rather than because a proportion of a pool is presumed to have deteriorated.

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.

It is not possible for an asset to have both an individual and a collectively assessed ECL provision. Regardless of the calculation basis, the Group generates an allowance at the individual financial instrument level.

Significant increase in credit risk assessment

The impairment loss allowance is calculated as either a 12-month or lifetime ECL depending on whether the financial asset has exhibited a significant increase in credit risk (SICR) since origination or has otherwise become credit impaired 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 SICR and credit impairment effectively.

The Group has not made use of the low credit risk option under IFRS 9 for loans and advances at amortised cost.

Impairment staging

Financial assets where a 12-month ECL is recognised are classified as Stage 1; financial assets which are considered to have experienced a SICR are classified as Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are classified as Stage 3. The Group adopts the backstop position that a financial asset has experienced a SICR (and therefore falls into Stage 2) when it reaches 30 days past due, and that a financial asset becomes credit impaired (and therefore falls into Stage 3) when it reaches 90 days past due.

In addition to the above stages, purchase 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 de-recognition 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.

Section 3: Assets and liabilities continued

3.2 Impairment provisions on credit exposures continued

Accounting policy continued

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 period, the previously recognised impairment loss allowance is reversed and recognised in the income statement.

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 fair value through other comprehensive income 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. The most significant of these are detailed below.

Accounting estimates
Asset lifetimes
The calculation of the ECL allowance is also 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.

Shortening the Group's credit card portfolio lifetime assumption by three months would equate to an ECL decrease of £1m.

Economic scenarios
The Group relies on three economic scenarios over a five-year forecast period when calculating the ECL allowance: base case, mild upside and severe downside. These contain a number of key economic assumptions such as unemployment rates, base rates and inflation, which ensure that non-linear relationships between different forward-looking scenarios and their associated credit losses do not materially impact the ECL calculation. The base case used by the Group for IFRS 9 modelling is also used for the Group's internal planning purposes.

The Group sources forward-looking scenarios and a range of macroeconomic conditions over the forecast period from a third-party provider. The Group considers that the resulting 'mild upside' and 'severe downside' scenarios provide a balance in reaching an ECL calculation that is free from bias and addresses concerns around the potential for non-linearity of the ECL calculation. The Group applied the following weightings to the chosen scenarios:

	30 SEPTEMBER 2019	1 OCTOBER 2018
Mild upside	**20%**	25%
Base case	**60%**	60%
Severe downside	**20%**	15%

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 slight increase in the weightings towards the mild upside scenario on adoption of IFRS 9 reflected the relative conservatism in the Group's base case, which was closer to the chosen downside scenario. The weightings applied at 30 September 2019 were revised to reflect a general deterioration in future economic outlook relative to the base case.

The calculation of the Group's impairment provision is sensitive to changes in the chosen weightings, with the effect on the closing impairment allowance of £362m as a result of applying a 100% weighting separately to each scenario producing the following: Base case – an ECL reduction of £11m; Mild upside – an ECL reduction of £27m; and Severe downside – an ECL increase of £65m.

Accounting judgements

Significant increase in credit risk

Considerable management 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. Management 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 enable management 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 significant increase in credit risk 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 significant increase in credit risk will have taken place when the financial asset reaches 30 days past due.

Changes to these set thresholds can impact staging, driving accounts into higher stages. If a further 10% of the business population in Stage 1 were to move Stage leading to an increase in ECL held by approximately £13m. In contrast, if a further 10% of the credit card population in Stage 1 were to experience a non-default related forbearance issue and migrate to Stage 2, the level of ECL held would increase by £52m. In mortgages this would increase by £7m. Introducing a PD stress, which increased PDs upwards by 20% for all portfolios, would result in an overall increase in ECLs of £54m.

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 days past due backstop for default purposes.

Post Model Adjustments (PMAs)

The ECL provision is further impacted by management judgements in the form of PMAs, which were also a feature of impairment provisioning under IAS 39. These are judgements that increase the collectively assessed modelled output where management consider that not all of the risks identified in a particular product segment have been, or are capable of being, accurately reflected within those models. This can be the case when modelled inputs are not sufficiently sensitive to sudden changes in economic conditions e.g. Brexit. PMAs can also be applied when assessing potential recoveries on individually assessed provisions where factors such as customer and economic specific conditions need to be considered.

Movement in impairment provisions on credit exposures

	2019 £M	2018 £M
Opening balance at 30 September	**195**	210
IAS 39 restatement	**(195)**	–
IFRS 9 adoption	**224**	–
Charge for the year	**252**	41
Amounts written off	**(142)**	(68)
Recoveries of amounts written off in previous years	**28**	13
Other	**–**	(1)
Closing balance	**362**	195

Following the adoption of IFRS 9 on 1 October 2018, the Group impairment provision is classified by stage allocation as follows:

	2019 £M	2018 £M
Stage 1	**79**	–
Stage 2	**168**	–
Stage 3	**118**	–
POCI	**(3)**	–
	362	–

The transitional stage allocation on adoption date of 1 October 2018 is presented in the Risk report on page 145.

Section 3: Assets and liabilities continued

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 & 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 3.14). 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 3.14). 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.

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

	2019		2018	
	LOANS AND ADVANCES SECURITISED £M	NOTES IN ISSUE £M	LOANS AND ADVANCES SECURITISED £M	NOTES IN ISSUE £M
SECURITISATION PROGRAMMES				
Lanark Master Issuer	**5,009**	**4,597**	5,479	4,536
Lannraig Master Issuer	**1,032**	**838**	933	899
Gosforth 2014-1	**372**	**385**	–	–
Gosforth 2015-1	**707**	**630**	–	–
Gosforth 2016-1	**1,142**	**1,048**	–	–
Gosforth 2016-2	**701**	**579**	–	–
Gosforth 2017-1	**934**	**852**	–	–
Gosforth 2018-1	**1,353**	**1,267**	–	–
	11,250	**10,196**	6,412	5,435
Less held by the Group		**(5,154)**		(2,486)
		5,042		2,949
COVERED BOND PROGRAMMES				
Clydesdale Covered Bond No 2 LLP	**1,253**	**776**	1,389	732
Eagle Place LLP	**2,622**	**1,126**	–	–
	3,875	**1,902**	1,389	732

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 £11,329m and £5,085m respectively (2018: £6,284m and £2,948m).

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 totalled £100m in subordinated debt (2018: £23m) and £1,722m in junior notes held (2018: £971m). The Group has a beneficial interest in the securitised mortgage portfolio held by the structured entities of £1,467m (2018: £1,074m).

Looking forward through future reporting periods 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 £699m (2018: £860m) in Clydesdale Covered Bond No 2 LLP and £1,490m in Eagle Place LLP. 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 expected credit losses, 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.

	2019 £M	2018 £M
Cash assets	**1,574**	1,656
Balances with central banks (including EU payment systems)	**8,722**	4,917
	10,296	6,573
Less mandatory deposits with central banks(1)	**(183)**	(75)
Included in cash and cash equivalents (note 5.2)	**10,113**	6,498

(1) Mandatory deposits are not available for use in the Group's day-to-day business and are non-interest bearing.

Section 3: Assets and liabilities continued

3.5 Financial assets and liabilities at fair value through profit or loss

Accounting policy

Financial assets and liabilities are designated at fair value through profit or loss, with gains and losses recognised in the income statement as they arise (note 2.3), when this reduces measurement or recognition inconsistencies (e.g. an accounting mismatch) or where the performance is evaluated on a fair value basis in accordance with risk management and investment strategies.

The Group's unlisted securities and other financial assets which were held under IAS 39 as 'available for sale' have been classified as FVTPL on adoption of IFRS 9, with the business model they are held under assessed as neither to hold and collect contractual cash flows nor to hold and collect contractual cash flows and to sell.

	2019 £M	2018 £M
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Loans and advances	**253**	362
Other financial assets(1)	**14**	–
	267	362
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Customer deposits – term deposits	**4**	15

(1) Included within other financial assets is £8m (2018: £Nil) of unlisted securities.

Loans and advances

Included in financial assets at fair value through profit or loss 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 £253m (2018: £362m) including accrued interest receivable of £1m (2018: £2m). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £4m (2018: £8m) and the change for the current year is a decrease of £4m (2018: decrease of £3m), of which £2m (2018: £3m) has been recognised in the income statement.

Other financial assets

This represents deferred consideration receivable and consists of the rights to future income.

Note 5.4 provides the transitional disclosures for IFRS 9.

Refer to note 3.18 for further information on the valuation methodology applied to financial assets held at fair value through profit or loss and their classification within the fair value hierarchy. Details of the credit quality of financial assets is provided in the Risk report.

Customer deposits – term deposits

Included in other financial liabilities at fair value through profit or loss are fixed rate deposits, the interest rate risk on which is hedged using interest rate derivative contracts. The deposits are recorded at fair value to avoid an accounting mismatch.

The change in fair value attributable to changes in the Group's credit risk is £Nil (2018: £Nil). The Group is contractually obligated to pay £Nil (2018: £0.3m) less than the carrying amount at maturity to the deposit holder.

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 the 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.

IFRS 9 replaces IAS 39 for annual periods beginning on or after 1 January 2018. The Group has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. The method of recognising the fair value gain or loss on a derivative depends on whether it is designated as a hedging instrument and the nature of the item being hedged. Certain derivatives are designated as either hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (a cash flow hedge); or hedges of the fair value of recognised assets or liabilities or firm commitments (a fair value hedge).

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. Specifically, the separate component of equity (note 4.1) is adjusted to the lesser of the cumulative gain or loss on the hedging instrument, and the cumulative change in fair value of the expected future cash flows on the hedged item from the inception of the hedge. Any remaining gain or loss on the hedging instrument is recognised in the income statement. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge 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.

Hedge effectiveness

The Group documents, at the inception of a transaction, the relationship between hedging instruments and the hedged items, and the Group's risk management objective and strategy for undertaking these hedge transactions. The documentation covers how effectiveness will be measured throughout the life of the hedge relationship and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

Derivatives held for trading

Changes in value of held for trading derivatives are immediately recognised in the income statement (note 2.3).

Section 3: Assets and liabilities continued

3.6 Derivative financial instruments continued

The tables below analyse derivatives between those designated as hedging instruments and those classified as held for trading:

	2019 £M	2018 £M
FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS		
Designated as hedging instruments	**315**	203
Designated as held for trading	**51**	59
	366	262
FAIR VALUE OF DERIVATIVE FINANCIAL LIABILITIES		
Designated as hedging instruments	**191**	259
Designated as held for trading	**82**	102
	273	361

Cash collateral on derivatives placed with banks totalled £55m (2018: £306m). Cash collateral received on derivatives totalled £149m (2018: £37m). 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 £55m (30 September 2018: £143m) and is included within other assets. Similarly, collateral received from clearing houses is included in other liabilities and totalled £Nil (30 September 2018: £34m).

The derivative financial instruments held by the Group are further analysed below. The notional contract amount is the amount from which the cash flows are derived and does not represent the principal amounts at risk relating to these contracts.

Total derivative contracts

	2019			2018		
	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)	**25,023**	**105**	**121**	24,570	88	111
Less: net settled interest rate swaps[1]	**(14,513)**	**(47)**	**(75)**	–	–	–
Interest rate swaps (net)[2]	**10,510**	**58**	**46**	24,570	88	111
Cross currency swaps[2]	**1,446**	**162**	**–**	690	70	–
	11,956	**220**	**46**	25,260	158	111
Fair value hedges						
Interest rate swaps (gross)	**25,492**	**146**	**526**	2,180	45	148
Less: net settled interest rate swaps[1]	**(23,872)**	**(60)**	**(389)**	–	–	–
Interest rate swaps (net)[2]	**1,620**	**86**	**137**	2,180	45	148
Cross currency swaps[2]	**808**	**9**	**8**	–	–	–
	2,428	**95**	**145**	2,180	45	148
Total derivatives designated as hedging instruments	**14,384**	**315**	**191**	27,440	203	259
Derivatives designated as held for trading						
Foreign exchange rate related contracts						
Spot and forward foreign exchange[2]	**728**	**16**	**15**	1,788	26	23
Cross currency swaps[2]	**1,123**	**11**	**9**	455	10	10
Options[2]	**2**	**–**	**–**	11	–	–
	1,853	**27**	**24**	2,254	36	33
Interest rate related contracts						
Interest rate swaps (gross)	**1,159**	**24**	**53**	811	15	59
Less: net settled interest rate swaps[1]	**(363)**	**(5)**	**(2)**	–	–	–
Interest rate swaps (net)[2]	**796**	**19**	**51**	811	15	59
Swaptions[2]	**11**	**–**	**2**	33	–	–
Options[2]	**465**	**2**	**3**	501	1	3
	1,272	**21**	**56**	1,345	16	62
Commodity related contracts	**55**	**2**	**2**	53	7	7
Equity related contracts	**3**	**1**	**–**			
Total derivatives designated as held for trading	**3,183**	**51**	**82**	3,652	59	102

(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 LIBOR 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 fair value hedges
The Group applies macro fair value hedging to its fixed rate mortgages and fixed rate customer deposits. 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 appropriately 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, to ensure that they are within an 80% to 125% range.

