VIRGIN MONEY UK PLC
INTERIM FINANCIAL REPORT
SIX MONTHS TO 31 MARCH 2023

BASIS OF PRESENTATION

Virgin Money UK PLC ('Virgin Money', 'VMUK' or 'the Company'), together with its subsidiary undertakings (which together comprise the 'Group'), operate under the Clydesdale Bank, Yorkshire Bank and Virgin Money brands. This release covers the results of the Group for the six months ended 31 March 2023.

Statutory basis: Statutory information is set out on page 21 and within the interim condensed consolidated financial statements.

Underlying basis: Management exclude certain items from the Group's statutory position to arrive at an underlying performance basis. A reconciliation from the underlying results to the statutory basis is shown on page 22 and rationale for the adjustments is shown on page 90.

Alternative performance measures: the key performance indicators (KPIs) and performance metrics used in monitoring the Group's performance and reflected throughout this report fall into two categories: financial and non-financial, and are detailed at 'Measuring the Group's performance' on pages 344 to 352 of the Group Annual Report and Accounts for the year ended 30 September 2022. Alternative performance measures (APMs) are closely scrutinised to ensure that they provide genuine insights into the Group's progress; however, statutory measures are the key determinant of dividend paying capability.

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

FORWARD-LOOKING STATEMENTS

This document and any other written or oral material discussed or distributed in connection with the results (the 'Information') 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 are subject to risks, uncertainties and assumptions about the Group and its securities, investments and the environment in which it operates, including, among other things, the development of its business and strategy, any acquisitions, combinations, disposals or other corporate activity undertaken by the Group, trends in its operating industry, changes to customer behaviours and covenant, macroeconomic and/or geopolitical factors, the repercussions of the outbreak of coronaviruses (including but not limited to the COVID-19 outbreak), changes to its Board and/or employee composition, exposures to terrorist activity, IT system failures, cyber-crime, fraud and pension scheme liabilities, changes to law and/or the policies and practices of the Bank of England (BoE), the Financial Conduct Authority (FCA) and/or other regulatory and governmental bodies, inflation, deflation, interest rates, exchange rates, tax and national insurance rates, changes in the liquidity, capital, funding and/or asset position and/or credit ratings of the Group, future capital expenditures and acquisitions, the repercussions of Russia's invasion of Ukraine, the repercussions of the UK's exit from the European Union (EU) (including any change to the UK's currency and the terms of any trade agreements (or lack thereof) between the UK and the EU), Eurozone instability, any referendum on Scottish independence and any UK or global cost of living crisis or recession.

In light of these risks, uncertainties and assumptions, the events in the forward-looking statements may not occur. Forward-looking statements involve inherent risks and uncertainties and should be viewed as hypothetical. 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 (each a 'VMUK Party') gives any representation, warranty or 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 the Information. No representation or warranty is made that any forward-looking statement will come to pass. Whilst every effort has been made to ensure the accuracy of the Information, no VMUK Party takes any responsibility for the Information or to update or revise it. They will not be liable for any loss or damages incurred through the reliance on or use of it. The Information is subject to change. No representation or warranty, express or implied, as to the truth, fullness, fairness, merchantability, accuracy, sufficiency or completeness of the Information is given.

Certain industry, market and competitive position data contained in the Information comes from official or third party sources. There is no guarantee of the accuracy or completeness of such data. While the Group reasonably believes that each of these publications, studies and surveys has been prepared by a reputable source, no member of the Group or their respective directors, officers, employees, agents, advisers or affiliates have independently verified the data. In addition, certain industry, market and competitive position data contained in the Information comes from the Group's own internal research and estimates based on the knowledge and experience of the Group's management in the markets in which the Group operates. While the Group reasonably believes that such research and estimates are reasonable and reliable, they, and their underlying methodology and assumptions, have not been verified by any independent source for accuracy or completeness, and are subject to change. Accordingly, undue reliance should not be placed on any of the industry, market or competitive position data contained in the Information.

The Information does not constitute or form part of, and should not be construed as, any public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments. The distribution of the Information in certain jurisdictions may be restricted by law. Recipients are required to inform themselves about and to observe any such restrictions. No liability to any person is accepted in relation to the distribution or possession of the Information in any jurisdiction.

Interim financial report

For the six months ended 31 March 2023

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Virgin Money UK PLC Interim Results 2023

David Duffy, Chief Executive Officer:

"More people are choosing to bank with Virgin Money. While the past six months have seen turbulence in the economy and in the financial system, we have continued to focus on our target areas, growing customer numbers and deposits thanks to our new and existing digital products. Further customer-centric product launches are coming in the second half of the year."

"We have a strong capital position and we've significantly grown pre-provision profit, while continuing our prudent approach. As the UK economy stabilises in the months ahead, we have a high degree of confidence in our long-term plans."

Summary financials

	6 months to 31 Mar 2023 £m	Restated 6 months to 31 Mar 2022 £m	Change %	Restated 6 months to 30 Sep 2022 £m	Change %
Underlying net interest income (NII)	**855**	782	9	810	6
Underlying non-interest income(1)	**78**	66	18	84	(7)
Total underlying operating income	**933**	848	10	894	4
Underlying operating and administrative expenses	**(477)**	(456)	5	(458)	4
Underlying operating profit before impairment losses	**456**	392	16	436	5
Impairment losses on credit exposures	**(144)**	(21)	586	(31)	365
Underlying profit on ordinary activities before tax	**312**	371	(16)	405	(23)
Adjusting items(1)	**(76)**	(56)	36	(125)	(39)
Statutory profit on ordinary activities before tax	**236**	315	(25)	280	(16)

Performance metrics(2)

Net interest margin (NIM)	**1.91%**	1.83%	8bps	1.86%	5bps
Underlying cost: income ratio(1)	**51%**	54%	(3)%pts	51%	-%pts
Cost of risk (CoR)	**0.40%**	0.06%	34bps	0.09%	31bps
Statutory return on tangible equity (RoTE)	**6.1%**	9.1%	(3.0)%pts	11.3%	(5.2)%pts
Common Equity Tier 1 (CET1) ratio (IFRS 9 transitional)	**14.7%**	14.7%	-%pts	15.0%	(0.3)%pts

(1) Hedge ineffectiveness is now presented as an adjustment to underlying earnings as detailed on page 90. The comparative periods have been adjusted accordingly.
(2) For definitions of the performance metrics, refer to 'Measuring the Group's performance' on pages 344 to 352 of the Group's 2022 Annual Report and Accounts.

Benefitting from higher rates and growth in customers; continuing to invest in our digital future

- NIM expanded further to 1.91% in H1 (Q223: 1.94%), supported by higher rates, structural hedge reinvestment and improved mix
- Total income up 10%, reflecting 9% growth in NII and positive fair value movements benefitting non-interest income
- Underlying costs 5% higher, driven by investment in service and mortgage digitisation; underlying C:I ratio down 3%pts to 51%
- Underlying operating profit before impairment losses of £456m, up 16% on H122, reflecting stronger income
- Impairment charge of £144m (CoR: 40bps), driven primarily by provision build from higher modelled ECL, including updated macroeconomics and credit bureau data in anticipation of an increase in arrears as the credit cycle continues to normalise
- Underlying PBT 16% lower compared to a year ago reflecting the prior period's low impairment charge (£21m)
- Restructuring charges of £53m broadly stable YoY. The Group slowed some restructuring activity in H1 to further underpin service
- Statutory profit reduced compared to a year ago to £236m (H122: £315m), primarily reflecting the higher impairment charge

Robust balance sheet with continued strong deposit inflows and broadly stable customer lending

- Continued relationship deposit growth, +2.9% to £35.6bn; overall deposits increased 2.6% to £67.0bn (with 72% FSCS insured)
- CET1 remains strong at 14.7% (FY22: 15.0%) including the impact of the £50m buyback completed in H1; 3.3p interim dividend
- Underlying credit quality remained resilient; coverage increased to 72bps (FY22: 62bps), primarily from higher modelled ECL
- LCR increased 15%pts to 153% (FY22: 138%); NSFR stable in the period at 136% (FY22: 136%)
- Overall lending stable (0.2)%; Mortgages (0.8)% to £57.7bn given lower market activity; Unsecured (0.2)%, including moderated growth in credit cards +1.9%; Business lending +4.2% as growth in BAU balances offset a reduction in Government lending

Continued strategic momentum with digital propositions driving growth in relationship accounts

- c.69k growth in active relationship accounts during H1 (now 3.7m active relationship accounts)
- Continued strong reception to new digital products including 52% increase in BCA sales YoY and 16% growth in PCA sales
- c.10k new Slyce customers since launch as we test and learn; c.300k travel insurance sales since launch in March 2022
- Launched Virgin Money Investments through abrdn JV, comprising a new digital platform and straightforward investment products

Enhancing customer and colleague support through Purpose-led delivery

- Call waiting times down by c.75% compared to the position at FY22, following investment in resource to support service
- Cost of Living hub, supporting customers with money saving suggestions, budgeting tools and links to external resources
- Turn2us Benefits calculator supporting those who may be eligible for additional or top up benefits (29k people to date)
- A Life More Virgin flexible working model supporting continued higher colleague engagement (+4%pts in H1)

FY23 outlook updated; NIM guidance for FY23 upgraded

- Expect FY23 NIM to be c.190bps, with stable performance in H2 compared to H1
- Underlying cost: income ratio expected to be in the range 51-52%
- Expect cost of risk for FY23 to be in the range of c.35-40bps
- Anticipate the majority of the remaining c.£140m restructuring charges to be incurred in H2
- Maintain CET1 > 14% through FY23 during period of heightened macroeconomic uncertainty
- 30% dividend payout; buybacks subject to the outcome of ACS results and regulatory approval

Contact details

For further information, please contact:

Investors and Analysts	
Richard Smith Head of Investor Relations & Sustainability	+44 7483 399 303 richard.smith@virginmoneyukplc.com
Amil Nathwani Senior Manager, Investor Relations	+44 7702 100 398 amil.nathwani@virginmoneyukplc.com
Martin Pollard Senior Manager, Investor Relations	+44 7894 814 195 martin.pollard@virginmoneyukplc.com
Media (UK)	
Matt Magee Head of Media Relations	+44 7411 299477 matthew.magee@virginmoneyukplc.com
Simon Hall Senior Media Relations Manager	+44 7855 257 081 simon.hall@virginmoney.com
Press Office	+44 800 066 5998 press.office@virginmoneyukplc.com
Teneo	
Iain Dey Doug Campbell	+44 7976 295 906 +44 7753 136 628
Teneo (Australia)	
Emily Blyth	+61 401 601 044

Virgin Money UK PLC will today be hosting a presentation for analysts and investors covering the 2023 interim financial results starting at 08:30 BST (17:30 AEST) with a presentation followed by live Q&A call:

https://webcast.openbriefing.com/vmuk-interim23/

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

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

A call for fixed income investors will be held at 09:30 BST on Friday 5 May 2023: Dial-in details: UK: 0808 189 0158; All other locations: +44 20 3936 2999; Access code: 423509

The Group will publish its interim Pillar 3 on Wednesday 31 May 2023.

Measuring strategic delivery

All figures as at H1 2023

Total active relationship customer accounts

3.7m

FY22: 3.6m
2021*: 3.3m

* As at October 2021

Digital primacy

59%

FY22: 56%
H1 22**: 51%

** New metric; as at March 2022

Target lending segment asset growth

4% in H1

FY22: 7%
FY21: (3.3)%

Gross annualised cost savings

£93m

FY22: £69m
FY22-FY24 target: £175m

Customer complaints per 1k accounts

4.2

FY22: 4.2
FY21: 3.7

Colleague engagement

83%

FY22: 79%
FY21: 68%

Group Smile score

44%

FY22: 46%
FY21: 51%

Financial performance - summary

Summary income statement

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Impairment losses on credit exposures	**(144)**	(21)	586	(31)	365
Underlying profit on ordinary activities before tax	**312**	371	(16)	405	(23)
- Restructuring charges	**(53)**	(46)	15	(36)	47
- Acquisition accounting unwinds	**(3)**	(14)	(79)	(21)	(86)
- Legacy conduct costs	**(4)**	(5)	(20)	(3)	33
- Hedge ineffectiveness[1]	**(16)**	17	n/a	(4)	300
- Other items	**-**	(8)	(100)	(61)	(100)
Statutory profit on ordinary activities before tax	**236**	315	(25)	280	(16)
Tax (expense)/credit	**(56)**	(77)	(27)	19	n/a
Statutory profit after tax	**180**	238	(24)	299	(40)

Performance metrics[2]

	6 months to 31 Mar 2023	Restated 6 months to 31 Mar 2022	Change	Restated 6 months to 30 Sep 2022	Change
Profitability:					
Net interest margin (NIM)	**1.91%**	1.83%	8bps	1.86%	5bps
Underlying return on tangible equity (RoTE)[1]	**8.3%**	11.1%	(2.8)%	15.2%	(6.9)%
Underlying cost: income ratio[1]	**51%**	54%	(3)%pts	51%	-%pts
Underlying earnings per share (EPS)[1]	**14.9p**	16.7p	(1.8)p	25.1p	(10.2)p
Statutory RoTE	**6.1%**	9.1%	(3.0)%pts	11.3%	(5.2)%pts
Statutory cost: income ratio	**58%**	60%	(2)%pts	64%	(6)%pts
Statutory EPS	**11.0p**	13.7p	(2.7)p	18.7p	(7.7)p

(1) Hedge ineffectiveness is now presented as an adjustment to underlying earnings as detailed on page 90. The comparative periods have been adjusted accordingly.
(2) For definitions of the performance metrics, refer to 'Measuring the Group's performance' on pages 344 to 352 of the Group's 2022 Annual Report and Accounts

Financial performance - summary

Performance metrics (continued)

As at:	31 Mar 2023	31 Mar 2022	Change	30 Sep 2022	Change
Asset quality					
Cost of risk[1]	**0.40%**	0.06%	34bps	0.07%	33bps
Total provision to customer loans	**0.72%**	0.66%	6bps	0.62%	10bps
Indexed loan to value ratio (LTV) of mortgage portfolio[2]	**53.6%**	54.4%	(0.8)%pts	52.7%	0.9%pts
Regulatory Capital:					
CET1 ratio (IFRS 9 transitional)	**14.7%**	14.7%	-%pts	15.0%	(0.3)%pts
CET1 ratio (IFRS 9 fully loaded)	**14.4%**	14.4%	-%pts	14.6%	(0.2)%pts
Total capital ratio	**21.2%**	21.8%	(0.6)%pts	22.0%	(0.8)%pts
Minimum requirement for own funds and eligible liabilities (MREL) ratio	**31.0%**	31.7%	(0.7)%pts	32.1%	(1.1)%pts
UK leverage ratio	**5.0%**	5.1%	(0.1)%pts	5.1%	(0.1)%pts
Tangible net asset value (TNAV) per share	**350.5p**	313.2p	37.3p	383.0p	(32.5)p
Funding and Liquidity:					
Loan to deposit ratio (LDR)	**108%**	112%	(4)%pts	111%	(3)%pts
Liquidity coverage ratio (LCR)	**153%**	139%	14%pts	138%	15%pts

(1) Cost of risk for the 6 months to March is calculated on an annualised basis.
(2) LTV of the mortgage portfolio is defined as mortgage portfolio weighted by balance.

Summary balance sheet

	As at		
	31 Mar 2023 £m	30 Sep 2022 £m	Change %
Customer loans	**72,435**	72,565	-
of which Mortgages	***57,687***	*58,155*	*(1)*
of which Unsecured	***6,152***	*6,163*	*-*
of which Business	***8,596***	*8,247*	*4*
Other financial assets	**18,501**	17,545	5
Other non-financial assets	**1,560**	1,797	(13)
Total assets	**92,496**	91,907	1
Customer deposits	**67,030**	65,360	3
of which relationship deposits[1]	***35,643***	*34,649*	*3*
of which non-linked savings	***12,196***	*17,048*	*(28)*
of which term deposits	***19,191***	*13,663*	*40*
Wholesale funding	**16,896**	17,012	(1)
Other liabilities	**2,940**	3,195	(8)
Total liabilities	**86,866**	85,567	2
Ordinary shareholders' equity	**5,036**	5,674	(11)
Additional Tier 1 (AT1) equity	**594**	666	(11)
Equity	**5,630**	6,340	(11)
Total liabilities and equity	**92,496**	91,907	1
Risk Weighted Assets (RWAs)	**24,703**	24,148	2

(1) Current account and linked savings balances

Chief Executive Officer's statement

Delivering our Digital First strategy

“More people are choosing to bank with Virgin Money. While the past six months have seen turbulence in the economy and in the financial system, we have continued to focus on our target areas, growing customer numbers and deposits thanks to our new and existing digital products. Further customer-centric product launches are coming in the second half of the year.”

“We have a strong capital position and we’ve significantly grown pre-provision profit, while continuing our prudent approach. As the UK economy stabilises in the months ahead, we have a high degree of confidence in our long-term plans.”

David Duffy, CEO

Delivering our digital strategy

The Group is now halfway through the Purpose-led, digital strategy set out alongside FY21 results, and we are making good progress in executing our strategic priorities. Over the course of the last eighteen months, we’ve delivered innovative digital propositions that have driven strong growth in relationship customer numbers. Our capital ratios and funding position have continued to improve, with strengthening capital generation also supporting a growing level of distributions to investors. Our recent work to improve customer service leaves us well placed to digitise the bank further and support profitable growth. The continued diversification of both sides of our balance sheet, combined with the rising rate environment, has driven a reduction in our cost: income ratio, although there remains more work to do here. As we look out to FY24, we are well placed to deliver on our financial targets. There is still a significant amount to do during the second half of our three-year digital strategy, but I remain confident it is the right strategy despite the changing environment, and as we execute, this will increasingly translate into stronger financial performance.

Over the last six months, the economic backdrop in the UK has been subdued, with several economic indicators forecast to remain weak in the near term before improving into FY24. During the first half of our financial year, the Bank of England’s (BoE) Monetary Policy Committee have progressively raised the main policy rate further. Swap rates have been volatile throughout the period, as market sentiment has been impacted by challenges at Silicon Valley Bank and other US regional banks, as well as some European banks. Recent rate rises and ongoing inflationary impacts have seen affordability tighten for many UK businesses and individuals, and the Group remains ready to support our customers as required. Pleasingly for now, the number of customers in financial distress remains low, but we continue to expect arrears numbers to increase as the credit cycle normalises, and have increased our provision coverage during H1. Overall, the Group continues to have a robust balance sheet, with a strong capital and funding position, whilst liquidity improved further driven by continued deposit inflows.

Our strategy, supported by the rate environment, is translating into improved financial momentum despite the weak backdrop. In H1, we’ve made good progress in executing the customer-focused elements of our digital strategy, and our programme of investment that is delivering compelling new digital propositions is continuing to see good levels of customer engagement and growth. Our successful execution is driving active customer account growth across business (BCA) and personal current accounts (PCA), including higher levels of sales to new customers, as well as continued growth in relationship deposits. We are also delivering strong growth in business lending as our sector expertise bears fruit, alongside a maturing of our position in the credit card market, where we now have a c.8% share. More recent proposition launches including Slyce, our response to the buy-now-pay-later market, and insurance and investment product relaunches have seen positive initial customer reactions, positioning us well for further profitable growth.

Over the course of H1, we’ve moderated the pace of restructuring activity and added additional resources to support customer experience across the Group, which has already seen a marked improvement in call waiting times and an 80% reduction in outstanding complaint volumes from peak levels. We have also continued to make progress developing our digital mortgage platform, although we now expect this to be delivered in 2024 as we extend the testing and development phase.

Over the remainder of the year, we remain focused on delivering continued growth in customer numbers at good margins, delivery of enhancements to our product and competitive proposition, and further efficiency gains from restructuring and digitisation. Given the higher rate environment, and supported by the ongoing execution of our strategy to diversify the balance sheet, the outlook for NIM has strengthened further, and it is pleasing to be able to upgrade our NIM guidance. Our short-term additional investment this year will see a slower pace of reduction in our cost: income ratio in FY23 than previously expected, but we are laying the foundations for stronger profitable growth in the medium term.

We remain committed to further capital returns and have announced a 3.3p dividend in respect of H1 2023, and continue to expect to operate within our target capital range in FY24, with further buybacks subject to the outcome of the BoE’s Annual Cyclical Scenario (ACS) stress test. We will continue to safeguard the bank, operating with a prudent risk appetite, while maintaining strong liquidity, funding and capital as we grow profitably. As the Group executes its digital strategy, it is increasingly well positioned to deliver on its FY24 targets for all our stakeholders, as our colleagues deliver innovative, valuable propositions which provide good outcomes to our customers, and drive strengthened returns for investors.

Chief Executive Officer's statement

Robust financial performance and balance sheet

Overall statutory profit of £236m was lower compared to a year ago (H1 2022: £315m), primarily due to a higher impairment charge, given a very low charge in H1 2022, as well as higher investment costs in the period. The higher rate environment and positive momentum from our digital strategy drove an improvement in income to £933m, up 10% compared to a year ago. NIM expanded further to 1.91% for the half, as we continued to optimise both sides of the balance sheet. The additional investment in our mortgage platform and customer experience, as well as inflation, saw a 5% increase in operating expenses. Our impairment charge in the period was £144m (H1 2022: £21m) with the increase primarily driven by updated economic assumptions as underlying credit quality generally remained stable, albeit with some signs of a modest increase in arrears in cards, from abnormally low pandemic levels.

Lending volumes in the period were stable compared to FY22 with good growth in Business lending offset by the weaker Mortgage market backdrop and our prudent approach to the Unsecured market. We continued to attract new deposits at strong spreads with deposits increasing 3% to £67bn, benefitting from our trusted brand, scale as a Tier 1 bank, and strong digital propositions. Our relationship deposit base continued to expand, also increasing 3% in H1 and now comprises 53% of total deposits. This growth in relationship deposits has benefitted from our digital investment as we have leveraged our strong PCA and linked saver proposition, offering customers enduring good value products.

Capital remained robust throughout the period with 72bps of underlying capital generation, leaving our CET1 ratio at 14.7%, despite the c.30bps impact of higher RWAs from MAs reflecting the latest view of hybrid mortgage model impacts and the c.20bps impact from the buyback extension announced at FY22. The Group's funding position remained strong, with the LDR declining to 108% (FY22: 111%) as we maintained a well-diversified deposit base, which is around 72% Financial Services Compensation Scheme (FSCS) protected. Our LCR improved over the half to 153% driven by the strong deposit growth, and the Group has already completed all capital and MREL issuance required during FY23. We continue to expect to issue £1.5bn - £2.5bn of primarily secured funding as we refinance TFSME in advance of maturity, but given strong deposit inflows, we now expect to be at the low end of this range. The Group fully hedges its liquidity portfolio and all securities are held at fair value, with any valuation adjustments already reflected within the Group's CET1 position.

Delighting customers & colleagues

Over the first half of the year, we've invested heavily in our customer experience, with over 300 additional temporary colleagues working to address the elevated level of inbound calls and outstanding complaints. The Group also slowed the pace of restructuring activity to further underpin service levels. As a result, call waiting times have reduced by around three-quarters compared to the position at FY22, with the vast majority of processes now back within their required timescales. Our Group Smile score across H1 stabilised at 44% (FY22: 46%), with a 47% score reported for March. Complaints per 1,000 accounts have stabilised since FY22, remaining at 4.2 and we remain committed to reducing this level as we resume digitising customer journeys. We'll maintain the elevated levels of resourcing for our contact centres and branches in the near term to ensure the improvement is well embedded as we accelerate our restructuring programme. However, this improved position on service provides a strong platform to make further progress as we move in to H2.

Recognising that the current environment is challenging for some customers, we are offering a range of initiatives to provide support for those who need it. Our Cost of Living hub on the Group's website offers a single destination to find help and support, with tips, tools and expert advice for managing money. Recognising that the challenges of the rising cost of living are not just limited to retail customers, we've also recently added a new dedicated 'supporting your businesses' section. In terms of direct support, we have continued our partnership with Turn2Us through the benefits calculator which has to date delivered £1.7m of additional income to c.29k people who have used the tool. The tool and hub are available to everyone, whether a customer or not.

For colleagues, our A Life More Virgin approach to work continues to be well received, and we are continuing to shape our approach based on colleague feedback and business objectives. Accordingly, our latest colleague engagement score improved again to 83%, up 4% from FY22, and outperforming the UK financial services norm. The majority of colleagues will also receive a 10% pay increase over 2023 reflecting the increased cost of living. Diversity, Equality and Inclusion remains an ongoing focus for Virgin Money. Progress against our representation targets has been gradually improving, especially in respect of gender within our senior leadership population, but with less progress in respect of ethnicity representation at a senior leadership level. The launch of our new allyship initiative 'Braver' over the summer this year will help accelerate awareness, understanding and action against both our representation and our inclusion goals.

Pioneering Growth

As we have continued to execute our digital strategy, total active relationship accounts (across personal and business transactional banking) increased 2% over the period to 3.7m. I've been particularly pleased with the strong growth in the deposit business, and we've continued to drive good inflows throughout the half. Deposit balances increased 3%, with corresponding growth in relationship deposits, as we offered customers good value products that have benefitted from our digital investment, supported by nimble pricing throughout the period. PCA sales were 16% higher in H1 2023 than H1 2022, supporting a 1% growth in active PCA accounts over the half. Sales benefitted from an ongoing competitive proposition, with the vast majority of PCA customers rewarded with credit interest and an attractive linked saver, distinguishing ourselves from high-street peers. PCA customers also continue to get access to rewards, cashback and exclusive product offerings.

BCA sales were even stronger, up 52% on H1 2022, which was a strong performance in a slowing market, and supported a 5% growth in active BCA accounts over the half. We've seen net growth in the number of BCA accounts for 17 consecutive months now, benefitting from sustained investment in the proposition and improvements to digital customer onboarding journeys. On the other side of the balance sheet, we've been really pleased to leverage the investment we've made in the Business franchise and our sectors of expertise, driving 7% growth in BAU business lending, offsetting the continued run-off of lower yielding government lending. We've seen particular strength in resilient segments such as Health & Social Care and Social Housing.

Chief Executive Officer's statement

In our Unsecured business, as set out at FY22, we have moderated the rate of growth, by tightening underwriting and focusing on improved profitability against the weaker credit environment. Our Cashback proposition continues to resonate well with customers, with c.700k users at the end of March. We have seen some reduction in personal loan balances as expected, as we have withdrawn from the market for new customers, although this remains an area of future opportunity with a suitably refreshed customer proposition. Slyce, our buy-now pay better proposition has seen volumes building steadily and in a responsible, controlled way. Over 10,000 customers have now accessed the product, to support over £5m of spending to date, with prudent average credit limits of less than £1k per account. We also continue to progress our new Digital Wallet proposition and have recently launched a beta version to a closed user group of Virgin Atlantic credit card customers as we continue to develop the functionality.

Currently the mortgage market backdrop remains subdued with new application spreads remaining lower than the backbook given elevated swap rates and continued competition in the market. We have continued to trade nimbly, focusing on margin and credit quality against this subdued backdrop, leading to a 0.8% reduction in balances over the half. While the market is likely to remain subdued in the near term, we've continued to invest in the development of our new digital mortgage platform which will support greater market access and our trading capability in the medium term. We now expect this to be delivered in 2024, as we have taken a pragmatic decision to extend the testing and development phase to ensure a better product for customers and brokers on launch; this won't impact our trading capability through the remainder of FY23.

Finally, our innovative new Virgin Money Investments proposition launched in early April, with our JV partner abrdn. We are aiming to take the fear out of investing, and offer customers simple, straightforward products and services, without jargon (our investment product Ts and Cs have been awarded Fairer Finance's Clear and Simple Mark). We've listened to customers throughout development, re-designing customer journeys and launching the new investment funds on a refreshed modern platform. Our existing Investments business has c.£3.6bn assets under management, which we will be looking to grow through the new proposition.

Super straightforward efficiency

Despite moderating the pace of some of our cost reduction activity earlier in the year, we have continued to benefit from efficiencies realised within the overall programme of work to digitise the bank, creating capacity to absorb inflation and re-investment. In the half, our total annualised savings increased to £93m against the planned £175m programme of savings that will be completed by FY24, as we benefit from digitisation activities, savings from 3rd party spending and ongoing streamlining of property and organisational design. Over the course of the half, we've continued to embed Agile methodology into our change delivery which will support a continued improvement in the long-term pace of change. As we move into FY24, we will continue to generate run-rate savings from our digitisation activity.

Our digitisation activity and migration to a cloud-based operating environment continues to make progress using the Microsoft Azure platform, with applications being assessed and reviewed ahead of migration to the cloud and a number being retired as we simplify the digital estate. The new technology architecture has also underpinned the introduction of our new 'conversational banking' platform, with Redi, our digital host deployed to our credit card customers in March, before being rolled out across the bank in the future. Redi is available 24/7, and uses AI to understand customer intent and either execute customer instructions and make real-time changes to customer accounts or pass the query to a live agent. This complements our existing successful chatbot deployments which have now surpassed 1.2m chatbot conversations with retail customers, with the resolution rate within the chatbot at over 70%. As a result, the percentage of customer interactions through calls has reduced from c.70% at FY21 to 44% as at the end of H1 2023 (FY22: c.50%). Meanwhile, Digital Primacy, our key measure for assessing customer migration to digital only engagement with us, rose to 59% from 56% at FY22.