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. At de-designation, the fair value hedge accounting adjustments are amortised on a straight line basis over the original hedged life. The Group has elected to commence amortisation at the date of de-designation.

Micro fair value hedges
The Group uses this hedging strategy on GBP and foreign currency denominated fixed rate assets held at fair value through other comprehensive income (or available-for-sale fixed rate assets in the year to 30 September 2018) and GBP and foreign currency denominated fixed rate debt issuances by the Group.

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 are 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.

Hedge ineffectiveness
Hedge ineffectiveness can arise from:

— differences in timing of cash flows of hedged items and hedging instruments;

— changes in expected timings and amounts of forecast future cash flows;

— different interest rate curves applied to discount the hedged items and hedging instruments; 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 prepayments (prepayment risk).

Section 3: Assets and liabilities continued

3.6 Derivative financial instruments continued

The below table 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.

30 September 2019

	3 MONTHS OR LESS	3 TO 12 MONTHS	1 TO 5 YEARS	TOTAL
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 below table, 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.

30 September 2019

	NOTIONAL CONTRACT AMOUNT £M	CARRYING AMOUNT ASSETS £M	CARRYING AMOUNT 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]	25,023	105	(121)	–
Foreign exchange risk				
Cross currency swaps	1,446	162	–	59
Total derivatives designated as cash flow hedges	26,469	267	(121)	59
FAIR VALUE HEDGES				
Interest rate risk				
Interest rate swaps[1]	25,492	146	(526)	(264)
Foreign exchange and interest rate risk				
Cross currency swaps	808	9	(8)	1
Total derivatives designated as fair value hedges	26,300	155	(534)	(263)

(1) As shown in the total derivatives contracts table on page 230, 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 below table, 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.

30 September 2019

	CARRYING AMOUNT OF HEDGED ITEMS		ACCUMULATED AMOUNT OF FAIR VALUE ADJUSTMENTS ON THE HEDGED ITEM[6]	CHANGE IN FAIR VALUE OF HEDGED ITEM IN THE YEAR USED FOR INEFFECTIVENESS MEASUREMENT	CASH FLOW HEDGE RESERVE	
	ASSETS £M	LIABILITIES £M	£M	£M	CONTINUING HEDGES £M	DISCONTINUED HEDGES £M
CASH FLOW HEDGES						
Interest rate risk						
Gross floating rate assets and gross floating rate liabilities[1]				(14)	(15)	(20)
Foreign exchange risk						
Floating rate currency issuances[2]				(59)	–	–
Total				(73)	(15)	(20)
FAIR VALUE HEDGES						
Interest rate risk						
Fixed rate mortgages[3]	16,436	–	211	209		
Fixed rate customer deposits[4]	–	(4,769)	(10)	(9)		
Fixed rate FVOCI debt instruments[5]	2,940	–	166	133		
Fixed rate issuances[2]	–	(2,368)	122	(92)		
Foreign exchange and interest rate risk						
Fixed rate currency FVOCI debt instruments[5]	82	–	3	4		
Fixed rate currency issuances[2]	–	(530)	1	(4)		
Total	19,458	(7,667)	493	241		

(1) Future highly probable 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) Hedged item and the cumulative fair value changes, are recorded in due to customers.
(5) Hedged item is recorded in financial assets at fair value through other comprehensive income.
(6) Includes cumulative unamortised fair value hedge adjustments relating to hedges that have been discontinued and are being amortised to the income statement over the remaining life of the asset or liability.

Section 3: Assets and liabilities continued

3.6 Derivative financial instruments continued

Gains and losses from hedge accounting

30 September 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
CASH FLOW HEDGES				
Interest rate risk				
Gross floating rate assets and gross floating rate liabilities	(14)	14	–	–
Foreign exchange risk				
Floating rate currency issuances	–	59	–	(57)
Total (losses)/gains on cash flow hedges	(14)	73	–	(57)
FAIR VALUE HEDGES				
Interest rate risk				
Fixed rate mortgages	(24)			
Fixed rate customer deposits	4			
Fixed rate FVOCI debt instruments	(2)			
Fixed rate issuances	(1)			
Foreign exchange and interest rate risk				
Fixed rate currency FVOCI debt instruments	–			
Fixed rate currency issuances	1			
Total losses on fair value hedges	(22)			

(1) Recognised in gains less losses on financial assets at fair value.

The ineffectiveness arising from cash flow and fair value hedges for the prior year was:

	2019 £M	2018 £M
Loss arising from cash flow hedges		
Loss from cash flow hedges due to hedge ineffectiveness	**(14)**	(6)
	(14)	(6)
(Loss)/gain arising from fair value hedges		
Hedging instrument	**(263)**	14
Hedged item attributable to the hedged risk	**241**	(14)
	(22)	–
Ineffectiveness arising from cash flow and fair value hedges	**(36)**	(6)

Below is a schedule indicating, as at 30 September 2018, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	FORECAST RECEIVABLE CASH FLOWS 2018 £M	FORECAST PAYABLE CASH FLOWS 2018 £M
Within 1 year	109	283
Between 1 and 2 years	130	366
Between 2 and 3 years	108	160
Between 3 and 4 years	63	5
Between 4 and 5 years	37	3
Greater than 5 years	60	10
	507	827

3.7 Financial assets at fair value through other comprehensive income

Accounting policy

Fair value through other comprehensive income (FVOCI) is a new financial asset classification category introduced by IFRS 9 'Financial Instruments'. As permitted by IFRS 9, the Group has not restated its comparative financial statements, consequently no comparative is presented as at 30 September 2018. The Group's listed securities previously classified as 'available for sale' under IAS 39 (note 3.8) have been assessed as meeting the criteria to be classified as FVOCI.

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 period 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 expected credit loss (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.

	2019 £M	2018 £M
Listed securities	**4,328**	–
Total financial assets at fair value through other comprehensive income	**4,328**	–

Refer to note 3.18 for further information on the valuation methodology applied to financial assets at FVOCI at 30 September 2019 and their classification within the fair value hierarchy. Details of the credit quality of financial assets is provided in the Risk report.

Note 5.4 provides the transitional disclosures for IFRS 9.

3.8 Financial assets available for sale

Accounting policy

The available for sale classification category for financial assets ceased to apply from 1 October 2018 on the adoption of IFRS 9.

The Group's listed securities have been assessed as meeting the criteria to be classified as fair value through other comprehensive income under IFRS 9 (note 3.7). Unlisted securities and other financial assets have been classified as fair value through profit or loss (note 3.5).

	2019 £M	2018 £M
Listed securities	**–**	1,551
Unlisted securities	**–**	5
Other financial assets	**–**	6
Total financial assets available for sale	**–**	1,562

Refer to note 3.18 for further information on the valuation methodology applied to financial assets available for sale at 30 September 2018 and their classification within the fair value hierarchy. Details of the credit quality of financial assets is provided in the Risk report.

Note 5.4 provides the transitional disclosures for IFRS 9.

Section 3: Assets and liabilities continued

3.9 Property, plant and equipment

Accounting policy

The Group's freehold and long-term leasehold land and buildings are carried at their fair value as determined by the Directors, taking account of advice received from independent valuers. Fair values are determined in accordance with guidance published by the Royal Institution of Chartered Surveyors, including adjustments to observable market inputs reflecting any specific characteristics of the land and buildings. Directors' valuations are performed annually in July, with the independent valuations carried out on a three-year cycle on an open market basis.

All other items of property, plant and equipment are 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.

With the exception of freehold and long-term leasehold land, 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.

	FREEHOLD LAND AND BUILDINGS £M	LONG-TERM LEASEHOLD LAND AND BUILDINGS £M	BUILDING IMPROVEMENTS £M	FIXTURES AND EQUIPMENT £M	TOTAL £M
COST OR VALUATION					
At 1 October 2017	5	3	143	102	253
Additions	–	–	9	13	22
Disposals	(2)	–	(3)	(1)	(6)
At 30 September 2018	3	3	149	114	269
Acquisition of Virgin Money Holdings (UK) PLC	36	3	11	15	65
Additions	–	–	12	8	20
Disposals	(1)	–	(4)	–	(5)
At 30 September 2019	**38**	**6**	**168**	**137**	**349**
ACCUMULATED DEPRECIATION					
At 1 October 2017	1	–	88	78	167
Charge for the year	–	–	10	8	18
Disposals	–	–	(3)	(1)	(4)
At 30 September 2018	1	–	95	85	181
Charge for the year (note 2.4)	3	–	11	11	25
Disposals	–	–	(2)	–	(2)
At 30 September 2019	**4**	**–**	**104**	**96**	**204**
Net book value					
At 30 September 2019	**34**	**6**	**64**	**41**	**145**
At 30 September 2018	2	3	54	29	88

Valuations

A comparison of the carrying value between the revaluation basis and the historical cost basis, for freehold and long-term leasehold land and buildings, is shown below:

	2019 £M	2018 £M
Carrying value as included under the revaluation basis	**40**	5
Carrying value if the historical cost basis had been used	**40**	5

3.10 Intangible assets and goodwill

Accounting policy

Capitalised software costs are 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 2017	589	–	–	589
Additions	144	–	–	144
At 30 September 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**
ACCUMULATED AMORTISATION				
At 1 October 2017	250	–	–	250
Charge for the year	71	–	–	71
At 30 September 2018	321	–	–	321
Charge for the year (note 2.4)	82	–	1	83
Impairment (note 2.4)	115	–	–	115
Write-off	(68)	–	–	(68)
At 30 September 2019	**450**	**–**	**1**	**451**
NET BOOK VALUE				
At 30 September 2019	**500**	**11**	**5**	**516**
At 30 September 2018	412	–	–	412

£31m (2018: £1m) of the £130m (2018: £144m) software additions do not form part of internally generated software projects.

A £127m charge (comprising impairment of £115m and write-offs with a net book value of £12m) was recognised in the year following a review of the Group's software estate following the acquisition of Virgin Money Holdings (UK) PLC, which identified a number of core assets (including £70m in relation to the Virgin Money Digital Bank asset) that are no longer of value to the Group's future strategy and therefore required to be written down (note 2.4).

Section 3: Assets and liabilities continued

3.11 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 £322m (2018: £206m), the principal components of which are tax losses, capital allowances and acquisition accounting adjustments.

Tax losses carried forward of £146m (2018: £99m) have increased due to the recognition of historic losses and a re-evaluation of the rate at which they are expected to unwind.

The Group has assessed the recoverability of these deferred tax assets at 30 September 2019 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.

At 30 September 2019, the Group had an unrecognised deferred tax asset of £114m (2018: £157m) representing trading losses with a gross value of £668m (2018: £926m). Although there is no prescribed period after which losses expire, a deferred tax asset has not been recognised in respect of these losses as the Directors have insufficient certainty over their recoverability in the foreseeable future.

Movement in net deferred tax asset

	2019 £M	2018 £M
At 30 September	**129**	79
IFRS 9 adjustment recognised in equity (note 5.4)	**7**	–
At 1 October	**136**	79
Recognised in the income statement (note 2.5)	**53**	35
Recognised directly in equity	**(68)**	15
At 30 September	**121**	129

The Group has recognised deferred tax in relation to the following items:

	2019 £M	2018 £M
DEFERRED TAX ASSETS		
Tax losses carried forward	**146**	99
Capital allowances	**91**	88
Cash flow hedge reserve	**3**	12
Acquisition accounting adjustments	**44**	–
Transitional adjustment – IFRS 9	**16**	–
Transitional adjustment – available for sale reserve	**1**	1
Employee equity based compensation	**5**	3
Unamortised issue costs	**4**	–
Pension spreading	**11**	–
Other	**1**	3
	322	206
DEFERRED TAX LIABILITIES		
Defined benefit pension scheme surplus	**(139)**	(74)
Acquisition accounting adjustments	**(51)**	–
Gains on unlisted financial instruments at fair value through other comprehensive income	**(6)**	(3)
Intangible assets	**(4)**	–
Other	**(1)**	–
	(201)	(77)
Net deferred tax asset	**121**	129

Payments to the pension scheme were greater than 210% of 2018 contributions and therefore in accordance with the legislation, tax relief is spread over four years giving rise to the pension spreading deferred tax asset of £11m. The current and deferred tax impact of pension contributions, and pension spreading, are reflected in the consolidated statement of comprehensive income.

The accounting adjustments relating to the acquisition of Virgin Money Holdings (UK) PLC (note 3.19) resulted in a net deferred tax liability of £22m on the date of acquisition, which has subsequently unwound in line with the related unwind of the fair value adjustments to a net deferred tax liability of £7m at 30 September 2019. The constituent parts of the net liability have been shown as deferred tax assets of £44m and deferred tax liabilities of £51m as they are not expected to unwind at the same time.

In accordance with legislation, the tax relief on the IFRS 9 opening adjustment (note 5.4) is spread evenly over 10 years and will unwind through entity corporation tax computations across the Group. The IFRS 9 deferred tax asset balance of £16m represents the combination of the Group's transitional position as presented in note 5.4 and the IFRS 9 transitional element remaining of the Virgin Money Holdings (UK) PLC adoption of IFRS 9 on 1 January 2018.

The European Securities and Markets Authority (ESMA) issued a Public Statement relating to IAS 12 'Income Taxes' in July 2019. The publication covered considerations on the recognition of deferred tax assets arising from the carry-forward of unused tax losses. As the Group's deferred tax asset, including the element relating to tax losses carried forward, is material, the Group has assessed the content of the ESMA Public Statement and will look to incorporate any potential further disclosure requirements arising from the statement in the financial statements in future reporting periods.

Section 3: Assets and liabilities continued

3.12 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 be ultimately recovered.

Pension expense attributable to the Group's defined benefit scheme comprises current service cost, net interest on the net defined benefit obligation/asset, past service cost resulting from a scheme amendment or curtailment, 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 period 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:

	2019 £M	2018 £M
Active members' defined benefit obligation	**(30)**	(24)
Deferred members' defined benefit obligation	**(2,537)**	(2,131)
Pensioner and dependant members' defined benefit obligations	**(1,744)**	(1,591)
Total defined benefit obligation	**(4,311)**	(3,746)
Fair value of Scheme assets	**4,707**	3,958
Net defined benefit pension asset	**396**	212
Post-retirement medical benefits obligations[(1)]	**(3)**	(3)

(1) Post-retirement medical benefits obligations are included within other liabilities (note 3.17).

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 health care 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 £3m at 30 September 2019 (2018: £3m) and is included within other liabilities in note 3.17.

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[1]. 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.

The last Scheme funding valuation was conducted in accordance with Scheme data and market conditions as at 30 September 2016 and resulted in a reported deficit of £290m[2]. The Group agreed to eliminate this deficit through making contributions as agreed in the recovery plan dated 31 July 2017 and a revised schedule of contributions dated 31 January 2018. The following scheduled contributions of £184m remain to be made over the period to March 2023:

— equal monthly contributions totalling £50m per annum until 31 March 2022; and

— £55m in the year to 31 March 2023.

The next triennial funding valuation is currently in progress and will be calculated with reference to the Scheme data and market conditions as at 30 September 2019. The Group expects this valuation to be agreed with the Trustee of the Scheme by the end of 2020.

Scheme assets are not subject to the same valuation differences as Scheme obligations and are consistently valued at current market value.

(1) This is where the Scheme is essentially self-funded and does not need to call on the Group for any additional funding.
(2) The IAS 19 valuation as at 30 September 2016 reported a Scheme deficit of £75m.

Section 3: Assets and liabilities continued

3.12 Retirement benefit obligations continued

IAS 19 position

The Scheme movements in the year are as follows:

	2019				2018			
	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	**(3,746)**	**3,958**	**212**		(3,974)	4,181	207	
				(704)				(695)
TOTAL EXPENSE								
Current service cost	**–**	**–**	**–**		(1)	–	(1)	
Past service cost	**(11)**	**–**	**(11)**		(2)	–	(2)	
Interest (expense)/income	**(100)**	**107**	**7**		(104)	109	5	
Administrative costs	**–**	**(5)**	**(5)**		–	(6)	(6)	
Total (expense)/income recognised in the consolidated income statement	**(111)**	**102**	**(9)**		(107)	103	(4)	
REMEASUREMENTS								
Return on Scheme assets greater than discount rate	**–**	**772**	**772**	**772**	–	27	27	27
Actuarial:								
Loss – experience adjustments	**(9)**	**–**	**(9)**	**(9)**	(35)	–	(35)	(35)
Gain – demographic assumptions	**30**	**–**	**30**	**30**	19	–	19	19
Loss – financial assumptions	**(683)**	**–**	**(683)**	**(683)**	(20)	–	(20)	(20)
Remeasurement (losses)/gains recognised in other comprehensive income	**(662)**	**772**	**110**	**110**	(36)	27	(9)	(9)
CONTRIBUTIONS AND PAYMENTS								
Employer contributions	**–**	**83**	**83**		–	18	18	
Benefit payments	**96**	**(96)**	**–**		93	(93)	–	
Transfer payments	**112**	**(112)**	**–**		278	(278)	–	
	208	**(125)**	**83**		371	(353)	18	
Balance sheet surplus at 30 September	**(4,311)**	**4,707**	**396**		(3,746)	3,958	212	
				(594)				(704)

The past service cost included within the income statement charge for the current year of £11m relates to GMP equalisation, which is detailed further below. In the prior year, the Group incurred a past service cost of £2m in relation to enhanced early retirement entitlements on redundancy, which was fully offset in the income statement by a corresponding release from the restructuring provision.

The expected contributions and benefit payments for the year ending 30 September 2020 are £56m (2019: £77m) and £108m (2019: £98m) respectively.

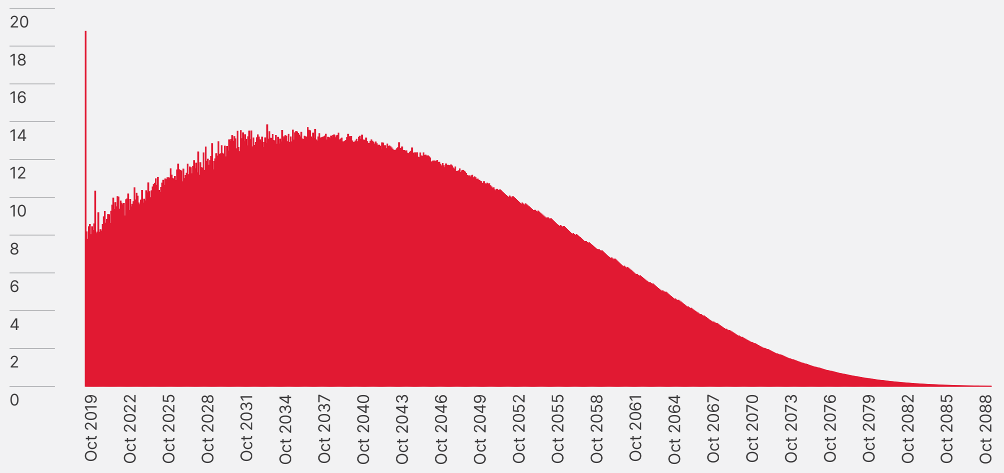
The Group and Trustee have entered into a contingent security arrangement (the 'Security Arrangement') (note 5.3).

GMP equalisation

On 26 October 2018, the High Court handed down a judgement concluding that defined benefit schemes should equalise pension benefits for men and women in relation to GMP and concluded on the methods that were appropriate. The estimated increase in the Scheme obligations at the date of the judgement was £11m which is based on a number of assumptions, therefore the actual impact may be different. An allowance for GMP equalisation has been reflected in the income statement and in the closing net accounting surplus of the Scheme.

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 2019 is 20 years (2018: 19 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 2019, both the interest rate and inflation rate hedge ratios were around 85% and 75% respectively (2018: 81% and 71%) 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.

Section 3: Assets and liabilities continued

3.12 Retirement benefit obligations continued

The major categories of plan assets for the Scheme, stated at fair value, are as follows:

	2019				2018			
	QUOTED £M	UNQUOTED £M	TOTAL £M	%	QUOTED[3] £M	UNQUOTED[3] £M	TOTAL £M	%
BONDS								
Fixed government	**569**	**–**	**569**		478	–	478	
Index linked government	**1,757**	**–**	**1,757**		1,539	–	1,539	
Global sovereign	**20**	**1**	**21**		23	1	24	
Corporate and other	**531**	**305**	**836**		412	294	706	
	2,877	**306**	**3,183**	**68%**	2,452	295	2,747	70%
EQUITIES[1]								
Global equities	**–**	**503**	**503**		–	555	555	
Emerging market equities	**–**	**50**	**50**		–	58	58	
UK equities	**–**	**32**	**32**		–	37	37	
	–	**585**	**585**	**12%**	–	650	650	16%
OTHER								
Secured income alternatives	**–**	**358**	**358**		–	336	336	
Derivatives[2]	**–**	**219**	**219**		–	172	172	
Repurchase agreements	**–**	**(534)**	**(534)**		–	(836)	(836)	
Property	**–**	**129**	**129**		–	132	132	
Alternative credit	**–**	**409**	**409**		–	260	260	
Infrastructure	**–**	**352**	**352**		–	255	255	
Cash	**–**	**1**	**1**		–	238	238	
Equity options	**5**	**–**	**5**		4	–	4	
	5	**934**	**939**	**20%**	4	557	561	14%
Total Scheme assets	**2,882**	**1,825**	**4,707**	**100%**	2,456	1,502	3,958	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.

(3) The split of plan assets between quoted and unquoted in the prior year has been restated to reflect their nature.

At 30 September 2019, the Scheme had employer-related investments within the meaning of Section 40 (2) of the Pensions Act 1995 totalling £2m (2018: nil).

Actuarial assumptions

The following assumptions were used in arriving at the IAS 19 defined benefit obligation:

	2019 % P.A.	2018 % P.A.
FINANCIAL ASSUMPTIONS		
Discount rate	**1.77**	2.75
Inflation (RPI)	**3.20**	3.30
Inflation (CPI)	**2.20**	2.30
Career average revalued earnings (CARE) revaluations:		
Pre 31 March 2012 benefits (RPI)	**3.20**	3.30
Post 31 March 2012 benefits (CPI capped at 5% per annum)	**2.20**	2.30
Pension increases (capped at 2.5% per annum)	**2.10**	2.13
Pension increases (capped at 5% per annum)	**3.07**	3.15
Rate of increase for pensions in deferment	**2.20**	2.30

Demographic assumptions

	2019 YEARS	2018 YEARS
POST-RETIREMENT MORTALITY:		
Current pensioners at 60 – male	**28.0**	28.2
Current pensioners at 60 – female	**29.6**	29.8
Future pensioners at 60 – male	**29.1**	29.3
Future pensioners at 60 – female	**30.8**	31.0

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 period 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%	(6)	(205)	(5)
	-0.25%	8	220	4
Inflation	+0.25%	(9)	145	3
	-0.25%	(9)	(137)	(2)
Life expectancy	+1 year	(169)	169	3
	-1 year	164	(164)	(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.

3.13 Customer deposits

	2019 £M	2018 £M
Interest bearing demand deposits	**38,551**	19,895
Term deposits	**22,239**	6,192
Non-interest bearing demand deposits	**3,002**	2,756
Other wholesale deposits	**1**	1
	63,793	28,844
Accrued interest payable	**207**	60
	64,000	28,904

Section 3: Assets and liabilities continued

3.14 Debt securities in issue

Accounting policy

Debt securities comprise short and long-term debt issued by the Group including commercial paper, medium-term notes, term loans, 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:

2019	MEDIUM-TERM NOTES £M	SUBORDINATED DEBT £M	SECURITISATION £M	COVERED BONDS £M	TOTAL £M
Carrying value	**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**

2018	MEDIUM-TERM NOTES £M	SUBORDINATED DEBT £M	SECURITISATION £M	COVERED BONDS £M	TOTAL £M
Carrying value	794	476	2,949	698	4,917
Fair value hedge adjustments	(1)	–	–	34	33
Total debt securities	793	476	2,949	732	4,950
Accrued interest payable	3	3	7	10	23
	796	479	2,956	742	4,973

The acquisition of Virgin Money Holdings (UK) PLC on 15 October 2018 resulted in recognition of the following debt securities (excluding accrued interest), which are included within the above balances as at 30 September 2019:

	MEDIUM-TERM NOTES £M	SUBORDINATED DEBT £M	SECURITISATION £M	COVERED BONDS £M	TOTAL £M
Fair value of acquired balances	647	–	2,909	–	3,556

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)

	2019 £M	2018 £M
CYBG 3.125% fixed-to-floating rate callable senior notes due 2025	**298**	298
CYBG 4% fixed rate reset callable senior notes due 2026	**523**	495
CYBG 3.375% fixed rate reset callable senior notes due 2025	**366**	–
CYBG 4% fixed rate reset callable senior notes due 2027	**397**	–
VM PLC 2.25% fixed rate senior notes due 2020	**301**	–
	1,885	793

Subordinated debt (excluding accrued interest)

	2019 £M	2018 £M
CYBG 5% fixed rate reset callable subordinated notes due 2026	**476**	476
CYBG 7.875% fixed rate reset callable subordinated notes due 2028	**246**	–
	722	476

Details of securitisation and covered bond issuances are included in note 3.3.

During the year, the Group issued £400m of medium-term notes and £250m of subordinated notes. The Group also issued £1,102m in Sterling and US Dollar denominations and redeemed £769m in Sterling denominations from the securitisation programmes, and issued £1,132m in Sterling and Euro denominations from the Eagle Place covered bond programme.

3.15 Due to other banks

Accounting policy

Repurchase agreements
Securities sold subject to sale and repurchase agreements ('repos') are retained in their respective balance sheet categories. The associated liabilities are included in amounts due to other banks based upon the counterparties to the transactions.