Discipline and sustainability

The Group continues to have a robust balance sheet position with little change in credit quality to date against the current backdrop. The higher cost of risk in the period of 40bps was primarily driven by modelled outcomes based on a weaker macroeconomic outlook and updated credit bureau data, in anticipation of a continued increase in arrears. Current arrears trends within mortgages and business show limited change, with unsecured arrears picking up from the abnormally low levels seen through COVID-19.

The Group strengthened coverage over the early part of the year and now has aggregate provision coverage of 72bps across the lending book, up from 62bps at FY22, as we have refreshed our macroeconomic scenarios to reflect the worsening economic backdrop and the continued normalisation of the credit cycle. Our CET1 ratio remains towards the top of UK Tier 1 banks at 14.7%, despite incorporating a c.30bps management adjustment for mortgage hybrid models during Q2. Given the strong growth in deposits seen in the period our LCR improved further to 153%, with our net stable funding ratio (NSFR) stable at 136%, significantly above our regulatory and internal risk appetite thresholds. With no upcoming capital or MREL calls, our funding position and deposit franchise continue to show their strength in the current volatile backdrop, and we believe our approach to funding and liquidity positions us well.

From a sustainability perspective, we've also continued to make good progress through the first half. Embedding climate further into our risk framework will be an important step in our continued delivery and we remain focused on enhancing our data quality as we progress towards net zero. Following the publication of our initial net zero targets and roadmaps for our priority sectors at FY22, which cover 82% of Group lending, we've continued to execute against those plans and KPIs. Our Sustainable Business Coach app has been developed further, to support customers in their thinking around transition plans, with Sustainability Linked Loans and business sectoral tracking underpinning overall delivery. In Mortgages we were pleased to extend our Green Mortgage Reward proposition beyond the initial pilot period, and a retrofit product to enable mortgage customers to improve the efficiency of their homes is in development to go alongside the existing Green Mortgage offering. Work to develop our remaining Business sector roadmaps and targets, as well as our operational emissions roadmaps, is progressing well and we expect to update further at FY23.

Chief Executive Officer's statement

In FY22, we commissioned an independent third party to conduct a risk assessment of our Modern Slavery processes and approach across the Group. The assessment highlighted clear examples of proactive risk management, with some opportunities to improve further. With the results of the assessment in mind, we refreshed our Modern Slavery Statement in March, and we continue to focus on implementing the recommendations for best practice.

Developing our leadership team for the future

I was delighted to welcome our new Chief Operating Officer (COO) Sarah Wilkinson to the team in January. Sarah’s background in large scale change programmes covers 23 years in financial services, time as CEO of NHS digital and most recently as Chief Information Officer and Head of TR Labs at Thomson Reuters. She was also voted No 1 in the UK Tech50 for 2021, Computer Weekly’s annual ranking of the Top 50 Most Influential Leaders in UK Tech. The new COO function that Sarah will lead brings together our Customer Experience and Digital & Innovation areas, to provide a more integrated technological and change delivery unit. I’d like to take this opportunity to thank these areas’ former leaders, Fergus Murphy and Fraser Ingram, for their contributions to the Group.

From a Board perspective, we welcomed Sara Weller as the Virgin Group’s new Representative Director on 3 October 2022, replacing Amy Stirling. Sara has extensive experience, including nine years as a non-executive director of Lloyds Banking Group, and she currently also serves on the Board of BT Group.

Outlook

While the macroeconomic outlook remains uncertain in the short term, we believe the Group’s prudent risk appetite and positioning on liquidity, funding and capital, and our ongoing focus on customers and digitisation, position us for success. We have the scale and regulatory assurance of a Tier 1 bank, with the agility and ability to innovate of a challenger, all while we leverage the strength and entrepreneurial spirit of the Virgin brand.

Over the remainder of the year, the Group’s outlook continues to be robust. NIM has continued to track above our expectations, and we now expect FY23 NIM to be c.190bps, with stable performance in H2 compared to H1. We will continue to invest in customer experience and digital propositions over the remainder of the year, while accelerating our cost saving programme, and we now anticipate a cost: income ratio of 51-52% in FY23, with short-term investment costs reducing into FY24. Updating for our economic outlook under IFRS 9 methodology, we now expect our cost of risk for the year to be in the range of 35-40bps.

The Group remains strongly capital generative and I’m pleased the Board has declared an interim dividend in line with the capital framework set out a year ago, of one-third of the prior year’s full dividend. As we look forward over the remainder of the year, the Group expects that we’ll be able to announce further buybacks, subject to the outcome of the ACS stress test, due to be reported in early July.

As we enter the second half of our three-year plan, our focus is firmly on the continued execution of our digital strategy. We have a clear ambition and are well placed to deliver on our targets for FY24, including a cost: income ratio below 50%, and a statutory RoTE above 10%. Alongside this, we anticipate significant further capital distributions as we return to operating within our target CET1 range of 13% - 13.5% by FY24.

David Duffy, Chief Executive Officer – 3 May 2023

Delivering strategic and financial momentum

"The Group has had a good first half of the year, demonstrating ongoing strategic and financial momentum. Despite an uncertain economic environment, the Group is well positioned to deliver prudent and profitable growth, while controlling costs, maintaining robust capital and safeguarding and supporting our customers"

Clifford Abrahams, Group CFO

Financial Highlights

Statutory profit before tax	Underlying profit before tax	Statutory RoTE
£236m	£312m	6.1%
H1 2022: £315m	H1 2022 (restated)[1]: £371m	H1 2022: 9.1%

NIM	Underlying cost: income ratio	Cost of risk
1.91%	51%	40bps
H1 2022: 1.83%	H1 2022 (restated)[1]: 54%	H1 2022: 6bps

CET1 ratio	Loan growth	Relationship deposit growth
14.7%	(0.2)%	2.9%
FY22: 15.0%	H1 2022: (0.2)%	H1 2022: 4.2%

LCR	NSFR	Dividend per share
153%	136%	3.3p
FY22: 138%	FY22: 136%	FY22: 10p

(1) Hedge ineffectiveness is now presented as an adjustment to underlying earnings as detailed on page 90. The comparative periods have been adjusted accordingly. This restatement does not impact the statutory results of the Group.

Chief Financial Officer's review

Momentum in strategic and financial delivery

The Group had a good first half of the year, with ongoing strategic delivery and profitable growth in its target segments. Income has benefitted from rising interest rates and the strength of our new digital propositions has supported relationship customer growth. Costs have been higher as inflation and investment in our mortgage platform and customer experience more than offset savings in the period. Credit quality remained resilient in H1, and the Group further increased provision coverage to reflect more conservative economic scenarios and updated credit bureau data, in anticipation of a continued increase in arrears as the credit cycle continues to normalise. While profitability was lower, the Group is well placed to navigate the current economic outlook and deliver further profitable growth, supported by its resilient balance sheet, strong capital position and growing relationship customer base.

Prudent growth in target segments

The Group has continued to execute against its digital strategy and made further improvements to its customer propositions, launching compelling new products and product features. The combination of these factors has supported growth in key target segments in H1, including 2% growth in total active relationship customer accounts (to 3.7m customers at H1 2023). Relationship deposit growth remains a key area of focus and the Group has made further progress, growing balances by 3% in H1 2023, supported by strong digital customer propositions and competitive rates. This supported overall deposit growth of 3% in H1 2023 as we continued to attract inflows across the half. Overall lending remained broadly stable in the period. Given the current weaker credit environment, the Group chose to moderate the pace of growth in Unsecured lending, resulting in a 0.2% reduction in balances across H1, including cards growth of 1.9%, a slower pace compared to last year. In Business, the strength of our developing proposition, supported by the popular fee-free digital BCA, resulted in above-market growth against a subdued backdrop. In Mortgages, market activity levels were lower compared to last year, as the impact of higher rates and inflation have dampened activity, particularly in the house purchase segment with our balances reducing 0.8% during the first half of the financial year.

Resilient financial performance

Underlying profit in H1 was £312m, which was a reduction compared to last year (H1 2022: £371m), as higher operating income was more than offset by a more normalised level of impairments compared to last year's low charge. NIM of 1.91% (H1 2022: 1.83%) was significantly improved year-on-year. The key drivers of this improvement were the higher rate environment and ongoing strategic execution, enabling the Group to benefit from continued supportive conditions in the deposit market and offset mortgage spread pressures. Non-interest income of £78m was 18% higher year-on-year on an overall basis, though broadly stable excluding all fair value movements, driven by normalised customer activity. Overall, this resulted in total income that was 10% higher compared to a year ago. Operating costs of £477m were 5% higher when compared to H1 2022 as gross cost savings were more than offset by inflation, higher digital development spend including costs associated with the ongoing implementation of our digital mortgage platform and short-term investment to support improved customer service. The improvement in income resulted in a 3%pts reduction in our cost: income ratio to 51% compared to H1 2022 and a 16% increase in underlying profit before impairment losses. Credit impairments of £144m were significantly higher year-on-year, mainly reflective of higher modelled expected credit loss (ECL) given updated macroeconomic assumptions and credit bureau data, in anticipation of a continued increase in arrears, resulting in an increased level of provision coverage across the book.

The Group reported a lower statutory profit before tax in the period delivering £236m (H1 2022: £315m) and a statutory RoTE of 6.1% (H1 2022: 9.1%). This reflected the lower underlying profit and adjusting items that were £20m higher in H1 2023, primarily due to negative fair value movements, mainly from hedge ineffectiveness. As a result of the Group's performance and in line with the Group's dividend policy, the Board has announced an interim dividend of 3.3p, representing one-third of the prior year's dividend.

Robust balance sheet with strong capital, liquidity and funding position

The Group maintained a conservative balance sheet position, including robust funding and liquidity, a healthy capital position and increased provision coverage. During the second quarter, the Group fully refreshed its IFRS 9 macroeconomic assumptions from 3rd party provider Oxford Economics, which contributed to credit provisions totalling £526m (FY22: £457m) equivalent to a coverage ratio of 0.72% (FY22: 0.62%). Funding and liquidity remain strong, with the LCR ratio increasing to 153% (FY22: 138%) and NSFR stable at 136% (FY22: 136%). The LDR reduced to 108% (FY22: 111%) as deposit balances increased 2.6% to £67.0bn, while lending volumes were 0.2% lower at £72.4bn.

The CET1 ratio remains strong at 14.7% (FY22: 15.0%) with the reduction in the period incorporating the full c.(20)bps impact of the £50m extended share buyback programme and a management adjustment for the anticipated impact of implementing mortgage hybrid models c.(30)bps. The Group continues to expect to operate above 14% CET1 in FY23 due to heightened macroeconomic uncertainty, before returning to its target range of 13% – 13.5% in FY24. The Group will target a 30% full year dividend payout ratio, in line with the dividend policy and supplement this with buybacks, subject to ongoing assessment of surplus capital, market conditions and regulatory approval. The Group anticipates further share buybacks this year will take place subject to the outcome of the BoE's 2022 ACS stress test.

Outlook

The Group is well positioned to navigate the current economic outlook with good financial momentum, including a strong margin, prudent growth, and a robust balance sheet. We remain focused on investing to digitise the Bank in the near term, which will drive further cost efficiency and support our ambitions to grow our customer base further. The combination of this strategic and financial momentum will underpin the delivery of profitable growth, despite a weaker credit environment, and will improve returns over the coming periods, while we remain committed to distributing surplus capital to shareholders in line with our capital framework.

Underlying income

	6 months to 31 Mar 2023 £m	Restated 6 months to 31 Mar 2022 £m	Change	Restated 6 months to 30 Sep 2022 £m	Change
Underlying net interest income	**855**	782	9%	810	6%
Underlying non-interest income(1)	**78**	66	18%	84	(7)%
Total underlying operating income	**933**	848	10%	894	4%
NIM	**1.91%**	1.83%	8bps	1.86%	5bps
Average interest earning assets	**89,568**	85,729	4%	86,817	3%

(1) Hedge ineffectiveness is now presented as an adjustment to underlying non-interest income as detailed on page 90. The comparative periods have been adjusted accordingly. This restatement does not impact the statutory results of the Group.

Overview

Operating income of £933m was 10% higher compared with H1 2022 and 4% higher than H2 2022 as the Group continued to benefit from the higher rate environment and ongoing strategic execution. NII improved 9% year-on-year as NIM increased 8bps to 1.91%, including a Q2 NIM of 1.94%. Non-interest income improved 18% compared to H1 2022 or 5% lower when excluding all fair value movements. This underlying reduction was driven by lower merchant services income.

NII and NIM

Asset yields increased 145bps compared to H1 2022 at an aggregate level. Within this, mortgage yields increased 25bps, given the higher rate environment. Average mortgage balances were 1% higher in H1 2022 year-on-year, which together with the higher average yield resulted in higher interest income.

In Unsecured, average balances increased by 10% relative to H1 2022, while yields modestly increased to 673bps. Together, this drove a 12% increase in interest income year-on-year.

In Business, a 253bps increase in the average yield was driven by a combination of the higher rate environment and a reduction in lower-yielding government-backed lending. This, alongside a growth in average balances, resulted in 71% higher interest income year-on-year.

Elsewhere, the average yield on the Group's liquid assets increased 300bps reflecting the higher rate environment.

Liability rates on interest bearing liabilities increased 154bps relative to H1 2022, with increased average rates across current accounts, savings accounts, term deposits and wholesale funding, mainly due to the higher rate environment. The Group has continued to pass through the benefit of recent rate rises to depositors in a balanced way; sector pass through levels have been lower than anticipated given strong liquidity at a sector level.

Current account average balances continued to increase in line with the Group's strategy to grow lower cost relationship deposits. Term deposit average balances increased year-on-year as the Group actively participated in this market, taking opportunities to secure term funding at attractive spreads. Savings account balances reduced in H1 2023 relative to H1 2022 due to the attrition or churn of existing balances into products with higher rates and as the Group prioritised term funding for additional funding. Wholesale funding average balances increased during the period, as the Group continued to optimise overall funding.

Chief Financial Officer's review

Underlying net interest income

Average balance sheet	**6 months ended 31 March 2023** Average balance £m	Interest income/ (expense) £m	Average yield/ (rate)[1] %	6 months ended 31 March 2022 Average balance £m	Interest income/ (expense) £m	Average yield/ (rate)[1] %
Interest earning assets:						
Mortgages	**58,315**	**719**	**2.47**	57,976	641	2.22
Unsecured lending	**6,492**	**218**	**6.73**	5,902	195	6.62
Business lending[2]	**8,359**	**255**	**6.12**	8,314	149	3.59
Liquid assets	**15,651**	**264**	**3.38**	12,563	24	0.38
Due from other banks	**748**	**5**	**1.25**	970	-	0.05
Swap income/other	**-**	**252**	**n/a**	-	9	n/a
Other interest earning assets	**3**	**-**	**n/a**	4	-	n/a
Total average interest earning assets	**89,568**	**1,713**	**3.83**	85,729	1,018	2.38
Total average non-interest earning assets	**2,556**			3,218		
Total average assets	**92,124**			88,947		
Interest bearing liabilities:						
Current accounts	**16,123**	**(84)**	**(1.04)**	15,467	(13)	(0.17)
Savings accounts	**27,560**	**(179)**	**(1.30)**	31,388	(52)	(0.33)
Term deposits	**17,129**	**(206)**	**(2.41)**	13,348	(68)	(1.02)
Wholesale funding	**18,395**	**(387)**	**(4.22)**	15,059	(102)	(1.36)
Other interest earning liabilities	**152**	**(2)**	**n/a**	150	(1)	n/a
Total average interest bearing liabilities	**79,359**	**(858)**	**(2.17)**	75,412	(236)	(0.63)
Total average non-interest bearing liabilities	**6,890**			7,987		
Total average liabilities	**86,249**			83,399		
Total average equity	**5,875**			5,548		
Total average liabilities and average equity	**92,124**			88,947		
Net interest income		**855**			782	1.83

(1) Average yield is calculated by annualising the interest income/expense for the period.
(2) Includes loans designated at fair value through profit or loss (FVTPL).

Underlying non-interest income

Non-interest income was £12m higher relative to H1 2022 at £78m and £4m lower year-on-year excluding fair value movements. The key driver for the modest reduction in performance was a reduction in Business fee income, following the strategic decision by the Group to change its payments partner and expand its relationship with Global Payments, resulting in an initial reduction of merchant services income.

As a result of recent changes in interest rates leading to increased volatility, the Group has taken the decision to exclude hedge ineffectiveness from non-interest income. Hedge ineffectiveness will now be reported within 'Adjusting items' (see page 90) and a corresponding adjustment has also been made to prior period comparatives. Hedge ineffectiveness largely represents timing differences that will reverse out over the lives of derivatives that are used in economic hedges but can result in volatility between reporting periods.

Underlying costs

Operating and administrative expenses	**6 months to 31 Mar 2023 £m**	6 months to 31 Mar 2022 £m	Change	6 months to 30 Sep 2022 £m	Change
Staff costs	**177**	184	(4)%	191	(7)%
Property and infrastructure	**19**	20	(5)%	22	(14)%
Technology and communications	**61**	57	7%	59	3%
Corporate and professional services	**87**	54	61%	60	45%
Depreciation, amortisation and impairment	**49**	67	(27)%	49	-%
Other expenses	**84**	74	14%	77	9%
Total underlying operating and administrative expenses	**477**	456	5%	458	4%
Underlying cost: income ratio(1)	**51%**	54%	(3)%pts	51%	-%pts

(1) Hedge ineffectiveness is now presented as an adjustment to underlying non-interest income as detailed on page 90. The comparative period underlying cost: income ratio has been adjusted accordingly. This restatement does not impact the statutory results of the Group.

Operating expenses increased 5% year-on-year to £477m, while the cost: income ratio reduced 3%pts to 51%. During the period, the Group slowed the pace of its restructuring programme as it continued to support customer experience. Despite this slower pace, the programme delivered further cost efficiencies, taking the total annualised gross savings to date to £93m of the c.£175m targeted. Relative to last year, the Group also benefitted from a net pension benefit of £12m, and a lower depreciation charge following past changes to D&A practices and as the Group adopts Agile methodology. These benefits were offset, mainly by higher staff costs (net of the pension benefit), driven by wage inflation and additional resource to support the improvement of customer service levels, partially offset by a lower bonus accrual compared to last year. During the period, the Group also increased digital development spend, including costs associated with the ongoing implementation of our digital mortgage platform.

Impairments

As at 31 March 2023	**Credit provisions £m**	**Gross lending £bn**	**Coverage ratio bps**	**Net cost of risk(1) bps**	**% of loans in Stage 2**	**% of loans in Stage 3**
Mortgages	**59**	**58.0**	**10**	**1**	**6.4**	**1.0**
Unsecured:	**354**	**6.5**	**575**	**410**	**22.9**	**1.5**
of which credit cards	319	5.6	602	470	19.8	1.6
of which personal loans and overdrafts	35	0.9	412	56	41.8	1.0
Business	**113**	**8.5**	**145(2)**	**34**	**22.5**	**4.9**
Total	**526**	**73.0**	**72**	**40**	**9.7**	**1.5**
of which Stage 2	349	*7.1*	*494*			
of which Stage 3	112	*1.1*	*1,209*			

(1) Cost of risk is calculated on an annualised basis.
(2) Government-guaranteed element of loan balances excluded for the purposes of calculating the Business and total coverage ratio.

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

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

Chief Financial Officer's review

ECL provisions increased to £526m at H1 2023 (FY22: £457m), resulting in aggregate coverage of 72bps (FY22: 62bps). This was mainly due to a higher modelled ECL, largely in credit cards, in anticipation of a continued increase in arrears reflecting revised macroeconomic assumptions, which showed a deterioration from those applied in September 2022, and updated credit bureau data. Accordingly, the modelled and individually assessed (IA) ECL increased by £83m to £455m in H1 2023 (FY22: £372m), while Management Adjustments (MAs) reduced to £71m (FY22: £85m). The combination of these factors resulted in a £144m impairment charge during the period, equivalent to an annualised cost of risk of 40bps.

The key macroeconomic assumptions used in the Group's IFRS 9 modelling were updated based on scenarios provided by our 3rd party provider Oxford Economics. The weightings applied to the scenarios were 10% to the Upside scenario, 60% to the Base scenario and 30% to the Downside scenario. The weighted macroeconomic scenario includes a 1.4% contraction in GDP in 2023, peak unemployment of 4.9% in 2024 and a decline in the House Price Index (HPI) across 2023-2025.

To supplement the modelled ECL provision, the Group applied expert credit risk judgement through MAs, designed to account for factors that the models cannot incorporate. Through this process, the Group applied MAs of £71m (FY22: £85m) which are deemed appropriate for the portfolio at the current time. This includes reduced cost of living and economic resilience MAs of £18m (FY22: £57m), as these impacts are now better reflected in the modelled ECL outcome. During the period, the new Loss Given Default (LGD) model in Business lending was fully implemented, resulting in the removal of a negative MA (£(15)m) that was held at FY22, given it is now reflected in the modelled output.

In H1 loans classified as stage 2 increased from 8% of the portfolio at FY22 to 10% at H1 2023. 97% of the Stage 2 lending balances remain <30 days past due (DPD). Stage 3 assets as a % of Group lending remained broadly stable at 1.45% (FY22: 1.41%). The Group's credit provisioning assumes that arrears continue to increase over the remainder of the year.

Across all portfolios, the Group has provision coverage that remains above pre-pandemic levels. In Mortgages, the coverage ratio of 10bps is considered appropriate for the conservative loan book with low LTVs. The portfolio continues to evidence good underlying credit performance, with no significant deterioration in asset quality, despite a marginal increase in late-stage arrears.

Our Unsecured lending book coverage ratio of 575bps includes 602bps of coverage for our credit card portfolio which is focused on more affluent customers, and 412bps of coverage for our smaller personal loans and overdrafts book. In addition to the impact of current macroeconomics, the modelled provision increased due to a modest weakening of credit bureau data, and early-stage arrears compared with prior periods. Overall arrears levels remain modest across the portfolio with 97.5% of balances in stage 1 or stage 2 not past due.

In Business, the coverage ratio of 145bps reflects a 14bps decrease in the period, driven mainly by lower MAs, higher balances and lower specific provisions primarily due to provision utilisation. There has been limited change in underlying asset quality performance and, as yet, no significant increase in specific provision recognition. The lending book continues to be biased away from sectors likely to experience more disruption from higher cost of living such as hospitality and retail, towards sectors expected to be resilient, such as agriculture, health and social care.

Chief Financial Officer's review

Adjusting items and statutory profit

	6 months to		
	31 Mar 2023 £m	Restated 31 Mar 2022 £m	Restated 30 Sep 2022 £m
Underlying profit on ordinary activities before tax	**312**	371	405
Adjusting items			
- Restructuring charges	**(53)**	(46)	(36)
- Acquisition accounting unwinds	**(3)**	(14)	(21)
- Legacy conduct costs	**(4)**	(5)	(3)
- Hedge ineffectiveness(1)	**(16)**	17	(4)
- Other items	**-**	(8)	(61)
Statutory profit on ordinary activities before tax	**236**	315	280
Tax (expense)/credit	**(56)**	(77)	19
Statutory profit for the period	**180**	238	299
Underlying RoTE(1)	**8.3%**	11.1%	15.2%
Statutory RoTE	**6.1%**	9.1%	11.3%
TNAV per share	**350.5p**	313.2p	383.0p

(1) Hedge ineffectiveness is now presented as an adjustment to underlying as detailed on page 90. The comparative periods have been adjusted accordingly. This restatement does not impact the statutory results of the Group.

Overview

The Group made a statutory profit before tax of £236m after deducting £76m of adjusting items. The adjusting items charged in H1 2023 mainly reflect the Group's continued investment in its digital growth strategy as well as acquisition unwind costs, legacy conduct charges, hedge ineffectiveness and other items. Overall adjusting items were £20m higher than those incurred in H1 2022, primarily reflecting higher hedge ineffectiveness offsetting lower acquisition accounting unwinds, while restructuring charges were modestly higher.

TNAV per share decreased 32.6p in H1 2023 relative to H2 2022, to 350.5p. The key drivers of the decrease were 5.3p of retained earnings net of dividends, 6.0p from share buybacks, offset by (22.5)p from a reduction in the cash flow hedge reserve, (19.5)p from a lower overall actuarial pension surplus and (1.8)p of FVOCI and other movements.

Restructuring charges

The Group incurred £53m of restructuring charges, related to the Group's digital investment programme. During the period, the Group moderated some restructuring activity, reducing the pace of change in order to underpin customer service. Accordingly, charges during the period were broadly stable relative to last year and included c.£27m related to the delivery of IT changes and c.£25m related to changes to the operating model and property footprint. The Group has now incurred £135m of restructuring charges since the start of FY22 and expects to incur the majority of the remaining c.£140m of the c.£275m expected at FY21, in H2 2023.

Acquisition accounting unwinds

The Group recognised fair value accounting adjustments at the time of the Virgin Money acquisition that unwind through the income statement over the remaining life of the related assets and liabilities. £3m was reflected in H1 2023 and the Group expects a further c.£25m of total acquisition accounting unwind charges by end of FY25.

Legacy conduct

Charges of £4m were incurred, mainly in respect of legal proceedings and claims arising in the ordinary course of the Group's business.

Hedge ineffectiveness

As a result of recent changes in interest rates and increased volatility, the Group has taken the decision to exclude hedge ineffectiveness from non-interest income and will now report it within Adjusting items. Hedge ineffectiveness largely represents timing differences that will reverse out over the lives of derivatives that are used in economic hedges but can result in volatility between reporting periods.

Charges of £16m were incurred in respect of hedge ineffectiveness and rate volatility in the period.

Taxation

There was a £56m tax charge in respect of £236m of statutory profit before tax reflecting an effective tax rate of 24%.

During the full year to September 2022, the most recent period for which annual tax data is available, the Group paid cash tax totalling £175m to HMRC (principally corporation tax including banking surcharge and irrecoverable VAT), with a further £84m (largely payroll taxes and national insurance contributions) collected on HMRC's behalf.

Chief Financial Officer's review

Balance sheet

	As at		
	31 Mar 2023 £m	30 Sep 2022 £m	Change
Mortgages	**57,687**	58,155	(1)%
Unsecured	**6,152**	6,163	-%
Business[(1)]	**8,596**	8,247	4%
Total customer lending	**72,435**	72,565	-%
Relationship deposits[(2)]	**35,643**	34,649	3%
Non-linked savings	**12,196**	17,048	(28)%
Term deposits	**19,191**	13,663	40%
Total customer deposits	**67,030**	65,360	3%
Wholesale funding	**16,896**	17,012	(1)%
of which TFSME	***7,000***	*7,200*	*(3)%*
LDR	**108%**	111%	(3)%pts
LCR	**153%**	138%	15%pts

(1) Of which, £778m government lending (30 September 2022: £963m)
(2) Current account and linked savings balances.

Overview

At an aggregate level, Group lending reduced 0.2% to £72.4bn as growth in Business lending was more than offset by a reduction in Mortgages and broadly stable Unsecured lending. Total customer deposits increased 2.6% to £67.0bn, including a 2.9% growth in relationship deposits. This performance reflected the Group executing against its strategy to develop a lower cost, stable funding base.

Mortgage balances reduced 0.8% to £57.7bn as market activity slowed down during the first half of the year, owing to continued rate volatility, seasonality and stressed affordability pressure. Completions spreads remained below back book levels throughout the period, while front book application spreads remained competitive.

Unsecured balances were broadly stable at £6.2bn, as 1.9% growth in credit card balances was offset by a reduction in personal loans. In cards, the Group has benefitted from strong activity levels, innovative new product features and ongoing investment in its overall, digitally-led proposition. The Group moderated the pace of growth during H1 2023, given the weaker credit environment and to drive improved profitability.

Business lending increased by 4.2% in H1 2023 to £8.6bn as a reduction in Government-scheme balances was more than offset by 7.3% growth in BAU balances in a subdued market. BAU performance reflected the strength of our national franchise and sector specialisms in resilient market segments. Government-scheme balances declined 19% to £0.8bn as expected, as borrowers made contractual repayments.

Customer deposits increased by £1.7bn or 2.6% in the first half of the financial year to £67.0bn, including 1.3% growth in the second quarter. The Group continued to execute against its strategy and improved its mix of deposits during the period, as relationship deposits grew by £1.0bn, supported by strong customer propositions and competitive rates. Term deposits increased by £5.5bn as the Group acquired new term deposits at attractive spreads, locking in term funding at pricing below swaps. Non-linked saving balances reduced by £4.9bn during the period, given higher attrition and churn from the back book and as the Group prioritised the good value opportunities available in the term deposit market.