The difference between the sale and repurchase price of repos is treated as interest and accrued over the life of the agreements using the effective interest method.

	2019 £M	2018[1] £M
Secured loans	**7,308**	2,254
Securities sold under agreements to repurchase[2]	**1,554**	802
Transaction balances with other banks	**12**	29
Deposits from other banks	**42**	3
	8,916	3,088

(1) The prior year comparative has been restated in line with the current year presentation. £34m of derivative collateral in relation to clearing houses has been reclassified between other liabilities and due to other banks (note 1.10).

(2) The underlying securities sold under agreements to repurchase have a carrying value of £2,324m (2018: £1,172m).

Secured loans comprise amounts drawn under the TFS (including accrued interest).

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Section 3: Assets and liabilities continued

3.16 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 deadline on PPI complaints now passed the level of uncertainty in determining the quantum of PPI related liability has reduced. However, owing to the significant volumes received in the weeks preceding the time bar there continues to be significant judgement required to determine the key assumptions used to estimate the quantum of the provision, including the level of conversion rate if information requests convert into complaints, uphold rates (how many claims are, or may be, upheld in the customer's favour), and redress costs (the average payment made to customers). The provision, therefore, 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 2019, 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.

	2019 £M	2018 £M
PPI REDRESS PROVISION		
Opening balance	**275**	422
Charge to the income statement (note 2.4)	**415**	352
Charge reimbursed under Conduct Indemnity	**–**	148
Utilised	**(311)**	(647)
Closing balance	**379**	275
CUSTOMER REDRESS AND OTHER PROVISIONS		
Opening balance	**41**	109
Virgin Money Holdings (UK) PLC provision on acquisition	**11**	–
Charge to the income statement (note 2.4)	**18**	44
Utilised	**(45)**	(112)
Closing balance	**25**	41
RESTRUCTURING PROVISION		
Opening balance	**15**	23
Virgin Money Holdings (UK) PLC provision on acquisition	**2**	–
Charge to the income statement	**64**	15
Utilised	**(26)**	(23)
Closing balance	**55**	15
Total provisions for liabilities and charges	**459**	331

PPI redress

In common with the wider UK retail banking sector, the Group has continued to deal with complaints and redress issues arising out of historic sales of PPI. During the year, the Group reassessed the level of provision that was considered appropriate to meet current and future expectations in relation to the mis-selling of PPI policies and concluded that a further charge of £415m was required due to the significant volume of information requests received, mainly from claims management companies ahead of the August 2019 industry deadline. It also incorporates a reassessment of the costs of processing cases and the impact of experience adjustments. The total provision raised to date in respect of PPI is £3,055m (30 September 2018: £2,640m), with £379m of this remaining (30 September 2018: £275m) for closing out the remaining stock of complaints and information requests including costs of administration.

To 30 September 2019, the Group has received 629,000 complaints (30 September 2018: 483,000) and has allowed for 86,000 further complaints converted from information requests received prior to the time bar (30 September 2018: 83,000).

The overall provision is based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement in the key areas identified. There remain risks and uncertainties in relation to these assumptions and consequently in relation to the ultimate costs of redress and related costs, including: (i) the number of PPI claims arising from the volume of information requests submitted prior to the time bar; (ii) the number of those claims that ultimately will be upheld; (iii) the amount that will be paid in respect of those claims; and (iv) the costs of administration.

As such, the factors discussed above mean there is a risk that existing provisions for PPI customer redress may not cover all potential costs. In light of this, the eventual costs of PPI redress and complaint handling may therefore differ materially from that estimated and further provision could be required.

The table below sets out the key assumptions and the effect on the provision at 30 September 2019 of future, potential, changes in key assumptions:

Assumptions

	CHANGE IN ASSUMPTION	SENSITIVITY[1]
Number of expected complaints converted from the stock of information requests at 30 September 2019	+/-5%	£44m
Uphold rate on stock of complaints at 30 September 2019 and expected converted complaints from information requests	+/-1%	£5m
Average redress costs[2]	+/-1%	£2m

(1) There are inter-dependencies between several of the key assumptions which add to the complexity of the judgements the Group has to make. This means that no single factor is likely to move independently of others, however, the sensitivities disclosed above assume all other assumptions remain unchanged.

(2) Sensitivity to a change in average redress across customer initiated complaints.

Customer redress and other provisions

Other provisions include amounts in respect of a number of non-PPI conduct related matters, legal proceedings, and claims arising in the ordinary course of the Group's business. Over the course of the year, the Group has raised further provisions of £18m in relation to non-PPI conduct matters (note 2.4). 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.

Conduct Indemnity Deed

The Group's economic exposure to the impact of historic conduct related liabilities was mitigated by a Capped Indemnity of £1.7bn from NAB. The full amount of the Capped Indemnity was drawn down in the year to 30 September 2018. Details of this matter can be found in note 3.14 of the 2018 Annual Report and Accounts.

To the extent that tax relief is expected in relation to provisions for which reimbursement income is applicable, amounts may become repayable to NAB. In the consolidated financial statements, deferred tax assets are only recognised in respect of the loss share proportion (9.7%) of unused tax losses on Relevant Conduct Matters, on the basis that the Group does not obtain the economic benefit of the future tax relief which is repayable to NAB.

Section 3: Assets and liabilities continued

3.16 Provisions for liabilities and charges continued

Restructuring provision

Restructuring of the business is currently ongoing and a provision is held to cover redundancy payments, property vacation costs and associated enablement costs. During the year £64m (2018: £15m) was provided for in accordance with the requirements of IAS 37. £26m (2018: £23m) of the total provision was utilised in the year.

Included within the restructuring provision is an amount for committed rental expense on surplus lease space consistent with the expected exposure on individual leases where the property is unoccupied. This element of the provision will be utilised over the remaining life of the leases, or until the leases are assigned, and is measured at present values by discounting anticipated future cash flows.

3.17 Other liabilities

	2019 £M	2018[1] £M
Notes in circulation	**2,277**	2,254
Accruals and deferred income	**130**	125
Other[2]	**127**	142
	2,534	2,521

(1) The prior year comparative has been restated in line with the current year presentation. £34m of derivative collateral in relation to clearing houses has been reclassified between other liabilities and due to other banks (note 1.10).

(2) Other includes £3m (2018: £3m) of post retirement medical benefit obligations (note 3.12).

3.18 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 an 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 fair value through profit or loss 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 expected losses attributable to adverse movements in credit risk on the assets held. This adjustment to the credit quality of the asset is then applied to the carrying amount of the loan to arrive at fair value and recognised in the income statement.

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

— Level 1 fair value measurements – quoted prices (unadjusted) in active markets for an identical financial asset or liability;

— Level 2 fair value measurements – inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices); 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 period 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 2019		30 SEPTEMBER 2018	
	CARRYING VALUE £M	FAIR VALUE £M	CARRYING VALUE £M	FAIR VALUE £M
FINANCIAL ASSETS				
Loans and advances to customers(1)	**73,095**	**73,119**	32,748	32,307
FINANCIAL LIABILITIES				
Due to other banks(2)	**8,916**	**8,874**	3,122	3,057
Customer deposits(2)	**64,000**	**64,166**	28,904	28,968
Debt securities in issue(3)	**9,591**	**9,667**	4,973	5,052

(1) Loans and advances to customers are categorised as Level 3 in the fair value hierarchy with the exception of £1,513m (2018: £1,110m) 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 £2,606m of listed debt (2018: £1,279m) which is categorised as Level 1.

The Group's fair values disclosed for financial instruments at amortised cost are based on the following methodologies and assumptions:

(a) *Loans and advances to customers* – The fair values of loans and advances are determined by firstly segregating them into portfolios of similar characteristics. Contractual cash flows are then adjusted for expected credit losses 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 2019				FAIR VALUE MEASUREMENT AS AT 30 SEPTEMBER 2018			
	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(1)	**4,328**	**–**	**–**	**4,328**	–	–	–	–
AFS investments(1)	**–**	**–**	**–**	**–**	1,551	–	11	1,562
Financial assets at fair value through profit or loss	**–**	**253**	**–**	**253**	–	362	–	362
Other financial assets	**–**	**–**	**14**	**14**	–	–	–	–
Derivative financial assets	**–**	**366**	**–**	**366**	–	262	–	262
Total financial assets at fair value	**4,328**	**619**	**14**	**4,961**	1,551	624	11	2,186
FINANCIAL LIABILITIES								
Financial liabilities at fair value	**–**	**4**	**–**	**4**	–	15	–	15
Derivative financial liabilities	**–**	**273**	**–**	**273**	–	361	–	361
Total financial liabilities at fair value	**–**	**277**	**–**	**277**	–	376	–	376

(1) Changes required as a result of the adoption of IFRS 9 from 1 October 2018. Refer to notes 1.9 and 5.4.

Section 3: Assets and liabilities continued

3.18 Fair value of financial instruments continued

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) *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.

(b) *Fair value through other comprehensive income* – The fair values of listed investments are based on quoted closing market prices[1].

(c) *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* (Equity investment, Level 3) – Primarily represents £6m of Visa Inc. preferred stock received as partial consideration for the sale of the Group's share in Visa Europe (note 2.3). 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 period 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[1].

— *Financial assets at fair value through profit or loss* (Debt investment, Level 3) – Primarily represents £5m of deferred consideration receivable and consists of the rights to future commission. The valuation is determined from a discounted cash flow model incorporating estimated attrition rates and investment growth rates appropriate to the underlying funds under management[1]. For other unlisted debt investments, the transaction price is considered the best estimate of the exit price and is the Group's best estimate of fair value.

(1) These balances were disclosed under available for sale in 2018 and were reclassified as a result of IFRS 9 (note 1.9).

Level 3 movement analysis:

	2019			2018		
	FINANCIAL ASSETS AVAILABLE FOR SALE £M	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS £M	FINANCIAL LIABILITIES AT FAIR VALUE £M	FINANCIAL ASSETS AVAILABLE FOR SALE £M	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS £M	FINANCIAL LIABILITIES AT FAIR VALUE £M
Balance at the beginning of the year	**11**	**–**	**–**	10	477	(26)
Transfer to Level 2[1]	**–**	**–**	**–**	–	(477)	26
Reclassification on adoption of IFRS 9[2]	**(11)**	**11**	**–**	–	–	–
Fair value gains/(losses) recognised[3]						
In profit or loss – unrealised	**–**	**1**	**–**	1	–	–
In profit or loss – realised	**–**	**3**	**–**	(1)	–	–
In available for sale – unrealised	**–**	**–**	**–**	1	–	–
Purchases	**–**	**3**	**–**	–	–	–
Settlements	**–**	**(4)**	**–**	–	–	–
Balance at the end of the year	**–**	**14**	**–**	11	–	–

(1) The financial assets at fair value comprise a portfolio of loans which are no longer on sale. The continued run-off of these loans has resulted in the unobservable credit risk inputs no longer being significant to their fair value. As such, in the prior year, the loans (and associated liabilities) were reclassified to Level 2 in the fair value hierarchy. In accordance with the Group's accounting policy, the transfer was deemed to have occurred at the beginning of the reporting period.

(2) Changes required as a result of the adoption of IFRS 9 from 1 October 2018. Refer to notes 1.9 and 5.4.

(3) Net gains or losses were recorded in non-interest income, or available for sale 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 2019.

	FAIR VALUE £M	VALUATION TECHNIQUE	UNOBSERVABLE INPUTS	LOW RANGE	HIGH RANGE
OTHER FINANCIAL ASSETS AT FVTPL					
Equity investments	8	Discounted cash flow	Contingent litigation risk	0%	100%
Debt investments	6	Discounted cash flow	Funds under management attrition rate	10%	20%

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 impacting the carrying value of the FVTPL-debt investment is the 'Funds Under Management attrition' rate. The Group currently assumes an annual 15% attrition rate. If this rate was 20% the fair value would reduce by £1m; if it was 10% the fair value would increase by £2m.

Other than these significant Level 3 measurements, 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.

3.19 Acquisition of Virgin Money Holdings (UK) PLC

On 15 October 2018, the Group 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 for a purchase consideration of £1,532m. This comprised the fair value of approximately 541m new CYBG PLC ordinary shares in exchange for all Virgin Money Holdings (UK) PLC shares at a ratio of 1.2125 CYBG shares for each Virgin Money Holdings (UK) PLC share. Immediately following completion, Virgin Money Holdings (UK) PLC shareholders owned approximately 38% of the Combined Group (on a fully diluted basis).

The fair value of the shares issued was calculated using the CYBG PLC market price of 286.4 pence per share, on the London Stock Exchange at its close of business on 12 October 2018.

In seeking to address the underlying trends of scale and adaptability within the banking industry, the combination brings together the two banks to create a national competitor to the large incumbent banks. The combination offers retail and business customers an alternative to the status quo.

Section 3: Assets and liabilities continued

3.19 Acquisition of Virgin Money Holdings (UK) PLC continued

The table below sets out the fair values of the identifiable net assets and liabilities acquired.