Wholesale funding and liquidity

The Group has a stable funding base with customer deposits representing c.80% of total funding. The Group's customer deposits are weighted towards retail customers (76%), with the balance being from business customers, predominantly small and medium-sized enterprises. 79% of the Group's PCA customers and 65% of BCA customers have balances of less than £5k.

Of the total customer deposit book, 72% is insured via the Financial Services Compensation Scheme. Of balances that are uninsured, a proportion are fixed term and/or would incur a charge if customers wanted to withdraw their money. During the period, customer deposits increased by 2.6% to £67.0bn. With lending balances declining slightly, the Group's LDR reduced 3% points in the period to 108% (FY22: 111%).

The Group has a number of well-established wholesale funding programmes and proven markets access. During the period, the Group successfully issued €500m of MREL senior notes, while at the same time repaying £0.2bn of its TFSME drawings (£7.0bn outstanding as at 31 March 2023). On an overall basis, wholesale funding reduced marginally to £16.9bn as at H1 2023 (FY22: £17.0bn). Of our total debt securities in issue, only c.20% (£1.9bn) has less than 1-year to effective maturity, reflecting term issuance roll-downs (the Group has negligible short-term wholesale funding). Following its recently announced MREL call, the Group has no further capital or MREL call dates or maturities ahead of FY23. The Group has £1.1bn of TFSME maturing in FY24, £2.45bn maturing in FY25, and £2.55bn maturing in FY26, with the remaining £0.9bn subject to term extension beyond FY26.

Chief Financial Officer's review

Given the strong deposit performance in H1 2023 and wholesale issuances during the period, the Group expects to issue towards the lower end of the £1.5-2.5bn of secured issuance communicated at FY22, subject to ongoing deposit flows and relative cost. The Group plans to continue to repay TFSME about 1 year ahead of contractual maturity to reduce the refinancing risk further. The stability of the Group's funding sources is highlighted in its NSFR ratio, which remained stable at 136%.

In light of recent market volatility following issues at Silicon Valley Bank as well as other US regional banks and some European banks, the Group prudently held more liquidity during the period, with the LCR increasing 15% points to 153% (FY22 138%), continuing to comfortably exceed both regulatory requirements and the Group's more prudent internal risk appetite metrics. The Group's c.£14bn prime liquid asset portfolio is primarily comprised of cash at the BoE (c.70%), UK Government securities (Gilts) (c.10%) and AAA rated listed securities (e.g. bonds issued by supra-nationals and corporate covered bonds) (c.20%). The liquid asset portfolio is fully hedged from an interest rate, inflation and FX risk perspective and any movements in fair value are recognised in CET1 via the Income Statement or FVOCI reserve.

The Group also has unencumbered pre-positioned collateral at the BoE representing c.£5bn of secondary liquidity drawing capacity via the Bank's Sterling Monetary Framework, which does not form part of the liquid asset portfolio for LCR or internal stressed outflow purposes. Over time the stock of unencumbered pre-positioned collateral will increase as remaining TFSME drawings are repaid. In addition, the Group has a further c.£19bn of unencumbered assets eligible and readily available but not currently pre-positioned at the BoE.

Chief Financial Officer's review

Capital	As at		
	31 Mar 2023	30 Sep 2022	Change
CET1 ratio (IFRS 9 transitional)	**14.7%**	15.0%	(0.3)%pts
CET1 ratio (IFRS 9 fully loaded)	**14.4%**	14.6%	(0.2)%pts
Total capital ratio	**21.2%**	22.0%	(0.8)%pts
MREL ratio	**31.0%**	32.1%	(1.1)%pts
UK leverage ratio	**5.0%**	5.1%	(0.1)%pts
RWAs (£m)	**24,703**	24,148	2.3%
of which Mortgages (£m)	***9,359***	*9,155*	*2.2%*
of which Unsecured (£m)	***4,721***	*4,817*	*(2.0)%*
of which Business (£m)	***6,579***	*6,196*	*6.2%*

(1) Unless where stated, data in the table shows the capital position on a Capital Requirements Directive (CRD) IV 'fully loaded' basis with IFRS 9 transitional adjustments applied.
(2) The capital ratios include unverified profits.

Overview

The Group maintained a robust capital position with a CET1 ratio (IFRS 9 transitional basis) of 14.7% and a total capital ratio of 21.2%. The Group's CET1 ratio on an IFRS 9 fully loaded basis was 14.4%. The Group's latest Pillar 2A requirement has a CET1 element of 1.7%. Overall, the Group continues to maintain a significant surplus above its CRD IV minimum CET1 capital requirement (or MDA threshold) of 9.7%.

During the period, the Group was classified as an 'Other' Systemically Important Institution (O-SII) by the PRA. This is not expected to have a material impact on the Group's capital framework laid out in May 2022.

CET1 capital

CET1 reduced by c.30bps in the period with the movements set out in the table below. This includes c.£0.4bn additional RWAs through a management adjustment (MA) for the anticipated impact of implementing mortgage hybrid models.

CET1 Capital movements	**6 months to 31 Mar 2023 %/bps**
Opening CET1 ratio	**15.0%**
Capital generated (bps)	**89**
RWA growth (bps)	**(9)**
AT1 distributions (bps)	**(8)**
Underlying capital generated (bps)	**72**
Restructuring charges (bps)	**(16)**
Acquisition accounting unwind (bps)	**(1)**
Conduct (bps)	**(1)**
Hedge ineffectiveness (bps)	**(5)**
Hybrid mortgage impact (bps)	**(28)**
Foreseeable ordinary dividends (bps)	**(18)**
Share buyback (bps)	**(20)**
Other (bps)	**(19)**
Net capital absorbed (bps)	**(36)**
Closing CET1 ratio	**14.7%**

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

MREL

The Group's transitional MREL ratio remained broadly stable during the period at 9.1% (FY22: 9.2%) of Leverage Exposures, or 31.0% when expressed as a percentage of RWAs (FY22: 32.1%). This provides prudent headroom of £1.3bn or 1.6% above the binding loss-absorbing capacity (LAC) requirement of 7.5% of Leverage Exposures, or 5.4% above the binding LAC requirement of 25.6% when expressed as a percentage of RWAs. Capital and MREL issuance during the remainder of FY23 is still expected to be broadly limited to refinancing and maintaining the surplus to regulatory requirements.

Chief Financial Officer's review

Outlook and guidance

FY23 financial guidance

NIM

NIM expected to be c.190bps, with stable performance in H2 compared to H1

Cost: income ratio

Underlying cost: income ratio to be in the range 51-52%

Cost of risk

c.35-40bps

Capital return

30% dividend payout; buybacks subject to ongoing assessment of surplus capital, market conditions and regulatory approval

Medium-term outlook:

Assuming no significant further deterioration in the economic outlook, Virgin Money has a clear path to delivering sustainable double digit statutory returns on tangible equity in FY24

Based on the latest outlook and the good momentum in NIM in H1, the Group expects NIM for FY23 to be around 190bps, with stable performance in H2 compared to H1.

The Group continues to invest in its digital strategy, which will drive improved efficiency and cost reduction over time. In line with this, the Group expects the majority of the remaining c.£140m of restructuring costs to be incurred in FY23, which will support a less than 50% underlying cost: income ratio in FY24. In FY23, the Group expects the underlying cost: income ratio to be in the range 51-52%, reflecting higher costs from our investment in mortgage digitisation and temporary costs to support service.

Following the update to credit provisioning levels in the first half of the year, the cost of risk is now expected to be in the range of c.35-40bps for FY23, assuming no further changes in the macroeconomic outlook.

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

At FY22, the Group announced it expects to return to its CET1 target range of 13-13.5% in FY24. During FY23, the Group continues to expect to operate above 14%, given the level of macroeconomic uncertainty. In line with the Company's capital framework and dividend policy, the Group expects a 30% full year dividend payout level, supplemented with buybacks subject to ongoing assessment of surplus capital, market conditions and regulatory approval. We expect further buybacks subject to the outcome of the BoE's Annual Cyclical Scenario (ACS) stress test.

In the medium term, the Group will continue to target diversification on both sides of the balance sheet, delivering growth in Unsecured and Business lending, while maintaining our Mortgage market share. We continue to target strong growth in new PCA and BCA customer numbers, improving the overall cost of funds.

Assuming no significant further deterioration in the economic outlook, Virgin Money has a clear path to delivering sustainable double digit statutory returns on tangible equity in FY24.

Clifford Abrahams, Chief Financial Officer - 3 May 2023

Financial review - statutory basis

Summary income statement

	6 months to 31 Mar 2023 £m	6 months to 31 Mar 2022 £m	Change %	6 months to 30 Sep 2022 £m	Change %
Net interest income	**852**	777	10	799	7
Non-interest income	**62**	67	(7)	73	(15)
Total operating income	**914**	844	8	872	5
Operating and administrative expenses	**(534)**	(508)	5	(561)	(5)
Operating profit before impairment losses	**380**	336	13	311	22
Impairment losses on credit exposures	**(144)**	(21)	586	(31)	365
Statutory profit on ordinary activities before tax	**236**	315	(25)	280	(16)
Tax (expense)/credit	**(56)**	(77)	(27)	19	n/a
Statutory profit after tax	**180**	238	(24)	299	(40)

The Group has recognised a statutory profit before tax of £236m (H1 2022: profit before tax of £315m). The reduction in statutory profit is largely reflective of an increase in impairment losses.

Performance metrics(1)

	6 months to 31 Mar 2023	6 months to 31 Mar 2022	Change	12 months to 30 Sep 2022(2)	Change
Profitability:					
Statutory RoTE	**6.1%**	9.1%	(3.0)%pts	10.3%	(4.2)%pts
Statutory cost: income ratio	**58%**	60%	(2)%pts	62%	(4)%pts
Statutory EPS	**11.0p**	13.7p	(2.7)p	32.4p	(21.4)p

(1) For definitions of the performance metrics, refer to 'Measuring the Group's performance' on pages 344 to 352 of the Group's 2022 Annual Report and Accounts.
(2) Profitability measures are provided with a full year to 30 September 2022 comparative in line with the statutory income statement presentation in the financial statements and as previously reported in the Group's 2022 Annual Report and Accounts.

Reconciliation of statutory to underlying results

The statutory basis presented within this section reflects the Group's results as reported in the financial statements. The underlying basis reflects the Group's financial performance as presented to the CEO, Executive Leadership Team and Board and excludes certain items that are part of the statutory results. The table below reconciles the statutory results to the underlying results, and full details on the adjusted items to the underlying results are included on page 90.

6 months to 31 Mar 2023	Statutory results £m	Restructuring charges £m	Acquisition accounting unwinds £m	Legacy conduct £m	Hedge ineffectiveness(1) £m	Other £m	Underlying basis £m
Net interest income	852	-	3	-	-	-	855
Non-interest income	62	-	-	-	16	-	78
Total operating income	914	-	3	-	16	-	933
Total operating and administrative expenses before impairment losses	(534)	53	-	4	-	-	(477)
Operating profit before impairment losses	380	53	3	4	16	-	456
Impairment losses on credit exposures	(144)	-	-	-	-	-	(144)
Profit on ordinary activities before tax	236	53	3	4	16	-	312
Financial performance measures							
RoTE	6.1%	1.5%	0.1%	0.1%	0.5%	-%	8.3%
Cost: income ratio	58.5%	(5.1)%	(0.3)%	(0.4)%	(1.6)%	-%	51.1%
Basic EPS	11.0p	2.8p	0.1p	0.2p	0.8p	-p	14.9p

6 months to 30 Sep 2022	Statutory results £m	Restructuring charges £m	Acquisition accounting unwinds £m	Legacy conduct £m	Hedge ineffectiveness(1) £m	Other £m	Restated underlying basis £m
Net interest income	799	-	11	-	-	-	810
Non-interest income	73	-	8	-	4	(1)	84
Total operating income	872	-	19	-	4	(1)	894
Total operating and administrative expenses before impairment losses	(561)	36	2	3	-	62	(458)
Operating profit before impairment losses	311	36	21	3	4	61	436
Impairment losses on credit exposures	(31)	-	-	-	-	-	(31)
Profit on ordinary activities before tax	280	36	21	3	4	61	405
Financial performance measures							
RoTE	11.3%	1.1%	0.7%	0.1%	0.1%	1.9%	15.2%
Cost: income ratio	64.3%	(3.8)%	(2.2)%	(0.3)%	(0.4)%	(6.4)%	51.2%
Basic EPS	18.7p	1.8p	1.1p	0.2p	0.2p	3.1p	25.1p

6 months to 31 Mar 2022	Statutory results £m	Restructuring charges £m	Acquisition accounting unwinds £m	Legacy conduct £m	Hedge ineffectiveness(1) £m	Other £m	Restated underlying basis £m
Net interest income	777	-	5	-	-	-	782
Non-interest income	67	-	8	-	(17)	8	66
Total operating income	844	-	13	-	(17)	8	848
Total operating and administrative expenses before impairment losses	(508)	46	1	5	-	-	(456)
Operating profit before impairment losses	336	46	14	5	(17)	8	392
Impairment losses on credit exposures	(21)	-	-	-	-	-	(21)
Profit on ordinary activities before tax	315	46	14	5	(17)	8	371
Financial performance measures							
RoTE	9.1%	1.6%	0.5%	0.2%	(0.6)%	0.3%	11.1%
Cost: income ratio	60.2%	(5.2)%	(1.6)%	(0.6)%	1.9%	(0.9)%	53.8%
Basic EPS	13.7p	2.5p	0.7p	0.3p	(0.9)p	0.4p	16.7p

(1) Hedge ineffectiveness is now presented as an adjustment to underlying earnings as detailed on page 90. The comparative periods have been adjusted accordingly. This restatement does not impact the statutory results of the Group.

Risk Report

Risk overview

Effective risk management is critical to realising the Group's strategy of pioneering growth. The safety and soundness of the Group is aligned to Our Purpose and is fundamental to enabling our customers and stakeholders to be 'happier about money'.

Changes to the risks that the Group is exposed to and how those risks are managed are disclosed in this report. Where there has been no update to the way the Group manages and assesses risk, from that disclosed at year end, this information has not been repeated. These risk disclosures support, and should be read in conjunction with, the Risk report in the Annual Report and Accounts 2022.

Principal risks

Principal risks are those which could result in events or circumstances that might threaten the Group's business model, future performance, solvency, liquidity or reputation. The Group's principal risks are listed below and remain as disclosed in the 2022 Annual Report and Accounts, with the following exceptions: "Operational and resilience risk" and "Financial crime risk" have been renamed "Operational risk" and "Economic crime risk" respectively, to more clearly define the risk types. "People risk" and "Technology and cyber risk" are now classified under the wider "Operational risk" principal risk to align with our Operational Risk Management Framework.

Principal risks	Definitions
Credit risk	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 in the financial instruments and products that the Group offers and in which it invests and can arise in respect of both on- and off-balance sheet exposures.
Financial risk	Financial risk includes capital risk, funding risk, liquidity risk, market risk and pension risk, all of which have the ability to impact the financial performance of the Group, if not managed correctly.
Model risk	The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.
Regulatory and compliance risk	The risk of failing to comply with relevant laws and regulation or not keeping the regulators informed of relevant issues or responding effectively to regulatory requests, leading to regulatory sanction.
Conduct risk	The risk of undertaking business in a way that is contrary to the interests of customers, resulting in customer harm, regulatory censure, redress costs and reputational damage.
Operational risk	Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.
Economic crime risk	The risk that products and services will be used to facilitate financial crime, resulting in harm to customers, the Group, or third parties. This includes money laundering, counter terrorist financing, sanctions, fraud, and bribery and corruption.
Strategic and enterprise risk	The risk of significant loss of earnings or damage from decisions or actions that impact the long-term interests of the Group's stakeholders or from an inability to adapt to external developments, including potential execution risk as a result of transformation activity.
Climate risk	The risk of exposure to physical and transition risks arising from climate change.

Risk overview

Emerging and evolving risks

Emerging and evolving risks are current or future risks arising from internal or external events, with a material unknown or unpredictable component, and the potential to significantly impact the future performance of the Group or result in customer harm. Emerging and evolving risks may encompass attributes of, and/or correlate to, multiple principal risks. The Group's emerging and evolving risks are continually reassessed and reviewed through a horizon scanning process, with escalation and reporting to the Board. The horizon scanning process fully considers all relevant internal and external factors and is designed to capture those risks which are current but have not yet fully crystallised, as well as those which are expected to crystallise in future periods.
The emerging and evolving risk classifications reported in the Group's 2022 Annual Report and Accounts have been retained, with the exception of Potential for Scottish independence which is now expanded to UK political risks in recognition of the wider UK political risk themes. Risk descriptions have been refreshed since the year-end disclosure where appropriate, with important developments and areas most relevant to the Group's strategy shown.

Risks	Trend	Description *Risk trend since 2022: ▲ Increase ►Unchanged*
Externally driven		
Economic risk	▲	Inflationary pressures and base rate rises in the UK combined with global responses to low economic growth, present risks to the Group's strategic plan and ability to grow. In aggregate, these risks could impact customer resilience and consequently debt affordability, and drive increases in the Group's credit provisions, as well as creating higher competitive pressure. Additionally, difficulties experienced by international banks have created volatility, which has impacted funding markets, increased the likelihood of regulatory interventions and risks eroding trust in the banking sector.
UK political risks	►	UK political risks, such as those linked to the possibility of a Scottish independence referendum and the outcome of an expected 2024 general election, could have financial, operational, and regulatory impacts for the Group. A UK general election is due no later than 2024 and this creates uncertainty about the future direction of policy.
Geopolitical tensions	►	Geopolitical tensions, including the war in Ukraine, are creating volatility within domestic and global markets, leading to impacts on global trade and consumer confidence.
Regulatory change	►	The Group remains subject to high levels of oversight as the regulatory landscape continues to evolve, with the requirement to respond to ongoing prudential and conduct driven initiatives, the outcomes of which are difficult to predict. Financial crime and anti-money laundering failures in the banking sector continue to be a particular area of regulatory focus, and the Group is subject to high levels of scrutiny and the risk of fines for non-compliance.
Technological change	▲	The rapid pace of technological change, coupled with changing customer requirements, creates increasing demands on systems resilience and our people. This could be heightened by the Group's accelerated digital strategy, as new service propositions and products are launched.
ESG risk	►	While climate risk is treated as a principal risk, this emerging risk acknowledges the uncertainty around the exact nature and impact of climate change on the Group's strategy, performance, and operating model, as well as capturing the continued focus on how companies report the impact of their activities on the environment and on the social challenges to which company business models must respond.
Internally driven		
Change risk	▲	The Group manages a range of complex change programmes which are required to support the delivery of strategic priorities and regulatory obligations and can be subject to heightened execution risk given time and resource constraints. Failure to deliver key change projects could have wide-ranging impacts.
Third-party risk	▲	The Group's accelerated digitisation strategy relies on a significant number of third-party services required to maintain day-to-day operations without interruption, which could create vulnerabilities if not managed and affect the Group's ability to support our customers and meet regulatory expectations.
Data stewardship	▲	The Group's accelerated digitisation strategy, combined with changing regulatory requirements and technological advancements such as Cloud solutions, places increasing importance on the effective and ethical use of data. Data is integral to the Group's operations and delivery of strategy, and significant risks could arise if data is misused, incomplete, absent or not protected.
Changing skills and talent attraction	►	Skill shortages continue to affect the Group's ability to attract, develop and retain talent in certain sectors, with the backdrop of a highly competitive labour market and internal cost pressures adding to challenges. The Group's success is dependent on attracting and retaining skilled and highly performing personnel.

Credit risk

Credit risk

Credit risk overview

Credit risk is the risk that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk manifests itself in the financial instruments and products that the Group offers and in which it invests and can arise in respect of both on- and off-balance sheet exposures. This remains consistent with the Group's position as described in the 2022 Annual Report and Accounts (FY22 ARA), and not all of that information has been replicated in this Interim Financial Report (refer to the Group's FY22 ARA for further detail).

Close monitoring, clear policies and a disciplined approach to credit risk management support the Group's operations and have underpinned its resilience in recently challenging times. The significant inflationary headwinds and cost of living pressures together with economic and geopolitical factors that have prevailed over the past 12 months have the potential to affect customer resilience and debt affordability. The Group continually reviews the steps that are being taken to support customers through this period of heightened affordability pressure and ensure that its credit risk framework and associated policies remain effective and appropriate.

The Group has continued to maintain a relatively stable lending book, with gross lending to customers decreasing slightly to £73.0bn at 31 March 2023 (30 September 2022: £73.1bn). While the Mortgage portfolio reduced slightly and the Unsecured portfolio remained stable, underlying growth has been maintained in the business portfolio, as the Group continues to reduce the government backed loan schemes and support new and existing customers' lending needs.

Asset quality remains robust and most of the key asset quality ratios remained resilient with some weakening in the pre default and delinquency metrics being monitored.

Within the total ECL provision, the modelled and IA provision has increased to £455m at 31 March 2023 (30 September 2022: £372m) primarily driven by updated macroeconomic inputs. MAs have reduced in the period to £71m (30 September 2022: £85m). The net increase in provision is in addition to an IA impairment charge of £63m in the period (12 months to 30 September 2022: £106m, 6 months to 31 March 2022: £53m), resulting in a total impairment charge to the income statement of £144m (12 months to 30 September 2022: £52m, 6 months to 31 March 2022: £21m), and an associated cost of risk of 40bps (12 months to 30 September 2022: 7bps, 6 months to 31 March 2022: 6bps).

Credit impairments have increased significantly, mainly reflective of higher modelled ECL, driven by updated macroeconomic inputs and credit bureau data, in anticipation of a continued increase in arrears.

The selection of appropriate MAs is a component in determining the Group's ECL, with updates made to some of the MAs held as detailed in the respective product performance section on the following pages. Taking these factors into account, the Group has recorded a total impairment provision of £526m at 31 March 2023, an increase of £69m from the £457m held at 30 September 2022 and a corresponding increase in coverage ratio from 62bps to 72bps.

Group credit risk exposures

The Group is exposed to credit risk across all of its financial asset classes, however its principal exposure to credit risk arises on customer lending balances.

Given the significance of customer lending exposures to the Group's overall credit risk position, the disclosures that follow are focused principally on customer lending.

The Group is also exposed to credit risk on its other banking and treasury-related activities, and holds £12.3bn of cash and balances with central banks and £0.6bn due from other banks at amortised cost (30 September 2022: £12.2bn and £0.7bn respectively), with a further £5.9bn (30 September 2022: £5.1bn) of financial assets at fair value through other comprehensive income (FVOCI). £11.2bn of cash is held with the BoE (30 September 2022: £11.0bn), and balances with other banks and financial assets at FVOCI are primarily held with investment grade counterparties. All other banking and treasury related financial assets are classed as Stage 1 with no material ECL provision held.

The following tables show the levels of concentration of the Group's loans and advances, contingent liabilities and credit-related commitments.

Credit risk

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

31 March 2023	Gross loans and advances to customers £m	Contingent liabilities and credit-related commitments £m	Total £m
Mortgages	**57,998**	**2,920**	**60,918**
Unsecured	**6,481**	**11,138**	**17,619**
Business	**8,523**	**4,043**	**12,566**
Total	**73,002**	**18,101**	**91,103**
Impairment provisions held on credit exposures (1)	**(522)**	**(4)**	**(526)**
Fair value hedge adjustment	**(601)**	**-**	**(601)**
Maximum credit risk exposure on lending assets	**71,879**	**18,097**	**89,976**
Cash and balances with central banks			**12,328**
Financial assets at FVOCI			**5,869**
Due from other banks			**583**
Other financial assets at fair value			**76**
Derivative financial assets			**201**
Maximum credit risk exposure on all financial assets (2)			**109,033**

30 September 2022			
Mortgage	58,464	4,200	62,664
Unsecured	6,513	11,057	17,570
Business	8,169	4,102	12,271
Total	73,146	19,359	92,505
Impairment provisions held on credit exposures (1)	(454)	(3)	(457)
Fair value hedge adjustment	(941)	-	(941)
Maximum credit risk exposure on lending assets	71,751	19,356	91,107
Cash and balances with central banks			12,221
Financial assets at FVOCI			5,064
Due from other banks			656
Other financial assets at fair value			78
Derivative financial assets			342
Maximum credit risk exposure on all financial assets (2)			109,468

(1) The total ECL provision covers both on and off-balance sheet exposures which are reflected in notes 3.1 and 3.6 respectively. All tables and ratios that follow are calculated using the combined on- and off-balance sheet ECL, which is consistent for all periods reported.

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

Key credit metrics

	6 months to 31 Mar 2023 £m	12 months to 30 Sep 2022 £m	6 months to 31 Mar 2022 £m
Impairment charge/(credit) on credit exposures			
Mortgage lending	**3**	(30)	(21)
Unsecured lending	**126**	178	69
Business lending	**15**	(96)	(27)
Total Group impairment charge	**144**	52	21
Underlying impairment charge (1) to average customer loans (cost of risk)	**0.40%**	0.07%	0.06%

	6 months to 31 Mar 2023	12 months to 30 Sep 2022
Key asset quality ratios		
% Loans in Stage 2	**9.68%**	7.76%
% Loans in Stage 3	**1.45%**	1.41%
Total book coverage (2)	**0.72%**	0.62%
Stage 2 coverage (2)	**4.94%**	4.72%
Stage 3 coverage (2)	**12.10%**	11.24%

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

(2) This excludes the government-backed portfolio of BBLs, Recovery Loan Scheme (RLS), Coronavirus business interruption loan scheme (CBILs) and Coronavirus large business interruption loan scheme (CLBILs).

Credit quality of loans and advances

The following tables outline the staging profile of the Group's customer lending portfolios which is key to understanding their asset quality.

Gross loans and advances [(1)] ECL and coverage

	Mortgages		Unsecured						Business [(2)]		Total[(2)]	
			Cards		Loans and Overdrafts		Combined					
31 March 2023	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Stage 1	**53,711**	**92.6%**	**4,434**	**78.6%**	**483**	**57.2%**	**4,917**	**75.6%**	**6,190**	**72.6%**	**64,818**	**88.8%**
Stage 2 – total	**3,734**	**6.4%**	**1,116**	**19.8%**	**352**	**41.8%**	**1,468**	**22.9%**	**1,917**	**22.5%**	**7,119**	**9.7%**
Stage 2: 0 DPD	**3,365**	**5.8%**	**1,057**	**18.8%**	**347**	**41.2%**	**1,404**	**21.9%**	**1,891**	**22.2%**	**6,660**	**9.1%**
Stage 2: < 30 DPD	**197**	**0.3%**	**30**	**0.5%**	**3**	**0.3%**	**33**	**0.5%**	**8**	**0.1%**	**238**	**0.3%**
Stage 2: > 30 DPD	**172**	**0.3%**	**29**	**0.5%**	**2**	**0.3%**	**31**	**0.5%**	**18**	**0.2%**	**221**	**0.3%**
Stage 3[(3)]	**553**	**1.0%**	**88**	**1.6%**	**8**	**1.0%**	**96**	**1.5%**	**416**	**4.9%**	**1,065**	**1.5%**
	57,998	**100.0%**	**5,638**	**100.0%**	**843**	**100.0%**	**6,481**	**100.0%**	**8,523**	**100.0%**	**73,002**	**100.0%**
ECLs[(4)]												
Stage 1	**6**	**10.2%**	**35**	**11.0%**	**5**	**14.3%**	**40**	**11.3%**	**19**	**16.8%**	**65**	**12.4%**
Stage 2 – total	**38**	**64.4%**	**239**	**74.9%**	**24**	**68.6%**	**263**	**74.3%**	**48**	**42.5%**	**349**	**66.3%**
Stage 2: 0 DPD	**33**	**55.9%**	**208**	**65.2%**	**21**	**60.0%**	**229**	**64.7%**	**48**	**42.5%**	**310**	**58.9%**
Stage 2: < 30 DPD	**2**	**3.4%**	**15**	**4.7%**	**1**	**2.9%**	**16**	**4.5%**	**-**	**-**	**18**	**3.4%**
Stage 2: > 30 DPD	**3**	**5.1%**	**16**	**5.0%**	**2**	**5.7%**	**18**	**5.1%**	**-**	**-**	**21**	**4.0%**
Stage 3[(3)]	**15**	**25.4%**	**45**	**14.1%**	**6**	**17.1%**	**51**	**14.4%**	**46**	**40.7%**	**112**	**21.3%**
	59	**100.0%**	**319**	**100.0%**	**35**	**100.0%**	**354**	**100.0%**	**113**	**100.0%**	**526**	**100.0%**
Coverage												
Stage 1		**0.01%**		**0.85%**		**1.04%**		**0.87%**		**0.33%**		**0.10%**
Stage 2 – total		**0.99%**		**22.82%**		**6.69%**		**18.70%**		**2.57%**		**4.94%**
Stage 2: 0 DPD		**0.97%**		**20.88%**		**6.03%**		**16.98%**		**2.58%**		**4.68%**
Stage 2: < 30 DPD		**0.84%**		**56.47%**		**37.09%**		**54.60%**		**1.04%**		**7.79%**
Stage 2: > 30 DPD		**1.74%**		**59.84%**		**59.47%**		**59.80%**		**1.26%**		**10.01%**
Stage 3[(3)]		**2.70%**		**53.55%**		**75.16%**		**55.52%**		**17.07%**		**12.10%**
		0.10%		**6.02%**		**4.12%**		**5.75%**		**1.45%**		**0.72%**

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

(1) Excludes loans designated at FVTPL and balances due from customers on acceptances.
(2) Business and total coverage ratio excludes the guaranteed element of government-backed loans.
(3) Stage 3 includes POCI for gross loans and advances of £51m for Mortgages and £1m for Unsecured (30 September 2022: £56m and £1m respectively); and ECL of (£1m) for Mortgages and (£1m) for Unsecured (30 September 2022: (£1m) and (£2m) respectively). There is no POCI for Business in either period.
(4) Includes MAs of £31m for Mortgages, £24m for Unsecured and £16m for Business (30 September 2022: £34m Mortgages, £33m Unsecured, £18m Business) which is primarily held in Stage 1 and 2.