	BOOK VALUE AT 15 OCTOBER 2018 £M	FAIR VALUE ADJUSTMENTS £M	FAIR VALUE AT 15 OCTOBER 2018 £M
ASSETS			
Cash and balances with central banks	4,146	–	4,146
Due from other banks	598	–	598
Financial assets at fair value through other comprehensive income(1)(2)	2,028	–	2,028
Other financial assets at fair value through profit or loss	1	–	1
Derivative financial instruments	71	–	71
Loans and advances to customers(3)	37,840	34	37,874
Property, plant and equipment	73	(7)	66
Intangible assets	172	6	178
Deferred tax assets	23	22	45
Other assets	93	–	93
Total assets	45,045	55	45,100
LIABILITIES			
Due to other banks(3)	7,171	(114)	7,057
Derivative financial instruments	41	–	41
Customer deposits	32,111	10	32,121
Debt securities in issue	3,548	8	3,556
Deferred tax liabilities	–	44	44
Other liabilities	337	1	338
Total liabilities	43,208	(51)	43,157
Net assets	1,837	106	1,943
Fair value of net assets acquired			1,943
Fair value of non-controlling interests(4)			(422)
Goodwill arising on acquisition			11
Total consideration(2)(5)			1,532

(1) Under IFRS 9 'Financial Instruments', debt investments which would previously have been classified in the available for sale category are reclassified to the new fair value through other comprehensive income category.

(2) Adjusted to remove the CYBG debt securities held by Virgin Money Holdings (UK) PLC.

(3) Included within Loans and advances to customers and Due to other banks is c£300m of fair value assets which will unwind through the income statement over the next 3 to 5 years.

(4) At the acquisition date, Virgin Money Holdings (UK) PLC 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 which remained in issue to third parties, consequently these represented a non-controlling interest. As the AT1 instruments were actively traded, the fair value of £422m was calculated based on the market price on the Luxembourg Stock Exchange at its close of business on 12 October 2018.

(5) Includes 'shares to be issued' in the future relating to employee share plans in regard to the settlement of the outstanding Virgin Money Holdings (UK) PLC share awards partially offset by the purchase of 'own shares' (note 4.1.5).

At acquisition date, the contractual amount of loans and advances receivable from customers was £37,664m. The best estimate of the amounts not expected to be collected was £123m. The goodwill arising on the acquisition of Virgin Money Holdings (UK) PLC is mainly attributable to expected cash flows from new customers and significant synergies which are expected to be realised. The goodwill arising on acquisition is not expected to be deductible for tax purposes.

The amounts of net interest income and profit before tax contributed to the Group's consolidated income statement for the year ended 30 September 2019 from the acquired Virgin Money Holdings (UK) PLC business were £559m and £149m respectively. If the acquisition had occurred on 1 October 2018, the Group's total net interest income for the year would have increased by £22m to £1,536m and the loss before tax would have increased by £33m to £265m.

Transaction costs of £48m were incurred by CYBG PLC in relation to the acquisition.

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 include 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

	2019 £M	2018 £M
Share capital	**143**	89
Share premium	**3**	–
Share capital and share premium	**146**	89

	2019 NUMBER OF SHARES	2018 NUMBER OF SHARES	2019 £M	2018 £M
Ordinary shares of £0.10 each – allotted, called up and fully paid				
Opening ordinary share capital	**886,079,959**	883,606,066	**89**	88
Share for share exchange	**540,856,644**	–	**54**	–
Issued under employee share schemes	**7,549,086**	2,473,893	**–**	1
Closing ordinary share capital	**1,434,485,689**	886,079,959	**143**	89

Acquisition of Virgin Money Holdings (UK) PLC
On 15 October 2018, CYBG PLC issued 540,856,644 £0.10 ordinary shares in exchange for the acquisition of the entire share capital of Virgin Money Holdings (UK) PLC by means of a scheme of arrangement under Part 26 of the UK Companies Act 2006 for a purchase consideration of £1.5bn. The nominal value of the shares issued was £54m and the balance of £1,495m was transferred to a merger reserve in accordance with Section 612 of the Companies Act.

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 2019 rank equally with regard to the Company's residual assets.

During the year 7,549,086 (2018: 2,473,893) ordinary shares were issued under employee share schemes with a nominal value of £0.7m (2018: £0.2m).

A final dividend in respect of the year ended 30 September 2018 of 3.1p (2017: 1p) per ordinary share amounting to £45m (2017: £9m), was paid in February 2019. This dividend was deducted from retained profits in the current year. The Directors have recommended that no dividend will be paid in respect of the year ended 30 September 2019.

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.

Section 4: Capital continued

4.1 Equity continued

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.

— 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 (2018: £Nil). AT1 distributions of £41m were made in the year, £33m net of tax (2018: £36m paid, £29m net of tax).

4.1.3 Capital reorganisation reserve

The capital reorganisation reserve of £839m was recognised on the issuance of CYBG PLC 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 CYBG PLC 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 CYBG PLC 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 CYBG PLC 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 CYBG PLC shares and the nominal value of the shares issued.

4.1.5 Other reserves

Own shares held

Virgin Money Holdings (UK) PLC established an Employee Benefit Trust (EBT) in 2011 in connection with the operation of its share plans. On the date of acquisition by CYBG PLC, the shares held in the EBT were converted to CYBG shares at a ratio of 1.2125 CYBG shares for each Virgin Money Holdings (UK) PLC share. The investment in own shares as at 30 September 2019 is £1m (2018: £Nil). The market value of the shares held in the EBT at 30 September 2019 was £1m (2018: £Nil).

Deferred shares reserve

The deferred share 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 Virgin Money UK PLC 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.

Asset revaluation reserve

The asset revaluation reserve includes the gross revaluation increments and decrements arising from the revaluation of land and buildings.

Available for sale (AFS) reserve

The AFS reserve recorded the gains and losses arising from changes in the fair value of AFS financial assets prior to 1 October 2018. On adoption of IFRS 9 'Financial Instruments' with the removal of the AFS category for financial assets, part of the balance on the reserve was transferred to the FVOCI reserve with £3m released to retained earnings (note 5.4).

Fair value through other comprehensive income (FVOCI) reserve

The FVOCI reserve records the unrealised gains and losses arising from changes in the fair value of financial assets at fair value through other comprehensive income. The movements in this reserve are detailed in the consolidated statement of comprehensive income. On adoption of IFRS 9 'Financial Instruments' with the removal of the AFS category for financial assets, £4m of the balance on the AFS reserve was transferred to the FVOCI reserve (note 5.4).

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.

	2019 £M	2018 £M
At 1 October	**(39)**	(1)
AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME:		
Cash flow hedge – interest rate risk		
Effective portion of changes in fair value of interest rate swaps	**14**	(58)
Amounts transferred to the income statement	**–**	9
Taxation	**(3)**	11
Cash flow hedge – Foreign exchange risk		
Effective portion of changes in fair value of cross currency swaps	**59**	–
Amounts transferred to the income statement	**(57)**	–
Taxation	**–**	–
At 30 September	**(26)**	(39)

4.1.6 Non-controlling interests

At the acquisition date, Virgin Money Holdings (UK) PLC had in issue Fixed Rate Resettable AT1 securities issued on the Luxembourg Stock Exchange. In accordance with IAS 32 these are classified as equity instruments. The Group did not acquire the AT1 securities which remained in issue to third parties, consequently these represented a non-controlling interest. As the AT1 instruments are 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. Following the change in obligor from Virgin Money Holdings (UK) PLC to CYBG PLC on 20 August 2019, this has been recognised within other equity (note 4.1.2).

Distributions to non-controlling interests of £33m were made in the year, £26m net of tax (2018: £Nil).

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 period, 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 £4m (2018: £9m).

CYBG awards

The Group made a number of awards under its 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 and 2018
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 and 2018
SIP	All employees	Non-conditional share award	Continuing employment	2016 and 2017

(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.

Section 4: Capital continued

4.2 Equity based compensation continued

Further detail on each plan is provided below:

DEP

Under the plan employees were awarded conditional rights to CYBG 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;
- buyout of equity from previous employment for senior new hires; and
- Demerger awards which are also subject to the achievement of performance conditions over a three-year period. Details of the performance conditions are set out in the Directors' remuneration report.

LTIP

Under the plan, employees were awarded conditional rights to CYBG 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 organisation's strategic goals. Measures, relative weightings and the quantum for assessing performance are outlined in the Directors' remuneration report section.

SIP

Eligible employees at the date of the award, were awarded Group shares, which are held in the Share Incentive Plan Trust (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 Demerger award, 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 2018	NUMBER AWARDED	NUMBER FORFEITED	NUMBER RELEASED	NUMBER OUTSTANDING AT 30 SEPTEMBER 2019	AVERAGE FAIR VALUE OF AWARDS AT GRANT PENCE
DEP						
2015 Demerger	2,038,052	–	(223,829)	(1,785,999)	**28,224**	196.96
2015 Bonus	54,953	–	–	(54,953)	**–**	195.17
2015 Commencement	25,685	–	–	(25,685)	**–**	194.67
2016 Bonus	21,403	–	–	(10,700)	**10,703**	266.03
2016 Commencement	57,271	–	–	(36,867)	**20,404**	266.03
2017 Bonus	592,807	–	(31,943)	(329,794)	**231,070**	313.20
2017 Commencement	68,167	–	(34,324)	(28,734)	**5,109**	313.20
2018 Bonus	–	1,634,582	–	(1,462,777)	**171,805**	192.35
LTIP						
2016 LTIP	2,232,391	–	(203,923)	–	**2,028,468**	266.03
2017 LTIP	2,314,487	–	(207,534)	–	**2,106,953**	313.20
2018 LTIP	–	5,857,259	(61,455)	–	**5,795,804**	190,47
SIP						
2015 Demerger	1,297,152	–	(512)	(270,148)[1]	**1,026,492**	194.67
2017 Free Share	906,141	–	(477)	(68,688)	**836,976**	313.20
2019 Free Share	–	2,343,888	(84,870)	(48,216)	**2,210,802**	202.53

(1) Shares withdrawn from SIP Trust on leaving the Group.

Determination of grant date fair values

Participants of the DEP and LTIP plans are not entitled to dividends until the awards vest, but the number of shares which vest may be increased to reflect the value of dividends that would have been paid up to the end of the holding period for the awards, subject to the extent permitted under the relevant remuneration regulation. Accordingly, the grant date fair value of the awards with only service conditions and/or non-market performance conditions 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 CYBG 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. Financial guarantee contracts are initially recorded at fair value which is equal to the premium received, unless there is evidence to the contrary.

The expected credit loss requirements of IFRS 9 as set out in note 3.2 are equally applicable to loan commitments and financial guarantee contracts.

Operating lease commitments
The leases entered into by the Group are primarily operating leases, with operating lease rentals charged to the income statement on a straight line basis over the period of the lease. The Group discloses its obligations for future minimum payments under non-cancellable leases.

Contingent liabilities
Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless they are remote.

The table below sets out the amounts of financial guarantees and commitments which are not recorded on the balance sheet. Financial guarantees and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The amounts do not represent the amounts at risk at the balance sheet date but the amounts that would be at risk should the contracts be fully drawn upon and the customer defaults. 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

	2019 £M	2018 £M
Guarantees and assets pledged as collateral security:		
Due in less than 3 months	**24**	26
Due between 3 months and 1 year	**24**	36
Due between 1 year and 3 years	**6**	10
Due between 3 years and 5 years	**11**	2
Due after 5 years	**48**	45
	113	119
OTHER CREDIT COMMITMENTS		
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**15,158**	7,016

The Group's loan commitments and financial guarantee contracts attracted expected credit losses of £5m at 30 September 2019. The balance calculated on adoption of IFRS 9 is disclosed in note 5.4.

Section 5: Other notes continued

5.1 Contingent liabilities and commitments continued

Capital commitments

The Group had future capital expenditure which had been contracted for, but not provided for, at 30 September 2019 of £0.2m (2018: £1m).

Operating lease commitments

	2019 £M	2018 £M
LEASES AS LESSOR		
Future minimum lease payments under non-cancellable operating leases:		
Within 1 year	**2**	1
Between 1 year and 5 years	**4**	4
Over 5 years	**1**	1
	7	6
LEASES AS LESSEE		
Future minimum lease payments under non-cancellable operating leases:		
Within 1 year	**35**	29
Between 1 year and 5 years	**135**	96
Over 5 years	**244**	124
	414	249

Other contingent liabilities

Conduct risk related matters

There continues to be significant uncertainty and thus judgement is required in determining the quantum of conduct risk related liabilities, with note 3.16 reflecting the Group's current position in relation to redress provisions including those for PPI. The final amount required to settle the Group's potential liabilities for these, and other conduct related matters, is materially 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

	2019 £M	2018 £M
ADJUSTMENTS INCLUDED IN THE LOSS BEFORE TAX		
Interest receivable	**(2,432)**	(1,113)
Interest payable	**918**	262
Depreciation and amortisation (note 2.4)	**108**	89
Derivative financial instruments fair value movements	**17**	(3)
Impairment losses on credit exposures (note 3.2)	**252**	41
Software impairments and write-offs	**132**	–
Other non-cash movements	**1**	–
Gain on sale of 50% (less one share) consideration in Virgin Money UTM	**(35)**	–
Equity based compensation	**4**	9
	(1,035)	(715)
CHANGES IN OPERATING ASSETS		
Net (increase)/decrease in:		
Balances with supervisory central banks	**(20)**	(31)
Due from other banks	**274**	339
Derivative financial instruments	**64**	18
Financial instruments at fair value through other comprehensive income	**(33)**	–
Financial assets at fair value through profit or loss	**103**	117
Loans and advances to customers	**(2,663)**	(1,488)
Defined benefit pension assets	**(74)**	–
Other assets	**138**	(14)
	(2,211)	(1,059)
CHANGES IN OPERATING LIABILITIES		
Net increase/(decrease) in:		
Due to other banks	**(20)**	(1,053)
Derivative financial instruments	**(128)**	(16)
Financial liabilities at fair value through profit or loss	**(11)**	(11)
Customer deposits	**2,837**	1,186
Provisions for liabilities and charges	**128**	(223)
Defined benefit pension obligations	**–**	(14)
Other liabilities	**(171)**	9
	2,635	(122)

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).

	2019 £M	2018 £M
Cash and balances with central banks (note 3.4)	**10,113**	6,498
Other assets	**43**	86
Due to other banks	**(20)**	(12)
Other liabilities	**(17)**	(30)
	10,119	6,542

Section 5: Other notes continued

5.3 Related party transactions

Following the acquisition of Virgin Money Holdings (UK) PLC, the Group has a number of additional related entities. No comparative information is required where the entity only became a related party during the period.

Assets with related entities

	2019 £M	2018 £M
INVESTMENTS IN JOINT VENTURES AND ASSOCIATES		
Virgin Money Unit Trust Managers Limited[(1)]	**8**	–
OTHER ASSETS		
Amounts due from Virgin Money Unit Trust Managers Limited[(1)]	**2**	–
Total assets with related entities	**10**	–
LIABILITIES WITH RELATED ENTITIES		
CUSTOMER DEPOSITS		
The Virgin Money Foundation	**1**	–
OTHER LIABILITIES		
Group pension deposits[(2)]	**17**	36
Commissions and charges due to Virgin Atlantic Airways Limited[(3)]	**6**	–
Trademark licence fees due to Virgin Enterprises Limited[(4)]	**4**	–
Total liabilities with related entities	**28**	36
NON-INTEREST INCOME		
Net fees and commissions to Virgin Atlantic Airways Limited	**(15)**	–
Share of post-tax result of Virgin Money Unit Trust Managers Limited[(1)]	**(1)**	–
Gain on sale of 50% (less one share) consideration in Virgin Money Unit Trust Managers Limited to Aberdeen Standard Investments[(1)]	**35**	–
OPERATING AND ADMINISTRATIVE EXPENSES		
Trademark licence fees to Virgin Enterprises Limited[(4)]	**(11)**	–
Costs recharged to Virgin Money Unit Trust Managers Limited[(1)]	**2**	–
Donations to the Virgin Money Foundation[(5)]	**(2)**	–
Total income statement	**8**	–

(1) The Group entered into a joint venture with Aberdeen Standard Investments (ASI), under the terms of which ASI acquired 50% (less one share) of the Group's investments and pensions business. This new joint venture is Virgin Money Unit Trust Managers Limited.

(2) 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 (2018: £0.3m), were charged to the Group sponsored scheme. Information on the pension schemes operated by the Group is provided in note 3.12. Pension contributions of £83m (2018: £18m) were made to the Scheme (note 3.12).

(3) The Group incurs credit card commissions and air mile charges with Virgin Atlantic Airways Limited (VAA) in respect of an agreement between the two parties. £4m of cash costs payable to VAA have been deferred on the balance sheet.

(4) Licence Fees of £11m were payable to Virgin Enterprises Limited for the use of the Virgin Money brand trademark. This contract was previously held by Virgin Money Holdings (UK) plc. However, following the acquisition of Virgin Money Holdings (UK) PLC, the contract was renewed directly between CYBG plc and Virgin Enterprises Ltd.

(5) 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 £0.6m and is included in the total value disclosed above.

The Group paid £0.2m of ordinary dividends to Virgin Group Holdings Ltd.

Compensation of key management personnel (KMP)
KMP comprises Directors of the Company and members of the Executive Leadership Team.

	2019 £M	2018 £M
Salaries and short-term benefits	**14**	9
Other long-term employee benefits	**–**	–
Termination benefits	**5**	–
Equity based compensation(1)	**2**	1
	21	10

(1) Basis of the expense recognised in the year 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.

	2019 £M	2018 £M
Aggregate remuneration	**5**	5

In addition to the above, £0.5m (2018: £0.4m) was expensed relating to LTIP. None of the Directors were members of the Group's defined contribution pension scheme during 2019 (2018: none). None of the Directors were members of the Group's defined benefit pension scheme during 2019 (2018: none). None of the Directors hold share options and none were exercised during the year (2018: 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.

	2019 £M	2018 £M
Loans and advances	**4**	2
Deposits	**3**	3

No provisions have been recognised in respect of loans provided to the KMP (2018: £Nil). There were no debts written-off or forgiven during the year to 30 September 2019 (2018: £Nil). Included in the above are four (2018: six) loans totalling £1m (2018: £2m) made to Directors. In addition to the above, there are guarantees of £Nil (2018: £Nil) made to Directors and their related parties.

Section 5: Other notes continued

5.4 Transition to IFRS 9 'Financial Instruments' from IAS 39 'Financial Instruments: Recognition and Measurement' and the adoption of IFRS 15 'Revenue from Contracts with Customers'

IFRS 9

IFRS 9 replaced IAS 39 as the accounting standard for financial instruments and was adopted (except for the hedge accounting requirements) by the Group with effect from 1 October 2018. The requirements of IFRS 9 allow for the transitional adjustments to be reflected through the opening retained earnings line, without the need to produce comparative information on an IFRS 9 basis.

The following table summarises the locations of the policies and key judgement areas and impact on the Group's financial position of adopting IFRS 9 on 1 October 2018[1]:

DETAIL	LOCATION
New accounting standards	Note 1.9
Loans and advances to customers	Note 3.1
Impairment provisions on credit exposures	Note 3.2
Critical accounting estimates and judgements in relation to expected credit losses (ECL)	Note 3.2
Financial assets and liabilities at fair value through profit or loss (FVTPL)	Note 3.5
Financial assets at fair value through other comprehensive income (FVOCI)	Note 3.7
Financial assets available for sale (AFS)	Note 3.8 – and only applicable for the year ended 30 September 2018 as this category for financial assets was removed with the introduction of IFRS 9
Other relevant credit risk disclosures	Pages 144 to 157 of the Risk report

The carrying amount of the Group's financial assets and financial liabilities at 30 September 2018 under IAS 39 and at 1 October 2018 under IFRS 9 are as follows:

	MEASUREMENT UNDER IAS 39	MEASUREMENT UNDER IFRS 9	IAS 39 CARRYING AMOUNT £M[2]	IFRS 9 CARRYING AMOUNT £M
FINANCIAL ASSETS				
Cash and balances with central banks	Amortised cost	Amortised cost	6,573	6,573
Due from other banks	Amortised cost	Amortised cost	693	693
Financial assets available for sale[3]	Available for sale	Fair value through profit or loss	1,562	11
		Fair value through other comprehensive income	n/a	1,551
Loans and advances to customers at fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	362	362
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	262	262
Loans and advances to customers	Amortised cost	Amortised cost	32,748	32,719
FINANCIAL LIABILITIES				
Other financial liabilities at fair value	Fair value through profit or loss	Fair value through profit or loss	15	15

(1) The acquisition of Virgin Money Holdings (UK) PLC on 15 October 2018 has no impact or effect on the Group's disclosures on the transition to IFRS 9, which is based on the Group balance sheet position as at 30 September 2018 which was prior to the acquisition.

(2) The prior year comparative has been restated in line with the current year presentation (note 1.10).

(3) The Group's listed securities, comprising of UK Government Securities, and other listed securities (e.g. bonds issued by supra-nationals and AAA rated covered bonds), are held in a business model that is 'to hold to collect and sell' and classified at fair value through other comprehensive income. The Group's unlisted securities, and other financial assets held as available for sale have been classified at fair value through profit or loss.

The changes required (net of deferred tax) to the Group's financial assets and liabilities on adoption of IFRS 9 have been adjusted through the Group's retained earnings figure for 30 September 2018.

Initial adoption approach

The methodology and nature of the key judgements applied on the initial adoption of IFRS 9 were consistent with the Group policy as outlined in detail in note 3.2, and are therefore not repeated here.

Consistent with the Group's approach to the application of economic scenarios to the ECL calculation at 30 September 2019, similar scenarios fed into the ECL calculation at 1 October 2018. The Group applied the following weightings to the chosen scenarios at 1 October 2018:

Mild upside	25%
Base case	60%
Severe downside	15%

Refer to note 3.2 for further detail regarding the approach and comparison of the weightings applied at 1 October 2018 and 30 September 2019.

Future macroeconomic conditions

A range of future macroeconomic conditions is used in the scenarios over a five-year forecast period and reflects the best estimates 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, CPI inflation, house prices, bank rates, unemployment rates and CRE capital values. These are assessed and reviewed by an internal panel on a six-monthly basis to ensure appropriateness and relevance to the ECL calculation. Where model inputs are not reflective of the current market conditions at the date of the financial statements, the Group may reflect these through the use of temporary adjustments to the ECL calculation using expert credit judgement.

The simple forward-looking five-year averages for the key model inputs used in the ECL calculations at 1 October 2018 are:

	UK GDP GROWTH %	CPI INFLATION %	HOUSE PRICES %	BANK RATE %	ILO UNEMPLOYMENT %
1 October 2018					
Mild upside	2.6	2.4	4.9	2.5	3.3
Base case	2.1	1.9	4.3	1.1	4.2
Severe downside	0.6	0.8	(1.7)	0.1	6.2

The revised simple forward-looking five-year averages for the key model inputs used in the ECL calculations at 30 September 2019 are:

	UK GDP GROWTH %	CPI INFLATION %	HOUSE PRICES %	BANK RATE %	ILO UNEMPLOYMENT %
30 September 2019					
Mild upside	**2.7**	**2.3**	**5.8**	**2.0**	**3.4**
Base case	**1.8**	**1.7**	**2.9**	**0.9**	**3.8**
Severe downside	**0.2**	**0.8**	**(4.6)**	**0.4**	**5.8**

IFRS 15

The Group also adopted IFRS 15 'Revenue from Contracts with Customers' with effect from 1 October 2018.

The requirements of IFRS 15 allow for the transitional adjustments to be reflected through the opening retained earnings line, without the need to produce comparative information on an IFRS 15 basis.

The majority of the Group's income was either not in scope for IFRS 15 or was being recognised in a way that was consistent with the requirements of the new standard. The limited exception to this was income recognised in relation to the Group's rights to future commission on the deferred consideration receivable. This was held as an 'other' available for sale financial asset under IAS 39 and reclassified to FVTPL on transition to IFRS 9 as detailed in this note. As a result of this remeasurement, a further £1m of future commission income was recognised on transition to IFRS 15, which has been reflected in increases to both other assets and retained earnings on transition.

Section 5: Other notes continued

5.4 Transition to IFRS 9 'Financial Instruments' from IAS 39 'Financial Instruments: Recognition and Measurement' and the adoption of IFRS 15 'Revenue from Contracts with Customers' continued

Quantitative impact of IFRS 9 and IFRS 15 on adoption at 1 October 2018

The change to the carrying amounts of the Group's assets, liabilities, reserves and retained earnings as at 30 September 2018 as a result of the IFRS 9 and IFRS 15 reclassifications and remeasurements required on 1 October 2018 are as follows:

	IAS 39 CARRYING AMOUNT AS AT 30 SEPT 2018[1] £M	IFRS 9 – RECLASSIFICATIONS £M	IFRS 9 – REMEASUREMENT IN ECL £M	IFRS 9 – RELEASE OF AVAILABLE FOR SALE RESERVE £M	IFRS 15 REMEASUREMENT £M	CARRYING AMOUNT AS AT 1 OCT 2019 £M
ASSETS						
Financial assets available for sale	1,562	(1,562)	–	–	–	**–**
Financial assets at fair value through other comprehensive income	–	1,551	–	–	–	**1,551**
Other financial assets at fair value	362	11	–	–	–	**373**
Loans and advances to customers	32,748	–	(29)	–	–	**32,719**
Deferred tax	206	–	7	–	–	**213**
Other assets	338	–	–	–	1	**339**
EQUITY						
Available for sale reserve	(7)	4	–	3	–	**–**
FVOCI reserve	–	(4)	–	–	–	**(4)**
Retained earnings	(2,873)	–	22	(3)	(1)	**(2,855)**

(1) The prior year comparative has been restated in line with the current year presentation (note 1.10).