Credit quality of loans and advances (continued)

Stage 2 balances

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

			Unsecured									
	Mortgages		Cards		Loans & Overdrafts		Combined		Business		Total	
31 March 2023	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
PD deterioration	**2,711**	**72%**	**661**	**59%**	**349**	**99%**	**1,010**	**69%**	**1,198**	**63%**	**4,919**	**69%**
Forbearance	**96**	**3%**	**12**	**1%**	**1**	**-**	**13**	**1%**	**235**	**12%**	**344**	**5%**
AFD or Watch List (1)	**5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**466**	**24%**	**471**	**7%**
> 30 DPD	**172**	**5%**	**29**	**3%**	**2**	**1%**	**31**	**2%**	**18**	**1%**	**221**	**3%**
Other (2)	**750**	**20%**	**414**	**37%**	**-**	**-**	**414**	**28%**	**-**	**-**	**1,164**	**16%**
	3,734	**100%**	**1,116**	**100%**	**352**	**100%**	**1,468**	**100%**	**1,917**	**100%**	**7,119**	**100%**
ECLs(3)												
PD deterioration	**24**	**63%**	**121**	**50%**	**22**	**92%**	**143**	**54%**	**24**	**50%**	**191**	**56%**
Forbearance	**3**	**8%**	**4**	**2%**	**-**	**-**	**4**	**2%**	**12**	**25%**	**19**	**5%**
AFD or Watch List (1)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12**	**25%**	**12**	**3%**
> 30 DPD	**3**	**8%**	**16**	**7%**	**2**	**8%**	**18**	**7%**	**-**	**-**	**21**	**6%**
Other (2)	**8**	**21%**	**98**	**41%**	**-**	**-**	**98**	**37%**	**-**	**-**	**106**	**30%**
	38	**100%**	**239**	**100%**	**24**	**100%**	**263**	**100%**	**48**	**100%**	**349**	**100%**

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

(1) Approaching Financial Difficulty (AFD) and Watch markers are early warning indicators of Business customers who may be approaching financial difficulties. If these indicators are not reversed, they may lead to a requirement for more proactive management by the Group.
(2) Other includes high indebtedness, county court judgement and previous arrears, as well as a number of smaller value drivers.
(3) Includes MAs.

Credit risk exposure, by internal PD rating, by IFRS 9 stage allocation

The distribution of the Group's credit exposures by internal PD rating is analysed below:

31 March 2023		**Stage 1**		**Stage 2**		**Stage 3[1]**		**Total**	
		Lending £m	**ECL[2] £m**	**Lending £m**	**ECL[2] £m**	**Lending £m**	**ECL[2] £m**	**Lending £m**	**ECL[2] £m**
Mortgages	**PD range**								
Strong	0 – 0.74	**49,905**	**3**	**2,051**	**7**	**-**	**-**	**51,956**	**10**
Good	0.75 – 2.49	**3,359**	**2**	**905**	**8**	**-**	**-**	**4,264**	**10**
Satisfactory	2.50 – 99.99	**447**	**1**	**778**	**23**	**-**	**-**	**1,225**	**24**
Default	100	**-**	**-**	**-**	**-**	**553**	**15**	**553**	**15**
Total		**53,711**	**6**	**3,734**	**38**	**553**	**15**	**57,998**	**59**
Unsecured									
Strong	0 – 2.49	**4,484**	**28**	**446**	**28**	**-**	**-**	**4,930**	**56**
Good	2.50 – 9.99	**429**	**11**	**715**	**122**	**-**	**-**	**1,144**	**133**
Satisfactory	10.00 – 99.99	**4**	**1**	**307**	**113**	**-**	**-**	**311**	**114**
Default	100	**-**	**-**	**-**	**-**	**96**	**51**	**96**	**51**
Total		**4,917**	**40**	**1,468**	**263**	**96**	**51**	**6,481**	**354**
Business									
Strong	0 – 0.74	**2,500**	**2**	**130**	**-**	**-**	**-**	**2,630**	**2**
Good	0.75 – 9.99	**3,680**	**17**	**1,649**	**39**	**-**	**-**	**5,329**	**56**
Satisfactory	10.00 – 99.99	**10**	**-**	**138**	**9**	**-**	**-**	**148**	**9**
Default	100	**-**	**-**	**-**	**-**	**416**	**46**	**416**	**46**
Total		**6,190**	**19**	**1,917**	**48**	**416**	**46**	**8,523**	**113**

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

(1) Stage 3 includes POCI for gross lending of £51m for Mortgages and £1m for Unsecured (30 September 2022: £56m and £1m respectively); and ECL of (£1m) for Mortgages and (£1m) for Unsecured (30 September 2022: (£1m) and (£2m) respectively).

(2) Includes MAs of £31m for Mortgages, £24m for Unsecured and £16m for Business (30 September 2022: £34m Mortgages, £33m Unsecured, £18m Business) which is primarily held in Stage 1 and 2.

Movement in gross lending balances and impairment loss allowance

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

6 months to 31 March 2023	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[1] Gross loans £m	Stage 3[1] ECL £m	Total gross loans £m	Total provisions[4] £m
Opening balance at 1 October 2022	**66,385**	**85**	**5,725**	**268**	**1,036**	**104**	**73,146**	**457**
Transfers from Stage 1 to Stage 2	**(4,584)**	**(28)**	**4,573**	**215**	**-**	**-**	**(11)**	**187**
Transfers from Stage 2 to Stage 1	**2,315**	**9**	**(2,334)**	**(56)**	**-**	**-**	**(19)**	**(47)**
Transfers to Stage 3	**(49)**	**-**	**(283)**	**(49)**	**333**	**62**	**1**	**13**
Transfers from Stage 3	**73**	**-**	**54**	**1**	**(132)**	**(4)**	**(5)**	**(3)**
Changes to model methodology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased [2]	**10,555**	**20**	**311**	**25**	**69**	**15**	**10,935**	**60**
Repayments and other movements [3]	**(1,873)**	**(10)**	**(203)**	**(11)**	**70**	**-**	**(2,006)**	**(21)**
Repaid or derecognised	**(8,004)**	**(11)**	**(724)**	**(44)**	**(218)**	**(53)**	**(8,946)**	**(108)**
Write-offs	**-**	**-**	**-**	**-**	**(93)**	**(93)**	**(93)**	**(93)**
Recoveries	**-**	**-**	**-**	**-**	**-**	**18**	**-**	**18**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**63**	**-**	**63**
Closing balance at 31 March 2023	**64,818**	**65**	**7,119**	**349**	**1,065**	**112**	**73,002**	**526**

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

(1) Stage 3 includes POCI for gross loans and advances of £51m for Mortgages and £1m for Unsecured (30 September 2022: £56m and £1m respectively), and ECL of (£1m) for Mortgages and (£1m) for Unsecured (30 September 2022: (£1m) and (£2m) respectively). There is no POCI for Business in either period.
(2) Includes assets where the term has ended, and a new facility has been provided.
(3) 'Repayments' comprises payments made on customer lending which are not yet fully paid at the reporting date and the customer arrangement remains live at that date. 'Repaid' refers to payments made on customer lending which is either fully repaid or derecognised by the reporting date and the customer arrangement is therefore closed at that date.
(4) Includes MAs of £31m for Mortgages, £24m for Unsecured and £16m for Business (30 September 2022: £34m Mortgages, £33m Unsecured, £18m Business) which is primarily held in Stage 1 and 2.

In addition to the above on-balance sheet position, the Group also has £18,101m of loan commitments and financial guarantee contracts (30 September 2022: £19,359m) of which £16,989m (93.9%) are held under Stage 1, £1,048m in Stage 2 and £64m in Stage 3 (30 September 2022: £18,454m (95.3%) held under Stage 1, £865m in Stage 2 and £40m in Stage 3). ECLs of £4m (30 September 2022: £3m) are included in the table above, of which £1m (30 September 2022: £1m) is held under Stage 1 and £3m (30 September 2022: £2m) under Stage 2.

The overall net increase in Stage 2 and Stage 3 is driven by a variety of factors at individual product portfolio levels, with further detail provided in the following portfolio performance pages. Overall portfolio activity remains strong, with sustained levels of new lending and customer repayments. The levels of default across the portfolio remain low.

The contractual amount outstanding on loans and advances that were written off during the reporting period or still subject to enforcement activity was £4.7m (30 September 2022: £4.3m). The Group has not purchased any lending assets in the period (30 September 2022: none). Further information on staging profile is provided at a portfolio level in the respective portfolio performance section on the following pages.

Mortgage credit performance

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

Breakdown of Mortgage portfolio

31 March 2023	Gross lending £m	Modelled & IA ECL £m	MA £m	Total ECL £m	Net lending £m	Coverage %	Average LTV %
Residential – capital repayment	35,908	16	4	20	35,888	0.05%	**55.9%**
Residential – interest only	7,299	5	1	6	7,293	0.08%	**47.4%**
Buy-to-let (BTL)	14,791	7	26	33	14,758	0.22%	**53.5%**
Total Mortgage portfolio	57,998	28	31	59	57,939	0.10%	**53.6%**
30 September 2022							
Residential – capital repayment	36,417	13	5	18	36,399	0.05%	54.2%
Residential – interest only	7,041	3	1	4	7,037	0.05%	45.4%
BTL	15,006	6	28	34	14,972	0.22%	52.4%
Total Mortgage portfolio	58,464	22	34	56	58,408	0.09%	52.7%

Mortgage lending reduced in the period to £58.0bn (30 September 2022: £58.5bn) as the Group continued to prioritise margin in an increasingly competitive environment.

The portfolio continues to evidence good underlying credit performance, with the majority (98%) of lending not yet past due at the balance sheet date (30 September 2022: 98%), and 93% of loans held in Stage 1 (30 September 2022: 94%). Stage 3 balances have remained consistently low at 1.0% (30 September 2022: 1.0%) and 89% of the portfolio has an LTV of less than 75% (30 September 2022: 93%), with the weighted average LTV increasing slightly in the period to 53.6% (30 September 2022: 52.7%). A significant proportion of the portfolio (90%) is rated Strong at the balance sheet date (30 September 2022: 92%)

All of these key metrics evidence a high quality mortgage portfolio, with relatively low risk of default, driven by sound lending decisions and underwriting criteria. Further detail on LTV bandings is provided on the following pages.

The revised model economic scenarios (MES) have contributed to an increase of £6m in the modelled and IA ECL, taking the total modelled and IA ECL provision to £28m (30 September 2022: £22m). Total MAs have reduced in the period, as detailed below, from £34m at 30 September 2022 to £31m at 31 March 2023. The total Mortgage portfolio impairment provision is £59m (30 September 2022: £56m).

The Group has maintained MA's for the Mortgage portfolio to address the ongoing heightened uncertainty over anticipated future default rates across the portfolio. The most significant of these is the MA on the BTL portfolio which has held stable at £25m (30 September 2022: £25m) and reflects that the Group continues to take a cautious approach on this component of the loan book. The £6m MA introduced for cost-of-living shocks that were not yet fully observed and incorporated in the modelled ECL, has been released as it is now considered that the increase in modelled provisioning during the period, driven by the updated MES, reflects the potential impact on portfolio asset quality, debt affordability from rising base rates and other inflationary impacts, for which this MA was initially held.

Other small MAs totalling £6m (30 September 2022: £3m) have also been retained, including a new economic resilience MA of £3m.

The increase of modelled provisions is the primary driver of the impairment charge in the income statement of £3m (12 months to 30 September 2022: credit of £30m, 6 months to 31 March 2022: credit of £21m) and associated cost of risk of 1bps for the period (12 months to 30 September 2022: (4) bps, 6 months to 31 March 2022: (7)bps).

The total book coverage has increased to 10bps, higher than the pre-pandemic level of 7bps.

Forbearance

The volume and value of loans in forbearance has reduced to 4,032/£531m from 4,636/£640m, primarily due to customers successfully completing the forbearance reporting probation period and returning to fully performing status.

When all other avenues of resolution, including forbearance, have been explored, the Group will take steps to repossess and sell underlying collateral. In the 6 month period to 31 March 2023, there were 30 repossessions (12 months to 30 September 2022:73). The Group remains committed to supporting the customer and places good outcomes for them at the centre of this strategy.

Mortgage credit performance (continued)

Collateral

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

Average LTV of Mortgage portfolio by staging

31 March 2023	Stage 1			Stage 2			Stage 3[(2)]			Total		
LTV [(1)]	Loans £m	%	ECL £m	Loans £m	%	ECL £m	Loans £m	%	ECL £m	Loans £m	%	ECL[(3)] £m
Less than 50%	21,099	39%	1	1,805	48%	4	278	51%	2	23,182	40%	7
50% to 75%	26,370	49%	2	1,587	43%	20	211	38%	2	28,168	48%	24
76% to 80%	3,153	6%	1	183	5%	7	22	4%	1	3,358	6%	9
81% to 85%	1,526	3%	1	70	2%	1	8	1%	-	1,604	3%	2
86% to 90%	1,000	2%	1	52	1%	2	11	2%	1	1,063	2%	4
91% to 95%	468	1%	-	30	1%	1	7	1%	1	505	1%	2
96% to 100%	63	-	-	3	-	-	6	1%	-	72	-	-
Greater than 100%	32	-	-	4	-	3	10	2%	8	46	-	11
	53,711	100%	6	3,734	100%	38	553	100%	15	57,998	100%	59

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

(1) LTV of the Mortgage portfolio is defined as Mortgage portfolio weighted by balance. The portfolio is indexed using the MIAC Acadametrics indices at a given date.
(2) Stage 3 includes £51m (30 September 2022: £56m) of POCI gross loans and advances.
(3) Includes MAs of £31m (30 September 2022: £34m) which is primarily held in Stage 1 and 2.

The Mortgage portfolio remains highly secured with 88.5% of mortgages, by loan value, having an indexed LTV of less than 75% (30 September 2022: 92.3%), and an average portfolio LTV of 53.6% (30 September 2022: 52.7%).

The three primary influences on the LTV profile are customer drawdowns, repayments, and the MIAC index. There has been a reduction in the volume of drawdowns in the period as customers have been more cautious in the dynamic pricing environment following the mini budget last autumn. This has been most notable in the BTL portfolio which typically has a lower LTV profile. The level of existing customer repayment has been sustained during the period and the movements in the MIAC index were not as favourable as prior updates and ultimately resulted in an upward movement in the average LTV.

Mortgage credit performance (continued)

IFRS 9 staging

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

	Stage 1		Stage 2		Stage 3[(1)]		Total	
6 months to 31 March 2023	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Total gross loans £m**	**Total provision[(4)] £m**
Opening balance at 1 October 2022	**54,791**	**10**	**3,090**	**32**	**583**	**14**	**58,464**	**56**
Transfers from Stage 1 to Stage 2	**(2,749)**	**(2)**	**2,731**	**33**	**-**	**-**	**(18)**	**31**
Transfers from Stage 2 to Stage 1	**1,710**	**1**	**(1,720)**	**(17)**	**-**	**-**	**(10)**	**(16)**
Transfers to Stage 3	**(30)**	**-**	**(124)**	**(2)**	**152**	**3**	**(2)**	**1**
Transfers from Stage 3	**67**	**-**	**44**	**1**	**(113)**	**(1)**	**(2)**	**-**
Changes to model methodology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased [(2)]	**4,833**	**1**	**-**	**-**	**-**	**-**	**4,833**	**1**
Repayments and other movements [(3)]	**(1,438)**	**(3)**	**(44)**	**(5)**	**(5)**	**-**	**(1,487)**	**(8)**
Repaid or derecognised	**(3,473)**	**(1)**	**(243)**	**(4)**	**(64)**	**(1)**	**(3,780)**	**(6)**
Write-offs	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Recoveries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Closing balance at 31 March 2023	**53,711**	**6**	**3,734**	**38**	**553**	**15**	**57,998**	**59**

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

(1) Stage 3 includes POCI for gross loans and advances of £51m and ECL of (£1m) (30 September 2022: £56m and (£1m) respectively).
(2) Includes assets where the term has ended, and a new facility has been provided.
(3) 'Repayments' comprises payments made on customer lending which are not yet fully paid at the reporting date and the customer arrangement remains live at that date. 'Repaid' refers to payments made on customer lending which is either fully repaid or derecognised by the reporting date and the customer arrangement is therefore closed at that date.
(4) Includes MAs of £31m (30 September 2022: £34m) which is primarily held in Stage 1 and 2.

Despite the economic uncertainty, the Mortgage portfolio continues to evidence strong performance with low levels of customer deterioration. The revised MES inputs are the primary driver of the slight change in lending classed as Stage 1 to 92.6% (30 September 2022: 93.7%), with a corresponding increase in assets in Stage 2 from 5.3% to 6.4%. Within the Stage 2 category, 5.8% is not yet past due at the balance sheet date (30 September 2022: 4.7%) but falls into the Stage 2 classification due predominantly to PD deterioration. The proportion of mortgages classified as Stage 3 remains modest at 1.0% (30 September 2022: 1.0%).

There has been a slight decrease in assets classed as 'Strong' from 92.4% at 30 September 2022 to 89.6% at 31 March 2023, although the proportion of the portfolio classed as 'Good' or 'Strong' remains stable at 96.9% (30 September 2022: 97.0%).

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

Unsecured credit performance

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

Breakdown of Unsecured credit portfolio

31 March 2023	Gross lending £m	Modelled & IA ECL £m	MA £m	Total ECL £m	Net lending £m	Coverage %
Credit cards	5,638	296	23	319	5,319	6.02%
Personal loans	815	31	1	32	783	3.83%
Overdrafts	28	3	-	3	25	12.09%
Total Unsecured lending portfolio	6,481	330	24	354	6,127	5.75%
30 September 2022						
Credit cards	5,558	216	30	246	5,312	4.81%
Personal loans	925	32	2	34	891	3.57%
Overdrafts	30	4	-	4	26	12.57%
Total Unsecured lending portfolio	6,513	252	32	284	6,229	4.66%

Unsecured gross lending balances remained stable at £6.5bn (30 September 2022: £6.5bn) with underlying growth in the credit card portfolio offset by the personal loan portfolio which continues to contract.

While there has been evidence of a slight deterioration in early stage delinquency metrics in the portfolio against a backdrop of a downturn in the broader UK economy, the credit quality of the Unsecured portfolio remains high, with 97.5% of the portfolio in Stage 1 or Stage 2 not past due (30 September 2022: 97.9%), and a modest 1.5% in Stage 3 (30 September 2022: 1.2%).

There has been an increase in the modelled provision to £330m (30 September 2022: £252m), primarily in the Cards portfolio where the downturn has been reflected through the updated MES and credit bureau data, in anticipation of a continued increase in arrears.

The £20m MA introduced at September 2022 for cost-of-living shocks that were not yet fully observed and incorporated in the modelled ECL, has been released as it is now considered that the increase in modelled provisioning reflects the cost of living pressures during the period for which the MA was initially held. The MA held for debt sale has increased to £23.9m (30 September 2022: £10.5m) reflecting the terms of the new contract entered into during the period which have not yet been incorporated into the model. Once the model has completed the relevant revision, governance, approval and implementation stages, the MA will be removed.

There are two other MAs totalling £0.4m (30 September 2022: three totalling £1.8m). The overall MAs in the Unsecured portfolio have therefore decreased to £24m at 31 March 2023 (30 September 2022: £32m).

Taking these together, the total ECL provision held as at 31 March 2023 is £354m (30 September 2022: £284m), which in addition to an IA impairment charge of £55m, give rise to a total impairment charge in the income statement in the period of £126m (12 months to 30 September 2022: £178m, 6 months to 31 March 2022: £69m).

Total book coverage of 575bps has increased from 466bps as at 30 September 2022 and remains higher than pre-pandemic levels of 342bps. The increase has been primarily driven by the credit card portfolio, where coverage has increased from 481bps at 30 September 2022 to 602bps at 31 March 2023.

Forbearance

The level of forbearance in the Unsecured portfolio remains low at 1.31% of total portfolio lending at 31 March 2023 (30 September 2022: 1.12%). The level of impairment coverage on forborne lending has increased to 42.5% from 39.5% at 30 September 2022.

Credit cards forbearance totalled £73m (18,305 accounts), an increase from the 30 September 2022 position of £62m (15,872 accounts) reflective of the current environment. This represents 1.39% of total credit cards balances (30 September 2022: 1.19%).

Limited forbearance is exercised in relation to Personal loans and overdrafts and it remains relatively stable at £3m which equates to 0.51% of the portfolio (30 September 2022: £3m, 0.54%).

Unsecured credit performance (continued)

IFRS 9 staging

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

	Stage 1		**Stage 2**		**Stage 3(1)**			
6 months to 31 March 2023	**Gross loans £**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Total gross loans £m**	**Total provisions(4) £m**
Opening balance at 1 October 2022	**5,324**	**63**	**1,109**	**181**	**80**	**40**	**6,513**	**284**
Transfers from Stage 1 to Stage 2	**(808)**	**(24)**	**818**	**159**	**-**	**-**	**10**	**135**
Transfers from Stage 2 to Stage 1	**257**	**7**	**(265)**	**(31)**	**-**	**-**	**(8)**	**(24)**
Transfers to Stage 3	**(7)**	**-**	**(80)**	**(45)**	**90**	**54**	**3**	**9**
Transfers from Stage 3	**-**	**-**	**-**	**-**	**(2)**	**(2)**	**(2)**	**(2)**
Changes to model methodology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased (2)	**482**	**6**	**-**	**-**	**1**	**1**	**483**	**7**
Repayments and other movements (3)	**(215)**	**(10)**	**(97)**	**4**	**68**	**-**	**(244)**	**(6)**
Repaid or derecognised	**(116)**	**(2)**	**(17)**	**(5)**	**(68)**	**(41)**	**(201)**	**(48)**
Write-offs	**-**	**-**	**-**	**-**	**(73)**	**(73)**	**(73)**	**(73)**
Recoveries	**-**	**-**	**-**	**-**	**-**	**17**	**-**	**17**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**55**	**-**	**55**
Closing balance at 31 March 2023	**4,917**	**40**	**1,468**	**263**	**96**	**51**	**6,481**	**354**

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

(1) Stage 3 includes POCI for gross loans and advances of £1m and ECL of (£1m) (30 September 2022: (£1m) and (£2m) respectively).
(2) Includes assets where the term has ended, and a new facility has been provided.
(3) 'Repayments' comprises payments made on customer lending which are not yet fully paid at the reporting date and the customer arrangement remains live at that date. 'Repaid' refers to payments made on customer lending which is either fully repaid or derecognised by the reporting date and the customer arrangement is therefore closed at that date.
(4) Includes MAs of £24m (30 September 2022: £33m) which is primarily held in Stage 1 and 2.

The level of write offs in the Unsecured portfolio has increased slightly with an increase in the volume of credit card balances reaching 180 days past due being the primary driver, although the level of post write off recoveries remains robust. The total ECL held on balance sheet has increased from £284m to £354m with an underlying increase in the modelled ECL being the primary driver. Modelled provision coverage alone is now 536bps (30 September 2022: 413bps).

The credit card portfolio is the primary driver of the decrease in the balance of Unsecured lending classed as Stage 1 to 75.7% (30 September 2022: 81.5%), with a corresponding increase in assets in Stage 2 from 17.3% to 22.9%. Within the Stage 2 category, 95.7% is not yet past due (30 September 2022: 94.8%) but falls into the Stage 2 classification due predominantly to PD deterioration. The proportion classified as Stage 3 increased slightly to 1.5% (30 September 2022: 1.2%).

Business credit performance

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

Breakdown of Business credit portfolio

31 March 2023	Gross lending £m	Government [(1)] £m	Total gross £m	Modelled & IA ECL £m	MA[(3)] £m	Total ECL £m	Net lending £m	Coverage [(2)] %
Agriculture	1,335	58	1,393	4	1	5	1,388	0.35%
Business services	1,087	245	1,332	30	3	33	1,299	2.99%
Commercial Real Estate	666	7	673	4	1	5	668	0.60%
Government, health & education	1,131	46	1,177	8	2	10	1,167	0.89%
Hospitality	747	69	816	3	1	4	812	0.46%
Manufacturing	685	92	777	13	3	16	761	2.24%
Resources	189	6	195	2	-	2	193	1.19%
Retail and wholesale trade	717	171	888	5	1	6	882	0.86%
Transport and storage	300	37	337	3	1	4	333	1.11%
Other	762	173	935	25	3	28	907	3.74%
Total Business portfolio	7,619	904	8,523	97	16	113	8,410	1.45%
30 September 2022								
Agriculture	1,392	66	1,458	5	1	6	1,452	0.45%
Business services	980	286	1,266	22	4	26	1,240	2.53%
Commercial Real Estate	597	10	607	3	-	3	604	0.54%
Government, health & education	1,008	54	1,062	8	2	10	1,052	0.95%
Hospitality	652	78	730	4	1	5	725	0.80%
Manufacturing	640	109	749	23	3	26	723	3.96%
Resources	133	8	141	3	1	4	137	2.37%
Retail and wholesale trade	330	128	458	7	1	8	450	2.51%
Transport and storage	291	56	347	4	1	5	342	1.44%
Other	1,089	262	1,351	20	4	24	1,327	2.11%
Total Business portfolio	7,112	1,057	8,169	99	18	117	8,052	1.59%

(1) Government includes all lending provided to business customers under UK Government schemes including Bounce back loan scheme (BBLS), CBILS, CLBILS and RLS. When onboarding, some new borrowers for BBLS loans were coded as business services; a portion of these may be reclassified over time. This excludes £110m (30 September 2022: £66m) of guarantee claim funds received from British Business Bank (BBB).
(2) Coverage ratio excludes the guaranteed element of government-backed loan schemes.
(3) The MA is primarily held in Stage 1 and 2.

Gross Business lending increased to £8.5bn (30 September 2022: £8.2bn). The government-guaranteed lending portfolio continues to reduce as borrowers repay balances. Growth remains targeted to sectors and sub sectors where we have well established expertise. The sector mix remained fairly constant with lending to the agriculture, business services and government, health and education sectors continuing to account for almost half of the total book, at 46% (30 September 2022: 46%)

Whilst there is some weakening in the pre and early delinquency metrics being monitored, there has been no significant deterioration in asset quality metrics across the portfolio and, as yet, no significant increase in specific provision recognition. Coverage for certain sectors above has reduced in the period as previously held provisions have been utilised. A range of external risks have remained prevalent throughout the period including geopolitical, general inflationary pressures, interest rate rises, ongoing supply chain distribution and labour market disruption, in addition to customer fatigue from crisis management.

The proportion of loans in Stage 1 has reduced from 76.8% at 30 September 2022 to 72.6% at 31 March 2023. Total balances in Stage 1 and Stage 2 not past due represents 94.8% of the portfolio (30 September 2022: 95.1%). Of the Stage 2 loans, 93% were rated 'Strong' or 'Good' (30 September 2022: 95%). Stage 3 loans remain modest at 4.9% (30 September 2022: 4.6%).

Business credit performance (continued)

The updated MES resulted in an increase of £9m in modelled provisions to £77m. The MAs are broadly unchanged at £16m (30 September 2022: £18m) although the composition has changed, this is covered in more detail on the following pages. The specific provisions held on balance sheet have reduced to £20m (30 September 2022: £31m) primarily due to provision utilisation. This results in an overall provision of £113m (30 September 2022: £117m) which has driven an impairment charge in the income statement of £15m in the period (12 months to 30 September 2022: credit of £96m).

Overall, portfolio coverage remains prudent at 145bps (30 September 2022: 159bps), reflecting the quality of the portfolio and little evidence of deterioration in asset quality to date.

Forbearance

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

All balances subject to forbearance are classed as either Stage 2 or Stage 3 for ECL purposes.

Business portfolio forbearance has increased from £448m (289 customers) at 30 September 2022 to £496m (293 customers) at 31 March 2023.

As a percentage of the Business portfolio, forborne balances have increased to 5.48% (30 September 2022: 5.16%) with impairment coverage reducing to 8.87% (30 September 2022: 9.71%).

Changes at this level are primarily driven by a small number of customers rather than indicative of a portfolio trend.

The majority of forbearance arrangements relate to term extensions allowing customers a longer term to repay their obligations in full than initially contracted.

Business credit performance (continued)

IFRS 9 staging

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

6 months to 31 March 2023	**Stage 1 Gross loans £m**	**Stage 1 ECL £m**	**Stage 2 Gross loans £m**	**Stage 2 ECL £m**	**Stage 3 Gross loans £m**	**Stage 3 ECL £m**	**Total gross loans £m**	**Total provisions[3] £m**
Opening balance at 1 October 2022	**6,270**	**12**	**1,526**	**55**	**373**	**50**	**8,169**	**117**
Transfers from Stage 1 to Stage 2	**(1,027)**	**(2)**	**1,024**	**23**	**-**	**-**	**(3)**	**21**
Transfers from Stage 2 to Stage 1	**348**	**1**	**(349)**	**(8)**	**-**	**-**	**(1)**	**(7)**
Transfers to Stage 3	**(12)**	**-**	**(79)**	**(2)**	**91**	**5**	**-**	**3**
Transfers from Stage 3	**6**	**-**	**10**	**-**	**(17)**	**(1)**	**(1)**	**(1)**
Changes to model methodology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased [1]	**5,240**	**13**	**311**	**25**	**68**	**14**	**5,619**	**52**
Repayments and other movements [2]	**(220)**	**3**	**(62)**	**(10)**	**7**	**-**	**(275)**	**(7)**
Repaid or derecognised	**(4,415)**	**(8)**	**(464)**	**(35)**	**(86)**	**(11)**	**(4,965)**	**(54)**
Write-offs	**-**	**-**	**-**	**-**	**(20)**	**(20)**	**(20)**	**(20)**
Recoveries	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**8**	**-**	**8**
Closing balance at 31 March 2023	**6,190**	**19**	**1,917**	**48**	**416**	**46**	**8,523**	**113**

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

(1) Includes assets where the term has ended, and a new facility has been provided.
(2) 'Repayments' comprises payments made on customer lending which are not yet fully paid at the reporting date and the customer arrangement remains live at that date. 'Repaid' refers to payments made on customer lending which is either fully repaid or derecognised by the reporting date and the customer arrangement is therefore closed at that date.
(3) Includes MAs of £16m (30 September 2022: £18m) which is primarily held in Stage 1 and 2.

The level of write offs in the portfolio remains low on a volume basis, with a small number of connections driving the majority of the £20m of balances written off in the period. These provisions were raised in prior periods. The level of provision recognition in the period remaining subdued as the levels of IA customer impairment remain low. The impact of the revised MES has affected the staging of the business portfolio in a similar manner to the other portfolios with the level of Business lending classed as Stage 1 decreasing to 72.6% (30 September 2022: 76.8%), with an increase in Stage 2 from 18.7% at 30 September 2022 to 22.5% at 31 March 2023. The majority of the balances in Stage 2 (22.2%) are not past due and is primarily in Stage 2 due to PD deterioration, in addition to proactive management measures such as early intervention, heightened monitoring and forbearance concessions. Stage 3 loans have increased slightly to 4.9% (30 September 2022: 4.6%) and is primarily comprised of bounce back loan defaults.

The PDs for Business lending combine both internal ratings information and forward-looking economic forecasts. The material drivers of the PD and stage migrations in the period are the economic forecasts, rather than internal downgrades or the emergence of arrears or defaults. The proportion of assets classed as 'Strong' has decreased to 31% (30 September 2022: 68%), although assets classed as 'Strong' or 'Good' remained relatively stable at 93% (30 September 2022: 95%).

Macroeconomic assumptions, scenarios and weightings

The Group's ECL allowance at 31 March 2023 was £526m (30 September 2022: £457m).

Macroeconomic assumptions

The Group engages Oxford Economics to provide a wide range of future macroeconomic assumptions, which are used in the scenarios over the five-year forecast period, reflecting the best estimate of future conditions under each scenario outcome. The macroeconomic assumptions were provided by Oxford Economics on 28 February 2023 and changes in macroeconomic assumptions between then and 31 March 2023 have been considered in concluding on the quantum of the management adjustments (MAs). The Group has identified the following key macroeconomic drivers as the most significant: UK GDP growth, inflation, house prices, base rates, and unemployment rates. The external data provided is assessed and reviewed on a quarterly basis to ensure appropriateness and relevance to the ECL calculation, with more frequent updates provided as and when the circumstances require them. Further adjustments supplement the modelled output when it is considered that not all the risks identified in a product segment have been accurately reflected within the models or for other situations where it is not possible to provide a modelled outcome.

Although fuel prices have begun to fall, the effects of their recent peak can still be felt through heightened inflation and elevated bank base rates. Despite signs that monetary policy tightening may be slowing or even coming to a halt, the effects of bank rate rises are yet to feed through fully into the real economy. We expect inflation to continue to fall back from the historically high levels observed in recent times, although we also expect to see real consumer incomes squeezed in the short run and asset prices to suffer. In the short term, factors such as higher than normal inflation, the ongoing freeze of most tax allowances and the scaling back of support to help households and businesses pay their energy bills (meaning that energy costs next winter are likely to be about £400 higher than last winter) are all playing a part in negatively impacting household incomes. Against this environment, the Group has continued to assess the possible IFRS 9 economic scenarios to select appropriate forecasts and weightings. The selection of scenarios and the appropriate weighting to apply are considered and debated by an internal review panel each quarter with final proposed recommendations for use in the IFRS 9 models made to the Asset and Liability Committee (ALCO) for formal approval. The three scenarios selected, together with the weightings applied, have been updated to reflect the current economic environment and are:

Scenario	**31 Mar 2023 (%)**	30 Sept 2022 (%)
Upside	**10**	10
Base	**60**	55
Downside	**30**	35

The Group continued to select three scenarios with the largest weighting applied to the base scenario. In the current period, there is a 5% shift in the weightings from the Downside scenario in favour of the Base scenario, reflecting greater confidence in the Base scenario as a result of the updated macroeconomic assumptions. The Group is comfortable with the current low weighting applied to the Upside scenario and sees no significant justification for this to be adjusted at this time.

The key macroeconomic assumptions used in the scenarios in the period are[(1)]:

	Base (60%)	**Upside (10%)**	**Downside (30%)**
GDP	• moderate decreases in all quarters in 2023 compared to 2022 before recovering in 2024 • overall year-on-year negative growth in 2023 forecast at (0.4%) with a modest recovery in 2024 to 1.5% • GDP further increases to over 2% in both 2025 and 2026 before falling back to 1.5% in 2027	• modest decrease of 0.1% in the first quarter of 2023 (Q1 2023 v Q1 2022), before rising in each of the remaining quarters in 2023 • overall year-on-year growth in 2023 is forecast at 1.3% which rises sharply to 3.5% in 2024 before reversing over the remainder of the forecast period and finishing at 1.5% for 2027	• slightly negative GDP of 0.1% (Q1 2023 v Q1 2022) before more profound negative growth for the three remaining quarters in 2023 to (6.6%) by the end of 2023 (Q4 2023 v Q4 2022) • remains sluggish over the remaining forecast period but turning positive in 2025 and remaining positive for the remaining forecast period • the overall year-on-year negative growth of 4.2% in 2023 returns positive in 2025 at 1.6% and increases to 1.9% in 2026 before falling back modestly in 2027 to 1.7%

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

Credit risk

	Base (60%)	Upside (10%)	Downside (30%)
Inflation	• peaks at 9.9% in Q1 2023 before scaling back and reverting to under 2% in Q2 2024 • rises slightly from there for a few quarters then falls back to under 2% from Q1 2025 for the remaining forecast period	• peaks at 9.9% in Q1 2023 from a low base of 0.6% at Q1 2021 • reverts back to sub 2.0% levels from Q2 2025 for much of the remaining forecast period, going as low as 0.4% in Q4 2025 rising to 1.9% by Q2 2027	• peaks at 9.9% in Q1 2023 before declining and turning negative in Q1 2024 and remains negative for the remainder of 2024 • inflation turns positive in Q1 2025 and rises steadily each quarter reaching 1.4% in Q4 2026, rising to 1.8% in Q1 2027 and remaining at that level during the rest of 2027
Base rate	• BoE base rate hits 4.2% in Q2 2023 • falls back from there over the forecast period reaching under 2% in Q2 2026 and remaining there throughout the remaining forecast period	• BoE base rate rises are anticipated throughout 2023 peaking at 5.3% in Q4 2023 and remaining there until Q3 2024 before starting to gradually recede and reaching 2.5% by Q4 2026 • base rate falls modestly in Q1 2027 to 2.3% and remains there for the rest of the year	• BoE base rate peak at 3.8% for the first two quarters in 2023 before steadily falling back quarter by quarter to 0.5% in Q3 2026 • unchanged from there for the remaining forecast period
HPI	• shows steady decline between Q1 2023 to Q1 2024 before rebounding slowly in each quarter after this until the end of the forecast period • overall Q4 v Q4 year-on-year negative growth of 8.1% in 2023 which improves but still negative growth of 3.8% in 2024 • further improves to show modest positive growth in 2025 and increases to c.6% growth for both 2026 and 2027	• falls steadily in each quarter to Q3 2024 before reversing and rising in each quarter over the remaining forecast period • overall, HPI sees Q4 v Q4 negative growth of 5.4% in 2023 which improves slightly but remains negative at 1.6% in 2024 • returns to positive growth of 4.1% in 2025 and closes at 5.9% in 2027	• falls steadily and deeply from Q1 2023 to Q1 2026 but then experiences modest increases in each quarter until the end of the forecast period but finishes well below the levels experienced in 2022 • overall, HPI sees a Q4 v Q4 decline of (15.1%) in 2023 • steadily recovers, but remaining negative for the next two years before turning positive for 2026 and 2027
Unemployment	• peaks at 4.5% in Q4 2023 and drops to 4.2% by Q3 2024 • from then, there is no significant movement with unemployment averaging at 4.3% in 2024 • steadily declines and reaches 3.8% in Q1 2026 and remains there throughout 2026 and falling to 3.7% in 2027	• peaks in Q3 2023, at 4.2%, and remains at that level in the following quarter • from then, there is a steady decline quarter on quarter reaching 3.7% in Q3 2025 • further modest fall to 3.6% in Q3 2026 and remains there for the remainder of the forecast period	• peaks at 7.4% in Q4 2025 and remains at 7.0% or more for the next six consecutive quarters • unemployment averages at 4.9% in 2023 rising to 7.2% by 2025 and remains at that level for 2026 • falls modestly to finish at 7.0% in 2027

Five-year simple averages on unemployment, GDP and HPI

31 March 2023	Unemployment %	GDP %	HPI %
Upside	**3.8**	**2.4**	**1.9**
Base	**4.0**	**1.5**	**0.5**
Downside	**6.5**	**(0.2)**	**(4.4)**
30 September 2022			
Upside	3.9	3.1	3.3
Base	4.1	2.1	2.0
Downside	6.3	0.4	(3.4)

The use of estimates, judgements and sensitivity analysis

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

The use of estimates

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

31 March 2023[4]	Probability Weighted[1] £m	Upside £m	Base £m	Downside £m
Mortgages	**21**	**17**	**18**	**33**
Unsecured of which:	**331**	**326**	**313**	**371**
Cards	*297*	*298*[3]	*284*	*326*
Personal loans and overdrafts[2]	*34*	*28*	*29*	*45*
Business	**77**	**64**	**69**	**111**
Total	**429**	**407**	**400**	**515**

(1) In addition to the probability weighted modelled provision shown in the table, the Group holds £71m relative to MAs and £26m of IA provision (30 September 2022: £85m and £38m respectively).
(2) Salary Finance contributes more than 50% of the combined Personal loans and overdrafts ECL.
(3) Due to a minor model interaction effect, the 100% ECL for Upside is marginally higher than the Base case.
(4) The impact of rounding means that the combination of the probability weighted total and IA provision will not fully align to the portfolio sections.

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

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

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

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

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

Mortgages: Unemployment and HPI
Unsecured: Unemployment
Business: Unemployment and HPI

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

The Group considers that the unemployment rate and HPI are the inputs that would have the most significant and sensitive ECL impact and has assessed how these would change the ECL across the relevant portfolios, with the reported output assessed against the base case. There are no material differences to the sensitivity disclosures on Unemployment and HPI changes in the period from those disclosed in the Group's FY22 ARA.

The use of judgement

SICR

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

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

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

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

	31 Mar 2023 **£m**	30 Sept 2022 £m
A 10% movement in the mortgage portfolio from Stage 1 to Stage 2	**+12**	+9
A 10% movement in the credit card portfolio from Stage 1 to Stage 2	**+86**	+87
A 10% movement in the business portfolio from Stage 1 to Stage 2	**+10**	+18
A PD stress which increases PDs upwards by 20% for all portfolios	**+127**	+106

Definition of default

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

MAs

At 31 March 2023, £71m of MAs (30 September 2022: £85m) are included within the total ECL provision of £526m (30 September 2022: £457m).

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

The impact of these judgemental adjustments and how they impact the Group's total reported ECL allowance and coverage ratio for each portfolio is:

31 March 2023[(1)]

	Mortgages £m	Unsecured £m	Business £m	Total £m
ECL before judgemental adjustments (A)	27.7	330.4	96.6	454.7
Judgemental adjustments:				
To address the cost-of-living crisis	-	-	-	-
To address economic resilience	3.2	-	15.0	18.2
Impact of new LGD model	-	-	-	-
Additional buy-to-let impact	25.1	-	-	25.1
Other credit card adjustments	-	22.5	-	22.5
Other judgemental adjustments	2.8	1.8	1.3	5.9
Total judgemental adjustments (B)	31.1	24.3	16.3	71.7
Total reported ECL (A + B)	58.8	354.7	112.9	526.4
% of total ECL (B / total reported ECL)	*53%*	*7%*	*14%*	*14%*
Coverage – total	*0.10%*	*5.75%*	*1.45%*	*0.72%*
Coverage – total ex MAs	*0.05%*	*5.36%*	*1.24%*	*0.62%*

30 September 2022[(1)]

	Mortgages £m	Unsecured £m	Business £m	Total £m
ECL before judgemental adjustments (A)	21.6	251.5	99.0	372.1
Judgemental adjustments:				
To address the cost-of-living crisis	6.3	20.2	-	26.5
To address economic resilience	-	-	30.0	30.0
Impact of new LGD model	-	-	(15.4)	(15.4)
Additional buy-to-let impact	25.1	-	-	25.1
Other credit card adjustments	-	10.5	-	10.5
Other judgemental adjustments	2.8	1.8	3.3	7.9
Total judgemental adjustments (B)	34.2	32.5	17.9	84.6
Total reported ECL (A + B)	55.8	284.0	116.9	456.7
% of total ECL (B / total reported ECL)	*61%*	*11%*	*15%*	*19%*
Coverage – total	*0.09%*	*4.66%*	*1.59%*	*0.62%*
Coverage – total ex MAs	*0.02%*	*4.13%*	*0.93%*	*0.45%*

(1) The impact of rounding means that the combination of the probability weighted total and IA provision may not fully align to the portfolio sections.

The Group assesses and reviews the need for and quantification of MAs on a quarterly basis, with the CFO recommending the level of MAs to the Board Audit Committee twice a year at each external reporting period. The Model Risk Oversight and Group Credit Oversight teams review the methodology supporting material MAs and present their findings to the Board Audit Committee.

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

Macroeconomic assumptions

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

31 March 2023

Scenario	VMUK weighting	Economic measure (2)	2023 %	2024 %	2025 %	2026 %	2027 %
Upside	10%	Base rate	**4.7**	**5.2**	**4.4**	**2.8**	**2.3**
		Unemployment	**4.1**	**4.0**	**3.8**	**3.7**	**3.6**
		GDP	**1.3**	**3.5**	**3.3**	**2.7**	**1.5**
		Inflation	**7.0**	**3.7**	**1.3**	**0.8**	**1.8**
		HPI	**(5.4)**	**(1.6)**	**4.1**	**6.6**	**5.9**
Base	60%	Base rate	**4.1**	**3.7**	**2.7**	**1.9**	**1.7**
		Unemployment	**4.2**	**4.3**	**4.0**	**3.8**	**3.7**
		GDP	**(0.4)**	**1.5**	**2.5**	**2.3**	**1.5**
		Inflation	**6.6**	**2.3**	**0.9**	**0.9**	**1.9**
		HPI	**(8.1)**	**(3.8)**	**2.0**	**6.1**	**6.0**
Downside	30%	Base rate	**3.6**	**2.8**	**1.6**	**0.6**	**0.5**
		Unemployment	**4.9**	**6.4**	**7.2**	**7.2**	**7.0**
		GDP	**(4.2)**	**(2.2)**	**1.6**	**1.9**	**1.7**
		Inflation	**5.5**	**(0.4)**	**0.4**	**1.0**	**1.8**
		HPI	**(15.1)**	**(11.5)**	**(6.0)**	**4.2**	**6.7**
Weighted average		Base rate	**4.1**	**3.6**	**2.6**	**1.6**	**1.4**
		Unemployment	**4.4**	**4.9**	**4.9**	**4.8**	**4.7**
		GDP	**(1.4)**	**0.6**	**2.3**	**2.2**	**1.6**
		Inflation	**6.3**	**1.7**	**0.8**	**0.9**	**1.8**
		HPI	**(9.9)**	**(5.9)**	**(0.2)**	**5.6**	**6.2**

30 September 2022

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

(1) Macroeconomic assumptions provided by Oxford Economics on 28 February 2023 and reported on a calendar year basis unless otherwise stated. Any changes in macroeconomic assumptions between this date and 31 March 2023 have been considered as part of the MAs.

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

Financial risk

Financial risk

Financial risk covers several categories of risk which impact the way in which the Group can support its customers in a safe and sound manner. They include capital risk, funding risk, liquidity risk, market risk and pension risk. Market risk and pension risk show no significant changes in the period, with other financial risk developments detailed below.

Capital risk

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

Regulatory capital developments

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

Designation as an Other Systemically Important Institution

On 29 November 2022 the PRA formally designated VMUK PLC as an Other Systemically Important Institution (O-SII). This is not expected to have a material impact on the Group's capital framework, first laid out in May 2022.

IRB Model Changes

Following the BoE's announcements in 2020 regarding supervisory and prudential policy measures to address the challenges of COVID-19, the requirements relating to compliance with updates to definition of default and mortgage IRB models were extended. The Group did not adopt hybrid mortgage models in FY22 but submitted them for approval by the PRA in January 2023 and it is anticipated that new models will be implemented later in 2023.

Ahead of the Group's implementation of mortgage IRB models (including Hybrid PD), an MA has been applied to increase RWAs by £404m and expected losses by £9m in advance of formal approval of models. This impact is lower than the estimate given in the Group's 2022 Annual Report and Accounts following further development work during the period refining the estimate.

Basel 3.1

Following the publication of final reforms to the Basel III framework in December 2017, the PRA published CP16/22 at the end of November 2022, covering its consultation on the UK implementation of these reforms.

There are a number of key amendments to the standardised approaches to credit and operational risks together with the introduction of a new standardised RWA output floor, the latter of which will be introduced gradually over a five-year transition period. There are also amendments to IRB approaches, Credit Valuation Adjustments, Credit Risk Mitigation rules and associated reporting and disclosure requirements.

An initial estimation of the impact of these reforms on the Group indicates they will have no material day 1 impact on the capital position, with no constraint from the output floor expected until late in the transition period.

The PRA is due to consider feedback over the next few months with the final reforms expected to become effective on 1 January 2025.

Solvency Stress Test and ACS

The Group was a participant in the BoE SST for the first time in 2021 and will be an on-going participant in the BoE's Annual ACS.

The 2022 ACS was postponed to enable lenders to focus on managing the disruption in the financial markets driven by the uncertainty caused by the Russian invasion of Ukraine. Following the delay, the Group completed the 2022 ACS exercise in Q2 FY23. The scenario tests the resilience of the UK Banking system to deep simultaneous recessions in the UK and global economies, real income shocks, large falls in asset prices and higher global interest rates, as well as a separate stress of conduct costs. The results will be published in July 2023.

Capital resources

The Group's capital resources position as at 31 March 2023 is summarised below:

Regulatory capital[1]	31 Mar 2023 £m	30 Sep 2022 £m
Statutory total equity	**5,630**	6,340
CET1 capital: Regulatory adjustments[2]		
Unconsolidated losses arising from joint venture	**(6)**	-
Other equity instruments	**(594)**	(666)
Defined benefit pension fund assets	**(396)**	(650)
Prudent valuation adjustment	**(6)**	(5)
Intangible assets	**(230)**	(256)
Goodwill	**(11)**	(11)
Deferred tax asset relying on future profitability	**(290)**	(302)
Cash flow hedge reserve	**(381)**	(699)
AT1 coupon accrual	**(12)**	(13)
Foreseeable dividend on ordinary shares	**(45)**	(106)
Excess expected losses	**(122)**	(100)
Share buyback	**-**	(13)
IFRS 9 transitional adjustments	**90**	114
Total regulatory adjustments to CET1	**(2,003)**	(2,707)
Total CET1 capital	**3,627**	3,633
AT1 capital		
AT1 capital instruments	**594**	666
Total AT1 capital	**594**	666
Total Tier 1 capital	**4,221**	4,299
Tier 2 capital		
Subordinated debt	**1,021**	1,020
Total Tier 2 capital	**1,021**	1,020
Total regulatory capital	**5,242**	5,319

(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.

Capital resources (continued)

Regulatory capital flow of funds[1]	**6 months to 31 Mar 2023 £m**	12 months to 30 Sep 2022 £m
CET1 capital[2]		
CET1 capital at 1 October	**3,633**	3,616
Share issuance	**3**	2
Share buyback	**(50)**	(76)
Unconsolidated losses arising from joint venture	**(6)**	-
Retained earnings and other reserves (including special purpose entities)	**(154)**	502
Prudent valuation adjustment	**(1)**	–
Amendment to software asset deduction rules[3]	**-**	(151)
Intangible assets	**26**	103
Deferred tax asset relying on future profitability	**12**	(44)
Defined benefit pension fund assets	**254**	(99)
Movement in AT1 foreseeable distribution	**1**	6
Foreseeable dividend on ordinary shares	**(45)**	(106)
Excess expected losses	**(22)**	(100)
IFRS 9 transitional adjustments	**(24)**	(20)
Total CET1 capital at 31 March	**3,627**	3,633
AT1 capital		
AT1 capital at 1 October	**666**	697
AT1 instrument issued net of costs	**-**	346
AT1 instrument repurchased	**(72)**	(377)
Total AT1 capital at 31 March	**594**	666
Total Tier 1 capital at 31 March	**4,221**	4,299
Tier 2 capital		
Tier 2 capital at 1 October	**1,020**	1,019
Amortisation of issue costs	**1**	1
Tier 2 capital at 31 March	**1,021**	1,020
Total capital at 31 March	**5,242**	5,319

(1) Data in the table is reported under CRD IV as implemented by the PRA on a fully loaded basis with IFRS 9 transitional arrangements applied.
(2) CET1 capital is comprised of shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.
(3) The full deduction treatment for software assets was reinstated by the PRA in January 2022.

The Group's CET1 capital showed a small reduction of £6m during the period. The Group reported a profit after tax of £180m in the period. The capital benefits of the profit in the period were more than fully offset, with the material items including: a second share buyback programme of £50m which was announced and completed in the period; a deduction of £45m for foreseeable dividends in respect of these interim results; and further reductions arising due to an increase in excess expected losses of £22m and the tapering down effect of IFRS 9 transitional relief of £24m.

In December 2022, the Group redeemed £72m of AT1 securities (note 4.1.2).

Risk weighted assets

Minimum capital requirements	31 March 2023 Exposure £m	RWA £m	Minimum capital requirement £m	30 September 2022 Exposure £m	RWA £m	Minimum capital requirement £m
Retail mortgages	**60,793**	**9,359**	**749**	62,545	9,155	732
Business lending	**12,305**	**6,579**	**526**	11,959	6,196	497
Other retail lending	**17,342**	**4,721**	**377**	17,408	4,817	385
Other lending	**19,022**	**315**	**25**	18,165	277	22
Other[1]	**626**	**725**	**58**	584	637	51
Total credit risk RWA	**110,088**	**21,699**	**1,735**	110,661	21,082	1,687
Credit valuation adjustment		**183**	**15**		258	21
Operational risk		**2,623**	**210**		2,623	210
Counterparty credit risk		**198**	**16**		185	15
Total RWA	**110,088**	**24,703**	**1,976**	110,661	24,148	1,933

(1) 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.

RWA movements

RWA movements	6 months to 31 March 2023 IRB RWA £m	STD RWA £m	Non-credit risk[2] RWA £m	Total £m	Minimum capital required £m	6 months to 30 September 2022 IRB RWA £m	STD RWA £m	Non-credit risk[2] RWA £m	Total £m	Minimum capital required £m
Opening RWA	**14,943**	**6,139**	**3,066**	**24,148**	**1,933**	15,648	5,885	2,651	24,184	1,935
Asset size	**33**	**(80)**	**-**	**(47)**	**(4)**	325	258	-	583	47
Asset quality	**157**	**22**	**-**	**179**	**14**	(497)	21	-	(476)	(38)
Model updates[1]	**395**	**-**	**-**	**395**	**31**	(533)	-	-	(533)	(42)
Other	**-**	**90**	**(62)**	**28**	**2**	-	(25)	415	390	31
Closing RWA	**15,528**	**6,171**	**3,004**	**24,703**	**1,976**	14,943	6,139	3,066	24,148	1,933

(1) Model updates include MAs in the current and prior period, and mortgage quarterly PD calibrations in the prior period.

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

RWA increased c.£0.6bn to £24.7bn primarily due to the introduction of the £0.4bn MA in advance of the introduction of Hybrid IRB models.

Further RWA increases have arisen following a decrease in HPI leading to higher LGD, as well as the impact of higher risk weights associated with new business lending.

IFRS 9 transitional arrangements

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

	31 March 2023 (£m)	
Available capital (amounts)	**IFRS 9 Transitional basis**	**IFRS 9 Fully loaded basis**
CET1 capital	**3,627**	**3,537**
Tier 1 capital	**4,221**	**4,131**
Total capital	**5,242**	**5,152**
RWA (amounts)		
Total RWA	**24,703**	**24,632**
Capital ratios		
CET1 (as a percentage of risk exposure amount)	**14.7%**	**14.4%**
Tier 1 (as a percentage of risk exposure amount)	**17.1%**	**16.8%**
Total capital (as a percentage of risk exposure amount)	**21.2%**	**20.9%**
Leverage ratio		
Leverage ratio total exposure measure	**84,472**	**84,382**
UK leverage ratio	**5.0%**	**4.9%**

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

At 31 March 2023, £90m of IFRS 9 transitional adjustments (30 September 2022: £114m) have been applied to the Group's capital position in accordance with CRR: £3m of static and £87m of dynamic adjustments (30 September 2022: £7m static and £107m dynamic).

Capital requirements

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

	As at 31 March 2023	
Minimum requirements	**CET1**	**Total capital**
Pillar 1[(1)]	4.5%	8.0%
Pillar 2A	1.7%	3.0%
Total capital requirement	**6.2%**	**11.0%**
Capital conservation buffer	2.5%	2.5%
UK countercyclical capital buffer	1.0%	1.0%
Total (excluding PRA buffer)[(2)]	**9.7%**	**14.5%**

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

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

The Group continues to maintain a significant surplus above its capital requirements. At 31 March 2023 the Group maintained CET1 capital in excess of its maximum distributable amount requirements equal to 5.0% of RWAs (equivalent to £1,238m).

The PRA sets a Group specific Pillar 2A requirement for risks which are not captured within the Pillar 1 requirement. Together Pillar 1 and Pillar 2A represent the Group's Total Capital Requirement (TCR), which is the minimum requirement which must be met at all times.

In October 2022 the PRA communicated an update to the Group's Pillar 2A requirement setting it as 2.97% of RWAs, of which 1.67% must be met with CET1 capital (30 September 2022: £744m, of which £419m had to be met with CET1 capital). In line with previous guidance this requirement has been set as a percentage of RWAs, rather than the fixed nominal Pillar 2A requirements set during 2020 and 2021 in response to COVID-19. Applying this updated requirement in March 2023 resulted in a modest reduction in total capital requirements of £11m and CET1 requirements of £7m. At 31 March 2023 this resulted in a TCR of 11.0% of RWAs (equivalent to £2,710m) of which 6.2% must be met with CET1 capital (equivalent to £1,524m).

Capital requirements (continued)

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

The Group's CCyB reflects an exposure weighted average of the CCyB rates applicable in the geographies in which the Group operates. Currently this reflects only the UK. The FPC increased the UK CCyB rate to 1% from December 2022, and this will rise to 2% from July 2023 to align with its guidance for the CCyB rate under standard risk conditions. This was anticipated by the Group and fully factored in to the 13-13.5% medium term CET1 range. The FPC has noted the considerable uncertainties in relation to the economic outlook and will continue to monitor the situation and stands ready to vary the UK CCyB rate – in either direction – in line with the evolution of economic conditions, underlying vulnerabilities and the overall risk environment.