The move to IFRS 9 has resulted in a net £19m decrease in retained earnings at 1 October 2018 primarily due to the change in the measurement in impairment losses, which are now calculated on an ECL basis as opposed to the incurred loss methodology used in IAS 39. The gross impairment loss adjustment of £29m as at 1 October 2018 includes £5m of ECLs calculated on the Group's loan commitments and financial guarantee contracts. In addition, while an ECL calculation is also performed on the Group's financial assets held at FVOCI, the resultant impairment provision is not material enough to be reported separately in the above tables.

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 2019 financial year, will be issued concurrently with the Annual Report and Accounts and will be found at www.virginmoneyukplc.com/investor-relations/results-and-reporting/financial-results/.

5.6 Post balance sheet events

FSMA Part VII transfer of trade and assets from Virgin Money PLC to Clydesdale Bank PLC

On 26 September 2019, at a hearing in the Court of Session in Edinburgh, the Court approved a banking business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The scheme effective date was 21 October 2019, and in accordance with the court approval, on this date the business of Virgin Money PLC was transferred to Clydesdale Bank PLC for a cash consideration of £10m. The transfer of the trade and assets is a business transfer under common control and has no impact on the consolidated Group financial results.

Change in Company name

CYBG PLC changed its name to Virgin Money UK PLC on 30 October 2019. The registered office address of the Company has changed from Merrion Way to Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

COMPANY BALANCE SHEET

AS AT 30 SEPTEMBER	NOTE	2019 £M	2018 £M
ASSETS			
Investments in controlled entities	6.2	**4,325**	2,268
Due from related entities	6.6	**2,287**	1,314
Financial assets at fair value through profit or loss		**7**	–
Financial assets available for sale		**–**	1
Current tax assets		**2**	1
Other assets		**–**	30
Total assets		**6,621**	3,614
LIABILITIES			
Debt securities in issue	6.3	**2,257**	1,276
Due to other banks		**104**	110
Due to related entities	6.6	**21**	41
Other liabilities		**7**	1
Total liabilities		**2,389**	1,428
EQUITY			
Share capital and share premium	4.1	**146**	89
Other equity instruments	6.5	**919**	450
Merger reserve	6.5	**2,128**	633
Other reserves	6.5	**24**	9
Retained earnings	6.5	**1,015**	1,005
Total equity		**4,232**	2,186
Total liabilities and equity		**6,621**	3,614

The Company made a profit of £75m (2018: profit of £34m) during the year.

The notes on pages 270 to 275 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 2017	6.5	88	450	633	–	8	(2)	1,002	2,179
Profit for the year		–	–	–	–	–	–	34	34
Other comprehensive income, net of tax		–	–	–	–	–	1	–	1
Total comprehensive income for the year		–	–	–	–	–	1	34	35
Dividends paid to ordinary shareholders		–	–	–	–	–	–	(9)	(9)
AT1 distributions paid (net of tax)		–	–	–	–	–	–	(29)	(29)
Transfer from equity based compensation reserve		–	–	–	–	(7)	–	7	–
Ordinary shares issued		1	–	–	–	–	–	–	1
Equity based compensation expensed		–	–	–	–	9	–	–	9
As at 30 September 2018	6.5	89	450	633	–	10	(1)	1,005	2,186
Profit for the year		–	–	–	–	–	–	75	75
Other comprehensive income, net of tax		–	–	–	–	–	–	2	2
Total comprehensive income for the year		–	–	–	–	–	–	77	77
Acquisition of Virgin Money Holdings (UK) PLC		54	–	1,495	23	–	–	–	1,572
Dividends paid to ordinary shareholders		–	–	–	–	–	–	(45)	(45)
AT1 distributions paid (net of tax)		–	–	–	–	–	–	(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)	–	–	1	–
AT1 issuance		–	469	–	–	–	–	2	471
As at 30 September 2019	6.5	**146**	**919**	**2,128**	**19**	**6**	**(1)**	**1,015**	**4,232**

The notes on pages 270 to 275 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER	2019 £M	2018 £M
OPERATING ACTIVITIES		
Profit on ordinary activities before tax	**82**	40
Adjustments for:		
Changes in operating assets		
Due from other banks	**–**	511
Current tax assets	**(1)**	–
Changes in operating liabilities		
Due to other banks	**(17)**	–
Other liabilities	**–**	(2)
Interest receivable	**(72)**	(33)
Interest payable	**75**	36
Costs recharged from subsidiary	**2**	1
Net (decrease)/increase in amounts due to related entities	**(12)**	(504)
Tax received – Group relief	**1**	1
Net cash provided by operating activities	**58**	50
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in controlled entities	**(475)**	–
Net cash used in investing activities	**(475)**	–
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest received	**64**	34
Interest paid	**(63)**	(34)
Issuance of medium-term notes/subordinated debt	**976**	497
Net decrease in amounts due from related entities	**467**	(487)
AT1 issuance	**(988)**	–
Ordinary dividends paid	**(45)**	(9)
AT1 distributions	**(41)**	(36)
Net cash used in financing activities	**370**	(35)
Net (decrease)/increase in cash and cash equivalents	**(47)**	15
Cash and cash equivalents at the beginning of the year	**36**	21
Cash and cash equivalents at the end of the year	**(11)**	36

Cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition.

	2019 £M	2018 £M
Due from related parties (note 5.3)	**28**	36

	INTERCOMPANY LOANS £M	DEBT SECURITIES IN ISSUE £M	TOTAL £M
At 1 October 2018	**–**	**1,276**	**1,276**
Cash flows:			
Issuances	**–**	**976**	**976**
Drawdowns	**15**	**–**	**15**
Repayments	**(15)**	**–**	**(15)**
Non cash flows:			
Movement in accrued interest	**–**	**12**	**12**
Unamortised costs	**–**	**(3)**	**(3)**
Other movements	**–**	**(4)**	**(4)**
At 30 September 2019	**–**	**2,257**	**2,257**

The notes on pages 270 to 275 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 CYBG 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 period in which the estimates are revised and in any future periods 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 periods presented in these 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.

	2019 £M	2018 £M
At 30 September	**4,325**	2,268

The table below represents the wholly owned subsidiary undertakings of the Group and Company as at 30 September 2019:

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
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	31 December
Virgin Money Holdings (UK) PLC	Banking	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	31 December
Virgin Money Management Services Limited	Service company	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	31 December
Virgin Money Personal Financial Service Limited	Insurance intermediary	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	31 December

WHOLLY OWNED SUBSIDIARY UNDERTAKINGS	NATURE OF BUSINESS	CLASS OF SHARE HELD	PROPORTION HELD	COUNTRY OF INCORPORATION	REGISTERED OFFICE	FINANCIAL YEAR END
Virgin Money PLC	Banking	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	31 December
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
Clydesdale Bank (Head Office) Nominees Limited	In liquidation	Limited by guarantee	100%	Scotland	Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2DB	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	31 December
Virgin Money Nominees Limited	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	31 December
YCB DC 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
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:

— 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 for a purchase consideration of £1,532m (note 3.19). Following completion, the investment in Virgin Money Holdings (UK) PLC was transferred to Clydesdale Bank PLC in return for the Company acquiring Clydesdale Bank PLC shares equal to the fair value determined for the Virgin Money Holdings (UK) PLC shares. This resulted in the Company's investment in Clydesdale Bank PLC increasing by £1,532m;

— on 13 March 2019, the Company acquired perpetual securities (fixed 9.25%) with a principal amount of £250m from Clydesdale Bank PLC. These are carried at cost in accordance with IAS 27. These are perpetual securities with no fixed maturity or redemption date and are structured to qualify as AT1 instruments under CRD IV; and

— on 20 August 2019, in preparation for FSMA Part VII (note 5.6) the Company acquired a further £230m of ordinary share capital in Clydesdale Bank PLC.

The Group has interests in two charitable foundations:

— Yorkshire and Clydesdale Bank Foundation, a charitable foundation registered in Scotland as a company limited by guarantee. Clydesdale Bank PLC acts as a guarantor for £10 and is the main donor; and

— The Virgin Money Foundation, a charitable foundation registered in England as a company limited by guarantee. The Company acts as a guarantor for £1 and Virgin Money PLC is a donor.

Section 6: Notes to the Company financial statements continued

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 2019	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	31 December
Gosforth Funding 2014-1 PLC	Issuer of securitised notes	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Funding 2015-1 PLC	Issuer of securitised notes	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Funding 2016-1 PLC	Issuer of securitised notes	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Funding 2016-2 PLC	Issuer of securitised notes	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Funding 2017-1 PLC	Issuer of securitised notes	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Funding 2018-1 PLC	Issuer of securitised notes	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Holdings 2014-1 Limited	Holding company	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Holdings 2015-1 Limited	Holding company	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Holdings 2016-1 Limited	Holding company	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Holdings 2016-2 Limited	Holding company	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Holdings 2017-1 Limited	Holding company	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Holdings 2018-1 Limited	Holding company	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Mortgages Trustee 2014-1 Limited	Trust	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Mortgages Trustee 2015-1 Limited	Trust	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Mortgages Trustee 2016-1 Limited	Trust	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Mortgages Trustee 2016-2 Limited	Trust	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Mortgages Trustee 2017-1 Limited	Trust	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
Gosforth Mortgages Trustee 2018-1 Limited	Trust	England	Fifth Floor, 100 Wood Street, London, EC2V 7EX	31 December
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

OTHER CONTROLLED ENTITIES AS AT 30 SEPTEMBER 2019	NATURE OF BUSINESS	COUNTRY OF INCORPORATION	REGISTERED OFFICE	FINANCIAL YEAR END
Lannraig Funding Limited	Funding company	England	35 Great St. Helen's, London, EC3A 6AP, United Kingdom	30 September
Lannraig Holdings Limited	Holding company	England	35 Great St. Helen's, London, EC3A 6AP, United Kingdom	30 September
Lannraig Master Issuer PLC	Issuer of securitised notes	England	35 Great St. Helen's, London, EC3A 6AP, United Kingdom	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	35 Great St. Helen's, London, EC3A 6AP, United Kingdom	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)
Eagle Place Covered Bonds Finance Limited	A	20%	35 Great St. Helen's, London, EC3A 6AP
Salary Finance Loans Limited	JV	50%	One Hammersmith Broadway, London, W6 9DL
Virgin Money Unit Trust Managers Limited	JV	50% (and one share)	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 joint venture with Aberdeen Standard Investments was completed on 31 July 2019. 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 Virgin Money Unit Trust Managers Limited. Investments in joint ventures are recognised in the consolidated financial statements within other assets.

6.3 Company debt securities in issue

	2019 £M	2018 £M
Subordinated debt	**731**	479
Medium-term notes	**1,526**	797
	2,257	1,276

Information on subordinated debt and medium-term notes is provided in note 3.14 to the consolidated financial statements.

The fair value hedge adjustment included in note 3.14 is not applicable at Company level.

On 20 August 2019, following a consent exercise with the noteholders, a medium-term note issued by Virgin Money Holdings (UK) PLC changed obligor and transferred to the Company at a fair value of £347m.

Section 6: Notes to the Company financial statements continued

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 2019					30 SEPTEMBER 2018				
			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	**2,287**	**2,318**	**–**	**2,318**	**–**	1,315	1,325	–	1,325	–
FINANCIAL LIABILITIES										
Debt securities in issue	**2,257**	**2,302**	**2,302**	**–**	**–**	1,276	1,279	1,279	–	–

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, which were purchased from Clydesdale Bank PLC at 30 September 2018. 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%.

6.5 Company reserves

6.5.1 Cash flow hedge reserve

As at 30 September 2019, the cash flow hedge reserve comprised crystallised fair value losses arising from a matured cash flow hedge of £1m (2018: £1m). This hedge relationship was entered into to mitigate the interest rate risk exposure prior to the issuance of the subordinated debt. The hedge matured at the date of issue. The balance on the cash flow hedge reserve within the statement of changes in equity is net of tax.

The crystallised fair value losses will be amortised from the cash flow hedge reserve to the income statement over the life of the subordinated debt. In respect of this, a £Nil loss (2018: £0.8m loss) was recycled to the income statement during the year.

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 profit for the year ended 30 September 2019 of £75m (2018: profit of £34m).

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 2019, the Company had accumulated distributable reserves of £1,015m (2018: £1,005m).

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

	2019 £M	2018 £M
Medium-term notes	**1,551**	797
Subordinated debt	**732**	480
Other receivables	**4**	1
Cash and cash equivalents	**–**	36
Total amounts due from related entities	**2,287**	1,314

On 20 August 2019, the Company purchased £350m of 3.6262% fixed rate reset callable medium-term notes with a final maturity date of 20 April 2026 from Clydesdale Bank PLC. Medium-term notes comprise dated, unsecured loans and are issued by Clydesdale Bank PLC.