In 2022, the Group has been designated as an O-SII, but is not currently required to hold a related capital buffer.

Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements. At 31 March 2023, the Company had accumulated distributable reserves of £1,045m (30 September 2022: £1,056m).

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

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

	As at	
	31 Mar 2023 £m	30 Sep 2022 £m
Total capital resources(1)(2)	**5,242**	5,319
Eligible senior unsecured securities issued by Virgin Money UK PLC(2)	**2,420**	2,423
Total MREL resources	**7,662**	7,742
Risk-weighted assets	**24,703**	24,148
Total MREL resources available as a percentage of risk-weighted assets	**31.0%**	32.1%
UK leverage exposure measure	**84,472**	83,771
Total MREL resources available as a percentage of UK leverage exposure measure	**9.1%**	9.2%

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

(2) Includes MREL instrument maturity adjustments, the add-back of regulatory amortisation and the deduction of instruments with less than 1 year to maturity. From September 2022, unamortised costs are also deducted.

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

As at 31 March 2023, the Group's Leverage based LAC requirement of 7.5% of Leverage Exposures (or 25.6% when expressed as a percentage of RWAs) was greater than the RWA based LAC requirement of 25.4% of RWAs, meaning the Leverage measure is the binding requirement.

MREL resources were £7.7bn (30 September 2022: £7.7bn) equivalent to 9.1% of Leverage Exposures (30 September 2022: 9.2%) or 31.0% when expressed as a percentage of RWAs (30 September 2022: 32.1%). This provides prudent headroom of £1.3bn or 1.6% above the LAC requirement of 7.5% of Leverage Exposures, or 5.4% above the LAC requirement of 25.6% when expressed as a percentage of RWAs.

Dividend

The Board has recommended an interim dividend for the financial year ending 30 September 2023 of 3.3p per share. The interim dividend represents one-third of last year's total dividends and the Group will continue to target a 30% full year dividend payout ratio in scaling any full year final dividend. Dividends will be supplemented by buybacks, subject to ongoing assessment of surplus capital, market conditions and regulatory approval.

Share buyback

At the end of June 2022, the Group announced a share buyback programme with an initial repurchase of £75m in aggregate between ordinary shares of £0.10 each listed on the London Stock Exchange and CHESS Depository Interests (CDIs), each representing one share listed on the Australian Securities Exchange. On 21 November 2022 an extension to the share buyback programme was announced with an intent to repurchase a further £50m in aggregate of shares and CDIs. The Group completed the initial share buyback in December 2022 with the extension completed in March 2023; the repurchase of shares and CDIs across the programme was achieved in materially equal proportions.

Further details are disclosed in note 4.1.1.

Leverage

Leverage ratio	31 Mar 2023 £m	30 Sep 2022 £m
Total Tier 1 capital for the leverage ratio		
Total CET1 capital	**3,627**	3,633
AT1 capital	**594**	666
Total Tier 1 capital	**4,221**	4,299
Exposures for the leverage ratio		
Total assets	**92,496**	91,907
Adjustment for off-balance sheet items	**3,054**	3,204
Adjustment for derivative financial instruments(3)	**624**	522
Adjustment for securities financing transactions	**2,597**	2,974
Adjustment for qualifying central bank claims	**(12,062)**	(11,955)
Regulatory deductions and other adjustments(3)	**(2,237)**	(2,881)
UK leverage ratio exposure(1)	**84,472**	83,771
UK leverage ratio(1)	**5.0%**	5.1%
Average UK leverage ratio exposure(2)	**85,056**	83,985
Average UK leverage ratio(2)	**4.8%**	5.0%

(1) The UK leverage ratio and exposure measure are calculated after applying the IFRS 9 transitional arrangements of the CRR.
(2) The average leverage exposure measure is based on the daily average of on-balance sheet items and month-end average of off-balance sheet and capital items over the quarter (1 January 2023 to 31 March 2023).
(3) The comparative figures include a reclassification between adjustment for derivative financial instruments and regulatory deductions and other adjustments in relation to the cash variation margin.

The leverage ratio is monitored against a Board-approved Risk Appetite Statement, with the responsibility for managing the ratio delegated to ALCO, which monitors it on a monthly basis.

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

- capital: Tier 1 capital defined on an IFRS 9 transitional basis; and
- exposures: total on- and off-balance sheet exposures (subject to credit conversion factors) as defined in the delegated act amending CRR article 429 (Calculation of the Leverage Ratio), which includes deductions applied to Tier 1 capital.

Other regulatory adjustments consist of adjustments that are required under 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 UK leverage ratio of 5.0% (30 September 2022: 5.1%) exceeds the UK minimum ratio of 3.25%.

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 ensures future balance sheet growth is sustainable.

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

Sources of funding

The table below provides an overview of the Group's sources of funding as at 31 March 2023:

	31 Mar 2023 £m	30 Sep 2022 £m
Total assets	**92,496**	91,907
Less: Other liabilities[1]	**(2,741)**	(3,122)
Funding requirement	**89,755**	88,785
Funded by:		
Customer deposits	**67,229**	65,434
Debt securities in issue	**8,780**	8,509
Due to other banks	**8,116**	8,502
of which:		
Secured loans	**7,067**	7,230
Securities sold under agreements to repurchase	**1,006**	1,205
Transaction balances with other banks	**7**	17
Deposits with other banks	**36**	50
Equity	**5,630**	6,340
Total funding	**89,755**	88,785

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

The Group's funding objective is to prudently manage the sources and tenor of funds in order to provide a sound base from which to support sustainable lending growth. At 31 March 2023, the Group had a funding requirement of £89,755m (30 September 2022: £88,785m) with the majority being used to support loans and advances to customers. The Group measures the sustainability and stability of funding through the NSFR. The Group has sufficient stable funding to meet NSFR regulatory requirements and internal risk appetite.

Customer deposits

The majority of the Group's funding requirement was met by customer deposits of £67,229m (30 September 2022: £65,434m), of which around three quarters are insured through FSCS. Customer deposits comprise interest-bearing deposits, term deposits and non-interest-bearing demand deposits from a range of sources including Personal and Business customers. Throughout the period, strong deposit growth has been used to manage customer lending volumes, increase liquidity and reduced the proportion of wholesale funding.

Equity

Equity of £5,630m (30 September 2022: £6,340m) was also used to meet the Group's funding requirement. Equity comprises ordinary share capital, retained earnings, other equity investments and a number of other reserves. For full details on equity refer to note 4.1 within the interim 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.

Liquidity coverage ratio	31 Mar 2023 £m	30 Sep 2022 £m
Eligible liquidity buffer	**14,252**	13,139
Net stress outflows	**9,288**	9,537
Surplus	**4,964**	3,602
Liquidity coverage ratio	**153%**	138%

In response to recent market volatility, the Group has increased liquidity levels. This has provided additional headroom to both internal and regulatory requirements, with the LCR increasing by 15 percentage points compared to FY22. The liquid asset portfolio provides a buffer against sudden and potentially sharp outflows of funds. Liquid assets must therefore be high-quality so they can be realised for cash and cannot be encumbered for any other purpose (e.g. to provide collateral for payments systems).

The volume and quality of the Group's liquid asset portfolio is defined through a series of internal stress tests across a range of time horizons and stress conditions. The Group's c.£14bn prime liquid asset portfolio is primarily comprised of cash at the BoE (c.70%), UK Government securities (Gilts) (c.10%) and AAA rated listed securities (e.g. bonds issued by supra-nationals and corporate covered bonds) (c.20%).

The liquid asset portfolio is marked to market and fully hedged from an interest rate, inflation and FX risk perspective. All fair value movements are therefore recognised in CET1 via the Income Statement (market risk) or FVOCI reserve (credit risk). The IRRBB stress tested framework includes limits to manage the stressed credit spread risk arising from hedging the fixed rate securities in the Group's liquid asset portfolio. This ensures the composition of total portfolio is controlled and the exposure will not exceed internal appetite or the amount of capital allocated.

Liquid asset portfolio(1)	31 Mar 2023 £m	30 Sep 2022 £m	Change %	Average at 31 Mar 2023 £m	Average at 30 Sep 2022 £m
Level 1					
Cash and balances with central banks	**9,996**	9,795	2.1	**8,577**	7,632
UK Government treasury bills and gilts	**1,442**	512	181.6	**999**	905
Other debt securities	**2,609**	2,827	(7.7)	**2,813**	2,993
Total level 1	**14,047**	13,134	7.0	**12,389**	11,530
Level 2(2)	**343**	117	193.2	**145**	32
Total LCR eligible assets	**14,390**	13,251	8.6	**12,534**	11,562

(1) Excludes encumbered assets.
(2) Includes Level 2A and Level 2B.

The NSFR was implemented by the PRA on 1 January 2022 based on Basel standards. The ratio as at 31 March 2023 is 136% (30 September 2022: 136%) comfortably in excess of the binding minimum requirement of 100%.

Analysis of debt securities in issue by residual maturity

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

	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total at 31 Mar 2023 £m	Total at 30 Sep 2022 £m
Covered bonds	**6**	**634**	**2,886**	**-**	**3,526**	3,467
Securitisation	**34**	**463**	**1,047**	**-**	**1,544**	1,880
Medium-term notes	**442**	**17**	**2,297**	**-**	**2,756**	2,249
Subordinated debt	**13**	**250**	**691**	**-**	**954**	913
Total debt securities in issue	**495**	**1,364**	**6,921**	**-**	**8,780**	8,509
Of which issued by Virgin Money UK PLC	**455**	**267**	**2,988**	**-**	**3,710**	3,162

External credit ratings

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

	Outlook as at	As at	
	31 Mar 2023(1)	**31 Mar 2023**	30 Sep 2022
Virgin Money UK PLC			
Moody's	**Stable**	**Baa1**	Baa1
Fitch	**Stable**	**BBB+**	BBB+
Standard & Poor's	**Stable**	**BBB-**	BBB-
Clydesdale Bank PLC			
Moody's(2)	**Stable**	**A3**	A3
Fitch	**Stable**	**A-**	A-
Standard & Poor's	**Stable**	**A-**	A-

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

In November 2022, Standard & Poor's affirmed Virgin Money UK PLC's and Clydesdale Bank PLC's ratings with a stable outlook, reflecting their view that the bank will maintain sound capital and earnings and strong asset quality metrics in line with the broader economic environment and peers, even as the UK macroeconomic environment deteriorates.

Net interest income

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

12 months NII sensitivity	**31 Mar 2023 £m**	30 Sep 2022 £m
+25 basis point parallel shift	**10**	18
+100 basis point parallel shift	**41**	66
-25 basis point parallel shift	**7**	5

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

- the sensitivities are calculated based on a static balance sheet and it is assumed there is no change to margins on reinvestment of maturing fixed rate products;
- there are no changes to basis spreads with the rate change passed on in full to all interest rate bases;
- administered rate products receive a full rate pass on in the rate fall scenario, subject to internal product floor assumptions. In the rate rise scenario administered products receive a rate pass on in line with internal scenario specific pass on assumptions;
- additional commercial pricing responses and management actions are not included; and
- while in practice hedging strategy would be reviewed in light of changing market conditions, the sensitivities assume no changes over the 12-month period.

LIBOR replacement

As of 31 March 2023, 1- and 6-month GBP synthetic LIBOR ceased to exist. During April 2023, the remaining c70 VM Business 1-month GBP loans were transitioned to BoE Base Rate to coincide with their next interest rate roll period. There are no 6-month loans.

10 loans on 3-month GBP LIBOR remain on the balance sheet, equating to £1.2m. Throughout 2023 all loans are expected to have transitioned to an alternative reference rate or repaid ahead of the March 2024 cessation date.

The USD LIBOR transition is well underway for the small business loan book, with the expectation there will be no need to use USD synthetic LIBOR from 1 July 2023.

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

Amounts yet to be transitioned

31 March 2023	**Non derivative financial assets - carrying value[1]** **£m**	**Non derivative financial liabilities - carrying value** **£m**	**Derivatives - nominal amount[2]** **£m**
GBP LIBOR	**9**	**-**	**46**
Other[3]	**187**	**-**	**-**
Total	**196**	**-**	**46**

30 September 2022	Non derivative financial assets - carrying value[1] £m	Non derivative financial liabilities - carrying value £m	Derivatives - nominal amount[2] £m
GBP LIBOR	94	-	67
Other[3]	164	-	-
Total	258	-	67

(1) Gross carrying amount excluding allowances for ECL.
(2) The IBOR exposures for derivative nominal amounts include undrawn loan commitments shown as GBP LIBOR. This is materially the case although some facilities allow drawdowns in a number of different currencies.
(3) Comprises financial instruments referencing other IBOR rates yet to transition to alternative benchmark rates (Euro, USD).

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge these interim condensed consolidated financial statements have been prepared in accordance with UK adopted International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) and that the interim management report includes a fair review of the information required by Disclosure Guidance and Transparency Rules (DTR) 4.2.7R and DTR 4.2.8R, namely:

a) an indication of important events that have occurred during the six months ended 31 March 2023 and their impact on the condensed consolidated interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

b) material related party transactions in the six months ended 31 March 2023 and any material changes in the related party transactions described in the last Annual Report of Virgin Money UK PLC.

Signed by order of the Board

David Duffy
Chief Executive Officer
3 May 2023

Independent review report to Virgin Money UK PLC

Conclusion

We have been engaged by Virgin Money UK PLC (the Company) to review the condensed set of financial statements in the interim financial report for the six months ended 31 March 2023 which comprises the Interim condensed consolidated income statement, Interim condensed consolidated statement of comprehensive income, Interim condensed consolidated balance sheet, Interim condensed consolidated statement of changes in equity, Interim condensed consolidated statement of cash flows and the related explanatory notes 1.1 to 5.3. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 31 March 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE) issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the Company together with its subsidiary undertakings (which together comprise the Group) are prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this interim financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the Directors

The Directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the interim financial report, the directors are responsible for assessing the 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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the interim financial report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the interim financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP

Ernst & Young LLP
London
3 May 2023

Interim condensed consolidated income statement

	Note	**6 months to 31 Mar 2023 (unaudited) £m**	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2022 (audited) £m
Interest income		**1,708**	1,013	2,215
Other similar interest		**2**	1	2
Interest expense and similar charges		**(858)**	(237)	(641)
Net interest income	2.2	**852**	777	1,576
Gains less losses on financial instruments at fair value		**(14)**	(5)	(17)
Other operating income		**76**	72	157
Non-interest income	2.3	**62**	67	140
Total operating income		**914**	844	1,716
Operating and administrative expenses before impairment losses	2.4	**(534)**	(508)	(1,069)
Operating profit before impairment losses		**380**	336	647
Impairment losses on credit exposures		**(144)**	(21)	(52)
Profit on ordinary activities before tax		**236**	315	595
Tax expense	2.5	**(56)**	(77)	(58)
Profit for the period		**180**	238	537
Attributable to:				
Ordinary shareholders		**152**	198	467
Other equity holders		**28**	40	70
Profit for the period		**180**	238	537
Basic earnings per share (pence)	2.6	**11.0**	13.7	32.4
Diluted earnings per share (pence)	2.6	**10.9**	13.7	32.3

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

The notes on pages 66 to 85 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of comprehensive income

	Note	**6 months to 31 Mar 2023 (unaudited) £m**	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2022 (audited) £m
Profit for the period		**180**	238	537
Items that may be reclassified to the income statement				
Change in cash flow hedge reserve				
(Losses)/gains during the period	4.1.5	**(430)**	73	962
Transfers to the income statement	4.1.5	**(9)**	(5)	(13)
Taxation thereon - deferred tax credit/(charge)	4.1.5	**121**	(17)	(260)
Taxation thereon - current tax charge		**-**	(1)	-
		(318)	50	689
Change in FVOCI reserve				
(Losses)/gains during the period		**(48)**	9	15
Transfers to the income statement		**(1)**	-	(4)
Taxation thereon - deferred tax credit/(charge)		**14**	(1)	(1)
		(35)	8	10
Total items that may be reclassified to the income statement		**(353)**	58	699
Items that will not be reclassified to the income statement				
Change in defined benefit pension plan		**(421)**	126	122
Taxation thereon - deferred tax credit/(charge)		**144**	(49)	(50)
Taxation thereon - current tax credit		**2**	4	6
Total items that will not be reclassified to the income statement		**(275)**	81	78
Other comprehensive (losses)/income, net of tax		**(628)**	139	777
Total comprehensive (losses)/income for the period, net of tax		**(448)**	377	1,314
Attributable to:				
Ordinary shareholders		**(476)**	337	1,244
Other equity holders		**28**	40	70
Total comprehensive (losses)/income attributable to equity holders		**(448)**	377	1,314

The notes on pages 66 to 85 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated balance sheet

	Note	31 Mar 2023 (unaudited) £m	30 Sep 2022 (audited) £m
Assets			
Financial assets at amortised cost			
Loans and advances to customers	3.1	**71,879**	71,751
Cash and balances with central banks		**12,328**	12,221
Due from other banks		**583**	656
Financial assets at FVTPL			
Loans and advances to customers	3.2	**68**	70
Derivative financial instruments	3.3	**201**	342
Other financial assets	3.2	**8**	8
Financial assets at FVOCI		**5,869**	5,064
Property, plant and equipment		**218**	211
Intangible assets and goodwill		**241**	267
Deferred tax assets	2.5	**262**	146
Defined benefit pension assets	3.7	**610**	1,000
Other assets		**229**	171
Total assets		**92,496**	91,907
Liabilities			
Financial liabilities at amortised cost			
Customer deposits		**67,229**	65,434
Debt securities in issue	3.4	**8,780**	8,509
Due to other banks	3.5	**8,116**	8,502
Financial liabilities at FVTPL			
Derivative financial instruments	3.3	**255**	327
Current tax liabilities		**3**	1
Deferred tax liabilities	2.5	**214**	350
Provisions for liabilities and charges	3.6	**59**	50
Other liabilities		**2,210**	2,394
Total liabilities		**86,866**	85,567
Equity			
Share capital and share premium	4.1	**146**	148
Other equity instruments	4.1	**594**	666
Capital reorganisation reserve	4.1	**(839)**	(839)
Merger reserve	4.1	**2,128**	2,128
Other reserves		**414**	766
Retained earnings		**3,187**	3,471
Total equity		**5,630**	6,340
Total liabilities and equity		**92,496**	91,907

The notes on pages 66 to 85 form an integral part of these interim condensed consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Board of Directors on 3 May 2023 and were signed on its behalf by:

David Duffy
Chief Executive Officer

Clifford Abrahams
Chief Financial Officer

Company name: Virgin Money UK PLC, Company number: 09595911

Interim condensed consolidated statement of changes in equity

	Share capital and share premium	Capital reorg' reserve	Merger reserve	Other equity instruments	Other reserves: Capital redemption reserve	Other reserves: Deferred shares reserve	Other reserves: Equity based comp' reserve	Other reserves: FVOCI reserve	Other reserves: Cash flow hedge reserve	Retained earnings	Total equity
Note	4.1.1	4.1.3	4.1.4	4.1.2					4.1.5		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 1 October 2021(1)	149	(839)	2,128	915	-	14	14	33	10	3,049	5,473
Profit for the period	-	-	-	-	-	-	-	-	-	238	238
Other comprehensive income net of tax	-	-	-	-	-	-	-	8	50	81	139
Total comprehensive income for the period	-	-	-	-	-	-	-	8	50	319	377
AT1 distributions paid	-	-	-	-	-	-	-	-	-	(40)	(40)
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-		-	(14)	(14)
Ordinary shares issued	3	-	-	-	-	-	-	-	-	-	3
Transfer from equity based compensation reserve	-	-	-	-	-	-	(9)	-	-	9	-
Equity based compensation expensed	-	-	-	-	-	-	3	-	-	-	3
Settlement of Virgin Money Holdings (UK) PLC share awards	-	-	-	-	-	(4)	-	-	-	-	(4)
AT1 redemption	-	-	-	(218)	-	-	-	-	-	(12)	(230)
As at 31 March 2022(1)	152	(839)	2,128	697	-	10	8	41	60	3,311	5,568
Profit for the period	-	-	-	-	-	-	-	-	-	299	299
Other comprehensive income/(losses) net of tax	-	-	-	-	-	-	-	2	639	(3)	638
Total comprehensive income for the period	-	-	-	-	-	-	-	2	639	296	937
AT1 distributions paid	-	-	-	-	-	-	-	-	-	(30)	(30)
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-		-	(36)	(36)
Ordinary shares issued	(1)	-	-	-	-	-	-	-	-	-	(1)
Share buyback	(3)	-	-	-	3	-	-	-	-	(63)	(63)
Equity based compensation expensed	-	-	-	-	-	-	2	-	-	-	2
Settlement of Virgin Money Holding (UK) PLC share awards	-	-	-	-	-	1	-	-	-	1	2
AT1 issuance	-	-	-	346	-	-	-	-	-	-	346
AT1 redemption	-	-	-	(377)	-	-	-	-	-	(8)	(385)
As at 30 September 2022(1)	148	(839)	2,128	666	3	11	10	43	699	3,471	6,340
Profit for the period	-	-	-	-	-	-	-	-	-	180	180
Other comprehensive losses net of tax	-	-	-	-	-	-	-	(35)	(318)	(275)	(628)
Total comprehensive losses for the period	-	-	-	-	-	-	-	(35)	(318)	(95)	(448)
AT1 distributions paid	-	-	-	-	-	-	-	-	-	(28)	(28)
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-	-	-	(103)	(103)
Ordinary shares issued	3	-	-	-	-	-	-	-	-	-	3
Share buyback	(5)	-	-	-	5	-	-	-	-	(63)	(63)
Transfer from equity based compensation reserve	-	-	-	-	-	-	(4)	-	-	4	-
Equity based compensation expensed	-	-	-	-	-	-	5	-	-	-	5
Settlement of Virgin Money Holdings (UK) PLC share awards	-	-	-	-	-	(5)	-	-	-	1	(4)
AT1 redemption	-	-	-	(72)	-	-	-	-	-	-	(72)
As at 31 March 2023(1)	**146**	**(839)**	**2,128**	**594**	**8**	**6**	**11**	**8**	**381**	**3,187**	**5,630**

(1) The balances as at 1 October 2021 and 30 September 2022 have been audited; the movements in the individual six month periods to 31 March 2022 and 31 March 2023 are unaudited.

The notes on pages 66 to 85 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows

	Note	**6 months to 31 Mar 2023 (unaudited) £m**	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2022 (audited) £m
Operating activities				
Profit on ordinary activities before tax		**236**	315	595
Adjustments for:				
Non-cash or non-operating items included in profit before tax		**(662)**	(673)	(1,326)
Changes in operating assets		**(582)**	469	1,212
Changes in operating liabilities		**1,149**	(2,146)	(238)
Payments for short-term and low value leases		**-**	-	(2)
Interest received		**1,457**	988	2,112
Interest paid		**(383)**	(163)	(378)
Tax paid		**(21)**	(15)	(59)
Net cash provided by/(used in) operating activities		**1,194**	(1,225)	1,916
Cash flows from investing activities				
Interest received		**105**	26	47
Proceeds from maturity of financial assets at FVOCI		**939**	436	479
Proceeds from sale of financial assets at FVOCI		**32**	60	194
Purchase of financial assets at FVOCI		**(1,602)**	(712)	(2,019)
Purchase of shares issued by UTM		**-**	(4)	(4)
Proceeds from sale of property, plant and equipment		**1**	-	1
Purchase of property, plant and equipment		**(3)**	(6)	(13)
Purchase and development of intangible assets		**(6)**	(33)	(53)
Net cash used in investing activities		**(534)**	(233)	(1,368)
Cash flows from financing activities				
Interest paid		**(277)**	(72)	(246)
Repayment of principal portions of lease liabilities	5.3	**(14)**	(13)	(26)
Redemption of AT1 securities		**(72)**	(230)	(614)
Proceeds from issuance of Additional Tier 1 securities		**-**	-	347
Redemption and principal repayment on RMBS and covered bonds	5.3	**(705)**	(216)	(1,264)
Issuance of RMBS and covered bonds	5.3	**400**	600	2,480
Issuance of medium-term notes/subordinated debt	5.3	**447**	-	-
Amounts drawn under the TFSME	5.3	**-**	2,550	2,550
Amounts repaid under the TFSME	5.3	**(200)**	-	-
Amounts repaid under the TFS	5.3	**-**	(1,244)	(1,244)
Purchase of own shares	4.1	**(75)**	(1)	(53)
AT1 distributions	4.1	**(28)**	(40)	(70)
Ordinary dividends paid	4.1	**(103)**	(14)	(50)
Net cash (used in)/provided by financing activities		**(627)**	1,320	1,810
Net increase/(decrease) in cash and cash equivalents		**33**	(138)	2,358
Cash and cash equivalents at the beginning of the period		**12,611**	10,253	10,253
Cash and cash equivalents at the end of the period		**12,644**	10,115	12,611

The notes on pages 66 to 85 form an integral part of these interim condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements

Section 1: Basis of preparation and accounting policies

Overview

These interim condensed consolidated financial statements for the six months ended 31 March 2023 have been prepared in accordance with UK adopted IAS 34. They have also been prepared in accordance with the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority. They do not include all the information required by IASs in full annual financial statements and should therefore be read in conjunction with the Group's 2022 Annual Report and Accounts which was prepared in accordance with UK adopted IASs. Copies of the 2022 Annual Report and Accounts are available from the Group's website at https://www.virginmoneyukplc.com/investor-relations/results-and-reporting/annual-reports/.

The UK Finance Code for Financial Reporting Disclosure ('the Disclosure Code') sets out disclosure principles together with supporting guidance in respect of the financial statements of UK banks. The Group has adopted the Disclosure Code and these interim condensed consolidated financial statements have been prepared in compliance with the Disclosure Code's principles. Terminology used in these interim condensed consolidated financial statements is consistent with that used in the Group's 2022 Annual Report and Accounts.

The information in these interim condensed consolidated financial statements is unaudited and does not constitute annual accounts within the meaning of Section 434 of the Companies Act 2006 ('the Act'). Statutory accounts for the year ended 30 September 2022 have been delivered to the Registrar of Companies and contained an unqualified audit report under Section 495 of the Act, which did not draw attention to any matters by way of emphasis and did not contain any statements under Section 498 of the Act.

1.1 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 business and financial review section of these interim condensed consolidated financial statements. This should be read in conjunction with the strategic report which can be found in the Group's 2022 Annual Report and Accounts. The Group's objectives, policies and processes for managing capital can be found in the risk management section of this report.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date the interim condensed consolidated financial statements are authorised for issue, and that the Group is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing these interim condensed consolidated financial statements. In reaching this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include potential impacts from top and emerging risks, stress scenarios, and the related impact on profitability, capital and liquidity.

1.2 Accounting policies

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those policies followed in the preparation of the Group's 2022 Annual Report and Accounts except for those policies highlighted below and in note 1.4. Comparatives are presented on a basis that conforms to the current presentation unless stated otherwise.

Investment property

IAS 40 *'Investment property'* allows an entity to select either the fair value model or the cost model for subsequent measurement of investment property. The Group has a historic policy of fair value measurement for investment property but has not held any on its balance sheet for several years prior to the current period.

During the period, the Group has classified £43m of lease right-of-use assets as investment property on initial recognition where there is surplus space which will be sub-let under an operating lease. The Group has also transferred freehold land and buildings with a value of £8m to investment property where there was a change in use. Investment property balances are included within other assets on the balance sheet.

From 1 October 2022 investment property will be recognised at cost, less accumulated depreciation and impairment. The holding of investment property is not a central element of the Group's overarching business model or strategy; it is an incidental consequence of surplus estate arising from changes in operational requirements. Considering the relative materiality and nature of investment property balances, the Group has determined that changing the accounting policy for investment property to align to the measurement basis for the Group's other property related assets under IFRS 16 '*Leases'* and IAS 16 '*Property, Plant and Equipment'* will provide greater relevance and consistency to users of the financial statements. This policy change has no impact on prior periods.

Section 1: Basis of preparation and accounting policies (continued)

1.3 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 amounts 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 best estimates can be reliably measured, actual amounts may differ from those estimated. There has been no change to the areas where the Group applies critical accounting estimates and judgements compared to those shown in the Group's 2022 Annual Report and Accounts.

An update on ECLs is provided within the credit risk section of the Risk report, and an update on the effective interest rate (EIR) is provided below. There have been no material changes to the main accounting estimates and judgements for EIR from the detail disclosed in note 2.2 of the Group's Annual Report and Accounts for the year ended 30 September 2022.

Mortgages

As at 31 March 2023, a total EIR adjustment of £210m (30 September 2022: £201m) has been recognised for mortgages. This represented 0.4% (30 September 2022: 0.3%) of the balance sheet carrying value of gross loans and advances to customers for mortgage lending. The net impact of the mortgage EIR adjustments on the income statement in the period represented 1.1% of gross customer interest income for mortgages (year to 30 September 2022: (0.7)%).

Sensitivity analysis

There are inter-dependencies between the assumptions which add to the complexity of the judgements the Group has to make. This means that no single factor is likely to move independently of others; the sensitivities disclosed below assume all other assumptions remain unchanged.