On 3 September 2019, the Company purchased £400m of 4% fixed rate reset callable medium-term notes with a final maturity date of 3 September 2027 from Clydesdale Bank PLC. Medium-term notes comprise dated, unsecured loans and are 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.

On 14 December 2018, the Company purchased £250m of 7.875% fixed rate reset callable subordinated debt with a final maturity date of 14 December 2028 from Clydesdale Bank PLC. Subordinated debt comprises dated, unsecured loan capital and is 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.

Amounts due to controlled entities of the Company

	2019 £M	2018 £M
Bank account held with controlled entity of the Company	**11**	–
Other payables	**10**	41
Total amounts due to related entities	**21**	41

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 period 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 (2018: Nil).

ADDITIONAL INFORMATION

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 return on tangible equity.

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 280, 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 net interest income as a percentage of average interest earning assets for a given period. Underlying net interest income of £1,433m (2018: £1,457m) is divided by average interest earning assets for a given period of £86,362m (2018: £81,934m) (which is then adjusted to exclude short-term repos used for liquidity management purposes, fair value adjustments, amounts received under the Conduct Indemnity and not yet utilised, and any associated income). As a result of the exclusions noted above, average interest earning assets used as the denominator have reduced by £Nil (2018: £187m) and the net interest income numerator has reduced by £Nil (2018: £3m).
Statutory return on tangible equity **(RoTE)**	A	Statutory profit/(loss) after tax attributable to ordinary equity holders as a percentage of average tangible equity (total equity less intangible assets, AT1 and non-controlling interests) for a given period.
Statutory return on assets	A	Statutory profit/(loss) after tax as a percentage of average total assets for a given period.
Statutory basic earnings per share **(EPS)**	S	Statutory profit/(loss) after tax attributable to ordinary equity shareholders including tax relief on any distributions made to other equity holders and non-controlling interests, divided by the weighted average number of ordinary shares in issue for a given period (excluding own shares held).
Underlying RoTE	A	Underlying profit after tax attributable to ordinary equity holders, including tax relief on any distributions made to other equity holders and non-controlling interests, as a percentage of average tangible equity (total equity less intangible assets, AT1 and non-controlling interests) for a given period.
Underlying CIR	A	Underlying operating and administrative expenses as a percentage of underlying total operating income for a given period.
Underlying return on assets	A	Underlying profit after tax as a percentage of average total assets for a given period.
Underlying basic EPS	A	Underlying profit after tax attributable to ordinary equity holders divided by the weighted average number of ordinary shares in issue for a given period.

(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, key performance indicators (KPIs) and key credit metrics.

TERM	TYPE	DEFINITION
Underlying profit after tax attributable to ordinary equity holders	A	Underlying profit before tax of £539m (2018: £581m) less tax charge of £77m (2018: £101m), less AT1 distributions (net of tax relief) of £33m (2018: £29m), less distributions to non-controlling interests (net of tax relief) of £26m (2018:£25m) and was equal to £403m (2018: £426m). The underlying tax charge is calculated by applying the statutory tax rate for the relevant period to the taxable items adjusted on the underlying basis.

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 period end divided by the number of ordinary shares in issue at the year end (excluding own shares held).
Pro forma tangible net asset value **(TNAV)** per share	A	Tangible equity (total equity less intangible assets, AT1 and non-controlling interests) as at the period end divided by the number of ordinary shares in issue at the period end. For comparative periods, the number of ordinary shares in issue used in the calculation is the number of ordinary shares in issue on 15 October 2018 following the acquisition of Virgin Money Holdings (UK) PLC (excluding own shares held).
Pro forma underlying basic earnings per share	A	Underlying profit after tax attributable to ordinary equity shareholders, including tax relief on any distributions made to other equity holders and non-controlling interests, divided by the weighted average number of ordinary shares in issue for a given period (excluding own shares held). The weighted average number of ordinary shares in issue assumes that the 540,856,644 shares issued on the acquisition of Virgin Money Holdings (UK) PLC, was completed on 1 October 2017.
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.
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 pro forma 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	2019 £M	2018 £M	REASON FOR EXCLUSION FROM THE GROUP'S CURRENT UNDERLYING PERFORMANCE
Restructuring costs	**(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.
ACQUISITION COSTS:			All costs incurred as a direct result of the acquisition of Virgin Money Holdings (UK) PLC have been removed from underlying performance due to the scale and nature of the transaction. Further information on the items is provided below to aid understanding.
Acquisition accounting	**(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 (£23m gain) and the IFRS 9 impairment impact on acquired assets (£103m charge) with other smaller items amounting to £7m. 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.
Intangible asset write-off	**(127)**	–	The charge for the software write-off is significant and has arisen 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 is a one-off exercise arising from the acquisition.
Virgin Money Holdings (UK) PLC transaction costs	**(55)**	(39)	These costs related directly to the transaction and comprised legal, advisory and other associated costs required to complete the transaction.
Total acquisition costs	**(189)**	(39)	
Legacy conduct	**(433)**	(396)	These costs are historical in nature and are not indicative of the Group's current practices.
OTHER:			
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.
SME transformation	**(30)**	(16)	These costs are significant and considered to be one-off due to the unique growth opportunities currently available to the Group in respect of its Business lending.
Gain on sale of UTM	**35**	–	A one-off gain recognised on the disposal of 50% (less one share) of Virgin Money Unit Trust Managers Limited.
UTM transition costs	**(1)**	–	
GMP equalisation cost	**(11)**	–	A one-off charge for GMP equalisation in the Group's defined benefit scheme.
Legacy restructuring and separation	**(5)**	(46)	These legacy costs were significant in prior periods and related to the Sustain programme, and demerger from NAB, both of which completed in the current period.
Virgin Money digital bank termination costs	**–**	(3)	
Gain on disposal of VocaLink	**4**	–	
Gain on disposal of Visa C shares	**–**	3	
Total other	**(26)**	(62)	

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.
B	The Group's digital application suite, offering retail customers money management capabilities across Web, Android and Apple platforms.
Bank	Clydesdale Bank PLC.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2004.
Basel III	Reforms issued by the BCBS in December 2017 with subsequent revisions.
basis points **(bps)**	One hundredth of a percent (0.01%); meaning that 100 basis points is equal to 1%. This term is commonly used in describing interest rate movements.
Board	Refers to the Virgin Money UK PLC Board or the Clydesdale Bank PLC Board as appropriate.
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.
Capped Indemnity	The indemnity from NAB in favour of the Group in respect of certain qualifying conduct costs incurred by the Group under the terms of the Conduct Indemnity Deed.
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.
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	CYBG, now 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/CYBG	CYBG PLC up until 31 October 2019 and thereafter Virgin Money UK PLC.
Conduct Indemnity Deed	The deed between NAB and CYBG setting out the terms of: — the Capped Indemnity; and — certain arrangements for the treatment and management of Relevant Conduct Matters.
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.
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 period end shown as a percentage of gross loans and advances as at the period 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'.
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 assets	Financial assets that are in default or have an individually assessed provision. This is also referred to as a 'Stage 3' impairment loss and subject to a lifetime expected credit loss calculation. The Group considers 90 days past due 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.

TERM	DEFINITION
customer deposits	Money deposited by individuals and corporate entities that are not credit institutions, and can be either interest bearing, non-interest bearing or term deposits.
CYBI	CYB Investments Limited.
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.
earnings at risk **(EaR)**	A measure of the quantity by which net interest income might change in the event of an adverse change in interest rates.
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 Ombudsman Service	An independent body set up by the UK Parliament to resolve individual complaints between financial businesses and their customers.
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	CYBG, now 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 new financial instrument accounting standard which was adopted by the Group with effect from 1 October 2018.
impairment allowances	An expected credit loss 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 expected credit loss.
impairment losses	The expected credit losses 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 expected credit loss.
interest rate hedging products **(IRHP)**	This incorporates: (i) standalone hedging products identified in the Financial Services Authority (FSA) 2012 notice; (ii) the voluntary inclusion of certain of the Group's more complex tailored business loan (TBL) products; and (iii) the Group's secondary review of all fixed-rate tailored business loans (FRTBLs) complaints which were not in scope for the FSA notice.
Internal Capital Adequacy Assessment Process **(ICAAP)**	The Group's assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
Internal Liquidity Adequacy Assessment Process **(ILAAP)**	The Group's assessment and management of balance sheet risks relating to funding and liquidity.
Internal Ratings-Based approach **(IRB)**	A method of calculating credit risk capital requirements using internal, rather than supervisory, estimates of risk parameters.
investment grade	The highest possible range of credit ratings, from 'AAA' to 'BBB', as measured by external credit rating agencies.

TERM	DEFINITION
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 significant increase in credit risk 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	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.
Relevant Conduct Matters	The legacy conduct issues covered by the Capped Indemnity, including certain conduct issues relating to PPI, standalone IRHP, voluntary scope TBLs and FRTBLs and other conduct matters in the period prior to the Demerger date whether or not known at the Demerger date.
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 new 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.
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.

TERM	DEFINITION
Significant increase in credit risk	The assessment performed on financial assets at the reporting date to determine whether a 12-month or lifetime expected credit loss 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 days past due as a backstop in determining whether a significant increase in credit risk since origination has occurred.
specific impairment provision	A specific provision relates to a specific loan, and represents the estimated shortfall between the carrying value of the asset and the estimated future cash flows, including the estimated realisable value of securities after meeting securities realisation costs.
standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
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.
underlying capital generation	The amount of capital generated by the business in basis points over a given period, before non-underlying items are included.
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

AIRB	Advanced internal ratings-based
ALCO	Asset and Liability Committee
API	Application programming interface
ASX	Australian Securities Exchange
AT1	Additional Tier 1
BCAs	Business current accounts
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
bps	Basis points
BTL	Buy-to-let
CAGR	Compound Annual Growth Rate
CCB	Capital Conservation Buffer
CCF	Credit conversion factor
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1 Capital
CIR	Cost to income ratio
CMA	Competition and Markets Authority
CPI	Consumer Price Index
CRD IV	Capital Requirements Directive IV
CRM	Credit risk mitigation
CRR	Capital Requirements Regulation
CSR	Corporate social responsibility
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
ECL	Expected credit loss
EIR	Effective interest rate
EPS	Earnings per share
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
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GDPR	General Data Protection Regulation
GHG	Greenhouse Gases
GMP	Guaranteed Minimum Pension
HMRC	Her Majesty's Revenue and Customs
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
ILO	International Labour Organisation
IPO	Initial Public Offering
IRB	Internal ratings-based
IRHP	Interest rate hedging products
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
JV	Joint venture
LCR	Liquidity coverage ratio
LDR	Loan to deposit ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LSE	London Stock Exchange
LTIP	Long-term incentive plan
LTV	Loan to value ratio
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MRT	Material Risk Takers
NAB	National Australia Bank Limited
NIM	Net interest margin
NPS	Net promoter score
NSFR	Net stable funding ratio
OLAR	Overall liquidity adequacy rule
PBT	Profit before tax
PCA	Personal current accounts
PD	Probability of Default
PILON	Payment in lieu of notice
POCI	Purchased or originated credit impaired
PPI	Payment protection insurance
PRA	Prudential Regulation Authority
RAS	Risk Appetite Statement
RMBS	Residential mortgage-backed securities
RMF	Risk Management Framework
RoTE	Return on Tangible Equity
RPI	Retail Price Index
RWA	Risk weighted assets
SICR	Significant increase in credit risk
SIP	Share Incentive Plan
SME	Small or medium sized enterprises
SRB	Systemic Risk Buffer
SVR	Standard variable rate
TCC	Transactional Credit Committee
TFS	Term Funding Scheme
TNAV	Tangible net asset value
TSA	Transitional Services Agreement
TSR	Total Shareholder Return
VAA	Virgin Atlantic Airways
VaR	Value at risk

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.

	2019 UK
Average FTE employees (number)	**8,703**
Total operating income (£m)	**1,749**
Loss before tax (£m)	**232**
Corporation tax paid (£m)	**7**
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 AGM of the Company will be held at 9.00am (GMT) on Wednesday 29 January 2020 at the offices of Clifford Chance LLP, 10 Upper Bank Street, London, E14 5JJ, United Kingdom. The Notice of AGM is 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:

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) ncluding:

— 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 2019

By size of holding:

RANGE	NO OF SHAREHOLDERS	%	NO OF SHARES	%
1–1,000	134,430	79.29	44,956,396	3.13
1,001–5,000	27,775	16.38	58,305,552	4.07
5,001–10,000	4,081	2.41	29,303,502	2.04
10,001–100,000	2,920	1.72	70,549,129	4.92
100,001–999,999,999	334	0.20	1,231,371,110	85.84
	169,540	100	1,434,485,689	100.00

Indicative financial calendar for 2020

Q1 Trading Update	28 January 2020
Annual General Meeting	29 January 2020
Interim Results Announcement	12 May 2020
Q3 Trading Update	4 August 2020
Full Year Results Announcement	25 November 2020

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 geopolitical factors, 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 BoE, the FCA 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 (EU), 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.

www.virginmoneyukplc.com

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