Sensitivity impact on the mortgage EIR adjustment	**31 Mar 2023 £m**	30 Sep 2022 £m
+/- 1 month change to the timing of customer repayments, redemptions and product transfers	**16/(13)**	16/(13)
50bps increase to the BoE base rate not passed through to the Group's SVR	**(46)**	(46)

Credit cards

As at 31 March 2023, a total EIR adjustment of £273m (30 September 2022: £285m) has been recognised for credit cards. This represented 5.1% (30 September 2022: 5.5%) of the balance sheet carrying value of gross loans and advances to customers for credit cards. The EIR asset reduced during the period resulting in a debit to the income statement which represented (6.2%) of gross customer interest income for credit cards (year to 30 September 2022: a credit representing 3.3% of gross customer interest income for credit cards).

At 31 March 2023, there continued to be impacts on customers as a result of inflationary pressures including high energy and utility costs and base rate rises. Consequently, the temporary adjustments applied at 30 September 2022 to the post promotional Interest-Bearing Balance (IBB) and balance attrition have been retained.

Sensitivity analysis

There are inter-dependencies between the key assumptions which add to the complexity of the judgements the Group has to make. This means that no single factor is likely to move independently of others, however, the sensitivities disclosed below assume all other assumptions remain unchanged.

Sensitivity impact on the credit card EIR adjustment	**31 Mar 2023 £m**	30 Sep 2022 £m
+/- 5 ppts change to post-promotional IBB assumption[(1)] (9.1% relative increase/decrease)	**35/(30)**	34/(28)
+/- 0.5 ppts change to post-promotional monthly balance attrition rate (33% relative increase/decrease)	**(21)/24**	(20)/23

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

Section 1: Basis of preparation and accounting policies (continued)

1.3 Critical accounting estimates and judgements (continued)

Model risk reserve (MRR)

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

1.4 Accounting developments

The Group adopted the following pronouncements from the International Accounting Standards Board (IASB) in the period, none of which have had a material impact:

- *Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use.* This was issued in May 2020 (applicable for accounting periods beginning on or after 1 January 2022) and received endorsement for use in the UK in April 2022. The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- *Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Cost of Fulfilling a Contract.* This was issued in May 2020 (applicable for accounting periods beginning on or after 1 January 2022) and received endorsement for use in the UK in April 2022. The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.
- *Amendments to IFRS 3 'Business Combinations'.* This was issued in May 2020 and received endorsement for use in the UK in April 2022. The amendments update IFRS 3 to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination and applies to those business combinations for which the acquisition date is on or after the start of the first annual reporting period beginning on or after 1 January 2022.
- *Annual Improvements 2018-2020*. This was issued in May 2020 (applicable for accounting periods beginning on or after 1 January 2022) and received endorsement for use in the UK in April 2022. The annual improvements package includes the following minor Amendments to i) *IFRS 1 'First-time Adoption of IFRS'* - Subsidiary as a First-time Adopter; ii) *IFRS 9 'Financial Instruments'* - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities; iii) *IFRS 16 'Leases'* - Lease Incentives; and iv) *IAS 41 'Agriculture'* - Taxation in Fair Value Measurements.

During the period, the Group also early adopted Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* which was issued by the IASB in February 2021 (applicable for accounting periods beginning on or after 1 January 2023 with early adoption permitted) and endorsed for use in the UK by the UK Endorsement Board (UKEB) in November 2022.

The amendments require entities to disclose their material accounting policy information rather than their significant accounting policies. As part of this, the IASB has amended IFRS Practice Statement 2 *Making Materiality Judgements* by adding guidance and examples of circumstances to help entities determine when accounting policy information is material and, therefore, needs to be disclosed.

The Group has assessed the requirements of the amendments and concluded that the disclosure of certain accounting policies included within the Annual Report and Accounts for the year ended 30 September 2022 will no longer be necessary.

As the Group does not disclose the accounting policies adopted in the preparation of these interim condensed consolidated financial statements, early adopting the amendment has no impact in the current period. Full details on the disclosure changes will be made in the Group's 2023 Annual Report and Accounts.

During the period, there have been no further pronouncements issued by the IASB that are considered relevant and material to the Group.

1.5 Presentation of risk disclosures

Certain disclosures outlined in IFRS 7 'Financial Instruments: Disclosure' concerning the nature and extent of risks relating to financial instruments have been included within the risk management section of this report.

Section 2: Results for the period

2.1 Segment information

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

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

	6 months to 31 Mar 2023 (unaudited) £m	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2022 (audited) £m
Net interest income	**852**	777	1,576
Non-interest income	**62**	67	140
Total operating income	**914**	844	1,716
Operating and administrative expenses	**(534)**	(508)	(1,069)
Impairment losses on credit exposures	**(144)**	(21)	(52)
Segment profit before tax	**236**	315	595
Average interest earning assets	**89,568**	85,729	86,275

2.2 Net interest income

	6 months to 31 Mar 2023 (unaudited) £m	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2022 (audited) £m
Interest income			
Loans and advances to customers	**1,436**	988	2,095
Loans and advances to other banks	**173**	12	70
Financial assets at FVOCI	**99**	13	50
Total interest income	**1,708**	1,013	2,215
Other similar interest			
Financial assets at FVTPL	**2**	3	5
Derivatives economically hedging interest bearing assets	**-**	(2)	(3)
Total other similar interest	**2**	1	2
Less: interest expense and similar charges			
Customer deposits	**(469)**	(134)	(342)
Debt securities in issue	**(230)**	(90)	(227)
Due to other banks	**(157)**	(12)	(70)
Other interest expense	**(2)**	(1)	(2)
Total interest expense and similar charges	**(858)**	(237)	(641)
Net interest income	**852**	777	1,576

Section 2: Results for the period (continued)

2.3 Non-interest income

	6 months to 31 Mar 2023 (unaudited) £m	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2022 (audited) £m
Gains less losses on financial instruments at fair value			
Held for trading derivatives	**(3)**	(7)	6
Financial assets at fair value[(1)]	**5**	(7)	(19)
Ineffectiveness arising from fair value hedges	**14**	18	46
Amounts recycled to profit and loss from cash flow hedges[(2)]	**(2)**	(2)	(4)
Ineffectiveness arising from cash flow hedges	**(28)**	(7)	(46)
	(14)	(5)	(17)
Other operating income			
Net fee and commission income	**66**	67	134
Margin on foreign exchange derivative brokerage	**9**	9	19
Gain on sale of financial assets at FVOCI	**1**	-	4
Share of joint venture (JV) loss after tax	**-**	(5)	(4)
Other income	**-**	1	4
	76	72	157
Total non-interest income	**62**	67	140

(1) Included within financial assets at fair value is a credit risk gain on loans and advances at fair value of £Nil (period ended 31 March 2022: £1m gain, year ended 30 September 2022: £1m gain) and a fair value gain on equity investments of £1m (period ended 31 March 2022: £Nil, year ended 30 September 2022: £2m gain).
(2) In respect of terminated hedges.

The Group's unrecognised share of losses of JVs for the period was £3m (period ended 31 March 2022: £1m, year ended 30 September 2022: £8m). For loss-making entities, subsequent profits earned are not recognised until previously unrecognised losses are extinguished. The Group's unrecognised share of losses net of unrecognised profits on a cumulative basis of JVs is £12m (period ended 31 March 2022: £2m, year ended 30 September 2022: £9m).

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

	6 months to 31 Mar 2023 (unaudited) £m	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2022 (audited) £m
Current account and debit card fees	**52**	49	102
Credit cards	**28**	23	52
Insurance, protection and investments	**4**	5	8
Other fees[(1)]	**8**	15	26
Total fee and commission income	**92**	92	188
Total fee and commission expense	**(26)**	(25)	(54)
Net fee and commission income	**66**	67	134

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

Section 2: Results for the period (continued)

2.4 Operating and administrative expenses before impairment losses

	6 months to 31 Mar 2023 (unaudited) £m	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2022 (audited) £m
Staff costs	**191**	213	435
Property and infrastructure	**34**	22	38
Technology and communications	**62**	59	119
Corporate and professional services	**109**	62	135
Depreciation, amortisation and impairment	**53**	71	179
Other expenses	**85**	81	163
Total operating and administrative expenses	**534**	508	1,069

Staff costs comprise the following items:

	6 months to 31 Mar 2023 (unaudited) £m	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2022 (audited) £m
Salaries and wages	**132**	136	254
Social security costs	**15**	14	30
Defined contribution pension expense	**27**	25	50
Defined benefit pension credit	**(24)**	(12)	(24)
Compensation costs	**150**	163	310
Equity based compensation(1)	**4**	2	4
Bonus awards	**8**	21	27
Performance costs	**12**	23	31
Redundancy and restructuring	**1**	7	3
Temporary staff costs	**12**	6	13
Other	**16**	14	78
Other staff costs	**29**	27	94
Total staff costs	**191**	213	435

(1) Includes National Insurance on equity based compensation.

Phase 2 of the ongoing Pension Increase Exchange (PIE) exercise completed in FY22, and the third and final phase is planned to be implemented in the second half of FY23. The defined benefit pension credit in the current period therefore includes no impact (period ended 31 March 2022: £8m credit, year ended 30 September 2022: £10m credit) arising from the PIE exercise. A PIE gives members the option to exchange future increases on their pensions for a one-off uplift to their current pension.

Section 2: Results for the period (continued)

2.5 Taxation

	6 months to 31 Mar 2023 (unaudited) £m	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2022 (audited) £m
Current tax			
Current period	**27**	39	81
Adjustment in respect of prior periods	**2**	8	4
	29	47	85
Deferred tax			
Current period	**30**	38	(21)
Adjustment in respect of prior periods	**(3)**	(8)	(6)
	27	30	(27)
Tax expense for the period	**56**	77	58

The tax assessed for the period differs from that arising from applying the standard rate of corporation tax in the UK of 22% (2022: 19%). 22% is the average standard rate for the full financial year, comprising 19% to 1 April 2023 then 25% to 30 September 2023. A reconciliation from the expense implied by the standard rate to the actual tax expense is as follows:

	6 months to 31 Mar 2023 (unaudited) £m	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2022 (audited) £m
Profit on ordinary activities before tax	**236**	315	595
Tax expense based on the standard rate of corporation tax in the UK of 22% (March and September 2022: 19%)	**52**	60	113
Effects of:			
Disallowable expenses	**1**	1	4
Conduct indemnity adjustment	**-**	(12)	(12)
Deferred tax assets recognised	**-**	(19)	(83)
Impact of rate changes	**5**	41	23
AT1 distribution	**(6)**	(8)	(13)
Banking surcharge	**5**	14	28
Adjustments in respect of prior periods	**(1)**	-	(2)
Tax expense for the period	**56**	77	58

In February 2022, legislation was enacted to reduce the banking surcharge from 8% to 3%, and to increase the threshold below which it is not chargeable to £100m (previously £25m). The changes are effective for current tax from 1 April 2023. For the purposes of these interim financial statements, the income tax rate applicable for the annual period has been applied.

The Group's effective tax rate is 23.6%. The impact of the banking surcharge on profits in excess of the threshold is largely offset by the tax deduction for AT1 distributions for which the accounting charge is included in the statement of changes in equity, while the tax effect is, in accordance with legislation, reflected in the income statement. The current period rate change charge of £5m arises primarily in relation to the defined benefit pension scheme, where current period amounts in the income statement are reflected at 22%, while the deferred tax liability on the ultimate accounting surplus is measured at 35%.

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

Movement in deferred tax asset/(liability)

	Acquisition accounting adjustments £m	Cash flow hedge reserve £m	Gains on financial instruments at FVOCI £m	Tax losses carried forward £m	Capital allowances £m	Pension spreading £m	Other temporary differences £m	Total deferred tax assets £m	Defined benefit pension scheme surplus £m	Total deferred tax liabilities £m
At 1 October 2021	(10)	(9)	(15)	255	124	5	27	377	(296)	(296)
Income statement credit/(charge)	2	2	-	47	(13)	-	(2)	36	(9)	(9)
Other comprehensive income charge	-	(260)	(1)	-	-	(5)	(1)	(267)	(45)	(45)
At 30 September 2022	(8)	(267)	(16)	302	111	-	24	146	(350)	(350)
Income statement credit/(charge)	1	-	-	(12)	(3)	-	(5)	(19)	(8)	(8)
Other comprehensive income credit	-	121	14	-	-	-	-	135	144	144
At 31 March 2023	(7)	(146)	(2)	290	108	-	19	262	(214)	(214)

Section 2: Results for the period (continued)

2.5 Taxation (continued)

Other temporary differences include the IFRS 9 transitional adjustment of £10m and equity-based compensation of £4m (30 September 2022: £11m and £6m, respectively).

The Group has deferred tax assets of £262m (30 September 2022: £146m), the principal components of which are tax losses of £290m (30 September 2022: £302m) and capital allowances of £108m (30 September 2022: £111m) offset by the cash flow hedge reserve deferred tax liability of £146m (30 September 2022: £267m). The Group also has deferred tax liabilities of £214m (30 September 2022: £350m) in relation to the defined benefit pension surplus.

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

Historic trade tax losses are fully recognised. The Group also has historic non-trading losses of £9m gross, tax value £2m; a deferred tax asset has not been recognised in respect of these losses as their use in the reasonably foreseeable future is uncertain.

The Group has assessed the likelihood of recovery of the deferred tax assets at 31 March 2023, and considers it probable that sufficient future taxable profits will be available over the corporate planning horizon against which the underlying deductible temporary differences can be utilised. Deferred tax assets are recognised to the extent that they are expected to be utilised within six years of the balance sheet date. If, instead of six years, the period were five or seven years, the total recognised deferred tax asset would be £220m or would remain at £262m, respectively. If Group profit forecasts were 10% lower than anticipated, the total deferred tax asset would be £244m. This is only £18m lower than the reported position as there is excess capacity for losses to be recognised. All tax assets arising will be used within the UK.

2.6 Earnings per share

	6 months to 31 Mar 2023 (unaudited) £m	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2022 (audited) £m
Profit attributable to ordinary equity holders for the purposes of basic and diluted EPS	**152**	198	467

	31 Mar 2023 Number of shares	31 Mar 2022 Number of shares	30 Sep 2022 Number of shares
Weighted-average number of ordinary shares in issue (millions)			
- Basic	**1,384**	1,443	1,441
Adjustment for share awards made under equity based compensation schemes	**6**	3	3
- Diluted	**1,390**	1,446	1,444
Basic earnings per share (pence)	**11.0**	13.7	32.4
Diluted earnings per share (pence)	**10.9**	13.7	32.3

Basic earnings per share has been calculated after deducting 0.3m (31 March 2022: 0.2m, 30 September 2022: 0.3m) ordinary shares representing the weighted average of the Group's holdings of its own shares.

Note 4.1 provides details of the share buyback programme.

Section 3: Assets and liabilities

3.1 Loans and advances to customers

	31 Mar 2023 (unaudited) £m	30 Sep 2022 (audited) £m
Gross loans and advances to customers	**73,002**	73,146
Impairment provisions on credit exposures(1)	**(522)**	(454)
Fair value hedge adjustment	**(601)**	(941)
	71,879	71,751

(1) ECLs on off-balance sheet exposures of £4m (30 September 2022: £3m) are presented as part of the provisions for liabilities and charges balance (note 3.6).

The Group has a portfolio of fair valued business loans of £68m (30 September 2022: £70m) which are classified separately as financial assets at FVTPL (note 3.2). Combined with the above this is equivalent to total loans and advances of £71,947m (30 September 2022: £71,821m).

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

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

3.2 Financial assets at fair value through profit or loss

Loans and advances

Included in financial assets at FVTPL is a historical portfolio of loans. 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 £68m (30 September 2022: £70m). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £1m (30 September 2022: £1m); the change for the current period is £Nil (period ended 31 March 2022: £Nil, year ended 30 September 2022: decrease of £1m) of which £Nil (period ended 31 March 2022: £Nil, year ended 30 September 2022: £1m) has been recognised in the income statement.

Other financial assets

Other financial assets of £8m (30 September 2022: £8m) consists of £7m (30 September 2022: £7m) of unlisted securities and £1m (30 September 2022: £1m) of debt instruments.

Note 3.8 contains further information on the valuation methodology applied to financial assets held at fair value and their classification within the fair value hierarchy. Details of the credit quality of financial assets are provided in the Risk report.

Section 3: Assets and liabilities (continued)

3.3 Derivative financial instruments

The tables below analyse derivatives between those designated as hedging instruments and those classified as held for trading:

	31 Mar 2023 (unaudited) £m	30 Sep 2022 (audited) £m
Fair value of derivative financial assets		
Designated as hedging instruments	**165**	277
Designated as held for trading	**36**	65
	201	342
Fair value of derivative financial liabilities		
Designated as hedging instruments	**177**	201
Designated as held for trading	**78**	126
	255	327

Cash collateral totalling £229m (30 September 2022: £241m) has been pledged and £9m has been received (30 September 2022: £38m) in respect of derivatives with other banks. These amounts are included within due from and due to other banks respectively. Net collateral received from clearing houses, which did not meet offsetting criteria, totalled £117m (30 September 2022: £149m) and is included within other assets and other liabilities.

The derivative financial instruments held by the Group are further analysed below. The notional contract amount is the amount from which the cash flows are derived and does not represent the principal amounts at risk relating to these contracts.

	31 March 2023 (unaudited)			30 September 2022 (audited)		
Total derivative contracts	**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)	**64,360**	**1,429**	**775**	35,753	1,988	930
Less: net settled interest rate swaps(1)	**(61,795)**	**(1,304)**	**(754)**	(33,188)	(1,803)	(900)
Interest rate swaps (net)(2)	**2,565**	**125**	**21**	2,565	185	30
Fair value hedges						
Interest rate swaps (gross)(3)	**14,201**	**926**	**894**	16,600	1,201	636
Less: net settled interest rate swaps(1)	**(12,472)**	**(889)**	**(871)**	(14,611)	(1,144)	(570)
Interest rate swaps (net)(2)	**1,729**	**37**	**23**	1,989	57	66
Cross currency swaps(2)	**2,368**	**3**	**133**	2,113	35	105
	4,097	**40**	**156**	4,102	92	171
Total derivatives designated as hedging instruments	**6,662**	**165**	**177**	6,667	277	201
Derivatives designated as held for trading						
Foreign exchange rate related contracts						
Spot and forward foreign exchange(2)	**751**	**10**	**8**	599	26	20
Options(2)	**1**	**-**	**-**	1	-	-
	752	**10**	**8**	600	26	20
Interest rate related contracts						
Interest rate swaps (gross)	**1,435**	**31**	**47**	1,411	52	66
Less: net settled interest rate swaps(1)	**(665)**	**(29)**	**(1)**	(665)	(50)	-
Interest rate swaps (net)(2)	**770**	**2**	**46**	746	2	66
Swaptions(2)	**10**	**-**	**1**	10	-	2
Options(2)	**607**	**9**	**9**	501	16	17
	1,387	**11**	**56**	1,257	18	85
Commodity related contracts	**199**	**15**	**14**	199	21	21
Total derivatives designated as held for trading	**2,338**	**36**	**78**	2,056	65	126

(1) Presented within other assets and other liabilities.
(2) Presented within derivative financial instruments.
(3) Includes inflation and interest rate risk related swaps with a notional of £750m and a fair value liability of £393m. These swaps are centrally cleared and net settled.

Section 3: Assets and liabilities (continued)

3.3 Derivative financial instruments (continued)

Derivatives transacted to manage the Group's interest rate exposure on a net portfolio basis are accounted for as either cash flow hedges or fair value hedges as appropriate. Derivatives traded to manage interest rate, inflation and currency risk on certain fixed rate assets held for liquidity management, including UK Government Gilts, are accounted for as fair value hedges.

The Group hedging positions also include those designated as foreign currency and interest rate hedges of debt issued from the Group's securitisation and covered bond programmes. As such, certain derivative financial assets and liabilities have been booked in structured entities and consolidated within these financial statements.

The Group has no remaining hedge relationships exposed to LIBOR and as no uncertainty remains regarding interest rate benchmark reform, the Group no longer applies the reliefs provided by 'Interest Rate Benchmark Reform - Phase 1 and Phase 2 amendments' to hedge accounting.

3.4 Debt securities in issue

The breakdown of debt securities in issue is shown below:

31 March 2023 (unaudited)	**Medium-term notes**	**Subordinated debt**	**Securitisation**	**Covered bonds**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Debt securities	**2,733**	**940**	**1,537**	**3,485**	**8,695**
Accrued interest	**23**	**14**	**7**	**41**	**85**
	2,756	**954**	**1,544**	**3,526**	**8,780**

30 September 2022 (audited)	Medium-term notes	Subordinated debt	Securitisation	Covered bonds	Total
	£m	£m	£m	£m	£m
Debt securities	2,236	899	1,875	3,450	8,460
Accrued interest	13	14	5	17	49
	2,249	913	1,880	3,467	8,509

Key movements in the period are shown in the table below[(1)]. Full details of all notes in issue can be found at https://www.virginmoneyukplc.com/investor-relations/debt-investors/.

	Period to 31 March 2023				Year to 30 September 2022			
	Issuances		**Redemptions**		Issuances		Redemptions	
	Denomination	**£m**	**Denomination**	**£m**	Denomination	£m	Denomination	£m
Securitisation	**GBP**	**400**	**USD, GBP**	**705**	GBP	700	USD, GBP	1,264
Covered bonds	**-**	**-**	**-**	**-**	EUR, GBP	1,780	-	-
Medium term notes	**EUR**	**447**	**-**	**-**	-	-	-	-
		847		**705**		2,480		1,264

(1) Other movements relate to foreign exchange and amortisation of issue costs and acquisition accounting adjustments.

Section 3: Assets and liabilities (continued)

3.4 Debt securities in issue (continued)

The following tables provide a breakdown of the medium-term notes and subordinated debt by instrument (excluding accrued interest):

Medium-term notes

	31 Mar 2023 (unaudited) £m	30 Sep 2022 (audited) £m
VM UK 3.125% fixed-to-floating rate callable senior notes due 2025	**299**	299
VM UK 4% fixed rate reset callable senior notes due 2026	**465**	444
VM UK 3.375% fixed rate reset callable senior notes due 2026	**331**	317
VM UK 4% fixed rate reset callable senior notes due 2027	**353**	331
VM UK 2.875% fixed rate reset callable senior notes due 2025	**416**	413
VM UK 0.375% fixed rate reset callable senior notes due 2024	**436**	432
VM UK 4.625% fixed rate reset callable senior notes due 2028	**433**	-
	2,733	2,236

Subordinated debt

	31 Mar 2023 (unaudited) £m	30 Sep 2022 (audited) £m
VM UK 7.875% fixed rate reset callable subordinated notes due 2028	**250**	249
VM UK 5.125% fixed rate reset callable subordinated notes due 2030	**424**	400
VM UK 2.625% fixed rate reset callable subordinated notes due 2031	**266**	250
	940	899

3.5 Due to other banks

	31 Mar 2023 (unaudited) £m	30 Sep 2022 (audited) £m
Secured loans	**7,067**	7,230
Securities sold under agreements to repurchase[1]	**1,006**	1,205
Transaction balances with other banks	**7**	17
Deposits from other banks	**36**	50
	8,116	8,502

(1) The underlying securities sold under agreements to repurchase have a carrying value of £1,792m (30 September 2022: £1,873m).

Secured loans comprise amounts drawn under the TFSME schemes (including accrued interest).

Section 3: Assets and liabilities (continued)

3.6 Provisions for liabilities and charges

	Employee related costs provision £m	Customer related provision £m	Property provision £m	Off-balance sheet ECL provisions £m	Total £m
As at 1 October 2021	22	19	55	8	104
Charge/(credit) to the income statement	2	8	-	(5)	5
Utilised	(17)	(14)	(28)	-	(59)
As at 30 September 2022	7	13	27	3	50
Charge to the income statement	1	1	13	1	16
Utilised	(3)	(1)	(3)	-	(7)
As at 31 March 2023	**5**	**13**	**37**	**4**	**59**

Employee related costs provision

This includes provision for staff redundancies and for NIC on equity based compensation. During the period, provisions of £1m (30 September 2022: £2m) were raised relating to staff redundancy costs.

Customer related provision

This relates to customer matters, legal proceedings and claims arising in the ordinary course of the Group's business. A number of these matters are now reaching a conclusion and the risk that the final amount required to settle the Group's potential liabilities in these matters being materially more than the remaining provision is now considered to be low.

Property provision

This includes costs for stores and office closures. During the period, provisions of £13m (30 September 2022: £Nil) were raised.

3.7 Retirement benefit obligations

The Group's principal trading subsidiary, Clydesdale Bank PLC, is the sponsoring employer of the Yorkshire and Clydesdale Bank Pension Scheme ('the Scheme'), a defined benefit pension scheme, which was closed to future benefit accrual for the majority of current employees on 1 August 2017. The assets of the Scheme are held in a trustee administered fund, with the Trustee responsible for the operation and governance of the Scheme, including making decisions regarding the funding and investment strategy.

The following table provides a summary of the fair value of Scheme assets and present value of the defined benefit obligation:

	31 Mar 2023 (unaudited) £m	30 Sep 2022 (audited) £m
Fair value of Scheme assets	**3,116**	3,216
Defined benefit obligation	**(2,506)**	(2,216)
Net defined benefit pension asset	**610**	1,000

On 6 April 2023, the Scheme entered into a longevity swap transaction with Pacific Life Re International Limited and Zurich Assurance Ltd to manage longevity risk in relation to c.£1.6b of pensioner liabilities. The arrangement provides long term protection to the Scheme against costs resulting from pensioners or their dependants living longer than currently expected, enhancing security for Scheme members and reducing risk for the Group.

During 2020 the Trustee concluded the latest triennial valuation for the Scheme, which was conducted in accordance with Scheme data and market conditions as at 30 September 2019. The valuation resulted in an improvement in the Scheme's funding position, with a reported surplus of £144m (previously deficit of £290m) and a technical provisions funding level of 103% (previously 94%). As the 2019 valuation outcome was a funding surplus, the future payments to the Scheme were limited solely to those relating to a payment holiday agreed between the Group and Scheme Trustee in respect of contributions due under the prior 2016 valuation. These totalled £52m and were paid in full by the end of September 2021.

The next triennial valuation is due to be conducted this year based on Scheme data and market conditions as at 30 September 2022.

Section 3: Assets and liabilities (continued)

3.8 Fair value of financial instruments

This section should be read in conjunction with note 3.15 of the Group's 2022 Annual Report and Accounts, which provides more detail about accounting policies adopted and valuation methodologies used in calculating fair value. There have been no changes in the accounting policies adopted or the valuation methodologies used. Fair value measurements are assigned to Level 1, 2 or 3 of the fair value hierarchy depending on the significance of the inputs used in determining fair value (Level 1 being the lowest and Level 3 being the highest).

(a) Fair value of financial instruments recognised on the balance sheet at amortised cost

The tables below 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 described in the notes to the tables in note 3.15 of the Group's 2022 Annual Report and Accounts. 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.

	31 Mar 2023 (unaudited)		30 Sep 2022 (audited)	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to customers(1)	**71,879**	**71,386**	71,751	69,277
Financial liabilities				
Customer deposits(2)	**67,229**	**67,073**	65,434	65,069
Debt securities in issue(3)	**8,780**	**8,806**	8,509	8,515
Due to other banks(2)	**8,116**	**8,153**	8,502	8,485

(1) Categorised as Level 3 in the fair value hierarchy with the exception of £1,124m (30 September 2022: £1,098m) of overdrafts which are categorised as Level 2.
(2) Categorised as Level 2 in the fair value hierarchy.
(3) Categorised as Level 2 in the fair value hierarchy with the exception of £3,705m of listed debt (30 September 2022: £3,156m) which is categorised as Level 1.

(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 at fair value, using the fair value hierarchy described above:

	Fair value measurement as at 31 Mar 2023 (unaudited)				Fair value measurement as at 30 Sep 2022 (audited)			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Held at FVOCI	**5,869**	**-**	**-**	**5,869**	5,064	-	-	5,064
Loans and advances to customers	**-**	**68**	**-**	**68**	-	70	-	70
Other financial assets	**-**	**4**	**4**	**8**	-	4	4	8
Derivatives	**-**	**201**	**-**	**201**	-	342	-	342
Total financial assets at fair value	**5,869**	**273**	**4**	**6,146**	5,064	416	4	5,484
Financial liabilities								
Derivatives	**-**	**255**	**-**	**255**	-	327	-	327
Total financial liabilities at fair value	**-**	**255**	**-**	**255**	-	327	-	327

There were no transfers between Level 1 and 2 in the current or prior period.

Section 3: Assets and liabilities (continued)

3.8 Fair value of financial instruments (continued)

Additional analysis on assets and liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data:

Level 3 movement analysis:	6 months to 31 Mar 2023 (unaudited)		12 months to 30 Sep 2022 (audited)	
	Other financial assets £m	Derivatives £m	Other financial assets £m	Derivatives £m
Balance at the beginning of the period	4	-	6	1
Fair value gains recognised(1)				
In profit or loss - unrealised	-	-	-	(1)
Settlements	-	-	(2)	-
Balance at the end of the period	4	-	4	-

(1) Net gains or losses were recorded in non-interest income.

Section 4: Capital

4.1 Equity

4.1.1 Share capital and share premium

	31 Mar 2023 (unaudited) £m	30 Sep 2022 (audited) £m
Share capital	**137**	141
Share premium	**9**	7
	146	148

	31 Mar 2023 (unaudited) Number of shares	30 Sep 2022 (audited) Number of shares	31 Mar 2023 (unaudited) £m	30 Sep 2022 (audited) £m
Ordinary shares of £0.10 each - allotted, called up, and fully paid				
Opening ordinary share capital	**1,408,530,988**	1,439,993,431	**141**	144
Issued under employee share schemes	**3,762,368**	2,982,745	**1**	-
Share buyback programme	**(46,025,802)**	(34,445,188)	**(5)**	(3)
Closing ordinary share capital	**1,366,267,554**	1,408,530,988	**137**	141

The holders of ordinary shares are entitled to dividends as declared and are entitled to one vote per share at meetings of the shareholders of the Company. All shares in issue at 31 March 2023 rank equally with regard to the Company's residual assets.

The following dividends were declared in the current and prior periods:

- A final dividend in respect of the year ended 30 September 2021 of 1p per ordinary share in the Company, amounting to £14m, was paid in March 2022.
- An interim dividend in respect of the year ended 30 September 2022 of 2.5p per ordinary share in the Company, amounting to £36m, was paid in June 2022.
- A final dividend in respect of the year ended 30 September 2022 of 7.5p per ordinary share in the Company, amounting to £103m, was paid in March 2023.
- The Directors have declared an interim dividend in respect of the year ending 30 September 2023 of 3.3p per ordinary share in the Company, amounting to £45m, to be paid in June 2023.

On 30 June 2022 the Company announced a share buyback programme, with an initial repurchase of up to £75m in aggregate between its ordinary shares of £0.10 each listed on the London Stock Exchange and CDIs, each representing one share, listed on the Australian Securities Exchange. The Company repurchased shares and CDIs in approximately equal proportions. The buyback commenced on 30 June 2022 and ended on 9 December 2022.

On 21 November 2022 the Company announced an extension to the share buyback programme with an intent to repurchase a further £50m in aggregate of ordinary shares and CDIs. The Company again repurchased the shares and CDIs in approximately equal proportions. The buyback extension commenced on 21 November 2022 and ended on 7 March 2023.

46m ordinary shares (30 September 2022: 34m ordinary shares), with a nominal value of £5m (30 September 2022: £3m), were repurchased in the period for a total consideration of £75m (30 September 2022: £50m). All shares repurchased were cancelled and the nominal value of the share cancellation transferred to the capital redemption reserve with the premium paid deducted from retained earnings.

Share premium represents the aggregate of all amounts that have ever been paid above par value to the Company when it has issued ordinary shares.

A description of the other equity categories included within the statements of changes in equity, together with any significant movements during the period, is provided below.

Section 4: Capital (continued)

4.1.2 Other equity instruments

Other equity instruments comprises AT1 capital which consists of the following Perpetual Subordinated Contingent Convertible Notes:

- Perpetual securities (fixed 9.25% up to the first reset date) issued on 13 March 2019 with a nominal value of £250m and optional redemption on 8 June 2024.
- Perpetual securities (fixed 8.25% up to the first reset date) issued on 17 June 2022 with a nominal value of £350m and optional redemption on 17 June 2027.

On 17 June 2022, perpetual securities (fixed 8% up to the first reset date) issued on 8 February 2016 totalling £377m (representing 84% of the original £450m principal amount) were redeemed. The remaining £72m were redeemed on the optional redemption date of 8 December 2022.

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 £6m (period ended 31 March 2022: £3m; year ended 30 September 2022: £7m). AT1 distributions of £28m were paid in the period (period ended 31 March 2022: £40m; year ended 30 September 2022: £70m).

4.1.3 Capital reorganisation reserve

The capital reorganisation reserve of £839m was recognised on the issuance of the Company's ordinary shares in February 2016 in exchange for the acquisition of the entire share capital of the Group's previous parent company, CYB Investments Limited (CYBI). The reserve reflects the difference between the consideration for the issuance of the Company's shares and CYBI's share capital and share premium.

4.1.4 Merger reserve

A merger reserve of £633m was recognised on the issuance of the Company's ordinary shares in February 2016 in exchange for the acquisition of the entire share capital of CYBI. An additional £1,495m was recognised on the issuance of the Company's ordinary shares in October 2018 in exchange for the acquisition of the entire share capital of Virgin Money Holdings (UK) PLC. The merger reserve reflects the difference between the consideration for the issuance of the Company's shares and the nominal value of the shares issued.

4.1.5 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.

	6 months to 31 Mar 2023 (unaudited) £m	12 months to 30 Sep 2022 (audited) £m
At 1 October	**699**	10
Amounts recognised in other comprehensive income:		
Cash flow hedge – interest rate risk		
Effective portion of changes in fair value of interest rate swaps	**(430)**	962
Amounts transferred to the income statement	**(9)**	(13)
Taxation	**121**	(260)
Closing cash flow hedge reserve	**381**	699

Section 5: Other notes

5.1 Contingent liabilities and commitments

The table below sets out the amounts of financial guarantees and commitments which are not recorded on the balance sheet. Financial guarantees and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The amounts do not represent the amounts at risk at the balance sheet date but the amounts that would be at risk should the contracts be fully drawn upon and the customer default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

	31 Mar 2023 (unaudited) £m	30 Sep 2022 (audited) £m
Guarantees and assets pledged as collateral security:		
Due in less than 3 months	**25**	33
Due between 3 months and 1 year	**26**	23
Due between 1 year and 3 years	**7**	9
Due between 3 years and 5 years	**1**	3
Due after 5 years	**39**	44
	98	112
Other credit commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**18,003**	19,247

Other contingent liabilities

Conduct risk related matters

There continues to be uncertainty with judgement required in determining the quantum of conduct risk related liabilities, with note 3.6 reflecting the Group's current position where a provision can be reliably estimated. Until all matters are resolved the final amount required to settle the Group's potential liabilities for conduct related matters remains uncertain.

The Group will continue to reassess the adequacy of provisions for these matters and the assumptions underlying the calculations at each reporting date based upon experience and other relevant factors at that time.

Legal claims

The Group is named in and is defending a number of legal claims arising in the ordinary course of business. No material adverse impact on the financial position of the Group is expected to arise from the ultimate resolution of these legal actions.

5.2 Related party transactions

The Group undertakes activity with the following entities which are considered to be related party transactions:

Yorkshire and Clydesdale Bank Pension Scheme

The Group provides banking services to the Scheme, with customer deposits of £8m (30 September 2022: £12m). Pension contributions of £6m were made to the Scheme in the period (period ended 31 March 2022: £6m; year ended 30 September 2022: £7m).

The Group and the Trustee to the Scheme (note 3.7) 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 Scheme in certain trigger events. These assets are held by Red Grey Square Funding LLP, an insolvency remote consolidated structured entity.

Section 5: Other notes (continued)

5.2 Related party transactions (continued)

JVs and associates

The Group holds investments in JVs of £11m (30 September 2022: £10m). The total share of profit for the period was £Nil (period ended 31 March 2022: £5m loss; year ended 30 September 2022: £4m loss). In addition, the Group had the following transactions with JV entities during the period:

- Salary Finance - the Group provides Salary Finance with a revolving credit facility funding line, of which the current gross lending balance at 31 March 2023 was £320m (30 September 2022: £318m) and the undrawn facility was £30m (30 September 2022: £32m). The facility is held under Stage 2 for credit risk purposes (30 September 2022: Stage 2), with an ECL allowance of £18m (30 September 2022: £19m) held against the lending. The lending made via Salary Finance continues to be held as part of the Group's Unsecured lending portfolio and consists of personal lending to Salary Finance customers. During the period, the number of customers not maintaining scheduled loan repayments has reduced slightly with no material change to the ECL allowance held from that at September 2022. Additionally, the Group received £8m (period ended 31 March 2022: £4m; year ended 30 September 2022: £10m) of interest income from Salary Finance in the period. Board approval is in place for this facility up until December 2025 with £350m being the approved limit; and
- UTM - the Group provides banking services to UTM which has resulted in amounts due of £5m (30 September 2022: £4m). Additionally, the Group received £4m of recharge income in the period (period ended 31 March 2022: £4m; year ended 30 September 2022: £7m) from UTM in accordance with a Service Level Agreement in respect of resourcing, infrastructure and marketing. During the period, the Group provided £Nil of additional funding to UTM (30 September 2022: £4m). The Group has also paid consortium relief to UTM of £1m (30 September 2022: £Nil) for losses surrendered from UTM in respect of FY21.

Other related party transactions with Virgin Group[(1)]

The Group has related party transactions with other Virgin Group companies:

- License fees due to Virgin Enterprises Limited for the use of the Virgin Money brand trademark resulted in payables of £6m (30 September 2022: £5m), with expenses incurred in the period of £9m (period ended 31 March 2022: £7m; year ended 30 September 2022: £15m).
- The Group incurs credit card commissions and air mile charges from Virgin Atlantic Airways Limited (VAA) in respect of an agreement between the two parties. Amounts payable to VAA totalled £1m (30 September 2022: £1m) and expenses of £7m were incurred in the period (period ended 31 March 2022: £7m; year ended 30 September 2022: £16m).
- The Group incurs charges and receives commissions concerning the cashback incentive scheme with Virgin Red Limited in relation to the credit card and PCA portfolio. Amounts receivable totalled £0.2m (31 March 2022: £Nil; 30 September 2022: £0.1m), amounts payable totalled £1m (31 March 2022: £Nil; 30 September 2022: £1m) and during the period this resulted in expenses of £0.5m (period ended 31 March 2022: £0.3m, year ended 30 September 2022: £3m) along with income of £0.2m (period ended 31 March 2022: £0.2m, year ended 30 September 2022: £0.5m)
- The Group has an arrangement with Virgin Start Up Limited to host a series of events, podcasts and videos and other digital content. During the period this resulted in expenses of £0.2m (period ended 31 March 2022: £0.3m, year ended 30 September 2022: £0.5m).
- The Group paid £14m (period ended 31 March 2022: £2m, year ended 30 September 2022: £7m) of ordinary dividends to Virgin Group Holdings Limited.

(1) All companies were incorporated in England and Wales with the exception of Virgin Group Holdings Limited, which was incorporated in the British Virgin Islands.

Charities

The Group provides banking services to Virgin Money Foundation which has resulted in customer deposits of £1m (30 September 2022: £1m). The Group made donations of £1m in the period (period ended 31 March 2022: £1m; year ended 30 September 2022: £1m) to the Foundation to enable it to pursue its charitable objectives. The Group has also provided a number of support services to the Foundation on a pro bono basis, including use of facilities and employee time. The estimated gift in kind for support services provided during the period was £0.3m (period ended 31 March 2022: £0.2m; year ended 30 September 2022: £0.4m)

Section 5: Other notes (continued)

5.3 Notes to the statement of cash flows

	Term funding schemes[1] £m	Debt securities in issue £m	Lease liabilities £m	Total £m
At 1 October 2021	5,896	7,678	154	13,728
Cash flows:				
Issuances	-	2,480	-	2,480
Drawdowns	2,550	-	-	2,550
Redemptions	-	(1,264)	-	(1,264)
Repayment	(1,244)	-	(26)	(1,270)
Non-cash flows				
Fair value and other associated adjustments	-	(400)	-	(400)
Additions to right-of-use asset in exchange for increased lease liabilities	-	-	4	4
Remeasurement	-	-	(4)	(4)
Movement in accrued interest	28	8	4	40
Unrealised foreign exchange movements	-	5	-	5
Unamortised costs	-	2	-	2
At 30 September 2022	7,230	8,509	132	15,871
Cash flows:				
Issuances	-	847	-	847
Redemptions	-	(705)	-	(705)
Repayment	(200)	-	(14)	(214)
Non-cash flows				
Fair value and other associated adjustments	-	93	-	93
Additions to right-of-use asset in exchange for increased lease liabilities	-	-	73	73
Remeasurement	-	-	2	2
Movement in accrued interest	37	36	2	75
At 31 March 2023	**7,067**	**8,780**	**195**	**16,042**

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

Measuring financial performance - glossary

As highlighted within the Business and financial review and Risk management sections, a range of metrics are considered that measure and track the Group's performance. Some of these metrics will be the Group's KPIs, which are a set of quantifiable measurements used to gauge the Group's overall long-term performance. Others are not referred to as KPIs, but are still useful metrics for the Group to reflect on and are disclosed to aid comparisons with peers.

These metrics fall into two main categories:

- Financial – which are further split into:
  - IFRS based – meaning the basis of the calculation is derived from a measure that can be found and is directly required under generally accepted accounting principles (GAAP); and
  - Non-IFRS based – these are also referred to as APMs and can be derived from non-GAAP measures.
- Non-Financial – being those that are not directly linked to the Group's financial performance, but more in relation to other external factors.

Non-IFRS based financial performance metrics can be calculated on either a statutory or an 'underlying' basis; further detail on how the underlying measure is arrived at, along with management's reasoning for excluding the impact of certain items from the Group's current underlying performance rationale, can be found on page 90, directly following this section.

Refer to pages 344 to 352 of the Group's 2022 Annual Report and Accounts for a complete listing of the Group's performance metrics, metric definitions and why they matter. For financial performance metrics that are arrived at by way of a calculation, refer below:

Financial performance metrics

Profitability:

Metric	KPI	Basis	Formula	**6 months to 31 Mar 2023**	12 months to 30 Sep 2022	6 months to 31 Mar 2022
Statutory return on tangible equity (RoTE)	Yes	Non-IFRS	Statutory profit after tax attributable to ordinary equity holders (a)	**£152m**	£467m	£198m
			Annualised half year statutory profit after tax (b) (a)*(365/182)	**£304m**	£467m	£397m
			Average tangible equity (c)	**£4,997m**	£4,539m	£4,354m
			Statutory RoTE (b)/(c)	**6.1%**	10.3%	9.1%

Metric	KPI	Basis	Formula	**6 months to 31 Mar 2023**	Restated[1] 12 months to 30 Sep 2022	Restated[1] 6 months to 31 Mar 2022
Underlying cost: income ratio (CIR)	Yes	Non-IFRS	Underlying operating and administrative expenses (a)	**£477m**	£914m	£456m
			Underlying total operating income (b)	**£933m**	£1,742m	£848m
			Underlying CIR (a)/(b)	**51.1%**	52.5%	53.8%

Metric	KPI	Basis	Formula	**6 months to 31 Mar 2023**	12 months to 30 Sep 2022	6 months to 31 Mar 2022
Net interest margin (NIM)	No	Non-IFRS	Underlying NII (a)	**£855m**	£1,592m	£782m
			Annualised half year underlying NII (b) (a)*(365/182)	**£1,715m**	£1,592m	£1,568m
			Average interest earning assets (c)	**£89,568m**	£86,275m	£85,729
			Short-term repos used for liquidity management (d)	**£8m**	£12m	£14m
			NIM (b)/((c)-(d))	**1.91%**	1.85%	1.83%

Metric	KPI	Basis	Formula	**6 months to 31 Mar 2023**	12 months to 30 Sep 2022	6 months to 31 Mar 2022
Statutory basic earnings per share (EPS)	No	IFRS	Statutory profit after tax attributable to ordinary equity shareholders (a)	**£152m**	£467m	£198m
			Weighted average number of ordinary shares in issue (b)	**1,384m**	1,441m	1,443m
			Statutory basic earnings per share (a)/(b)	**11.0p**	32.4p	13.7p

Metric	KPI	Basis	Formula	**6 months to 31 Mar 2023**	12 months to 30 Sep 2022	6 months to 31 Mar 2022
Statutory CIR	No	Non-IFRS	Statutory operating and administrative expenses (a)	**£534m**	£1,069m	£508m
			Statutory total operating income (b)	**£914m**	£1,716m	£844m
			Statutory CIR (a)/(b)	**58.5%**	62.3%	60.2%

(1) Hedge ineffectiveness (6 months to 31 March 2022: income of £17m, year to 30 September 2022: income of £13m) is now presented as an adjustment to underlying earnings. The comparative periods have been adjusted accordingly. This restatement does not impact the statutory results of the Group.

Measuring financial performance - glossary

Financial performance metrics continued

Profitability continued:

Metric	KPI	Basis	Formula			
Underlying basic EPS	No	Non-IFRS		**6 months to 31 Mar 2023**	Restated(1) 12 months to 30 Sep 2022	Restated(1) 6 months to 31 Mar 2022
			Underlying profit after tax attributable to ordinary equity shareholders (a)	**£207m**	£602m	£241m
			Weighted average number of ordinary shares in issue (b)	**1,384m**	1,441m	1,443m
			Underlying basic earnings per share (a)/(b)	**14.9p**	41.8p	16.7p
Underlying profit before tax	No	Non-IFRS		**6 months to 31 Mar 2023**	Restated(1) 12 months to 30 Sep 2022	Restated(1) 6 months to 31 Mar 2022
			Statutory profit before tax (a)	**£236m**	£595m	£315m
			Restructuring charges (b)	**£53m**	£82m	£46m
			Acquisition accounting unwinds (c)	**£3m**	£35m	£14m
			Legacy conduct (d)	**£4m**	£8m	£5m
			Hedge ineffectiveness (e)	**£16m**	£(13)m	£(17)m
			Other (f)	**-**	£69m	£8m
			Underlying profit before tax (a) + (b) + (c) + (d) + (e) + (f)	**£312m**	£776m	£371m
Underlying profit after tax attributable to ordinary equity shareholders	No	Non-IFRS		**6 months to 31 Mar 2023**	Restated(1) 12 months to 30 Sep 2022	Restated(1) 6 months to 31 Mar 2022
			Underlying profit before tax (a)	**£312m**	£776m	£371m
			Underlying tax charge (b)	**£77m**	£104m	£90m
			AT1 distributions (c)	**£28m**	£70m	£40m
			Underlying profit after tax attributable to ordinary equity shareholders (a) - (b) - (c)	**£207m**	£602m	£241m
Underlying RoTE	No	Non-IFRS		**6 months to 31 Mar 2023**	Restated(1) 12 months to 30 Sep 2022	Restated(1) 6 months to 31 Mar 2022
			Underlying profit after tax attributable to ordinary equity holders (a)	**£207m**	£602m	£241m
			Annualised half year underlying profit after tax (b) (a)*(365/182)	**£415m**	£602m	£483m
			Average tangible equity (c)	**£4,997m**	£4,539m	£4,354m
			Underlying RoTE (b)/(c)	**8.3%**	13.3%	11.1%

(1) Hedge ineffectiveness (6 months to 31 March 2022: income of £17m, year to 30 September 2022: income of £13m) is now presented as an adjustment to underlying earnings. The comparative periods have been adjusted accordingly. This restatement does not impact the statutory results of the Group.

Lending (Basis – non-IFRS):

Metric	KPI	Formula			
Target lending segment asset growth	Yes		**6 months to 31 Mar 2023**	12 months to 30 Sep 2022	6 months to 31 Mar 2022
		Target lending – current year (a)	**£13,970m**	£13,448m	£12,908m
		Target lending – prior year (b)	**£13,448m**	£12,573m	£12,573m
		Target lending growth ((a)-(b))/(b)	**3.9%**	7.0%	2.7%
Relationship deposits growth	No		**6 months to 31 Mar 2023**	12 months to 30 Sep 2022	6 months to 31 Mar 2022
		Total relationship deposits – current year (a)	**£35,643m**	£34,649m	£31,887m
		Total relationship deposits – prior year (b)	**£34,649m**	£30,596m	£30,596m
		Relationship deposit growth ((a)-(b))/(b)	**2.9%**	13.2%	4.2%

Measuring financial performance - glossary

Financial performance metrics continued

Asset quality (Basis – non-IFRS):

Metric	KPI	Formula			
Impairment charge to average customer loans (cost of risk)	No		**6 months to 31 Mar 2023**	12 months to 30 Sep 2022	6 months to 31 Mar 2022
		Impairment charge (a)	**£144m**	£52m	£21m
		Annualised half year impairment charge (b) (a)*(365/182)	**£289m**	£52m	£41m
		Average customer loans (c)	**£72,869m**	£71,989m	£71,771m
		Cost of risk (b)/(c)	**0.40%**	0.07%	0.06%
% of loans in Stage 2[(1)]	No		**31 Mar 2023**	30 Sep 2022	31 Mar 2022
		Stage 2 loans (a)	**£7,153m**	£5,785m	£8,081m
		Gross loans and advances (b)	**£73,889m**	£74,531m	£73,229m
		% of loans in stage 2 (a)/(b)	**9.7%**	7.8%	11.0%
% of loans in Stage 3[(1)]	No		**31 Mar 2023**	30 Sep 2022	31 Mar 2022
		Stage 3 loans (a)	**£1,075m**	£1,054m	£1,024m
		Gross loans and advances (b)	**£73,889m**	£74,531m	£73,229m
		% of loans in stage 3 (a)/(b)	**1.5%**	1.4%	1.4%
Total book coverage[(1)]	No		**31 Mar 2023**	30 Sep 2022	31 Mar 2022
		Impairment provisions on credit exposures (a)	**£526m**	£457m	£479m
		Gross loans and advances (b)	**£73,035m**	£73,542m	£72,123m
		Total book coverage (a)/(b)	**0.72%**	0.62%	0.66%
Stage 2 coverage[(1)]	No		**31 Mar 2023**	30 Sep 2022	31 Mar 2022
		Stage 2 impairment provisions on credit exposures (a)	**£349m**	£268m	£247m
		Stage 2 gross loans and advances (b)	**£7,073m**	£5,682m	£7,837m
		Total stage 2 book coverage (a)/(b)	**4.94%**	4.72%	3.15%
Stage 3 coverage[(1)]	No		**31 Mar 2023**	30 Sep 2022	31 Mar 2022
		Stage 3 impairment provisions on credit exposures (a)	**£112m**	£104m	£101m
		Stage 3 gross loans and advances (b)	**£925m**	£927m	£944m
		Total stage 3 book coverage (a)/(b)	**12.10%**	11.24%	10.70%

(1) The ratios exclude the government-backed loan portfolio, unearned income, accrued interest and fair value adjustments.

Measuring financial performance - glossary

Financial performance metrics continued

Capital (Basis – non-IFRS):

Metric	KPI	Formula			
Announced shareholder distributions	Yes		**6 months to 31 Mar 2023**	12 months to 30 Sep 2022	6 months to 31 Mar 2022
		Interim dividend (a)	**£45m**	£36m	£36m
		Final dividend (b)	**n/a**	£103m	n/a
		Announced buybacks (c)	**n/a**	£125m	n/a
		Statutory profit after tax attributable to ordinary equity holders (d)	**£152m**	£467m	£198m
		Announced shareholder distributions ((a)+(b)+(c))/(d)	**30%**	57%	18%
Common Equity Tier 1 (CET1) ratio (IFRS 9 transitional)	No		**31 Mar 2023**	30 Sep 2022	31 Mar 2022
		CET1 capital (IFRS 9 transitional) (a)	**£3,627m**	£3,633m	£3,565m
		RWA (IFRS 9 transitional) (b)	**£24,703m**	£24,148m	£24,184m
		CET1 ratio (IFRS 9 transitional) (a)/(b)	**14.7%**	15.0%	14.7%
CET1 ratio (IFRS 9 fully loaded)	No		**31 Mar 2023**	30 Sep 2022	31 Mar 2022
		CET1 capital (IFRS 9 fully loaded) (a)	**£3,537m**	£3,519m	£3,481m
		RWA (IFRS 9 fully loaded) (b)	**£24,632m**	£24,056m	£24,111m
		CET1 ratio (IFRS 9 fully loaded) (a)/(b)	**14.4%**	14.6%	14.4%
Tier 1 ratio	No		**31 Mar 2023**	30 Sep 2022	31 Mar 2022
		Tier 1 capital (a)	**£4,221m**	£4,299m	£4,262m
		RWA (b)	**£24,703m**	£24,148m	£24,184m
		Tier 1 ratio (a)/(b)	**17.1%**	17.8%	17.6%
Total capital ratio	No		**31 Mar 2023**	30 Sep 2022	31 Mar 2022
		Total capital (a)	**£5,242m**	£5,319m	£5,282m
		RWA (b)	**£24,703m**	£24,148m	£24,184m
		Total capital ratio (a)/(b)	**21.2%**	22.0%	21.8%
Tangible net asset value **(TNAV)** per share	No		**31 Mar 2023**	30 Sep 2022	31 Mar 2022
		Tangible equity (a)	**£4,795m**	£5,407m	£4,528m
		Number of ordinary shares in issue (b)	**1,366m**	1,409m	1,443m
		Deferred shares (c)	**2m**	3m	3m
		Own shares held (d)	**0.2m**	0.3m	0.3m
		Tangible net asset value per share (a)/((b)+(c)-(d))	**350.5p**	383.0p	313.2p

Measuring financial performance - glossary

Underlying adjustments to the statutory view of performance

Management exclude certain items from the Group's statutory position to arrive at an underlying performance basis. Management's approach to underlying adjustments is aligned to the European Securities and Markets Authority (ESMA) guidelines on APMs and recommendations are subject to review and agreement by the Board Audit Committee. Additional detail on these items is provided below to help understand their exclusion from underlying performance.

Item	**6 months to 31 Mar 2023 £m**	Restated 6 months to 31 Mar 2022 £m	Restated 6 months to 30 Sep 2022 £m	Reason for exclusion from the Group's current underlying performance
Restructuring charges	**(53)**	(46)	(36)	These costs relate to the Group's Digital-First strategy. The Group expects to incur c.£275m of restructuring charges across FY22-24.
Acquisition accounting unwinds	**(3)**	(14)	(21)	This consists of the unwind of the IFRS 3 fair value adjustments created on the acquisition of Virgin Money Holdings (UK) PLC in October 2018. These represent either one-off adjustments or are the scheduled reversals of the accounting adjustments that arose following the fair value exercise required by IFRS 3. These will continue to be underlying adjustments until the remaining £27m has been fully reversed.
Legacy conduct	**(4)**	(5)	(3)	These costs are historical in nature and are not indicative of the Group's current practices.
Hedge ineffectiveness[(1)]	**(16)**	17	(4)	The result of hedge accounting and fair value movements on derivatives in economic hedges to the extent they either do not meet the criteria for hedge accounting or give rise to hedge ineffectiveness. These items are often volatile, driven by accounting requirements and not generally considered as a component of the core financial result.
Other:				
UTM transition costs	**(1)**	(8)	(1)	These costs relate to UTM's transformation costs principally for the build of a new platform for administration and servicing.
VISA shares	**1**	-	2	A one-off gain on conversion of Visa B Preference shares to Series A preference shares.
Internally developed software adjustments	**-**	-	(62)	These costs relate to the write-off of WIP and intangible asset balances held on the balance sheet as a result of a reassessment of the Group's practices on capitalisation against the backdrop of the move to an Agile project delivery.
Total other	**-**	(8)	(61)	

(1) Hedge ineffectiveness is now presented as an adjustment to underlying earnings due to the increase in volatility caused by the recent significant changes in interest rates. The comparative periods have been adjusted accordingly.

Glossary

For a glossary of terms and abbreviations used within this report refer to pages 354 to 359 of the Group's 2022 Annual Report and Accounts.

For terms not previously included within the Glossary, or where terms have been redefined, refer below:

COO	Chief Operating Officer
FSCS	Financial Services Compensation Scheme
MA	Management adjustment
O-SII	Other Systemically Important Institution

Officers and professional advisers

Non-Executive Directors

Board Chair	David Bennett(1)
Senior Independent Non-Executive Director	Tim Wade(2)
Independent Non-Executive Directors	Geeta Gopalan(2) Elena Novokreshchenova(2) Darren Pope(2)(4)
Non-Executive Director	Sara Weller(3)(4)
Executive Directors	David Duffy Clifford Abrahams
Group Company Secretary	Lorna McMillan
Group General Counsel and Purpose Officer	James Peirson
Independent auditors	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY

(1) Member of the Remuneration Committee and Governance and Nomination Committee.
(2) All Independent Non-Executive Directors are members of the Remuneration Committee, Audit Committee, Risk Committee and Governance and Nomination Committee.
(3) Member of the Governance and Nomination Committee.
(4) Sara Weller joined the Board on 3 October 2022 and on 16 December 2022 it was announced that Darren Pope will step down as an independent Non-Executive Director on 26 May 2023.

VIRGIN MONEY UK PLC
Registered number 09595911 (England and Wales)
ARBN 609 948 281 (Australia)

Head Office:
30 St. Vincent Place
Glasgow
G1 2HL

London Office:
Floor 15, The Leadenhall Building
122 Leadenhall Street
London
EC3V 4AB

Registered Office:
Jubilee House
Gosforth
Newcastle Upon Tyne
NE3 4PL

virginmoneyukplc.com